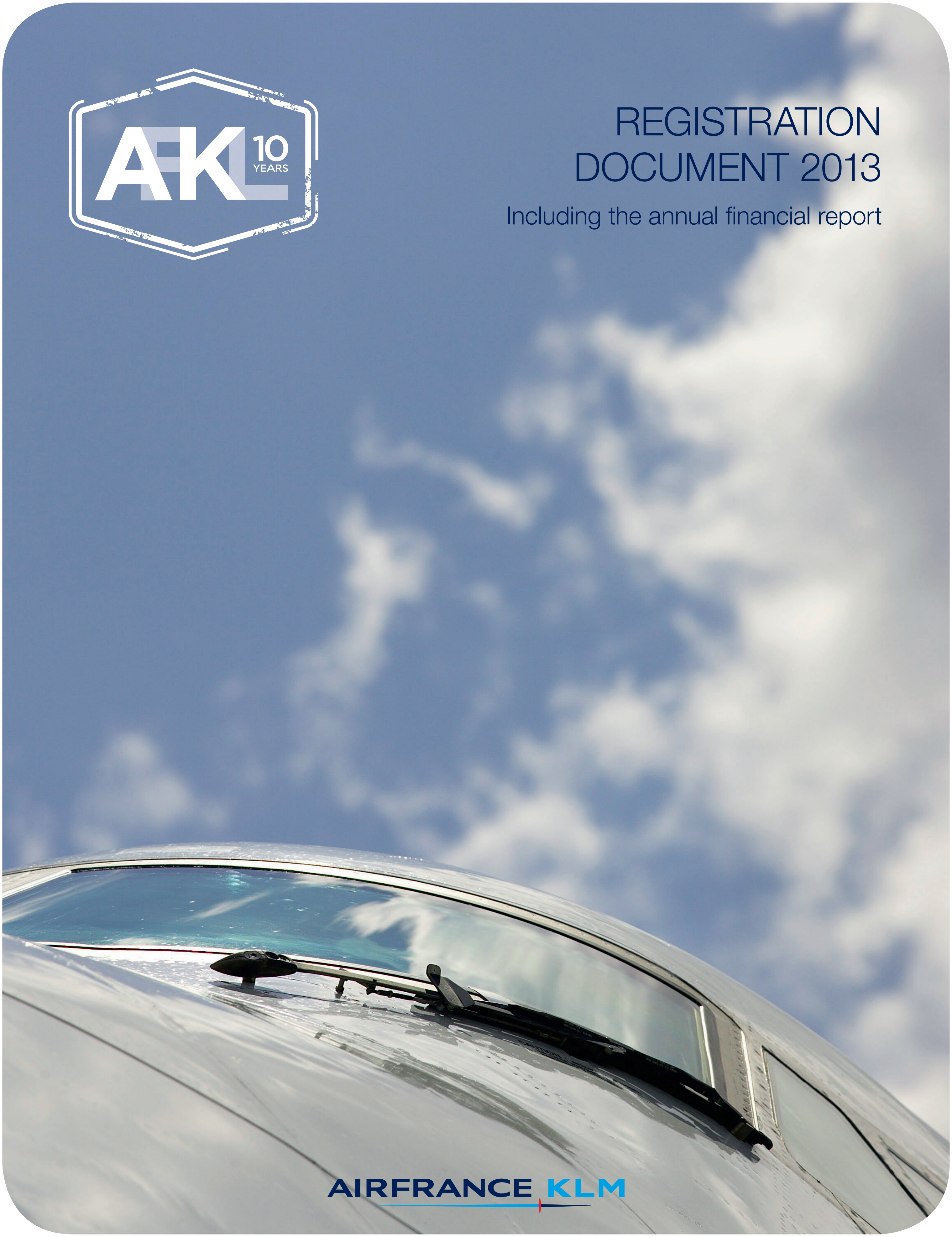
AFKL 10 YEARS

REGISTRATION DOCUMENT 2013

Including the annual financial report



AIRFRANCE KLM

THE COMPONENTS OF THE ANNUAL FINANCIAL REPORT ARE IDENTIFIED IN THE INDEX BY THE FOLLOWING PICTOGRAM AFR

Registration Document 2013

Air France-KLM

including the annual financial report

This Registration Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on Tuesday April 8, 2014, pursuant to article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM for the information and convenience of English-speaking readers and has not been reviewed or registered with the AMF. No assurances are given as to the accuracy or completeness of this translation, nor any responsibility assumed for any misstatement or omission that may be contained therein. The French Document de Référence may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French Document de Référence, the French version shall prevail.

Selected financial information

Pursuant to Article 28 of Regulation (EC) no.809/2004 of April 29, 2004, the review of the financial situation and results for the financial year ended December 31, 2012 figuring on pages 2 and 3 of the 2012 Registration Document and the review of the financial situation and results for the 2011 pro forma financial year ended December 31, 2011 figuring on pages 2 and 3 of the 2011 Registration Document are incorporated by reference in this document *(See also Section 5.4 – Key financial indicators, page 159).* As a result of the change in financial year end from March 31 to December 31 which took place in 2011, the 2011 financial year spanned only nine months (April-December). To facilitate understanding of the business, the Group had opted to also present pro forma results for 2011 (January-December).

Revenues

(in € billion)

** Restated for IAS19 Revised, CityJet reclassified as a discontinued operation*
*** Pro forma over 12 months*

Revenues increased by 2.3% on a constant currency basis (+0.4% reported).

Income/(loss) from current operations

(in € million)

** Restated for IAS19 Revised, CityJet reclassified as a discontinued operation*
*** Pro forma over 12 months*

The operating result improved by €466 million and returned to positive territory.

Information by business segment

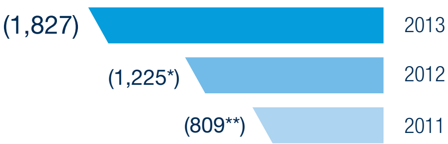
At December 31	2013		2012*		2011**	
	Revenues (in €bn)	**Income/(loss) from current operations (in €m)**	**Revenues (in €bn)**	**Income/(loss) from current operations (in €m)**	**Revenues (in €bn)**	**Income/(loss) from current operations (in €m)**
Passenger	20.11	174	19.98	(260)	18.83	(375)
Cargo	2.82	(202)	3.06	(230)	3.14	(60)
Maintenance	1.23	159	1.10	140	1.04	110
Other	1.37	(1)	1.29	14	1.35	(28)

** Restated for IAS19 Revised, CityJet reclassified as a discontinued operation*
*** Pro forma over 12 months*

In 2013, all business segments benefited from the measures implemented within the framework of Transform 2015. The passenger business saw a strong results improvement in both long-haul and medium-haul. The air freight industry was affected by the weakness in global trade and structural industry overcapacity. The operating result from this business improved but remained a negative €202 million. The maintenance business continued its growth in high-value-added segments (engines and component support).

Net income/(loss), Group share

(in € million)

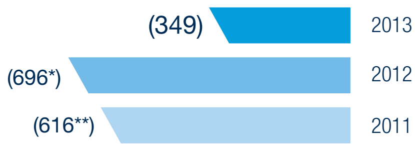


Restated for IAS19 Revised, CityJet reclassified as a discontinued operation
*** Pro forma over 12 months*

In 2012 and 2013, the net result, Group share had included substantial restructuring provisions linked to the Transform 2015 plan. The 2013 result also suffered from the impact of the impairment of deferred tax assets.

Restated net income/(loss), Group share

(in € million)



Restated for IAS19 Revised, CityJet reclassified as a discontinued operation
*** Pro forma over 12 months*

Restated for exceptional and non-recurring items (see section 5.4 for definition), the net result, Group share saw a near-€350 million improvement.

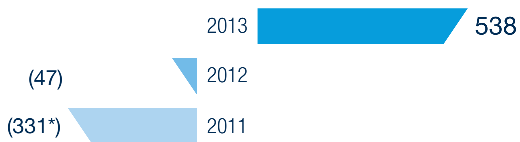
Net debt

(in € billion, at December 31)

A reduction in net debt is one of the main objectives of the Transform 2015 plan. After two years of implementation, the Group had reduced its debt by €1.2 billion.

Operating free cash flow

(in € million)

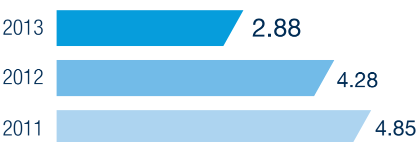


** Pro forma over 12 months*

At €538 million in 2013, operating free cash flow after investments (see section 5.4 for definition) continued its strong improvement thanks to the measures launched within the framework of Transform 2015.

Cover ratio: net debt/EBITDA

(at December 31)



At 2.9 as of December 31, 2013, the net debt/EBITDA cover ratio saw a significant improvement under the combined effect of an EBITDA increase and the reduction in net debt.

Highlights of the 2013 financial year

Implementation of the Transform 2015 plan

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

Investment to upgrade the quality of the product offering

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

Development of the network and strategic partnerships

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

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

Other developments

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

1

Corporate governance

1.1 The Board of Directors

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

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

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

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

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

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

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

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

1.1.1 Composition of the Board of Directors

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

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

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

At December 31, 2013, the Board of Directors numbered five women directors, i.e. a proportion of 35.7% (30.7% at January 1, 2014 taking into account the resignation of Ms. Barbizet as a Board director on December 31, 2013), in line with the AFEP-MEDEF recommendations and the provisions of the law of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors.

Board directors appointed by the Shareholders' Meeting

Alexandre de Juniac

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

First appointed as a Board director:
January 11, 2012.

Expiration date of current term of office:
2015 Shareholders' Meeting.

Number of shares held in the company's stock: 2,000.

Expertise and professional experience

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

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

Mr. de Juniac was appointed Chairman and Chief Executive Officer of Air France on November 16, 2011 before becoming **Chairman and Chief Executive Officer of Air France-KLM*** on July 1, 2013.

Other directorships and offices

French company

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

Other

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

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

French companies and public institutions

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

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

* *Listed company.*

Peter Hartman

Vice-Chairman of the Board of Directors

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

Expiration date of current term of office:
2017 Shareholders' Meeting.

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

Expertise and professional experience

Born April 3, 1949, Peter Hartman is a graduate of the Amsterdam Institute of Technology (Mechanical Engineering) and of the Erasmus University in Rotterdam (Economic Sciences).

In 1973, Mr. Hartman joined KLM's Maintenance division where he occupied various positions including Head of Customer Service, Head of HR and Organization and Head of Maintenance. He became a member of the KLM Managing Board in 1997 then Vice-President of the Managing Board before becoming President and Chief Executive Officer of KLM between 2007 and June 2013. Since July 1, 2013, he has been **Vice-Chairman of the Air France-KLM* Board of Directors**.

Other directorships and offices

Non-French companies

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

Other

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

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

Non-French companies

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

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.

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

* *Listed company.*

Maryse Aulagnon

Independent director
Chair of the Audit Committee

First appointed as a Board director:

July 8, 2010.

Expiration date of current term of office:

2017 Shareholders' Meeting.

Number of shares held in the company's stock: 1,500.

Expertise and professional experience

Born April 19, 1949, Maryse Aulagnon, honorary Master of Petitions at the Conseil d'Etat, is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a post-graduate degree (DESS) in Economic Sciences.

Having occupied various positions at the French Embassy in the United States and in a number of Ministerial cabinets (Budget, Industry), Ms. Aulagnon joined the CGE group (now Alcatel) in 1984 as Director of International Business. She subsequently joined Euris as Chief Executive Officer on its creation in 1987.

Ms. Aulagnon is **Chair and Chief Executive Officer of Affine Group S.A.*** (office property), a company she founded in 1990.

Other directorships and offices

French companies

- Affine Group: Chair of Mab-Finances SAS and of Promaffine SAS, Chief Executive Officer of ATIT (SC) and of Transaffine SAS, Member of the Executive Committee of Concerto Development SAS, Representative of Affine, Mab-Finances and Promaffine within the employee representative bodies of the various Affine Group entities;
- Director of Veolia Environnement*;
- Member of the B.P.C.E. Group (Banques Populaires Caisses d'Épargne) Supervisory Board.

Non-French companies

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

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

French companies

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

Other

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

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

* *Listed company.*

Patricia Barbizet

Independent director until December 31, 2013
Member of the Appointments Committee and the Remuneration Committee

Expertise and professional experience

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

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

First appointed as a Board director:

September 15, 2004**.

Term of office ended:

December 31, 2013.

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

Other directorships and offices

French companies

- Artémis/Kering Group*: Director of Artémis, Director and Vice-Chair of the Kering* Board of Directors, Member of the Supervisory Board of Yves Saint-Laurent, Member of the Supervisory Board and Chief Executive Officer (non-Director) of Financière Pinault, Director of the Société Nouvelle du Théâtre Marigny, Artémis Permanent representative on the Boards of Directors of Sebdo Le Point and L'Agefi, Member of the Management Board of Château Latour, Director of the FNAC Group;
- Member of the PSA Peugeot Citroën* Supervisory Board since April 24, 2013;
- Director of Total*.

Non-French companies

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

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

French companies

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

Non-French companies

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

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

* *Listed company.*

** *Date first appointed as a Board director at Société Air France: January 3, 2003 (c.f. justification on page 27).*

Isabelle Bouillot

Independent director
Member of the Remuneration Committee

First appointed as a Board director:

May 16, 2013.

Expiration date of current term of office

2017 Shareholders' Meeting.

Number of shares held in the company's stock:

230.

Expertise and professional experience

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

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

Other directorships and offices

French companies

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

Non-French company

- Director of Umicore (Belgium).

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

French company

- Director of Accor* until February 2009.

Non-French company

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

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

* *Listed company.*

First appointed as a Board director:
September 15, 2004**.

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

Number of shares held in the company's stock: 523.

Jean-François Dehecq

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

Expertise and professional experience

Born January 1, 1940, Jean François Dehecq is a graduate of the École Nationale des Arts et Métiers.
Having begun his career as a mathematics teacher, as of 1965 Mr. Dehecq occupied various positions within the Société Nationale des Pétroles d'Aquitaine (SNPA, ex Elf Aquitaine). He became Chief Executive Officer of Sanofi in 1973, then Vice-Chairman and Chief Executive Officer in 1982 before becoming Chairman and Chief Executive Officer in 1988. Between 2007 and 2010, he was Chairman of the Sanofi-Aventis Board of Directors. Since July 2010, Mr. Dehecq has been **Vice-Chairman of the National Industry Council.**

Other directorships and offices

French companies

- Balmain Group: Chairman of the Board of Directors of Pierre Balmain S.A. and Director of Balmain;
- Director of Provepharm;
- Chairman of the Maori Supervisory Board.

Others

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

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

French companies

- Chairman of the Strategy Committee of the Fonds Stratégique d'Investissement until July 2013;
- Director of Veolia Environnement* until May 2012;
- Chairman of the Board of Directors of Sanofi-Aventis* until May 2010.

Others

- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers) until June 2011;
- Chairman of the National Committee of États Généraux de l'Industrie until March 2010;
- Member of the French Foundation for Research into Epilepsy until 2009;
- Director of the French National Research Agency until 2009;
- Chairman of the National Association for Technical Research until 2009.

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

* *Listed company.*
** *Date first appointed as a Board director at Société Air France: January 25, 1995 (c.f. justification on page 27).*

Jaap de Hoop Scheffer

Independent director
Member of the Remuneration Committee

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

Expertise and professional experience

Born April 3, 1948, Jaap de Hoop Scheffer, a Dutch national, is a law graduate of Leiden University.

Mr. de Hoop Scheffer started his diplomatic career in 1976 and became Private Secretary to the Minister of Foreign Affairs (1980-1986). He then became a member of the Dutch Parliament (1986-2002), leader of the Christian Democratic Alliance (CDA) (1997-2001), the Dutch Minister of Foreign Affairs (2002-2003) and Secretary General of NATO (2004-2009). Since 2012, Mr. de Hoop Scheffer **has taught international politics and diplomacy at the La Haye campus of Leiden University (Netherlands).**

Other directorships and offices

Non-French company

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

Others

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

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

Other

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

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

Cornelis J.A. van Lede

Independent director
Member of the Audit Committee and the Remuneration Committee

First appointed as a Board director:
September 15, 2004**.

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

Number of shares held in the company's stock: 1,000.

Expertise and professional experience

Born November 21, 1942, Cornelis J.A. van Lede, a Dutch national, holds a law degree from Leiden University and an MBA from INSEAD (European Institute of Business Administration).

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

Other directorships and offices

French company
- Director of L'Air Liquide*.

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

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

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

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

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

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

Leo M. van Wijk

Board director
Chairman of the Remuneration Committee

First appointed as a Board director:
September 15, 2004**.

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

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

Expertise and professional experience

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

Mr. van Wijk began his career at KLM Dutch Airlines in 1971. Having occupied a number of positions in the Cargo division, he was appointed Vice President KLM Marketing in 1984 before becoming Senior Vice President Corporate Development in 1989. He joined the KLM Board of Managing Directors in 1991 and was President and Chief Executive Officer of the company between 1997 and 2007. On October 17, 2011, he was appointed Deputy Chief Executive Officer of Air France-KLM*, an office he held until June 30, 2013. He has been **Chairman of the SkyTeam Governing Board** since 2007.

Other directorships and offices

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

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

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

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

* *Listed company.*
** *Date first appointed as a Board director at Société Air France: June 24, 2004 (c.f. justification on page 27).*

Board directors representing the French State

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

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

Régine Bréhier

Board director representing the French State

First appointed as a Board director:

March 22, 2013.

Expiration date of current term of office:

March 2017.

Expertise and professional experience

Born December 10, 1960, Régine Bréhier is a graduate of the Ecole Polytechnique, the University of Berkeley and the Ecole Nationale des Ponts et Chaussées.

Ms. Bréhier has spent most of her career in the French Ministry of Equipment, in decentralized services and in central administration, heading various departments with responsibility for road services and of major infrastructure works. In 2006, she became Director of Research and Scientific and Technical Coordination then, from 2008 to 2012, Director of Research and Innovation.

Since April 2012, she has been **Director of Maritime Affairs at the French Ministry of Ecology, Sustainable Development and Energy.**

Other directorships and offices representing the French State

French companies and public institutions

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

Other

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

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

French companies and public institutions

- Alternate Director at Météo France until July 29, 2013;
- Director of the Service Hydrographique et Océanographique de la Marine (SHOM) until June 26, 2013;
- Director of Aéroports de Paris* until April 26, 2013;
- Director of a number of public institutions within the framework of her functions as Director of Research and Innovation between 2008 and 2012.

Professional address:

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

* *Listed company.*

Solenne Lepage

Board director representing the French State
Member of the Audit Committee

First appointed as a Board director:
March 21, 2013.
Expiration date of current term of office :
March 2017.

Expertise and professional experience

Born February 7, 1972, Solenne Lepage holds a philosophy degree and is a graduate of the Ecole Nationale des Chartes, the Institut d'Etudes Politiques de Paris and the Ecole Nationale d'Administration.
Having begun her career in 2002 within the Ministry of the Economy and Finance as a deputy civil administrator reporting to the heads of various offices (Public Banks, Energy, Chemicals, European Coordination and Strategy), between 2006 and 2009 she was Customer Relations Manager for Large Companies in the banking and insurance sector at HSBC France.
In 2009, she became Head of the "EDF and Other Shareholdings" office in the Agency for State Shareholdings.
Ms. Lepage has been **Deputy Director, "Transport and Audiovisual", at the Agency for State Shareholdings** since October 8, 2012.

Other directorships and offices representing the French State

French companies and public institutions
- Director of the SNCF;
- Director of Réseau Ferré de France;
- Director of Aéroports de Paris*;
- Director of the Régie Autonome des Transports Parisiens (RATP).

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

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

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

* *Listed company.*

First appointed as a Board director:

December 14, 2010.

Expiration date of current term of office:

January 2017.

Jean-Dominique Comolli

Board director representing the French State
Member of the Appointments Committee and the Remuneration Committee

Expertise and professional experience

Born April 25, 1948, Jean-Dominique Comolli is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a Masters degree in Economic Sciences.

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

Other directorships and offices representing the French State

French companies and public institutions

- Director of France Télévisions since September 4, 2013;
- Director of the Établissement Public de l'Opéra Comique.

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

French companies and public institutions

- Director of EDF* until November 2012;
- Director of the SNCF until October 2012;
- Member of the Areva* Supervisory Board until September 2012;
- Director of France Telecom* until September 2012;
- Director of the Fonds Stratégique d'Investissement until September 2012;
- Chairman of the Seita Board of Directors until September 2010;
- Director of Casino* until September 2010;
- Director of Pernod Ricard* until September 2010;
- Director of Crédit Agricole Corporate & Investment Bank until August 2010.

Non-French companies

- Chairman of the Board of Directors of Altadis (Spain) until September 2010;
- Chairman of the Supervisory Board of Altadis Maroc (Morocco) until September 2010;
- Vice-Chairman of the Board of Directors of Imperial Tobacco* (United Kingdom) until September 2010.

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

* *Listed company.*

Board directors representing the employee shareholders

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

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

These Board directors representing the employee shareholders are appointed by the Shareholders' Meeting having been proposed by the shareholders referred to in article L.225-102 of the French Commercial Code. The employees and former employees are invited to choose their candidates for each of the two colleges (flight deck crew and other employees), the election taking place based on a majority vote in two rounds. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting.

Christian Magne

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

Expertise and professional experience

Born August 20, 1952, Christian Magne joined Air France in 1974 and occupied various positions linked to crew management, the establishment of rosters and flight plans, the establishment of budgets and management control, the establishment of cost prices and the monitoring of IT methods and applications. He has also exercized numerous functions linked to defending the interests of Air France employees. He is currently an **Executive**.

First appointed as a Board director:

September 15, 2004*.

Expiration date of current term of office:

2014 Shareholders' Meeting.

Number of shares held in the company's stock:
156 shares and 392 FCPE units.

Other directorships and offices

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

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

* *Date first appointed as a Board director at Société Air France: September 14, 2001 (c.f. justification on page 27).*

Bernard Pédamon

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

Expertise and professional experience

Born July 10, 1961, Mr. Pédamon is a graduate of the Science Faculty of Paris Orsay University and holds a Masters degree (formerly DESS) in International Transport from the University of Paris I.
Having worked in the United States and Africa, Mr. Pédamon joined Air France in 1988 as a Fokker 27 pilot before moving to the Boeing 747-400. In 1999, he became an Airbus A320 Flight Captain then, in 2006, **Flight Captain on the Boeing 777.**

First appointed as a Board director:

July 8, 2010.

Expiration date of current term of office:

2014 Shareholders' Meeting.

Number of shares held in the company's stock:

2,959 shares and 8,136 FCPE units.

Other directorships and offices

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

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

French company

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

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

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

Jean-Cyril Spinetta

Honorary Chairman (since July 1, 2013)

First appointed as a Board director:

September 15, 2004**

Term of office ended:

June 30, 2013.

Number of shares held in the company's stock:
65,349.

Expertise and professional experience

Born October 4, 1943, Jean-Cyril Spinetta holds an advanced degree in public law and is a graduate of the Institut des Sciences Politiques de Paris and the École Nationale d'Administration.

Between 1972 and 1990, Mr. Spinetta served as a senior civil servant in a number of French government Ministries (Education, Employment, Transport). He was Chairman of Air Inter between 1990 and 1993. In 1997, he became Chairman and Chief Executive Officer of Air France, followed by Air France-KLM in 2004 at the time of the merger until 2009 when he stepped down as Chief Executive Officer of Air France and Air France-KLM while remaining Chairman of the two Boards of Directors. On the reunification of the Chairman and Chief Executive Officer functions in October 2011, he again served as Chairman and Chief Executive Officer of Air France-KLM until June 30, 2013. Since July 1, 2013 he has been **Honorary Chairman of Air France-KLM.**

Other directorships and offices

French company
- Director of Alcatel-Lucent*.

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

Other
- 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 and Chief Executive Officer of Air France-KLM* until June 30, 2013;
- Chairman of the Areva* Supervisory Board until June 24, 2013;
- Director of Saint-Gobain* until June 6, 2013;
- Chairman of the Board of Directors then Chairman and Chief Executive Officer of Air France until November 16, 2011;
- Chairman of the Board of Directors of Air France-KLM* until October 17, 2011;
- Director (representing the French State) of La Poste until April 2009;
- Director (representing the French State) of GDF Suez* until April 2009.

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

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

* *Listed company.*

** *Date first appointed as a Board director at Société Air France: September 23, 1997 (c.f. justification on page 27).*

Jean-Marc Espalioux

Independent director until May 16, 2013

First appointed as a Board director:
September 15, 2004**.
Term of office ended:
May 16, 2013.
Number of shares held in the company's stock: 601.

Expertise and professional experience

Born March 18, 1952, Jean-Marc Espalioux is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.
In 1984, Mr. Espalioux joined Compagnie Générale des Eaux (now Vivendi and Veolia Environnement) where he became Finance Director in 1987. He joined the Executive Committee in 1994 before becoming Deputy Chief Executive Officer in 1996. He was Chairman of the Accor Group Management Board between 1997 and 2006 and Chairman of Financère Agache Private Equity between 2006 and 2011. Mr. Espalioux has been **Executive Chairman and a Partner of Montefiore Investment (SAS) (venture capital)** since April 2011.

Other directorships and offices

French companies
- Chairman of the Supervisory Board of Axiom SAS (BVA Group holding company) since March 2013;
- Director of Constructa since February 2013;
- NJM permanent representative in the Paprec Holding Board of Directors;
- Director of Demos;
- Chairman of Penthièvre SAS;
- Member of the Supervisory Board of Foncière Inéa*;
- Member of the Supervisory Board of Homair Vacances*.

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

French companies
- Director of Paprec Holding until March 27, 2013;
- Member of the Supervisory Board of Paprec Group (SAS) until November 9, 2012;
- Chairman of Financière Agache Private Equity until April 2011;
- Member of the Supervisory Board of Lyparis SAS until July 2010;
- Member of the Supervisory Board of Flo Group* until June 2010;
- Director of Veolia Environnement* until May 2010;
- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Épargne until July 2009.

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

Claude Gressier

Board director representing the French State until February 22, 2013

First appointed as a Board director:
September 15, 2004***.
Term of office ended:
February 22, 2013.

Expertise and professional experience

Born July 2, 1943, Claude Gressier is a graduate of the École Polytechnique, attended the Institut des Sciences Politiques de Paris and is qualified as a general public works engineer.
Mr. Gressier spent most of his career within the Territorial Administration and the French Ministry of Transport. Having been Chairman and Chief Executive Officer of the SNCF-Participations Group (1994-1996) and of Géodis (1996-1997), in 1998 he was appointed the Director of Maritime Transport, Ports and the Coast at the Ministry of Equipment, Transport and Housing. In 2001, he became Chairman of the Economic Affairs section in the Counsel General for Public Works.
Since 2010, he has been **a policy officer attached to the Managing Director for Infrastructure, Transport and Maritime Affairs at the Ministry of Ecology, Sustainable Development, Transport and Housing.**

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

Public institutions
- Director of the SNCF until February 25, 2013.

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

* *Listed company.*
** *Date first appointed as a Board director at Société Air France: September 14, 2001 (c.f. justification on page 27).*
*** *Date first appointed as a Board director at Société Air France: June 24, 2004 (c.f. justification on page 27).*

David Azéma

Board director representing the French State until February 20, 2013

First appointed as a Board director:

October 1, 2012.

Term of office ended:

February 20, 2013.

Expertise and professional experience

Born November 22 1960, David Azéma is a graduate of the Institut d'Etudes Politiques de Paris and of the Ecole Nationale d'Administration, and holds a Law degree.

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

Other directorships and offices representing the French State

French companies and public institutions

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

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

French companies and public institutions

- Director of the Fonds Stratégique d'Investissement until July 12, 2013;
- Member of the Supervisory Board of Areva* until March 26, 2013;
- Chairman of the Keolis Management Board from June to September 2012;
- Deputy Chief Executive Officer of the SNCF Group between October 2011 and June 2012;
- Chairman and Chief Executive Officer of SNCF Participations from 2008 to 2012;
- Chairman of the SeaFrance Supervisory Board between 2008 and 2012;
- Director of Geodis from 2008 to 2012;
- Member of the Keolis Supervisory Board from 2008 to 2012.

Professional address:

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

Marie-Christine Saragosse

Board director representing the French State until January 29, 2013

First appointed as a Board director:

July 27, 2011.

Term of office ended:

January 29, 2013.

Expertise and professional experience

Born March 24, 1960, Marie-Christine Saragosse is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

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

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

Public institutions

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

Professional address:

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

* *Listed company.*

Composition of the Board of Directors at December 31, 2013

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

(1) Resigned on December 31, 2013.
(2) Appointed by ministerial order on March 22, 2013 replacing Claude Gressier who resigned on February 22, 2013.
(3) Appointed by ministerial order on December 14, 2010 and January 30, 2013 (interruption in mandate between October 1, 2012 and January 29, 2013 inclusive) replacing Marie-Christine Saragosse who resigned on January 29, 2013.
(4) Appointed by ministerial order on March 21, 2013 replacing David Azéma who resigned on February 20, 2013.

1.1.2 Missions of the Board of Directors

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

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

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

1.1.3 Organization of the Board of Directors

Combined functions of Chairman and Chief Executive Officer

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

The reunification of the functions of Chairman of the Board of Directors and Chief Executive Officer (which had been separate between January 2009 and October 2011) enables everyone's energies to be mobilized around a single function aimed at improving the company's levels of performance. The consolidation of a team united around a sole individual exercising a mandate as Chairman and Chief Executive Officer is all the more key within the current economic environment.

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

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

Internal regulations of the Board of Directors

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

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

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

Independence of the Board directors

Having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, following the proposal of the Appointments Committee the Board of Directors adopted the following position during its meeting of February 19, 2014:

- six of the directors (Ms. Aulagnon, Ms. Bouillot, Ms. Barbizet, Mr. Dehecq, Mr. de Hoop Scheffer and Mr. van Lede) may be deemed to be independent in that:
  - none of these six directors has a relationship with the company, its Group or its management that is such as to color their judgment (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[1] pursuant to the agreements signed in October 2003),
  - Mr. Dehecq's term of office is deemed to begin in 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group (see explanation hereafter);
- the other directors are either representatives of the French State (Ms. Bréhier, Ms. Lepage and Mr. Comolli), representatives of the employee shareholders (Mr. Magne and Mr. Pédamon), and senior executives or former senior executives of Air France-KLM, Air France and KLM (Mr. de Juniac, Mr. Hartman and Mr. van Wijk) and, in this capacity, may not be deemed to be independent;

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

- in view of the above, and pursuant to the provision of the AFEP-MEDEF Code by which directors representing employee shareholders are not counted in the calculation of the percentages of independent shareholders within Boards of Directors and their committees (§9.2 and 16.1 of the Code), the percentages of independent directors at December 31, 2013 were:
  - 50% of the Board of Directors,
  - 75% of the Audit Committee (chaired by an independent director),
  - 75% of the Appointments Committee (chaired by an independent director),
  - 60% of the Remuneration Committee.

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

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

Corporate governance principles and application of the AFEP-MEDEF Code

The Board of Directors operates in accordance with the corporate governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in June 2013 and available on the AFEP (www. afep.com) and MEDEF (www.medef.com) websites. The following table shows the AFEP-MEDEF Code recommendations that have not been applied and the reasons for this.

Recommendations of the AFEP-MEDEF Code not applied	Reasons
Criteria governing whether Board directors are deemed to be independent if their term in office dates back more than 12 years	
"The criteria to be reviewed by the committee and the Board in order to have a director qualify as independent and to prevent risks of conflicts of interest between the director and the management, corporation or its Group are the following: […] Not to have been a director of the corporation for more than twelve years" (§9.4 of the AFEP-MEDEF Code)	The public exchange offer successfully launched by Air France for KLM shares led, on May 5, 2004, to the takeover of KLM and the privatization of Air France. In view of this privatization, and pursuant to the law of April 9, 2003, the shareholders were convened to a Shareholders' Meeting on June 24, 2004 to renew the composition of the Board of Directors. Some directors already in office before June 24, 2004 were reappointed, their mandates nonetheless being exercized within a radically different context. At the end of the exchange offer on September 15, 2004, the company's assets, liabilities, activities and staff, and notably all the activity of the air transport services branch, were transferred to the current company Air France. Air France thus replaced Air France-KLM in respect of all the goods, rights and obligations of the latter whose corporate purpose was subsequently modified to reflect its new holding company role. These operations led to the constitution of the dual-nationality Air France-KLM group with an enlarged scope, comprising a holding company with no operational activity (Air France-KLM) and two operational subsidiaries (Air France and KLM). In view of the above and given the profound changes intervening that same year in the governance and legal organization of these companies together with the division of their activities, the Air France-KLM Board of Directors considered it appropriate to date Mr. Dehecq's term of office from 2004.
Evaluation of the Board of Directors – actual contribution of each director	
"The evaluation should have three objectives: […] - measure the actual contribution of each director to the Board's work through his or her competence and involvement in discussions" (§10.2 of the AFEP-MEDEF Code)	The annual evaluation covers the collegial functioning of the Board of Directors and its Committees and does not present an individual report for each of the directors. On the occasion of the evaluation realized in early 2014, the directors expressed a positive opinion on the collegial functioning of the Board of Directors and its Committees that can only result from satisfactory individual contributions and a high level of attendance (see attendance rates mentioned in Sections 1.1.5 and 1.1.6). The question of competence and the individual contribution of directors to the Board's work and that of its Committees is notably addressed on the renewal of Board directors' mandates.

Recommendations of the AFEP-MEDEF Code not applied	Reasons
Meetings for non-executive directors outside the presence of the executive or "in-house" directors	
"It is recommended that the non-executive directors meet periodically without the executive or "in-house" directors. The internal rules of operation of the Board of Directors must provide for such a meeting once a year, at which time the evaluation of the Chairman's, Chief Executive Officer's and Deputy Chief Executive's respective performance shall be carried out, and the participants shall reflect on the future of the company's executive management." (§10.4 of the AFEP-MEDEF Code)	The current practice is that the main questions concerning executive directors (appointment, performance and remuneration) are discussed by the Board of Directors outside the presence of the interested parties, after hearing the opinion of, as required, the Appointments or Remuneration Committees.
Chairmanship of the Remuneration Committee	
"The Committee in charge of compensation […] must be chaired by an independent director." (§18.1 of the AFEP-MEDEF Code)	On the occasion of the change in the composition of the Remuneration Committee on May 16, 2013, the Board of Directors decided to entrust the chairmanship to Mr. van Wijk due to his extensive knowledge of the Group, the moral authority that he enjoys within both Air France and KLM and the specificities of the French and Dutch remuneration systems. This appointment is justified, in particular, to support the Group's integration phase initiated on July 1, 2013, aimed at ensuring the Group's enduring economic and financial recovery and a new more-integrated mode of functioning.

Compliance rules

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

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

Potential conflicts of interest

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. Note, however, that the French State, which held 15.9% of the Air France-KLM share capital as of December 31, 2013, also holds 50.6% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

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

At December 31, 2013 there were no service level contracts binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

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

1.1.4 Functioning of the Board of Directors

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

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

Board activity during the 2013 financial year

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

During these meetings the following matters were notably addressed:

- interim and annual financial statements;
- regular status reports on the Group's activity and financial situation;
- monitoring of the Transform 2015 industrial and strategic project;
- reorganization of the Group;
- change in the Group's governance and the composition of the Board of Directors' Committees;
- monitoring of the shareholding in Alitalia;
- trans-Atlantic joint-venture with Delta;
- alliance strategy;
- issue of bonds convertible and/or exchangeable into shares;
- change in Air France's shareholding in Amadeus;
- status report on aviation safety;
- compensation of the executive directors.

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

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

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

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

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

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

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

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

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

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

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

Regulated agreements and commitments

On March 20, 2013, pursuant to the authorization granted by the Board of Directors on March 18, 2013, Air France-KLM launched an issue of bonds convertible and/or exchangeable into Air France-KLM shares maturing on February 15, 2023, raising €550 million and with Air France and KLM as guarantors. To this end, the Board of Directors authorized the signature, between the companies Air France-KLM, Air France and KLM, of a guarantee agreement, an agreement in consideration for the grant of this guarantee, an agreement on the credit facility and an underwriting agreement covering the aforementioned issue.

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

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

1.1.5 The Board of Directors Committees

The Audit Committee

Composition

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

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

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

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

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

Missions

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

In particular, the Audit Committee is responsible for the:

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

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

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

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

Activity

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

Review of the financial statements

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

Monitoring of the internal control and risk management procedures

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

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

Risk assessment

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

Statutory Auditors

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

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

Others

The Audit Committee also reviewed the following matters:

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

The Remuneration Committee

Composition

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

Missions

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

Activity

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

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted, relating to the modalities for the payment of directors' fees, and the principles and amounts of the fixed and variable compensation for the executive directors *(see Compensation of the Company Officers section* below, established with the cooperation of the Remuneration Committee). It was also informed of the policy regarding the compensation of the principal directors who are not executive officers of Air France-KLM, Air France and KLM which notably led to the formulation of recommendations concerning the compensation of the Chairman and Chief Executive Officer of Air France and the President and Chief Executive Officer of KLM. In this regard, the Committee considered it useful, subject to structural factors relating to the remuneration of senior executives in France and the Netherlands, to in future move towards the alignment of the remuneration of Air France's Chairman and Chief Executive Officer with that of the President and Chief Executive Officer of KLM and, more generally, between the remuneration of the Group's senior executives.

The Appointments Committee

Composition

At December 31, 2013, the Appointments Committee comprised the following four members: Jean-François Dehecq (Chairman of the Committee), Patricia Barbizet, Jean-Dominique Comolli and Cornelis van Lede.

Missions

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

Activity

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

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

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

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

1.1.6 Compensation of the company officers

Compensation for Board directors

Board directors' fee modalities

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

The modalities for the payment of individual Board directors' fees applied in respect of the 2013 financial year were those adopted by the Board of Directors during its meeting of June 27, 2007 following a recommendation from the Remuneration Committee, and are as follows:

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

Committee members receive additional fees:

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

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

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

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

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

Compensation granted to directors other than the executive directors

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

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

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

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

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

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

(3) *Amount paid to KLM.*

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

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

(6) *Director until February 20, 2013.*

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

(8) *Director since May 16, 2013.*

(9) *Director since March 22, 2013.*

(10) *Director until May 16, 2013.*

(11) *Director until February 22, 2013.*

(12) *Director since March 21, 2013.*

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

(14) *Director until January 29, 2013.*

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

Compensation of the executive directors

Principles for determining compensation prior to June 30, 2013

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

Chairman and Chief Executive Officer

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

Deputy Chief Executive Officer

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

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

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

Principles for determining compensation since July 1, 2013

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

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

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

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

2014 financial year

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

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

	Breakdown of the variable portion	
	Target: 80% of fixed compensation	Maximum: 100% of fixed compensation
Quantitative performance: Air France-KLM operating result Operating result compared with the budget	40%	50%
Quantitative performance: Air France-KLM free cash flow Free cash flow compared with the budget	20%	25%
Qualitative performance ♦ Passenger satisfaction (indicators presented to the Board each quarter) ♦ CSR performance (measured by the professional indices) ♦ Progress on the Group's integration process	20% (the 3 criteria being equally weighted)	25%

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

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

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

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

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

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

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

(In €)	2013 Financial Year (January 1 to June 30*)	2012 Financial Year
Compensation due in respect of the financial year	100,000	200,000
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A
Total	**100,000**	**200,000**

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

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

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

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

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

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

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

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

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

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

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

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

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

(In €)	2013 Financial Year (January 1 to June 30*)	2012 Financial Year
Compensation due in respect of the financial year	75,000	150,000
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A
Total	**75,000**	**150,000**

* *Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer.*
Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors on page 33.

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

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

* *Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer.*
Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors on page 33.

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

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

* *Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer.*
Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors on page 33.
(1) €31,250 paid in January 2012 in respect of the 2011 financial year and €150,000 paid in 2012 in respect of the 2012 financial year.

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

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

This amount corresponds to:

- 25% of fixed compensation in respect of the quantitative performance: 0% in respect of the operating result (the latter being significantly improved but below budget) and 25% in respect of the reduction in net debt (€5.97 billion at December 31, 2012 reduced to €5.35 billion at December 31, 2013);
- 25% of fixed compensation in respect of the qualitative performance, evaluated with regard to the Chairman and Chief Executive Officer's overall performance for the period taking into account the turnaround in the Group's results and the implementation of the Transform 2015 Plan within a difficult economic context.

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

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

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

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

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors on page 33.

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

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

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

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors on page 33.

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

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

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

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors on page 33.

Other commitments made in respect of the executive directors

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

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

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

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

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

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

Loans and guarantees granted to company officers

None.

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

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

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

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

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

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

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

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

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

None.

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

1.2 The Group Executive Committee

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

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

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

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

Group Executive Committee at December 31, 2013

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

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

	Age at December 31, 2013	Relevant professional experience	
		Sector	Experience
Guy Zacklad Secretary to the Group Executive Committee, Air France-KLM	47 years	Public Service Air Transport	11 years 12 years

The Group Executive Committee meets every two weeks, alternating between Paris and Amsterdam to define and order the implementation of all the key decisions concerning the Group within the framework of the strategy.

2

Activity

Group profile

In its three businesses of passenger transportation, cargo transportation and aeronautics maintenance, Air France-KLM is a leading global player

77.3
million passengers

1.3
million tons of cargo

583
aircraft in operation

1.2
billion euros of third-party maintenance revenues

2.1 Market and environment

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

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

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

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

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

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

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

2.1.1 The economic environment

Economic context

➤ Real GDP growth rate

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

Source: IHS Global Insight, January 15, 2014.

2013: a year of weak global growth

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

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

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

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

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

2014: accelerating global growth driven by the recovery in Europe

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

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

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

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

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

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

Oil price

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

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

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

➤ Trend in the oil price

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

Source: Oxford Economics, Platt's

Currency volatility

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

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

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

➤ Trend in currency exchange rates

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

Source: MarketMap.

2.1.2 The industry context

2013: traffic growth higher than the increase in capacity

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

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

Despite the unfavorable economic climate, traffic (in passengers) was slightly higher (+1.6% to 375 million passengers) for the AEA airlines. Their growth was driven by the intercontinental routes (+3.5%) while the growth in the intra-European lines was limited to 1% *(source 9)*. This growth, which was much weaker than the growth reported by IATA for the European airlines as a whole, signifies that the non-AEA airline members, and first and foremost the low-cost airlines, are continuing to gain market share. In total, the intercontinental traffic of the AEA carriers rose by 2.7% in PRK (Passenger-Revenue Kilometers), for capacity growth of 1.7%. The load factor gained 0.7 points to a historic high of 79.9%, reflecting the capacity discipline, particularly on the North Atlantic. At well short of its historic level, this weak growth was, however, insufficient to return the AEA airlines to the black, their operating margin likely to have remained close to 0% in 2013 *(source 9)*.

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

2014 capacity forecasts: a relaxation in discipline?

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

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

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

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

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

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

Ever-stricter European and International regulations

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

A climate protection policy that Europe is struggling to extend

Protecting the climate is a priority for the air transport industry. It is the first industry in the world to have set itself a target for reducing CO_2 emissions. On January 1, 2012, as part of the fight against global warming, Europe implemented a Directive imposing the European Emission Trading Scheme on all airlines operating in the European Economic Area, a measure encountering robust opposition from a number of countries (China, United States, Russia, India, etc.). In November 2012, the European Commission announced a one-year postponement in the application of this quota trading system to virtually all non-European flights to facilitate the emergence of a global agreement at the level of the ICAO, something which was achieved in October 2013. The ICAO agreement foresees the creation of a market-based mechanism to be submitted to the next session in 2016 for application in 2020. The European Commission interprets this agreement as an opportunity to include the sections of non-intra-European flights over-flying EU States in the European emission trading system. If it is adopted, this proposal could lead to renewed controversy with the European Union's principal partners.

(See also Section 3 – Risks and risk management, page 81).

Protection of consumer rights and safety

The regulatory trend is increasingly towards the reinforcement of consumer rights in both Europe and the United States. In October 2012, the European Court of Justice confirmed that compensation for passengers whose flights have been delayed for three hours or more would be assimilated with denied boarding (European Court of Justice ruling of October 23, 2012, case C-581/10). In May 2013, the European Commission submitted a revised text before the European Parliament stipulating the application conditions for consumer rights *(source 18)*.

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

Single European sky: little in the way of progress

A cross-border organization for air space management by air traffic control is currently being established. In 2004, the European Union adopted the principle of a Single European Sky. The international treaty of December 2010 establishing the FABEC (Functional Airspace Block Europe Central), regrouping the Benelux, German and French air spaces, was ratified in December 2012 and published in the French Republic's Official Journal in November 2013 *(source 16)*. This block enables the air regulation zones of each center to be defined according to traffic and no longer based on national borders.

Since 2012, the air traffic control authorities have been required to reach a series of performance targets based on punctuality, flight efficiency and cost effectiveness. The current weakness in air traffic is helping air traffic control to reach its targets on reducing average flight delays but is making it more difficult to achieve the unit cost reduction commitment *(source 17)*.

Customers increasingly well-informed, pragmatic and demanding

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

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

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

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

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

2.1.3 Competition

The European airlines are adapting their medium-haul businesses

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

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

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

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

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

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

Finalization of consolidation in the United States

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

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

Beginning of consolidation in Latin America

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

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

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

Asia is experiencing a complete transformation

In South-East Asia, the market is still very buoyant driven, in particular, by the growth of the low cost carriers which represent 20% of the seat capacity but close to 50% of aircraft orders *(source 37)*. The Asian airlines are backed by the economic growth in the region and the strong demand for intra-Asian travel. However, although the trend remains positive overall for the coming months, growth could slow in a number of markets which are progressively reaching maturity. Growth should be driven by activity in Indonesia, Thailand, Malaysia, Singapore and the Philippines *(source 38)*.

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

The four large Chinese carriers (Air China, China Southern, China Eastern and Hainan Airlines) remain mostly focused on domestic traffic which contributes some 90% of their passenger traffic *(source 10)*. In November 2013, the Chinese government announced plans to support the development of new players, particularly low cost carriers, in this market *(source 42)*. The companies are now aiming to increase their share of international traffic which is progressively being developed, particularly through partnerships and joint-ventures.

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

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

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

Development of the African airlines

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

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

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

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

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

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

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

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

Airline sector consolidation: alliances, partnerships and joint-ventures

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

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

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

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

2.1.4 Conclusion

The combination of the economic crisis, which is affecting Europe in particular, and a high fuel price is having a significantly negative impact on the profitability of the European airlines. All these companies are now engaged in restructuring plans aimed at restoring their competitiveness particularly relative to competitors who either benefit from a more dynamic environment or have completed their transformation to a sustainably profitable model like in the United States. The European public authorities are increasingly realizing the vital importance of an industry which makes a substantial contribution to the wealth of the continent *(source 59)*. However consolidation, which is key to returning the industry to sustainable profitability, is seeing little progress. Currently, the airlines' limited financial resources and the interventionism from a number of States vis-à-vis national flag-carriers is holding back this inevitable move.

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2.2 Strategy

In early 2012, the Air France-KLM group launched Transform 2015, a three-year transformation plan (2012-14). While this plan aims to generate the financial resources required to return to a 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, stepping up cooperation with partners and securing agreements with new partners within the SkyTeam alliance, and leveraging its fundamental strengths.

2.2.1 Fundamental strengths

A strong presence in all the major markets

The Air France-KLM group currently operates the largest network between Europe and the rest of the world. Including the flights operated by Delta within the framework of the trans-Atlantic joint-venture, the Group served 119 long-haul destinations world-wide in Summer 2013, of which 35 in Africa, 25 in North America, 23 in the Asia-Pacific region, 11 in the Caribbean, three in the Indian Ocean, 11 in Latin America and 11 in the Middle East. Revenues are evenly balanced across all these markets *(see also Section 2.3.6 for the key figures by network)*.

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

Two coordinated hubs at developing airports

The Group's network is coordinated around the two intercontinental hubs of Paris-Charles de Gaulle and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. Their efficiency is supplemented in southern Europe by the airports of Rome and Milan where Alitalia, a company with which the Group has had a strategic partnership since January 2009, operates. These hubs, which are organized in waves known as "banks", combine connecting with point-to-point traffic. This large-scale pooling of limited flows gives small markets world-wide access. Furthermore, it enables the use of larger aircraft, thereby reducing noise and carbon emissions. The second bank at the Paris-Charles de Gaulle hub, organized around the arrival of some 60 medium-haul flights and the departure of around 30 long-haul flights, thus enables the offer of more than 1,500 different connections in under two hours with only 90 aircraft.

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

A balanced customer base

The Air France-KLM group's choice of satisfying all its customers in terms of networks, products and fares has enabled it to build a balanced customer base. Around 40% of passengers travel for business purposes and 60% for personal reasons. The Group also benefits from a balanced breakdown between transfer and point-to-point passengers. At Air France, connecting passengers represent around 45% of total passengers while, at KLM, this figure amounts to 60%. Furthermore, more than 50% of revenue is realized with loyalty scheme customers (frequent flyer program members or those whose companies have a corporate contract with the Group).

SkyTeam, the number two global alliance

Serving 1,024 airports globally, SkyTeam is the number two global alliance. At December 31, 2013, it brought together 19 European, American and Asian airlines: Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Airlines, China Eastern, China Southern, Czech Airlines, Delta, Kenya Airways, Korean Air, Tarom, Vietnam Airlines, Aerolineas Argentinas, MEA (Lebanon), Saudi Arabian Airlines and Xiamen Airlines (the fifth Chinese carrier). Garuda Indonesia joined the alliance in March 2014.

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

Strategic partnerships

The Group has signed several strategic partnerships on key markets.

On the North Atlantic, the Group has implemented a joint-venture with its partners Delta and Alitalia since 2009. The scope of this agreement is very wide covering all the flights between North America, Mexico and Europe through integrated cooperation and flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf States and India together with flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination. This contract is based on the principle of sharing revenues and costs.

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

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

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

Lastly, in February 2014, the Group signed an exclusive partnership agreement with the Brazilian company GOL. This agreement supports Air France-KLM's leadership position in Brazil and Latin America.

A modern fleet

The Group has continuously invested in new aircraft and currently operates one of the most rationalized and modern fleets in the sector. This enables it to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local communities and greenhouse gas emissions. The measures implemented within the framework of the Transform 2015 plan to limit investment in the fleet will have little impact on its age curve through to 2014. Furthermore, the Group will start to take delivery of its first Boeing 787s as of the end of 2015 and its first Airbus A350s in 2018 *(see also Section 2.7 – Fleet, page 73.)*

A commitment to sustainable development

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

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

2.2.2 The Transform 2015 plan

Covering the 2012-14 period, Transform 2015 was announced in January 2012 in response to the objectives set by the Air France-KLM group's Board of Directors: rapidly reducing debt, restoring competitiveness and restructuring the short- and medium-haul operations.

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

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

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

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

- renegotiation of working conditions with the signature of new collective labor agreements for the three staff categories (Ground Staff, Flight Deck Crew, Cabin Crew);
- establishment of action plans for each of its businesses;
- definition of its new corporate governance; and
- a number of measures aimed at improving its financial situation.

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

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

Limited capacity growth and a downwards revision in investment

Given the uncertain economic environment and the persistent imbalance between transport capacity and demand, the Group opted for a limited increase in capacity in both passenger and cargo. For the passenger business, after growth of 0.6% in 2012, capacity increased by 1.6% in 2013 and should increase by around 1.5% in 2014.

As a result, the Group revised its fleet plan and investment program with the exception of investments aimed at the ongoing improvement in operational safety and customer services (€500 million over the three years of the plan). This decision led the Group to adjust its medium-term fleet plan combining, for example, the deferral of aircraft deliveries and the non-exercise of options. Investment was reduced from €2.1 billion before sale and lease-backs in 2011 to €1.5 billion in 2012, €1.1 billion in 2013 and should remain below €1.4 billion in 2014. The Group also decided to limit sale and lease-back transactions (€600 million in 2012, €100 million in 2013 and none in 2014, *versus* €800 million in 2010 and €850 million in 2011).

Renegotiating the new working conditions

Within the Air France group, returning to a satisfactory level of profitability requires a very significant improvement in productivity across the company implying the renegotiation of the employment conditions in the existing collective agreements. The negotiations with the organizations representing the different categories of staff resulted in the signature of new collective labor agreements in 2012 for ground staff and flight deck crew and, in March 2013, with cabin crew. These new collective agreements aim to establish an organization and compensation and career system adapted to the new air transport environment. Having come into force in 2013, these agreements guarantee an improvement in productivity across all categories of staff. For ground staff, the number of working days has increased by between ten and twelve; flight deck and cabin crew have accepted an increase in flight hours, particularly in medium-haul. Furthermore, these agreements ensure a reduction of around half a point in the seniority creep.

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

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

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

In total, these measures should enable a reduction of more than €300 million in payroll expenses, on a constant scope and pension expense basis, between 2011 and 2014.

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

Action plans

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

Passenger business

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

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

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

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

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

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

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

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

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

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

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

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

Cargo business

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

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

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

Maintenance business

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

New governance

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

2.3 Passenger business

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

In 2013, the Group continued to implement the action plans launched within the framework of Transform 2015. While maintaining strict capacity discipline (+1.6%), the passenger business focused its efforts on improving the profitability of each of the relevant companies, restructuring the heavily-loss making medium-haul operations, developing the network in the regions with most potential while stepping up investment in products and services and developing new initiatives to serve its customers more effectively.

2.3.1 Medium-haul operations

The short and medium-haul network is a cornerstone of the Group's development in that it ensures not only its operations across Europe and the power of marketing tools like the Flying Blue frequent flyer program or contracts with companies and the major agency networks, but also feeds the long-haul flights at the dual hubs of Paris-CDG and Amsterdam-Schiphol.

The profitability of this network has seen a significant deterioration since the 2009 crisis. In addition to increased competition from the low cost airlines, this network has experienced a profound change in behavior with Business customers abandoning Business class and flexible fares for the lowest-priced tickets. These structural difficulties (overcapacity in Europe, shift in customer behaviour and thus pressure on prices) led the Group to launch a restructuring of this network within the framework of the Transform 2015 plan, particularly at Air France.

New organization and the launch of HOP!

While preserving its strong position in the French medium-haul market, the Group must adapt its offer to customer demand and gain efficiency. This is why Air France's medium-haul operations have been the subject of a dual reorganization. Within the activity operated in Airbus aircraft belonging to the A320 family, as of January 1, 2013 the Group has been organized around two business units: one responsible for the flights on departure from the Paris-CDG hub and the provincial bases and the second covering the point-to-point activities on departure from Paris-Orly and the provincial bases. The regional activity, formerly operated by three airlines (Brit Air, Régional and Airlinair) has been regrouped under a single HOP! brand, launched on March 31, 2013. At the end of December 2013 the Group received a firm bid for the acquisition of its regional subsidiary CityJet. The transaction should be finalized during the 2014 first half.

This new organization has enabled the Group to pursue the adaptation of capacity to the market requirements. The point-to-point activity is reducing its capacity, particularly on departure from the provincial bases while the development of Transavia is being accelerated on departure from Paris-Orly to meet leisure demand (*See also section 2.6.1 Leisure business page* 71).

One major project covered an improvement in operating efficiency and the productivity of all the assets obtained, notably, thanks to schedule modifications, specific work on aircraft turnaround times, the densification of aircraft and the new collective labor agreements. Rotations have been densified at both Paris-Orly and Paris-CDG.

At KLM, the increase in medium-haul productivity involved the rationalization of the medium-haul and regional fleets with the phasing out of the Fokker 70s, the densification of the Boeing 737 fleet between 2013 and 2014, and an increase in the utilization rate for regional aircraft with shorter turnaround times. These productivity gains have reinforced the attractiveness of the Amsterdam hub which has also seen the addition of three new destinations: Kent (United Kingdom), Alesund (Norway) and Florence (Italy).

Lastly, a number of projects have targeted better adaptation to the increased seasonality of demand. At Air France, the seasonal adjustment of activity in the provincial bases has been stepped up, with the operation of some routes suspended during the Winter. Similarly, at KLM, some maintenance operations have been rescheduled outside the peak Summer season and the airline has developed so-called inverse seasonality routes for which the fall-off in demand is less marked during the winter.

Repositioning the offering

The work to reposition the medium-haul offer was carried out in 2013 for both business and leisure customers.

For business customers, Air France thus launched upgrades to the customer experience and a more attractive fare structure with greater flexibility. Customer satisfaction has notably improved thanks to investment in on-board services for Business and Premium Economy passengers, together with the systematic deployment of the "SkyPriority" service. New Business tariffs have been launched, notably making it easier to combine them with other tariffs. In point-to-point, tariff adjustments for Business customers were launched in early 2014.

To respond to the needs of leisure customers more effectively, in early 2013 Air France launched a new, simplified, more attractively-priced tariff known as the MiNi fares with no free checked baggage or Flying Blue miles. Initially covering 58 routes, this product has subsequently been extended.

For its part, KLM has enriched its option proposition with the Economy Comfort product being extended to the KLM Cityhopper regional aircraft. The first piece of hold baggage has become a paid-for option on the European flights. A new seat giving passengers more room has been deployed on the Boeing 737 fleet.

2.3.2 Long-haul operations

Targeted growth in capacity and limited investment in the fleet

In 2013, the modest growth in long-haul capacity was focused on the most rapidly-growing regions, Latin America and Asia:

- with three weekly flights, Panama City is now served on departure from Paris-CDG, in addition to the daily flight on departure from Amsterdam-Schiphol. Serving this destination from the Group's dual hubs enables the multiplication of connecting opportunities;
- the Group has launched flights to Montevideo as an extension to the Buenos-Aires flights, with five weekly flights, reinforcing its presence in Latin America;
- in February 2014, KLM will launch the Santiago du Chile route with three weekly flights, in addition to the daily flight operated by Air France;
- the two innovations in Asia were the launch of the Fukuoka service by KLM, with three weekly flights, and the opening of Kuala Lumpur by Air France, in addition to the daily flight operated by KLM.

Within the framework of the trans-Atlantic joint venture with Delta, the Group did not increase its capacity on the North Atlantic, the partners opting to concentrate their capacity on the links between the hubs. In this context, Air France launched a seasonal flight between Paris and Minneapolis-Saint Paul, one of the Delta hubs.

The Group has reinforced its partnership with Etihad with KLM increasing its frequencies to Abu Dhabi, and the implementation of new code share agreements, particularly towards destinations in Africa (Khartoum, Addis-Ababa), Asia (Colombo, Katmandou, Mahé) and Australia (Sydney, Brisbane, Melbourne).

Since January 1, 2014, the scope of the joint venture agreement with Kenya Airways has virtually doubled with the addition of four new routes (London-Nairobi, Amsterdam-Entebbe/Kigali, Amsterdam-Lusaka/Harare, Amsterdam-Kilimandjaro/Dar-es-Salaam).

The growth in Latin America will continue in 2014 thanks, notably, to the new strategic partnership signed in February 2014 with the Brazilian carrier GOL.

While applying a strict policy of limited investment, the Group continued to modernize the long-haul fleet. Air France decided to retire the Boeing 747s from revenue service by 2016. The last MD 11 is expected to be withdrawn from the KLM passenger fleet by the end of 2014. At the Paris Air Show in Le Bourget the Group also finalized its Airbus A350 order with the first Airbus A350 scheduled to enter the fleet in 2018, and the first Boeing 787 in 2015. (*See also section 2.7 Fleet, page* 73)

Move up-market for the long-haul product

Within the framework of its strategy of best-in-class positioning, the Group has intensified its investment in enhancing the travel experience, in particular via major reconfiguration programs for the long-haul cabins.

At KLM, this best-in-class ambition was reflected in the launch of a new World Business Class, conceived by the famous designer Hella Jongerius. The installation of this new seat began during the summer of 2013 and 22 Boeing 747-400s will be equipped by the end of 2014. The first surveys have shown a significant improvement in customer satisfaction in terms of both the comfort of the seat (average score increased from 4.4 to 8.7) and the overall level of comfort and evaluation of the cabin (average score increased from 5.4 to 8.4). In 2014, the 15 Boeing 777-200s will receive the new World Business Class seat, new seats in economy class and an upgraded In Flight Entertainment system. All the product investment planned at KLM represents no less than €200 million between 2012 and 2015. In 2013, all KLM's efforts were rewarded when SkyTrax awarded the company four stars.

In 2013, Air France carried out the preliminary studies for its Best & Beyond project aimed at refitting the cabins of 44 Boeing 777s. The first flight with the new equipment is planned for June 2014. The Boeing 777s will be equipped with a new Business class seat to the highest-possible standards: full flat (convering into a fully flat bed), full access (direct access to the aisle) and full privacy (maximizing each passenger's private space). These aircraft will also benefit from new seats in the Economy and Premium Economy classes together with new in-flight entertainment systems in line with the best industry standards. The new First Class product will only be revealed in the second quarter of 2014.

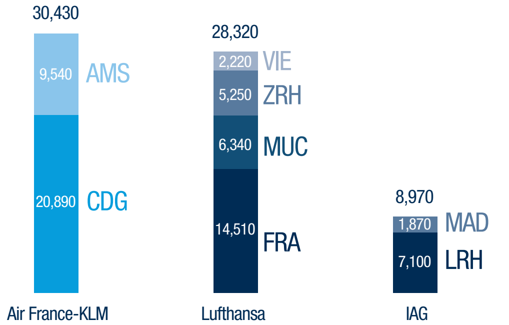
Ahead of these modifications, new in-flight catering experiences were introduced in Economy and Premium Economy in September 2013 with innovations in Business and *La Première* to follow in 2014. All the product investment planned at Air France will represent no less than €500 million between 2012 and 2015.

2.3.3 Leveraging the strengths of the hubs

Two of the most efficient hubs in Europe

The dual hub system retains its central function within the passenger activity. The powerful and coordinated hubs of Paris-CDG and Amsterdam-Schiphol, inter-linked by 12 daily flights, offer 30,430 weekly connecting opportunities between European medium-haul and international long-haul flights in under two hours. The combination of the dual hubs of CDG and Schiphol, which is unique in Europe, enables the Air France-KLM Group to offer a large number of frequencies per destination and an extensive range of flight times. Passengers can thus choose between five daily flights to New York, four flights for Shanghai, two flights for Sao Paulo and three to Montreal excluding the flights operated by its partners. The large size of the Group's hubs enables the operation of bigger aircraft like the B777-300ER and Airbus A380, which are synonymous with the kind of economies of scale that cannot be tapped by airlines operating out of smaller hubs.

The most flight connection opportunities within Europe



Number of weekly medium-haul/long-haul connection opportunities in under two hours

New initiatives to improve the competitiveness of the hubs

Within the framework of Transform 2015, a series of initiatives have been launched to improve service quality, reduce costs and increase the competitiveness of the Group's two hubs.

At Paris-CDG, the new airport infrastructure delivered by ADP in 2012 has contributed to operational gains and the level of customer satisfaction. Thanks to the new connecting channels, 85% of customers arriving in (or coming from) the Schengen zone no longer need to pass through a second security check. The SkyPriority check-in zones have been remodelled for a faster, more clearly-indicated transit. Customer satisfaction scores have improved in all sectors, reaching their highest level in three years.

Named "Future of the Hub", a new project involving all the Paris-CDG hub services was launched in 2013. The aim is to achieve a sustainable improvement in the hub's economic and operational performance while offering customers a more streamlined and efficient airport experience. The project puts particular emphasis on an improvement in punctuality.

Schiphol airport is a key partner for KLM and the effectiveness of this partnership plays a vital role in the success of the Amsterdam "mainport". In 2013, Schiphol and KLM worked on the deployment of a centralized security system for passengers from non-Schengen countries. This project, which significantly changes the organization of the airport, should be finalized in 2015. Starting from 2013, centralized filters were introduced to avoid security checks at the boarding gates.

Another project common to KLM and Schiphol dubbed "70MB" (70 million pieces of baggage annually) covers the redesign of the baggage handling system to increase its capacity. The new system became operational in 2013. Despite two major incidents disrupting baggage handling, the number of pieces of baggage not traveling with passengers fell from 70 per 1,000 in 2012 to 25 per 1,000 in 2013, achieving the target set by KLM.

The deployment of a new Altéa Departure Control Customer Management system at Paris-CDG and Amsterdam-Schiphol represented an important step for the Group's hubs. The system will be fully operational during 2014, ensuring both operational savings and increased interaction with customers.

2.3.4 Pursuing customer-centric initiatives

In addition to repositioning the offering and improving the competitiveness of the hubs, the Group is pursuing numerous customer-centric initiatives to differentiate it from competitors.

More choice and control

Thanks to the internet and mobile technologies, customers have ever-more opportunities to compare offerings and choose those which best meet their needs. *A la carte* purchasing is a fundamental trend in customer behaviour. To respond to this expectation, Air France and KLM are multiplying initiatives enabling customers to personalize and enhance their travel experience, notably thanks to paid-for options giving access to a higher standard of comfort, extra baggage allowance, an alternative travel class, improved menu, etc. These options also represent an additional source of revenue for the Group.

In 2013, the Group pursued initiatives of this type with KLM introducing the concept of a paid-for first piece of baggage in medium haul and Air France launching the MiNi fares, a simplified offering with lower prices and without free baggage. In medium-haul, the two airlines also introduced the opportunity to purchase more comfortable seats.

More autonomy and self service at the airport

From improving the check-in experience to facilitating the baggage drop-off and boarding processes, Air France and KLM have continued to invest in new technologies to improve the customer experience at airports.

In 2013, the Group tested new self-service check-in kiosks for deployment in 2014. These kiosks function more rapidly, are easier to use and offer new functionalities such as payment by card.

The roll-out of the Express Baggage Drop-off systems continued in 2013 with twelve machines now in place at Amsterdam-Schiphol, five at Paris-Orly, two at Nice, and more than 20 to be installed at Paris-CDG in 2014. This progressive deployment contributes to reducing baggage check-in times and thus to reducing the time spent queuing, while meeting the growing customer need for autonomy, speed and efficiency.

Based on the same simplification approach, in 2013 Air France introduced the opportunity for passengers to print their baggage tags at home. This system will be deployed on all the French domestic routes in 2014.

Lastly, the airlines continue to test and study opportunities for deploying self-service boarding solutions.

On-going digital innovation

In 2013, the Group continued to upgrade its digital organization to make it simpler, more responsive and completely focused on the customer. For example, Air France has created a unique digital organization regrouping all the key competencies within a single entity.

Mobile services and online sales are at the heart of today's commercial relationships. The Group is permanently working on improving these services which must not only become simpler and more reliable but also offer a more rewarding customer experience and be accessible from all the mobile devices whose usage has exploded (smartphones, tablets).

With the current and forthcoming projects on mobile services and the social media, Air France-KLM plans to remain a leader in digital innovation through the airline websites, mobile applications and the social media.

Lastly, during the spring of 2013, in partnership with Panasonic Avionics, Air France and KLM launched the trialling of internet connectivity on board aircraft. A Boeing 777-300 from each company was equipped with a satellite system enabling passengers to hook up to the internet and send SMSs and emails from their WiFi-enabled mobile telephones in return for a fixed-rate price. The results of this trial will be evaluated in the summer of 2014.

In parallel, Air France is exploring the possibility of offering internet connectivity, live television and video on demand on the medium-haul flights. The aim is to launch a pilot project with Orange on two Airbus A320s by late 2014, one operating on the French domestic routes and the other on European destinations.

Differentiation via the customer relationship

In their interaction with service companies, customers are increasingly expressing a preference for brands that are capable of offering them genuine, empathetic and responsive human contact. To meet these expectations the Group has launched a number of initiatives aimed at, notably, empowering the teams in direct contact with customers. At the end of 2013, 19,000 members of staff had received special training in the "service signatures" concept launched by Air France. For the second year running, KLM employees were recognized by SkyTrax as offering the best service in Europe.

To support these proximity and personalization approaches, the two companies are developing mobile tools to enable staff to respond immediately to requests for information from customers. KLM has continued to deploy iPads for staff in direct contact with customers: after the airport-based teams, the pilots and cabin crews now also have access to these tools. Similar initiatives are also being deployed within Air France.

Based on the same rationale, the Group pursued its investment in customer services via the social media. The two airlines currently offer a 24/7 customer service on Facebook and Twitter in nine languages. More generally, Air France and KLM are recognized as being pioneers in these areas. KLM was thus recognized by SimplyFlying as the airline with the most dynamic presence on the social media and by Social Embassy as the most pro-active brand in this field in the Netherlands. The socialbakers.com website judged Air France to be the most responsive French brand on the social media.

Adaptation of the commercial organization

Within the framework of the change in the Group's governance, a new commercial organization was launched on July 1, 2013. The main commercial functions (sales, revenue management and pricing, distribution, digital, etc.) were regrouped to gain responsiveness and proximity to customers.

In parallel, the geographical organization was simplified with two national markets (France and the Netherlands), five international markets and one joint-venture market with Delta.

A more attractive Flying Blue frequent flyer program

With 22 million members, more than 30 airline partners and more than 100 non-airline partners, Flying Blue is the leading frequent flyer program in Europe.

In 2013, the reward tickets structure was reviewed in long-haul following the successful changes made in Europe during 2012. The access to upgrades with miles has been extended with notably the possibility for KLM cabin crew to offer and register upgrades on board aircraft thanks to the recently-deployed iPads.

The dedicated flyingblue.com website was launched in March 2013 in addition to access via the airfrance.com and klm.com websites.

The dynamism of the Flying Blue program was recognized in April 2013 at the "Freddie Awards", the most prestigious awards for frequent flyer programs. FlyingBlue received five awards in the Europe/Africa region, including notably the "Best Elite Program" and the "Program of the Year" awards.

2.3.5 The SkyTeam alliance and strategic partnerships

To meet the needs of all their customers, airlines supplement their offer with alliances and strategic partnerships. The three largest alliances, SkyTeam (whose principal member in Europe is Air France-KLM), Star Alliance (around Lufthansa) and oneworld (around British Airways and Iberia), represent some 60% of world-wide traffic. Of the 50 largest airlines, only the low cost carriers, the Gulf State airlines and a few niche carriers do not belong to an alliance. Furthermore, membership of an alliance is a major commitment given the required partial integration of IT systems and frequent flyer programs. Few airlines have thus switched alliance whereas the latter have existed since 1997.

Partnerships with other airlines, which may sometimes belong to another alliance, supplement the airlines' offers based on bilateral cooperation through code shares and loyalty programs.

Alliances and partnerships are effective tools when it comes to supporting airline growth without additional investment in fleets. These agreements enable the frequency effect to be reinforced on the principal routes, capacity to be pooled on low-volume routes and international offers to be supplemented with flights operated by partners in their domestic markets.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance numbered 19 members at December 31, 2013: Aéroflot, Aérolineas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Southern, China Eastern, China Airlines, Czech Airlines, Delta, Kenya Airways, KLM, Korean Air, MEA Middle East Airlines, Saudia, TAROM, Vietnam Airlines and Xiamen Air. While retaining their separate identities and brands the airlines work together to offer their customers an extended network and global services. Garuda Indonesia joined SkyTeam in March 2014.

SkyTeam is managed by a Governing Board and a Steering Committee with the Governing Board comprising the Chairmen and Chief Executive Officers of the 19 member airlines. It meets twice a year to define the major strategic orientations and appoints, for a two-year term of office, the Chairman and Vice-Chairman of the Steering Committee which is made up of the alliance directors.

A centralized management entity, reporting to a Managing Director, is responsible for marketing, sales, airport synergies, the transfer product, cargo, advertising and the brand as well as for the alliance finances and administration. In liaison with the Governing Board and the Steering Committee, it implements plans to support SkyTeam's development.

To become an alliance member, airlines must fulfil a number of pre-conditions notably in terms of operations, technologies and products. They must thus be linked by code sharing agreements and have signed agreements covering their loyalty programs and the sharing of lounges. They must also be able to offer products and services specific to the alliance.

Belonging to SkyTeam strengthens the reputation of the airlines by enabling them to extend their offer to all world regions, bolstering their commercial presence. As a member of the SkyTeam alliance, Air France-KLM thus has access to a global network offering some 15,700 daily flights to more than 1,000 destinations in 178 countries.

In sharing their expertise and know-how and by pooling best practices, airlines improve the quality of their services to customers. Lastly, the alliance also enables synergies to be generated within the framework of co-located facilities in airports and cities, the coordination of teams, the reduction of aircraft handling costs and better use of lounges.

The SkyTeam network is organized around major hubs enabling the alliance to offer a very large number of connecting flights and guarantee its 588 million annual passengers a seamless travel experience on flights with one or several airline members.

The alliance has developed specific products such as the Passes that enable travel in the destination region at attractive fares, global contracts exclusively for large companies or contracts for the organizers and attendees of congresses and international events.

The 189 million passengers who are members of the frequent flyer programs earn air miles on all SkyTeam flights that can be redeemed with several member airlines during the same journey. In 2012, the SkyTeam airlines launched a new ground services offer exclusively for their most loyal customers: SkyPriority, deployed in more than 800 airports.

Strategic partnerships

Alitalia

In 2009, when Alitalia was acquired by private Italian investors, Air France-KLM became the industrial partner in the new airline, cemented by a 25% stake. The partnership has generated substantial savings for the two partners, in line with the targets set in the agreement.

The partnership is based notably on joint ventures on the lines between France and Italy, and between the Netherlands and Italy. Alitalia is also an integral part of the trans-Atlantic joint venture with Delta (see below).

In early 2013, the deterioration in the Italian company's financial situation led it to seek a shareholder loan to which Air France-KLM contributed €24 million. A new Chief Executive Officer, Gabriele del Torchio, was appointed in April 2013. In October, the Board of Directors launched an emergency capital increase to which Air France-KLM did not subscribe. The Group continued to express support for its partner by converting its shareholder loan into equity. By late 2013, the Group's shareholding in Alitalia had been reduced to just 7%.

The trans-Atlantic joint venture with Delta

Based on KLM's long experience with Northwest, in 2009 the Group implemented a joint venture with Delta which was extended to Alitalia in 2010. As with most joint ventures in the sector, it did not lead to the creation of a common company but rather the signature of a contract defining both a common income statement and organizations to manage all the aspects of the partnership. The existence of a common income statement ensures that the partners deploy all the actions contributing to an improvement in the activity's operating result, to the benefit of all the members. The joint venture contract was amended and renewed in 2012 for a further ten-year period. The governance bodies comprise an Executive Committee, a Management Committee and working groups.

The scope of this joint-venture is very wide, covering all the flights between North America, Mexico and Europe through integrated cooperation and all the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination.

With revenues exceeding $12.5 billion in 2013 and a market share of 23%, the joint-venture is the number one operator on the North Atlantic, the largest air transport market globally. Some 200 daily flights link the seven principal hubs: Paris, Amsterdam, Rome, Atlanta, Detroit, Minneapolis and New York. Pricing and revenue management is centralized within a 60-strong team based in Amsterdam. The coordination of the network has been reflected in the strengthening of the hub to hub services, the optimization of the aircraft types deployed on each route and an increase in the number of destinations served by non-stop flights on both sides of the Atlantic with, notably, 25 destinations in North America and 20 in Europe. The sales forces have been combined in each region.

The organization of the joint venture has been adapted to take into account the creation of another joint-venture between Delta and Virgin Atlantic following the acquisition by Delta of a 49% stake in the latter.

The Chinese joint ventures

Air France and KLM have signed joint-venture agreements with two of the three largest Chinese airlines: in 2010 with China Southern offering the most extensive domestic network at its Canton and Beijing hubs and the second, in 2012, with China Eastern based in Shanghai, China's economic capital. Thanks to these partnerships, Air France and KLM have access to some forty secondary stations in the Chinese provinces. The joint-venture services between Europe and China were already posting revenues of more than €700 million in 2013.

Partnership with Etihad

At the end of 2012, Air France-KLM entered into a partnership with Etihad. The initial cooperation was based on the geographical complementarity between the two groups, with the addition of destinations in the Indian Ocean, Asia, Australia and East Africa. During Summer 2013, four daily flights were operated between the hubs of the two groups, Etihad using its code on 24 destinations beyond Paris and Amsterdam, with Air France and KLM using their codes on 20 destinations beyond Abu Dhabi. In 2013, the partnership also enabled the chartering of two of the Group's aircraft with crews: an Airbus A340 passenger aircraft and a full freighter. Discussions are underway to deepen this partnership.

Strategic partnership with GOL

In February 2014, the Group signed a strategic partnership agreement with the Brazilian airline GOL. This agreement, which covers cooperation in passenger transportation and maintenance, was reinforced by a 1.5% shareholding in GOL. It will notably enable the maximization of commercial synergies and particularly connecting opportunities in the major Brazillian cities served by the Group: Sao Paulo, Rio de Janeiro and, as of March 2014, Brasilia.

2.3.6 Activity during the financial year

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

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

➤ Key figures for the passenger business

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

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

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

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

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

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

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

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

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

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

Key figures by network

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

** Activity excluding CityJet, reclassified as a discontinued operation*

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

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

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

The **Latin American** network experienced the fastest growth in 2013, representing 12% of traffic and 11% of capacity. The Group carried 2.8 million passengers on these destinations (+8.4%). Traffic grew more strongly (+8.2%) than capacity (+7.4%), enabling a 0.6 point gain in load factor to 88.6%. The unit revenue per available seat-kilometer increased by 2.9% on a constant currency basis (+1.3% reported). Revenues amounted to €1.8 billion, a 10.5% increase on a constant currency basis (+8.8% reported).

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

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

(See also Section 2.2.2 – Strategy, Transform 2015 plan, page 51).

2.4 Cargo business

The cargo business is the second of the Group's activities, representing 11% of total revenues. In addition to marketing the bellies of passenger aircraft, this business has a full freighter fleet operated out of Paris and Amsterdam. Furthermore, since 2009, Air France-KLM has been responsible for marketing the bellies of Alitalia aircraft. The joint-venture agreement between Air France, KLM and Delta also includes transporting air freight in the bellies of passenger aircraft.

2.4.1 Business environment

Modest growth in air freight during 2013

In 2013, global air freight traffic (in revenue ton-kilometers) grew by a modest 1.4% after two consecutive years in decline (-0.6% in 2011 and -1.9% in 2012). The markets made very slow headway during the first part of 2013, then accelerated during the second half, with air cargo volumes stable over the year as a whole. Capacity, however, outpaced demand, increasing by 2.6% and the international load factor continued its contraction to 49.0% (50.8% in 2011 and 49.3% in 2012).

Over the same period, the volume of world trade grew by 2.7% *(source: CPB Netherlands)*.

Regional differences still very marked

In 2013, the **Asia-Pacific airlines**, which represent nearly 40% of the world market, recorded a 1.0% fall in cargo traffic volumes, a slower drop-off than in 2012 when traffic declined by 6.2% for a 2.9% reduction in capacity. The region's economic performance was patchy, as was the growth in trading volumes although the latter were to see an improvement during the last few weeks of the year. Despite the contraction in demand, capacity increased by 0.8%.

The European carriers posted cargo volume growth of 1.8% whereas, in 2012, traffic had contracted by 3.1%. The carriers in the region finally recorded more buoyant traffic than those of the two other major regions (Asia Pacific and North America). The manufacturing indicators suggest that the fourth quarter of 2013 was the strongest for two and a half years, and forecasts are being upgraded, particularly in Germany.

The North American airlines saw air freight volumes decline by 0.4%, following a 1.4% fall in 2012. The economic indicators for North America reveal some improvement in recent months but activity remains below its level of the beginning of 2013.

The Middle Eastern carriers continued their strong growth, with a 12.8% increase in traffic.

The Latin American airlines saw their air freight volumes grow by 2.4% in 2013 but decline by 5.0% in December. This growth was weaker than in 2012, particularly due to the more hesitent growth in Brazil.

The African carriers posted a 1% rise in air freight volumes for 2013 as a whole after a 6% increase in 2012. After a strong start to 2013, air freight suffered a slowdown in the middle of the year which continued during the second half, accompanied by the weakness of major economies like South Africa and a slowdown in regional trade which led to a fall-off in demand.

Traffic growth is heavily concentrated with most of the growth in the past decade having come from the three Gulf State airlines and the Chinese carriers. In 2013, amongst the largest carriers, Emirates followed by Etihad, Qatar Airways and Turkish Airlines enjoyed the strongest growth. On the other hand, Cathay and Fedex reduced their capacity. The rise of Emirates has been particularly remarkable with this company now number one in terms of cargo transported. The Lufthansa Group is number two with Air France-KLM in third place.

In 2013 the global full freighter fleet was reduced by 11 aircraft, notably by China Cargo, Cathay and Air France-KLM. Forty-one new full freighters were delivered compared with 50 in 2012: 33 Boeings (19 B747-8Fs, 14 B777Fs) and eight Airbus A330Fs. Only eight aircraft were converted into full freighters (six A300s and two B767s), mainly on behalf of DHL. This number of conversions is the lowest ever recorded (-73% relative to 2012). The operators accelerated the retirement of the traditional B747s, MD-11s and the old B747-400BCF/BSFs.

Belly capacity continued to see strong growth driven by the expansion of the passenger fleet with, notably, the introduction of Boeing 787s.

Most of the air freight carriers are facing difficult economic situations and are significantly in loss, leading many historic cargo transporters to reduce their fleets. Evergreen Airlines and Air Cargo Germany have even closed down their activities due to losses.

2.4.2 Within a difficult economic environment, the strategic repositioning decided in 2010 enabled Air France-KLM Cargo to remain amongst the three leading global carriers

Air France-KLM Cargo remains a major player in air freight

Air France-KLM Cargo remains a major European and world-wide player with a market share of 8.1% in 2013, down by 0.2 points relative to 2012. This trend in market share reflects the Group's commitment to prioritizing an improvement in unit revenues and refocusing on the fastest-growing markets.

During the financial year, the Group transported more than 10 billion revenue ton-kilometers of which 69% in the bellies of passenger aircraft and 31% in the dedicated cargo fleet, to a network of 251 destinations in 116 countries.

Backed by its two powerful European hubs, Paris-CDG and Amsterdam-Schiphol, Air France-KLM Cargo is well placed to offer its customers the benefit of access to major infrastructure in the European markets. Paris-CDG is the number two European air cargo hub while Amsterdam-Schiphol ranks number three.

The organization of the business is fully integrated, enabling the Group to offer its customers a single contact point, a single contract and a unique network covering the dual hubs.

The offering is structured around four product families, Equation, Variation, Cohesion and Dimension, which are also offered by the members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo regroups Air France-KLM Cargo, Aeroflot Cargo, Aerolineas Cargo, AeroMexico Cargo, Alitalia Cargo, China Airlines Cargo, China Cargo Airlines, China Southern Cargo, Czech Airlines Cargo, Delta Cargo and Korean Air Cargo, with a network of more than 900 destinations world-wide.

On the North Atlantic, the Group benefits from the joint-venture agreement with Delta. This agreement is reflected in significant commercial synergies over an entity representing 27% of the capacity available on this network: reinforced coordination of commercial strategies, increased integration of sales forces (colocation of the sales and revenue management teams, etc.).

New "belly-dominant" business model and Transform 2015

In 2010, confronted with the crisis in the sector, the Group adopted a new "priority to bellies and combis" strategy aimed at optimizing the economics of "passenger" aircraft bellies. The full freighter fleet is used as a complement to cover the routes not served with passenger flights, products that cannot be carried in the hold and markets in which belly capacity is not adapted to demand.

In the prevailing very difficult context in 2012 and 2013, this positioning was reinforced by new measures launched within the framework of Transform 2015.

For the past three years, Air France-KLM Cargo has thus been implementing an **extensive transformation and adaptation program** focused on revenues, outstation costs, hub productivity, quality, optimized payload on bellies and combis and headcount reduction.

A significant reduction in full freighter capacity: in 2013, the Group sharply reduced its full freighter capacity (-11.5%) with, notably, the retirement in August of a full freighter based at Paris-CDG. Belly capacity continued to grow (+1.4%) at the very modest growth rate of the passenger business. In total, capacity was reduced by 2.7%. The bellies of passenger aircraft currently account for 72% of total capacity compared with 66% in 2010 and 54% in 2007-08. The full freighter fleet now comprises 14 aircraft in revenue service.

Strict control over costs: despite the sharp reduction in full freighter capacity, all the efforts launched by the Group enabled a 4.9% reduction in unit costs (on a constant currency basis). Cargo headcount was reduced by 14% over the course of the 2013 financial year.

A new commercial strategy: in 2013, a new commercial strategy was deployed world-wide to improve commercial efficiency, adapt to market conditions, satisfy customers with more effective contractual terms, adapt customer segmentation, implement a reinforced large-account structure reflecting the organization of customers and, lastly, rationalize and simplify the product portfolio.

Thanks to all these economic and commercial measures, the business managed to reduce its losses despite the marked deterioration in unit revenues (down by 4.2% on a constant currency basis). The turnaround in results being, however, insufficient, in October 2013 the Group launched a number of additional measures.

These additional measures notably foresee the reduction in the full freighter fleet to ten aircraft (two at Paris-CDG and eight at Amsterdam-Schiphol) by 2015, i.e. a further reduction of some 32% in full freighter capacity between 2012 and 2015. The Orly cargo hangar will be sub-contracted while headcount will be adapted thanks, notably, to a voluntary departure plan targeting 280 Full Time Equivalent positions in the sector in addition to the voluntary departures looked for in the other businesses.

At the commercial level, 2014 will see the launch of Cargobus, a unique reservation and commercial inventory system which will enable greater sales force efficiency, an increase in revenues, an improvement in customer satisfaction and the reinforcement of the multi-hub strategy.

Thanks to all the measures launched, the Group has set itself an objective of a return to break-even for the cargo business by 2015. Should there be no recovery in the market, the Group remains ready to study other measures.

2.4.3 Activity for the financial year

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

➤ **Key figures for the cargo business**

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

* *Restated for IAS 19 Revised.*

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

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

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

Key figures by network

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

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

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

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

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

2.5 Maintenance business

Aircraft maintenance is the Air France-KLM group's third business, generating third-party revenues of around €1.2 billion, i.e. some 5% of the Group's total revenues. These revenues generated with third-party customers account for approximately one third of total revenues for the maintenance business.

In the aircraft maintenance or MRO (Maintenance, Repair and Overhaul) market, Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) ranks number two globally amongst the multi-product players. The role of AFI KLM E&M is to provide competitive support for the Air France and KLM fleets, while operating as a leading MRO in its own market.

The Group operates in three major maintenance segments: airframe maintenance, engine maintenance and the management of on board equipment (electronic, mechanical, pneumatic, hydraulic, etc.). Airframe maintenance covers three sub-segments: line operations support which aims to verify the proper day-to-day functioning of systems and the integrity of the aircraft structure, heavy maintenance for in-depth checks involving cabin disassembly and the realization of modification programs, particularly the refitting of cabins.

2.5.1 Business environment

An attractive market despite the growing constraints

The global MRO market which comprises the maintenance and modification spending by aircraft operators, either directly or through sub-contractors, is estimated to have been worth US$61 billion in 2013 (source: ICF SH&E).

Revenue trends in this market tend to follow those of the commercial airline fleets globally and the way they are operated. In the short term, the airlines tend to adjust their use of older-generation aircraft more markedly in that their costs, and particularly maintenance costs, are the highest. The MRO operators thus suffer from more volatile demand on older-generation aircraft than on new-generation aircraft.

The market is also characterized by greater downwards pressure on prices resulting from reinforced competition between maintenance operators (MROs) and the higher expectations of customer airlines. Furthermore, a growing number of aircraft operators are looking to transfer the financing of spare parts to maintenance operators within the framework of increasingly large-scale contracts in terms of revenue, duration, complexity, etc. Lastly, the role of Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably expanded in recent years.

Even fiercer competition

The crisis has modified the positioning of the players on this market. The portfolios of some competitors have been severely degraded by the downsizing of older-generation aircraft fleets, prompting them to reposition themselves on the sort of new-generation products for which AFI KLM E&M is particularly well-placed.

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

This trend is escalating, especially with the arrival of new aircraft such as the E-jet, the A350, and the B787. The ability to sustain balanced competition conditions is a priority objective, both for AFI KLM E&M's business activity and to contain Air France and KLM maintenance costs.

2.5.2 Affirming AFI KLM E&M's position as a world leader

On the strength of its position as the second largest global multi-product MRO by total revenue, AFI KLM E&M is pursuing its targeted development strategy based on its own specific features and the Group's objectives.

This strategy is two-pronged: cutting costs and maintaining a high level of quality and performance on the one hand, and growing the customer portfolio for high value-added products and services.

This drive to adapt and grow is consistent with the Transform 2015 plan which, at AFI KLM E&M, translates into the accelerated implementation of the defined strategic options. As the foundation of all AFI KLM E&M operations, flight safety is a central concern of Transform 2015.

In 2013, several adaptation projects were completed aimed at speeding up improvements in competitiveness in the Aircraft Maintenance sector. These cost-cutting initiatives are based on optimizing activity site-by-site, the search for external partnerships, and the deployment of more efficient work structures. They are accompanied by efforts to match resources to business activity and to build new career paths.

Three strategies support the growth in the Engines and Components sectors: the ability to finance sustainable growth in these profitable businesses; positioning on products and services aligned with market expectations; and the development of a global MRO network located close to high-growth regions.

In the past decade, AFI KLM E&M has invested over €400 million in modernizing the industrial infrastructure at its main maintenance facilities in Toulouse, Amsterdam, Villeneuve-le-Roi, Roissy and Orly. This programme is continuing with the announcement, in June 2013, of plans to build a new center of excellence dedicated to aerostructures and composites at Roissy, for delivery in June 2015 and involving a total investment of €40 million.

Contributing to flight safety programs and operational performance

AFI KLM E&M's primary task is to guarantee the airworthiness of the Group's fleet and ensure regulatory compliance. To this end, AFI KLM E&M oversees its technical data, implements the maintenance policies, and ensures the permanent availability of the required skilled staff and technical resources.

In 2013, AFI KLM E&M continued to deploy its Safety Management System (SMS), helping maintenance to implement processes in connection with flight safety in a systematic, cross-functional manner. This is done through regular meetings devoted to analysing events, and drawing up and monitoring action plans. The SMS is also based on a system of feedback encouraged by the deployment of a "safety mind-set" and supported by a network of local Flight Safety Officers.

Airframe maintenance: serving airlines

Line Operations Support

Within the framework of Transform 2015, the line operations support activities in Amsterdam and Paris-CDG implemented new modus operandi designed to significantly bolster competitiveness in this area while concurrently improving operational performance. Having been impacted by labor shortages and the period of transition to the new organization, line operations support saw its punctuality performance decline in 2013.

Heavy Aircraft Maintenance

Heavy maintenance continues to undergo structural change against a backdrop of low prices in this market. Following the transfer of the Boeing 747 C-checks, formerly carried out in Amsterdam, AFI KLM E&M continued to make the appropriate adjustments to its industrial base.

A new maintenance master plan has thus been implemented designed to rationalize aircraft maintenance operations by optimizing activity on a site-by-site basis (Paris-CDG, Amsterdam, Paris-Orly, Toulouse). In Amsterdam, in-depth work has been carried out on organizational structures based on the "hands on metal" concept, which seeks to maximize personnel allocation to value-added tasks. In parallel, AFI KLM E&M has increased its use of outside partners to cut maintenance costs and obtain, in exchange, additional work in the high-growth sectors of Engines and Components. To this end, the Group has capitalized, for example, on its joint-venture with Royal Air Maroc, which has taken on a part of Air France's A320 heavy maintenance workload while, in exchange, RAM has entrusted AFI KLM E&M with the component support for its Boeing 737s. Several similar partnerships were implemented in 2013 in respect of heavy maintenance for Air France-KLM's Airbus A330/A340s. This is the case with TAP Portugal, for example, which is performing the A330 C-Checks for Air France-KLM with, for its part, the Group carrying out the APU maintenance and component support on TAP's A330s and A340s.

In 2013, complementing the facilities in Amsterdam, Paris and Toulouse, the Casablanca (ATI) and Norwich (KLM UK Engineering) aircraft maintenance centers extended their capabilities to the A320 family and the Boeing 737, enabling the Group to offer competitively-priced local airframe maintenance solutions to airlines in Europe, the Middle East, and Africa.

Modifications

From engineering to production, AFI KLM E&M provides continuous support for the Group's airlines in defining and deploying new cabin products in both short/medium-haul and the entire long-haul offering. This approach furthers the Transform 2015 plan's objective of repositioning the Group's products as best-in-class.

In 2013, for example, AFI KLM E&M designed KLM's new World Business Class cabin and modified the first long-haul aircraft in its Amsterdam hangars. 2013 also saw the design of the future Air France long-haul cabins and preparations to carry out the modifications with, notably, the implementation in Orly of an intermediate modification on some of the fleet's B777s.

Several external customers also called on the Group's services during this same period. For Air Europa, for example, the Group continued to fit out the Business class cabins of its Airbus A330s and, for leasing operator ACG, the Group equipped the cabins on the aircraft operated by Thomas Cook to include a latest-generation in-seat video system.

Component Support: a service activity *par excellence*

Component Support covers the repair of a broad technological spectrum of aircraft parts, the management of technical and reliability standards and, above all, the management of physical part flows to and from customers' operating bases. The growth opportunities for this product are located in far-flung markets. AFI KLM E&M's customers are evolving towards service integration, requiring access to a spares pool. As a result, the Group is deploying appropriate support services worldwide, with local logistics facilities.

For example, the Airbus A330 component support contracts with Fijian carrier Air Pacific and those for the B737s of the Indian airline, Jet Airways, demonstrate AFI KLM E&M's ability to come up with suitable solutions supported, in particular, by its logistics facility in Singapore to meet the needs of customers, includng those based far from the Group's main sites.

In 2013, several airlines renewed their trust in AFI KLM E&M by extending their existing contracts. This was the case with Corsair, for example, for component support on its Airbus A330s and Boeing 747s, for IndiGo on its A320s and for Air Asia X on its A330s.

The component support activity is pursuing its growth in new products such as the **Single Component Solutions** offering, providing dedicated solutions for airlines seeking occasional component support services on a one-off basis. AFI KLM E&M's Boeing 787 component support solutions have been well received with new long-term support contracts such as the one signed with Royal Brunei, the Dreamliner's launch airline in South East Asia. This has allowed AFI KLM E&M to leverage its situation as a supplier of MRO services backed by a major airline which plans to operate the Boeing 787 in its own fleet.

Lastly, the component support arm is also developing its asset management operations, enabling AFI KLM E&M to increase revenue from the availability of its spares inventory, resulting in component leasing contracts with customer airlines.

Engines: all eyes on the Very Big Engines (VBE)

The Engines business continued its growth in 2013. AFI KLM E&M's customers benefit from one of the world's largest Engine overhaul shops for General Electric and CFMI powerplants, divided between the Group's two ultra-modern engine shops in Amsterdam and Paris. The Group offering extends to the following engines:

- **CFM56:** the Group's workshops support the world's largest fleet of CFM56 engines, handling 400 engines operated by a large number of airlines. AFI KLM E&M uses its Amsterdam engine shop to position itself on the growing need for CFM56-7 support. Airlines such as Aigle Azur and Corendon Airlines renewed their trust in AFI KLM E&M on the overhauls for their CFM56 family engines.
- **CF6:** offering full-service maintenance at its Amsterdam engine shop, AFI KLM E&M is currently responsible for maintaining close to 20% of the global fleet of CF6-80E1 engines. Similar in design to the CF6-80C2, this engine offers 60% parts commonalty. AFI KLM E&M also deploys capabilities on CF6-80 C2 engines, largely through its Amsterdam facility. AFI KLM E&M's long maintenance track record with these engines means that, currently, it can offer the most suitable maintenance solutions. In 2013, for example, Russian airline Nordwind signed a maintenance contract covering its CF6-80C2 engines.
- **GE90:** AFI KLM E&M offers the main alternative to the engine manufacturer itself for overhauls to this Very Big Engine (VBE) on the strength of its state-of-the-art infrastructure. Following the 2010 opening of Constellation, a new VBE facility, AFI KLM E&M inaugurated a new engine test cell at Paris-CDG in 2012. This system can test up to 300 engines per year, cutting processing time and offering a more cost-effective service for customers. This facility has enabled AFI KLM E&M to attract the interest of a growing number of airlines including Lan Chile, Philippines Airlines and Vietnam Airlines, and has seen Air Canada extend the scope of its GE90 engine support contract. In addition to its infrastructure, AFI KLM E&M is building its know-how and can offer its customers the benefit of its GE90 operating experience. This includes, for example, the GE90 Engine Monitoring offer, designed to detect new technical problems upstream and to implement both preventive and curative remedial action at an early stage.
- **GP7200:** in 2013, AFI KLM E&M implemented an investment program and carried out staff training as part of its plans to offer GP7200 maintenance services. The Group can also rely on its CRMA subsidiary in this respect since it is very well-placed on this engine as a Primary Repair Source identified by the manufacturer, Engine Alliance.

A number of technical problems can be resolved through "on-wing" support, without the need to transfer the powerplant to the engine shop. AFI KLM E&M is one of the only players in the MRO sector with the tooling, expertise and personnel qualified to carry out so-called "on wing and on site" operations of this type.

AFI KLM E&M: an international network tailored to local requirements

AFI KLM E&M is pursuing its growth strategy on profitable markets and segments by deploying its network of subsidiaries (EPCOR, CRMA, KLM UK Engineering, AMG) and partnerships (AMES, ATI, Spairliners, MAX MRO Services, AAF Spares), and leveraging the power of its global logistics network. The development of this MRO network is one of the objectives of the Transform 2015 plan. It guarantees AFI KLM E&M customers local access to the Group's full array of services, tailored solutions and local spare parts inventories. In 2013, AFI KLM E&M further developed this network with, in the engines segment, the acquisition of shareholdings in two Miami-based companies specialized in engine teardown and overhaul, in particular for the Pratt & Whitney PW4000-94 engine. In the component support sphere, the new avionics overhaul facility in Shanghai was certified by the Chinese authorities.

AFI KLM E&M subsidiaries

Located in the Greater Paris area, **CRMA** specializes in repairs for engine parts and combustion chambers. Its positioning on new generation GE90 and GP7200 projects helped it to generate a significant increase in customer activity in 2013.

EPCOR, based at Amsterdam-Schiphol airport in the Netherlands, provides state-of-the-art services in Auxiliary Power Unit (APU) maintenance. In 2013, EPCOR saw further growth with the signature of new contracts with Russian carriers Yakutia Airlines and Globus LLC to maintain the APUs equipping their Boeing 737 fleets.

At Norwich International Airport in the UK, **KLM UK Engineering Limited** delivers maintenance services for narrow-body and regional aircraft. In 2013, in addition to its maintenance activities for Boeing 737s, working with airlines such as Pegasus and Luxair, KLM UK Engineering extended its maintenance capabilities to aircraft in the Airbus A320 family.

In Miami, in the United States, **Aero Maintenance Group (AMG)** specializes in component support and extends AFI KLM E&M's reach in the Americas (North America and Latin America). AMG's aerostructure maintenance subsidiary, Flite Components, was sold in 2013 as it specialized in a product that was non-core for AMG's business.

Shanghai-based **AFI KLM E&M Components China** is a new, wholly-owned subsidiary, which will initially specialize in Airbus A320 and Boeing 737 avionics systems.

Partnerships

AFI KLM E&M also seeks to establish partnerships to be able to offer its customers extended capabilities in addition to a quality service and optimized maintenance lead-times. The following centers of excellence round out the Group's offer:

In Dubai, the **AMES** maintenance center (a joint-venture with Aircelle) handles engine nacelle repair and overhaul in the Middle East.

In Morocco, **Aerotechnic Industries (ATI)** is a 50/50 joint-venture between Royal Air Maroc (RAM) and Air France. Based at Casablanca airport, ATI operates three maintenance bays for heavy maintenance on medium-haul aircraft. In 2013, ATI saw further growth and extended its capability list to include airframe maintenance for Boeing 737NG aircraft.

Hamburg-based **Spairliners** is a joint-venture set up by Air France and Lufthansa Technik to provide component support for airlines operating the Airbus A380 and, since 2012, Embraer E-Jets. In 2013, the Hop! and KLM Cityhopper airlines decided to entrust the maintenance of their Embraer E-jet components to Spairliners.

In Mumbai, India, **Max MRO Services Pvt. Ltd** is a market-leading component MRO.

AAF Spares, a joint-venture with AvTrade, specializes in the management of spare parts, enabling customer airlines to benefit from the know-how of the two entities with respect to the management and optimization of their spares inventories.

Based in Miami (USA), the **Bonus Tech** and **Bonus Aerospace** joint-ventures are helping AFI KLM E&M to drive the development of its Engines business. Bonus Tech specializes in engine teardown, enabling the Group to offer serviceable spare parts at competitive prices. With Bonus Aerospace, AFI KLM E&M has extended its maintenance capabilities to include, among others, Pratt & Whitney PW4000-94 type engines.

Sustainable development generating innovation and contributing to performance

AFI KLM E&M applies the Group's four key Corporate Social and Societal Responsibility (CSR) policies to pursue a sustainable development programme that contributes to the performance of its maintenance operations.

Maintenance projects are now progressively appraised from the sustainable development perspective to provide an overall view of their impacts, thereby ensuring that their implementation includes these performance-enhancing objectives. These can be economic (e.g. the construction of new buildings or replacing machines with those which use less energy and are more efficient, and the participation of regional stakeholders, etc.); social (improvements to work-station ergonomics to avoid musculoskeletal problems, adapting the work environment to meet the needs of people with reduced mobility, etc.); or environmental in nature (recycling equipment, improving waste sorting and energy consumption, etc.). The roll-out of a comprehensive program to recycle engine parts and aircraft carpeting (the Scrap Program) is an integral part of the so-called Green Maintenance approach.

In 2013, over 4,000 suggestions submitted under the Quality Innovation Program generated over €20 million of savings. At the 2013 Innovation Trophies awards ceremony, 16 winners were presented with awards for their ideas in categories such as economy, performance, occupational health and safety improvements, the environment, etc.).

Sharing know-how and best practice

Within the framework of its apprenticeship policy, the Group now offers more diversified careers to apprentices to meet their aspirations and training needs. In both the maintenance sector (engine mechanics, logistics, etc.) and the support functions, the apprentice masters strive to pass on their know-how so the younger generation can acquire the sort of experience that boosts their employability. Some 270 apprentices (Full-Time Job Equivalents) benefitted from these career options during the financial year.

At the request of one of its biggest customers in North America, AFI KLM E&M organized a one-day presentation on its innovations so that the US company's technical staff could benefit from the expertise of AFI KLM E&M's technicians and engineers.

Interaction with our stakeholders

As a responsible corporate citizen, AFI KLM E&M nurtures its local roots. The dialogue created by two-way communication or specially organized meetings helps all parties to better understand what is individually at stake.

As part of a sustainable purchasing programme, AFI KLM E&M's suppliers sign a Sustainable Development Charter testifying to their commitment to the program, and agreeing to inspections.

In December 2013, during the Innovation Trophies awards ceremony, a number of young partner companies demonstrated their innovations which had been tested, and sometimes even developed, with AFI KLM E&M. During the event, the hosts and hostesses were trainees at the "School of the Second Chance" in the Val de Marne department with which AFI KLM E&M has developed a stakeholder partnership.

Continuous improvement in performance

To provide its customers with quality products and services, AFI KLM E&M has embarked on a program to monitor its operational processes aimed at the continuous improvement of its performance, proper compliance, and the prevention of risks.

Single & Global Certification constitutes formal recognition of system validity and, every year, at each AFI site, a comprehensive audit measures compliance with the requirements and/or recommendations of nine international standards.

In 2013, for example, on the occasion of a comprehensive audit, Bureau Veritas Certification attested that the company's Integrated Management System (IMS) had been successfully evaluated and/or certified. This included: ISO 9001 (Quality), ISO 14001 (Environment), ISO 15489 (Documentation), ISO 22000 (Food Hygiene), EN 9100 (Aircraft Maintenance – Design), EN 9110 (Aircraft Maintenance – Repairs), EN 9120 (Storage), OHSAS 18001 (Occupational Health and Safety), and ISO 26000/Corporate Social Responsibility (CSR).

Air France Industries, the world's first aircraft maintenance operator to be certified ISO 26000 on its publication in 2010, has built the principal ISO 26000 guidelines into its Integrated Management System.

2.5.3 Results for the financial year

➤ Key figures for the maintenance business

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

* *Restated for IAS19 Revised.*

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

2.6 Other businesses

The main activities in this sector are the catering business and the leisure business.

The revenues of the other businesses amounted to €1.37 billion, up by 5.3% on a constant currency basis (+5.6% reported relative to December 31, 2012). The loss from current operations stood at €1 million, down by €15 million relative to the previous year, principally due to the decline in Transavia results in the Netherlands.

2.6.1 Leisure business (Transavia)

Activity

Transavia, the Group's low cost subsidiary, has operations in the Netherlands and France directed at medium-haul leisure customers as well as, via its charter flights, tour operators. At December 31, 2013, Transavia had a fleet of 41 Boeing 737-700 and 800 aircraft, of which 30 aircraft in the Netherlands and eleven in France, and 2,050 employees. In the Netherlands, Transavia offers 94 destinations around the Mediterranean rim out of Amsterdam, Eindhoven and Rotterdam. In France, Transavia offers 33 tourist destinations on departure from Paris Orly. During the 2013 financial year, Transavia carried 8.9 million passengers.

In 2013, Transavia pursued its growth in both the Netherlands and France. Activity in the Netherlands was, however, impacted by the difficulties of tour operators, particularly in destinations affected by political unrest (Egypt and Tunisia). The company continued to develop connecting flows with KLM. In France, as foreseen within the framework of Transform 2015, Transavia operated three additional aircraft. Furthermore, following the progress update in October 2013, the Group decided to accelerate its development in France. In Summer 2014, Transavia will thus operate 16 aircraft, five more than in Summer 2013. Some "mixed" destinations will notably be served by both Air France and Transavia.

In 2014, the emphasis will also be placed on developing synergies between the two subsidiaries, particularly in terms of marketing outside France and the Netherlands. There will, for example, be a unified Transavia brand in the main European markets. In parallel, Transavia will rely more on the Group's commercial power, notably by enabling the issuance of Flying Blue reward tickets on Transavia and greater integration into the Group's sales efforts aimed at travel agents and companies.

Results for the financial year

In the 2013 financial year, as foreseen in the Transform 2015 plan, Transavia activity experienced strong growth: traffic increased by 13.5% for capacity up by 11.6%, of which +25.5% for Transavia France, the load factor gaining 1.5 points to 90.1%. Despite this strong growth, the unit revenue remained stable (-0.2%). Transavia generated revenues of €984 million, up by 10.7%. The loss from current operations stood at €23 million (versus break-even in 2012), impacted by the political unrest in some Mediterranean destinations and by the launch costs of certain routes.

➤ **Key figures for the leisure business**

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

* *Restated for IAS 19 Revised*

2.6.2 Catering business

Activity

The catering business is regrouped around Servair, an Air France subsidiary and KLM Catering Services, a KLM subsidiary.

A more than 97%-owned subsidiary of Air France, Servair is the leader in the French catering market and ranks number three amongst the airline catering companies globally. As the day-by-day partner of the airlines for in-flight services and passenger comfort, Servair exercises its activity in three main areas:

- catering and logistics with the assembly of meal trays for passengers and crews and their loading, within the respect of regulations specific to the air transport sector and the pre-preparation of meals;
- the cleaning and loading of cabins through its subsidiary ACNA. Through its other subsidiaries, Servair also offers its customers services such as assistance for passengers with impaired mobility, the management of on-board sales and the supply of newspapers and magazines. The company thus offers a range of services which are vital to the air transport industry and to passenger comfort;
- lastly, Servair offers consultancy based on a comprehensive range of customized services offering the airline world the best support whether on the ground or in the air.

To date, some 20 of the Servair production sites are ISO 9001 certified while the Canton and Macau sites have HACCP and ISO 22000 certification. Servair is pursuing its overall quality standards approach with the Safety and Environment label, from which five sites currently benefit.

The Servair laboratory in Roissy, which carries out more than 40,000 microbiological analyses annually, has had COFRAC accreditation since 2006, testifying to its technical expertise.

Servair has operations at more than 38 airports in 22 countries.

During the 2013 financial year, Servair sold its Air Chef subsidiary in Italy and acquired a shareholding in a new company, Atlas Servair, in Morocco.

Results for the financial year

During the 2013 financial year, the catering business generated total revenues of €915 million of which €341 million in third-party revenues (€355 million at December 31, 2012). The decline in revenues is explained by a scope effect following the sale of the company Air Chef. On a constant scope, third-party revenues were up by 6.9%. The income from current operations stood at €24 million at December 31, 2013 versus €7 million in the previous year.

➤ Key figures for the catering business

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

** Restated for IAS 19 Revised*

2.7 Fleet

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

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

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

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

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

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

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

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

A continued pro-active fleet policy

The Air France-KLM group pursued its pro-active fleet policy whose objective is, firstly, to ensure a fleet scaled in line with the Group's activity and, secondly, to take full advantage of technological developments to further reduce the impact of activity on the environment. This Air France-KLM group fleet policy is guided by the same four key principles defined three years ago which have even more relevance currently:

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

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

The Group uses sale and lease back transactions principally to manage the end of operations for a sub-fleet and/or optimize the management of aircraft retirement depending on the likely delivery dates for replacement aircraft. In the 2013 financial year, three aircraft were the subject of sale and lease back transactions.

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

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

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

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

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

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

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

2.7.1 The Air France group fleet

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

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

* *Purchases, operating lease and financial lease.*

(1) Including 24 Airlinair aircraft at December 31, 2012.

The Air France fleet

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

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

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

The fleet of the regional subsidiaries and Transavia France

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

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

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

2.7.2 The KLM group fleet

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

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

* *Purchases, operating lease and financing lease.*

The KLM fleet

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

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

The fleet of the regional subsidiaries, Martinair and Transavia

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

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

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

Air France fleet

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

HOP! fleet

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

Other regional fleet

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

Other fleet (Transavia)

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

KLM fleet

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

Regional fleet

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

Other fleet (Transavia and Martinair)

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

Air France-KLM group fleet

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

2.8 Highlights of the beginning of the 2014 financial year

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

The highlights of the beginning of the 2014 financial year are as follows:

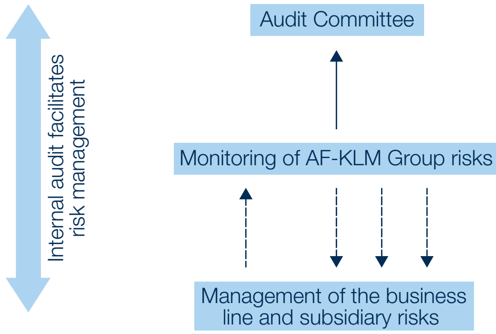
- In early February, Air France unveiled its new long-haul Business class seat to the press. By 2016, this seat will equip nearly 44 Boeing 777s, all of whose cabins will be renovated. For this seat, Air France has opted for best-in-class positioning within the industry;
- On February 19, 2014, Air France-KLM announced the signature of an exclusive long-term strategic partnership with the Brazilian airline GOL. This agreement supports Air France-KLM's leadership position in Brazil and Latin America. As part of this agreement, the Group made a strategic investment of US$100 million in GOL;
- At the end of March 2014, Air France-KLM finalized an agreement with General Electric, selecting the latter's GEnx-1B engine to power its fleet of B787-9s. The first aircraft will be delivered to KLM in October 2015 and to Air France in January 2017.

3

Risks and risk management

3.1 Risk management process

The Air France-KLM group is exposed to the general risks associated with air transport and running a business, and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operating risk mapping processes have been established by all the relevant entities, supervised by internal audit. These risk maps are regularly updated and consolidated by subsidiary (Air France and KLM) and for the Air France-KLM group. Market risks (fuel, emission permits, currencies and interest rates) are managed by the Risk Management Committee (*See also Section 3.3 Market risks and their management, page* 91). Every three months, each Group entity updates the scope of its major operating risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, the senior executives concerned at the level of the General Management are responsible for reviewing the measures implemented to manage them. On a quarterly basis, a presentation on the most significant operating and market risks is made by internal audit to the Executive Committee and the Audit Committee, together with the measures in place for their management. The Management also evaluates the strategic risks (competition, economic growth, etc.) on a yearly basis and determines the related action plans. These risks and action plans are also discussed with the Board of Directors.



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

3.2 Risk factors and their management

3.2.1 Risks relating to the air transport activity

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

While the growth forecasts for air transport demand remain positively oriented, the doubling in the fleet by 2030 could create a situation of overcapacity, leading to pressure on unit revenues.

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

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

In response to this competition, the Group launched the restructuring of its medium-haul business. In long-haul, the Group is developing partnerships in the large rapidly-growing markets and lobbying the authorities for a legal framework ensuring more equitable competition between carriers (*See also Section 2.2, Strategy, page* 50).

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

Risks linked to the seasonal nature of the air transport industry

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

Risks linked to the cyclical nature of the air transport industry

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

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

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs notably due to the fall in demand and to higher insurance and security costs. Some aircraft also saw a decline in their value. In 2003, the SARS epidemic had resulted in a sharp fall in air traffic and revenues generated in Asia. In 2011, the geopolitical situation resulting from natural disasters occurring in Japan and political events (Arab and African countries) significantly impacted the company's operations to and from these regions:

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

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

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

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

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

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

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

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

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

Risks linked to the consumer compensation regulations

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

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

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

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

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

Thus, consistent with its intention communicated in April 2011, the European Commission drafted a proposed revision to the Regulation which was published in March 2013.

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

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

There are thus a number of particularly onerous or useless provisions and measures, or those that are difficult to implement in that they do not take into consideration the commercial and operational reality of the air transport industry.

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

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

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

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

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

On November 4, 2013, following the proposal made on September 26, 2011, the US Department of Transportation also published a Final Rule requiring airline websites aimed at the US public and automated airport kiosks in the United States to be accessible to persons with disabilities.

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

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

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

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

The Air France-KLM group complies with the regulations in force on passenger assistance and compensation in the countries where it operates. To keep the effects of these regulations as far as possible within financially-bearable limits, the Group engages in lobbying, both directly and through the air transport industry's professional associations (IATA, AEA) of the national and European institutions to obtain reasonable obligations which create no competitive distortions or major additional costs which could lead a group like Air France-KLM either to increase its tariffs or reduce costs, with the potential impact on employment that this implies.

Environmental legislation

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

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

The principle of the European Emissions Trading System consists of setting an annual budget of quotas or CO_2 emission rights (key figure: one ton of fuel burned = 3.15 tons of CO_2 emitted), with each relevant company then being allocated a number of personalized quotas (one quota corresponding to one ton of CO_2). At the end of each year, companies must return an amount of emission allowances equivalent to the tons of CO_2 emitted. Depending on their emissions, they can also purchase or sell quotas (exchangeable quotas). For the aviation sector, free quotas are distributed to each operator on a prorata basis based on their revenue ton-kilometers (RTK) generated in 2010. For 2012, the European Commission decided to limit the geographical application scope of the European directive to only intra-European flights ("stop the clock"). Consistent with the proposals for an overall sector approach supported by the air transport industry, during its triennial assembly of October 2013 the International Civil Aviation Organization adopted a resolution confirming, with virtual unanimity of the States, its intention to implement for 2020 a system based on the Carbon market (market based measure) applying globally. The practical conditions for its implementation should be adopted during the ICAO Assembly in 2016. Furthermore, prior to 2020, the resolution authorizes the deployment of such a system on a regional basis on condition that a bilateral agreement has been negotiated between the relevant States.

Following the adoption of this ICAO resolution, the European Union needs to amend its Directive 2008/101/EC on the EU ETS to redefine the practical terms of its application for 2013 and the following years.

The definitive text is likely to be adopted by the European Parliament and the Council of Ministers during the first half of 2014. ETS compliance for the 2013 financial year could be postponed until early 2015.

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

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

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

The Air France-KLM group is also committed to exploring all avenues which could reduce its fuel consumption and carbon emissions:

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

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

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

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

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

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

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

Risks linked to the oil price

The fuel bill is one of the main cost items for airlines meaning that oil price volatility represents a risk for the air transport industry. A sharp increase in the oil price, such as seen during the first half of 2008 or again between late 2010 and early 2011, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies.

Lastly, for the European airlines, any appreciation in the dollar relative to the euro results in an increased fuel bill (*See also Section 2.1, Market and environment, page* 42).

The Air France-KLM group thus has a policy in place to manage this risk (*See also Market Risks, page* 91). The Group also makes a consistent effort to reduce its fuel consumption and is developing a series of procedures and innovative solutions enabling fuel consumption to be optimized.

Operating risks

Natural phenomena leading to exceptional circumstances

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

Within this context, the Air France-KLM group lobbies, either directly or through representative bodies, both the French and European authorities to develop robust crisis management tools and, secondly, to obtain an adjustment in the regulation regarding the company's responsibilities towards passengers in such exceptional circumstances.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of such situations for its customers. The Group has no hedging in place for operating losses.

Airline accident risk

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

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

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

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

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

The implementation process for the Safety Management System, launched in 2009, was completed by January 1, 2012 pursuant to the decree of December 22, 2008. This system has four pillars: Policy and Objectives, Safety Risk Management, Safety Assurance and Safety Promotion which have all been deployed across the operating divisions. On this occasion, the Corporate Safety Policy – a priority for the Air France group – was reaffirmed and the members of the Executive Committee made a personal commitment to implementing an “equitable” management policy aimed at reinforcing the functioning of the feedback system, a key element of any safety policy. Safety Management System training modules, adapted to each user group, are currently deployed in all areas of the company.

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

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

Risk of food poisoning

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

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

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

Risks of air navigation constraints in Europe

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

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

3.2.2 Risks linked to the Group’s activity

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

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

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

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

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

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

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

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

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

Risks linked to non-respect of the competition rules

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

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

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

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

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

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

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

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

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

Risks linked to the implementation of the Transform 2015 plan

(*See also Section 2.2, Strategy, page* 50)

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

In 2012, negotiations with the organizations representing the Air France employees enabled the definition of a new collective labor agreement framework with Flight Deck Crew and Ground Staff. Concerning Cabin Crew, the negotiations resulted in a pre-agreement in February 2013 followed by a definitive agreement in March 2013. Within KLM, new collective labor agreements have been signed for a three-year period.

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

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

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

Risk linked to pension plans

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

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

At the end of December 2013, the regulatory solvency levels of the three KLM funds were calculated and, based on the results obtained, the company's contribution should not see a significant increase in 2014.

The potential risks are dual in nature:

- firstly, given the revised IAS 19 applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (e.g; discount rate, future inflation rate) which could lead to annual fluctuations in the income statement and stockholders' equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognized in stockholders' equity and will never be taken against profit and loss. The current calculations lead to the three KLM pension funds figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the liabilities. In the financial statements, the potential volatility is explained in the *Accounting policies on provisions for pensions and other employee benefits* paragraph and in Note 31.1 *Employee Benefits* to the consolidated financial statements;
- secondly, if the solvency levels in application of the Dutch regulation fall below the required thresholds, based on the current financing agreements KLM could be required to make additional payments. The period during which these additional contributions are made could last anything between one and 15 years depending on the shortfall relative to the required solvency threshold. For 2014, this additional payment risk is mitigated by the improvement in solvency levels noted since December 31, 2013.

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

Risks linked to the use of third-party services

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

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

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

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

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

For its part, the Air France-KLM group plans to defend a multi-product offering in a competitive market, thereby enabling airlines to maintain control over their maintenance costs.

3.2.3 Legal risks and risks of legal arbitration proceedings

Within the normal exercise of their activities, the company and its subsidiaries are involved in disputes which may give rise to provisions in the consolidated accounts and information in the notes regarding potential liabilities (*See also notes 31.3 and 31.4 to the consolidated financial statements*).

3.2.4 Insurance risks

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

Insurance policies taken out by Air France

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

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

The policy covers the civil liability of Air France for up to $2.2 billion per event as well as specific cover against terrorist acts for damage caused to third parties for up to $1 billion per event and a total of $2 billion per year of insurance except for the operation of the Airbus A380s, for which the cover is €1.2 billion per event and €2.4 billion per year of insurance.

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

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

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

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy to cover its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activities. It covers KLM's civil liability for up to $2.25 billion together with liability for damage caused to third parties by terrorist acts for up to $1 billion.

In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC) whose maximum liability is limited to $8 million annually.

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

3.3 Market risks and their management

3.3.1 Organization of the Air France-KLM Group

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

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, emission permits, the principal currency exchange rates, interest rates and counterparties and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the 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 Treasury Management departments of the two companies on the hedging instruments used, strategies planned and counterparties. In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used so long as it is qualified as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, no trading or speculation is allowed.

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

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

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

3.3.2 Market risks and their management

Currency risk

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

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

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

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

Operational exposure

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

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

For 2014, the maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table. These results cannot be extrapolated due to the use of option-based contracts.

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

Investment exposure

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

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

The net investments figuring in the table below reflect the contractual commitments at December 31, 2013.

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

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2013, 87% of the Group's gross debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the yen (6%), the dollar (4%) and the Swiss franc (3%).

Interest rate risk

At both Air France and KLM, debt is generally contracted in floating-rate instruments. However, given the level of interest rates, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates in order to limit its volatility. After swaps, the Air France-KLM group's debt contracted at fixed rates represents 69% of the overall total. The average cost of the Group's debt after swaps stood at 3.39% at December 31, 2013 (3.69% at December 31, 2012).

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

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

Fuel price risk

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

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

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

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

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

Based on the forward curve at December 27, 2013, an increase of $10 per barrel over 2014 would give an average price of $119.30 per barrel and would lead to a $370 million increase in the fuel bill after hedging, i.e. a total fuel bill of $9.57 billion in 2014 for the Air France-KLM group. Symmetrically, a fall of $10 per barrel over 2014 would give an average price of $99.30 per barrel and would lead to a $640 million reduction in the fuel bill after hedging, i.e. a total expense of $8.56 billion *(See also section 2.1.1 on the economic environment and the oil price, pages* 43 *and* 44*)*.

Counterparty risk

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

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

Equity risk

Air France and KLM cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2013, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth a net €1,135 million, principally comprising Amadeus shares valued at €1,076 million as of December 31, 2013. The Group is mainly exposed to the risk of fluctuation in the value of Amadeus shares. As a result, in November 2012, Air France-KLM entered into a hedging transaction with Société Générale to protect the value of 12,000,000 Amadeus shares, or one third of its shareholding. An overall variation of 1% in the unhedged portion of the shareholding would represent a €7 million change in the position.

Liquidity risk

At December 31, 2013, Air France had an undrawn, fully-available credit facility of €1.06 billion, negotiated with an expanded pool of 15 banks. This credit facility matures on April 4, 2016.

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

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

These ratios are calculated every six months and were respected at December 31, 2013.

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

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

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

These ratios are calculated every six months and were respected at December 31, 2013.

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

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

- EBITDAR must be at least equal to one and a half times net interest charges added to one third of operating lease payments;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at December 31, 2013.

Given the current conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €4.2 billion at December 31, 2013 and the available credit facilities (a total of €1.8 billion), the Group considers that it incurs no liquidity risk. It does, however, closely monitor its cash flows and the structure of its traditionally negative working capital requirement. Note that the Group has granted €825 million of pledges to financial institutions in respect of the guarantee given to the European Union on the anti-trust litigation and the swap contract covering the OCEANE 2005.

Financing risks

Financing strategy

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

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

In anticipation of the application of the Basel III prudential standards and in view of the deterioration in their results, the European banks are expected to rein in their balance sheets in future years and consequently reduce the volume of lending offered to businesses.

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

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

Air France group

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

It has also diversified the sources of its principally bank funding through the securitization of flight equipment in 2003, by issuing bonds convertible into new or existing shares (OCEANE), by issuing plain vanilla bonds and, more recently, contracting debt secured with Asian financial institutions.

KLM group

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

Air France-KLM holding company

The Air France-KLM holding company has realized four bond issues, with its subsidiaries Air France and KLM as guarantors, raising €661 million of convertible bonds with a six-year maturity in June 2009, €700 million of plain vanilla bonds in October 2009 maturing in October 2016, €500 million of plain vanilla bonds in December 2012 maturing in 2018 and €550 million of convertible bonds with a ten-year maturity in March 2013.

Investment risks

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

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

3.4 Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management for the 2013 financial year

(Article L. 225-37 of the Code of Commerce)

For the establishment of this report, the Chairman consulted the director of Internal Control and Internal Audit and tasked the latter with obtaining all the information required for the aforementioned report from the different entities of the Air France-KLM group. This report was then commented on by the Audit Committee and the Statutory Auditors before being approved by the Board of Directors.

I – Conditions for preparing and organizing the work of the Board of Directors

See Section 1 – Corporate governance – Board of Directors.

II – Modalities for shareholder participation in the General Shareholders' Meeting

Pursuant to Article 30 of the company's Articles of Incorporation, the modalities for shareholder participation in Shareholders' Meetings are those foreseen by the regulation in force.

III – Internal control

3.4.1 Definition and goal of internal control

Air France-KLM uses the COSO (Committee Of Sponsoring Organisation of the Treadway Commission) standards to implement internal control for the Group and the two sub-Groups, Air France and KLM.

According to this standard, internal control is a process defined and implemented by the Group's senior management, line management and employees, intended to provide a reasonable level of assurance that the following objectives are achieved:

- the performance and optimization of operations;
- the reliability of the financial information;
- the compliance with the laws and regulations in force.

The standards are based on the following principal components:

- the control environment;
- the assessment of risks;
- the control operations;
- the information and communication;
- the monitoring of internal control.

The standards correspond to a specific set of actions, tasks, practices and controls for each of the company's functions.

One of the objectives of the internal control system is to prevent and control the risks linked to the company's activity, as well as the risks of error or fraud, notably in the areas of accounting, finance and revenue management.

Internal control can only help the Group to achieve its objectives and provide a reasonable assurance on their realization. As with any control system, internal control is unable to provide an absolute guarantee that such risks have been totally eliminated.

In May 2013, the COSO Board of Directors published a new version of the COSO standard (known as COSO 2013) to reinforce the control structures of organizations within the context of a rapidly-evolving environment. This new version will definitively replace the existing version on December 15, 2014. The Air France-KLM group decided to comply with this new standard over the course of the 2014 financial year.

An Internal Control Charter is also being drafted.

3.4.2 Control environment

Internal control network

A Group Internal Control and Internal Audit division has been operational within the Air France-KLM group since 2005. Internal Control Coordinators have also been appointed in each Air France-KLM group entity deemed to be significant by virtue of its impact on the Group's financial statements. There are six employees working within the Internal Control divisions and there are 40 Internal Control Coordinators.

Overall internal control structure

The structure described below is a summary of the organization in place in each of the two sub-Groups as outlined in the Chairman's reports on internal control prepared by Air France and KLM. At the request of the Air France-KLM holding company, the Dutch company KLM has established a report on internal control in accordance with the French Financial Security Law.

This organization takes into consideration the structure of each of the Group's two companies, characterized by the existence of three principal businesses (passenger transportation, cargo and maintenance), the subsidiaries of these two companies representing only a minority percentage of activity and revenues. Due to the interdependence of each of the businesses, this organization involves numerous transverse processes (sale of space in the bellies of passenger aircraft to the cargo business, maintenance services relating to the aircraft of the passenger and cargo activities, IT services, etc.)

- **Board of Directors**
  The Board of Directors is the corporate body that directs and oversees the management of the Group; to this end, the Board works with the Group Executive Committee to ensure the successful operation of the Air France-KLM group, supported by advice from the specialist Committees mentioned in Section I above, Conditions for preparing and organizing the work of the Board of Directors.
- **Group Executive Committee**
  The Group Executive Committee comprises 14 members (the Chairman and Chief Executive Officer, four representatives of Air France and KLM and nine heads of Group functions). The Committee meets every two weeks, alternating between Amsterdam and Paris. Its competence covers the following areas: Human Resources, Finance, Commercial Passenger, Maintenance, Cargo, Information Technology, Public Affairs and International, together with the advertising campaigns at global level.
- **Finance functions**
  The Finance functions are performed by each of the two companies within the framework of the organization in place at the time of the merger and they report to the Group Executive Committee.
  Since mid-November 2012, a Group Finance division has been established around the Group's Chief Financial Officer, staffed by some twenty people (Financial Communication and Investor Relations, Consolidation and Accounting, Group Management Control, Strategy and Merger-Acquisitions).
  Some operations relating to the Air France-KLM holding company are entrusted to Air France, via a management mandate (notably treasury management).
- **Insurance functions**
  The insurance functions are responsible for identifying at-risk sectors of the Group that might impact the operations and financial results so as to reduce their potential impact or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms.
  They also manage the claims and advise the Group's entities on reducing and controlling their risks.
  There is an aviation insurance policy in place for the entire Air France-KLM group to cover civil liability, damage to aircraft and risks of war, which constitute the major financial and legal risks of any airline.
- **Legal functions**
  The legal departments of Air France-KLM, Air France and KLM perform a consulting mission for their management and decentralized organizations in commercial law, transport law, contract law and insurance law.
  Legal Affairs draws up a systematic inventory of the disputes in process to assess the corresponding provisions booked as liabilities.
  The Group's Legal Affairs director fulfills a planning and steering role for the Group's policies on legal matters and coordinates the Group's actions in legal matters in all the relevant areas.
- **Internal audit**
  The management of an entity such as the Air France-KLM group is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies the reinforcement of the internal control functions so as to provide the Group's management with the reasonable assurance that this autonomy is being used correctly by each entity.
  Air France-KLM's internal audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated goals by providing a systematic and formal approach with which to evaluate and strengthen the effectiveness of the decision-making, risk management, internal control and governance processes. The internal audit function objectively reviews the reliability of the overall internal control procedures implemented by the Group, as well as the controls implemented for the specific processes of each business.
  Given the Group's governance rules, each company has retained its own internal audit department; the coordination of internal audit at Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Head of Internal Audit has overall responsibility and reports directly to Air France-KLM's Chief Financial Officer. Both internal control departments in the two sub-groups use identical methodologies (Group charter, Group audit manual, etc.).
  The internal audit function carries out audits at the level of the Group and its subsidiaries (Air France and KLM) and sub-subsidiaries. Audits are conducted in collaboration with the internal auditors of the two airlines.
  There are 30 auditors (excluding management structure).
  The Internal Audit division reports on its work to the Group Executive Committee and to Air France-KLM's Audit Committee in a summary report presented quarterly.
  To execute its mission, Internal Audit, which operates within the framework of the Internal Audit Charter established by the Audit Committee of the Air France-KLM group, either acts on its own initiative or intervenes at the request of the Group Executive Committee, the Audit Committee or the Board of Directors.
  An annual program of missions is established and submitted for approval to the Group Executive Committee and to the Group's Audit Committee.
  The different types of audit missions undertaken are:
  - operational audits to review the effectiveness of the Group's internal control procedures;
  - thematic audits dedicated to a theme common to several functions or entities or centered around the company's projects;

- specific audit missions undertaken at the request of the general management or the heads of operational units to ascertain that internal control is properly implemented in the entities;
- ICT audits;
- consultancy missions.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including the risks together with the corresponding recommendations.
The audited entities then establish corrective action plans and a follow-up is conducted in the next few months.
The Air France-KLM group Internal Audit division has been awarded professional certification by the IFACI (Institut Français de l'Audit et du Contrôle Interne). This body certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2011 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented. This certification is valid until January 19, 2015.

Organization of responsibilities

The organization of the individual companies has been defined to ensure compliance with the principles of secure and effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations, ground operations, engineering and maintenance as well as catering and security.

The managers of the relevant entities and subsidiaries are required to apply these principles and organization at their level, and ensure that the organizational charts, job descriptions and the procedures defined by business process are up to date. They must ensure their consistency and adequacy and that these are taken into account in the main information systems and appropriately integrated within the organization.

Furthermore, pursuant to the preliminary recommendations of the Independent Safety Review Team, on July 8, 2010 the Board of Directors of Air France decided to set up a Flight Safety Committee.

Reference standards

Charters and manuals

Air France, KLM and their respective subsidiaries have a Social Rights and Ethics Charter that enshrines their individual commitment to corporate social responsibility by orienting its corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

The Air France group has also published a charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements signed for the benefit of employees. The legal purpose of this charter is to set forth the principles of prevention, define the actions, stress everyone's individual legal and human responsibility and establish internal prevention procedures.

For its part, the KLM group has published a Code of Conduct addressing the following principal matters: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, corporate social responsibility and intellectual property.

KLM has also implemented a Code of Ethics intended principally for employees in the finance function.

Manual to prevent the risks of corruption

This manual affirms the Air France-KLM group's commitment to exercising its activities fairly, equitably, honestly and with integrity, and in the strict respect of anti-corruption laws wherever the companies or subsidiaries exercise their activities. It establishes the guidelines for preventing corruption, and for identifying and handling at-risk situations with regard to the anti-corruption laws.

Internal audit charter

The terms of the Air France-KLM group's new Internal Audit Charter were determined in 2012 within the framework of the work carried out for Internal Audit certification. This new charter was signed by the Chairman and Chief Executive Officer, the Chairman of the Audit Committee and the Head of the Group Internal Audit Division.

The Internal Audit Charter defines the mission, objectives and responsibilities of the Audit division and guarantees its independence as well as the conditions under which the division functions.

In accordance with the International Institute of Internal Auditors (The IIA) rules, the charter formalizes the position of audit within the business and defines its sphere of operation.

It also specifies the operating methods and the different phases of the missions carried out together with the summary reports on their execution.

Procurement Quality Manual

The *Common Working Platform* document of January 2007 serves as the basis for the organization of the purchasing function common to Air France and KLM (*see 3.4 Procurement*). This organization is outlined in the Procurement Quality Manual.

The Procurement function regularly updates the Quality reference system. This reference system comprises, notably, the purchasing Code of Ethics for Employees, which stipulates the rules of conduct for Air France-KLM purchasing managers when dealing with suppliers or service providers, and informs all those involved in the process of the limits that must not be exceeded.

Quality reference system

The Air France and KLM quality systems are based on the following principal external and internal standards:

External standards

Operations: national regulations (based on European regulations) and applicable general laws, international standards (ICAO, IATA, etc.), aeronautics maintenance (Part 145, etc.)

Passenger service: European and US regulations (Special Care Passengers), European commitments of the Association of European Airlines (AEA), service commitments of those involved in air transportation (airports).

Management, the environment, documentation, food security, health and safety in the workplace: ISO series 9001, 14001, 15489, 22000 and OHSAS 18001.

- *Internal standards*

These represent the application of the external standards, adapted to the processes of each company.

Regulations: operating, maintenance and security manuals and the related general procedures, which are mostly subject to formal approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.).

Management systems: the Air France Integrated Management System/SMI manual and the KLM quality manual, together with the related general procedures.

Passenger service: the seven services standards, the PAMs (Passenger Airport Manual), general sales and after-sales conditions and other procedures associated with customer service common to Air France and KLM.

3.4.3 Risk assessment

The Air France-KLM group is exposed to the general risks associated with air transport and running a business (see Chapter 3.2 Risk Factors in the Registration Document). The risk management process aims to determine the events that could potentially impact the Group and prevent it from achieving its objectives, and to implement a risk management and reporting system.

The risk management process enables, on one hand, the different divisions and principal subsidiaries and, on the other hand, the Group Executive Committee and the Audit Committee to monitor the principal strategic and operational risks, their evolution over time and the measures in place to manage these risks. It thus aims to create and preserve value, and establish and protect the Group's assets and reputation.

Risk management at the level of the Group

A risk mapping process has been established and is regularly updated by Internal Audit.

The principal risks are ranked by nature and characterized with respect to their probability and potential impact. The controls are outlined for each risk together with the situation which is likely to result from their implementation.

The Risk Factors chapter outlines the risks to which the Group is exposed and the controls in place to mitigate these risks.

Each Group entity is responsible for managing its risks and for producing regular reports.

The overall risk management process also serves as a basis for the Registration Document and makes a major contribution to establishing the annual audit program.

Group Internal Audit regularly reviews the processes for risk management and reporting. Its conclusions are presented to the Group Executive Committee and the Audit Committee. There is also a process in place to monitor any changes to the risks unfolding over time which are liable to have an impact on the financial statements.

Risk reporting process

Every quarter, Internal Audit produces a report for the Group Executive Committee and the Audit Committee on the Group's operational risks. It also produces an annual report on the strategic risks.

The operational risk management reporting process is based on a bottom-up approach starting in the different Air France and KLM divisions and the five main sub-subsidiaries. Every quarter, the Internal Control Coordinators designated by the different businesses, entities and subsidiaries establish the risk sheets and send them to Internal Audit which is responsible for consolidating them at company and Group level.

The risk sheets detail the inherent material risks and the action plans implemented to mitigate or neutralize them, together with an evaluation of their probability and the potential resulting impact (net risks). The risk owners and those responsible for the procedures to control risks are specifically named. To ensure the reliability of the process and avoid any errors, the risk sheets for each entity are systematically reviewed during quarterly meetings between Internal Audit and the individual Internal Control Coordinators.

The strategic risk sheet is established once a year.

The Group risk sheets (a summary of the operational risks), together with the accompanying documentation detailing the new risks, the main developments and risks that have been withdrawn, are the subject of a quarterly presentation to the Group Executive Committee which approves them prior to their presentation and review by the Audit Committee.

Management of market risks

The management of Air France-KLM's market risks is the responsibility of the Risk Management Committee (RMC) which comprises, for the Air France-KLM group, the Group Chief Financial Officer, for Air France, the Chairman and Chief Executive Officer and the Chief Financial Officer and, for KLM, the Chief Executive Officer and the Chief Financial Officer.

The RMC meets quarterly and decides, after reviewing the Group reporting, the hedging to be put in place for the coming quarters: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the types of hedging instrument to be prioritized.

These decisions are then implemented by the Treasury and Fuel Purchasing departments within each company, in compliance with the procedures governing the delegation of powers.

Management of treasury management risks

Air France and KLM's cash positions are monitored daily and are forwarded to the General Management once a week. Every week, a summary of the Air France, KLM and Air France-KLM cash positions is forwarded to the Air France-KLM group's Finance Division.

In each Air France and KLM company, a Treasury Management Committee regrouping the principal finance executives defines the treasury management policy and implements comprehensive procedures to optimize cash management.

Management of the fuel hedging risk

The fuel hedges aim to reduce Air France-KLM's exposure and thus to preserve the budgeted margins. They are the subject of a weekly report to the General Managements of Air France-KLM, Air France and KLM.

Management of risks by the Risks-Insurance departments

Within Air France and KLM, each of the Risks-Insurance departments is an integral part of the internal control process. They identify the insurable risks at the level of each company and their subsidiaries, draw up insurance policies and implement preventive measures.

Management of safety risks

The safety of air operations is a major priority for the Group. Each airline (Air France, KLM and their subsidiaries) holds its own Airline Operator Certificate (AOC) and applies the flight safety procedures to ensure the effective management of this risk. Each of the airlines has deployed a safety management system that complies with the relevant regulations.

Management of security risks

The protection of individuals and assets against attack and potential threats to their integrity of any nature is also a major priority for the Group. The Security departments in Air France and KLM establish the security policy, analyze the threats and implement all the required measures.

Management of IT and telecommunications risks

The Group Head of IT, assisted by the Group IT Committee and the Group Chief Information Security Officer (CISO), is responsible for managing the risks relating to their processes and defining, in particular, the IT and Telecommunications Security policy.

In each Air France and KLM company, the Chief Privacy Officer (CPO) establishes the applicable private data protection policy, promotes the data protection culture and ensures compliance with data protection legislation.

Management of operational risks

The entities manage the risks for which they are directly responsible under the supervision of the entity to which they report which defines the applicable policies in line with the Group's rules and guidelines. The functional divisions manage the transverse risks relating to the shared processes (human resources, finance, procurement, legal affairs, etc.)

3.4.4 Control activities

Operational procedures and processes

Management of the quality system

Both the Air France (Integrated Management System manual) and KLM quality manuals outline all the general provisions of the quality system applied in each of the two companies, i.e. the overall organization, management processes, and the procedures and resources required to implement quality management and meet customer expectations.

In each division of the two companies, a quality review takes stock of the operation of the quality management systems and measures the performance of the main processes overseen by the management.

In addition to the regulatory approvals enabling each company to carry out its activities, progress is recognized in the achievement of certification from independent bodies, notably, for example, for Air France:

- IOSA certification (IATA Operational Safety Audit) since September 2005, renewed four times and valid through to 2014;
- ISO 14001 certification for the validation of environmental management systems;
- ISO 22000 certification for the validation of food health and safety management systems;
- Certification of Integrated Management Systems for both Engineering & Maintenance and the Passenger Business General Managements;
- ISO 9001 certification for certain entities.

Quality assurance

The control of the operational processes is based primarily on three monitoring methods:

Internal monitoring is carried out by the quality assurance departments articulated around:

- an audit program (covering, in particular, the areas of organization and management, flight operations, flight planning, ground handling and freight, hazardous merchandise, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- pro-active prevention processes.

External monitoring is carried out by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, which takes the form of audits of the operating principles and of the Group's proprietary internal monitoring system. Air France and KLM are also regularly audited by their customers and partners.

Monitoring of partners

The monitoring of sub-contractors and suppliers is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities.

Code share partnerships are subject to additional requirements to comply with IOSA standards that are recognized by the profession as the utmost reference in flight safety. However, if the partner airline is not IOSA certified, Air France and KLM implement a special technical monitoring process aimed at providing a reasonable assurance of an equivalent level.

In terms of control over the monitoring process, the supervision of the effective implementation of preventive/corrective actions resulting from this overall monitoring is ensured by the quality assurance departments, coordinated within each airline.

Information systems

The control processes also cover the information and telecommunication systems. For the financial year ended December 31, 2013, this review was carried out within the framework of the French Financial Security Law and the work on internal control decided by the Group after the delisting from the New York Stock Exchange.

The procedures put in place aim to ensure the:

- reliability of the IT and telecommunications systems;
- integrity of the data through the appropriate resources, infrastructure and controls;
- continuity of IT services and the availability of data on the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- confidentiality of information based on national laws and the security of IT infrastructure through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the IT systems are developed within the framework of defined strategic objectives.

Project management and software application development tools are also deployed: the so-called Symphony method for common Air France-KLM projects was based on the Tempo (Air France) and Prince2/Steelband (KLM) methods.

The work carried out in connection with internal control projects and the ongoing project to gradually establish a coordinated and optimized organization is leading to the launch of action plans designed to strengthen internal control, particularly as regards risks such as business continuity.

Lastly, in 2005-06, Air France and KLM published the Security Information Manual (ISM – ISO 17799 standard), thus defining a common security policy for information systems.

Procurement

The common Air France-KLM Procurement organization has been operational since September 1, 2008. It is headed by a Group Chief Procurement Officer from KLM, seconded by an Air France Executive Vice-President, Procurement, and has been structured around seven procurement teams since January 2013. These procurement teams act in a transverse and coordinated manner for each of the Air France and KLM companies as well as for, when required, a number of the Group's airline subsidiaries. Their objective is to optimize the Group's external resources.

The activity of the Procurement function aims to supply the entities with suitable products and services at the required time and at the best possible cost of ownership.

This is achieved by applying a procurement policy focused on the expertise of the buyers, with separate responsibilities (buyer, referrer, and supplier), the establishment of contracts and the use of web-based technologies.

The CPO Board, comprising the Group Chief Procurement Officer and Air France's Executive Vice-President, Procurement, coordinates the Procurement teams through regular meetings and presents the key performance indicators for combined procurement.

A Procurement Coordination Committee comprising the heads of Procurement meets every two months (DPO Day) to develop joint programs and share best practices.

Prevention of ticketing fraud

A Fraud Prevention unit is responsible for optimizing the prevention of risks relating to the fraudulent use of stolen, falsified or illegally-purchased tickets and improperly acquired *Flying Blue* miles.

A report on fraud prevention activity was submitted to the Audit Committee in 2013.

Financial procedures and processes and the accounting year end

Finance process

Investments are managed at the level of each company but, since July 1, 2013, the decision-making process has been coordinated by the Group Investment Committee (GIC) through decision-making platforms (above €0.5 million) regrouping all the stakeholders (business line and management controllers at company and Group level). This Group Investment Committee comprises Air France-KLM's Chief Financial Officer, Air France's Chief Financial Officer and the Chief Financial Officer of KLM.

All investments of more than €5 million are submitted for approval to the Group Executive Committee (fleet, acquisitions, disposals, etc.) by the Group's Management Controller and the Group's Chief Financial Officer.

The management of Air France–KLM's market risks is overseen by the Risk Management Committee (RMC), which meets each quarter and, after examining the Group reporting, determines the hedges to be set up during the coming quarters: the hedging ratios to be achieved, the time period for respecting these targets and, potentially, the preferred type of hedging instrument.

These decisions are then implemented in each company by the Treasury Management and Fuel Purchasing departments in compliance with the procedures for the delegation of powers.

Regular meetings are organized between the Fuel Purchasing departments of the two companies, and between the Treasury Management departments, to optimize the coordination of decision implementation (hedging instruments, the strategies planned and counterparties).

A summary of the cash positions of Air France, KLM and Air France-KLM is communicated weekly to the Air France-KLM group's Finance Division.

The Air France and KLM cash positions are monitored daily and forwarded to the General Management once a week. They are the subject of monthly reports to the Finance departments. These reports include the interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a capital rationing tracking statement by counterparty. The Risk Management Committee sets the minimum thresholds in terms of the financial quality of counterparties, determines the maximum amount to be allocated to a single counterparty and is responsible for monitoring the quarterly positions.

The fuel hedges are covered in a weekly report forwarded to the general managements of the Air France-KLM group, Air France and KLM.

The hedge strategies aim to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless expressly authorized by the Chief Financial Officer of Air France or the Chief Financial Officer of KLM. Generally speaking, no trading or speculation is authorized.

Any substantive change in the hedging strategy is the subject of a systematic presentation to the Audit Committee.

Accounting and financial statements process

The consolidated financial statements of the Air France-KLM group are prepared on the basis of the data provided by the finance departments of the Air France-KLM holding company and its subsidiaries.

The Group is principally comprised of the two operational sub-Groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

The accounting information reported by the different companies must comply with the Group's accounting rules, methods and standards defined by the Group, and the presentation of the financial statements must comply with the format circulated by the Group.

All the companies within the Group refer to the Accounting Procedures Manual which is based on the international financial reporting standards governing the establishment of the financial statements of European listed companies.

The consolidated financial statements are submitted to the General Management then presented to the Audit Committee every quarter. Furthermore, the half-year and annual financial statements are also reviewed by the Statutory Auditors prior to their formal closure.

The parent company's financial statements are closed annually, reviewed by the Statutory Auditors and presented to the Management and the Audit Committee.

Process for reporting passenger and cargo revenues

This process is performed in each of the companies and enables weekly revenue figures to be communicated to management. Furthermore, Air France and KLM have established a procedure known as the progressive revenue process making it possible to know the estimated amount of passenger revenues with only a two-day time lag for their own operations.

In addition, departments of the Group, Air France and KLM analyze the results by market and by route (unit revenues per passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer etc.) at the level of the passenger and cargo businesses.

A monthly presentation on the level of transportation revenues (passenger and cargo) is made to the Group Executive Committee by the senior managers of these entities.

The 2013 financial year saw the creation of a Shared Services Center (SSC) in charge of commercial Passenger revenues (in Toulouse) for the companies Air France and KLM, together with a Shared Services Center for commercial Cargo revenues (at Amsterdam-Schiphol) for the Group (Air France, KLM and Martinair). These SSCs are aiming to handle all the ticketing with the same tools and progressively with the same processing procedures.

For these two activities, service level agreements have been signed between Air France, KLM and Air France-KLM.

Management control reporting process

The Group Management Control department coordinates the reporting process with the management controllers in the two sub-groups.

In liaison with the Group's principal divisions and subsidiaries, these three teams of controllers then analyze the past month's economic performance and estimate the results for the coming months (forecast adjustment process) through to the end of the current financial year.

Once the accounting result for the month is known, Group Management Control produces a monthly document (management report) that summarizes the monthly key business, employee-related and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year for the Group, the two sub-groups and each business line. The same applies to the figures on cash flow, and the cash and debt positions.

This monthly Group management report is presented to the Group Executive Committee by the Group's Chief Financial Officer or the Group Management Controller (budget or medium-term target presentation, annual results).

3.4.5 Information and communication

The Group's information and telecommunication systems are based on the proprietary systems of the two companies, Air France and KLM, which permanently seek to optimize resources and maximize synergies. A single Group manager oversees the two IT and Telecoms departments, facilitating their convergence.

Communication within the Group is organized to ensure the effective circulation of information in all directions, whether from the bottom up, top down or transversally.

Internal communication supports the implementation of internal control and risk management by providing objectives, guidelines and information at all the levels of the Group's operational and support entities and by informing management of the results. It uses all the technical resources of the information systems and telecommunications function ranging from the intranet to the different production and management applications.

3.4.6 Management

Management procedures and processes

These procedures are based on the organization and structure of the Group and the companies within the Group, as follows:

- the passenger activity, covering all the operations involved in the transportation of passengers, including the network, marketing, sales and production departments that provide the services required for flight and ground operations;
- the cargo activity that conducts cargo marketing and operations;
- the engineering and maintenance activity responsible for maintenance and engineering operations for the airframes, components and engines;
- the leisure activity comprising the charter and low cost businesses of Transavia;
- the "other" activity comprising mostly the catering activities with the Servair Group.

The Human Resources functions are proprietary to each company and are coordinated by the Executive Vice-President, Human Resources.

Since mid-November 2012, a Group Finance division has been established to support the Group's Chief Financial Officer, and which is responsible for coordinating the finance functions in the companies, in the respect of the competencies of the latter.

The coordination of strategic decisions impacting the commercial, financial, technical and operational areas is ensured by the Group Executive Committee, which is the principal governance body described in Section III above. Since July 2013, this governance body has been supplemented by eight functional units at the level of the Air France-KLM group (passenger strategy, commercial passenger, cargo, maintenance, IT, human resources, finance and corporate secretary). The heads of these functions were appointed in July 2013 within the framework of the "new phase of the Group" program which will be implemented once the comments and agreement of the Air France and KLM employee representative bodies have been received.

The Air France-KLM consolidation scope includes 162 companies which are fully consolidated and 41 that are equity accounted.

Air France represents 57.4% of the Group's revenues and 39.0% of the total balance sheet.

KLM represents 33.4% of the Group's revenues and 28.3% of the total balance sheet.

The strategic orientations of the Air France-KLM group are defined and prioritized by the Board of Directors which comes together at an annual seminar.

The agenda for the day is prepared by the Group's Executive Committee within the framework of an annual forward planning and strategic work program.

Detailed estimates of the impact on revenues, costs, staff, investments and cash flows of the strategic orientations thus adopted are subsequently produced.

The budgets for the following financial year are established on this basis.

IV – Summary of the evaluation of internal control relating to accounting and financial information

Internal control is structured firstly around the annual evaluation of the Air France-KLM group's control environment and, secondly, around a detailed evaluation of the controls carried out on accounting and financial information at significant process level.

3.4.7 Evaluation of the control environment

Each Group division or department has been the subject of a multi-year evaluation of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and effectiveness tests.

Air France and KLM have also established whistle blower procedures and formalized the anti-fraud program together with a procedure for identifying and testing the effectiveness of the control environment.

Similarly, overall control of the information systems has been the subject of a formalized evaluation.

3.4.8 Detailed evaluation of key controls on financial and accounting information at significant process level

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of risks, the Group has identified the most important companies and, within these entities, the processes that make a predominant contribution to the establishment of the financial statements.

For each of these significant processes, process and key control documentation has been established, followed by existence and effectiveness testing.

Following the delisting from the New York Stock Exchange, the Air France-KLM group's Executive Committee and Audit Committee requested that high standards be maintained and that the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act be capitalized upon and its principles enshrined within the framework of the Group's day-to-day management.

The Group's different major divisions and subsidiaries had thus evaluated the effectiveness of internal control over financial information as at December 31, 2013.

Following the transposition, in December 2008, of European Directive no. 2006/43/EC of May 17, 2006 (8th European Directive), the Board of Directors Meeting of November 9, 2011 modified its internal regulations particularly in respect of the composition and powers of the Air France-KLM group's Audit Committee which ensures, pursuant to Article L. 823-19 of the Code of Commerce, the monitoring of the process to establish the financial information, the effectiveness of the internal control and risk management procedures, the auditing of the annual statutory and consolidated financial statements of the Air France-KLM group by the Statutory Auditors and the independence of the latter.

Alexandre de Juniac

Chairman and Chief Executive Officer Air France-KLM

3.5 Statutory auditors' report prepared in accordance with article L.225-235 of the French Commercial Code *(Code de commerce)* on the report prepared by the Chairman of the Board of Directors of Air France-KLM S.A.

This is a free translation into English of a report issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2013

To the Shareholders,

In our capacity as Statutory Auditors of Air France-KLM S.A. and in accordance with article L.225-235 of the French Commercial Code *(Code de Commerce)*, we hereby report on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code (*Code de Commerce*) for the year ended December 31, 2013.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L.225-37 of the French Commercial Code (*Code de Commerce*), particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other information required by article L.225-37 of the French Commercial Code (*Code de commerce*), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L.225-37 of the French Commercial Code (*Code de commerce*).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L.225-37 of the French Commercial Code (*Code de commerce*).

Paris La Défense and Neuilly-sur-Seine, February 24, 2014

The Statutory Auditors

KPMG Audit

Division of KPMG S.A

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

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Social, corporate citizenship and environmental information

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

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

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

4.1 Social information

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

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

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

Taking into account external labor, averaging a respective 2,968 in Full Time Equivalent during the 2013 financial year and 2,828 in Full Time Equivalent for 2012, the number of employees in the Air France-KLM group as a whole declined by 4.5%: 66,422 FTE for the Air France group (70,720 in 2012) and 32,507 FTE for the KLM group (32,852 in 2012). Sixty-seven per cent of staff were employed by the Air France group and 33% by the KLM group.

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

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

Pursuant to Article 225 of the application decree of the French Grenelle II legislation of July 12, 2010 and the European Prospectus Directive (EC 809/2004), the social reporting is shown in the text and in the three tables of indicators (see pages 120 to 123) and covers 96% of the Group's employees. The social and corporate citizenship chapters (§4.1, 4.2, 4.3, 4.4) have been comprehensively reviewed by one of the Group's Statutory Auditors, based on the modalities stipulated in the note on the methodology on page 117.

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

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

Air France-KLM

Implementation of the HR dimension of the Transform 2015 plan

In 2012, within a globalized and extremely competitive air transport sector, Air France-KLM launched a transformation plan, Transform 2015, which should enable a recovery in the Group's competitiveness over the next three years. This plan has been adapted within each company to ensure the most appropriate response to achieving the strategic priorities *(See also Section 2.2 – Strategy, page 50)*.

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

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

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

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

Workplace dialogue

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

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

Four meetings of the European Works Council (bringing together representatives of staff in subsidiaries whose operations or head offices are based in the European Community) were also held during 2013, for information or consultation on subjects such as the Air France-KLM group's new integration phase and the Social Rights and Ethics Charter.

At Air France, during the 19 meetings of the Works Council held over the course of the year, the elected employee representatives were consulted and/or informed of the major orientations relating to the company's overall functioning and, notably, its results and the measures to ensure the successful turnaround.

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

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

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

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

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

Air France

2013 constituted a key phase for Air France which has been implementing the Transform 2015 plan since January 2012. This transformation is being effected through an intense workplace dialogue.

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

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

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

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

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

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

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

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

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

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

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

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

Facilitating internal mobility

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

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

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

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

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

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

Internship program

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

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

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

Organization of working time

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

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

The average length of the working week applied within the company is consistent with that stipulated by the law in force. The percentage of employees working part time in France increased from 21.1% in 2012 to 24.2% in 2013 driven, in part, by the measures to encourage part-time working.

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

Compensation

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

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

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

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

KLM

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

New collective labor agreements

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

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

Furthermore, within the framework of the current collective labor agreements, KLM reaffirmed its commitment to avoiding layoffs as far as possible “Keeping the family together”, subject to greater flexibility from employees but also from the company. Within the framework of the agreement, the other measures concern a limited reduction in working time and temporary transfers to part-time working with a guaranteed return to full time if the employee so desires.

The number of interns remained high with 887 young people welcomed in 2013. Despite the difficult context, KLM continues to assume its responsibility vis-à-vis students by offering them the opportunity to gain valuable work experience, thereby preparing them to enter the jobs market. Short and long-term internships are offered to students drawn from both vocational training and further education.

The high number of internship applications testifies to KLM’s attractiveness as an employer, something which was reflected in the results of a 2013 LinkedIn study in which KLM was ranked amongst the five most popular Dutch employers. This ranking was confirmed by the employees of the company as seen in the Effectory Best Employer survey in which KLM was ranked number one in the Best Employer category for companies with more than 1,000 employees.

Employment and mobility

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

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

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

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

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

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

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

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

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

Organization of working time

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

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

Compensation policy

There were no salary increases in 2013.

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

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

4.1.2 Training

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

Air France

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

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

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

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

- support the transformation of the company within the framework of Transform 2015. In 2013, 206,186 hours of training were dedicated to supporting change management projects for Ground Staff, and local and expatriate staff;
- comply with the regulatory requirements within the industry and, in particular, the regulations governing flight and individual safety. In 2013, 307,000 hours related to regulatory training for Ground Staff, i.e. 37.5% of the hours and 40% of the training actions. For Flight Crew, 100% of the training hours and actions are deemed to be regulatory training. A total of 66% of the hours were dedicated to regulatory training;
- support mobility and career development. Given the voluntary departures taking place mostly during the 2013 second half, the implementation of training was partially postponed to 2014;
- develop the qualifications of employees to improve their employability. At the end of 2013, training was re-engineered to implement diploma and certificate-based programs blending training with Validation of Prior Learning-based schemes to support transfers between functions: payroll, accounting, Java developers, overhaul and repair mechanics.

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

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

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

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

KLM

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

Within the framework of the Transform 2015 Plan, KLM set a series of specific goals for 2012 and 2013 aimed at increasing the number of employees trained while containing the costs. New training programs were deployed to optimize skills transfer within the company with managers being offered tools to facilitate the effectiveness of training initiatives in the workplace.

Furthermore, training contracts with external suppliers were reviewed in order, where necessary, to reduce the costs relating to such training. In 2013, training expenses amounted to €62.4 million for the Netherlands, representing an investment of €2,638 per employee, a 4% increase relative to 2012. For the past few years, the indicator defined by KLM to measure the efforts made with respect to training is the annual investment in euros per employee. This choice results from both the statistical tracking tools used by the company and Dutch legislation.

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

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

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

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

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

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

4.1.3 Health and safety in the workplace

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

Air France

2013 saw deteriorating results on the frequency of accidents in the workplace (see the social indicators table), making vigilance and mobilization across the company an even greater priority.

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

- preventing musculoskeletal disorders and deploying ergonomic procedures;
- preventing and reducing the number of serious accidents;
- committing to an approach aimed at OHSAS 18001 certification;
- reinforcing the compliance with and respect of operational regulations;
- deploying best Health and Safety in the Workplace practices;
- reinforcing management training on Health and Safety in the Workplace;
- increasing standards of performance via the Quality of Life in the Workplace approach.

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

Steering and management to encourage mobilization

The policy aimed at reducing occupational accidents finds its concrete expression in Management Committee status reports and periodic reviews by Air France's Executive Committee. The company's senior executives formalize their commitment to reducing occupational accidents through preventive action plans based on contracts setting specific targets for each entity. The targets and the approach are enshrined in a number of different agreements: the three-year agreement on the Method for the Prevention of Psychosocial Risks and Promoting Quality of Life in the Workplace, the Charter to prevent harassment in the workplace and the Charter to prevent risks linked to alcohol abuse.

Identifying potential problems and sharing feedback to ensure more effective prevention

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

The inclusion of the safety dimension in project management, the development of ergonomic approaches during the design of infrastructures and processes, and during the deployment of new tools, all enable the potential risks to be anticipated and encourage the collective appropriation by organizations. In addition to a Central Ergonomics Unit, the company also has ergonomics experts based in the operational divisions.

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

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

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

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

Training and coordination to promote a safety-first culture

Training in risk prevention is provided for front-line staff and managers with both in-field operational training and e-learning being deployed to instill a safety-first culture. This training is regularly adapted to reflect changes in regulations and the development of tools. Training modules specifically tailored to avoiding repetitive strain injuries and posture-related conditions have been developed to prevent musculoskeletal disorders, while improving standards of operational performance.

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

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

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

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

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

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

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

KLM

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

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

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

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

Establishing a number of guiding principles

To achieve its ultimate goal of zero accidents, KLM has established a number of guiding principles to promote a safety-first culture aimed, in particular, at managers. Safety champions have been appointed from within management across all divisions, whose role is to monitor and promote the safety principles and educate other managers on the issues surrounding safety in the workplace.

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

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

Awareness-raising initiatives to prevent accidents

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

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

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

New measures were also implemented to reduce the number of accidents involving in-flight burns to cabin crews. Packaging has been improved for hot meals produced in the Netherlands and the international out-stations, and some items of inflight catering equipment like coffee pots are now positioned lower down the storage bins to make them easier to reach.

Promoting a safety-first culture

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

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

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

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

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

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

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

Improving quality of life in the workplace

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

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

Agreements relating to health and safety in the workplace

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

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

4.1.4 Fostering diversity and combating discrimination

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

Air France

Combating all forms of discrimination

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

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

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

The company also continues to support and pursue its different partnerships with equal opportunity organizations like the French Association of Diversity Managers (Association Française des Managers de la Diversité – AFMD), the Corporate Social Responsibility Observatory (Observatoire de la Responsabilité Sociétale des Entreprises – ORSE) and IMS-Entreprendre pour la Cité.

Fostering equal opportunity

The commitment to fostering equal opportunity applies, in particular, to the collective recruitment and internal selection processes.

Since December 2013, the new Jobs website has included a "Diversity" section highlighting, notably, professional equality between men and women.

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

- the recruitment processes are ISO 9001 compliant, this certification having been renewed for a three-year period and extended to the internal selection activities on January 1, 2011. The guarantee provided by this certification ensures, in particular, that the compliance guidelines are respected and that the control and quality of the processes is maintained;
- any individual liable to use the selection tools, consult job application files or have access to confidential information is required to respect the ethical and moral obligations set out in the Ethics Charter of the Recruitment, Selection and Redeployment department. This Charter is updated annually as a function of regulatory changes and in the light of best practices for the profession;
- Air France has used a web-based software application enabling candidates to submit their applications online using a universal CV.

Promoting professional gender equality

For some ten years, Air France has reaffirmed professional gender and wage equality between men and women as a major priority for the business and an area in which the company would like to make progress in terms of human resources management. To this end, in April 2013, Air France signed a framework agreement with the French Ministry of Women's Rights, formalizing a number of commitments in terms of work-life balance, combating the glass ceiling, increasing the proportion of women in Board committees and supporting small subcontractors and suppliers in the professional equality approach. This agreement was in addition to the initiatives already underway:

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

the business, creating a positive environment for employees who are also parents (particularly for pregnant women) and respecting the principle of non-discrimination in the career progression of employees with children;

- within the framework of its contract-based policy, the company is committed to reducing any wage disparities between men and women. Since 2008, the annual wage agreements have enabled the implementation of a specific wage equalization measure whose modalities were presented to the unions. This measure was again applied in 2013.

To ensure respect of equal treatment between men and women, a series of male-female comparative indicators have been included in the steering of Human Resources policies and management processes (training, careers, vocational safety, remuneration, etc.). These indicators are monitored annually within the framework of an audit carried out with each division.

To objectify the facts and feed into the action plans, research has also been carried out like, for example in 2013, an in-house study relating to paternity leave involving more than 1,700 employees who had recently become fathers, an in-house survey with all Air France Industries employees on professional gender equality and Air France's participation in the study on professional relationships between male and female employees conducted by the French High Council on Professional Equality (Conseil Supérieur de l'Egalité Professionnelle – CSEP) and the consultancy firm LH2 (3,000 employees polled).

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

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

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

Policy on disability

In 2013, the Air France group hired 38 new employees with disabilities. The company also ensured the maintained employability of staff with disabilities through numerous support programs and the adaptation of work stations.

Furthermore, the company's commitment extends to businesses and organizations in the adapted and sheltered employment sector, with spending on procurement from this sector amounting to €16 million in 2013 (€15 million in 2012).

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

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

Air France's employment rate for workers stood at 4.42% in 2012. Given the initiatives carried out this year to promote the direct and indirect employment of workers with disabilities, this rate should again have increased in 2013. The company has also established several partnerships, particularly with associations, to help achieve its objective of recruiting and promoting the vocational integration of disabled workers, and changing how disability is perceived.

KLM

Gender equality and respect for sexual orientation

The company is committed to respecting equality and promoting the equitable treatment of sexual orientation. The Over the Rainbow social network, launched in 2010 by KLM and bringing together homosexual, bisexual and transgender employees, provides advice and ensures their equitable treatment, whatever their sexual orientation. The network has seen steady growth, numbering just over 300 members in 2013, and is forging new links with the KLM group. During Gay Pride week, Over the Rainbow organized a lunch event, during which the themes of gender equality and diversity were addressed.

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

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

Vocational integration of persons with disabilities

Within the framework of Dutch legislation, KLM is fully committed to actively furthering the vocational integration of disabled persons and to maximizing their potential contribution. This represents a common goal for both KLM and its employees. Based on government guidelines, occupational physicians evaluate the employee's potential contribution. In cooperation with other specialists they advise managers and employees on the adjustment in working hours, types of work and work station adaptation that are required to optimize the potential of employees with disabilities.

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

The return to work for employees with disabilities receives pro-active support from KLM. When KLM employees are unable to return to their jobs due to disability, they are automatically offered an appropriate position without having to go through a new application process. An Advisory Committee supports the monitoring of these measures and proposes improvements. Since its creation in 2010, the committee has reviewed 1,705 cases, offering each case manager advice on how to increase the chances of finding employees new positions or enabling them to return to their previous jobs.

On return from sick leave, when employees are considered to be in a situation of permanent disability, even if they have changed jobs and now occupy positions adapted to their disabilities, they are deemed to be disabled for legal purposes.

At KLM, the number of employees with disabilities increased from 696 in 2012 to 710 in 2013.

4.2 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM group's social performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Regulations 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 review before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit.

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

- attest that the required CSR information is present in the Management Report or, in the event of omission, is the subject of an explanation in application of paragraph three of Article R. 225-105 of the Code of Commerce (Statement attesting to the presence of the CSR information);
- express a moderate assurance conclusion on the fact that the CSR data, taken as a whole, are presented in all their significant aspects, in a true manner pursuant to the standards (Reasoned opinion on the true nature of the CSR information)[1].

4.2.1 Reporting scope

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

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

The subsidiaries of Air France and KLM over which the Group has at least 50% control, whose acquisition dates back at least one full year and which have at least 250 employees are included in this NRE social reporting scope.

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

- For the 2013 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Bluelink, Brit Air, CityJet, VLM, CRMA, Régional, Servair Group (ACNA, Orly Air Traiteur, PAC SA, Servair SA and Passerelle), Sodexi and Transavia France, representing 73% of the employees of the subsidiaries in the Air France group.
- For the 2013 financial year, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering Limited, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schiphol BV and Martinair, representing 94% of the employees in the subsidiaries of the KLM group.

In 2013, the reporting scope of the Air France subsidiaries and KLM subsidiaries remains unchanged.

The reference number of employees for calculating the coverage rate of the NRE social reporting is the average number of employees in full time equivalent during 2013 derived from the Management Control division's BFC tool.

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

4.2.2 Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating System for ReportIng on Sustainability) reporting software at the disposal of contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors to the Osyris tool are available in both French and English.

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

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

The consolidation of the Air France-KLM group's social information is carried out by Air France's 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.

4.2.3 Details and methodology/Commentary on changes in the indicators

"Consolidated social data for the Air France-KLM Group"

This table presents the indicators relating to employees, recruitment, departures, the proportion of women employees and the percentage working part time. These indicators are consolidated at the level of the Air France-KLM group.

The notes below refer to the references in the tables on pages 120 to 123.

Employees

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

Recruitment on permanent contracts

Note 2: The indicator concerns employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on fixed-term contracts (CDD) transferring to permanent contracts (CDI) during the year.

For KLM, only employees recruited directly on permanent contracts are taken into account.

Departures

Note 3: The reasons for departure are detailed in the notes to the Air France-KLM's 2013 Corporate Social Responsibility Report.

Only redundancies of employees under permanent contract are taken into account in the number of redundancies (including economic).

Percentage of women – Organization of working time

Note 4: These indicators enable the percentage of women to be evaluated relative to the workforce and the proportion of part-time employees on both permanent and fixed-term contracts at December 31 of the reference year.

Employees by geographical zone at December 31

Note 5: In 2011, the few KLM employees in the Caribbean and Indian Ocean geographical zone are included in the number of employees in the North and South American zone.

In 2013, the Air France group employees in the French Overseas Territories and Dominions, i.e. 695 employees, are included in the Caribbean and Indian Ocean geographical zone.

"Other social data" tables

The indicators reported in the other social data tables are subject to different qualification and legal reporting obligations in France and the Netherlands, meaning that they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the Reporting scope section above.

Absenteeism – Health and safety in the workplace

A significant portion of the work-related accidents reported by Air France is due to cases of barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France whereas they are recorded as sick leave by KLM in accordance with Dutch law.

The absenteeism rate is not communicated for the Air France and KLM subsidiaries in 2013, the monitoring measures being in the verification process at the level of these entities.

- ***Air France***

Note 1: The absenteeism rates are calculated on the basis of a ratio of the number of hours of absence over the hours theoretically worked (excluding leave).

- ***KLM and KLM subsidiaries***

Note 1: In the Netherlands, there is no difference between the management of absence following a work-related accident or due to illness. Absences due to illness or work-related accidents are handled in the same way. For this reason, all the days of sick leave or absence due to work-related accidents are taken into account in the rate of absenteeism for illness. The absenteeism rates are calculated by expressing the number of calendar days of absence as a percentage of the calendar days theoretically worked.

Health and safety – Work-related accidents

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

- ***Air France and Air France subsidiaries***

Note 2: The Air France's group definition of work-related accidents is in line with the definition under French law (at least one day of absence from work). Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

- ***KLM and KLM subsidiaries***

Note 2: The KLM group's definition of work-related accidents only takes into account accidents with at least one day of absence from work. Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

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

Frequency and severity rates

Air France

Note 3: The frequency and severity rates are calculated:

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

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

KLM and KLM subsidiaries

Note 3: the frequency and severity rates are calculated for all the staff based on the hours theoretically worked.

Training

Air France and Air France subsidiaries

Note 4: The "Number of training hours by employee" indicator is calculated based on all the training sessions, independently of whether or not their nature requires them to be included in the 2483 Regulatory Declaration.

The hours of training for the subsidiaries of the Air France group are calculated without the data related to the Transavia France subsidiary.

KLM and KLM subsidiaries

Note 4: KLM does not currently have a centralized reporting procedure solely for the costs of training within KLM and its subsidiaries. Note that the disclosure of the total number of training hours is not required by Dutch law.

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

Number of disabled employees

Air France and Air France subsidiaries

Note 5: For Air France, the number of disabled employees reported are those for whom a valid certificate, pursuant to French law (Article L. 5212-2 of the French Labor Code), is available. Note that the data for international employees is reported based on local legislation.

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

Note that the rate of employment of disabled employees for 2013 was not yet known on the date the figures for the reporting of the NRE social indicators were produced within the framework of the Management Report and Registration Document.

KLM and KLM subsidiaries

Note 5: For KLM, an individual is deemed to be disabled if unable to carry out his or her work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

Air France

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

4.3 Social indicators for the group

4.3.1 Consolidated social data for the Air France-KLM group

Headcount at 12/31[1] (permanent and fixed-term contracts)	Air France-KLM group 2011	2012	2013	13/12
Scope of NRE Social reporting	*96%*	*96%*	*96%*	*0.0%*
Total staff	106,618	104,130	**100,569**	-3.4%
Ground staff	71,277	69,516	**66,512**	-4.3%
Cabin crew	26,380	25,863	**25,548**	-1.2%
Flight deck crew	8,961	8,751	**8,509**	-2.8%
Staff under permanent contract	101,603	100,273	**96,368**	-3.9%
Recruitment under permanent contract at 12/31[2]	2,481	848	**1,253**	47.8%
Recruitment under fixed-term contract at 12/31[2]	6,621	4,313	**4,249**	-1.5%
Departures at 12/31[3]	11,612	8,571	**9,975**	16.4%
of which redundancies (incl. economic)	995	640	**492**	-23.1%
Percentage of women at 12/31[4]	42.8%	42.8%	**42.9%**	0.2%
Percentage of part-time employees at 12/31[4]	24.5%	25.5%	**27.4%**	7.5%
Breakdown of staff by age at 12/31				
< = 29 years	10,052	8,222	**7,878**	-4.2%
between 30 and 39 years inclusive	33,065	30,305	**28,081**	-7.3%
between 40 and 49 years inclusive	37,101	37,255	**37,259**	0.0%
50 years and above	26,400	28,348	**27,351**	-3.5%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	5,072	4,607	**4,483**	-2.7%
North & South America	2,255	2,013	**2,029**	0.8%
Caribbean/Indian Ocean (including French overseas territories)[5]	1,118	1,109	**1,042**	-6.0%
Asia/Pacific	1,710	1,678	**1,728**	3.0%
Africa/Middle East	1,594	1,607	**1,531**	-4.7%
The Netherlands	31,533	30,562	**30,496**	-0.2%
Continental France	63,336	62,554	**59,260**	-5.3%

* *Air France group: Air France and Air France subsidiaries.*
Air France subsidiaries: Aero Maintenance Group, BlueLink, Brit Air, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and Servair group: ACNA, OAT, Passerelle, Servair SA, PAC SA.

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

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

Air France group*				KLM group**			
Total Air France group		Of which Air France		Total KLM group		Of which KLM	
2012	2013	2012	2013	2012	2013	2012	2013
95%	**95%**	*100%*	**100%**	*98%*	**98%**	*100%*	**100%**
69,513	**65,905**	56,893	**53,423**	34,617	**34,664**	28,698	**28,718**
48,337	**45,466**	38,066	**35,344**	21,179	**21,046**	17,043	**16,941**
15,941	**15,450**	14,762	**14,215**	9,922	**10,098**	8,973	**9,086**
5,235	**4,989**	4,065	**3,864**	3,516	**3,520**	2,682	**2,691**
67,201	**63,262**	55,728	**52,029**	33,072	**33,106**	27,819	**27,926**
707	**782**	309	**313**	141	**471**	103	**430**
3,962	**3,401**	1,863	**889**	351	**848**	134	**317**
7,168	**8,719**	4,315	**5,553**	1,403	**1,256**	935	**707**
542	**414**	247	**179**	98	**78**	71	**49**
43.1%	**43.3%**	44.5%	**45.0%**	42.1%	**42.3%**	43.3%	**43.6%**
19.0%	**21.2%**	21.1%	**24.2%**	38.6%	**39.1%**	39.9%	**40.2%**
5,254	**4,654**	3,807	**3,302**	2,968	**3,224**	1,944	**2,202**
21,422	**19,207**	17,802	**15,842**	8,883	**8,874**	7,206	**7,239**
24,266	**24,371**	19,857	**19,908**	12,989	**12,888**	10,999	**10,970**
18,571	**17,673**	15,427	**14,371**	9,777	**9,678**	8,549	**8,307**
2,346	**2,204**	1,652	**1,584**	2,261	**2,279**	931	**933**
1,655	**1,582**	1,369	**1,309**	358	**447**	357	**446**
1,047	**986**	839	**780**	62	**56**	62	**56**
744	**746**	739	**742**	934	**982**	933	**982**
1,048	**1,021**	1,025	**997**	559	**510**	559	**510**
161	**154**	24	**32**	30,401	**30,342**	25,814	**25,743**
62,512	**59,212**	51,245	**47,979**	42	**48**	42	**48**

4.3.2 Other social data for the Air France group (according to local legislation)

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

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

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

➤ Air France subsidiaries

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

(1) (2) (3) (4) (5) : see note on the methodology.

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

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

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

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

➤ KLM Subsidiaries

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

(1) (2) (3) (4) (5) : see note on the methodology.

4.4 Corporate citizenship information

4.4.1 Dialogue with stakeholders

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

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

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

- internal barometers and meetings to garner employee suggestions;
- perception and satisfaction surveys for customers;
- materiality testing of representative individuals;
- dialogue and evaluation of supplier Corporate Social Responsibility performance;
- exchange of best practices and working groups within the sector and with other large companies;
- discussions with shareholders and SRI investors together with recommendations from extra-financial ratings agencies;
- opinions and remarks gleaned from the dedicated digital addresses, websites and the social media;
- feedback channels deployed to enable stakeholders to communicate any complaints.

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

Stakeholder expectations can also have a significant impact on the Group's practices. For example, following complaints about a particular noise produced by the A320s from residents living close to the airport, Air France and the DGAC asked Airbus to investigate its origin, leading to changes in the design of aircraft, a modification applied to new aircraft since 2013. Air France will also progressively equip all the aircraft in the A320 family (A318, A319, A320 and A321) with noise reduction kits.

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

Air France and KLM have also implemented consultation mechanisms enabling their stakeholders to express any grievances. For customers, Air France and KLM's Customer Care services are responsible for handling any incidents in a timely fashion. In terms of local environmental issues, both airlines are members of working groups (*Commissions consultatives de l'environnement* in France and *Alders Table* in the Netherlands), which bring together local community representatives, airlines and airports.

Lastly, feedback from stakeholders has also had an influence on the Group's reporting, and particularly the Corporate Social Responsibility report and its websites.

4.4.2 Fair commercial practice

Air France-KLM's commitment to sustainability is enshrined in its Corporate Social Responsibility Statement, in which the Group undertakes to foster respect for the environment, social equity and local development. As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting the fundamental principles of human rights and to combating all forms of corruption.

A commitment to respecting Human Rights

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

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

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

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

Affirming our business conduct rules

Air France-KLM ensures that ethical principles are respected in the way it does business. As a framework for its operations, Air France-KLM has formalized these principles by producing documented rules governing business conduct. Some of these rules apply to all members of staff while others apply to specific areas. For example, the Air France-KLM Procurement and Air France recruitment departments both have codes of ethics in force which are signed by all members of staff.

The Board of Directors has adopted a Compliance Charter and a Financial Code of Ethics. The Compliance Charter requires company officers, senior executives and employees of the company with access to insider information to respect the rules relating to trading in the company's shares while the Financial Code of Ethics sets out the rules concerning financial information with which they must comply.

KLM has a Code of Conduct, establishing the main principles concerning financial and business integrity, confidentiality and respect of the CSR commitments.

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

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

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

Compliance with competition law

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

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

4.4.3 Measures to safeguard consumer health and safety

Flight safety and risk management

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

All of the Group's businesses are subject to extensive controls and certification, and meet extremely strict standards and the highest level of regulations in the industry, both at European level with the European Aviation Safety Agency (EASA), and globally with the International Air Transport Association (IATA), whose IOSA operational safety audit is a benchmark within the industry.

To achieve the highest attainable standard of flight safety, the Safety Management System (SMS) has been implemented across the two airlines. The SMS applies an approach specific to the management of aviation risks, and is supported by a commitment at the highest level of management within the Group, and by training and awareness-raising initiatives among all members of staff.

More generally, flight safety is an integral part of the risk management procedures (*see Chapter 3 Risks and Risk Management*).

Measures to safeguard consumer health

The Group must guarantee the integrity of its in-flight catering for both customers and flight crew. The manufacturing and supply of food products are governed by European regulations which impose multiple requirements: the auditing of caterers, micro-biological and temperature analyses, staff training in the best hygiene practices, etc.

The two airlines have established a quality-first procedure to be able to respect these requirements. For example, Air France has based its Quality system on the ISO 22000 standard (food safety) becoming, in 2006, the first airline in the world with this certification. Food safety remains at the heart of the airline's priorities in terms of customer service. To ensure strict control over the hygiene standards of its services, Air France carries out around 12,000 in-house microbiological checks each year for 45 million meals served on board aircraft. In terms of the sanitary quality of the water embarked on aircraft, around 400 to 500 analyses are carried out annually. In 2012, the ISO 22000 certification was renewed for a further three-year period following a renewal audit.

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

The Group also offers a number of health-related services to passengers. For example, KLM Health Services offers a comprehensive three-stage service to its customers during the flight, on arrival at their destinations and during the return flight. Air France's commercial website includes a health and well-being section while Air France has an ISO 9001-certified vaccination center in Paris.

In partnership with the Valk Foundation, Schiphol Airport and Leiden University, KLM offers a program to overcome the fear of flying based on in-depth research into its causes. For its part, Air France also offers similar courses to help its passengers overcome their phobia of aircraft.

4.4.4 Contributing to regional economies

Employment and regional development

Roissy-CDG and Amsterdam-Schiphol airports offer numerous connections, forming an extensive, high-quality network and generating an attractive business environment.

With 89% of the Group's employees based in France and the Netherlands, Air France and KLM make a significant contribution to job creation at their hubs. KLM is the third largest private sector employer in the Netherlands with 30,000 of the 60,000 people directly employed at Schiphol airport. Air France's more than 44,000 employees in the Ile-de-France make it the leading private sector employer in the Paris region. In 2013, the airline demonstrated its commitment to the Paris region with the planned construction of a new unit dedicated to aerostructures to be based at Roissy-CDG.

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

The Group's businesses also generate numerous direct and indirect jobs around the hubs: ground handling and catering services, cleaning and the sub-contracted services required for aircraft operation. The activity of Roissy-CDG airport generates almost 248,000 direct, indirect and spin-off jobs, including 86,000 with the 700 businesses based in the airport catchment area.

Through its extensive global network the Group participates in the dynamism of the economic and social fabric of the countries and regions it serves. This dynamism involves recourse to local production and spin-off economic activity. The Group makes a pro-active contribution to developing the economic regions where its operations are based.

The wide range of professions and services required for the Group's out-station activity generates a significant number of direct and indirect jobs. For example, Air France subsidiary Servair is present in more than 50 international airports where the company prioritizes local employment and procurement.

A permanent dialogue with local communities

Air France and KLM maintain a pro-active and transparent dialogue with all the regional stakeholders. These regular discussions are the key to successful cooperation on issues such as noise and the quality of life around airports.

Association Pays de Roissy-CDG

Created in 2003 at the initiative of Air France, the association brings together companies, local elected representatives and residents of the Roissy-CDG catchment areas, enabling projects concerning economic development, housing, transportation, culture, training and research to come to fruition. Through this association, Air France reinforces its territorial foundations and works in partnership with the local players.

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

Active in the main French airports, the CEEs constitute the main forum for dialogue between the operators and local communities, thereby helping to orientate the environmental measures accompanying airport development. The CCARs are advisory bodies specially dedicated to helping sound proof housing in communities located near to airports. Air France is a member of all the CCEs and CCARs in France.

Grand Roissy and Grand Paris

Air France is contributing to the extensive discussions on projects set to shape the areas surrounding its hubs over the coming twenty years, such as the consultation process on the Grand Paris and Grand Roissy projects. Air France thus participated in the Grand Roissy Area Conference in June 2013. Air France is a member of the Grand Roissy Economique Commission which aims to coordinate the economics of the region. The company is also involved alongside other regional players with the Aerotropolis Europe and Hubstart Paris associations to reinforce the international profile and economic attractiveness of Roissy-CDG airport. In October 2013, the company took part in the international seminar dedicated to sustainable airport areas organized by the Hubstart Paris association.

Alders Table

KLM and stakeholders ranging from Dutch Government Ministers to local communities and air transport professionals all come together around the *Alders Table*. This dialogue fosters a better understanding of the factors influencing the noise environment around Schiphol so as to achieve the optimum balance between the increase in aircraft movements and a reduction in noise.

CROS

KLM has been investing for several years in dialogue and cooperation with inhabitants of the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS).

Landschap Noord Holland

Since 2010, KLM has been working in partnership with Landschap Noord Holland Foundation as part of its commitment to supporting nature conservation and biodiversity in the territories served by KLM including the Netherlands home base. Amongst the Foundation's many projects, KLM has specifically “adopted” the Ilperveld region. This area of reclaimed land is a stunning example of Dutch water management as well as being particularly rich in bird and plant life.

Contributing to skills development, the vocational integration of young people and the social integration of the vulnerable

Air France and KLM encourage initiatives promoting access to training leading to professions in the airline industry through a number of different associations and education programs for young people. The two companies notably support the following initiatives:

OPEN (*Ouvrons nos Portes à tous les Elèves Naturellement*)

Spearheaded by Air France in 2010, this project aims to enable teenagers with little or no access to the business environment to spend one week learning about the Air France professions. In 2013, this initiative was repeated and 14 school pupils (three of whom with disabilities) were able to gain valuable work experience at the company's head office.

Airemploi

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

JEREMY (*Jeunes en Recherche d'Emploi à Roissy et Orly*)

Air France is a founder member of the association which promotes the vocational integration of young local people without formal qualifications who are excluded from the workplace through a scheme combining training with professional experience and social support. In 2013, some 150 interns completed a foundation course leading to a qualification. These initiatives are implemented in partnership with the Ile-de-France region, the French Department of Education, the Apprenticeship Training Centers (CFA), and regional institutions and associations.

Fondation de la Deuxième Chance

Since 2005, through its Sodesi subsidiary, Air France has been committed to the Second Chance Foundation for which it coordinates the airport catchment area site located in Roissy. This Foundation contributes to the realization of professional projects by vulnerable people.

ROC

KLM continues to invest in education programs alongside Regional Education Centers (ROC). The Amsterdam-based education centers and KLM Engine Services offer gas turbine mechanic and sheet metalwork training with the Leiden center, while KLM also assists with internships and training to develop skills. KLM provides professional training for careers in aircraft maintenance at two schools with a two-year contract as a mechanic at the end of the course.

Stichting Scholing – Werk en Uitvoering

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

Luchtvaart College Schiphol

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

JINC

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

Partnership and sponsorship initiatives

Historically, the Group has always played an active role in international development assistance, particularly through its support of NGOs and projects spearheaded by its own employees. Concretely, Air France-KLM supports development projects through partnerships and logistical support.

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which, in 2012, celebrated its twentieth anniversary. In 2013, the Foundation assisted 98 support projects for sick, disabled and vulnerable children wherever the company has operations.

For more than three decades the airline has partnered the Acting for Life NGO, which promotes child protection, economic development and sustainable tourism. In 2013, the organization supported 29 projects in Africa, Asia, Latin America and Europe. Air France has also provided long-term support for humanitarian air transport missions carried out by *Aviation Sans Frontières* (Aviation Without Borders). The company also acts as an information conduit by raising passenger awareness of the damage caused by child sex tourism, by financing ECPAT International's prevention campaign and by distributing literature on board during flights to so-called at-risk destinations.

KLM's AirCares program supports six partners in the areas of education, health and sanitation: "Close the Gap", "Aflatoun", "Doctor2Doctor", "Aviation without Borders", "Wings of Support" and "Get It Done". KLM analyzes the impact on beneficiaries of AirCares programs at the beginning and at the end of each project. A total of 32.7 million air miles were donated by "Flying Blue" members to these partners.

Logistical support

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

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

4.4.5 Sub-contracting and suppliers

Pursuing a responsible procurement policy

As a service company, Air France-KLM's business activity is heavily dependent on procurement which represented €16 billion in 2013 and was realized with some 4,200 contractual suppliers. Fuel purchasing amounts for more than 50% of this expenditure followed by airport and navigation fees, airport handling, maintenance and components. Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and making the supply chain more sustainable are priorities for the Group and contribute to improving profitability. Air France-KLM has significant leverage via its procurement policy and purchasing volume which it can use to encourage responsible practices across the supply chain.

For a number of years, the AF KLM combined Procurement function has aimed to incorporate corporate social responsibility principles into relations with suppliers by reinforcing control over ethical, social and environmental risks. To this end, the procurement process takes place in the following manner:

- the buyer sends the supplier a supplier questionnaire addressing a number of themes such as safety, environmental management and HR policy, etc.;
- the supplier is invited to sign the Sustainable Development Charter for suppliers based on the principles of the UN Global Compact or provide their own equivalent document which may be approved following analysis. In 2013, the proportion of suppliers having demonstrated their CSR commitment had increased to 75%;
- most specification sheets attached to the tender documentation list the criteria enabling the evaluation of the environmental impact of the product or service which is then taken into account during the evaluation of the different supplier proposals. This is an integral part of the assessment of the total cost of ownership and the life cycle analysis;
- the supplier contract includes an ethical and environmental clause.

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

Empowering the buyers

In addition to sharing the Group's CSR commitments, the Air France-KLM buyers are encouraged to sign a Code of Ethics outlining the ethical rules to be followed when dealing with suppliers. This document and the Sustainable Development Charter are available on the Procurement website. Furthermore, an internal process has been established to guide buyers in making responsible purchasing decisions including web links providing more information on best environmental practices together with training and seminars to build buyer awareness and develop their skills, ensuring they take environmental and social criteria into account wherever possible in their work.

Mobilizing and innovating with suppliers

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

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

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

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

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

Partnering local development

The services sub-contracted by Air France-KLM represent a significant number of direct jobs, of which more than two-thirds are based in Europe. The Group also contributes to the development of activity in specific sectors in the territories where the two hubs are located and at flight destinations through purchasing with local suppliers. For example, the group contributes to developing activity in the French regions (more than €420 million of contractual procurement in 2013, excluding purchasing of aircraft and fuel).

Substantial sub-contracting

To identify the direct portion of sub-contractor procurement, an estimate has been made based on the external expenses of the Air France-KLM group. Based on this estimate, the amount of external expenses, excluding fuel, potentially linked to sub-contracting procurement (catering, airport handling, aircraft sub-contracting and maintenance, other sub-contracting) amounted to €2.3 billion in 2013.

Taking into account social and environmental priorities

The obligations of sub-contractors in terms of the environment and occupational health and safety are stipulated in the product or service specifications.

To prevent the risks linked to joint-activity during interventions, the establishment of prevention plans is systematic. This approach is the subject of a General Occupational Health and Safety Procedure. For Air France, the accident record of sub-contractors is the subject of a performance indicator tracked through the company's social reporting.

Furthermore, an environmental clause figures in Air France's catering contracts which includes measures to reduce the environmental footprint, such as the sorting and recycling of waste and the use of seasonal products.

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

4.5 Environmental information

4.5.1 Overall environmental policy

Organization and responsibilities

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

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

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

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

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

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

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

Environmental management/ISO 14001 certification

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

The Environmental Management System enables the monitoring and control of defined actions and to evaluate, on an on-going basis, the impacts of the activity. It is based on the principle of continuous improvement, following the Deming total quality model of plan, do, check and act. For each entity of the company, the processes are identified, planned, monitored and verified. There are also a series of internal and external audits to monitor the effectiveness of the Environmental Management System.

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

Environmental reporting/Verification of extra-financial data

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

The Air France group generates environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application, enabling the population, verification and consolidation of the data for all the ground operations to be centralized. For flight operations, the data are calculated using the DataWareHouse tool.

The KLM group manages and reports its environmental indicators in a similar fashion using the CaeSaR database tool which is widely deployed across the company.

The environmental reporting procedure applicable across the Group is outlined in a document common to Air France and KLM containing the definitions and the scope of the indicators. Within the framework of a proactive approach, since 2008 Air France-KLM has had a number of its environmental indicators verified by one of its Statutory Auditors. The verification is carried out with the highest level of assurance known as reasonable assurance for the indicators that are the most significant for air transport (namely CO_2 emissions and fuel consumption in the air operations). The other indicators, together with the text, are verified based on the modalities outlined in the note on the methodology.

Employee training and information on environmental protection

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

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

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

- during the company's Sustainable Development Week, Air France and KLM organize conferences and workshops on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs;
- newsletters on sustainable development issues and information on the in-house communication channels are regularly circulated within the Group to keep employees in touch with the latest environmental news concerning Air France and KLM;
- KLM regularly organizes a Corporate Social Responsibility (CSR) Café, where external speakers from NGOs, front-runner companies and supply chain partners present their CSR approach and achievements and interact with employees.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

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

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

In 2013 Air France and KLM started to migrate the management systems for Safety, Security, Occupational Health and Environment into one integrated system. This integration process will be pursued in 2014.

In 2012, Air France deployed e-CARE, a system for managing operational incidents and compliance audits, enabling all members of staff to report any situation they believe represents a potential risk. Used by all operational entities and supported by a common risk management matrix, since 2013 e-CARE has thus contained all the data related to flight safety, customer service, environmental issues, health and safety in the workplace, security and food hygiene.

A feedback system has been established in all the Air France and KLM Operational Divisions to record environmental incidents, enabling the definition and implementation of risk prevention plans at Group level. Since 2013, the Air France Environment Committee has convened every three months for a special meeting to analyse environmental incidents and define any required corrective measures.

Also in 2013, Air France implemented an overall action plan on the management of hazardous products involving, in particular, the contamination, storage and labelling risks. (*See also Risks relating to the environment in Chapter 3 Risk factors and their management).*

Environmental expenditure and investment

Air France-KLM's policy is to fully integrate environmental management within the business operations, meaning that it is difficult to identify the portion of expenditure for purely environmental purposes.

The Group has made a continuous investment in new aircraft and currently operates one of the most rationalized and modern fleets in the airline sector. This enables it to offer passengers a higher standard of comfort, achieve substantial fuel savings and respect its sustainable development commitments by reducing noise emissions for local communities and greenhouse gas emissions.

Furthermore, the air transport industry is subject to stringent environmental regulations. In the past few years, the national and European authorities have adopted various regulations regarding, in particular, noise pollution and gas emissions, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

Since January 1, 2012, the aviation sector has been part of the European Union Emissions Trading System (EU-ETS) pursuant to European Directive no. 2008/101/EC of November 19, 2008. *(See also Risks relating to the environment in Chapter 3 Risk factors and their management.)*

To reduce the noise impact on populations around airports, for a number of years the Dutch and French governments have implemented policies aimed at adapting urbanization as a function of the exposure to aircraft noise. These include preventive measures aimed at avoiding the settlement of new inhabitants and remedial measures to sound-proof existing homes.

In 2013, the Group paid a total of €32.5 million in airport noise taxes. The Air France contribution to the Airport Noise Tax (TNSA) paid to the French State for every take-off amounted to €15 million. The proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise. In 2013, KLM paid €17.5 million in noise taxes for sound-proofing and compensation for loss of value in property around Schiphol airport in respect of Article 77 of Dutch aviation law.

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risk up to a sum of €50 million per claim and per year, with lower specific limits depending on location and/activity. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries including those with air operations like HOP! and Transavia France.

KLM's aviation insurance covers environmental damage due to an aircraft crash, fire, explosion or collision. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable. The only exception is the provision made within the framework of the agreement between KLM and the WWF-NL on the 1% goal for biofuel use in 2015.

Measures taken to guarantee the Air France-KLM group's compliance with legal and regulatory environmental requirements

Within the framework of the Environmental Management System, Air France and KLM regularly evaluate the level of environmental regulatory compliance, notably through a series of checks and internal and external audits.

In 2011, a monitoring and regulatory compliance tool was deployed in Air France, covering all the applicable environmental requirements. This tool also enables the monitoring of new regulations and the level of their adoption by each division within the company. In 2013, the scope for this monitoring tool was extended to the French overseas territories.

In 2013, Air France established a Regulatory Intelligence Committee. This committee meets every three months in the presence of a legal counsel to monitor any changes in regulations, review the compliance indicators in the divisions and implement any relevant corrective measures.

To ensure compliance with the legal and regulatory requirements relating to Air France and KLM's ground operations outside their respective countries, Air France and KLM have adopted an environmental code of best practice in their outstations (GEP = Good Environmental Practices).

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities during the financial year.

4.5.2 Pollution and waste management

Prevention, reduction and reparation of air, water and ground emissions with a serious environmental impact

The Air France-KLM group monitors its atmospheric emissions both for flight and ground operations, including low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO_2, SO_2, NO_x, HC and incidences of inflight fuel jettison.

The effluents released from the Air France-KLM group's maintenance operations are the subject of regular checks to ensure that the thresholds defined by the local or prefectural decrees are fully respected for each of their sites. The main effluents monitored are pH, nitrogen, phosphorus, metals, COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand).

Prevention, recycling and evacuation of waste

Air France-KLM constantly strives to minimize the generation of waste and increase the proportion that is recycled or reprocessed. In total, the Group generated 54,966 tons of non-hazardous waste in 2013.

Within the framework of the Environmental Management System, Air France is aiming to increase the proportion of recycled waste to 50% by the end of 2014.

In 2013 KLM developed the "no waste of resources and materials" ambitions aimed at waste prevention and reduction, targeting 100% waste recycling and recovery in 2020, except for waste where recycling and recovery is not legally permitted.

The recycling of on board waste is an abiding priority for the Group which implements recycling initiatives and is developing the principle of eco-design to acquire the means to improve the environmental evaluation of its products and reduce their overall impact. For example, at Air France, 80% of used equipment like trays, drawers, blankets and trolleys are recycled every year.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing system and its management harmonized in the different maintenance sites. This approach is also reflected in the optimized management of suppliers and costs, and the search for more relevant solutions with reference to regulatory changes.

As part of its SCRAP program, Air France recycled 9.4 tons of steel and aviation scrap metal in 2013, avoiding the production of 96 tons of CO_2. For its part, KLM extended its scrap metal program (around 50 tons) to four other types of waste: furniture, equipment, pallets and blankets.

Air France and KLM are also working on initiatives to upcycle waste into new uses and, in 2013, introduced the recycling of used uniforms. At Air France, these uniforms were destroyed before being transformed into insulation fiber for vehicles. In 2012, KLM uniforms were recycled into luggage tags and hand bags while, in 2013, used uniforms were transformed into fiber to produce the carpets installed in the airline's new Business Class. The replaced carpets were also used to manufacture new carpeting. KLM Catering Services has also put in place initiatives to increase the types of recycled waste. Lastly, Air France's outdated life vests are used to manufacture travel amenity bags.

Measures taken to limit noise pollution

While accommodating the increasing demand for mobility, one challenge for the aviation industry is to maintain noise hindrance at an acceptable level for those living near to airports. The Air France-KLM group has formalized its commitment to noise reduction by making it a Corporate Social Responsibility Statement requirement.

The most effective way to reduce noise hindrance is to operate modern, noise-minimized aircraft. The entire Air France-KLM fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm covering the acoustic quality of civil aircraft.

Improving departure and approach procedures can also help to reduce noise hindrance for local residents. Air France and KLM actively contribute to the implementation of noise abatement procedures. The environmental benefits of each new procedure are assessed, approved and made public by the French and Dutch civil aviation authorities.

Night flight regulations are very stringent and cover the number of allocated slots, the respect of their scheduled times and the noise performance of aircraft that are authorized to operate. Air France and KLM pay particular attention to strict compliance with these regulations. Furthermore, the impact of their air traffic is reduced thanks to the application of Continuous Descent Approach procedures.

Through discussion forums, Air France and KLM strengthen their ties with local residents and other local stakeholders. In France, this dialogue is conducted within the context of CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all airports where it has operations. In the Netherlands, KLM participates in the Alders Table round table which addresses issues surrounding noise. After two years of work, the members of the Alders Table jointly submitted a proposed new regulation to the Dutch government.

Within the framework of the Schiphol Regional Consultative Committee (CROS) and the Works Councils, KLM and Air France work with representatives of local populations, airport authorities and air traffic control to identify measures and solutions to mitigate the noise hindrance that can affect local residents around airports. This dialogue will be pursued within these bodies.

Noise is measured by its overall sound level although other factors can influence the level of hindrance: the frequency with which it occurs, sound dissonance, etc. The CORAC (French Council for Civil Aviation Research) is expected to launch a psycho-acoustic study on the perception of aircraft noise aimed at identifying noise hindrance factors and orienting research by aircraft manufacturers.

At the instigation of ACNUSA, the French airport noise nuisance authority, the public authorities have launched the DEBATS study (*Discussion sur les Effets du Bruit des Aéronefs Touchant la Santé*) aimed at improving understanding of the effects of aircraft noise on health. Air France sits on the steering committees of both CORAC and DEBATS.

4.5.3 Sustainable use of resources

Water consumption and the water supply as a function of the local constraints

The Air France-KLM group makes a continuous effort to reduce water consumption through better management of its processes, making its teams more accountable and by factoring environmental criteria into the design and realization of its tools and work stations.

For example, Air France's maintenance division has established an aircraft washing process which consumes much less water (saving around 8,000 m^3/year), using pads and biodegradable products. KLM has also deployed a new washing system for aircraft exteriors enabling a 40% saving on water.

For its part, Servair continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

In view of its activity, the Air France-KLM group is not significantly concerned by the "Water supply as a function of the local constraints" theme.

Consumption of resources and the measures taken to optimize their use

Air France-KLM has a long-standing commitment to reducing its carbon footprint and optimizing fuel consumption.

The main lever in CO_2 emission reduction is fleet renewal as new aircraft are more fuel efficient. The average age of the Air France-KLM fleet is 10.6 years. Air France and KLM continued the modernization of their fleets in 2013.

In addition to fleet modernization, a number of operational measures can also increase aircraft fuel efficiency. These cover four main areas:

- aircraft: reducing the mass loaded on board, reducing fuel consumption of engines and Auxiliary Power units, reducing drag, etc.;
- airspace: optimizing flight paths, reducing aircraft waiting times, optimizing altitude, etc.;
- fuel carried on board: optimizing regulatory quantities of fuel, optimizing operational fuel;
- flight operations: optimizing flight procedures based on the recommendations of aircraft and engine manufacturers and equipment suppliers.

At Air France, the implementation of a Jetfuel Plan enabled the saving of 35,000 tons of fuel in 2013. For example, as part of the plan the airline equipped its entire long-haul fleet with 3,650 new, lighter baggage containers enabling a saving of 2,500 tons of kerosene, i.e. an annual reduction of 8,000 tons of CO_2.

In 2013, within the framework of the Climate Action Plan, KLM saved 7,200 tons of fuel (relative to 2012) thanks to the deployment of operational measures like fleet renewal and weight reduction. Besides fuel reduction, in 2013 KLM was the only airline to operate inter-continental flights partially powered with sustainable bio-kerosene.

Energy consumption and measures taken to improve energy efficiency and the use of renewables

Air France and KLM have implemented an action plan to improve the energy efficiency of buildings.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average 2% annual reduction in its energy consumption. In 2012, KLM signed a fourth multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020.

Since 2013, 100% of the electricity in KLM's offices has been green energy from hydroelectricity.

Within the framework of the Environmental Management System, Air France aims to improve the energy efficiency of its buildings through an 8% reduction in their energy consumption by the end of 2014 thanks to the upgrading of equipment and the inclusion of this target in supplier contracts. This concerns both industrial buildings such as the cargo warehouses at Paris-Orly and tertiary buildings.

In 2011, Air France made a commitment to the World Business Council for Sustainable Development (WBCD) to reduce its energy consumption and signed the Manifesto for Energy Efficiency in Buildings.

Furthermore, Air France and KLM apply HQE principles which are themselves a guarantee of energy savings. New Air France and KLM buildings are designed taking into account environmental criteria but also those relating to well-being and ergonomics. Air France and KLM also implement an HQE certification approach to the operation of these new buildings. Air France's Equinoxe building now has HQE operational certification and also serves as an R&D pilot for best environmental practice that could be extended to other Air France buildings.

Soil use conditions

In view of its activity, Air France-KLM has a limited impact on soil use conditions. Pursuant to the rules and regulations for new buildings, the Group carries out or commissions sub-soil sampling prior to any new construction at a site to verify its compliance with safety standards.

4.5.4 Contribution to adapting to and combating global warming

Greenhouse gas emissions and taking into account the impact of climate change

Air France-KLM Climate Action Plan

The Air France-KLM group's contribution to reducing its impact on climate change is based on a Climate Action Plan focusing on six main areas:

- pursuing fleet modernization and contributing to aeronautics research;
- mobilizing all the Group's internal and external players around ambitious action plans enshrining eco-design principles;
- promoting the emergence of alternative fuels for aviation and research into renewables;
- supporting NGO-led environmental programs;
- giving customers access to information on the CO_2 emissions linked to their journeys and offering them offsetting opportunities;
- supporting international efforts to reach a global climate agreement in which the aviation sector would make a just and equitable contribution.

National and international commitments

Since January 1, 2012, the EU-ETS Directive instituting the Emissions Trading Scheme has applied to all European and non-European airlines landing in the European Economic Area. In November 2012, however, the European Commission suspended the application of this measure for intercontinental flights for 2012, flights within the EU remaining subject to the scheme.

The International Civil Aviation Organization (ICAO) is committed to submitting proposals for regulating global aviation emissions. In October 2013, a legal and technical offsetting framework based on a market-based mechanism was adopted by the ICAO Assembly enabling carbon neutral growth by 2020. Air France-KLM, together with the other International Air Transport (IATA) airlines, are mobilized around making a decisive contribution to this work and thereby facilitating the adoption of the most effective solutions. (*See also Risks relating to the environment in Chapter 3 Risk factors and their management)*.

Air France and KLM actively participate in IATA initiatives aimed at proposing operational solutions enabling respect of the emission reduction commitment made by the aviation sector in 2009, namely:

- 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.

KLM has signed the Dutch Knowledge and Innovation Agenda, defining the environmental and sustainable development visions and targets for airlines in the Netherlands. The company is also committed to the Dutch National Agreement on Sustainability (sector agreement on Transport, Logistics and Infrastructure for 2008-2020).

Sustainable alternative biofuels

Sustainable alternative biofuels constitute one of the most promising avenues to reducing CO_2 emissions from aviation. They are key to achieving Air France-KLM's CO_2 emission reduction targets as well as those of the aviation industry as a whole.

Unlike other forms of transportation, the commercial aviation industry has no alternative to fossil fuels and, moreover, no alternative technologies are likely to emerge before 2050. To ensure the future of commercial aviation, Air France-KLM therefore considers the transition from fossil fuels to renewables to be a priority.

The Group's strategy is to explore the entire value chain from research to commercialization.

Stimulating the industry: Air France is participating in a project to produce biofuel from forestry waste, spearheaded by the CEA (*Commissariat à l'Énergie atomique et aux energies alternatives*), France's Atomic and Renewable Energy Commission. Air France and KLM both support the European Commission's ITAKA initiative (Initiative Towards sustainable Kerosene for Aviation). This project will establish links between farmers, biofuel producers, distributors and users to break down the barriers to commercial rollout.

Supporting regulatory incentives: Air France and KLM are involved in the Biofuel Flightpath 2020 European initiative, which aims to produce two million tons of sustainable biofuels in Europe by 2020.

Innovating in the supply chain: in 2009, in cooperation with North Sea Group and Spring Associates, KLM created the company SkyNRG to develop a sustainable fuel supply from purchase to delivery. SkyNRG is now the world leader in bio-kerosenes, supplying more than 15 airline companies globally including Air France-KLM.

Involving customers and partners: to create a market for sustainable biofuels for aviation, Air France and KLM are collaborating with partners and customers. As part of its WWF-NL partnership and the Green Deal commitment, KLM has launched the BioFuel program, a first for aviation.

Offsetting emissions

On their websites, Air France and KLM give their customers access to CO_2 emission calculators, with the opportunity to entirely neutralise their emissions should they so wish. The Group offers certified sustainable carbon reduction credits that guarantee a high-level of offsets.

Air France's partnership with GoodPlanet finances the construction of biogas storage reservoirs in China and the recycling of organic waste into compost for agriculture in Madagascar. The Gold Standard CO_2 offsetting through KLM's CO_2ZERO program and the launch of the KLM BioFuel program for corporate customers enables KLM customers to take part in CO_2 emission saving and contribute, on a voluntary basis, to creating the market for sustainable bio-kerosene.

4.5.5 Protecting biodiversity

Measures to protect biodiversity by reducing deleterious impacts on the biological equilibrium, natural habitats and protected plant species

The impact of air transportation on biodiversity is linked to the effects of climate change induced by the CO_2 emissions it generates. The choice of products for inflight catering also has an impact on biodiversity.

Since 2008, Air France has been involved in a vast project to combat deforestation in Madagascar in partnership with the GoodPlanet Foundation and the WWF. Covering more than 500,000 hectares of forestry, this program aims to reduce the current level of deforestation, thereby preserving the potential storage of some 35 million tons of carbon.

With more than €5 million invested in the program and over 60 people employed by partners, the multiple aims include:

- developing new protected areas and preserving biodiversity;
- replanting and restoring depleted forestry;
- training local communities in the development of new agricultural methods and improved land management.

After five years of activity, the program is posting very positive results:

- 470,000 hectares of new protected areas have been created, aimed at forestry and biodiversity conservation;
- 25,000 hectares have been restored or reforested;
- 34,000 families are now aware of sustainable alternatives to slash and burn agriculture.

Furthermore, the project has helped to advance the scientific methods enabling the measurement of forest carbon stocks in Madagascar.

For its part, KLM is supporting three nature preservation programs within the framework of its partnership with WWF-Netherlands: the Coral Triangle in Indonesia, the Bonaire sea turtles and a reforestation program in Brazil which has since been successfully finalized. The program contributes to sustaining the environment and habitat of the Amazon. For example, in the Acre-Purus area, 1,239 families joined the state certification scheme. There was a 29% reduction in deforestation versus the previous year and the number of fire spots registered fell by 5.5%.

In 2013, KLM continued its participation in the Inspirational Programme on Ecosystems and inventoried options to include biodiversity in its Climate Action Plan.

The investment in these projects on advancing knowledge and improving conservation and biodiversity also contributes to understanding the issues surrounding alternative sustainable fuel production. Some research claims that certain types of sustainable alternative fuels can have a negative impact on biodiversity. The Air France-KLM group is committed to ensuring the use of biofuels with the least impact on the food chain, biodiversity and local populations.

A commitment to responsible catering

Air France and KLM serve a total of 85 million meals per year and, given the quantity of food products required for their production, the Group's choices can have an impact on biodiversity.

For their catering procurement, Air France and Servair prioritize local, seasonal products that are also responsible in that they guarantee animal rearing and food standards, are organic and contain no palm oil.

In line with KLM's ambition to remain a front-runner in sustainable airline catering, the airline is striving to achieve 100% sustainable inflight catering products, with a first step of 100% sustainable catering out of Amsterdam in 2020 by:

- responsible product choices;
- reducing packaging materials;
- reducing the energy required for production and transportation;
- attention to animal welfare.

KLM's sustainable catering policy focuses primarily on the preservation of biodiversity in production areas but also animal welfare. Emissions from transportation and packaging waste are also taken into account. This policy is developed within the framework of the partnership with WWF-Netherlands.

In view of their impact on biodiversity, particular attention is paid to the production of fish, palm oil and soy. To this end, KLM is a member of the Responsible Soy (RTRS) and Sustainable Palm Oil (RSPO) Round Tables and offers certified products on board.

Since 2009, KLM has targeted the introduction of at least 15 substainable catering products on board each year. On board currently, KLM is offering milk produced in the Netherlands by a supplier who guarantees animal welfare and has developed an animal food program based on responsible soy. The packaging is FSC (Forest Stewardship Council) certified, meaning that the cardboard originates from responsibly managed forests.

A number of products that are labeled, local and respectful of animal well-being are served on board like MSC-certified fish, eggs and chicken. KLM reaffirmed its commitment to responsible catering through a long-term partnership with a Dutch beef producer which guarantees rearing conditions and uses no additional feed or growth supplements. Lastly, UTZ-certified coffee is served on all KLM flights and in its administrative offices.

4.6 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Since 2013, and in accordance with the provisions of Article L.225-102-1 of the French Commercial Code, it is has been the responsibility of our Independent Third-party Body to:

- attest that the required CSR Information appears in the Management Report and that the exclusion of any information is explained in accordance with paragraph 3 of Article R.225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information)[(1)].

Furthermore, fuel consumption and the related CO_2 emissions for air operations have been verified with the highest level of assurance, reasonable assurance (indicated by the symbols √) since 2007-08.

4.6.1 Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the Air France commercial flights operated by Air France and its subsidiaries HOP!, CityJet and Transavia;
- all the KLM commercial flights operated by KLM and its subsidiary KLM Cityhopper (KLC). The flights operated by KLM's Transavia and Martinair subsidiaries are also included, except for the indicators for Noise energy and the low altitude emissions of HC, NO_x and SO_2.

For the ground operations, the consolidation scope for the environmental reporting is unchanged on last year and covers 100% of the sites in France and the Netherlands. The international outstations are not taken into account.

- Air France consolidated subsidiaries are: HOP!, CRMA, Sodexi, BlueLink and Servair and its subsidiaries (only the activities in France). Transavia France and CityJet are not included in the reporting scope.
- Furthermore, for Air France, the indicators in the domestic outstations are not reported when there is no detail available on the fixed charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data.
- KLM consolidated subsidiaries are KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia and Martinair.

4.6.2 Reporting tools

The environmental indicators are assembled at local level via two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, which are available, respectively, at each Air France and KLM subsidiary.

The reliability of the reporting process is supported by definitions of each indicator and user guides for contributors available in both French and English. Consistency tests have also been implemented.

The consolidation of the Air France-KLM group's environmental data is carried out by the Air France Environment department.

4.6.3 Details and methodology, comments on variations

At Air France-KLM group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document entitled the Environment Instruction Memo, which is updated annually. The modalities for the assembly of the data, calculation methodologies and consolidation are defined in procedures which are specific to Air France and KLM, and which are harmonized whenever possible.

Within the framework of an approach based on continuous improvement, the methodologies used for some performance indicators are constantly being improved and, notably, the precision of their definitions. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year is estimated based on the value reported for the previous year.

The reporting period for the Group's environmental data is set at a rolling twelve months from October 1 N-1 until September 30 N.

(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.

4.6.4 Flight operations

CO_2 emissions

The Air France group's CO_2 emissions decreased slightly between 2012 and 2013, in line with activity.

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), so comparison is not meaningful.

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.

For the KLM group, the increase is due to the rise in the average sulphur content of the fuel used. The same is true for the Air France group.

NO_x and HC low altitude emissions (LTO)

The methodology used for the calculation of low altitude emissions, i.e. below 3,000 feet, is common to Air France and KLM. It is based on the LTO (Landing-TakeOff) cycle and on engine data communicated by the ICAO[1]. The taxiing time taken into account is the actual taxiing time, which is more precise than the standard values recommended by the ICAO methodology. Note that, since the actual taxiing time is not available for Transavia France, the standard ICAO values have been used for this subsidiary.

Note: following a review of the materiality of the reported indicators in the light of the Grenelle II legislation, it was decided to no longer report total NO_x and HC emissions but to concentrate on low altitude emissions impacting mostly air pollution around airports.

As a result, starting from 2012, Air France-KLM has reported only NO_x and HC low altitude emissions.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 in 2013) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded plane on landing whenever a flight is aborted. Each operation is effected in close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 2,000 meters).

For the KLM group, from 2013 the in-flight fuel jettison data includes Martinair's operations.

Total noise energy

This indicator was established by the Air France-KLM group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[2]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

The noise energy calculation for the KLM group excludes aircraft operated by Martinair and Transavia.

The trends in noise energy and traffic are determined by comparing total noise energy calculated for the calendar year with that of 2000.

4.6.5 Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included.

Consumption of other energies

The indicator includes the different sources of energy consumed:

- 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 characteristics of gas specific to France and the Netherlands;
- superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- jet fuel A1 for testing engines;
- Domestic Fuel Oil (DFO) for power generators;
- off-road diesel fuel for a portion of the Air France runway equipment;
- petrol and diesel fuel for Air France and Servair vehicles and Air France and KLM ground support equipment.

The increase seen between 2012 and 2013 for the Air France group is mainly explained by the use of a new test bench for very big engines. For the KLM group, the increase is mainly explained by natural gas consumption which was higher in winter 2012/2013.

Note that when source data is not available for the energy and water indicators (invoices for example), the related consumption is estimated, based on historical data.

(1) International Civil Aviation Organization.

(2) Direction Générale de l'Aviation Civile.

Emissions from ground operations (CO_2, SO_2 and NO_x)

CO_2, SO_2 and NO_x emissions and their trends are linked to the energy consumption listed above.

For Air France, the NO_x emissions related to engine testing are calculated based on a methodology similar to the one used for flight operations which reflects the actual testing conditions.

The decrease observed for the Air France's group on NO_x is explained by the change in the methodology for runway equipment emissions. This year the assembly of fuel consumption data from invoices was carried out over the full scope, contrary to the previous years when these figures had been estimated.

The decrease in SO_2 emissions is due to the reduction in fuel oil consumption.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used. VOCs contained in disposed waste are excluded.

For the Air France group, the decrease between 2012 and 2013 is mainly due to fewer aircraft being painted in 2013.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling.

Hazardous industrial waste

When the quantity of hazardous waste has not been communicated by service providers at the end of the reporting campaign, the quantity mentioned in the specification slip is taken into account. This is, however, estimated to be marginal.

The reprocessing channels taken into account are those in the European regulation.

Effluents

The various Air France and KLM sites are required to comply with the French and Dutch legislation on effluents. Each relevant site has regulatory limits on effluents and the frequency of measurement.

The reported data reflects the number of times a regulatory threshold is exceeded relative to the number of measurements for each type of effluent.

For 2013 the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements, were, respectively:

- for Air France, 1/10 for Nitrogen compounds, 4/61 for Phosphorus compounds and 8/723 for metals;
- for KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 0/280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.7 Environmental indicators

4.7.1 Air Operations

Environmental indicators		Unit	Air France-KLM group 2011	2012	2013	13/12
Consumption						
Consumption of raw materials: fuel √		ktonnes	8,950	8,956	**8,755**	-2.2%
Emissions						
Greenhouse gas emissions	CO_2 √	ktonnes	28,193	28,210	**27,576**	-2.2%
Emissions of substances contributing to acidification and eutrophication	NO_x low altitude (< 3,000 ft)	ktonnes	9.0	9.2	**9.5**	3.3%
	SO_2	ktonnes	10.4	9.9	**11.8**	19.2%
	SO_2 low altitude (< 3,000 feet)	ktonnes	0.8	0.7	**0.8**	14.3%
In-flight fuel jettison	Occurences of fuel jettison	number	29	41	**33**	-19.5%
	Fuel jettisoned	tonnes	1,152	1,839	**1,104**	-40.0%
Other emissions	HC low altitude (< 3,000 feet)	ktonnes	0.8	0.8	**0.8**	0.0%
Noise impact						
Global noise energy indicator		10^{12} kJ	1.65	1.69	**1.62**	-4.1%

√ *Figures verified by KPMG in 2013 with a reasonable level of assurance.*

(1) Air France group scope: all flights under AF code operated by Air France, HOP!, CityJet, and flights operated by Transavia France.

(2) KLM group scope: all flights operated by KLM, KLM Cityhopper and Martinair. Transavia is included for fuel consumption, CO_2 and SO_2 emissions (exception of low altitude emissions of HC, NO_x and SO_2). Martinair and Transavia are excluded for the global noise energy indicator.

	Air France group(1)				KLM group(2)			
	2011	2012	**2013**	13/12	2011	2012	**2013**	13/12
	5,047	5,078	**4,918**	-3.2%	3,903	3,878	**3,837**	-1.1%
	15,899	15,997	**15,491**	-3.2%	12,294	12,213	**12,085**	-1.0%
	6.2	6.3	**6.2**	-1.6%	2.8	2.9	**3.3**	13.8%
	7.2	6.4	**6.8**	6.3%	3.2	3.5	**5.0**	42.9%
	0.6	0.5	**0.5**	-	0.2	0.2	**0.3**	50.0%
	23	27	**23**	-14.8%	6	14	**10**	-28.6%
	945	1,210	**758**	-37.4%	207	629	**346**	-45.0%
	0.6	0.6	**0.6**	-	0.2	0.2	**0.2**	-
	1.11	1.16	**1.12**	-3.4%	0.54	0.53	**0.50**	-5.7%

4.7.2 Ground Operations

Environmental indicators		Unit	Air France-KLM group 2011	2012	2013	13/12
Consumption						
Water consumption		000 m^3	886	812	**825**	1.6%
Electricity consumption		MWh	408,408	392,223	**383,605**	-2.2%
Other energies consumption		MWh	543,749	513,562	**534,375**	4.1%
Emissions						
Greenhouse gas emissions	CO_2	tonnes	89,841	85,680	**88,885**	3.7%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	129	146	**135**	-7.5%
	Emissions of HC	tonnes	167	145	**137**	-5.5%
Emissions of substances contributing to acidification and eutrophication	NO_X	tonnes	810	773	**675**	-12.7%
	SO_2	tonnes	19.6	16.1	**15.8**	-1.9%
Waste						
Waste production	Quantity of non-hazardous industrial waste	tonnes	58,964	57,060	**54,966**	-3.7%
	Quantity of hazardous industrial waste	tonnes	7,000	7,009	**7,073**	0.9%
	% of hazardous industrial waste recovered	%	45%	58%	**61%**	+3pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	100%	100%	**98%**	-2pts
	Phosphorus compounds	%	100%	99%	**97%**	-2pts
	Metals [(3)]	%	99%	98%	**99%**	+1pt

(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi, CRMA and BlueLink. CityJet and Transavia France are not included.
(2) KLM and its subsidiaries: KLM CityHopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Martinair and Transavia Netherlands.
(3) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

Air France group[1]				KLM group[2]			
2011	2012	2013	13/12	2011	2012	2013	13/12
694	624	**640**	2.6%	192	188	**185**	-1.6%
309,655	293,406	**288,218**	-1.8%	98,753	98,817	**95,387**	-3.5%
316,650	295,757	**304,890**	3.1%	227,099	217,805	**229,485**	5.4%
38,975	36,841	**37,782**	2.6%	50,866	48,839	**51,103**	4.6%
90	102	**87**	-14.7%	39	44	**48**	9.1%
108	86	**76**	-11.6%	59	59	**61**	3.4%
541	508	**409**	-19.5%	269	265	**266**	0.4%
16.6	12.9	**11.4**	-11.6%	3.0	3.2	**4.4**	37.5%
42,155	40,236	**38,185**	-5.1%	16,809	16,824	**16,781**	-0.3%
4,748	4,474	**4,420**	-1.2%	2,252	2,535	**2,653**	4.7%
28%	43%	**44%**	+1pt	81%	85%	**89%**	+4.7pts
100%	100%	**90%**	-10pts	100%	100%	**100%**	0pt
100%	98%	**93%**	-5pts	100%	100%	**100%**	0pt
99.5%	98%	**99%**	+1pt	98.5%	100%	**100%**	0pt

4.8 Report of one of the Statutory Auditors, as designated independent third-party body, on the consolidated social, environmental and societal information provided in the report of the Board of Directors

This report refers to the consolidated social, environmental and societal information found in chapter 4 of the 2013 Management Report of Air France-KLM Group that has been approved by the Board of Directors on the 19th of February 2014. This information can also be found in chapter 4 of this Registration Document.

Year ended 31 December 2013

To the shareholders*,

In our capacity as Statutory Auditor of Air France-KLM, appointed as Independent Third Party, whose certification request having been approved by the COFRAC, we hereby present to you our report on the consolidated environmental, labour and social information (hereinafter the "CSR Information") for the year ended December 31, 2013, presented in the management report. This report has been prepared in accordance with Article L.225-102-1 of the French Commercial Code.

Responsibility of the company

The Board of Directors is responsible for establishing a report that includes the CSR Information specified in Article R. 225-105-1 of the French Commercial Code, prepared in accordance with the guidelines used by the company (the "Guidelines"), summarized in the report of the Board of Directors in chapter 4.2 for social information and chapter 4.6 for environmental information, and available on request from Air France-KLM's Sustainable Development and Environment division.

Independence and quality control

Our independence is defined by regulations, the Code of Ethics for our profession and the provisions of Article L. 822-11 of the French Commercial Code. We have also set up a quality control system that includes policies and documented procedures to ensure compliance with rules of ethics, professional standards and applicable laws and regulations.

Responsibility of the Statutory Auditor

On the basis of our work, our responsibility is to:

- attest that the required CSR Information appears in the report of the Board of Directors or that the exclusion of any information is explained in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information);
- express, at the Group's request, a reasonable assurance on the fact that the indicators 'Fuel consumption' and 'CO_2 emissions' relating to air operations, identified by the symbol √ were free from material misstatement.

Our work was performed by a team of five people between October 2013 and February 2014, for approximately 13 weeks. The work was performed by our corporate responsibility experts.

We conducted the procedures below in accordance with professional standards applicable in France, with the order dated May 13, 2013 establishing the manner in which independent third-party bodies must carry out their work, and concerning our opinion on the fair presentation of CSR Information and the reasonable assurance with ISAE 3000[1].

(1) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

* *This is a free translation into English of the original report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, professional guidelines applicable in France.*

Attestation of completeness of CSR Information

On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its societal commitments and, if applicable, any initiatives or programmes it has implemented as a result.

We compared the CSR Information included in the report of the Board of Directors with the list provided in Article R. 225-105-1 of the French Commercial Code.

If certain information was excluded, we verified that an explanation was provided, in accordance with Article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope, i.e. the company and its subsidiaries as defined in Article L. 233-1 and the companies it controls, as defined in Article L. 233-3 of the French Commercial Code, subject to the limitations described in the note on the methods used, that can be found in chapter 4.2 for social information and chapter 4.6 for environmental information of the report of the Board of Directors.

Based on these procedures and taking into account the limitations mentioned above, we attest that the report of the Board of Directors includes the required CSR Information.

Opinion on the fair presentation of CSR Information

Nature and scope of our procedures

We conducted five interviews with the people responsible for preparing CSR Information in departments in charge of data collection processes and, where appropriate, those responsible for internal control procedures and risk management, to:

- assess the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, taking into account best practices in the industry, if applicable;
- verify that a data collection, compilation, processing and quality control process has been implemented to ensure the completeness and consistency of the Information and review the internal control and risk management procedures involved in the preparation of the CSR Information.

We determined the nature and scope of tests and quality control processes, based on the type and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impacts of its business activities, its sustainable development strategy, and industry best practices.

For the CSR information we considered to be most important (listed in the tables below):

- at the parent company level, we consulted documentary sources and conducted interviews to corroborate qualitative information (organisation, policies, actions, etc.), verified that this information was coherent and consistent with the rest of the information in the report of the Board of Directors, implemented analytical procedures, verified the calculation and the consolidation of data on a sample basis and we verified its consistency with the other information in the report of the Board of Directors;
- at the entity level, for a representative sample of entities selected(1) on the basis of their business activity, contribution to consolidated indicators, where they operate and a risk analysis, we conducted interviews to verify the proper application of procedures and performed substantive tests using sampling techniques, to verify calculations and reconcile data with supporting documents. The selected sample accounted for 78% of the workforce and between 51% and 100% of the Group's quantitative environmental information.

(1) **Environment:** *Air France Industrial division (Orly and Villeneuve-le-Roi), Air France ground vehicles & equipment, Servair group and subsidiaries (Servair 1, Acna Roissy), KLM Schiphol and headquarters* ***for ground operations.***
Air France and subsidiaries CityJet, Brit Air, Régional and Transavia France, KLM, KLM CityHopper, Transavia and Martinair ***for air operations.***
Social: *Air France in France, KLM in the Netherlands and Cobalt Ground Solutions in England.*

	Level of assurance
Social indicators	
Total staff at 31/12 (permanent contract and fixed-term contract)	√ √
Distribution of employees by age and geographical area	√ √
Percentage of women at 31/12	√ √
Percentage of part-time employees	√ √
Recruitments – permanent contract	√ √
Recruitments – fixed-term contract	√ √
Redundancies (incl. Economic)	√ √
Absenteeism due to illness	√ √
Absenteeism due to work accidents	√ √
Absenteeism due to maternity leave	√ √
Frequency rate of workplace accidents	√ √
Severity rate of workplace accidents	√ √
Total workplace accidents	√ √
Total training costs	√ √
Number of training hours by employee	√ √
Total staff with disabilities	√ √
Total staff with disabilities recruited during year	√ √
Collective Agreements signed during the year	√ √
Payroll indicator	√ √
Environmental indicators	
Fuel consumption and CO_2 emissions	√
Global noise energy indicator	√ √
NO_x, HC and SO_2 low altitude emissions	√ √
Occurrences and quantity of fuel jettison	√ √
Water consumption	√ √
Electricity consumption	√ √
Other energies consumption (super-heated water, iced water for air conditioning, DFO, natural gas)	√ √
Quantity of non-hazardous industrial waste	√ √
Quantity of hazardous industrial waste	√ √
Percentage of hazardous industrial waste recovered	√ √
VOC emissions	√ √
CO_2 ground emissions	√ √
SO_2 ground emissions	√ √
NO_x ground emissions	√ √
Total compliance rate of effluents with regulatory limits	√ √

√ *Reasonable level of assurance.*
√ √ *Moderate level of assurance.*

Qualitative Information	
Social aspects	Management of overstaffing Workplace dialogue Diversity and equal opportunity policy Disability policy
Environmental aspects	Global warming Waste management and recovery policy Reduction policy for ground emissions
Societal aspects	Dialogue with stakeholders Contributing to regional economy Partnership and sponsorship initiatives

For the rest of the CSR information, we assessed whether it was consistent with our knowledge of the company.

Lastly, we assessed the adequacy of the justifications provided to explain the entire or partial exclusion of certain information.

We consider that the sampling methods and sizes of the samples used, based on our professional judgment, enable us to form a conclusion of limited assurance; a higher level of assurance would have required more extensive work. Due to the use of sampling techniques and other inherent limitations of the functioning of any information or internal control system, the risk of non-detection of a material misstatement in the CSR Information cannot be completely eliminated.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information has been presented fairly, in all material aspects, in accordance with the Guidelines.

Reasonable assurance on a selection of CSR information

Nature and scope of our procedures

Concerning the information selected by the Group and identified by the sign √, we conducted the same work as the one described on paragraph 2 hereinabove for the CSR information considered as the most important but in a more extensive way, particularly concerning the number of tests.

The Entities selected represent 100% of the consolidated environmental Data identified by the sign √.

In our opinion, our work allows us to express a reasonable assurance on the information selected by the Group and identified by the sign √.

Conclusion

In our opinion, the indicators identified by the symbol √ in the 2013 report of the Board of Directors have been prepared, in all material aspects, in accordance with the above-mentioned Protocol.

Paris La Défense, February 24, 2014

KPMG Audit

Department of KPMG SA

Valérie Besson
Partner

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5

Financial Report

5.1 Investments and financing

During the 2013 financial year, excluding discontinued operations, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €1,186 million. The €245 million proceeds on disposals of tangible and intangible assets comprised €122 million from straightforward disposals (€110 million in 2012) and €123 million from sale and lease-back transactions (€632 million in 2012). Within the framework of Transform 2015, the Group maintained strict control over investments before sale and lease-back transactions; investments thus amounted to €1,064 million, a €466 million reduction relative to 2012. After sale and lease-back transactions, net investments stood at €941 million, slightly higher than in 2012. With net cash flow from operating activities amounting to €1,479 million, the Group generated operating free cash flow of €538 million (*See also Section 5.4 – Key financial indicators, page* 159).

At December 31, 2013, the Group's net cash position amounted to €4.23 billion, including €126 million of investments between three months and one year, €432 million of cash pledges and €154 million of bond deposits. In addition, the Group had credit facilities of €1.8 billion subscribed by Air France, KLM and Air France-KLM, fully available at December 31, 2013 (*See also Section 3 – Liquidity risks, page* 93).

Net debt stood at €5.35 billlion (€5.97 billion at December 31, 2012). The detailed net debt calculation can be found in section 5.4, page 160.

5.1.1 Investments

(In € million)	2013	2012
Acquisition of intangible assets	(166)	(146)
Investment in flight equipment	(906)	(1,185)
Other property, plant and equipment	(114)	(134)
Acquisitions of subsidiaries, of shares in non-controlled entities	(27)	(39)
Loss of control over subsidiaries, disposal of shares in non-controlled entities (of which Amadeus)	27	467
Proceeds on disposal of property, plant and equipment and intangible assets	245	742
Dividends received	17	24
Net decrease (increase) in investments between 3 months and 1 year	5	30
Net cash flow used in investing activities of discontinued operations	(5)	(4)
Net cash flow used in investing activities	**(924)**	**(245)**

Investment in tangible and intangible assets amounted to €1,186 million during the 2013 financial year (€1,465 million in 2012), of which €906 million in flight equipment. Investment in intangible assets amounted to €166 million and related to the purchase of software and capitalized IT development. Other investment in tangible assets mostly included the acquisition of industrial equipment for the flight operations, maintenance and IT.

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €245 million (€742 million at December 31, 2012) including €122 million on the sale of flight equipment (€110 million in 2012) and €123 million of proceeds on sale and lease-back transactions (€632 million in 2012).

Acquisitions of controlling interests in subsidiaries and equity interests amounted to €27 million, versus €39 million in 2012. In 2012, the Group sold 50% of its shareholding in Amadeus, generating cash proceeds of €466 million.

In total, including financial investment and disposals, dividends and discontinued operations, the net cash flow used in investing activities amounted to €924 million in 2013. In 2012, this flow had benefited from sale and lease-back transactions and the cash proceeds received on the sale of 50% of the Amadeus shareholding.

5.1.2 Financing

(In € million)	2013	2012
Capital increase	6	-
Acquisition/sale of equity interests without a change of control	-	7
Issuance of new debt	1,887	1,780
Repayment on debt	(1,480)	(847)
Repayment of debt on finance lease liabilities	(588)	(514)
New loans	(136)	(90)
Repayment on loans	157	100
Dividends paid	(4)	(2)
Net cash flow from financing activities	**(158)**	**434**

Excluding commercial paper, the financing put in place during 2013 mostly related to:

- An issue of bonds convertible and/or exchangeable into new or existing shares (OCEANE) raising €550 million in March 2013 (*see also section 6.3.2 page* **275**)
- The arrangement by Air France of financing for four aircraft and one building;
- The arrangement by KLM of financing on five aircraft.

In parallel, the Group repaid €1,480 million of borrowings (€847 million in 2012) and €588 million of debt relating to finance lease liabilities (€514 million in 2012).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

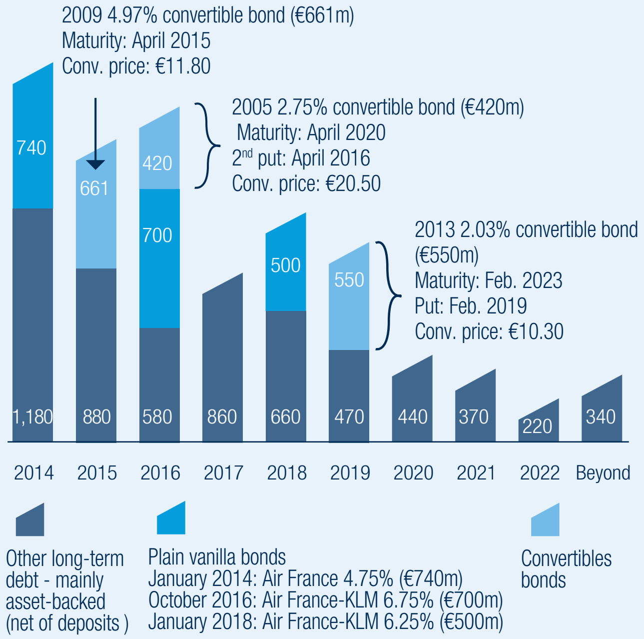
The Group's gross debt stood at €10.7 billion at December 31, 2013, of which €5.76 billion is guaranteed by pledged or mortgaged assets amounting to €8.85 billion, representing 59% of the net book value of the relevant assets (*See also Note 37.1 to the consolidated financial statements, page* **239**). After hedging, 69% of the gross debt is at fixed rates and 87% is denominated in euros. The average cost of the debt is 3.4%. (*See also Section 3 – Market risks and their management, page* **91**).

The structure of the debt is as follows:

- market financing (OCÉANEs, bonds and perpetual subordinated loan stock): €3.97 billion;
- capital lease commitments: €4.41 billion;
- other borrowings including bank debt and accrued interest: €2.36 billion.

Reimbursement profile

The debt reimbursement maturities are progressive over time; despite a contraction in bank balance sheets, the aircraft asset financing market remains open for the amounts envisaged over the coming years. The Group does, however, monitor developments in this area closely and continues to diversify the sources of its financing, notably with non-European banks and by re-financing assets other than aircraft.



In € millions, net of deposits on financial leases and excluding KLM perpetual debt (€550m)

5.1.4 Future investment

In 2014, within the framework of the Transform 2015 plan, the Group intends to limit its investment net of disposals to the €1.3 billion to €1.4 billion level.

5.2 Property, plant and equipment

5.2.1 Property, plant and equipment of the Air France-KLM Group

Net book value *(In € million)*	December 31, 2013	December 31, 2012
Flight equipment	**9,391**	**10,048**
Other property, plant and equipment		
Land and buildings	1,160	1,219
Equipment and machinery	382	430
Assets in progress	95	55
Others	182	228
Total other property, plant and equipment	**1,819**	**1,932**

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in Note 36 to the consolidated financial statements. After the fleet, land and buildings is the second largest category of tangible assets for the Air France-KLM Group and is the only item to be described in detail below.

5.2.2 The Air France-KLM Group's land and buildings

➤ Breakdown of surface area by business unit

Approximate surface area in square meters at December 31	Air France Group		KLM Group		Air France-KLM Group	
	2013	2012	2013	2012	2013	2012
Passenger	458,016	425,519	150,893	135,203	608,909	557,722
Cargo	263,686	257,829	100,891	98,966	364,577	356,795
Maintenance	621,492	637,994	299,045	298,076	920,537	936,070
Support	435,606	453,543	100,000	109,334	535,606	562,877
Total	**1,778,800**	**1,771,885**	**650,830**	**641,579**	**2,429,630**	**2,413,464**

The Air France buildings represent 83% of the Air France Group's property, plant and equipment, of which 87% is situated in continental France.

In 2013, the main developments were the leasing of the H3 hangar at Roissy-Charles de Gaulle (16,900m^2) to begin the transfer of activity from Le Bourget to Charles de Gaulle and the restitution of around 2,000m^2 at the Montreuil site. The "Aerostructure" operation (18,000m^2) will be launched in 2014 for delivery in 2015.

Financing

	Air France Group	KLM Group	Total
Fully owned	36%	86%	50%
Finance lease	21%	-	16%
Operating lease	42%	14%	35%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.59 billion at December 31, 2013 *(See also Note 35.2 to the consolidated financial statements, page* 237*)*.

Most of the Air France Group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Only 8% of the fully owned or finance leased premises belong to the real estate portfolio controlled by Air France.

Geographical breakdown of the principal sites

Sites	Approximate surface area in sq. mtrs	Type of financing
Air France Group		
Roissy-CDG airport	700,455	Ownership, finance lease, rental
Orly airport	342,503	Ownership, finance lease, rental
Toulouse	70,471	Ownership, finance lease, rental
Le Bourget	37,291	Rental
Montreuil	20,195	Rental
Valbonne	17,293	Ownership
KLM Group		
Schiphol airport	40,318	Operating lease
Schiphol Centrum	136,725	Ownership
Schiphol Oost	378,276	Ownership, operating lease
Schiphol Rijk	16,404	Ownership, operating lease
Schiphol Noord	22,041	Ownership
Amstelveen	29,577	Ownership

➤ Main rental contracts

Sites	Approximate surface area in sq. mtrs	Type of financing
Air France Group		
Commercial head office, Montreuil	20,195	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM Group		
Schiphol	40,318	Commercial lease

5.2.3 Assets in progress

The Air France-KLM Group currently has no outstanding commitments to large-scale construction projects.

5.3 Comments on the consolidated financial statements

5.3.1 Consolidated results for the financial year to December 31, 2013

Changes in scope during the 2013 financial year

On February 28, 2013, within the framework of the establishment of *HOP!*, the Group took control of the company Airlinair. On May 15, 2013, the Group sold its Italian subsidiary Servair Air Chef, specialized in airline catering. Lastly, since December 31, 2013, following the Air France-KLM Group's decision not to subscribe to the capital increase in October 2013, the Alitalia entity has no longer been accounted by the equity method. Air France-KLM still holds 7.08% of the Alitalia share capital.

Restatement of the 2012 financial statements

Since January 1, 2013, IAS 19 Revised "Employee Benefits", published by the IASB in June 2011, has been in force. The consolidated financial statements to December 31, 2012 have been restated to facilitate comparison.

On December 20, 2013, Air France received a firm offer from Intro Aviation GmbH to purchase CityJet and its VLM subsidiary. The planned disposal of these companies has been treated as a discontinued operation and, as a result, the 2012 financial statements have been restated.

Scope at December 31, 2013

The consolidation scope comprised 162 fully consolidated companies and 41 companies consolidated by the equity method. The two main subsidiaries, Air France and KLM, represented 91% of revenues and 73% of the balance sheet. The other subsidiaries were principally involved in air transportation (*HOP!*, KLM Cityhopper and Martinair), maintenance, catering (Servair Group and KLM Catering Services) and aircraft financing.

(In € million)	2013	2012*	Change
Revenues	25,520	25,423	+0.4%
EBITDA**	1,855	1,394	+461
EBITDAR***	2,768	2,343	+425
Income/(loss) from current operations	130	(336)	+466
Income/(loss) from operating activities	(227)	(731)	+504
Net income/(loss) from continuing operations	(1,696)	(1,023)	(673)
Net income/(loss) from discontinued operations	(122)	(197)	+75
Net income/(loss), Group share	(1,827)	(1,225)	(602)
Basic earnings/(loss) per share, Group *(In €)*	(6.17)	(4.14)	(2.03)

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

** *Result from current operations before amortization, depreciation and provisions. See section 5.4.*

*** *Result from current operations before amortization, depreciation, provisions and operating leases. See section 5.4.*

Revenues

Consolidated revenues for the period amounted to €25.52 billion, a 2.3% increase on a constant currency basis (+0.4% reported). 2013 was characterized by the persistent economic slowdown in Europe. From a capacity perspective, Air France-KLM pursued its policy of strict discipline (an increase of 1.6%) and the industry as a whole remained relatively prudent. For its part, air cargo was affected by the weakness in global trade and the situation of structural overcapacity in the industry. Revenues in the passenger business rose by 0.7% and those of the maintenance business were 11.8% higher. Cargo business revenues declined by 7.9%, while revenues from the other businesses were up by 5.6%.

Operating expenses

Operating expenses declined by 1.4% to €25.39 billion. On a constant currency basis, operating expenses were stable despite inflation and capacity increases. Total operating expenses declined by 1.7% to €16.00 billion versus €16.27 billion over the previous twelve months. Excluding fuel, external expenses increased by 1.2% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(In € million)	2013	2012*	% Ch.
Aircraft fuel	6,897	7,278	(5.2)
Chartering costs	455	551	(17.4)
Aircraft operating lease costs	913	949	(3.8)
Landing fees and en route charges	1,839	1,832	0.4
Catering	589	591	(0.3)
Handling charges and other operating costs	1,405	1,368	2.7
Aircraft maintenance costs	1,303	1,131	15.2
Commercial and distribution costs	852	866	(1.6)
Other external expenses	1,744	1,706	2.2
Total	**15,997**	**16,272**	**(1.7)**

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

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year declined by 5.2% on a constant currency basis and by 2.2% reported. This fall was the combined result of a 1.8% price effect and a volume effect of 0.4%.
- **chartering costs** incurred through leasing aircraft capacity from other airlines fell by €96 million relative to the previous year under the effect of a reduction in the capacity purchased and contract renegotiation.
- **aircraft operating lease costs** declined by 3.8% under the influence of the euro/dollar exchange rate and the renegotiation of contracts on expiry. On a constant currency basis, they fell by 0.9%.
- **landing fees and en route charges** relating to air navigation services and the use of airports rose by 2.0% on a constant currency basis, in line with activity.
- **catering costs** relating to services supplied on board aircraft were stable. These expenses comprise the expenses incurred for services provided on board the Air France-KLM Group's own aircraft and those incurred by its catering subsidiary for third-party customers.
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. They increased by 2.7% reported and by 4.3% on a constant currency basis.
- **aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. These costs increased by 15.2%, principally due to the growth in third-party sales which rose by 11.8% over the period.
- **commercial and distribution costs** declined by 1.6% on a constant currency basis and remained virtually unchanged on a reported basis (-0.3%), thanks notably to the growth in cheaper distribution channels (13% increase in internet sales).
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. They rose by 2.2% on a reported basis and by 3.0% on a constant currency basis.

Salaries and related costs amounted to €7.48 billion versus €7.66 billion in 2012, i.e. a fall of 2.4%. The average headcount declined (-3.5%) to 96,417 employees.

Taxes other than income taxes stood at €186 million versus €184 million at December 31, 2012, up by 1.1%.

Amortization totalled €1.57 billion versus €1.58 billion at December 31, 2012.

Net allocations to depreciation and provisions amounted to €159 million versus €154 million during the previous year.

The unit cost per EASK (Equivalent Available Seat-Kilometer) was reduced by 3.8%, the combined result of a 0.1% increase in pension expense, a 0.6% fall due to the decline in fuel price, a 1.3% decline on currency variation and a 2.0% net reduction in costs.

Income/(loss) from current operations

The **result from current operations** was positive at €130 million (versus a loss of €336 million at December 31, 2012).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

(In € million)	2013		2012*	
	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger	20,112	174	19,976	(260)
Cargo	2,816	(202)	3,057	(230)
Maintenance	1,225	159	1,096	140
Others	1,367	(1)	1,294	14
Total	**25,520**	**130**	**25,423**	**(336)**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Income/(loss) from operating activities

The result from operating activities was a €227 million loss versus a loss of €731 million at December 31, 2012.

Over the financial year ended December 31, 2013, the result from operating activities included, notably, €200 million of restructuring charges linked to the voluntary departure plans and €111 million in respect of fleet restructuring and onerous lease contracts.

Lastly, the Group recorded an exceptional tax of €7 million on salaries in the Netherlands linked to the economic crisis in Europe, an additional €14 million provision relating to the outstanding cargo anti-trust proceedings and an €18 million provision following disputes with flight personnel.

Net cost of financial debt

The net cost of financial debt increased to €404 million versus €353 million during the previous financial year. This increase was largely due to a €45 million rise in the cost of gross debt.

Other financial income and expenses

Other net financial income amounted to a positive €103 million at December 31, 2013 versus €144 million at December 31, 2012.

The breakdown was as follows:

- a currency gain of €74 million (versus €64 million at December 31, 2012);
- a €57 million positive variation in the fair value of financial assets and liabilities (€63 million at December 31, 2012) mostly due to the €84 million positive impact of the fuel hedges and the €30 million negative impact from currency hedges;
- allocations to provisions of €30 million versus a €15 million write-back at December 31, 2012.

Net income/(loss) – Group share

Income taxes amounted to €957 million versus €17 million at December 31, 2012.

In France, tax losses can be carried forward for an unlimited period. The 2011 and 2012 Finance Acts did, however, cap the amount of fiscal losses recoverable each year to 50% of the profit for the period above the first million euros. Although the period for recovering these fiscal losses against future profits has been extended within a context of prevailing economic crisis and a highly competitive global market, for reasons of prudence the Group decided to set an appropriate limit on the recovery horizon for the French fiscal scope to take into account potential changes in the fiscal environment and the increased volatility of the business. A provision of €937 million was therefore recorded at December 31, 2013.

In the Netherlands, tax losses can be carried forward over nine years, with no limit on the amount of fiscal loss recoverable each year.

Share of profits/(losses) from associates contributed a loss of €211 million at December 31, 2013 versus a negative contribution of €66 million in the previous year. This essentially comprised the share of Alitalia losses allocated to Air France-KLM and an impairment provision on Alitalia shares when the latter had been equity accounted in the Group's financial statements, amounting to a total of €202 million.

The **result from discontinued operations** was a negative €122 million at December 31, 2013 versus a negative €197 million during the previous financial year. This includes the result from the companies CityJet and VLM. At December 31, 2013, within the framework of the evaluation of these two companies, the result also includes an additional €77 million provision to reduce the net asset value for the CityJet and VLM entity to its expected sale price and a €25 million provision to cover a breach of contract and disputes concerning the payment of social security charges in France.

The net income/(loss), Group share stood at a loss of €1.83 billion at December 31, 2013 versus a loss of €1.23 billion at December 31, 2012. Adjusted for non-recurring items, the restated net loss amounted to €349 million, a marked improvement relative to 2012 (a loss of €696 million, see section 5.4, Key financial indicators, page 159).

The contributions to the net result by quarter were, respectively, €(630) million at March 31, 2013, €(163) million at June 30, 2013, €143 million at September 30, 2013 and €(1,177) million at December 31, 2013.

Basic earnings/(loss) per share, Group share, amounted to €(6.17) at December 31, 2013 versus €(4.14) at December 31, 2012.

5.3.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €1.19 billion over the financial year (€1.47 billion at December 31. 2012) of which €368 million of investment in the fleet, €407 million in maintenance, €137 million in components and €280 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and lease-back transactions amounted to €245 million versus €742 million at December 31, 2012.

During the financial year ended December 31, 2013, the Group renewed a car park lease with Aéroport de Paris. This contract was classified as a financial lease. A leasing contract on an A340 aircraft, which had been classified as a financial lease in 2012, was reclassified as an operating lease during the 2013 financial year. Neither the acquisition nor the debt attached to these two items had any impact in the cash flow statement.

Operating cash flow was positive to the tune of €1.48 billion (€851 million at December 31, 2012) given the €370 million positive change in working capital requirement.

At December 31, 2013, the Group had €4.23 billion of net cash, of which €3.68 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €5.35 billion at December 31, 2013 (€5.97 billion at December 31, 2012).

The application of IAS 19 Revised having introduced a potentially significant level of volatility in the Air France-KLM Group's stockholders' equity, the gearing ratio is not relevant and will no longer be published.

5.3.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2013.

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and its expenses mostly comprise financial communication expenses, Statutory Auditors' fees, the expenses linked to the compensation of company officers and the staff made available by Air France and KLM. At December 31, 2013, the operating result was thus negative to the tune of €7 million.

The net result was a €322 million loss, mainly due to the financial costs on the bond issues together with provisions on shares. No dividend was paid in respect of 2012.

Pursuant to the provisions of article 39-5 and article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, note that no amount was recognized during the financial year.

Pursuant to the provisions of article 39-4 and article 223 quater of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

At December 31, 2013, accounts payable stood at €11 million of which €5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At December 31, 2012, accounts payable stood at €25 million of which €3 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.3.4 Revision to IAS 19 Revised "Employee Benefits"

IAS 19 Revised "Employee Benefits" has been applicable since January 1, 2013.

The main principle of IAS 19 Revised is the removal, when a scheme leaves the 10% corridor, of the option enabling the amortization of actuarial gains and losses. These actuarial differences are now recognized directly in other comprehensive income. Pursuant to the standard, the application as of January 1, 2013 resulted in a:

- negative adjustment in stockholders' equity at December 31, 2012 amounting to €1.9 billion gross reduced by the tax effect, i.e. €1.3 billion net of tax (€1.5 billion gross reduced by the tax effect i.e. €1.1 billion net of tax in the opening stockholders' equity at January 1, 2012);
- adjustment in the 2012 result amounting to €(40) million gross reduced by the tax effect to €(33) million net of tax.

5.4 Key financial indicators

EBITDA

(In € million)	2013	2012*
Income/(loss) from current operations	130	(336)
Amortization	1,566	1,576
Depreciation and provisions	159	154
EBITDA	**1,855**	**1,394**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

In addition to the debt reduction objective, the Group is targeting an EBITDA improvement to in the region of €2.5 billion in 2014, subject to there being no reversal in current operating trends.

Adjusted operating result and adjusted operating margin

In accordance with generally accepted practice for analyzing the air transport sector, operating leases are capitalized at seven times for the capital employed and level of debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The outcome is an adjusted operating margin which, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

	2013	2012*
Income/(loss) from current operations *(in €m)*	130	(336)
Portion of operating leases corresponding to financial charges (34%) *(in €m)*	310	323
Adjusted income/(loss) from current operations *(in €m)*	**440**	**(13)**
Revenues *(in €m)*	25,520	25,423
Adjusted operating margin	**1.7%**	**(0.1%)**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Restated net income

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

	2013	2012*
Net income/(loss), Group share *(in €m)*	(1,827)	(1,225)
Net income/(loss) from discontinued operations *(in €m)*	122	197
Impairment of Alitalia shares *(in €m)*	119	-
Depreciation of deferred tax assets *(in €m)*	937	-
Change in fair value of financial assets and liabilities (derivatives) *(in €m)*	(57)	(63)
Non current income and expenses *(in €m)*	357	395
Restated net income/(loss), Group share *(in €m)*	**(349)**	**(696)**
Restated net income/(loss) per share, Group share *(in €)*	**(1.18)**	**(2.35)**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Net debt

For the calculation of net debt, the Group carries out two types of adjustment. Firstly, the deposits constituted during the implementation of aircraft finance lease transactions and charged to the balance of the debt when the option is exercised are deducted from debt. Similarly, the cash pledges within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 are deducted from the corresponding debt.

Secondly, marketable securities *(see Note 24 to the consolidated financial statements)* and the cash pledges, principally constituted within the framework of the appeal against the amount of the cargo fine filed with the European Union Court of Justice, are added to cash.

At December 31, 2013, the Group had €199 million of cash held in bank accounts in Venezuela. This originates from the local sale of aircraft tickets for the period from December 2012 to December 2013. Within the framework of the foreign exchange controls, monthly transfer requests have been made to the Currency Exchange Commission. Given the Venezuelan political and economic context, these requests have not resulted in currency transfers. The last transfer took place in October 2013.

Balance sheet at *(In € million)*	**December 31, 2013**	**December 31, 2012***
Current and non-current financial debt	10,733	10,999
Deposits on aircraft under finance lease	(626)	(650)
Financial assets pledged (OCEANE swap)	(393)	(393)
Currency hedge on financial debt	8	4
Accrued interest	(144)	(112)
Gross financial debt	**9,578**	**9,848**
Cash and cash equivalents	3,684	3,420
Marketable securities	126	320
Cash pledges	432	243
Deposits (bonds)	154	156
Bank overdrafts	(166)	(257)
Net cash	**4,230**	**3,882**
Net debt	**5,348**	**5,966**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Within the framework of the Transform 2015 plan, the Group has set itself a target of reducing net debt to €4.5 billion during 2015.

Gearing ratio

In view of the significant volatility in stockholders' equity resulting from the adoption of IAS 19 Revised, the Group no longer uses the gearing ratio as a key financial indicator but has opted instead to track the following financial cover ratios.

Financial cover ratios

The reduction in net debt and a recovery in the Group's operating cash flow are the main objectives of the Transform 2015 plan, which must be reflected in a significant improvement in the financial cover ratios.

➤ **Net debt/EBITDA ratio**

	2013	**2012***
Net debt *(in €m)*	5,348	5,966
EBITDA *(in €m)*	1,855	1,394
Net debt/EBITDA	**2.9x**	**4.3x**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

➤ EBITDA/net cost of financial debt ratio

	2013	2012*
EBITDA *(in €m)*	1,855	1,394
Net cost of financial debt *(in €m)*	404	353
EBITDA/net cost of financial debt	**4.6x**	**4.0x**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

➤ Adjusted net debt/EBITDAR ratio

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times. EBITDAR corresponds to the result from current operations before amortization, depreciation, provisions and operating leases.

	2013	2012*
Net debt *(in €m)*	5,348	5,966
Operating leases x 7 *(in €m)*	6,391	6,643
Total adjusted net debt *(in €m)*	**11,739**	**12,609**
EBITDA *(in €m)*	1,855	1,394
Operating leases *(in €m)*	913	949
EBITDAR *(in €m)*	**2,768**	**2,343**
Adjusted net debt/EBITDAR	**4.2x**	**5.4x**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

➤ EBITDAR/adjusted net cost of financial debt ratio

The adjusted net cost of financial debt includes the portion of operating leases corresponding to interest charges (34%).

	2013	2012*
EBITDAR *(in €m)*	2,768	2,343
Net cost of financial debt *(in €m)*	404	353
Portion of operating leases corresponding to interest charges (34%) *(in €m)*	310	323
Adjusted net cost of financial debt *(in €m)*	714	676
EBITDAR/net cost of financial debt	**3.9x**	**3.5x**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Operating free cash flow

Operating free cash flow represents the cash available after investment in property, plant, equipment and intangible assets for solely operational purposes. It does not include the other cash flows linked to investment operations, particularly financial. In this financial indicator, the Group includes the amount of the acquisition contracts for property, plant, equipment and intangible assets which, on an exceptional basis, have not been recorded under investments in the consolidated statements of cash flows table.

(In € million)	2013	2012*
Net cash flow from operating activities	1,479	851
Investment in property, plant, equipment and intangible assets	(1,186)	(1,465)
Acquisition of property, plant, equipment and intangible assets not recorded under investments	-	(175)
Proceeds on disposal of property, plant, equipment and intangible assets	245	742
Operating free cash flow	**538**	**(47)**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Return on Capital Employed (ROCE)

Return on capital measures the return on invested capital by expressing the adjusted income/(loss) from current operations (after the application of the tax rate recognized in the restated net result) as a percentage of capital employed.

It is calculated from the following aggregates to be found in the consolidated financial statements:

- capital employed: consolidated stockholders' equity net of derivatives (a negative €48 million at December 31, 2013 and a negative €44 million at December 31, 2012) reduced by the portion of 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/(loss) from current operations integrating the tax charge recognized in the restated net result.

	2013	2012*
Stockholders' equity excluding the pension fund surplus and derivatives *(in €m)*	1,410	2,753
Net debt *(in €m)*	5,348	5,966
Operating leases x 7 *(in €m)*	6,391	6,643
Capital employed *(in €m)*	**13,149**	**15,362**
Adjusted income/(loss) from current operations *(in €m)*	440	(13)
Tax charge recognized in the restated net result *(in €m)*	(20)	(17)
Adjusted income/(loss) from current operations after integration of the tax charge recognized in the restated net result *(in €m)*	**420**	**(30)**
ROCE	**3.2%**	**(0.2%)**

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

Cost of capital

	2013	2012
Cost of stockholders' equity	15.0%	14.6%
Marginal cost of debt, post tax	4.0%	4.6%
Weighting, stockholders' equity/target debt		
♦ Stockholders' equity	31%	31%
♦ Debt	69%	69%
Weighted average cost of capital after taxation	**7.4%**	**7.7%**

Net cost per EASK

To analyze the cost performance of each transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the passenger business and Transavia, and in ATK for the cargo business.

To analyze the company's overall cost performance, the Group uses the net cost per EASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in Equivalent Available Seat-Kilometers (EASK). The net cost is calculated by subtracting the revenues other than those generated by the three transportation activities (passenger, Cargo and Transavia) from total operating expenses. The capacity produced by the three transportation activities is combined by adding the capacity of the passenger business (in ASK) to that of Transavia (in ASK) and the cargo business (in ATK) converted into EASK based on a separate fixed factor for Air France and for KLM.

IAS 19 Revised makes the defined benefit pension expense more volatile. This expense varies independently of the corresponding cash outflows. The calculation of the change in the net cost per EASK on a constant defined benefit pension expense basis enables this effect to be stripped out.

	2013	2012*
Revenues *(in €m)*	25,520	25,423
Income/(loss) from current operations *(in €m)*	130	(336)
Total operating expense *(in €m)*	**25,390**	**25,759**
Passenger business – other passenger revenues *(in €m)*	936	911
Cargo business – other air freight revenues *(in €m)*	197	185
Third-party revenues in the maintenance business *(in €m)*	1,225	1,096
Other businesses – revenues other than Transavia transportation *(in €m)*	419	443
Net cost *(in €m)*	**22,613**	**23,124**
Capacity produced, reported in EASK	333,480	328,188
Net cost per EASK *(in € cents per EASK)*	**6.78**	**7.05**
Gross change	***-3.8%***	
Currency effect on net costs *(in €m)*		(307)
Change on constant currency	***-2.5%***	
Oil price effect *(in €m)*		(126)
Change on a constant currency and fuel price basis	***-1.9%***	
Defined pension benefit expense included in salaries and related costs *(in €m)*	379	359
Net cost per EASK *on a constant currency, fuel price and defined benefit pension expense basis (in € cents per EASK)*	**6.78**	**6.92**
Change on a constant currency, fuel price and defined benefit pension expense basis	***-2.0%***	

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*

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Contents

5.5 Consolidated financial statements

Financial year ended December 31, 2013

5.5.1 Consolidated income statement

Period from January 1 to December 31 *(In € million)*	**Notes**	**2013**	**2012 Pro forma***
Sales	*6*	***25,520***	***25,423***
Other revenues		10	16
Revenues		***25,530***	***25,439***
External expenses	7	(15,997)	(16,272)
Salaries and related costs	8	(7,482)	(7,662)
Taxes other than income taxes		(186)	(184)
Amortization	9	(1,566)	(1,576)
Depreciation and provisions	9	(159)	(154)
Other income and expenses	10	(10)	73
Income from current operations		***130***	***(336)***
Sales of aircraft equipment	11	(12)	8
Other non-current income and expenses	11	(345)	(403)
Income from operating activities		***(227)***	***(731)***
Cost of financial debt		(481)	(436)
Income from cash and cash equivalents		77	83
Net cost of financial debt	*12*	***(404)***	***(353)***
Other financial income and expenses	12	103	144
Income before tax		***(528)***	***(940)***
Income taxes	13	(957)	(17)
Net income of consolidated companies		***(1,485)***	***(957)***
Share of profits (losses) of associates	22	(211)	(66)
Net income from continuing operations		***(1,696)***	***(1,023)***
Net income from discontinued operations	14	(122)	(197)
Net income for the period		***(1,818)***	***(1,220)***
Equity holders of Air France-KLM		***(1,827)***	***(1,225)***
Non controlling interests		9	5
Earnings per share – Equity holders of Air France-KLM ***(in euros)***			
♦ Basic and diluted	16.1	(6.17)	(4.14)
Net income from continuing operations - Equity holders of Air France-KLM ***(in euros)***			
♦ Basic and diluted	16.1	(5.76)	(3.47)
Net income from discontinued operations - Equity holders of Air France-KLM ***(in euros)***			
♦ Basic and diluted	16.1	(0.41)	(0.67)

* *See Note 2 "Restatement of the 2012 financial statements" in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.2 Consolidated statement of recognized income and expenses

(In € million)	December 31, 2013	December 31, 2012 Pro forma*
Net income for the period	***(1,818)***	***(1,220)***
Fair value adjustment on available-for-sale securities		
♦ Change in fair value recognized directly in other comprehensive income	420	269
♦ Change in fair value transferred to profit or loss	-	(97)
Fair value hedges		
Effective portion of changes in fair value hedge recognized directly in other comprehensive income	(101)	-
Cash flow hedges		
♦ Effective portion of changes in fair value hedge recognized directly in other comprehensive income	213	124
♦ Change in fair value transferred to profit or loss	(120)	(251)
Currency translation adjustment	**(2)**	**-**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**(10)**	**30**
Items of the recognized income and expenses of equity shares, net of tax	**(4)**	**(7)**
Total of other comprehensive income that will be reclassified to profit or loss	***396***	***68***
Remeasurements of defined benefit pension plans	**26**	**(313)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**(18)**	**95**
Remeasurements of defined benefit pension plans of equity shares, net of tax	**(1)**	**(2)**
Total of other comprehensive income that will not be reclassified to profit or loss	***7***	***(220)***
Total of other comprehensive income, after tax	***403***	***(152)***
Recognized income and expenses	***(1,415)***	***(1,372)***
♦ ***Equity holders of Air France-KLM***	**(1,423)**	**(1,376)**
♦ Non-controlling interests	8	4

* *See Note 2 "Restatement of the 2012 financial statements" in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.3 Consolidated balance sheet

Assets *(In € million)*	**Notes**	**December 31, 2013**	**December 31, 2012 Pro forma***	**January 1, 2012 Pro forma***
Goodwill	**17**	237	252	426
Intangible assets	**18**	896	842	774
Flight equipment	**20**	9,391	10,048	10,689
Other property, plant and equipment	**20**	1,819	1,932	2,055
Investments in equity associates	**22**	177	381	422
Pension assets	**23**	2,454	2,477	2,336
Other financial assets**	**24**	1,963	1,665	2,015
Deferred tax assets	**13.4**	436	1,392	1,322
Other non-current assets	**27**	113	152	168
Total non-current assets		***17,486***	***19,141***	***20,207***
Assets held for sale	**15**	91	7	10
Other short-term financial assets**	**24**	1,031	933	751
Inventories	**25**	511	521	585
Trade accounts receivables	**26**	1,775	1,859	1,774
Income tax receivables		23	11	10
Other current assets	**27**	822	828	995
Cash and cash equivalents	**28**	3,684	3,420	2,283
Total current assets		***7,937***	***7,579***	***6,408***
Total assets		**25,423**	**26,720**	**26,615**

* *See Note 2 "Restatement of the 2012 financial statements" in notes to the consolidated financial statements.*

** *Including:*

(In € million)	*December 31, 2013*	*December 31, 2012 Pro forma**	*January 1, 2012 Pro forma**
Deposits related to financial debts	*780*	*806*	*656*
Marketable securities (including cash secured)	*951*	*956*	*987*

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity *(In € million)*	**Notes**	**December 31, 2013**	**December 31, 2012 Pro forma***	**January 1, 2012 Pro forma***
Issued capital	**29.1**	300	300	300
Additional paid-in capital	**29.2**	2,971	2,971	2,971
Treasury shares	**29.3**	(85)	(85)	(89)
Reserves and retained earnings	**29.4**	(944)	403	1,775
Equity attributable to equity holders of Air France-KLM		***2,242***	***3,589***	***4,957***
Non-controlling interests		48	48	47
Total equity		***2,290***	***3,637***	***5,004***
Provisions and retirement benefits	**31**	3,102	3,158	2,692
Long-term debt	**32**	8,596	9,565	9,228
Deferred tax liabilities	**13.4**	178	149	223
Other non-current liabilities	**33**	397	384	321
Total non-current liabilities		***12,273***	***13,256***	***12,464***
Liabilities relating to assets held for sale	**15**	58	-	-
Provisions	**31**	670	555	156
Current portion of long-term debt	**32**	2,137	1,434	1,174
Trade accounts payables		2,369	2,219	2,599
Deferred revenue on ticket sales		2,371	2,115	1,885
Frequent flyer programs		755	770	784
Current tax liabilities		2	3	6
Other current liabilities	**33**	2,332	2,474	2,386
Bank overdrafts	**28**	166	257	157
Total current liabilities		***10,860***	***9,827***	***9,147***
Total liabilities		**23,133**	**23,083**	**21,611**
Total liabilities and equity		**25,423**	**26,720**	**26,615**

* *See Note 2 “Restatement of the 2012 financial statements” in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.4 Consolidated statement of changes in stockholders' equity

(In € million)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non controlling interests	Total equity
January 1, 2012	***300,219,278***	***300***	***2,971***	***(89)***	***2,858***	***6,040***	***54***	***6,094***
First application of IAS 19 Revised " Employee Benefits" (Note 2)	-	-	-	-	(1,083)	**(1,083)**	(7)	**(1,090)**
January 1, 2012 (Pro forma) *	***300,219,278***	***300***	***2,971***	***(89)***	***1,775***	***4,957***	***47***	***5,004***
Fair value adjustment on available for sale securities	-	-	-	-	168	**168**	-	**168**
Gain/ (loss) on cash flow hedges	-	-	-	-	(100)	**(100)**	-	**(100)**
Remeasurements of defined benefit pension plans	-	-	-	-	(219)	**(219)**	(1)	**(220)**
Other comprehensive income	-	-	-	-	***(151)***	***(151)***	***(1)***	***(152)***
Net income for the year	-	-	-	-	(1,225)	(1,225)	5	(1,220)
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**(1,376)**	**(1,376)**	**4**	**(1,372)**
Stock based compensation (ESA) and stock option	-	-	-	-	3	**3**	-	**3**
Dividends paid	-	-	-	-	-	**-**	(2)	**(2)**
Treasury shares	-	-	-	4	-	**4**	-	**4**
Change in consolidation scope	-	-	-	-	1	**1**	(1)	**-**
December 31, 2012 (Pro forma) *	***300,219,278***	***300***	***2,971***	***(85)***	***403***	***3,589***	***48***	***3,637***
Fair value adjustment on available for sale securities	-	-	-	-	402	**402**	-	**402**
Gain / (loss) on cash flow hedges	-	-	-	-	62	**62**	-	**62**
Gain /(loss) on fair value hedges	-	-	-	-	(66)	**(66)**	-	**(66)**
Remeasurements of defined benefit pension plans	-	-	-	-	8	**8**	(1)	**7**
Currency translation adjustment	-	-	-	-	(2)	**(2)**	-	**(2)**
Other comprehensive income	-	-	-	-	***404***	***404***	***(1)***	***403***
Net income for the year	-	-	-	-	(1,827)	**(1,827)**	9	**(1,818)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**(1,423)**	**(1,423)**	**8**	**(1,415)**
Stock based compensation (ESA) and stock option	-	-	-	-	3	**3**	-	**3**
OCEANE	-	-	-	-	70	**70**	-	**70**
Treasury shares	-	-	-	-	(1)	**(1)**	-	**(1)**
Dividends paid	-	-	-	-	-	**-**	(4)	**(4)**
Change in consolidation scope	-	-	-	-	4	**4**	(4)	**-**
December 31, 2013	***300,219,278***	***300***	***2,971***	***(85)***	***(944)***	***2,242***	***48***	***2,290***

* *See Note 2 "Restatement of the 2012 financial statements" in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.5 Consolidated statements of cash flows

(In € million) **Period from January 1 to December 31**	**Notes**	**2013**	**2012 Pro forma***
Net income from continuing operations		(1,696)	(1,023)
Net income from discontinued operations	**14**	(122)	(197)
Amortization, depreciation and operating provisions	**9**	1,735	1,748
Financial provisions	**12**	28	(15)
Gain on disposals of tangible and intangible assets		12	(24)
Loss / (gain) on disposals of subsidiaries and associates	**11**	(6)	(97)
Derivatives – non monetary result		(61)	(86)
Unrealized foreign exchange gains and losses, net		(114)	(94)
Share of (profits) losses of associates	**22**	211	66
Deferred taxes	**13**	916	(21)
Impairment	**39.1**	79	173
Other non-monetary	**39.1**	127	372
Subtotal		***1,109***	***802***
Of which discontinued operations		***(19)***	***(5)***
(Increase) / decrease in inventories		1	65
(Increase) / decrease in trade receivables		59	(142)
Increase / (decrease) in trade payables		55	(299)
Change in other receivables and payables		228	416
Change in working capital from discontinued operations		27	9
Net cash flow from operating activities		***1,479***	***851***
Acquisition of subsidiaries, of shares in non-controlled entities	**39.2**	(27)	(39)
Purchase of property, plant and equipment and intangible assets	**21**	(1,186)	(1,465)
Loss of subsidiaries, of disposal of shares in non-controlled entities	**11**	27	467
Proceeds on disposal of property, plant and equipment and intangible assets		245	742
Dividends received		17	24
Decrease (increase) in net investments, between 3 months and 1 year		5	30
Net cash flow used in investing activities of discontinued operations		(5)	(4)
Net cash flow used in investing activities		***(924)***	***(245)***

(In € million) **Period from January 1 to December 31**	**Notes**	**2013**	**2012 Pro forma***
Increase in capital		6	-
Disposal of subsidiaries without loss of control, of owned shares	**39.3**	-	7
Issuance of debt		1,887	1,780
Repayment on debt		(1,480)	(847)
Payment of debt resulting from finance lease liabilities		(588)	(514)
New loans		(136)	(90)
Repayment on loans		157	100
Dividends paid		(4)	(2)
Net cash flow from financing activities		***(158)***	***434***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		(36)	(1)
Effect of exchange rate on cash and cash equivalents and bank overdrafts of discontinued operations		1	(2)
Change in cash and cash equivalents and bank overdrafts		***362***	***1,037***
Cash and cash equivalents and bank overdrafts at beginning of period	**28**	3,160	2,121
Cash and cash equivalents and bank overdrafts at end of period	**28**	3,518	3,160
Change in cash of discontinued operations		4	(2)
Income tax (paid) / reimbursed (flow included in operating activities)		(48)	(45)
Interest paid (flow included in operating activities)		(403)	(414)
Interest received (flow included in operating activities)		41	35

* *See Note 2 "Restatement of the 2012 financial statements" in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.6 Notes to the consolidated financial statements

Note 1 Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM SA, a limited liability company organized under French law.

The term "Group" is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world. The Group's core business is passenger transportation. The Group's activities also include cargo, aeronautics maintenance and other air-transport-related activities including, principally, catering and charter services.

The limited company Air France-KLM, domiciled at 2 rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

The presentation currency used in the Group's financial statements is the euro, which is also Air France-KLM's functional currency.

Note 2 Restatements of the 2012 financial statements

2.1 Application of IAS 19 Revised

Since January 1, 2013, the IAS 19 Revised "Employee Benefits" standard, published by the IASB in June 2011, has been applicable. The main changes for the Group are as follows:

- the option previously used by the Group, allowing the amortization of actuarial differences with the «corridor» method, has been deleted. Actuarial gains and losses are now recognized immediately in other comprehensive income;
- non-vested past service costs, previously amortized, are now fully recognized in the income statement;
- the return on assets, previously determined from an expected rate of return, is now assessed on the basis of the discount rate used to value the benefit obligations.

The consolidated financial statements as of December 31, 2012 have been restated to facilitate comparison. The restated balance sheet as of January 1, 2012 is also presented.

The impacts of the revision in the standard are summarized below:

➤ Impacts on the consolidated income statement

(In € million)	**December 31, 2012**
Salaries and related costs	(53)
Other non-current income and expenses	13
Income taxes	7
Net income for the period	***(33)***
♦ *Equity holders of Air France-KLM*	(33)
♦ *Non-controlling interests*	-
Earnings per share – Equity holders of Air France-KLM (in euros)	
♦ *Basic*	*(0.11)*
♦ *Diluted*	*(0.11)*

➤ **Impacts on the consolidated statement of recognized income and expenses**

(In € million)	**December 31, 2012**
Net income for the period	***(33)***
Remeasurements of defined benefit pension plans	(313)
Items of the recognized income and expenses of equity shares	(2)
Tax on items of other comprehensive income that will not be reclassified to profit or loss	95
Recognized income and expenses	***(253)***
♦ *Equity holders of Air France-KLM*	*(252)*
♦ *Non-controlling interests*	*(1)*

➤ **Impacts on the consolidated balance sheet**

(In € million)	**January 1, 2012**	**December 31, 2012**
Investments in equity associates	-	(2)
Pension assets	(881)	(993)
Deferred tax assets	179	241
Provisions and retirement benefits	631	871
Deferred tax liabilities	(243)	(282)
Net impacts on equity	(1,090)	(1,343)
♦ *Equity holders of Air France-KLM*	*(1,083)*	*(1,335)*
♦ *Non-controlling interests*	*(7)*	*(8)*

2.2 Presentation of the CityJet Group's financial statements as a discontinued operation

On December 20, 2013, Air France received a firm offer from Intro Aviation GmbH to purchase its subsidiaries CityJet and VLM. The employee representative bodies of the relevant companies need to be informed and consulted to enable the disposal to be finalized. The CityJet Group, who has always dealed on its own trademark, comprises the only airlines in the Group that operate:

- outside the short/medium-haul scope defined by the Transform 2015 plan;
- mainly on the basis of London City which appears non-complementary to the Group activities;
- with few operational links or "businesses" with the rest of the company (maintenance, information systems, etc.).

This unit represents a clearly identifiable component, with limited links to the rest of the Group but nevertheless significant in term of business.

As result, the planned disposal justifies the discontinued operations treatment, as defined in the standard IFRS 5. The detail on the net income from discontinued operations is given in Note 14.

Note 3 Significant events

3.1 Change in the scope of consolidation

Within the framework of the Transform 2015 project, the Air France Group decided to regroup its French regional activities Britair, Régional and Airlinair within a holding company known as *HOP! (see Note 5)*, and, during the third quarter, announced the deployment of additional measures to reduce costs concerning the restructuring plan launched in 2012. Based on the measures presented to the different bodies officially representing the Air France Group, the Group has made, to date, its best estimate of the new costs involved and has booked an additional provision for restructuring *(see Note 11)*.

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) maturing on February 15, 2023 for an amount of €550 million *(see Note 32)*.

On June 19, 2013, the Group finalized the firm order for 25 Airbus A350s, in accordance with the letter of intention signed on May 27, 2013.

Following its decision not to participate in the Alitalia capital increase of October 2013, and after conversion into equity of the €23.8 million shareholder loan subscribed in February 25, 2013, the Air France-KLM Group saw its shareholding in Alitalia decrease from 25% to 7.08% *(see Notes 5, 11, 22 and 24)*.

3.2 Subsequent events

There has been no significant event since the closing of the financial year.

Note 4 Rules and accounting principles

4.1 Accounting principles

4.1.1 Accounting principles used for consolidated financial statements

Pursuant to the European Regulation 1606/2002, July 19, 2002, the consolidated financial statements as of December 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission ("EU") and applicable on the date these consolidated financial statements were established.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on February 19, 2014.

4.1.2 Change in accounting principles

▮ *IFRS standards, amendments and IFRIC interpretations (IFRS Interpretation Committee) applicable on a mandatory basis to the 2013 financial statements*

The texts whose application became mandatory during the accounting period ended December 31, 2013 are the following:

- standard IFRS 13 " Fair Value Measurement";
- amendment to IFRS 7 "Disclosures – Offsetting Financial assets and Financial liabilities";
- amendment to IAS 1 on presentation of other comprehensive income;
- standard IAS 19 Revised" Employee Benefit";
- annual improvements to IFRS 2009-11.

The impacts of IAS 19 Revised on the Group's consolidated financial statements are detailed in Note 2 "Restatements of the 2012 financial statements". The other standards and amendments mentioned above did not have any significant impact on the Group's consolidated financial statements as of December 31, 2013.

The other texts whose application became mandatory during the year ended December 31, 2013 had no impact on the Group's consolidated financial statements.

▮ *IFRS standards, amendments and IFRIC interpretations which are not applicable on a mandatory basis to the 2013 financial statements*

- Standard IFRS 10 "Consolidated Financial Statements" which will replace IAS 27 "Consolidated and Separate Financial Statements" for the part concerning the consolidated financial statements and also the SIC 12 interpretation "Consolidation – Special Purpose Entities" (applicable on a mandatory basis from fiscal years starting on January 1, 2014).
- Standard IFRS 11 "Joint Arrangements" which will replace IAS 31 "Interests in Joint Ventures" and also the SIC 13 interpretation "Jointly Controlled Entities – Non-Monetary Contributions by Venturers (applicable on a mandatory basis from fiscal years starting on January 1, 2014).
- Standard IFRS 12 "Disclosure on Interests in Other Entities (applicable on a mandatory basis from fiscal years starting on January 1, 2014).
- Standard IAS 28 (2011) "Investments in Associates (applicable on a mandatory basis from fiscal years starting on January 1, 2014).
- Amendment to IAS 32 "Presentation - Offsetting Financial assets and Financial liabilities (applicable on a mandatory basis from fiscal years starting on January 1, 2014).

The application of IFRS 10 and IFRS 11 is currently being considered. Nevertheless, the Group does not expect any significant changes in its consolidation scope.

▮ *IFRS standards and IFRIC interpretations which are applicable on a mandatory basis to the 2014 financial statements*

- Amendment to IAS 36 "Recoverable Amount Disclosures for Non Financial Assets".
- Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting".

▮ *Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union, are described below*

- Interpretation IFRIC 21 "Levies" applicable from January 1, 2014.
- Standard IFRS 9 "Financial instruments - Classification and measurement of financial assets and liabilities", applicable not earlier than January 2017 because the IASB has postponed the initial effective date from January 2015 to another as-yet-unset date.

4.2 Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main estimates are described in the following notes:

- Note 4.6 – Revenue recognition related to deferred revenue on ticket sales;
- Notes 4.13 and 4.12 – Tangible and intangible assets;
- Note 4.10 – Financial instruments;
- Note 4.22 – Deferred taxes;
- Note 4.7 – "Flying Blue" frequent flyer program;
- Notes 4.17, 4.18 and 4.19 – Provisions (including employee benefits).

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the financial year have thus been established taking into account the economic and financial crisis unfolding since 2008 and on the basis of financial parameters available at the closing date. The immediate effects of the crisis have been taken into account, in particular the valuation of current assets and liabilities. Concerning the longer-term assets, i.e. the non-current assets, the assumptions are based on limited growth.

The future results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3 Consolidation principles

4.3.1 Subsidiaries

Companies over which the Group exercises control are fully consolidated. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.

Non-controlling interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income, under the line "non-controlling interests".

The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognized in equity.

In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including all the items initially recognized in equity and reclassified to profit and loss.

4.3.2 Interest in associates and joint-ventures

Companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are accounted for using the equity method; the ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

In addition, companies in which the Group exercises joint control according to a contractual agreement are accounted for using the equity method.

The consolidated financial statements include the Group's share of the total recognized global result of associates and joint-ventures from the date the ability to exercise significant influence begins to the date it ceases, adjusted for any impairment loss.

The Group's share of losses of an associate that exceed the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless:

- the Group has incurred contractual obligations; or
- the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are valued at their fair value on the date of loss of significant influence or joint control.

4.3.3 Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions that are recognized in assets are also eliminated.

Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

4.4 Translation of foreign companies' financial statements and transactions in foreign currencies

4.4.1 Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- except for the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency exchange rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting foreign currency exchange adjustment is recorded in the «Translation adjustments» item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign exchange rate in effect at the closing date.

4.4.2 Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the closing date or at the rate of the related hedge if any.

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated using the rate in effect at the transaction date or using the hedged rate where necessary *(see 4.13.2)*.

The corresponding exchange rate differences are recorded in the Group's consolidated income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in Note 4.10 "Financial instruments, valuation of financial assets and liabilities".

4.5 Business combinations

4.5.1 Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2008) "Business combinations". In accordance with this standard, all assets and liabilities assumed are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition, except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell.

Goodwill corresponding, at the acquisition date, to the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable assets acquired and the liabilities assumed at the acquisition date, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.

For each acquisition, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the consideration transferred, the resulting negative goodwill is recognized immediately in the income statement.

Contingent considerations or earn-outs are recorded in equity if contingent payment is settled by delivery of a fixed number of the acquirer's equity instruments (according to IAS 32). In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances that existed at that date. Such adjustments are made only during the 12-month measurement period that follows the acquisition date. Any other subsequent adjustments which do not meet these criteria are recorded as receivables or payables through the income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

4.5.2 Business combination carried out before April 1, 2010

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2004) "Business combinations". In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Assets meeting the criteria of IFRS 5 "Non-current assets held for sale and discontinued operations", as described in Note 4.23, are recorded at the lower of their net book value and their fair value less costs to sell.

Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control over the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

4.6 Sales

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Both passenger and cargo tickets are consequently recorded as "Deferred revenue on ticket sales".

Sales relating to the value of tickets that have been issued, but never be used, are recognized as revenues at issuance. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales on third-party maintenance contracts are recorded on the basis of completion method.

4.7 Loyalty programs

The two sub-groups Air France and KLM have a common frequent flyer program *Flying Blue*. This program enables members to acquire "miles" as they fly with airlines partners or transactions with non airline partners (credit cards, hotels, car rental agencies). These miles entitle members to a variety of benefits such as free flights with the two companies or other free services with non flying partners.

In accordance with IFRIC 13 "Loyalty programs", these "miles" are considered as distinct elements from a sale with multiple elements and one part of the price of the initial sale of the airfare is allocated to these "miles" and deferred until the Group's commitments relating to these "miles" have been met. The deferred amount due in relation to the acquisition of miles by members is estimated:

- according to the fair value of the "miles", defined as the amount at which the benefits can be sold separately;
- after taking into account the redemption rate, corresponding to the probability that the miles will be used by members, using a statistical method.

With regards to the invoicing of other partners in the program, the margins realized on sales of "miles" by the sub-groups Air France and KLM to other partners are recorded immediately in the income statement.

4.8 Distinction between income from current operations and income from operating activities

The Group considers it is relevant to the understanding of its financial performance to present in the income statement a subtotal within the income from operating activities. This subtotal, entitled "Income from current operations", excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in the recommendation no. 2009-R.03 from the National Accounting Council.

Such elements are as follows:

- sales of aircraft equipment and disposals of other assets;
- income from the disposal of subsidiaries and affiliates;
- restructuring costs when they are significant;
- significant and infrequent elements such as the recognition of badwill in the income statement, recording an impairment loss on goodwill and significant provisions for litigation.

4.9 Earnings per share

Earnings per share are calculated by dividing net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.10 Financial instruments, valuation of financial assets and liabilities

4.10.1 Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value then, subsequently, using the amortized cost method less impairment losses, if any. The purchases and sales of financial assets are accounted for as of the transaction date.

4.10.2 Investments in equity securities

Investments in equity securities qualifying as assets available for sale are stated at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For other securities, if the fair value cannot be reliably estimated, the Group uses the exception of accounting at costs (i.e acquisition cost less impairment, if any).

Potential gains and losses, except for impairment charges, are recorded in a specific component of other comprehensive income "Derivatives and available for sale securities reserves". If there is an indication of impairment of the financial asset, the amount of the loss resulting from the impairment test is recorded in the income statement for the period.

4.10.3 Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks incurred on shares, exchange rates, changes in interest rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39 "Financial instruments: recognition and measurement".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value taken into account the market value of the credit risk of the Group (DVA) and the credit risk of the counterpart (CVA). The calculation of credit risk follows a common model based on default probabilities from CDS counterparts.

The method of accounting for changes in fair value depends on the classification of the derivative instruments. There are three classifications:

- *derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as earnings;
- *derivatives classified as cash flow hedge*: the changes in fair value are recorded in other comprehensive income for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses;
- *derivatives classified as trading*: changes in the derivative fair value are recorded as financial income or losses.

4.10.4 Convertible bonds

Convertible bonds are financial instruments comprising two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between such value and the bond's nominal value at issue. The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing date, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

4.10.5 Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

Financial assets include financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group opted not to designate any assets at fair value through the income statement.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.10.6 Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded at amortized cost calculated using the effective interest rate. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

4.10.7 Fair value hierarchy

The table presenting a breakdown of financial assets and liabilities categorized by value *(see Note 34.4)* meets the amended requirements of IFRS 7 "Financial instruments: Disclosures". The fair values are classified using a scale which reflects the nature of the market data used to make the valuations.

This scale has three levels of fair value.

- **Level 1**: fair value calculated from the exchange rate/price quoted on the active market for identical instruments;
- **Level 2**: fair value calculated from valuation methods based on observable data such as the prices of similar assets and liabilities or scopes quoted on the active market;
- **Level 3**: fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiples basis for non-quoted securities.

4.11 Goodwill

Goodwill corresponds, at the acquisition date, to the aggregation of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable amounts acquired and the liabilities assumed at the acquisition-date.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 was not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1 "First-time adoption of international financial reporting standards".

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in Note 4.14, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the consideration transferred, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary or an equity affiliate, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.12 Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Software development costs are capitalized and amortized over their useful lives. The Group has the necessary tools to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful lives from the date they are available for use.

Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in Note 4.14 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in Note 4.20 and the "Risks on carbon credit" paragraph in Note 34.1. As such, the Group is required to purchase CO_2 quotas to offset its emissions. The Group records the CO_2 quotas as intangible assets. These assets are not depreciable.

Intangible assets with a definite useful life are amortized on a straight line basis over the following periods:

✦ software	1 to 5 years
✦ customer relationships	5 to 12 years

4.13 Property, plant and equipment

4.13.1 Principles applicable

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investment are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

4.13.2 Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value for most of the aircraft in the fleet. This useful life can, however, be extended to 25 years for some aircraft.

During the operating cycle, and when establishing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframes and engines (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

4.13.3 Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

✦ buildings	20 to 50 years
✦ fixtures and fittings	8 to 15 years
✦ flight simulators	10 to 20 years
✦ equipment and tooling	5 to 15 years

4.13.4 Leases

In accordance with IAS 17 «Leases», leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related profit or losses are accounted for as follows:

- they are recognized immediately when it is clear that the transaction has been realized at fair value;
- if the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used;
- if the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance leaseback transactions, the asset remains in the Group's balance sheet with the same net book value. Such transactions are a means whereby the lessor provides finance to the lessee, with the asset as security.

4.14 Impairment test

In accordance with the standard IAS 36 "Impairment of Assets", tangible fixed assets, intangible assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on September 30.

For this test, the Group deems the recoverable value of the asset to be the higher of the market value less cost of disposal and its value in use. The latter is determined according to the discounted future cash flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of the Group's capital and a growth rate which reflects the market hypotheses for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGU relates to different activity sectors of the Group: passenger business, cargo, maintenance, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is realized. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

4.15 Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

4.16 Treasury shares

Air-France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

4.17 Employee benefits

The Group's obligations in respect of defined benefit pension plans, including the termination indemnities, are calculated in accordance with IAS 19 Revised "Employee benefits", using the projected units of credit method based on actuarial assumptions and considering the specific economic conditions in each country concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

The Group recognizes in Other Comprehensive Income the actuarial gains or losses relating to post-employment plans, the differential between the actual return and the expected return on the pension assets and the impact of any plan curtailment. The gains or losses relating to termination benefits are booked in the income statement.

The Group books all the costs linked to pensions (defined benefit plans and net periodic pension costs) in the income from current operations (salaries and related costs).

Specific information related to the recognition of some pension plan assets

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses.

These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

4.18 Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft to a defined level of potential.

The Group accrues for restitution costs related to aircraft under operating leases.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess under "Flight equipment". Such amounts are subsequently amortized on a straight-line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

4.19 Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.

The effect of the time value of money is presented as a component of financial income.

Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties concerned.

4.20 Emission Trading Scheme

Since January 2012, European airlines have been included in the scope of companies subject to the Emission Trading Scheme (ETS).

In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group has adopted the accounting treatment known as the "netting approach".

According to this approach, the quotas are recognized as intangible assets:

- free quotas allocated by the State are valued at nil; and
- quotas purchased on the market are accounted at their acquisition cost.

These intangible assets are not amortized.

If the difference between recognized quotas and real emissions is negative then the Group recognizes a provision. This provision is assessed at the acquisition cost for the acquired rights and, for the non-hedged portion, with reference to the market price as of each closing date.

At the date of the restitution to the State of the quotas corresponding to real emissions, the provision is written-off in exchange for the intangible assets returned.

4.21 Equity and debt issuance costs

Debt issuance costs are mainly amortized as financial expenses over the term of the loans using the actuarial method.

The capital increase costs are deducted from paid-in capital.

4.22 Deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for exceptions described in IAS 12 "Income taxes".

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets related to temporary differences and tax losses carried forward are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

Deferred tax assets corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from budgets and medium term plans prepared by the Group. The assumptions used are similar to those used for testing the value of assets *(see Note 4.14)*.

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly in other comprehensive income. In such a case, they are recorded directly in other comprehensive income.

Impact of the Territorial Economic Contribution

The 2010 Finance Law voted on December 30, 2009, removed the business tax liability for French fiscal entities from January 1, 2010 and replaced it with the new TEC (Territorial Economic Contribution/ Contribution Economique Territoriale – CET) comprising two contributions: the LDE (land tax of enterprises/Cotisation Foncière des Entreprises - CFE) and the CAVE (Contribution on Added Value of Enterprises/Cotisation sur la Valeur Ajoutée des Entreprises – CVAE). The latter is calculated by the application of a rate to the added value generated by the company during the year. As the added value is a net amount of income and expenses, the CAVE meets the definition of a tax on profits as set out in IAS 12.2. Consequently, the expense relating to the CAVE is presented under the line "tax".

4.23 Non-current assets held for sale and discontinued operations

Assets or groups of assets held for sale meet the criteria of such a classification if their carrying amount is recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets were classified as assets held for sale.

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

4.24 Share-based compensation

Stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option schemes is determined using the Black-Scholes model. This model takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is the fair value of the services rendered by the employees in consideration for the options received. It is recognized over the vesting period as salary cost with a corresponding increase to equity for transactions paid with shares and with a corresponding increase of liabilities for transactions paid in cash. During the vesting period, this salary cost is adjusted, if applicable, to take into account the number of options effectively vested.

Note 5 Change in the consolidation scope

Within the framework of the establishment of *HOP!*, the Group acquired Airlinair. This operation took place as follows:

- the sale, on February 28, 2013, of the shareholding in Financière LMP (39.86%), the parent company which owned Airlinair *(see Note 11);*
- the acquisition, on February 28, 2013, of 100% of the Airlinair share capital for €17 million. The goodwill relating to this operation amounts to €3 million.

On May 15, 2013, the Group sold its Italian subsidiary Servair Airchef, specialized in airline catering.

As of December 31, 2013, following the Air France-KLM Group's decision not to subscribe to the capital increase requested in October 2013, the Alitalia entity is no longer consolidated by the equity method. The Group's remaining equity interest in Alitalia (7.08%) is recorded under other financial assets *(see Notes 3, 11, 22 and 24)*.

Note 6 Segment information

Business segments

The segment information by activity and geographical area presented below is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

- **Passenger**: Passenger operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code, including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage, airport services supplied by the Group to third-party airlines and services linked to IT systems;
- **Cargo**: Cargo operating revenues come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

- **Maintenance**: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally;
- **Other**: The revenues from this segment come primarily from catering supplied by the Group to third-party airlines and from charter flights operated primarily by Transavia.

The results, assets and liabilities allocated to the business segments correspond to those attributable directly and indirectly. Amounts allocated to business segments mainly correspond, for the income statement, to the income from operating activities and for the balance sheet, to the goodwill, intangible assets, flight equipment and other tangible assets, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits. Other elements of the income statement and balance sheet are presented in the “non-allocated” column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

The Group’s activities are broken down into six geographical regions:

- Metropolitan France;
- Europe (excluding France) and North Africa;
- Caribbean, French Guiana and Indian Ocean;
- Africa, Middle East;
- Americas, Polynesia;
- Asia and New Caledonia.

Only segment revenue is allocated by geographical sales area.

The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the Group’s assets (flight equipment) cannot be allocated to a geographical area.

6.1 Information by business segment

➤ **Year ended December 31, 2013**

(In € million)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	21,578	2,849	3,280	1,980	-	29,687
Inter-segment sales	(1,466)	(33)	(2,055)	(613)	-	(4,167)
External sales	***20,112***	***2,816***	***1,225***	***1,367***	***-***	***25,520***
Income from current operations	174	(202)	159	(1)	-	130
Income from operating activities	(39)	(343)	146	9	-	(227)
Share of profits (losses) of associates	(215)	-	2	2	-	(211)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(301)	(301)
Income taxes	-	-	-	-	(957)	(957)
Net income from continuing operations	***(254)***	***(343)***	***148***	***11***	***(1,258)***	***(1,696)***
Depreciation and amortization for the period	(1,062)	(71)	(277)	(156)	-	(1,566)
Other non monetary items	(385)	(78)	(43)	(200)	(835)	(1,541)
Total assets	**11,089**	**1,052**	**2,671**	**862**	**9,749**	**25,423**
Segment liabilities	6,341	281	713	367	4,532	12,234
Financial debt, bank overdraft and equity	-	-	-	-	13,189	13,189
Total liabilities	**6,341**	**281**	**713**	**367**	**17,721**	**25,423**
Purchase of property, plant and equipment and intangible assets (continuing operations)	***829***	***44***	***188***	***125***	***-***	***1,186***

Non-allocated assets, amounting to €9.7 billion, are mainly financial assets held by the Group. They especially comprise cash and cash equivalent for €3.7 billion, pension assets for €2.5 billion, financial assets for €2.7 billion, deferred tax for €0.4 billion and derivatives for €0.4 billion.

Non-allocated liabilities, amounting to €4.5 billion, mainly comprise a portion of provisions and retirement benefits for €2.3 billion, tax and employee-related liabilities for €1.2 billion, deferred tax for €0.2 billion and derivatives for €0.4 billion.

Financial debts, bank overdrafts and equity are not allocated.

➤ **Year ended December 31, 2012 (pro forma)**

(In € million)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	21,495	3,084	3,134	1,901	-	29,614
Inter-segment sales	(1,519)	(27)	(2,038)	(607)	-	(4,191)
External sales	***19,976***	***3,057***	***1,096***	***1,294***	***-***	***25,423***
Income from current operations	(260)	(230)	140	14	-	(336)
Income from operating activities	(518)	(333)	104	16	-	(731)
Share of profits (losses) of associates	(72)	1	1	4	-	(66)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(209)	(209)
Income taxes	-	-	-	-	(17)	(17)
Net income from continuing operations	***(590)***	***(332)***	***105***	***20***	***(226)***	***(1,023)***
Depreciation and amortization for the period	(1,079)	(69)	(278)	(150)	-	(1,576)
Other non monetary items	(1,521)	(106)	(61)	5	160	(1,523)
Total assets	**11,386**	**1,177**	**2,679**	**1,499**	**9,979**	**26,720**
Segment liabilities	6,034	276	713	835	3,969	11,827
Financial debt, bank overdraft and equity	-	-	-	-	14,893	14,893
Total liabilities	**6,034**	**276**	**713**	**835**	**18,862**	**26,720**
Purchase of property, plant and equipment and intangible assets (continuing operations)	***1,105***	***36***	***201***	***123***	***-***	***1,465***

Non-allocated assets, amounting to €10 billion, were mainly financial assets held by the Group. They comprise marketable securities for €3.8 billion, pension assets for €2.5 billion, financial assets for €1.4 billion, deferred tax for €1.4 billion, cash for €0.6 billion and derivatives for €0.3 billion.

Non-allocated liabilities, amounting to €4 billion, mainly comprised a portion of provisions and retirement benefits for €2.4 billion, tax and employee-related liabilities for €1.1 billion, deferred tax for €0.1 billion and derivatives for €0.4 billion.

Financial debts, bank overdrafts and equity are not allocated.

6.2 Information by geographical area

Sales by geographical area

➤ Year ended December 31, 2013

(In € million)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,818	6,002	364	1,286	3,596	2,110	19,176
Other passenger sales	399	302	15	56	64	100	936
Total passenger	***6,217***	***6,304***	***379***	***1,342***	***3,660***	***2,210***	***20,112***
Scheduled cargo	388	1,026	26	177	443	559	2,619
Other cargo sales	55	33	4	17	47	41	197
Total cargo	***443***	***1,059***	***30***	***194***	***490***	***600***	***2,816***
Maintenance	749	442	-	-	34	-	1,225
Other	466	803	33	65	-	-	1,367
Total	**7,875**	**8,608**	**442**	**1,601**	**4,184**	**2,810**	**25,520**

➤ Year ended December 31, 2012 (pro forma)

(In € million)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,799	6,171	365	1,263	3,403	2,064	19,065
Other passenger sales	359	303	14	61	60	114	911
Total passenger	***6,158***	***6,474***	***379***	***1,324***	***3,463***	***2,178***	***19,976***
Scheduled cargo	372	1,123	30	206	524	617	2,872
Other cargo sales	51	49	4	10	41	30	185
Total cargo	***423***	***1,172***	***34***	***216***	***565***	***647***	***3,057***
Maintenance	709	351	-	-	36	-	1,096
Other	400	805	29	59	-	1	1,294
Total	**7,690**	**8,802**	**442**	**1,599**	**4,064**	**2,826**	**25,423**

Traffic sales by geographical area of destination

➤ Year ended December 31, 2013

(In € million)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,932	4,466	1,421	2,538	5,397	3,422	19,176
Scheduled cargo	5	46	142	524	1,053	849	2,619
Total	**1,937**	**4,512**	**1,563**	**3,062**	**6,450**	**4,271**	**21,795**

➤ Year ended December 31, 2012 (pro forma)

(In € million)	Metropolitan France	Europe (except France) North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,970	4,438	1,401	2,567	5,248	3,441	19,065
Scheduled cargo	5	49	148	603	1,168	899	2,872
Total	**1,975**	**4,487**	**1,549**	**3,170**	**6,416**	**4,340**	**21,937**

Note 7 External expenses

Period from 1 January to 31 December *(In € million)*	2013	2012 Pro forma
Aircraft fuel	6,897	7,278
Chartering costs	455	551
Aircraft operating lease costs	913	949
Landing fees and en route charges	1,839	1,832
Catering	589	591
Handling charges and other operating costs	1,405	1,368
Aircraft maintenance costs	1,303	1,131
Commercial and distribution costs	852	866
Other external expenses	1,744	1,706
Total	**15,997**	**16,272**
Excluding aircraft fuel	*9,100*	*8,994*

Note 8 Salaries and number of employees

Salaries and related costs

Period from January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Wages and salaries	5,424	5,514
Costs linked to defined contribution plans	603	610
Net periodic pension cost	379	359
Social contributions	1,171	1,207
Expenses related to share-based compensation	3	5
Other expenses	(98)	(33)
Total	**7,482**	**7,662**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in "social contributions".

The "other expenses" notably comprise:

- the CICE tax credit amounting to €43 million as of December 31, 2013;
- the capitalization of salary costs on aircraft and engine overhaul.

Average number of employees on continuing operations

Year ended December 31	2013	2012 Pro forma
Flight deck crew	8,103	8,157
Cabin crew	21,779	22,104
Ground staff	66,535	69,639
Total	**96,417**	**99,900**

Note 9 Amortization, depreciation and provisions

Period from January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Intangible assets	80	67
Flight equipment	1,227	1,238
Other property, plant and equipment	259	271
Amortization	***1,566***	***1,576***
Inventories	(1)	-
Trade receivables	5	(1)
Risks and contingencies	155	155
Depreciation and provisions	***159***	***154***
Total	**1,725**	**1,730**

The impact of the review of the useful lives of some aircraft on the value of amortization amounted to €(29) million as of December 31, 2012.

The amortization changes for intangible and tangible assets are presented in Notes 18 and 20.

The changes in impairment relating to inventories and trade receivables are presented in Notes 25, 26 and 27.

The movements in provisions for risks and charges are detailed in Note 31.

Note 10 Other income and expenses

Period from January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Joint operation of routes	(84)	(39)
Operations-related currency hedges	65	117
Other	9	(5)
Total	**(10)**	**73**

Note 11 Other non-current income and expenses

Period from January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Sales of aircraft equipment	***(12)***	***8***
Restructuring costs	(209)	(455)
Depreciation of assets available for sale	(102)	-
Disposals of subsidiaries and affiliates	7	97
Impairment on goodwill	-	(5)
Other	(41)	(40)
Total	***(345)***	***(403)***

Period from January 1 to December 31, 2013

Restructuring costs

During the third quarter 2013, the Group announced the implementation of additional measures to reduce Air France's salary costs. The overstaffing was estimated at 2,880 employees, including 1,826 for ground staff. In this context, a voluntary departure plan is proposed to ground staff and cabin crew, whose application period will open in 2014.

During the financial year, the Group also adjusted the amount of the net provision booked as of December 31, 2012 concerning the initial voluntary departure plan and the resizing of the fleet.

The Group has consequently made its best estimate of the costs incurred by the measures mentioned above and has recorded a restructuring provision for a total amount of €200 million as of December 31, 2013.

A provision for an onerous lease contract on a Martinair Boeing B747 has also been recorded for an amount of €9 million.

Depreciation of assets available for sale

As part of the review of its fleet plan, the Air France Group has decided to sell two Boeing B747s freighters. The impact of the revaluation of these non-operated aircraft on their sale amounts to €82 million *(see Note 15)*.

For its part, the KLM Group has revalued seven Fokker F70s, two MD11s, one Fokker F100 and several engines at their sale value, representing a total amount of €20 million.

Disposal of subsidiaries and affiliates

This line includes:

- the sale of the shareholding in Financière LMP (39.86%) *(see Note 5);*
- the sale of the shareholding in Servair Airchef (50%) *(see Note 5);*
- the impact of dilution on the Alitalia shareholding *(see Notes 3, 5, 22 and 24)*.

Other

This line mainly includes:

- a provision of €18 million relating to crew disputes;
- an additional provision related to anti-competitive cargo practices amounting to €14 million *(see Note 31.3);*
- an exceptional tax on salaries in the Netherlands, linked to the economic crisis in Europe, amounting to €7 million.

Period from January 1 to December 31, 2012

Restructuring costs

The Group initiated a restructuring plan concerning all the Group companies, comprising mostly two parts: a fleet capacity adjustment and a plan to reduce staff.

Concerning the Air France Group, the plan's conditions were presented to the employee representative bodies of Air France in June 2012 and to its affiliates during the fourth quarter of 2012.

Concerning the resizing of the fleet, the modalities may result, for the equipment involved, in the disposal, sale or dismantling of aircraft or the termination of operating lease contracts.

The Air France staff reduction plan concerning 5,122 positions included assistance for voluntary retirement and a voluntary departure plan whose period of application had opened during the fourth quarter of 2012.

Concerning KLM, a resizing of the fleet was carried out, resulting in the booking of fair value for the MD11 aircraft which were withdrawn from operation.

Given the items mentioned above, the Group had made its best estimate of the costs incurred by these measures and had recorded a provision for restructuring amounting to €408 million as of December 31, 2012.

This provision has been updated as the conditions modalities evolved.

A provision for onerous lease contracts on three Martinair Boeing B747s had also been recorded amounting to €50 million.

Disposals of subsidiaries and affiliates

The "disposals of subsidiaries and affiliates" line included €97 million corresponding to the gain on disposal realised by the Group on March 1, 2012 concerning a private placement of Amadeus IT Holding SA shares, whose sale proceeds amounted to €466 million.

Other

The "other" line mainly included:

- an exceptional tax on salaries in the Netherlands, linked to the economic crisis in Europe, amounting to €17 million;
- an additional provision related to anti-competitive cargo practices in Switzerland, Brazil and the United States amounting to €20 million *(see Note 31.3)*.

Note 12 Net cost of financial debt and other financial income and expenses

Period from January 1 to December 31 *(In € million)*	**2013**	**2012**
Income from marketable securities	26	28
Other financial income	51	55
Financial income	***77***	***83***
Loan interests	(290)	(269)
Lease interests	(75)	(87)
Capitalized interests	9	14
Other financial expenses	(125)	(94)
Cost of financial debt	***(481)***	***(436)***
Net cost of financial debt	***(404)***	***(353)***
Foreign exchange gains (losses), net	74	64
Change in fair value of financial assets and liabilities	57	63
♦ *Including fuel derivatives*	*84*	*61*
♦ *Including currency derivatives*	*(30)*	*(27)*
♦ *Including interest rates derivatives*	*4*	*(10)*
♦ *Including other derivatives*	*(1)*	*39*
Net charge release to provisions	(30)	15
Other	2	2
Other financial income and expenses	***103***	***144***
Total	**(301)**	**(209)**

The interest rate used in the calculation of capitalized interest is 3.8% for the year ended December 31, 2013 versus 4% for the year ended December 31, 2012.

Financial income mainly comprises interest income and gains on the sale of financial assets at fair value through profit and loss.

As of December 31, 2013, the cost of financial debt includes an amount of €41 million corresponding to the difference between the nominal interest rate and the effective interest rate (after split accounting of the OCEANEs bonds issued), against €24 million as of December 31, 2012.

As of December 31, 2012, the Group had recorded under change in fair value of financial assets and liabilities (line "Other derivatives") a financial income amounting to €38 million linked to the swap on the OCEANE 2005 *(see Note 32.2.1)*.

Note 13 Income taxes

13.1 Income tax expense

Current income tax expenses and deferred income tax are detailed as follows:

Period from January 1 to December 31 *(In € million)*	**2013**	**2012 Pro forma**
(Expense) / income for the year	(41)	(41)
Current tax (expense) / income	***(41)***	***(41)***
Change in temporary differences	20	(50)
CAVE impact	3	3
Tax loss carryforwards	(939)	71
Deferred tax income / (expense) from continuing operations	***(916)***	***24***
Total	**(957)**	**(17)**

The current tax expense relates to the amounts paid or payable in the short term to the tax authorities in respect of the financial year, in accordance with the regulations prevailing in the different countries and any applicable treaties.

In France, tax losses can be carried forward for an unlimited period. However, the 2011 and 2012 Finance Acts limited the amount of the fiscal loss recoverable each year to 50% of the profit for the period beyond the first million. The period for recovering these losses against future profits having also been extended within the context of prevailing economic crisis and a highly competitive global market, the Group decided, for reasons of prudence, to limit on an appropriate period its recoverability horizon relating to the French fiscal group. The amount of deferred tax assets relating to tax losses has consequently been reduced to €708 million as of December 31, 2013, against €1,645 million as of December 31, 2012.

In the Netherlands, tax losses can be carried forward for a period of nine years, without any limit on the amount that can be recovered in any one year.

During the year ended December 31, 2012, the Group had recognized deferred tax assets on fiscal losses of €71 million, mainly relating to the Dutch fiscal group.

13.2 Deferred tax recorded directly in equity – Group

Period from January 1 to December 31 *(In € million)*	**2013**	**2012 Pro forma**
Treasury shares	-	(3)
OCEANE	(37)	-
Other comprehensive income that will be reclassified to profit or loss	(10)	30
♦ *Assets available for sale*	*(18)*	*(4)*
♦ *Derivatives*	*8*	*34*
Other comprehensive income that will not be reclassified to profit or loss	(18)	95
♦ *Pensions*	*(18)*	*95*
Total	**(65)**	**122**

13.3 Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

Period from January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Income before tax	(528)	(940)
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated with the standard tax rate in France	182	324
Differences in French / foreign tax rates	16	(2)
Non deductible expenses or non taxable income	(20)	2
Variation of unrecognized deferred tax assets	(1,135)	(317)
CAVE impact	(24)	(21)
Other	24	(3)
Income tax expenses	**(957)**	**(17)**
Effective tax rate	NS	NS

The current tax rate applicable in France is 38% within 2014 including additional contributions. Since the French fiscal group realized a fiscal deficit as of December 31, 2013, the taxproof has been established using the rate excluding additional contributions, i.e. 34.43%. Deferred tax has been calculated on the same basis.

The current tax rate applicable in the Netherlands is 25%.

13.4 Deferred tax recorded on the balance sheet

(In € million)	January 1, 2013	Amounts recorded in income	Amounts recorded in OCI	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2013
Flight equipment	(1,257)	(15)	-	-	-	(5)	(1,277)
Pension assets	(566)	(47)	14	-	-	(9)	(608)
Financial debt	758	60	-	(37)	-	(1)	780
Deferred revenue on ticket sales	166	11	-	-	-	-	177
Others	(14)	14	(42)	-	-	(1)	(43)
Deferred tax corresponding to fiscal losses	2,156	(939)	-	-	-	12	1,229
Deferred tax asset / (liability)	**1,243**	**(916)**	**(28)**	**(37)**	**-**	**(4)**	**258**

Deferred taxes recognized on fiscal losses for the French and Dutch fiscal perimeters amount to €1,178 million as of December 31, 2013 (€708 million for the French fiscal group and €470 million for the Dutch fiscal group).

The recognition of this asset for each of the two perimeters is based on the prospects for taxable income established by the Group's three-year plan and based on the same assumptions as those outlined in Note 19 "Impairment" to these consolidated financial statements.

Based on these prospects for taxable income, the recoverability horizon is suitable as for the French perimeter than for the Dutch perimeter. The non realization of these assumptions could have a significant impact on the recoverability horizon for these deferred tax assets.

(In € million)	January 1, 2012 Pro forma	Amounts recorded in income	Amounts recorded in OCI	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2012 Pro forma
Flight equipment	(1,147)	(110)	-	-	-	-	(1,257)
Pension assets	(530)	(43)	7	-	-	-	(566)
Financial debt	614	144	-	-	-	-	758
Other liabilities	84	(55)	44	-	-	-	73
Deferred revenue on ticket sales	170	(4)	-	-	-	-	166
Others	(176)	18	74	(3)	-	-	(87)
Deferred tax corresponding to fiscal losses	2,085	71	-	-	-	-	2,156
Deferred tax asset / (liability)	**1,100**	**21**	**125**	**(3)**	**-**	**-**	**1,243**

Deferred tax recognized on fiscal losses for the French and Dutch fiscal perimeters amounted to €2,100 million as of December 31, 2012 (€1,645 million for the French fiscal group and €455 million for the Dutch fiscal group).

13.5 Unrecognized deferred tax assets

(In € million)	December 31, 2013		December 31, 2012	
	Basis	Tax	Basis	Tax
Temporary differences	476	164	469	159
Tax losses	4,025	1,386	755	260
Total	**4,501**	**1,550**	**1,224**	**419**

As of December 31, 2013, the cumulative effect of the limitation the French fiscal group's deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,525 million (corresponding to a basis of €4,429 million), including €1,362 million relating to tax losses and €163 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuration provisions). The amount of deferred tax on tax losses non recognized during the period includes €937 million relating to the limitation of the recoverability horizon *(see Note 13.1)*.

As of December 31, 2012, the cumulative effect of the limitation the French fiscal group's deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €394 million (corresponding to a basis of €1,144 million), including €239 million relating to tax losses and €155 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuration provisions).

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry-forwards of the Air France Group subsidiaries, as well as tax loss carryforwards in some subsidiairies in the United Kingdom.

Note 14 Net income from discontinued operations

The line “Net income from discontinued operations” corresponds to the contribution of the all CityJet and VLM

Period from January 1 to December 31 *(In millions of euros)*	**2013**	**2012 Pro forma**
Sales	***150***	***210***
Income from current operations	***(19)***	***(17)***
Impairment	(77)	(168)
Other non current items	(25)	(4)
Income from operating activities	***(121)***	***(189)***
Financial income	(1)	(5)
Income before taxes	(122)	(194)
Income taxes	-	(3)
Net income from discontinued operations	**(122)**	**(197)**

Period from January 1 to December 31, 2013

Impairment

Within the framework of the valuation of the Irish and Belgian “regional” companies, the Group recorded an additional provision of €77 million, to align the net assets of the CityJet and VLM Group with its expected sale value.

Other non current items

The other non current items include provisions regarding a breach of contract and disputes relating to the payment of social contributions in France.

Period from January 1 to December 31, 2012

Impairment

Within the framework of the “Transform 2015” restructuring plan as presented at the end of August 2012 to the Works Councils of the relevant companies, the Air France Group decided to reorganize its “regional” activity by regrouping the French subsidiaries in Hop! and separating them from the other regional airlines, particularly in Ireland and Belgium.

Within this framework, the Group reviewed the assets of CityJet and its subsidiary VLM, which are now valued on a stand-alone basis. In 2012, this review prompted the Group to depreciate all the goodwill attached to VLM, amounting to €168 million.

Note 15 Assets held for sale and liabilities related to assets held for sale

Year ended December 31, 2013

As of December 31, 2013, the “Assets held for sale” and “Liabilities related to assets held for sale” correspond, for a respective €34 million and €58 million, to the assets and liabilities of the CityJet Group held for sale *(see Notes 2 and 14)*.

Furthermore, the line “Assets held for sale” includes the fair value of six aircraft held for sale for an amount of €57 million, including two Boeing B747 freighters in the Air France Group for €51 million *(see Note 11)*.

Year ended December 31, 2012

As of December 31, 2012, the line “assets held for sale” included the fair value of six aircraft held for sale for an amount of €7 million.

Note 16 Earnings per share

16.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

The result used to calculate earnings per share are as follows:

As of January 1 to December 31 *(In € million)*	2013	2012 Pro forma
Net income- Equity holders of Air France-KLM	(1,827)	(1,225)
Net income from continuing operations - Equity holders of Air France-KLM	(1,705)	(1,028)
Net income from discontinued operations - Equity holders of Air France-KLM	(122)	(197)

Since the Group does not pay dividends to preferred stockholders, there is no difference with the results appearing in the financial statements. The results being losses for the periods presented, the results used to calculate diluted earnings per share are to the same as the results used to calculate earnings per share.

Reconciliation of the number of shares used to calculate earnings per share

Year ended to December 31	2013	2012
Weighted average number of:		
♦ Ordinary shares issued	300,219,278	300,219,278
♦ Treasury stock held regarding stock option plan	(1,116,420)	(1,116,420)
♦ Treasury stock held in stock buyback plan	-	(159,712)
♦ Other treasury stock	(3,067,607)	(3,073,029)
Number of shares used to calculate basic earnings per share	***296,035,251***	***295,870,117***
OCEANE conversion	-	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	***296,035,251***	***295,870,117***

16.2 Non dilutive instruments

The Air France-KLM Group did not own any non dilutive instrument as of December 31, 2013.

16.3 Instruments issued after the closing date

No instruments were issued after the closing date.

Note 17 Goodwill

Detail of consolidated goodwill

As of December 31 *(In € million)*	2013 Gross value	Impairment	Net value	2012 Gross value	Impairment	Net value
VLM	-	-	-	168	(168)	-
UTA	112	-	112	112	-	112
Régional	60	-	60	60	-	60
Aeromaintenance Group	20	(3)	17	21	(4)	17
Britair	20	-	20	20	-	20
CityJet	-	-	-	11	-	11
NAS Airport Services Limited	22	-	22	24	(1)	23
Other	7	(1)	6	10	(1)	9
Total	**241**	**(4)**	**237**	**426**	**(174)**	**252**

The goodwill concerns mainly the "Passenger" business.

Movement in net book value of goodwill

As of December 31 *(In € million)*	2013	2012
Opening balance	**252**	**426**
Acquisitions	3	-
Disposals	(6)	-
Impairment	(11)	(173)
Currency translation adjustment	(1)	(1)
Closing balance	**237**	**252**

As of December 31, 2013, the impairment recorded concerns CityJet, following the writing down of its net asset value on its reclassification under assets available for sale *(see Note 2.2)*.

As of December 31, 2012, the impairment recorded mainly concerned the VLM goodwill. Within the framework of the «Transform 2015» restructuring plan, the Group proceeded to review the assets of CityJet and its subsidiary VLM as described in Note 14. This review had led the Group to depreciate all the goodwill attached to VLM amounting to €168 million. The related expense was recognized in non-current expenses in the income statement.

Note 18 Intangible assets

(In € million)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2011	***297***	***107***	***825***	***1,229***
Additions	-	-	146	**146**
Change in scope	-	-	-	**-**
Disposals	-	-	(25)	**(25)**
Transfer	-	-	(4)	**(4)**
Amount as of December 31, 2012	***297***	***107***	***942***	***1,346***
Additions	-	-	166	**166**
Change in scope	-	-	(6)	**(6)**
Disposals	-	-	(32)	**(32)**
Transfer	(4)	-	(4)	**(8)**
Amount as of December 31, 2013	***293***	***107***	***1,066***	***1,466***
Depreciation				
Amount as of December 31, 2011	***(2)***	***(102)***	***(351)***	***(455)***
Charge to depreciation	-	-	(68)	**(68)**
Releases on disposal	-	-	19	**19**
Transfer	-	-	-	**-**
Amount as of December 31, 2012	***(2)***	***(102)***	***(400)***	***(504)***
Charge to depreciation	(1)	(2)	(73)	**(76)**
Releases on disposal	-	-	5	**5**
Change in scope	-	-	5	**5**
Amount as of December 31, 2013	***(3)***	***(104)***	***(463)***	***(570)***
Net value				
As of December 31, 2012	295	5	542	**842**
As of December 31, 2013	290	3	603	**896**

Intangible assets mainly comprise:

- the KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM. These intangible assets have an indefinite useful life as the nature of the assets means they have no time limit;
- software and capitalized IT costs.

Note 19 Impairment

Concerning the methodology followed to test impairment, the Group has allocated each item of goodwill and each intangible fixed asset with an indefinite useful life to Cash Generating Units (CGU), corresponding to their business segments (see “Accounting Policies”).

As of December 31, 2013, goodwill and intangible fixed assets with an indefinite useful life were attached principally to the “Passenger” CGU for €194 million and €288 million respectively.

The recoverable value of the CGU assets has been determined by reference to their value in use as of September 30, 2013, except for the Cargo CGU for which an additional test has been made as of December 31, 2013. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management, including a recovery hypothesis after the economic slowdown, enabling the achievement of the medium-term forecasts made by the Group before the emergence of the crisis.

The discount rate used for the test corresponds to the Group’s weighted average cost of capital (WACC). It amounts to 7.4% at December 31, 2013 against 7.7% at December 31, 2012.

After this test, no impairment was observed on the Group’s CGUs.

The Cargo CGU being loss-making, the Group has also tested all the tangible assets of this business as of December 31, 2013. No impairment was observed.

The asset value of Cargo CGU, which amounts to €715 millions, is covered by its future free cash flows. A decrease of 50 basis points in the percentage of the current operations margin target would lead to record an impairment loss of approximately €100 million. An increase of 50 basis points of the discount rate would lead to record an impairment loss of approximately €60 million.

Note 20 Tangible assets

(In € million)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	Total
Gross value											
As of December 31, 2011	***10,872***	***5,216***	***728***	***2,143***	***18,959***	***2,673***	***1,288***	***100***	***908***	***4,969***	***23,928***
Acquisitions	351	161	764	105	1,381	46	51	55	29	181	**1,562**
Disposals	(922)	(77)	(63)	(150)	(1,212)	(41)	(23)	-	(27)	(91)	**(1,303)**
Fair value	-	-	48	-	48	-	-	-	-	-	**48**
Transfer	(480)	883	(1,130)	37	(690)	64	10	(100)	15	(11)	**(701)**
As of December 31, 2012	***9,821***	***6,183***	***347***	***2,135***	***18,486***	***2,742***	***1,326***	***55***	***925***	***5,048***	***23,534***
Acquisitions	133	4	705	109	951	48	22	70	20	160	**1,111**
Disposals	(732)	(79)	-	(188)	(999)	(16)	(16)	-	(15)	(47)	**(1,046)**
Scope variation	20	36	-	-	56	-	-	-	(6)	(6)	**50**
Fair value	-	-	54	-	54	-	-	-	-	-	**54**
Transfer	(380)	588	(706)	107	(391)	54	-	(30)	(41)	(17)	**(408)**
Currency translation adjustment	-	-	-	-	-	-	(1)	-	(1)	(2)	**(2)**
As of December 31, 2013	***8,862***	***6,732***	***400***	***2,163***	***18,157***	***2,828***	***1,331***	***95***	***882***	***5,136***	***23,293***
Depreciation											
As of December 31, 2011	***(5,695)***	***(1,645)***	***-***	***(930)***	***(8,270)***	***(1,422)***	***(834)***	***-***	***(658)***	***(2,914)***	***(11,184)***
Charge to depreciation	(800)	(364)	-	(128)	(1,292)	(134)	(82)	-	(56)	(272)	**(1,564)**
Releases on disposal	286	73	-	134	493	34	20	-	15	69	**562**
Transfer	721	(111)	-	21	631	(1)	-	-	2	1	**632**
As of December 31, 2012	***(5,488)***	***(2,047)***	***-***	***(903)***	***(8,438)***	***(1,523)***	***(896)***	***-***	***(697)***	***(3,116)***	***(11,554)***
Charge to depreciation	(788)	(405)	-	(144)	(1,337)	(132)	(80)	-	(48)	(260)	**(1,597)**
Releases on disposal	518	76	-	162	756	15	13	-	8	36	**792**
Scope variation	-	-	-	-	-	-	-	-	3	3	**3**
Transfer	423	(113)	-	(57)	253	(28)	13	-	34	19	**272**
Currency translation adjustment	-	-	-	-	-	-	1	-	-	1	**1**
As of December 31, 2013	***(5,335)***	***(2,489)***	***-***	***(942)***	***(8,766)***	***(1,668)***	***(949)***	***-***	***(700)***	***(3,317)***	***(12,083)***
Net value											
As of December 31, 2012	4,333	4,136	347	1,232	**10,048**	1,219	430	55	228	**1,932**	**11,980**
As of December 31, 2013	3,527	4,243	400	1,221	**9,391**	1,160	382	95	182	**1,819**	**11,210**

Aeronautical assets under construction mainly include advance payments, maintenance work in progress concerning engines and aircraft modifications.

Note 37 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in Notes 37 and 38.

The net book value of tangible assets financed under capital lease amounts to €4,762 million as of December 31, 2013 versus €4,618 million as of December 31, 2012.

The charge to depreciation as of December 31, 2013 includes €102 million of depreciation booked in non current charges *(see Note 11)*.

The charge to depreciation as of December 31, 2012 included €40 million relating to the resizing of the Group's fleet, booked in restructuring costs *(see Note 11)*.

Note 21 Capital expenditure

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash flow statements is as follows:

As of December 31 *(In € million)*	**2013**	**2012**
Acquisition of tangible assets	1,046	1,351
Acquisition of intangible assets	166	146
Accounts payable on acquisitions and capitalized interest	(26)	(32)
Total	**1,186**	**1,465**

Note 22 Equity affiliates

Movements over the period

The table below presents the movement in equity affiliates:

(In € million)	Alitalia	Kenya Airways	Other	Total
Carrying value of share in investment as of December 31, 2011	***274***	***57***	***91***	***422***
Share in net income of equity affiliates	(61)	(12)	7	(66)
Distributions	-	(1)	(3)	(4)
Change in consolidation scope	-	1	2	3
Fair value adjustment	(6)	(2)	-	(8)
Other variations	-	36	1	37
Currency translation adjustment	-	(3)	-	(3)
Carrying value of share in investment as of December 31, 2012 (pro forma)	***207***	***76***	***98***	***381***
Share in net income of equity affiliates	(202)	(8)	(1)	(211)
Distributions	-	-	(2)	(2)
Change in consolidation scope	-	-	(11)	(11)
Other variations	-	4	7	11
Fair value adjustment	(5)	-	-	(5)
Capital increase	-	-	16	16
Currency translation adjustment	-	(2)	-	(2)
Carrying value of share in investment as of December 31, 2013	***-***	***70***	***107***	***177***
Market value for listed companies		***45***		

Following the dilution in its shareholding during the last quarter of 2013, the Group no longer accounts for Alitalia as an equity affiliate, but now recognizes its equity interest under other financial assets *(see Notes 3, 5, 11 and 24)*.

Given the uncertainties overhanging Alitalia's situation prior to this dilution in its shareholding, the Group decided, during the third quarter, to totally depreciate its shareholding in Alitalia. The share of losses and a provision for impairment have consequently been booked amounting to a total of €202 million.

Simplified financial statements of the main equity affiliates

The investments in equity affiliates as of December 31, 2013 mainly concern the company Kenya Airways, a Kenyan airline based in Nairobi, over which the Group exercises a significant influence.

As of December 31, 2012, besides Kenya Airways, investments in equity affiliates also included the company Alitalia Aerea Italiana Spa. This entity, which began operations on January 12, 2009, is derived from the contribution of the transition from the old Alitalia and redemption of Air One activity. It was removed from the equity affiliates scope during the last quarter of 2013 following the Group's decision not to subscribe to the requested capital increase. Since this date, Alitalia's shares are recognized in other financial assets.

The financial statements of the main equity affiliates are presented below.

They correspond to 100% of the financial data for the years 2013 and 2012, prepared in accordance with the local standards of the relevant host countries.

(In € million)	Alitalia 12/31/2012	Kenya Airways 03/31/2012
% holding as of December 31, 2012	25%	26.7%
Operating revenues	3,594	949
Operating income	(119)	11
Net income / loss	(280)	14
Stockholders' equity	201	203
Total assets	**2,634**	**681**
Total liabilities and stockholders' equity	**2,634**	**681**
	12/31/2013	**03/31/2013**
% holding as of December 31, 2013		26.7%
Operating revenues		902
Operating income		(82)
Net income / loss		(72)
Stockholders' equity		281
Total assets		**1,104**
Total liabilities and stockholders' equity		**1,104**

Note 23 Pension assets

(In € million)	December 31, 2013	December 31, 2012 Pro forma	January 1, 2012 Pro forma
Opening balance	**2,477**	**2,336**	**2,995**
Net periodic pension (cost) / income for the period	(277)	(190)	(36)
Contributions paid to the funds	342	359	258
First application of IAS 19 Revised " Employee Benefits" (Note 2)	-	-	(881)
Fair value revaluation	(138)	(29)	-
Reclassification	-	1	-
Closing balance	**2,454**	**2,477**	**2,336**

The detail of these pension assets is presented in Note 31.1.

Note 24 Other financial assets

As of December 31 *(In € million)*	2013 Current	2013 Non current	2012 Current	2012 Non current
Financial assets available for sale				
Available shares	-	762	-	475
Shares secured	-	373	-	229
Assets at fair value through profit and loss				
Marketable securities	106	20	235	85
Cash secured	825	-	636	-
Loans and receivables				
Financial lease deposit (bonds)	12	142	31	125
Financial lease deposit (others)	65	560	11	639
Loans and receivables	23	125	20	124
Gross value	***1,031***	***1,982***	***933***	***1,677***
Impairment at opening date	***-***	***(12)***	***-***	***(11)***
New impairment charge	-	(7)	-	(11)
Use of provision	-	-	-	10
Impairment at closing date	***-***	***(19)***	***-***	***(12)***
Total	**1,031**	**1,963**	**933**	**1,665**

Financial assets available for sale are as follows:

(In € million)	Fair Value	% interest	Stockholder's equity	Net income	Stock price *(in €)*	Closing date
As of December 31, 2013						
Amadeus*	1,076	7.73%	ND**	ND**	31.10	December 2013
Alitalia	22	7.08%	ND**	ND**	NA***	December 2013
Other	37	-	-	-	-	-
Total	**1,135**					
As of December 31, 2012						
Amadeus*	659	7.73%	1,531	496	19.05	December 2012
Other	45	-	-	-	-	-
Total	**704**					

* *Listed company.*
** *Non-available.*
*** *Non-applicable.*

Assets at fair value through profit and loss mainly comprise shares in mutual funds that do not meet the “cash equivalents” definition and cash account secured, mainly within the framework of the swap contract with Natixis on the OCEANE 2005 *(see Note 32)* and the guarantee given to the European Union concerning the anti-trust litigation *(see Note 31)*.

Concerning the Amadeus shares, on November 13, 2012, the Group entered into a hedging transaction with Société Générale to hedge the value of one third of its stake, i.e 12 million shares. The hedging instrument implemented was a collar. As part of this transaction, a loan of the same number of shares was set up with Société Générale. The collar was qualified as a fair value hedge. Its fair value amounts to €108 million as of December 31, 2013 (against €0.2 million as of December 31, 2012).

Loans and receivables mainly include deposits on flight equipment made within the framework of operating and capital leases.

Transfer of financial assets that are not derecognized in their entirety

Transfer of receivables agreement

The Group entered into a loan agreement secured by Air France’s 1% housing loans. For each of the CILs (Comités interprofessionnels du logement), Air France and the bank concluded a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repaying the bank directly on each payment date. These are imperfect delegations: in the event of non repayment by the CILs, Air France remains liable to the bank for the loan repayments and interest. As of December 31, 2013, the amount of transferred receivables stood at €111 million (against €112 million as of December 31, 2012). The associated loan stood at €81 million as of December 31, 2013 (against €80 million as of December 31, 2012).

Loan of shares agreement

On November 13, 2012, the Group signed a loan of shares agreement on Amadeus shares, within the framework of the hedging transaction to protect the value of Amadeus shares, as described above. As of December 31, 2013, the amount of the loan, excluding hedge effect, amounts to €373 million (against €229 million as of December 31, 2012).

Transfer of financial assets that are derecognized in their entirety

Since 2011, the Group has established non recourse transfert agreements concerning trade passenger, cargo and airlines receivables.

These agreements apply to receivables originating in France and other European countries for a total transferred amount of €211 million as of December 31, 2013, against €246 million as of December 31, 2012.

As of December 31, 2013, the link retained by the Group with the transferred assets represents a risk of dilution for which guarantee funds have been secured for €10 million, against €9 million as of December 31, 2012.

End of December 2013, the Group concluded a contract with a bank transfer without recourse by way of discount on the entire Receivable Tax Credit for Competitiveness Employment (CICE) 2013 with a notional amount of €42 million. The contract of assignment transferring substantially all the risks and rewards of the debt to the bank, the debt has been fully derecognised. As of December 31, 2013 the Group has a receivable from the bank corresponding to 5% of the nominal value of the assigned receivable, payable when the specific CICE statement will be sent to the tax administration in 2014.

Note 25 Inventories

As of December 31 *(In € million)*	2013	2012
Aeronautical spare parts	510	508
Other supplies	158	176
Production work in progress	7	7
Gross value	***675***	***691***
Opening valuation allowance	***(170)***	***(173)***
Charge to allowance	(11)	(18)
Use of allowance	11	18
Releases of allowance no longer required	-	-
Reclassification	6	3
Closing valuation allowance	***(164)***	***(170)***
Net value of inventory	***511***	***521***

Note 26 Trade accounts receivables

As of December 31 *(In € million)*	2013	2012
Airlines	399	495
Other clients:		
♦ Passenger	681	625
♦ Cargo	353	378
♦ Maintenance	377	364
♦ Other	52	82
Gross value	***1,862***	***1,944***
Opening valuation allowance	***(85)***	***(88)***
Charge to allowance	(21)	(18)
Use of allowance	16	19
Change of scope	2	-
Reclassification	1	2
Closing valuation allowance	***(87)***	***(85)***
Net value	***1,775***	***1,859***

Note 27 Other assets

As of December 31 *(In € million)*	2013		2012	
	Current	Non current	Current	Non current
Suppliers with debit balances	140	-	161	-
State receivable	72	-	71	-
Derivative instruments	267	97	201	103
Prepaid expenses	164	16	156	49
Other debtors	181	-	241	-
Gross value	***824***	***113***	***830***	***152***
Opening valuation allowance	***(2)***	***-***	***(2)***	***-***
Charge to allowance	(1)	-	-	-
Use of allowance	1	-	-	-
Closing valuation allowance	**(2)**	**-**	**(2)**	**-**
Net realizable value of other assets	***822***	***113***	***828***	***152***

As of December 31, 2012, non-current derivatives comprised an amount of €9 million relating to currency hedges on financial debt.

Note 28 Cash, cash equivalents and bank overdrafts

As of December 31 *(In € million)*	2013	2012
Liquidity funds (SICAV) (assets at fair value through profit and loss)	1,563	2,467
Bank deposits and term accounts (assets at fair value through profit and loss)	1,141	334
Cash in hand	980	619
Total cash and cash equivalents	***3,684***	***3,420***
Bank overdrafts	(166)	(257)
Cash, cash equivalents and bank overdrafts	***3,518***	***3,163***

The Group holds €3,684 million in cash as of December 31, 2013, including €199 million placed on bank accounts in Venezuela.This amount comes from the sale of airline tickets made locally during the period from December 2012 to December 2013. Under the exchange control, monthly requests for money transfers have been made to the Commission of Currency Administration *(Comisión de Administración de-Divisas - CADIVI)*. Given the economic and political context of Venezuela, these requests did not give rise to currency transfers (the last transfer tooking place in October 2013).

Note 29 Equity attributable to equity holders of Air France-KLM SA

29.1 Issued capital

As of December 31, 2013, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares. Each share with a nominal value of one euro is entitled to one vote.

The change in the number of issued shares is as follows:

As of December 31 *(In number of shares)*	2013	2012
At the beginning of the period	***300,219,278***	***300,219,278***
Issuance of shares for OCEANE conversion	-	-
At the end of the period	***300,219,278***	***300,219,278***
Of which:		
♦ number of shares issued and paid up	300,219,278	300,219,278
♦ number of shares issued and not paid up	-	-

The shares comprising the issued capital of Air France-KLM are subject to no restriction or priority concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2013 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital limited to a total maximum nominal amount of €120 million.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

	% of capital		% of voting rights	
As of December 31	**2013**	**2012**	**2013**	**2012**
French State	16%	16%	16%	16%
Employees and former employees	7%	10%	7%	10%
Treasury shares	1%	1%	-	-
Other	76%	73%	77%	74%
Total	**100%**	**100%**	**100%**	**100%**

The item "Employees and former employees" includes shares held by employees and former employees identified in funds or by a Sicovam code.

Other securities giving access to common stock

OCEANE

See Note 32.2.

29.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

29.3 Treasury shares

	Treasury shares	
	Number	(In € million)
December 31, 2011	***5,639,477***	***(89)***
Change in the period	(1,450,072)	4
December 31, 2012	***4,189 405***	***(85)***
Change in the period	(9,601)	-
December 31, 2013	***4,179,804***	***(85)***

As of December 31, 2013, Air France-KLM held 3,063,384 of its own shares acquired pursuant to the annual authorizations granted by the Shareholders' Meeting. As of December 31, 2013, the Group also held 1,116,420 of its own shares in respect of KLM stock option programs. All these treasury shares are classified as a reduction of equity.

29.4 Reserves and retained earnings

(In € million)	December 31, 2013	December 31, 2012 Pro forma	January 1, 2012 Pro forma
Legal reserve	70	70	70
Distributable reserves	734	850	962
Pension defined benefit reserves	(1,193)	(1,203)	(1,083)
Derivatives reserves	(47)	(43)	55
Available for sale securities reserves	655	253	86
Other reserves	664	1,701	2,127
Net income (loss) – Group share	(1,827)	(1,225)	(442)
Total	**(944)**	**403**	**1,775**

As of December 31, 2013, the legal reserve of €70 million represented 23% of Air France-KLM's issued capital. French company law requires that a limited company *(société anonyme)* allocates 5% of its unconsolidated statutory net income each year to this legal reserve until it reaches 10% of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Note 30 Share-based compensation

30.1 Outstanding share-based compensation plans and other plans as of December 31, 2013

As of December 31, 2013, there were no outstanding share-based compensation plans in the Air France-KLM Group.

Changes in options

	Average exercise price (€)	Number of options
Options outstanding as of December 31, 2011	***34.21***	***390,517***
Of which: options exercisable at December 31, 2011	***34.21***	***390,517***
Options forfeited during the period	34.21	(390,517)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of December 31, 2012	***-***	***-***
Of which: options exercisable at December 31, 2012	***-***	***-***
Options forfeited during the period	-	
Options exercised during the period	-	
Options granted during the period	-	
Options outstanding as of December 31, 2013	***-***	***-***
Of which: options exercisable at December 31, 2013	***-***	***-***

Description of KLM stock-option plans

Prior to the combination with Air France, members of the Management Board and the key executives of KLM had been granted KLM stock options. Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004 so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares. The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

The vesting conditions of the stock-option plan granted by KLM in July 2007 are such that one third of the options vest at grant date with a further one third after one and two years, respectively. Vesting was conditional on KLM achieving predetermined non-market-dependent performance criteria.

30.2 KLM PPSs plan

During the periods ending December 31, 2013 and December 31, 2012, cash-settled share-based compensation plans index-linked to the change in the Air France-KLM share price were granted by KLM. They correspond to share-based plans with settlement in cash (PPS).

Plans	Grant date	Number of PPSs granted	Start date for PPSs exercise	Date of expiry	Number of PPSs exercised as of 12/31/2013
KLM	01/07/2008	153,080	01/07/2008	01/07/2013	68,451
KLM	01/07/2009	136,569	01/07/2009	01/07/2014	23,615
KLM	01/07/2010	145,450	01/07/2010	01/07/2015	12,189
KLM	01/07/2011	144,235	01/07/2011	01/07/2016	-
KLM	01/04/2012	146,004	01/04/2012	01/04/2017	-
KLM	01/04/2013	150,031	01/04/2013	01/04/2018	-

The changes in PPSs were as follows:

	Number of PPSs
PPSs outstanding as of December 31, 2011	***465,497***
Of which: SARs exercisable at December 31, 2011	***270,908***
PPSs granted during the period	146,004
PPSs exercised during the period	(51,348)
PPSs forfeited during the period	13,493
PPSs outstanding as of December 31, 2012	***573,646***
Of which: PPSs exercisable at December 31, 2012	***357,687***
PPSs granted during the period	150,031
PPSs exercised during the period	(104,255)
PPSs forfeited during the period	(99,064)
PPSs outstanding as of December 31, 2013	***520,358***
Of which: PPSs exercisable at December 31, 2013	***330,807***

The vesting conditions of the PPSs plans granted by KLM are such that one third of the options vest at grant date, with a further one third after one and two years, respectively. Vesting is conditional on KLM achieving predetermined non-market-dependent performance criteria.

The fair value of the services provided under the PPSs plan has been determined according to the market value of the Air France-KLM share at the closing date i.e €7.58:

PPSs	Fair value as of December 31, 2013 *(In € million)*
01/07/2009	0.4
01/07/2010	0.6
01/07/2011	0.9
01/04/2012	0.9
01/04/2013	1.1

30.3 Salary expenses related to share-based compensation

Period from January 1 to December 31	2013	2012
(In € million)		
2005 Shares-for-Salary Exchange	2	3
Stock option plan	1	2
Salary expenses (Note 8)	***3***	***5***

Note 31 Provisions and retirement benefits

(In € million)	Retirement benefits Note 31.1	Restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of January 1, 2012 (pro forma)	***1,687***	***575***	***12***	***404***	***170***	***2,848***
Of which:						
♦ *Non-current*	*1,687*	*459*	*-*	*390*	*156*	*2,692*
♦ *Current*	*-*	*116*	*12*	*14*	*14*	*156*
New provision	84	259	442	51	103	**939**
Use of provision	(91)	(119)	(26)	(15)	(39)	**(290)**
Reversal of unnecessary provisions	-	(3)	-	(1)	-	**(4)**
Fair value revaluation	283	-	-	-	-	**283**
Currency translation adjustment	1	1	-	-	1	**3**
Discount/Accretion impact	-	(25)	-	-	-	**(25)**
Reclassification	1	(47)	-	-	5	**(41)**
Amount as of December 31, 2012 (pro forma)	***1,965***	***641***	***428***	***439***	***240***	***3,713***
Of which:						
♦ *Non-current*	*1,965*	*545*	*4*	*429*	*215*	*3,158*
♦ *Current*	*-*	*96*	*424*	*10*	*25*	*555*
New provision	99	272	282	76	97	**826**
Use of provision	(39)	(123)	(233)	(43)	(79)	**(517)**
Reversal of unnecessary provisions	-	(18)	(34)	-	(6)	**(58)**
Fair value revaluation	(162)	-	-	-	-	**(162)**
Currency translation adjustment	(9)	(1)	-	-	(1)	**(11)**
Change in scope	2	-	-	-	(2)	**-**
Discount/Accretion impact	-	(2)	-	-	-	**(2)**
Reclassification	(3)	(15)	(1)	2	-	**(17)**
Amount as of December 31, 2013	***1,853***	***754***	***442***	***474***	***249***	***3,772***
Of which:						
♦ *Non-current*	*1,853*	*606*	*-*	*439*	*204*	*3,102*
♦ *Current*	*-*	*148*	*442*	*35*	*45*	*670*

As of December 31, 2013, the impact on the net periodic pension cost, amounting to €54 million, linked to the restructuring plans of Air France and its regional subsidiaries has been recorded in “Other non-current income and expenses” *(see Note 11)*.

As of December 31, 2012, the impact was about €81 million and was also recorded in “Other non-current income and expenses”.

Movements in provisions for restructuring which have an impact on the income statement are recorded in “other non-current income and expenses” when the plans concerned have a material impact *(see Note 11)*.

Movements in provisions for restitution of aircraft which have an impact on the income statement are recorded in “provisions” except for the discount/accretion impact which is recorded in “other financial income and expenses”.

Movements in provisions for litigation and in provisions for other risks and charges which have an impact on the income statement are recorded, depending on their nature, in the different lines of the income statement.

31.1 Retirement benefits

The Group has a large number of retirement and other long-term benefits plans for its employees, several of which are defined benefit plans. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located. As indicated in Notes 2 and 4, since January 1, 2013, the Group has applied the standard IAS 19 Revised “Employee benefits”. To facilitate comparison, the financial statements as of December 31, 2012 have been restated in accordance with the new rules.

31.1.1 Characteristics of the main defined benefit plans

Pension plan related to flight deck crew - Netherlands

The pension plan related to the flight deck crew in the KLM entity is a defined benefit plan with a reversion to the spouse on the beneficiary’s death.

The retirement age defined in the plan is 56 years.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of the Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105% of the projected short-term obligation, and approximately 115% to 120% of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules.

If the coverage ratio is under the funding agreement detailed above, the company is required to make additional contributions: within the current year for non-compliance with the 105% threshold or within 10 years for non-compliance with the 115% to 120% threshold. The amount of normal and additional employer contributions is not limited. The employee contributions cannot be increased in the event of non-compliance with these minimum funding rules.

A reduction in the employer contribution is possible if the indexation of pensions is fully funded. This reduction is not capped and can be realised either via a reimbursement of contributions, or by a reduction in future contributions.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors liable to influence the coverage ratio and lead to a risk of additional contributions for KLM.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate.

The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks.

For example, about 90% of the currency risk is hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Pension plan related to ground staff - Netherlands

The pension plan related to the ground staff in the KLM entity is a defined benefit plan with a reversion to the spouse on the beneficiary’s death.

The retirement age defined in the plan was 65 years until December 31, 2013 and 67 years after this date.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105% of the projected short-term obligation, and approximately 115% to 120% of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules.

If the coverage ratio is under the funding agreement detailed above, the company and the employee are required to make additional contributions: within the current year for non-compliance with the 105% threshold or within 15 years for non-compliance with the 115% to 120% threshold. The amount of basic and additional employer contributions is not limited. Any additional employee contributions are limited to 2% of the pension basis.

A reduction in contributions is possible if the indexation of pensions is fully funded. This reduction is not capped and can be realised either via a reimbursement of contributions, or by a reduction in future contributions.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors liable to both influence the coverage ratio and the level of the normal contribution for future pension accrual. The normal contributions are limited to 24% of the pension base.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks. For example, an interest hedge is foreseen to halve the potential impact of the sensitivity to an interest rate decrease. Similarly, about 90% of the currency risk is hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Pension plan related to cabin crew - Netherlands

The pension plan related to the cabin crew in the KLM entity is a defined benefit plan with a reversion to the spouse on the beneficiary's death.

The pension is calculated based on their final salaries for employees hired since 2009, and based on average salaries for their entire careers for the other employees.

The retirement age defined in the plan is 60 years.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105% of the projected short-term obligation, and approximately 115% to 120% of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules.

If the coverage ratio is under the funding agreement detailed above, the company and the employee have to pay additional contributions: within three years for non-compliance with the 105% threshold or within 15 years for non-compliance with the 115% to 120% threshold. The amount of normal and additional employer contributions is capped at 48% of the pension basis. Any additional employee contributions are limited to 0.7% of the pension basis.

A reduction in contributions is possible if the indexation of pensions is fully funded. This reduction is limited to twice the normal annual contribution.

The return on plan assets, the discount rate used to value the obligations and the longevity and characteristics of the active population are the main factors liable to both influence the coverage ratio and the level of the normal contribution for future pension accrual.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks.

For example, an interest hedge is foreseen to halve the potential impact of the sensitivity to an interest rate decrease.

Similarly, about 90% of the currency risk is hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992. The participants receive, or will receive on retirement, an additional pension paid monthly and permanently calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is reevaluated every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.

Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the "Sécurité sociale" Code). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.

Following the 2003 law on pension reform, foreseeing the disappearance of supplementary pension institutions as of December 31, 2008, the CRAF's Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan. The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations.

As of December 31, 2008, all the funds managed by the CRAF had been transferred to two insurance companies. On December 31, 2012, one of the insurance contracts was terminated and its funds were transferred to the other, which thus became the only insurer.

This insurance company guarantees a capital equal to the amount of capital invested in units of account in its collective fund, which represents a little more than 5% of the amount of funds, this percentage being automatically set to increase over time.

The annual payments made by Air France to the insurance company are governed by the agreement signed with the employee representative bodies on December 14, 2009. The minimum annual payment defined by this agreement amounts to €32.5 million. If the value of the funds falls below 50% of the total obligations calculated for funding purposes, Air France is required to make an additional payment to achieve a minimum 50% coverage rate.

The funds are invested in bonds, equities and general assets of the insurance company. Studies of assets/liabilities allocation are carried out regularly, to verify the relevance of the investment strategy.

Air France end of service benefit plan (ICS) - France

Pursuant to French regulations and the company agreements, every employee receives an end of service indemnity when leaving the company for retirement.

In France, this indemnity depends on the number of years of service, the professional category of the employee (flight deck crew, cabin crew, ground staff, agent, technician and executive) and, in some cases, on the age of the employee at retirement.

On retirement, employees consequently receive an end of service indemnity based on their final salaries over the last twelve-months and on their seniority.

The indemnity is only payable to employees on their retirement date.

There is no mandatory minimum funding requirement for this scheme.

Air France has nevertheless signed contracts with three insurance companies to pre-finance the plan. The company has sole responsibility for payment of the indemnities, but remains free to make payments to the insurance companies.

The relevant outsourced funds are invested in bonds and equities.

As of December 31, 2013, the three Dutch plans and the two French plans presented above represent a respective 79% and 12% of the Group's pension liabilities and 91% and 4% of the Group's pension assets.

31.1.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation have been made as of December 31, 2013 and December 31, 2012. These calculations include:

- assumptions on staff turnover and life expectancy of the beneficiaries of the plan;
- assumptions on salary and pension increases;
- assumptions of retirement ages varying from 55 to 67 depending on the localization and the applicable laws;
- discount rates used to determine the actuarial present value of the projected benefit obligations.

The discount rates for the different geographical areas are thus determined based on the duration of each plans, taking into account the average trend in interest rates on high quality bonds, observed on the main available indices. In some countries, where the market regarding this type of bond is not broad enough, the discount rate is determined with reference to government bonds. Most of the Group's benefit obligations are located in the Euro zone, where the discount rates used are as follows:

As of December 31	2013	2012
Euro zone - Duration 10 to 15 years	3.00%	3.00%
Euro zone - Duration 15 years and more	3.65%	3.65%

The duration between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns plans located in the Netherlands.

On an average basis, the main assumptions used to value the liabilities are summarized below:

- the rate of salary increase (excluding inflation) is 1.75% for the Group as of December 31, 2013 against 1.69% as of December 31, 2012;
- the rate of pension increase (excluding inflation) is 1.36% for the Group as of December 31, 2013 against 1.46% as of December 31, 2012.

The sensitivity of the pension obligations to a change in assumptions, based on actuarial calculations, is as follows:

➤ Sensitivity to changes in the discount rate

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2013	Sensitivity of the assumptions for the year ended December 31, 2012 (pro forma)
0.25% increase in the discount rate	(688)	(667)
0.25% decrease in the discount rate	792	825

➤ Sensitivity to changes in salary increase

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2013	Sensitivity of the assumptions for the year ended December 31, 2012 (pro forma)
0.25% increase in the salary increase rate	142	146
0.25% decrease in the salary increase rate	(127)	(133)

➤ Sensitivity to changes in pension increase

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2013	Sensitivity of the assumptions for the year ended December 31, 2012 (pro forma)
0.25% increase in the pension increase rate	629	505
0.25% decrease in the pension increase rate	(538)	(489)

31.1.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2013 and December 31, 2012 (pro forma).

	As of December 31, 2013			As of December 31, 2012		
(In € million)	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	***13,258***	***2,191***	***870***	***11,411***	***2,016***	***706***
Service cost	386	65	13	340	53	21
Interest cost	478	64	31	556	94	34
Employees' contribution	45	-	1	54	-	1
Plan amendments and curtailment	(41)	(56)	(5)	-	(82)	(3)
Change in consolidation scope	-	2	-	-	-	-
Benefits paid	(383)	(101)	(28)	(360)	(114)	(39)
Transfers of assets/liability through balance sheet	2	(5)	-	-	-	-
Actuarial loss / (gain) demographic assumptions	(16)	(3)	(1)	103	-	-
Actuarial loss / (gain) financial assumptions	(203)	(25)	(43)	1,193	247	136
Actuarial loss / (gain) experience gap	133	(16)	(6)	(22)	(23)	4
Currency translation adjustment	10	-	(35)	-	-	11
Other	-	-	-	(17)	-	(1)
Benefit obligation at end of year	***13,669***	***2,116***	***797***	***13,258***	***2,191***	***870***
Including benefit obligation resulting from schemes totally or partly funded	*13,575*	*2,055*	*690*	*13,167*	*2,131*	*729*
Including unfunded benefit obligation	*94*	*61*	*107*	*91*	*60*	*141*
Fair value of plan assets at beginning of year	***15,528***	***787***	***515***	***13,563***	***768***	***450***
Actual return on plan assets	346	71	38	1,904	96	60
Employers' contributions	361	(11)	14	384	37	2
Employees' contributions	45	-	1	54	-	1
Change in consolidation scope	(1)	-	1	-	-	-
Settlements	-	-	(1)	-	-	-
Transfers of assets/liability through balance sheet	-	-	-	-	-	1
Benefits paid	(375)	(99)	(21)	(360)	(114)	(8)
Currency translation adjustment	(1)	-	(15)	-	-	10
Other	-	-	-	(17)	-	(1)
Fair value of plan assets at end of year	***15,903***	***748***	***532***	***15,528***	***787***	***515***

(In € million)	As of December 31, 2013 Netherlands	France	Others	As of December 31, 2012 Netherlands	France	Others
Amounts recorded in the balance sheet*:						
Pension asset (Note 23)	2,452	-	2	2,477	-	-
Provision for retirement benefits	(220)	(1,368)	(265)	(207)	(1,404)	(354)
Net amount recognized	***2,232***	***(1,368)***	***(263)***	***2,270***	***(1,404)***	***(354)***
Net periodic cost:						
Service cost	386	65	13	340	53	21
Interest cost	(90)	41	12	(123)	59	11
Plan amendments and curtailment	(40)	(57)	(5)	-	(82)	(1)
Settlement	-	-	1	-	-	-
Net periodic cost	**256**	**49**	**21**	**217**	**30**	**31**

* *All the obligations are recorded as non-current liabilities, except for the pension plans for which the balance is a net asset fully recorded as a non-current asset.*

Amendments and curtailment of pension plans

As of December 31, 2013, a curtailment has been booked by Air France and its subsidiaries for an amount of €54 million, relating to the voluntary departure plan *(see Note 11)*.

By KLM, the amendments of pension plans led to a decrease of €40 million of the defined benefit obligation: €25 million further to the modification of the retirement age from 65 to 67 years concerning the ground staff pension plan and €15 million further to the decrease of the annual accrual rates on cabin crew and ground staff pension plans.

As of December 31, 2012, a curtailment was booked by Air France and its subsidiaries for an amount of €81 million, relating to the voluntary departure plan *(see Note 11)*.

31.1.4 Asset allocation

The weighted average allocation of the funds invested in the Group's pension and other long-term benefit plans is as follows:

Funds invested	As of December 31, 2013 France	Netherlands	As of December 31, 2012 France	Netherlands
Equities	41%	38%	40%	38%
Bonds	46%	50%	49%	51%
Real estate	-	10%	-	10%
Others	13%	2%	11%	1%
Total	**100%**	**100%**	**100%**	**100%**

Equities are mainly invested in active markets in Europe, United States and emerging countries.

Bonds are primarily composed of government bonds, at least rated BBB, and invested in Europe, United States and emerging countries.

Real estate assets are mainly located in Europe and in the United States.

The Group's pension assets do not include assets occupied or used by the Group.

31.1.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relative to the defined benefit pension plans will amount to €435 million for the year ending as of December 31, 2014. The weighted average duration of the obligation is 18 years.

The funding, capitalization and matching strategies implemented by the Group are presented in paragraph 30.1.

According to this description, the Group has no obligation to recapitalize the plans for which a minimum funding is required over the short or long term.

31.2 Provisions for restructuring

As of December 31, 2013 and December 31, 2012, provision for restructuring mainly includes the provision for the voluntary departure plans of Air France and its regional affiliates *(see Note 11)*.

31.3 Provisions for litigation

31.3.1 Provision for litigation with third parties

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions have been recorded whenever circumstances required.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM Group and its subsidiaries Air France and KLM (and their subsidiaries) are involved in litigation, some of which may be significant.

31.3.2 Provision for litigation concerning anti-trust laws in the air-freight industry

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

As of December 31, 2013 most of these proceedings had resulted in Plea Agreements made by Air France, KLM and Martinair with the appropriate agencies, and the payment of settlement amounts which ended procedures.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices - mainly concerning fuel surcharges in the air freight industry. The Commission imposed an overall fine of €340 million on the Air France-KLM Group companies.

As the Group's parent company, Air France-KLM was considered by the European Commission to be jointly and severally liable for the anti-competitive practices of which the Group companies were found guilty.

On January 24 and 25, 2011, the Group companies filed an appeal against the decision before the General Court of the European Union.

Since the appeal does not suspend the payment of the fines, the Group companies chose not to pay the fine immediately, but to provide bank guarantees until a definitive ruling by the European Courts.

On January 10, 2014 the Swiss anti-trust authority (COMCO) imposed a fine of €3.2 million on Air France and KLM. The Group companies intend to file an appeal on this decision before the Federal Administrative Tribunal.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM, Air France and KLM a total fine of €8.8 million which was paid in January 2011. The Group companies filed an appeal before the competent Seoul High Court in December 2010.

On May 16, 2012 the 6th chamber of the Seoul High Court vacated the KFTC's decision against Air France-KLM on the grounds that Air France-KLM was not engaged in the air freight transportation business after it converted to a holding company on September 15, 2004. With regard to the appeals of Air France and KLM, the Court found in favour of the KFTC. Appeal filings against the Court decisions were submitted to the Supreme Court by both Air France and KLM in June 2012. Generally, the Supreme Court appeal process will take 1-2 years to conclude.

Since January 10, 2014 (the imposition of a fine by the Swiss antitrust authorities), the Group companies have no longer been exposed to anti-trust proceedings with respect to alleged of concerted actions in the air freight industry.

As of December 31, 2013, the total amount of provisions amounts to €372 million in respect of all the proceedings which have not yet been concluded by a final decision.

31.3.3 Other provisions

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group), provisions for onerous leases, provisions for the portion of CO_2 emissions not covered by the free allocation of quotas and provisions for the dismantling of buildings.

31.4 Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not been recorded in the financial statements.

31.4.1 Litigations concerning anti-trust laws in the air-freight industry

These litigations have not been provisioned given that the Group is unable, given the current status of proceedings, to evaluate its exposure.

Pursuant to the initiation in February 2006 of the various competition authority investigations, class actions were brought by forwarding agents and air-freight shippers in several countries against Air France, KLM and Martinair, and the other freight carriers. In addition, civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010. The Group companies vigorously oppose all such civil actions.

United States

In the United States, the Group concluded a Settlement Agreement with the representatives of the class action in July 2010, bringing to an end all claims and, court proceedings in connection with unlawful practices for cargo transportation to, from and within the United States.

With respect to those Air France, KLM and Martinair customers who chose to be excluded, a portion of the settlement proportional to the revenue Air France, KLM and Martinair received from those parties over the relevant period as compared with the overall revenue for this same period has been segregated in a separate escrow account. The parties who opted out are free to sue Air France, KLM and Martinair individually.

Netherlands

a) Litigation vehicle Equilib has initiated two largely overlapping proceedings before the Amsterdam District Court aimed at establishing liability on behalf of 184 groups, whereby the actual amounts are to be determined in follow-up proceedings. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, Air France, KLM and Martinair are due to file their statement of defence on April 2, 2014 in the first proceeding. The second proceeding will be introduced during the second half of 2014.
Air France, KLM and Martinair initiated contribution proceedings before the Amsterdam District Court against the other airlines included in the European Commission decision, which were stayed with the main proceedings. As the annulment of this stay by the Amsterdam Court of Appeal did not affect the stay of the contribution proceedings, Air France, KLM and Martinair asked the Court of Appeal in a separate appeal to annul the stay of the contribution proceedings, which would again synchronize the main and contribution proceedings.

b) A second litigation vehicle, East West Debt ("EWD"), also initiated proceedings before the Amsterdam District Court to obtain compensation from the Group, as well as two other European airlines, for the claims of 8 individual shippers. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, the case is expected to resume at the District Court where a date will be set for filing the statement of defence.
The Group has also initiated contribution proceedings at the Amsterdam District Court against the other airlines included in the decision.

c) A third litigation vehicle Stichting Cartel Compensation ("SCC") initiated proceedings before the Amsterdam District Court to obtain compensation from the Goup and several other European and Asian airlines, for the claims of 877 individual shippers. The proceedings will be introduced on April 2, 2014.

United Kingdom

In the United Kingdom, a civil suit has been filed against British Airways with the competent court by two flower importers.

British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group. To date, British Airways has neither quantified nor substantiated its purported claims. These contribution proceedings have been stayed.

In the main proceedings, the plaintiffs were granted permission to add parties to the proceedings, resulting in over 500 plaintiffs.

Australia

Within the context of ongoing class action proceedings instituted in 2007 against seven airlines (excluding the Air France-KLM Group) in the Australian Federal Court, cross claims have been filed against Air France, KLM and Martinair by Singapore Airlines (August 15, 2011), Cathay Pacific (August 15, 2011), Lufthansa (November 4, 2011), Air New Zealand (December 5, 2011) and British Airways (December 19, 2011). In the cross claims, the respondent airlines claim that if, despite their denial of the claims of wrongdoing in the class action, they are ordered to pay damages, they will seek contributions from the cross respondents. The Group companies have filed defences to these cross claims in which they deny that the respondent airlines are entitled to any contribution from them. As of December 31, 2013 this proceeding was still pending.

Norway

On May 25, 2012, a civil suit was filed by a company named Marine Harvest before the Norwegian court on the grounds of allegedly additional costs caused by anti-competitive practices. The Group companies have requested a stay of the proceeding upon which the court has not ruled yet.

31.4.2 Legislation concerning anti-trust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy to increase the price of passenger services by an adjustment in fuel surcharges to and from Canada and on transatlantic destinations, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy and intend to file a motion to dismiss.

31.4.3 Other litigations

a) Pretory

Company Air France, as a legal entity, was placed under investigation on July 20, 2006 on charges of concealed employment and as an accessory to misuse of corporate assets in connection with a judicial investigation initiated against the officers of Pretory, a company with which Air France, pursuant to the September 2001 attacks, had entered into an agreement for the provision of safety officers on certain flights. Despite a non prosecution decision by the Public Prosecutor, the investigating magistrate decided, on February 7, 2012, to bring the case to court on charges of concealed employment.

On July 9, 2013, the court imposed a €0.15 million fine on the company. Air France has filed an appeal against this decision which it deems to be without grounds.

b) KLM minority shareholders

On December 31, 2012, two KLM minority shareholders filed a request with the Enterprise Chamber of the Amsterdam Court of Appeal to order an enquiry into, amongst other matters, the KLM's dividend policy in respect of the years 2004-05 to 2010-11 periods. This file relates to a claim for higher dividend for the fiscal year 2007-08 by these shareholders together with the Vereniging van Effectenbezitters (VEB) initiated in January 2008 against KLM and Air France-KLM. In this last proceeding, a final decision ruling from the Dutch Supreme Court on July 2013 definitively rejected all claims against KLM.

The Enterprise Chamber did, however, uphold the request for an enquiry into the dividend policy for the period under consideration. The main focus of the enquiry is the manner in which Air France-KLM, in its capacity as the sole priority shareholder, and KLM's Management and Supervisory Boards executed clause 32 of KLM's Articles of Association. This provides that the priority shareholder may reserve part of the profits after consulting with the Management Board and the Supervisory Board of KLM.

c) Rio-Paris AF447 flight

Following to the crash of the Rio-Paris AF447 flight in the South Atlantic, a number of legal actions have been brought in the United States and Brazil and, more recently, in France by the victims' heirs.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash.

In the United States, all the proceedings have been consolidated in California before the Northern District Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and suggested that they pursue their claim in France.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalties of fines prescribed by law. Air France intends to challenge its implication in this case.

These penalties should not have a material effect on the financial situation of Air France.

The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

Except for the matters specified under the paragraphs 31.3, 31.4, the Group is not aware of any dispute or governmental, judicial and arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, during a period including at least the past twelve months.

Note 32 Financial debt

As of December 31 *(In € million)*	**2013**	**2012**
Non current financial debt		
Perpetual subordinated loan stock in Yen	211	256
Perpetual subordinated loan stock in Swiss francs	341	347
OCEANE (convertible bonds)	1,478	988
Bonds	1,200	1,950
Capital lease obligations	3,808	3,919
Other debt	1,558	2,105
Total	**8,596**	**9,565**
Current financial debt		
Bonds	741	-
Capital lease obligations	599	588
Other debt	653	734
Accrued interest	144	112
Total	**2,137**	**1,434**

32.1 Perpetual subordinated bond

32.1.1 Perpetual subordinated bond in Japanese Yen

The perpetual subordinated bond in Japanese Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, i.e. €211 million as of December 31, 2013.

Until 2019, this perpetual subordinated bond is subject to the payment of a 5.28% coupon on a notional of USD 248 million.

The debt is perpetual. It is nevertheless reimbursable at its nominal value at the Group's discretion as of August 28, 2019. This reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the yen.

This debt is subordinated to all other existing and future KLM debts.

32.1.2 Perpetual subordinated bond in Swiss francs

The perpetual subordinated bond in Swiss francs was issued by KLM in two installments in 1985 and 1986 for a total original amount of CHF 500 million. Following the purchases made by KLM, the outstanding subordinated bond amounts to CHF 419 million, i.e. €341 million as of December 31, 2013.

The bonds are reimbursable on certain dates at the Group's discretion at a price between nominal value and 101.25% (depending on the bond and date of early repayment).

This loan is subject to the payment of a coupon considered to be fixed-rate (5.75% on a CHF 270 million portion and 2.125% on a CHF 149 million portion) for the years ended December 31, 2013 and December 31, 2012.

This debt is subordinated to all other existing and future KLM debts.

32.2 OCEANE

32.2.1 OCEANE issued in 2005

In April 2005, the company Air France, a subsidiary of the Air France-KLM Group, issued convertible bonds maturing in 15 years. The conversion option allows for conversion and/or exchange at any time into new or existing Air France-KLM shares (OCEANE). 21,951,219 bonds were issued for a total amount of €450 million. Each bond has a nominal value of €20.50. As of December 31, 2013, the conversion ratio is 1.03 Air France-KLM shares for one bond.

The maturity date for this convertible bond is April 1, 2020. Bond holders could request reimbursement as of April 1, 2012 and will also be able to do this as of April 1, 2016. Air France holds a call option triggering early cash reimbursement which can be exercised starting April 1, 2010 and, under certain conditions, encouraging OCEANE holders to convert into Air France-KLM shares. The annual coupon is 2.75% payable in arrears at the end of each period ended April 1.

The conversion period of these bonds runs from June 1, 2005 to March 23, 2020, except in the event of early reimbursement.

On December 6, 2011, to optimize its debt repayment schedule by neutralizing the exercise of the OCEANE repayment option on April 1, 2012, Air France signed a swap agreement relating to these OCEANEs (total return swap) with Natixis expiring on April 1, 2016 at the latest. In order to hedge this contract, Natixis launched a contractual acquisition procedure to purchase the aforementioned OCEANEs.

This contract was thus reflected in the following operations:

- the purchase by Natixis of 18,692,474 OCEANEs (i.e. 85.16% of the amount initially issued) at a fixed price of €21 following a contractual acquisition procedure open between December 7 and December 13, 2011. Natixis is the owner of the acquired OCEANEs and did not exercise its early repayment option on April 1, 2012;
- the entry into force effective December 14, 2011 of a swap contract expiring on April 1, 2016 whose notional amounts to €392.5 million (number of OCEANEs acquired by Natixis multiplied by the purchase price of €21). Regarding this swap, Air France receives the coupon on the OCEANEs i.e. 2.75% and pays variable interest indexed to Euribor 6 months. At the swap termination, Air France and Natixis will also exchange the difference between the OCEANE price at that date and the initial price of €21;
- Air France has a termination option on the swap starting December 19, 2012 and expiring on February 1, 2016;
- the contract is the subject of a guarantee for 100% of the notional of the swap *(see Note 24)*. From April 1, 2012, the guarantee can partially comprise securities provided this portion does not exceed 50% of the notional amount of the swap.

Of the 3,258,150 OCEANEs not purchased by Natixis within the framework of the contractual acquisition procedure, 1,501,475 OCEANEs were reimbursed on April 2, 2012, for an amount of €31 million, following exercice of the repayment option by some holders.

As of December 31, 2013, the debt value amounts to €390 million.

32.2.2 OCEANE issued in 2009

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million. Each bond has a nominal value of €11.80. The annual coupon amounts to 4.97%.

The conversion period of these bonds runs from August 6, 2009 to the seventh working day preceding the normal or early reimbursement date.

Since April 1, 2013 Air France-KLM has had the option to impose the cash reimbursement of these bonds by exercising a call if the share price exceeds 130% of the nominal, i.e. €15.34, encouraging OCEANE owners to convert their bonds into Air France-KLM shares.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €556 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of December 31, 2013, the debt value amounts to €633 million.

The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €661 million) and was recorded in equity.

32.2.3 OCEANE issued in 2013

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at February 15, 2023 for a total nominal amount of €550 million. Each bond has a nominal value of €10.30. The annual coupon amounts to 2.03%.

The conversion period of these bonds runs from May 7, 2013 to the seventh working day preceding the normal or early reimbursement date. The conversion ratio is one share for one bond.

Repayment at par, plus accrued interest, will be possible as of February 15, 2019 at the request of the bond holders. Air France-KLM can impose the cash reimbursement of these bonds by exercising a call from September 28, 2016 if the share price exceeds 130% of nominal, amounting to €13.39, encouraging OCEANE owners to convert their bonds into Air France-KLM shares.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €443 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of December 31, 2013, the debt value amounts to €455 million.

The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €550 million) and was recorded in equity.

32.3 Bonds

32.3.1 Bonds issued in 2006 and 2007

On September 2006 and April 2007, the company Air France, a subsidiary of the Air France-KLM Group, issued bonds for a total amount of €750 million, maturing on January 22, 2014 and bearing an annual interest rate of 4.75%.

On July 3, 2013, Air France redeemed a portion of these bonds amounting to €9 million.

32.3.2 Bonds issued in 2009

As of October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and bearing an annual interest rate of 6.75%.

32.3.3 Bonds issued in 2012

As of December 14, 2012, Air France-KLM issued bonds for a total amount of €500 million, maturing on January 18, 2018 and bearing an annual interest rate of 6.25%.

32.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of December 31, *(In € million)*	**2013**	**2012**
Aircraft		
Future minimum lease payments – due dates		
Y+1	637	651
Y+2	612	605
Y+3	549	576
Y+4	526	510
Y+5	469	489
Over 5 years	1,560	1,760
Total	**4,353**	**4,591**
Including:		
♦ Principal	3,893	4,015
♦ Interest	460	576
Buildings		
Future minimum lease payments – due dates		
Y+1	65	58
Y+2	67	59
Y+3	51	59
Y+4	55	44
Y+5	58	49
Over 5 years	288	212
Total	**584**	**481**
Including:		
♦ Principal	426	401
♦ Interest	158	80
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	13	13
Y+2	12	12
Y+3	10	11
Y+4	10	9
Y+5	10	9
Over 5 years	78	87
Total	**133**	**141**
Including:		
♦ Principal	88	91
♦ Interest	45	50

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in Note 24.

32.5 Other debt

Other debt breaks down as follows:

As of December 31 *(In € million)*	2013	2012
Reservation of ownership clause and mortgage debt	1,321	1,773
Other debt	890	1,066
Total	**2,211**	**2,839**

Other debt corresponds mainly to bank borrowings.

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

32.6 Maturity analysis

The financial debt maturities break down as follows:

As of December 31 *(In € million)*	2013	2012
Maturities in		
Y+1	2,500	1,817
Y+2	1,871	2,256
Y+3	2,095	1,815
Y+4	1,034	2,095
Y+5	1,291	920
Over 5 years	3,491	4,081
Total	**12,282**	**12,984**
Including:		
♦ Principal	10,733	10,999
♦ Interest	1,549	1,985

As of December 31, 2013, the expected financial costs amount to €363 million for the 2014 financial year, €811 million for the financial years 2015 to 2018, and €375 million thereafter.

As of December 31, 2013, it has been considered that the perpetual subordinated loan stocks and the OCEANEs would be reimbursed according to their most probable maturity:

- probable exercice date of the issuer call for the perpetual subordinated loans;
- second exercice date of the investor put, i.e April 1, 2016, for the majority of the OCEANEs issued in 2005 *(see Note 32.2.1);*
- probable exercice date of the investor put, i.e February 15, 2019, for the majority of the OCEANEs issued in 2013 *(see Note 32.2.3);*
- contractual maturity date for the OCEANE issued in 2009.

Repayable bonds issued in 2006, 2007, 2009 and 2012 will be reimbursed at their contractual maturity date *(see Notes 32.2 and 32.3)*.

32.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31 *(In € million)*	2013	2012
Euro	9,131	9,059
US dollar	587	867
Swiss franc	351	357
Yen	664	716
Total	**10,733**	**10,999**

32.8 Credit lines

As of December 31, 2013, the Group had credit lines amounting to €1,806 million, of which only €4 million have been drawn down. The three main credit lines amounted, respectively, to €1,060 million for Air France, €540 million for KLM and €200 million for the holding company Air France-KLM.

On April 4, 2011, Air France renewed its credit facility maturing on April 7, 2013 with a €1,060 million revolving credit facility maturing on April 4, 2016, subject to the following financial covenants based on the Air France Group's consolidated financial statements:

- EBITDAR must not be lower than two and a half times the net interest charges increased by one third of operating lease payments;
- tangible and financial assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured financial net debts.

These ratios are calculated every six months based on Air France Group's consolidated financial statements and were respected at December 31, 2013.

KLM's credit facility, which amounts to €540 million with a maturity in 2016, is subject to the company respecting the following financial covenants:

- EBITDAR must not be lower than two and a half times the sum of net interest charges and one third of operating lease payments;
- tangible and financial 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 based on KLM Group's consolidated financial statements and were respected at December 31, 2013.

Air France-KLM's credit facility, with a maturity as of October 4, 2017, amounts to €200 million as of December 31, 2013. It will be reduced by €50 million every year on its October 4 anniversary, and, is subject to respect of the following financial covenants calculated based on the Air France-KLM consolidated financial statements:

- EBITDAR must be at least equal to one and a half times net interest charges added to one third of operating lease payments;
- tangible and financial assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured financial net debt.

These ratios are calculated every six months and were respected at December 31, 2013.

Note 33 Other liabilities

As of December 31 *(In € million)*	2013 Current	 Non current	2012 Current	 Non current
Tax liabilities	707	-	502	-
Employee-related liabilities	832	-	844	-
Non current assets' payables	87	-	48	-
Derivative instruments	118	319	85	279
Deferred income	120	6	122	32
Other	468	72	873	73
Total	**2,332**	**397**	**2,474**	**384**

Derivative instruments comprise €88 million of currency hedges on financial debts as of December 31, 2013, including €86 million as non current liability and €2 million as current liability (against €13 million as of December 31, 2012, all non current liability).

Note 34 Financial instruments

34.1 Risk management

Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer of Air France-KLM, the Chief Executive Officers of Air France and of KLM, the Chief Financial Officer of Air France-KLM, and the Chief Financial Officers of Air France and 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 carbon quota prices, 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 preferred types of hedging instrument. The aim is to reduce the exposure of Air France-KLM to the market fluctuations. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company. In-house procedures governing risk management prohibit speculation.

The instruments used are swaps, futures and options.

Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The treasury management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, 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 transmitted to the executive managements.

The implementation of the policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current fiscal year and the two following years, is sent to the executive management. This mainly covers the transactions carried out during the week, the valuation of all the positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels, the resulting net prices and stress scenarii, as well as market commentary. Furthermore, the fuel purchasing department issues a weekly Air France-KLM Group report (known as the GEC Report) which consolidates the figures from the two companies relating to fuel hedging and physical cost.

Lastly, a monthly report, which is submitted to the executive management by the fuel purchasing department, indicates the level of advancement on carbon quota purchases and the forecast related expenditure.

Currency risk

Most of the Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The principal exposure is to the US dollar.

With regard to the US dollar, since expenditure on items such as fuel, operating leases and component costs exceed the level of revenues, the Group is a net buyer. This 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 exceeding expenditure. The main exposure concerns the yen and sterling. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity and financial results.

In order to reduce its currency exposure, the Group has adopted hedging strategies.

Both companies progressively hedge their net exposure over a rolling 24-month period.

Aircraft are mainly purchased in US dollars, meaning that the Group is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy plans the progressive and systematic implementation of hedging between the date of the aircraft order and their delivery date.

The exchange rate risk on the Group's financial debt is limited. At December 31, 2013, 87% of the Group's gross debt, after taking into account derivative instruments, was issued in or converted into euros, thereby markedly reducing the risk of currency fluctuation on the debt. The exposure of the debt to other currencies mainly concerns yen, US dollar and Swiss Franc.

Despite this active hedging policy, all exchange rate risks are not covered, especially in the event of significant variation of currencies in which debts are denominated. The Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the Group's business and financial results.

Interest rate risk

At both Air France and KLM, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, Air France and KLM have used swap strategies and options to hedge a significant proportion of their debt. After hedging, the Air France-KLM Group's gross debt contracted at fixed rates represents 69% of the overall total.

Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of the Air France-KLM Group and approved by the executive management. The RMC reconsider the hedging strategy quarterly and can change the hedge percentage or underlyings.

Main characteristics of the hedge strategy

- *Hedge horizon:* 2 years
- *Minimum hedge percentage:*
  - quarter underway: 60% of the volumes consumed,
  - quarter 1 to quarter 3: 60% of the volumes consumed,
  - quarter 4: 50% of the volumes consumed,
  - quarter 5: 40% of the volumes consumed,
  - quarter 6: 30% of the volumes consumed,
  - quarter 7: 20% of the volumes consumed,
  - quarter 8: 10% of the volumes consumed.
- *Increment of coverage ratios:* 10% by quarter
- *Underlyings:* Brent, Diesel and Jet Fuel
  The strategy of the Group recommends to use three underlying instruments which are Brent, Diesel and Jet Fuel. Currently, the volumes are mainly hegded with Brent given the few attractive prices of Diesel and Jet Fuel.
- *Instruments:*
  Swap, call, call spread, three ways, four ways and collar.
- *IAS 39 rule:*
  The instruments and underlyings used within the framework of the strategy must be compliant with IAS 39.
- *Implementation of monitoring indicators on positions:*
  To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the Air France-KLM Group uses the VAR (value at risk) metric to help measure the risk incurred by its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which limit the scale of variation of this same portfolio and enable the appropriate reaction.

Risks on carbon credit

To meet its regulatory obligations, the CO_2 emission quota acquisition strategy has been monitored and reviewed during every RMC meeting since October 2011. Its implementation led to the progressive hedging of the requirement for the current year (2013) and to anticipate the needs of the following year (2014), by hedging a portion of the later based on an applicable scope similar to that of 2012.

The European Commission had effectively announced the suspension of the application of its CO_2 emission permit system for intercontinental flights and had maintained its application for intra-European flights in respect of 2012 compliance.

Following the triennial assembly of the ICAO in autumn 2013, the change in applicable scope was also announced by the European Commission for 2013 and the following years. The scope applicable for 2013 compliance should therefore concern intra-European flights. The scope applicable for 2014 still needs to be clearly defined and remains under discussion.

- *Underlyings:* EUA quotas
- *Instruments:* Forwards, delivery and payment during the quarter preceding the compliance application date.

Investment risks

The cash resources of Air France, KLM and Air France-KLM are currently invested in short term, primarily money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2.

Lastly, in order to reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in foreign-currency rated as high quality bonds.

Equity risks

The Air France-KLM Group holds a limited number of shares which are listed for trading.

The value of these investments may vary during their period of ownership. These investments are accounted for using either the equity method (associates) if the Group has the ability to exercise significant influence, or at their fair value. If the fair value cannot be determined from a practical point of view, the value of the investment is measured at its acquisition cost.

The Group is exposed to the risk of significant and unexpected change in the fair value of its shares in Amadeus IT Holding. The Group consequently entered into a hedge agreement with Société Générale for approximately one third of its stake (12 million Amadeus shares) via a collar in November 2012, enabling the value of these shares to be protected *(see Note 24)*.

Treasury shares held by Air France-KLM are not deemed to be investments. Furthermore, treasury shares are not deemed to be exposed to risk, since any variation in the value of these shares is only recognized directly in equity when they are sold in the market, with no impact on the net result.

Counterparty risk management

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables.

Counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group's counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures,

The counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in the Note 4.10.3. Derivative instruments are guided by framework compensation agreements ISDA and FBF. In these agreements, the compensation (in case of default) has to be made by counterparty for all the derivative guided by each agreement,

Counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of the customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

	Total exposure in € millions	
LT Rating (Standards & Poors)	**As of December 31, 2013**	**As of December 31, 2012**
AAA	145	104
AA	196	303
A	1,880	1,539
BBB	96	94
Total	**2,317**	**2,040**

Liquidity risk

The liquidity risk is associated to the credit lines held by the Group, as described in Note 32.8.

34.2 Derivative instruments

As of December 31, 2013 the fair value of the Group's derivative instruments and their expected maturities are as follows:

(In € million)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	255	205	50	-	-	-	-
	Liability	(10)	(9)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	14	1	-	1	-	-	12
	Liability	(129)	(4)	(11)	(19)	(14)	(18)	(63)
Currency exchange derivative instruments	Asset	95	61	26	-	2	3	3
	Liability	(182)	(105)	(48)	(8)	(7)	(5)	(9)
OCEANE swap instrument *(see Note 32.2.1)*	Asset	-	-	-	-	-	-	-
	Liability	(8)	-	-	(8)	-	-	-
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(108)	-	(72)	(36)	-	-	-
Carbon credit derivative instruments	Asset	-	-	-	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	**Asset**	**364**	**267**	**76**	**1**	**2**	**3**	**15**
	Liability	**(437)**	**(118)**	**(132)**	**(71)**	**(21)**	**(23)**	**(72)**

As of December 31, 2012 the fair value of the Group's derivative instruments and their expected maturities are as follows:

(In € million)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	146	113	33	-	-	-	-
	Liability	(35)	(24)	(11)	-	-	-	-
Interest rate derivative instruments	Asset	24	4	1	-	3	-	16
	Liability	(200)	(7)	(17)	(14)	(19)	(29)	(114)
Currency exchange derivative instruments	Asset	134	84	34	4	-	5	7
	Liability	(105)	(44)	(33)	(11)	(2)	(6)	(9)
Carbon credit derivative instruments	Asset	-	-	-	-	-	-	-
	Liability	(10)	(10)	-	-	-	-	-
OCEANE swap instrument *(see Note 32.2.1)*	Asset	-	-	-	-	-	-	-
	Liability	(14)	-	-	-	(14)	-	-
Total	**Asset**	**304**	**201**	**68**	**4**	**3**	**5**	**23**
	Liability	**(364)**	**(85)**	**(61)**	**(25)**	**(35)**	**(35)**	**(123)**

The value of the derivatives used by the Group to hedge the Amadeus equity risk does not figure in this table since it is below €1 million.

34.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Diesel and Jet CIF are presented below, at their nominal value:

➤ Year ended December 31, 2013

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	617	617	-	-	-	-	-	38
Options	4,931	3,377	1,554	-	-	-	-	207
Total	**5,548**	**3,994**	**1,554**	**-**	**-**	**-**	**-**	**245**

➤ Year ended December 31, 2012

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	451	224	227	-	-	-	-	16
Options	5,831	4,387	1,444	-	-	-	-	95
Total	**6,282**	**4,611**	**1,671**	**-**	**-**	**-**	**-**	**111**

Fuel hedge sensitivity

The impact on "income before tax" and on "gains/(losses) taken to equity" of a variation in the fair value of the fuel hedges following a +/- USD 10 variation in the price of a barrel of Brent is as follows:

(In € million)	2013		2012	
As of December 31	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent
Income before tax	(66)	(187)	123	(194)
Gains / (losses) taken to equity	477	(181)	290	(213)

34.2.2 Exposure to interest rate risk

To manage the interest rate risk on its short and long-term borrowings, the Group uses instruments with the following nominal values:

➤ Year ended December 31, 2013

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging	***2,272***	***294***	***184***	***461***	***251***	***316***	***766***	***(112)***
Interest rate swaps	1,983	201	154	319	251	292	766	(107)
Options	289	93	30	142	-	24	-	(5)
Operations qualified as fair value hedging	***261***	***28***	***17***	***35***	***-***	***-***	***181***	***1***
Interest rate swaps	261	28	17	35	-	-	181	1
Operations qualified as fair value through profit and loss	***117***	***-***	***-***	***48***	***-***	***-***	***69***	***(4)***
Interest rate swaps	83	-	-	14	-	-	69	(10)
Others	34	-	-	34	-	-	-	6
TOTAL	**2,650**	**322**	**201**	**544**	**251**	**316**	**1,016**	**(115)**

➤ Year ended December 31, 2012

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging	***2,766***	***146***	***367***	***280***	***244***	***545***	***1,184***	***(155)***
Interest rate swaps	2,307	70	321	182	214	336	1,184	(145)
Options	459	76	46	98	30	209	-	(10)
Operations qualified as fair value hedging	***593***	***-***	***30***	***32***	***60***	***-***	***471***	***(8)***
Interest rate swaps	593	-	30	32	60	-	471	(8)
Operations qualified as fair value through profit and loss	***146***	***-***	***-***	***-***	***-***	***58***	***88***	***(13)***
Interest rate swaps	104	-	-	-	-	16	88	(13)
Others	42	-	-	-	-	42	-	-
TOTAL	**3,505**	**146**	**397**	**312**	**304**	**603**	**1,743**	**(176)**

Based on the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 *(In € million)*	2013				2012			
	Before hedging		After hedging		Before hedging		After hedging	
	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	2,052	2.8%	2,052	2.8%	2,198	2.2%	2,198	2.2%
Fixed-rate financial liabilities	5,965	4.4%	7,486	4.1%	5,673	4.5%	7,752	4.2%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	2,400	0.5%	2,400	0.5%	2,299	1.1%	2,299	1.1%
Floating-rate financial liabilities	4,934	1.7%	3,413	2.1%	5,583	2.2%	3,504	1.9%
Without-rate financial assets	**2,226**	**-**	**2,226**	**-**	**1,521**	**-**	**1,521**	**-**

As of December 31, 2013 and December 31, 2012, without-rate financial assets mainly include cash and the revaluation of Amadeus' shares at their fair value.

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100 basis point variation (increase or decrease) in interest rates would have an impact of €12 million on the financial income for the year ended December 31, 2013 versus €6 million for the year ended December 31, 2012.

34.2.3 Exposure to exchange rate risk

The nominal amount of futures and swaps linked to exchange rate are detailed below given the nature of the hedging operations:

➤ Year ended December 31, 2013

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	***4,143***	***2,785***	***1,347***	***11***	***-***	***-***	***-***	***(33)***
Exchange rate options	2,222	1,511	711	-	-	-	-	(15)
Forward purchases	1,509	1,003	495	11	-	-	-	(57)
Forward sales	412	271	141	-	-	-	-	39
Exchange risk (Fair value hedging of flight equipment acquisition)	***1,338***	***429***	***408***	***251***	***120***	***81***	***49***	***(54)***
Forward purchases	1,338	429	408	251	120	81	49	(54)
Exchange risk (trading)	***438***	***72***	***62***	***-***	***98***	***110***	***96***	***-***
Forward purchases	219	36	31	-	49	55	48	3
Forward sales	219	36	31	-	49	55	48	(3)
Total	**5,919**	**3,286**	**1,817**	**262**	**218**	**191**	**145**	**(87)**

➤ Year ended December 31, 2012

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	***4,414***	***2,949***	***1,460***	***4***	***1***	***-***	***-***	***19***
Exchange rate options	2,278	1,508	770	-	-	-	-	12
Forward purchases	1,717	1,170	542	4	1	-	-	(14)
Forward sales	419	271	148	-	-	-	-	21
Exchange risk (Fair value hedging of flight equipment acquisition)	**1,360**	**471**	**336**	**249**	**105**	**79**	**120**	**10**
Forward purchases	1,322	433	336	249	105	79	120	7
Forward sales	38	38	-	-	-	-	-	3
Exchange risk (trading)	***540***	***82***	***76***	***64***	***-***	***102***	***216***	***-***
Forward purchases	270	41	38	32	-	51	108	14
Forward sales	270	41	38	32	-	51	108	(14)
Total	**6,314**	**3,502**	**1,872**	**317**	**106**	**181**	**336**	**29**

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

As of December 31 *(In € million)*	Monetary assets		Monetary liabilities	
	2013	2012	2013	2012
US dollar	143	228	519	432
Pound sterling	23	26	-	1
Yen	8	8	727	819
Swiss franc	11	8	341	347

The amount of monetary assets and liabilities disclosed above does not include the effect of the revaluation of assets and liabilities documented in fair value hedge.

The impact on “income before tax” and on “gains/(losses) taken to equity” of a 10% appreciation in foreign currencies relative to the euro is presented below:

As of December 31 *(In € million)*	US dollar		Pound Sterling		Yen	
	2013	2012	2013	2012	2013	2012
Income before tax	37	9	(8)	(7)	(70)	(79)
Gains / (losses) taken to equity	312	392	(24)	(22)	(37)	(44)

The impact of the change in fair value of currency derivatives on “income before tax” and on “gains/(losses) taken to equity” of a 10% depreciation in foreign currencies relative to the euro is presented below:

As of December 31 *(In € million)*	US dollar		Pound Sterling		Yen	
	2013	2012	2013	2012	2013	2012
Income before tax	(108)	(60)	-	(1)	62	68
Gains / (losses) taken to equity	(220)	(266)	23	22	34	45

34.2.4 Carbon credit risk

As of December 31, 2013, the Group has hedged its future purchases of CO_2 quotas via forward purchase for a nominal of €15 million whose fair value is nil, versus, respectively, €16 million and €(10) million as of December 31, 2012.

These contracts mostly expire within less than 2 years.

34.3 Market value of financial instruments

Market values are estimated for most of the Group’s financial instruments using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They bear the following inherent limitations:

- estimated market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates;
- estimated amounts as of December 31, 2013 and December 31, 2012 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

The application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

- *Cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:*
  The Group believes that, due to its short-term nature, net book value can be deemed a reasonable approximation of market value.

- *Marketable securities, investments and other securities:*
  The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Securities classified under "Assets available for sale" are recorded at their stock market value.
  Where no comparable exists, the Group uses their book value, which is deemed a reasonable approximation of market value in this instance.
- *Borrowings, other financial debts and loans:*
  The market value of fixed and floating-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.
- *Derivative instruments:*
  The market value of derivative instruments corresponds to the amounts payable or receivable were the positions to be closed out as of December 31, 2013 and December 31, 2012 calculated using the year-end market rate.

Only the financial assets and liabilities whose fair value differs from their net book value are presented in the following table:

As of December 31 *(In € million)*	2013		2012	
	Net book value	Estimated market value	Net book value	Estimated market value
Financial assets				
Loans	164	167	160	171
Financial liabilities				
Debt measured at amortized cost				
Bonds	3,419	3,788	2,938	3,201
OCEANE 2005	*390*	*428*	*419*	*433*
OCEANE 2009	*633*	*717*	*569*	*718*
OCEANE 2013	*455*	*588*	*-*	*-*
Bond 2006/2007	*741*	*743*	*750*	*767*
Bond 2009	*700*	*765*	*700*	*757*
Bond 2012	*500*	*547*	*500*	*526*
Perpetual subordinated loans	552	248	603	306
Other borrowings and financial debt	1,857	1,770	2,061	1 881

34.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group's financial assets and liabilities is as follows based on the three classification levels *(see Note 4.10.7):*

As of December 31 *(In € million)*	Level 1		Level 2		Level 3		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Financial assets available for sale								
Shares	1,100	684	35	20	-	-	**1,135**	**704**
Assets at fair value through profit and loss								
Marketable securities and cash secured	31	36	920	920	-	-	**951**	**956**
Cash equivalents	1,552	2,653	1,152	148	-	-	**2,704**	**2,801**
Derivative instruments asset								
Interest rate derivatives	-	-	14	24	-	-	**14**	**24**
Currency exchange derivatives	-	-	95	134	-	-	**95**	**134**
Commodity derivatives	-	-	255	146	-	-	**255**	**146**

Financial liabilities at fair value comprise the fair value of interest rate, foreign exchange and commodity derivative instruments. These valuations are classified as level 2.

Note 35 Lease commitments

35.1 Capital leases

The debt related to capital leases is detailed in Note 32.

35.2 Operating leases

The minimum future payments on operating leases are as follows:

As of December 31 *(In € million)*	Minimum lease payments	
	2013	2012
Flight equipment		
Due dates		
Y+1	912	913
Y+2	816	841
Y+3	754	717
Y+4	727	615
Y+5	606	513
Over 5 years	1,872	1,423
Total	**5,687**	**5,022**
Buildings		
Due dates		
Y+1	221	221
Y+2	152	169
Y+3	136	148
Y+4	108	134
Y+5	94	107
Over 5 years	878	956
Total	**1,589**	**1,735**

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

Note 36 Flight equipment orders

Due dates for commitments in respect of flight equipment orders are as follows:

As of December 31 *(In € million)*	2013	2012
Y+1	381	511
Y+2	436	431
Y+3	616	434
Y+4	536	354
Y+5	931	248
> Y+5	3,828	2,162
Total	**6,728**	**4,140**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

The number of aircraft under firm order as of December 31, 2013 increased by 21 units compared with December 31, 2012 and stood at 64 aircraft.

The changes are explained by the order for 25 aircraft, the delivery of five aircraft over the period and the conversion of one option into a firm order over the period.

Long-haul fleet

Passenger

The Group ordered 25 Airbus A350s.

The Group took delivery of one Airbus A380, one Airbus A330 and one Boeing B777.

Moreover, a Boeing B777 on option has been transformed into firm order.

Cargo

The Group did not take any deliveries.

Medium-haul fleet

The Group took delivery of 2 Boeing B737s.

Regional fleet

The Group did not take any deliveries.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in year	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A380	***As of December 31, 2013***	***1***	***-***	***-***	***-***	***2***	***-***	***3***
	As of December 31, 2012	2	2	-	-	-	-	4
A350	***As of December 31, 2013***	***-***	***-***	***-***	***-***	***2***	***23***	***25***
	As of December 31, 2012	-	-	-	-	-	-	-
A330	***As of December 31, 2013***	***-***	***-***	***-***	***-***	***-***	***-***	***-***
	As of December 31, 2012	1	-	-	-	-	-	1
B787	***As of December 31, 2013***	***-***	***-***	***3***	***5***	***3***	***14***	***25***
	As of December 31, 2012	-	-	-	3	3	19	25
B777	***As of December 31, 2013***	***-***	***3***	***2***	***-***	***-***	***-***	***5***
	As of December 31, 2012	1	-	3	1	-	-	5
Medium-haul fleet								
A320	***As of December 31, 2013***	***-***	***-***	***3***	***-***	***-***	***-***	***3***
	As of December 31, 2012	-	-	3	-	-	-	3
B737	***As of December 31, 2013***	***2***	***-***	***-***	***-***	***-***	***-***	***2***
	As of December 31, 2012	2	2	-	-	-	-	4
Regional fleet								
CRJ 1000	***As of December 31, 2013***	***-***	***1***	***-***	***-***	***-***	***-***	***1***
	As of December 31, 2012	-	-	1	-	-	-	1

Note 37 Other commitments

37.1 Commitments made

As of December 31 *(In € million)*	2013	2012
Call on investment securities	3	3
Warranties, sureties and guarantees	288	284
Secured debts	5,756	6,279
Other purchase commitments	155	106

The restrictions and pledges as of December 31, 2013 were as follows:

(In € million)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets			-	896	-
Tangible assets	March 1999	September 2027	7,022	11,210	62.7%
Other financial assets	November 1999	May 2027	1,824	2,994	60.9%
Total			**8,846**	**15,100**	**-**

37.2 Commitments received

As of December 31 *(In € million)*	2013	2012
Warranties, sureties and guarantees	135	142

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

Note 38 Related parties

38.1 Transactions with the principal executives

As of December 31, 2013, directors and their relatives hold less than 0.01% of the voting rights.

Short term benefits granted to the principal company officers and booked in expenses amounts to €0.6 million as of December 31, 2013 against €0.4 million as of December 31, 2012.

During these two periods, there were no payments of post employment benefits.

Directors' fees paid during the financial year ended December 31, 2013 for attendance of Board meetings during the financial year ended December 31, 2012 amounted to €0.3 million. To join the efforts required under the recovery plan Transform 2015, the directors had decided to give up half of fees concerning the year 2012.

Concerning the financial year ended December 31, 2013, €0.6 million was also paid for attendance of Board meetings.

38.2 Transactions with other related parties

The total amounts of transactions with related parties for the financial years ended December 31, 2013 and December 31, 2012 are as follows:

As of December 31 *(In € million)*	2013	2012
Assets		
Net trade accounts receivable	126	128
Other current assets	25	12
Other non-current assets	7	21
Total	**158**	**161**
Liabilities		
Trade accounts payable	114	183
Other current liabilities	56	66
Other long-term liabilities	72	35
Total	**242**	**284**

As of December 31 *(In € million)*	2013	2012
Net sales	244	215
Landing fees and other rents	(394)	(415)
Other selling expenses	(153)	(158)
Passenger service	(53)	(43)
Other	(49)	(56)
Total	**(405)**	**(457)**

As a part of its normal business, the Group enters into transactions with related parties including transactions with State-owned and governmental entities such as the Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP") and the French civil aviation regulator ("DGAC"). Air France-KLM considers that such transactions are concluded on terms equivalent to those on transactions with third parties. The most significant transactions are described below:

Aéroports De Paris (ADP)

- land and property rental agreements;
- airport and passenger-related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the above-mentioned arrangements amounted to a respective €372 million and €373 million for the periods ended December 31, 2013 and December 31, 2012.

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry concerning the maintenance of aircraft in the French Air Force. The net revenue derived from this activity amounted to €42 million for the year ended December 31, 2013 versus €67 million as of December 31, 2012.

Direction Générale de l'Aviation Civile (DGAC)

This civil aviation regulator is under the authority of the French Ministry of Transport, which manages security and safety in the French air space and at airport. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services which amounted to €105 million as of December 31, 2013 versus €115 million for the year ended December 31, 2012.

Amadeus

For the year ended December 31, 2013, total transactions with Amadeus amounted to an expense of €132 million for the Group, compared with €141 million for the year ended December 31, 2012.

Alitalia

For the year ended December 31, 2013, the amount of transactions realized with Alitalia represents revenues of €81 million for the Group (compared with €53 million for the year ended December 31, 2012) and a cost of €12 million (compared with €14 million for the year ended December 31, 2012).

Note 39 Consolidated statement of cash flow

39.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

As of December 31 *(In € million)*	Notes	2013	2012 Pro forma
Variation of provisions relating to restructuring plan	**11**	17	375
Variation of provisions relating to pension and pension assets		(51)	(91)
Variation of provisions relating to goodwill	**17**	11	173
Impairment of Cityjet VLM Group	**14**	66	-
Variation of provisions relating to onerous contracts	**11**	(4)	50
Depreciation of assets available for sale	**11**	102	-
Other		65	38
Total		**206**	**545**

39.2 Acquisitions of subsidiaries, of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

As of December 31 *(In € million)*	2013	2012
Cash disbursement for acquisitions	(33)	(39)
Cash from acquired subsidiaries	6	-
Net cash disbursement	***(27)***	***(39)***

There were no significant acquisitions of subsidiaries and investments for the periods presented.

39.3 Disposal of subsidiaries without loss of control, of owned shares

As of December 31, 2013, no cash proceeds have been recorded on this line.

As of December 31, 2012, the net cash proceeds corresponded to profits of disposal of owned shares for €7 million.

39.4 Non cash transactions

During the financial year ended December 31, 2013, the Group renewed a lease contract for a car park with Aéroport de Paris. This contract is classified as a financial lease.

A lease contract on A340 aircraft, classified as a financial lease in 2012, has also been reclassified as an operational lease.

During the financial year ended December 31, 2012, the Group had entered into a financial lease for the acquisition of an A380 aircraft and for the acquisition of a building dedicated to handling delayed luggage. The Group had also renewed a lease contract for a B747-400 aircraft and reclassified under financial lease the contract on an A340 aircraft.

These operations have no impact on the cash flow statement.

Note 40 Fees of Statutory Auditors

As of 31 December 31 *(In € million)*	KPMG			
	2013		2012	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.7	88%	3.8	85%
♦ *Air France-KLM SA*	*0.7*	-	*0.7*	-
♦ *Consolidated subsidiaries*	*3.0*	-	*3.1*	-
Other ancillary services and audit services	0.2	5%	0.6	13%
♦ *Air France-KLM SA*	*0.1*	-	*0.1*	-
♦ *Consolidated subsidiaries*	*0.1*	-	*0.5*	-
Sub-total	**3.9**	**93%**	**4.4**	**98%**
Other services				
Legal, tax and corporate	0.3	7%	0.1	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM Group	**4.2**	**100%**	**4.5**	**100%**

As of December 31 *(In € million)*	Deloitte & Associés			
	2013		2012	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.7	90%	3.8	87%
♦ *Air France-KLM SA*	*0.7*	-	*0.7*	-
♦ *Consolidated subsidiaries*	*3.0*	-	*3.1*	-
Other ancillary services and audit services	0.3	8%	0.5	11%
♦ *Air France-KLM SA*	*0.1*	-	*0.1*	-
♦ *Consolidated subsidiaries*	*0.2*	-	*0.4*	-
Sub-total	**4.0**	**98%**	**4.3**	**98%**
Other services				
Legal, tax and corporate	0.1	2%	0.1	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM Group	**4.1**	**100%**	**4.4**	**100%**

Note 41 Consolidation scope as of December 31, 2013

The scope includes 162 fully-consolidated entities and 41 equity affiliates.

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

41.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.	Netherlands	Multisegment	99	49
MARTINAIR HOLLAND N.V.	Netherlands	Multisegment	99	49
AIR FRANCE GROUND HANDLING INDIA PVT LTD	India	Passenger	51	51
AIRLINAIR	France	Passenger	100	100
BLUE LINK	France	Passenger	100	100
BLUE LINK INTERNATIONAL	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BLUELINK INTERNATIONAL CZ	Czech Rep.	Passenger	100	100
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUE CONNECT	Mauritius	Passenger	70	70
HOP BRIT AIR	France	Passenger	100	100
CITY JET	Ireland	Passenger	100	100
COBALT GROUND SOLUTIONS LIMITED	United Kingdom	Passenger	99	49
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC B.V.	Netherlands	Passenger	99	49
HEATHROW AIRPORT HANDLING LTD	United Kingdom	Passenger	99	49
HOP	France	Passenger	100	100
IAS ASIA INCORPORATED	Philippines	Passenger	99	49
IASA INCORPORATED	Philippines	Passenger	99	49
ICARE	France	Passenger	100	100
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES AMERICAS L.P	United States	Passenger	99	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	99	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	99	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Passenger	99	49
KLM FLIGHT ACADEMY B.V.	Netherlands	Passenger	99	49
LYON MAINTENANCE	France	Passenger	100	100
MILESHOUSE	France	Passenger	100	100

Entity	Country	Segment	% interest	% control
HOP REGIONAL	France	Passenger	100	100
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Netherlands	Passenger	99	49
VLM AIRLINES N.V.	Belgium	Passenger	100	100
BLUE CROWN B.V.	Netherlands	Cargo	99	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	65	65
AEROMAINTENANCE GROUP	United States	Maintenance	100	100
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100
AIR FRANCE KLM COMPONENT SERVICES CO LTD	Chine	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Netherlands	Maintenance	99	49
KLM E&M MALAYSIA SDN BHD	Malaysia	Maintenance	99	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	99	49
ACNA	France	Other	98	100
ACSAIR	France	Other	50	51
SERVAIR FORMATION	France	Other	98	100
AFRIQUE CATERING	France	Other	50	51
AIDA	Mauritius	Other	77	77
AIR FRANCE FINANCE	France	Other	100	100
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE KLM FINANCE	France	Other	100	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	79	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	79	39
ALL AFRICA AIRWAYS	Mauritius	Other	80	80
AMSTERDAM SCHIPOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	59	49
AMSTERDAM SCHIPOL PIJPLEIDING C.V.	Netherlands	Other	75	49
BLUE YONDER IX B.V.	Netherlands	Other	99	49
BLUE YONDER X B.V.	Netherlands	Other	99	49
BLUE YONDER XIV B.V.	Netherlands	Other	99	49
BLUE YONDER XV B.V.	Netherlands	Other	99	49
B.V. KANTOORGEBOUW MARTINAIR	Netherlands	Other	99	49
CATERING FDF	France	Other	98	100
CATERING PTP	France	Other	98	100
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0
DAKAR CATERING	Senegal	Other	64	65
ETS SCHIPHOL B.V.	Netherlands	Other	99	49
EUROPEAN CATERING SERVICES	United States	Other	98	100

Entity	Country	Segment	% interest	% control
GIE JEAN BART	France	Other	10	10
GIE SERVCENTER	France	Other	98	100
GIE SURCOUF	France	Other	100	100
GUINEENNE DE SERVICES AEROPORTUAIRES S.A.	Guinea	Other	30	60
HEESWIJK HOLDING B.V.	Netherlands	Other	99	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KES AIRPORT EQUIPMENT FUELLING B.V.	Netherlands	Other	99	49
KES AIRPORT EQUIPMENT LEASING B.V.	Netherlands	Other	99	49
KLM AIRL CHARTER B.V.	Netherlands	Other	99	49
KLM CATERING SERVICES SCHIPOL B.V.	Netherlands	Other	99	49
KLM FINANCIAL SERVICES B.V.	Netherlands	Other	99	49
KLM HEALTH SERVICES B.V.	Netherlands	Other	99	49
KLM INTERNATIONAL CHARTER B.V.	Netherlands	Other	99	49
KLM INTERNATIONAL FINANCE COMPANY B.V.	Netherlands	Other	99	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM UNTERSTUTZUNGSKASSEN GMBH	Germany	Other	99	49
KROONDUIF B.V.	Netherlands	Other	99	49
LYON AIR TRAITEUR	France	Other	98	100
MALI CATERING	Mali	Other	70	99
MARTINAIR AFRICA LTD.	Kenya	Other	99	49
MARTINAIR FAR EAST LTD.	Hong Kong	Other	99	49
MARTINAIR HK LTD.	Hong Kong	Other	99	49
MARTINAIR VESTIGING VLIEGVELD LELYSTAD B.V.	Netherlands	Other	99	49
MARTINIQUE CATERING	France	Other	91	93
MAURITANIE CATERING	Mauritania	Other	25	51
NAS AIRPORT SERVICES LIMITED	Kenya	Other	58	100
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49
ORLY AIR TRAITEUR	France	Other	98	100
SERVAIR BURKINA FASO	Burkina Faso	Other	84	86
PARIS AIR CATERING	France	Other	98	100
PASSERELLE CDG	France	Other	64	66
PELICAN	Luxembourg	Other	100	100
PMAIR	France	Other	50	51
PRESTAIR	France	Other	98	100
PYRHELIO-STAETE B.V.	Netherlands	Other	99	49
QUASAR-STAETE B.V.	Netherlands	Other	99	49
RIGEL-STAETE B.V.	Netherlands	Other	99	49

Entity	Country	Segment	% interest	% control
SENCA	Senegal	Other	32	51
SEREP	Senegal	Other	57	59
SERVAIR (Cie d'exploitation des services auxiliaires aériens)	France	Other	98	98
SERVAIR ABIDJAN	Ivory Coast	Other	84	86
SERVAIR CARAIBES	France	Other	98	98
SERVAIR GHANA	Ghana	Other	56	57
SERVAIR RETAIL FORT DE France	France	Other	50	51
SERVAIR SATS	Singapore	Other	50	51
SERVAIR SOLUTION ITALIA S.R.L.	Italy	Other	98	100
SERVANTAGE	France	Other	98	100
SERVASCO	Macao	Other	59	60
SERVAIR SOLUTIONS	France	Other	98	100
SERVAIR GABON	Gabon	Other	54	55
SERVLOGISTIC	France	Other	98	100
SIA AFRIQUE	France	Other	98	98
SIA COMMERCES ET SERVICES	France	Other	98	98
SIA INTERNATIONAL	France	Other	98	98
SIA KENYA HOLDING LIMITED	Kenya	Other	58	59
SIEGA LOGISTICS (PROPRIETARY) PTY	South Africa	Other	99	49
SISALOGISTIC NETHERLANDS B.V.	Netherlands	Other	99	49
SISALOGISTIC U.S. LTD.	United States	Other	99	49
SKYCHEF	Seychelles	Other	54	55
SKYLOGISTIC	France	Other	98	100
SKYLOGISTIQUE AFRIQUE	France	Other	64	66
SOCIETE IMMOBILIERE AEROPORTUAIRE	France	Other	98	100
SOGRI	France	Other	95	97
SORI	France	Other	49	50
SPECIAL MEALS CATERING	France	Other	98	100
SPICA-STAETE B.V.	Netherlands	Other	99	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	99	49
SVRL@LA REUNION	France	Other	49	50
TAKEOFF 1 LIMITED	Ireland	Other	100	100
TAKEOFF 2 LIMITED	Ireland	Other	100	100
TAKEOFF 3 LIMITED	Ireland	Other	100	100
TAKEOFF 4 LIMITED	Ireland	Other	100	100
TAKEOFF 5 LIMITED	Ireland	Other	100	100
TAKEOFF 6 LIMITED	Ireland	Other	100	100
TAKEOFF 7 LIMITED	Ireland	Other	100	100
TAKEOFF 8 LIMITED	Ireland	Other	100	100

Entity	Country	Segment	% interest	% control
TAKEOFF 9 LIMITED	Ireland	Other	100	100
TAKEOFF 10 LIMITED	Ireland	Other	100	100
TAKEOFF 11 LIMITED	Ireland	Other	100	100
TAKEOFF 12 LIMITED	Ireland	Other	100	100
TAKEOFF 13 LIMITED	Ireland	Other	100	100
TAKEOFF 14 LIMITED	Ireland	Other	100	100
TAKEOFF 15 LIMITED	Ireland	Other	100	100
TAKEOFF 16 LIMITED	Ireland	Other	100	100
TRANSAVIA AIRLINES B.V.	Netherlands	Other	99	49
TRANSAVIA AIRLINES C.V.	Netherlands	Other	99	49
TRANSAVIA AIRLINES LTD.	Bermuda	Other	99	49
TRANSAVIA FINANCE B.V.	Netherlands	Other	99	49
TRANSAVIA FRANCE S.A.S.	France	Other	100	100
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	99	49
UILEAG HOLDING COMPANY LIMITED	Ireland	Other	100	100
WEBLOK B.V.	Netherlands	Other	99	49

41.2 Equity affiliates

Entity	Country	Segment	% interest	% control
AIR COTE D'IVOIRE	Ivory Coast	Passenger	20	20
AEROLIS	France	Passenger	50	50
HEATHROW CARGO HANDLING	United Kingdom	Cargo	50	50
SPAIRLINERS	Germany	Maintenance	50	50
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab Emirates	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
MAX MRO SERVICE	India	Maintenance	26	26
NEW TSI	United States	Maintenance	50	50
ACAS – ATLAS CATERING AIRLINES SERVICES	Morocco	Other	39	40
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
CITY LOUNGE SERVICES	France	Other	17	35
COTONOU CATERING	Benin	Other	24	49
DOUAL'AIR	Cameroon	Other	25	25
FLYING FOOD CATERING	United States	Other	48	49
FLYNG FOOD JFK	United States	Other	48	49
FLYING FOOD MIAMI	United States	Other	48	49
FLYING FOOD SAN FRANCISCO	United States	Other	48	49

Entity	Country	Segment	% interest	% control
FLYING FOOD SERVICES	United States	Other	48	49
FLYING FOOD SERVICES USA	United States	Other	49	49
GUANGHOU NANLAND CATERING COMPANY	China	Other	24	25
GUEST LOUNGE SERVICES	France	Other	17	35
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
KENYA AIRWAYS LIMITED	Kenya	Other	26	27
DUTYFLY SOLUTIONS	France	Other	49	50
DUTYFLY SOLUTIONS ESPAGNE	Spain	Other	49	50
DUTYFLY SOLUTIONS ITALIE	Italy	Other	49	50
LOME CATERING SA	Togo	Other	17	35
MACAU CATERING SERVICES	Macao	Other	17	34
MAINPORT INNOVATION FUND B.V.	Netherlands	Other	25	25
NEWREST SERVAIR UK LTD	United Kingdom	Other	39	40
OVID	France	Other	32	33
PRIORIS	France	Other	33	34
SCHIPHOL LOGISTICS PARK B.V.	Netherlands	Other	45	45
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	52	45
SERVAIR CONGO	Congo	Other	49	50
SERVAIR EUREST	Spain	Other	34	35
SHELTAIR	France	Other	50	50
SKYENERGY B.V.	Netherlands	Other	30	30
SIA MAROC INVEST	Morocco	Other	50	51
TERMINAL ONE GROUP ASSOCIATION	United States	Other	25	25

5.7 Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2013

To the Shareholders,

In compliance with the assignment entrusted by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying consolidated financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2013 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the note 2.1 to the consolidated financial statements which sets out the change in accounting policy relating to the application of IAS 19 revised "Employee Benefits" effective as from January 1st, 2013.

2. Justification of assessments

The accounting estimates used in the preparation of the consolidated financial statements were made in a context of an economic downturn raising certain difficulties to apprehend future economic perspectives. These conditions are described in Note 4.2 to the consolidated financial statements. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de commerce):

- the company recognized deferred tax assets based on the future taxable income determined based on medium and long term business plans as described in notes 4.2, 4.22 and 13 to the consolidated financial statements. Our procedures consisted in analyzing the data and assumptions used by Air France-KLM's management in order to verify the recoverability of these deferred tax assets;
- notes 4.2, 4.17 and 31.1 to the consolidated financial statements specify the accounting policies for employee benefits. These benefits and obligations were evaluated by external actuaries. Our procedures consisted in examining the data used, assessing the assumptions made and verifying that the information included in note 31.1 to the consolidated financial statements was appropriate. In addition, we verified that the accounting policy used for the recognition of the pension fund surplus as outlined in Note 4.17 to the consolidated financial statements was appropriate. Lastly, as mentioned in the first part of this report, note 2.1 to the consolidated financial statements describes the change in the accounting policy done this year relating to the accounting of employee benefits. As part of assessment of accounting principles applied by your company, we have verified the correct application of this change in the accounting policy and the information disclosed on it;
- Air France-KLM's management is required to adopt judgment and estimates concerning determination of the provisions for risk and charges which are described in Notes 3.1, 11, 31.2, 31.3 and 31.4 to the consolidated financial statements. We have examined particularly the estimates and the assumptions used regarding the restructuring provision booked in 2013 and linked to the Transform 2015 plan and the provisions accounted for the anti-trust litigations to which the Company is exposed. We have also verified that the information as disclosed in the notes to the consolidated financial statements was appropriate;
- notes 4.2, 4.14 and 19 to the consolidated financial statements describe the estimates and assumptions that Air France-KLM's management was required to make regarding the impairment tests of tangible and intangible assets. We have examined the data and assumptions on which these impairment tests were based as well as the procedures for implementing impairment tests, as described in the notes;

- Air France-KLM's management is required to make estimates and assumptions relating to the recognition of revenue arising from issued but unused tickets and its Frequent Flyer Program, in accordance with the terms and conditions described in Notes 4.2, 4.6 and 4.7 to the consolidated financial statements. Our procedures consisted in analyzing the data used, assessing the assumptions made and reviewing the calculations performed.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific procedures

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, February 24, 2014

The Statutory Auditors

KPMG Audit		Deloitte & Associés
Division of KPMG S.A.		
Valérie Besson	Michel Piette	Dominique Jumaucourt
Partner	*Partner*	*Partner*

This is a free translation into English of the statutory auditors' reports on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers.

The statutory auditors' report includes information specifically required by French law in such report, whether qualified or not. This information is presented below the audit opinion on consolidated financial statements and includes explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

5.8 Statutory financial statements

Year ending December 31, 2013

5.8.1 Income statement and balance sheet

Income statement

Period from January 1 to December 31 *(In € million)*	**Notes**	**2013**	**2012**
Operating income	2	19	19
External expenses	3	(25)	(13)
Salaries and related costs		(1)	(1)
Other expenses		-	(1)
Total operating expenses		(26)	(15)
Income from current operations		***(7)***	***4***
Financial income		50	45
Financial expenses		(377)	(172)
Net financial income	***4***	***(327)***	***(127)***
Earnings before tax and non-recurring items		***(334)***	***(123)***
Non-recurring income		8	3
Non-recurring expenses		-	(1)
Non-recurring income/(loss)	***5***	***8***	***2***
Income tax	6	4	5
Net income/(loss)		**(322)**	**(116)**

Balance sheet

Assets *(In € million)*	**Notes**	**December 31, 2013**	**December 31, 2012**
Long-term investments	7	3,927	4,109
Loans & receivables related to long -term investment	7-11	774	672
Fixed assets		***4,701***	***4,781***
Trade receivables	11	29	5
Other receivables	11	31	19
Marketable securities	8	1,350	1,189
Cash		148	1
Prepaid expenses		1	1
Current assets		***1,559***	***1,215***
Amortisation of capital expenses		8	8
Bond redemption premium		4	5
Total Assets		**6,272**	**6,009**

Liabilities & equity *(In € million)*	**Notes**	**December 31, 2013**	**December 31, 2012**
Capital	9.1	300	300
Additional paid-in capital		2,971	2,971
Legal reserve		70	70
Reserves		735	851
Income for the year		(322)	(116)
Shareholders' equity	***9.2***	***3,754***	***4,076***
Financial debt	10	2,485	1,895
Trade payable:	11	11	25
including trade payables and related accounts		10	25
other trade payable		1	-
Other liabilities		22	13
Liabilities	***11***	***2,518***	***1,933***
Total Liabilities & equity		**6,272**	**6,009**

5.8.2 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2013. It is an integral part of the financial statements.

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

1 Accounting policies and procedures

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

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

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

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

The main methods used are the following:

Long-term investments

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

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

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

Trade receivable

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

Marketable securities

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

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

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

Foreign currency transactions

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

Trade payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2013.

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

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

Debts

Debts are valued at their nominal amount.

Dividends received

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

2 Other income

This primarily involves royalties of €18 million paid by Air France and KLM at December 31, 2013 to use the "Air France-KLM" brand (€17 million as of December 31, 2012).

3 External expenses

Period from January 1 to December 31 *(In € million)*	2013	2012
Fees and surveys	9	2
Insurance	2	2
Sub-contracting and rents re-invoiced by Air France and KLM	10	5
Financial communication	3	3
Other	1	1
Total	**25**	**13**

During the financial year, the teams assigned to Air France-KLM holding company were reinforced with additional staff. They represent 40 full time equivalent seconded from Air France and 6 full time equivalent seconded from KLM. As a result the amount of sub-contracting re-invoiced by Air France and KLM increased.

4 Financial income

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

Period from January 1 to December 31 *(In € million)*	2013	2012
Interests on loans and other financial expenses(1)	(156)	(107)
of which related companies	*(29)*	*(20)*
Financial income from equity investment	1	1
of which related companies	*1*	*1*
Interests received on loans	32	20
of which related companies	*30*	*20*
Other financial income(2)	16	14
of which related companies	*6*	*6*
Allocation to provisions(3)	(221)	(65)
Reversal of provisions on treasury shares	1	10
Total	**(327)**	**(127)**

(1) Of which interests on OCEANE amounting to €(41) million at December 31, 2013 and €(33) million at December 31, 2012, on bond amounting to €(79) million at December 31, 2013 and €(49) million at December 31, 2012, commission on the guarantees granted by Air France and KLM amounting to €(29) million at December 31, 2013 and €(20) million at December 31, 2012.
(2) Of which €10 million of income in respect of investment in mutual funds and certificates of deposit certificates at December 31, 2013 and €8 million at December 31, 2012 (see Note 8).
(3) Of which €(221) million on Compagnia Aerea Italiana SpA shares at December 31, 2013 and (65) million on Compagnia Aerea Italiana SpA shares at December 31, 2012.

5 Non recurring income

This corresponds mainly to the conversion premium booked at conversion of the shareholder loan granted to Compagnia Aerea Italiana Spa *(see Notes 7.1 and 7.2)*.

6 Income tax

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

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

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

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

The subsidiaries that are beneficiaries of the tax consolidation scope paid a tax consolidation bonus of €4 million to Air France-KLM for this financial year (€5 million on the previous financial year).

7 Long-term investments

7.1 Net book value

(In € million)	Beginning of year	Acquisitions Capital increases	Transfer	Provision Variation	End of year
Equity investments	4,200	14[3]	24[2]	-	4,238
Loans & receivables related to long term investment	672	126[1] [2]	(24)[2]	-	774
Other long-term investments	75	-	-	-	75
Gross amount	**4,947**	**140**	**-**	**-**	**5,087**
Depreciation	*(166)*	-	-	*(220)*	*(386)*
Net amount	**4,781**	**140**	**-**	**(220)**	**4,701**

(1) Net amount of increases and reimbursements of loans & receivables related to long term investment granted to Air France and KLM for €102 million.

(2) Along with other shareholders, Air France-KLM granted a shareholder loan consisting of convertible bonds to Alitalia-Compagnia Aerea Italiana SpA in February 2013 totaling €24 million. This loan together with the accrued interest and conversion premium was converted into Compagnia Aerea Italiana SpA shares in December 2013 (see Note 7.2).

(3) Capital increase of company Air France-KLM Finance for €5 million and accrued interests and conversion premium of Compagnia Aerea Italiana for €9 million.

7.2 Equity investments

(In € million) Companies	Gross value at beginning of year	Acquisitions	Transfers or Sales	Gross value at end of year
Air France	3,060	-	-	3,060
KLM	817	-	-	817
Compagnia Aerea Italiana SpA[1]	323	33	-	356
Air France-KLM Finance	-	5	-	5
Total	**4,200**	**38**	**-**	**4,238**

(1) The holding in Compagnia Aerea italiana SpA's share capital decreased from 25% to 7.08% and the gross value of the shares is now €356 million (see Note 7.1).
This change is the result of the following operations:

- *Compagnia Aerea italiana SpA Extraordinary Shareholder Meeting decided to allocate registered losses to the share capital;*
- *shareholders capital increase that Air France-KLM did not subscribe to;*
- *conversion in shares of the convertible bond granted in February 2013.*

(In € million) Companies	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Compagnia Aerea Italiana SpA	(113)	(221)	-	(334)
Impairment	*(113)*	*(221)*	-	*(334)*
Net Value	**4,087**	**-**	**-**	**3,904**

Compagnia Aerea italiana SpA shares are impaired up to share of net equity in the company.

7.3 Other financial investments

(In € million)	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	75	-	-	75
	Provision at beginning of year	**Allocation**	**Reversal**	**Provision at end of year**
Impairment on treasury shares	(53)	-	1	(52)
Net Value	**22**	-	-	**23**

8 Marketable securities

(In € million)	December 31,2013 Net carrying amount	December 31, 2012 Net carrying amount
Treasury shares held within the liquidity agreement subscribed with a bank	-	-
Mutual funds, certificates of deposit & marketable term notes	1,349	1,188
Money market fund[1]	1	1
Total	**1,350**	**1,189**

(1) Cash invested as part of a liquidity agreement, subscribed with a bank. The net book value of the marketable securities corresponds to the market value.

The net carrying amount for the mutual funds and certificates of deposit is the market value.

9 Shareholders' equity

9.1 Distribution of share capital and voting rights

The issued capital comprises 300,219,278 fully paid-up shares with a nominal value of one euro. Each share confers one voting right.

	% of capital		*% of voting rights*	
	December 31, 2013	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
French State	16%	16%	16%	16%
Employees and former employees[1]	7%	10%	7%	10%
Treasury stock	1%	1%	-	-
Public	76%	73%	77%	74%
Total	**100%**	**100%**	**100%**	**100%**

(1) Employees and former employees identified in funds or by a Sicovam Code.

In April 2005, Air France issued €450 million of bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing in fifteen years.

At December 31, 2013 only 595 OCEANE have been converted, of which 510 into 525 new shares during 2007-08 financial year. Between January 1, 2013 and December 31, 2013, no bonds were converted. The conversion ratio is 1.03 Air France-KLM shares for one bond.

Furthermore on December 6, 2011, Air France signed a Swap contract with Natixis postponing until April 2016 the probability of the repayment option initially foreseen for April 1, 2012.

See Note 10 for comments on other OCEANE.

9.2 Statement of changes in shareholders' equity

(In € million)	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2011	***300***	***2,971***	***1,033***	***(112)***	***4,192***
Allocation of earnings	-	-	(112)	112	-
Earnings for the period	-	-	-	(116)	(116)
At December 31, 2012	***300***	***2,971***	***921***	***(116)***	***4,076***
Allocation of earnings	-	-	(116)	116	-
Earnings for the period	-	-	-	(322)	(322)
At December 31, 2013	***300***	***2,971***	***805***	***(322)***	***3,754***

10 Financial debt

(In € million)	December 31, 2013	December 31, 2012
Non-current financial debt		
OCEANE (convertible bonds)	1,211	661
Bonds	1,200	1,200
Total non-current debt	**2,411**	**1,861**
Current Financial debt		
Accrued interest	74	34
Total current debt	**74**	**34**
Total	**2,485**	**1,895**

On June 26, 2009, Air France-KLM issued 56,016,949 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on April 1, 2015 for a total amount of €661 million *(see Note 11)*. As of December 31, 2013, 9,072 OCEANE had been converted into 9,072 existing shares, of which 88 during the 2013 financial year. The conversion ratio is one Air France-KLM share for one bond.

Each bond has a nominal value of €11.80 and the annual coupon is 4.97%.

On October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an annual coupon of 6.75%.

On December 14, 2012 Air France-KLM issued €500 million of bonds maturing on January 18, 2018 with an annual coupon of 6.25%.

On March 28, 2013, Air France-KLM issued 53,398,058 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on February 15, 2023 for a total amount of €550 million *(see Note 11)*. The bonds have a nominal value of €10.30 and the annual coupon is 2.03%. The conversion ratio is one Air France-KLM share for one bond.

As of December 31, 2013, 9,513 OCEANE had been converted into 9,513 existing shares.

Some of the proceeds were used to issue loans to Air France and KLM. As of December 31, 2013 these loans amount to €283 million with Air France and €491 million with KLM. *(see Note 7.1)*.

11 Maturity of trade receivables and trade payables

At December 31, 2013 *In € millions*	**Gross amount**	**Up to one year**	**More than one year**	**Related companies**
Trade receivables				
Non-current assets				
Loans and receivables related to long-term investment	774	-	774	774
Current assets				
Trade receivables and related accounts	29	29	-	28
Other receivables (including tax receivables)(1) (2)	31	31	-	7
Total	**834**	**60**	**774**	**809**

(1) Of which €7 million as accrued income with related companies and €6 million on December 31, 2012.
(2) The €42 million CICE 2013 tax receivable of the tax group was sold to a bank, thus this receivable has been withdrawn from assets.

At December 31, 2013 *(In € million)*	**Gross amount**	**Up to one year**	**More than one year**	**Related companies**
Trade payables				
Financial debt(1)	2,485	74	2,411	-
Trade payables and related accounts	11	11	-	6
Other payables	22	22	-	22
Total	**2,518**	**107**	**2,411**	**28**

(1) See Note 10.

This amount includes €74 million of accrued interests (€34 million at December 31, 2012).

12 List of subsidiaries and equity investments

(In € million) **Companies or Groups of companies**	**Capital**	**Share-holders' equity other than capital after earnings**	**Share of capital held**	**Carrying amount of shares held Gross**	**Net**	**Loans & advances granted and not reimbursed**	**Amount of security and guarantees given**	**Revenues (excl. tax) for last financial year**	**Net profit or loss for last financial year**	**Dividends booked during financial year**
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France)(1)	127	(593)	100%	3,060	3,060	283	18	14,976	(410)	-
KLM (Netherlands)(1)	94	1,518	99.1%	817	817	491	-	9,688	133	1
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA(2)	652	(354)	7.08%	356	22	-	-	1,598	(294)	-

(1) Statutory financial statements at December 31, 2013.
(2) Consolidated financial statements in Italian Gaap at June 30, 2013 and after capital increase and conversion of convertible debenture.

13 Estimated value of the portfolio

(In € million)	Amount at beginning of year		Amount at end of year	
	gross carrying amount	net carrying amount	gross carrying amount	net carrying amount
Portfolio fractions valued:				
Air France	3,060	3,060	3,060	3,060
KLM	817	817	817	817
Compagnia Aerea Italiana SpA	323	210	356	22

Estimated value of equity investments is based on IFRS or Italian Gaap equity or on medium term profitability outlook.

This estimated value support net book value at year end.

14 Items concerning related companies

(In € million)		Amount
Trade receivables & related accounts		
of which	*Air France*	17
	KLM	11
Other receivables		
of which	*Air France*	5
	KLM	2
Trade payables and related accounts		
of which	*Air France*	5
	KLM	1
Other payables		
of which	*Air France*	12
	Servair	3
	Acna	1
	CPA	1
	Régional	1
	Other	4

15 Commitments

KLM shares

During the business combination of the Air France and KLM Groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government will sell its cumulative A preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer occurs during the first three years following the business combination.

In the latter case, the foundation will issue, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates will confer to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KLM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (*i.e.* a unit price of €2.27 per cumulative A preferred share, which has to be paid *pro rata* during any sale or transfer under the conditions above).

Other

Since January 2009, Air France-KLM has acted as a guarantor for Société Air France within the framework of its commitments to Aéroport de Paris in respect of civil leases.

The guarantee is expressly limited to €18 million.

16 Litigation

Litigations concerning anti-trust laws in the air-freight industry

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air-freight industry.

As of December 31, 2013 most of these proceedings had resulted in Plea Agreements made by Air France, KLM and Martinair with the appropriate agencies, and the payment of settlement amounts.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices - mainly concerning fuel surcharges in the air freight industry. The Commission imposed an overall fine of €340 million on the Air France-KLM Group companies.

As the Group's parent company, Air France-KLM was considered by the European Commission to be jointly and severally liable for the anti-competitive practices of which the Group companies were found guilty.

On January 24 and 25, 2011, the Group companies filed an appeal against the decision before the General Court of the European Union.

Since the appeal does not suspend the payment of the fines, the Group companies chose not to pay the fine immediately, but to provide bank guarantees until a definitive ruling by the European Courts.

On January 10, 2014 the Swiss anti-trust authority (COMCO) imposed a fine of €3.2 million on Air France and KLM. The Group companies intend to file an appeal on this decision before the Federal Administrative Tribunal.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM, Air France and KLM a total fine of €8.8 million which was paid in January 2011. The Group companies filed an appeal before the competent Seoul High Court in December 2010.

On May 16, 2012 the 6th chamber of the Seoul High Court vacated the KFTC's decision against Air France-KLM on the grounds that Air France-KLM was not engaged in the air freight transportation business after it converted to a holding company on September 15, 2004. Accordingly this decision, which was issued after the expiration of the statute of limitations, was illegal. With regard to the appeals of Air France and KLM, the Court found in favour of the KFTC. Appeal filings against the Court decisions were submitted to the Supreme Court by both Air France and KLM in June 2012. Generally, the Supreme Court appeal process will take 1-2 years to conclude.

Since January 10, 2014 (the imposition of a fine by the Swiss antitrust authorities), the Group companies have no longer been exposed to anti-trust proceedings with respect to alleged of concerted actions in the air freight industry.

As of December 31, 2013, the total amount of provisions amounts to €372 million in respect of all the proceedings which have not yet been concluded by a final decision.

17 Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not been recorded in the financial statements of Air France-KLM subsidiaries.

Litigations concerning anti-trust laws in the air-freight industry

These litigations have not been provisioned given that the Group is unable, given the current status of proceedings, to evaluate its exposure.

Pursuant to the initiation in February 2006 of the various competition authority investigations, class actions were brought by forwarding agents and air-freight shippers in several countries against Air France, KLM and Martinair, and the other freight carriers. In addition, civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010. The Group companies vigorously oppose all such civil actions.

United States

In the United States, the Group concluded a Settlement Agreement with the representatives of the class action in July 2010, bringing to an end all claims and, court proceedings in connection with unlawful practices for cargo transportation to, from and within the United States.

With respect to those Air France, KLM and Martinair customers who chose to be excluded, a portion of the settlement proportional to the revenue Air France, KLM and Martinair received from those parties over the relevant period as compared with the overall revenue for this same period has been segregated in a separate escrow account. The parties who opted out are free to sue Air France, KLM and Martinair individually.

Netherlands

a) Litigation vehicle Equilib has initiated two largely overlapping proceedings before the Amsterdam District Court aimed at establishing liability on behalf of 184 groups, whereby the actual amounts are to be determined in follow-up proceedings. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, Air France, KLM and Martinair are due to file their statement of defence on April 2, 2014 in the first proceeding. The second proceeding will be introduced during the second half of 2014.
Air France, KLM and Martinair initiated contribution proceedings before the Amsterdam District Court against the other airlines included in the European Commission decision, which were

stayed with the main proceedings. As the annulment of this stay by the Amsterdam Court of Appeal did not affect the stay of the contribution proceedings, Air France, KLM and Martinair asked the Court of Appeal in a separate appeal to annul the stay of the contribution proceedings, which would again synchronize the main and contribution proceedings.

b) A second litigation vehicle, East West Debt ("EWD"), also initiated proceedings before the Amsterdam District Court to obtain compensation from the Group, as well as two other European airlines, for the claims of 8 individual shippers. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, the case is expected to resume at the District Court where a date will be set for filing the statement of defence.
The Group has also initiated contribution proceedings at the Amsterdam District Court against the other airlines included in the decision.

c) A third litigation vehicle Stichting Cartel Compensation ("SCC") initiated proceedings before the Amsterdam District Court to obtain compensation from the Goup and several other European and Asian airlines, for the claims of 877 individual shippers. The proceedings will be introduced on April 2, 2014.

United Kingdom

In the United Kingdom, a civil suit has been filed against British Airways with the competent court by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group. To date, British Airways has neither quantified nor substantiated its purported claims. These contribution proceedings have been stayed. In the main proceedings, the plaintiffs were granted permission to add parties to the proceedings, resulting in over 500 plaintiffs.

Australia

Within the context of ongoing class action proceedings instituted in 2007 against seven airlines (excluding the Air France-KLM Group) in the Australian Federal Court, cross claims have been filed against Air France, KLM and Martinair by Singapore Airlines (August 15, 2011), Cathay Pacific (August 15, 2011), Lufthansa (November 4, 2011), Air New Zealand (December 5, 2011) and British Airways (December 19, 2011). In the cross claims, the respondent airlines claim that if, despite their denial of the claims of wrongdoing in the class action, they are ordered to pay damages, they will seek contributions from the cross respondents. The Group companies have filed defences to these cross claims in which they deny that the respondent airlines are entitled to any contribution from them. As of December 31, 2013 this proceeding was still pending.

Norway

On May 25, 2012, a civil suit was filed by a company named Marine Harvest before the Norwegian court on the grounds of allegedly additional costs caused by anti-competitive practices. The Group companies have requested a stay of the proceeding upon which the court has not ruled yet.

Legislation concerning anti-trust laws in the passenger sector

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy to increase the price of passenger services by an adjustment in fuel surcharges to and from Canada and on transatlantic destinations, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy and intend to file a motion to dismiss.

Other litigations

a) KLM minority shareholders

On December 31, 2012, two KLM minority shareholders filed a request with the Enterprise Chamber of the Amsterdam Court of Appeal to order an enquiry into, amongst other matters, the KLM's dividend policy in respect of the years 2004-2005 to 2010-2011 periods.

This file relates to a claim for higher dividend for the fiscal year 2007-2008 by these shareholders together with the *Vereniging van Effectenbezitters* (VEB) initiated in January 2008 against KLM and Air France-KLM. In this last proceeding, a final decision ruling from the Dutch Supreme Court on July 2013 definitively rejected all claims against KLM.

The Enterprise Chamber did, however, uphold the request for an enquiry into the dividend policy for the period under consideration. The main focus of the enquiry is the manner in which Air France-KLM, in its capacity as the sole priority shareholder, and KLM's Management and Supervisory Boards executed clause 32 of KLM's Articles of Association. This provides that the priority shareholder may reserve part of the profits after consulting with the Management Board and the Supervisory Board of KLM.

b) Rio-Paris AF447 flight

Following to the crash of the Rio-Paris AF447 flight in the South Atlantic, a number of legal actions have been brought in the United States and Brazil and, more recently, in France by the victims' heirs.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash.

In the United States, all the proceedings have been consolidated in California before the Northern District Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and suggested that they pursue their claim in France.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalties of fines prescribed by law. Air France intends to challenge its implication in this case.

These penalties should not have a material effect on the financial situation of Air France.

The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

Except for matters specified under paragraphs 16 and 17, the Group is not aware of any dispute or governmental, judicial and arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, during a period including at least the past twelve months.

18 Subsequent events

None.

5.9 Five-year results summary

Year ended 31	December 2013 12 months	December 2012 12 months	December 2011 9 months	March 2011 12 months	March 2010 12 months
1. Share capital at year end					
Share capital *(In €)*	300,219,278	300,219,278	300,219,278	300,219,278	2,551,863,863
Number of ordinary shares outstanding	300,219,278	300,219,278	300,219,278	300,219,278	300,219,278
Number of shares with a priority dividend	-	-	-	-	-
Maximum number of shares that may be created:					
♦ by bond conversion	130,459,042	77,070,585	78,617,176	78,617,611	78,619,501
♦ by exercise of subscription rights	-	-	-	-	-
2. Transactions and results for the year *(In € thousand)*					
Net revenues	-	-	-	-	-
Net income/(loss) before income tax, employee profit-sharing, net depreciation, amortization and provisions	(104,303)	(67,637)	(41,836)	(116,649)	(56,167)
Income tax	(3,779)	(4,947)	(3,938)	(3,712)	(5,601)
Employee profit-sharing for the year	-	-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(322,275)	(116,429)	(111,893)	(69,343)	(32,671)
Distributed net income	-	-	-	-	-
3. Per share data *(In €)*					
Net income/(loss) after income tax and employee profit-sharing but before net depreciation, amortization and provisions	(0.33)	(0.23)	(0.13)	(0.39)	(0.17)
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(1.07)	(0.39)	(0.37)	(0.23)	(0.11)
Dividend per share	-	-	-	-	-
4. Employees					
Average number of employees during the year	-	-	-	-	-
Total payroll costs	-	-	-	-	-
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.)	-	-	-	-	-

5.10 Statutory auditors' report on the financial statements

Year ended December 31, 2013

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2013, on:

- the audit of the accompanying financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the Company as at December 31, 2013 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2 Justification of our assessments

The accounting estimates used in the preparation of the financial statements were made in a context of an economic downturn raising certain difficulties to apprehend future economic perspectives. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of article L. 823-9 of the French commercial Code ("*Code de commerce*"):

- Note 1 to the financial statements outlines the accounting rules and methods relating to the recognition and measurement of long-term investments. As part of our assessment of the Company's accounting policies, we verified the appropriateness of the aforementioned accounting methods and the information provided in Notes 7, 12 and 13 to the financial statements and satisfied ourselves as to their correct application;
- Notes 16 and 17 to the financial statements describes the nature of the anti-trust litigations to which Air France-KLM is exposed. Our work consisted in verifying that the information disclosed in these notes was appropriate.

These assessments were made as part of our audit of the financial statements, taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verifications and information

We have also performed the specific verifications required by French law, in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French commercial Code ("*Code de commerce*") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, when applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, February 24, 2014

The Statutory Auditors

KPMG Audit

Département de KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of the statutory auditors' report on the financial statements issued in the French language and is provided solely for the convenience of English speaking user .The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verifications of information given in the management report and in the document addressed to the shareholders.

This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

5.11 Statutory Auditors' special report on regulated agreements and commitments

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby present to you our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R.225-31 of the French Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R.225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

Pursuant to Article L.225-40 of the French Commercial Code, we have been informed that the following agreements and commitments were previously authorized by your Board of Directors.

a) Agreements relating to the issuance by Air France-KLM of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

Directors concerned:

Mutual executive directors to Air France-KLM, Société Air France and KLM at the authorization date of the agreements and until June 30, 2013: Mr. Alexandre de Juniac and Mr. Peter Hartman.

Nature, purpose and terms and conditions:

Pursuant to the authorization granted by your Board of Directors, in its meeting on March 18, 2013, Air France-KLM launched on March 20, 2013, an issuance of bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANEs) for a nominal amount of €550 million, maturing on February 15, 2023.

To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Société Air France and KLM severally and not jointly, unconditionally and irrevocably guarantee the payment of 60% and 40% respectively, of all monetary amounts due by Air France-KLM in relation to these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Société Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Société Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

During the financial year ended December 31, 2013, Société Air France and KLM invoiced Air France-KLM €3,169,636 and €2,113,091 respectively with regards to the guarantee commission.

With regards to the secondary agreement for the credit facilities, Société Air France and KLM respectively drew down €148.5 million and €198 million on June 14, 2013. During the financial year ended December 31, 2013, Air France-KLM respectively invoiced Société Air France and KLM interest in the amount of €1,674,750 and €2,244,165, with regards to this agreement. In addition, a commission for the non-utilization of the undrawn funds was invoiced by Air France-KLM to Société Air France in the amount of €577,500.

b) Agreement relating to the assignment to Mr. Spinetta of an Air France-KLM representation role and related means put at his disposal

Director concerned:

Mr. Jean-Cyril Spinetta, Chief Executive Officer of Air France-KLM at the authorization date of the agreement and until June 30, 2013.

Nature, purpose and terms and conditions:

At the same time Mr. Spinetta was granted the title of Air France-KLM Honorary Chairman from July 1, 2013, your Board of Directors decided in its meeting of June 24, 2013 to entrust to Mr. Spinetta an unpaid 24 month representation role for Air France-KLM and Air France-KLM Group, with means (an office, a personal assistant and a chauffeur driven car) put at his disposal.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments approved in prior years which remained current during the year

Pursuant to Article R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by Shareholders' Meetings of prior years, have remained current during the year.

a) Agreements relating to the issuance by Air France-KLM of bonds

▮ ***Director concerned:***

Mutual executive directors to Air France-KLM, Société Air France and KLM at the authorization date of the agreements and until June 30, 2013: Mr. Alexandre de Juniac and Mr. Peter Hartman.

▮ ***Nature, purpose and terms and conditions:***

Pursuant to the authorization granted by your Board of Directors, in its meeting on October 30, 2012, Air France-KLM launched on October 6, 2012, a five-year €500 million bond issue. To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Société Air France and KLM jointly, unconditionally and irrevocably guarantee the payment of 60% and 40% respectively, of all monetary amounts due by Air France-KLM in relation to these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Société Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Société Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

During the financial year ended December 31, 2013, Société Air France and KLM invoiced Air France-KLM €3,311,725 (including €3,164,344 for 2013 and €147,381 for 2012) and €2,207,816 (including €2,109,563 for 2013 and €98,523 for 2012) respectively with regards to the guarantee commission.

With regards to the secondary agreement for the credit facilities, Société Air France and KLM drew down €135 million and €90 million respectively on December 20, 2012. During the financial year ended December 31, 2013, Air France-KLM respectively invoiced Société Air France and KLM interest in the amount of €8,695,313 (including €8,437,500 for 2013 and €257,813 for 2012) and €5,812,500 (including €5,625,000 for 2013 and €187,500 for 2012) with regards to this agreement.

In addition, a commission for non-utilization of the undrawn funds was invoiced by Air France-KLM to Société Air France and KLM in the amount of €2,782,500 (including €2,700,000 for 2013 and €82,500 for 2012) and €1,860,000 (including €1,800,000 for 2013 and €60,000 for 2012), respectively.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, February 24, 2014

KPMG Audit
Département de KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

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6

Other information

6.1 History

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM trans-Atlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-1946

Air France is nationalized.

KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights to New York in DC-4s, from Paris with Air France and from Amsterdam with KLM. At this time, the flight takes nearly 24 hours.

Air France and KLM are equipped with Constellations and engage in mutual assistance.

1958

Air France and KLM inaugurate the polar route, flying from Paris and Amsterdam to Tokyo *via* the North Pole.

1959-1960

Arrival of the jet era: Air France brings the first Caravelles and Boeing 707s into service, reducing the duration of the Paris-New York flight to eight hours. KLM brings its first Douglas DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-1971

The Boeing B747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Roissy-Charles de Gaulle, then to CDG 2 in 1982.

1976

The supersonic airplane, Concorde, is brought into service, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes then, in 1977, on Paris-New York, connecting the two cities in 3 hours 45 minutes.

Development of the two majors

1989

Conclusion of an alliance, the first in the history of air transportation, between KLM and the US company Northwest Airlines.

1990

Air France acquires UTA (*Union des Transports Aériens*), founded in 1963.

1991

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and Netherlines, and reinforces its shareholding in Transavia from 40% to 80%.

1992

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own shareholding in that company with that of UTA.

KLM establishes the first European medium-haul/long-haul transfer platform at Schiphol airport.

First Open Sky agreement between the Netherlands and the United States.

1993

All KLM and Northwest Airlines flights between Europe and the United States are operated within a joint-venture.

1996

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul/long-haul transfer platform at Roissy-Charles de Gaulle.

1997

Air France Europe is merged with Air France.

1999

Air France is listed for trading on the Monthly Settlement Market of the Paris Stock Exchange for the first time on February 22, 1999.

2000

Air France, Aeromexico, Delta Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001

Open Sky agreement signed between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

2002

SkyTeam is the only alliance in the world to benefit from antitrust immunity on its trans-Atlantic and trans-Pacific routes.

Creation of Air France-KLM, the leading European air transport group

2003

September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004

April 5: Air France launches its public exchange offer for KLM shares.

May 5: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange.

May 6: Privatization of Air France with the transfer of the majority of its shares to the private sector involving the dilution of the French State's shareholding.

September 15: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries, Air France and KLM.

KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December 9: The French State reduces its shareholding from 44% to 23% by selling shares in the market.

2005-2006

The French State reduces its shareholding in Air France-KLM from 23% to 18.6% by selling shares within the framework of the share offer (ORS) reserved to Air France employees.

2006-2007

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2007-2008

Air France-KLM is delisted from the New York Stock Exchange and trading in its ADR program transfers to the OTC Market (OTCQX).

2008-2009

The US Department of Transportation grants Air France, KLM, Delta and Northwest anti-trust immunity with the obligation to establish a single trans-Atlantic joint-venture between these four airlines before the end of 2009.

Air France-KLM acquires a 25% equity interest in Alitalia.

2009-2010

On June 1, the Group suffers the tragic loss of Air France flight AF447 over the Atlantic between Rio de Janeiro and Paris with 216 passengers and 12 crew members on board.

In April, Air France, KLM and Delta implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.

2010-2011

In April 2010, the eruption of the Icelandic volcano leads to the shut-down of the European air space, grounding most European airlines for a period averaging six days.

The political crises in the Middle East and Africa, together with the earthquake followed by a tsunami in Japan weigh significantly on the Group's activity to and from these regions.

2012

Launch of the Transform 2015 plan targeting a €2 billion reduction in net debt between 2011 and 2014, the restoration of the Group's competitiveness and the restructuring of the short- and medium-haul network.

During 2012, the Group renegotiates revised working conditions with the signature of new collective labor agreements, establishes action plans for each of its businesses and defines new governance.

2013

The implementation of Transform 2015 continues in all sectors of the company.

Change at the top of Air France-KLM, Air France and KLM: on July 1, 2013, Mr. Alexandre de Juniac succeeds Mr. Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France-KLM, Mr. Camiel Eurlings replaces Mr. Peter Hartman as the President and Chief Executive Officer of KLM and Mr. Frédéric Gagey succeeds Mr. Alexandre de Juniac as the Chairman and Chief Executive Officer of Air France.

6.2 General information

Corporate name

Air France-KLM

Registered office

2, rue Robert-Esnault-Pelterie, 75007 Paris

Mailing address

BP 90112

75326 Paris Cedex 07

Legal status

French public company (*société anonyme*) with a Board of Directors

Legislation

French law.

Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003, relating to air transport companies and notably Air France. The law of April 9, 2003 introduced a provision in the Civil Aviation Code designed to safeguard the nationality of air transport companies whose shares are listed for trading on a regulated market.

Incorporation and expiry dates

Incorporated on: April 23, 1947.

Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the Articles of Incorporation)

The primary purpose of Air France-KLM is to hold direct or indirect interests in the capital of air transport companies and, more generally, in any companies in France or elsewhere whose purpose is related to the air transport business.

Trade register

Paris Trade and Company Register: 552,043,002

APE Code: 6420Z

Consultation of legal documents

The legal and corporate documents relating to Air France-KLM may be consulted at the company's head office situated at 10-14 rue de Rome, Bâtiment Altaï, 93290 Tremblay-en-France.

Financial year

The financial year begins on January 1 and ends on December 31.

Appropriation of income

After approving the financial statements and taking due note of the income available for distribution, the shareholders vote in the General Shareholders' Meeting on the total or partial distribution of such income (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable income to one or more reserve accounts.

Relations between Air France-KLM and its subsidiaries

Air France-KLM and its subsidiaries Air France and KLM have signed agreements whose aim is to define the conditions under which Air France and KLM, at the request of Air France-KLM, will provide technical and administrative support services to Air France-KLM. These accounting, administrative, legal, financial and IT services are invoiced at cost price. These agreements were approved by previous Shareholders' Meetings (*See also Section 1 – Corporate Governance, page 7 and Section 5.11 – Statutory Auditors' special report on regulated agreements and commitments, page 266*).

6.3 Information relating to the share capital

6.3.1 Share capital

At December 31, 2013, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares with a nominal value of one euro, held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

The change in the share capital over the last three financial years is as follows:

Financial year ended	Total capital *(in €)*	Number of shares
December 31, 2011	300,219,278	300,219,278
December 31, 2012	300,219,278	300,219,278
December 31, 2013	300,219,278	300,219,278

Autorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2013 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital. At December 31, 2013, the company had not used these authorizations.

Nature of the operation	Maximum amount of issuance	Balance available at December 31, 2013
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 right	€60 million	€60 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 right (authorization limited to issuance by the company or one of its subsidiaries of securities conferring rights to the share capital and issuance of shares within the framework of public exchange offers)	€45 million	€45 million
Increase in the amount of the initial issue in the event of a capital increase without preferential subscription rights	15% of the initial issue	
Capital increase by capitalization of reserves, profits, premiums or other amounts available for capitalization	€120 million	€120 million

A common sub-ceiling of €60 million applies to operations 2, 3 and 4. A common ceiling of €120 million applies to operations 1, 2, 3 and 4.

6.3.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs) 2.75% 2020

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs), with a 15-year maturity, for a total amount of €450 million. These bonds have a nominal unit value of €20.50 and mature on April 1, 2020. The annual coupon is 2.75% paid annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020.

Further to the payment of dividends from the *other reserves* account in respect of the financial year ended March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCÉANE 2.75% 2005-20 issue contract. The allocation ratio for holders of bonds convertible and/or exchangeable into Air France-KLM new or existing shares was thus changed to 1.03 shares for each 2.75% 2005-20 bond.

On December 6, 2011, Air France signed a swap agreement with Natixis for a period of four years. To cover this agreement, between December 7 and December 13, 2011, Natixis acquired 18,692,474 OCÉANEs, i.e. some 85.16% of the initial issue, enabling Air France to defer, until April 2016 at the earliest, the €383.2 million repayment. Of the 3,258,150 OCÉANEs not having been tendered to Natixis within the framework of the transaction, 1,501,475 were the subject of a €31.6 million reimbursement.

The number of convertible bonds remaining in circulation as of December 31, 2013 stood at 20,449,146 with no bond conversions having taken place in 2013.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs) 4.97% 2015

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCÉANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At December 31, 2013, 9,072 bonds had been converted into existing shares of which 88 during 2013, reducing the number of bonds in circulation to 56,007,877.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs) 2.03% 2023

In March 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) for a total of €550 million. These bonds have a nominal unit value of €10.30, a conversion/exchange ratio of one new or existing Air France-KLM share per bond and mature on February 15, 2023. The annual coupon is 2.03% payable annually in arrears on February 15. Bond holders may request the early redemption of their bonds on February 15, 2019, at par plus accrued interest. At December 31, 2013, 9,513 bonds had been converted into existing shares, reducing the number of bonds in circulation to 53,388,545.

6.3.3 Authorization to buy back Air France-KLM's own shares

Every year, the Air France-KLM Board of Directors asks the Shareholders' Meeting for the authorization to buy back the company's own shares in the stock market subject to a number of conditions.

The aims of the buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees and senior executives and, lastly, the retention and future allocation of these shares in an exchange or in payment for an acquisition.

On March 1, 2012, given the trading activity in the secondary market and the good stock liquidity, Air France-KLM suspended its buyback contract authorized by the Shareholders' Meeting of July 7, 2011. Were the market trading conditions or stock liquidity to require this, the company could re-launch the share buyback program under the conditions approved by the Ordinary Shareholders' Meeting of May 16, 2013, i.e. up to a maximum of 5% of the share capital for a period of eighteen months at a maximum purchase price of €15.

During the 2013 financial year, the Group neither bought nor sold Air France-KLM shares within the framework of these authorizations.

At December 31, 2013, Air France-KLM held 4,179,804 of its own shares, i.e. 1.4% of the share capital, including 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €31.7 million at December 31, 2013.

Transactions realized between January 1 and December 31, 2013 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at December 31, 2012	**-**	**2,958,804**	**2,958,804**
Shares purchased			
Number of shares	-	-	-
Average price *(In €)*	-	-	-
Use			
Number of shares	-	9,601	9,601
Average price *(In €)*	-	24.37	24.37
Number of shares at December 31, 2013	**-**	**2,949,203**	**2,949,203**

6.3.4 Shareholder structure

Changes in the shareholder structure

	% of share capital			% of voting rights		
At December 31	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	296,039,574	296,029,873	294,579,801
French State	15.9	15.9	15.8	16.1	16.1	16.2
Employees	7.2	7.6	7.7	7.3	7.7	7.8
Treasury stock	1.4	1.4	1.9	-	-	-
Others	75.5	75.1	74.6	76.6	76.2	76.0

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification on a quarterly basis.

The TPI (identifiable bearer shares) analysis as at December 31, 2013, was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 98.1% of the capital were identified and 73,891 shareholders listed including 72,113 individual shareholders. Based on the TPI analysis of December 31, 2013, restated pursuant to article 14 of the articles of incorporation which defines French nationality, Air France-KLM is more than 50% held by French shareholders.

At December 31	Number of shares 2013	2012	2011	% of the share capital 2013	2012	2011
French State	47,663,693	47,665,899	47,563,745	15.9	15.9	15.8
Employees (FCPE)	21,621,222	22,856,906	23,194,020	7.2	7.6	7.7
French individual shareholders	55,778,590	59,220,392	70,578,771	18.6	19.7	23.5
Resident institutions	47,589,014	55,182,528	68,363,254	15.8	18.4	22.8
Non-resident institutions	127,566,759	115,293,553	90,519,488	42.5	38.4	30.2

At December 31, 2013, Air France-KLM was 57.5% owned by French interests (61.6% at December 31, 2012) and 75.2% by European institutions (as at December 31, 2012). The principal European countries are the United Kingdom (8.5%), the Netherlands (5.3%), Switzerland (1.7%), Norway (1.3%) and Germany (1.0%). North American institutions hold 19.6% of the share capital (14.5% at December 31, 2012) of which 21.8 million shares in ADR form (15.3 million at December 31, 2012).

Shareholder pacts

Air France-KLM is not aware of the existence of any shareholder pacts or agreements whose implementation could lead to a change of control.

Dividend policy

Over the last three financial years, Air France-KLM made no dividend distributions.

Financial year	Earnings per share *(in €)*	Dividend paid *(in €)*
2011	(2.73)	-
2012 restated for IAS 19R	(4.14)	-
2013	(6.17)	-

Given the difficult economic environment in recent years and the priority given to debt reduction, the Board of Directors decided not to propose a dividend payment in respect of the last three financial years. For the 2013 financial year, the Board of Directors again opted not to propose a dividend payment.

6.3.5 A regular dialogue with individual shareholders and investors

The Air France-KLM group keeps the market informed on its activity through monthly traffic figures and quarterly updates on the trend in its results and strategic orientations. While the Group adapts its communication to the profile of its shareholders and investors, all the information is available on the financial website www.airfranceklm-finance.com in both French and English.

Relations with investors

The Investor Relations Department maintains a regular dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled to coincide with results announcements, the Group's management remains in regular contact with financial analysts and institutional investors through road-shows and transport conferences in Europe and the United States. Investor Days are regularly organized to enable the latter to meet the Group's operational management.

Relations with individual shareholders

The department dedicated to relations with individual shareholders has a pro-active approach towards engaging with private shareholders. Each quarter, a financial notice on the results is published in a wide range of press and internet-based media in France. Every three months, the ACTION'air newsletter, containing information on the Group's business activity and current issues, is sent by email or mail to the 6,000 members of the Shareholders' Club. This newsletter is also available in French and English on the website.

The Group regularly participates, in partnership with the business press, in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to update them on its strategy, results and issues in the airline sector and to address shareholder concerns. During the last twelve months, the Group thus met with its shareholders based in Lyons, Metz, Annecy and Toulouse. Site visits are also organized for members of the Shareholders' Club.

The Shareholder Relations Department can be reached by email at mail.actionnaires@airfranceklm.com.

Lastly, the Individual Shareholders' Committee (ISC), established in 2000, constitutes a forum for discussion and proposing ideas on Air France-KLM communication aimed at individual shareholders. Comprising 12 members, the committee meets five times a year including one meeting devoted to planning the Shareholders' Meeting.

6.3.6 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the French Commercial Code, Article 13 of the Air France-KLM Articles of Incorporation stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof, must notify Air France-KLM by registered mail with acknowledgement of receipt within 15 days of the date on which the threshold is exceeded.

Notice must be given under the same conditions each time a further 0.5% of the capital or voting rights is acquired or disposed up to 50%.

In the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder (whether acting alone or in concert) acquiring more than 2% of Air France-KLM's share capital or voting rights is required to transfer these securities to registered form within 15 days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

The aforementioned obligations under the Articles of Incorporation do not replace the legal obligation to inform Air France-KLM and the French securities regulator, the *Autorité des marchés financiers* (AMF), no later than four trading days after the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 5%, 10%, 15%, 20% and 25% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF within five stock market trading days of its intentions for the next six months. This notification is subject to the conditions and sanctions set forth in Article L. 233-14 of the French Commercial Code.

Based on the latest declarations, the following shareholders are likely to hold at least 0.5% of Air France-KLM's share capital.

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
Donald Smith	July 3, 2013	17,420,607	5.80	I
Marathon Asset Management	August 2, 2013	11,976,252	3.99	R
Capital Research & Mgt	December 31, 2013	8,160,720	2.72	-
Crédit Suisse	October 30, 2013	5,013,324	1.67	R
Dimensional Fund Advisors	September 15, 2012	4,889,810	1.63	I
DNCA	November 28, 2012	4,487,000	1.49	R
SW Mitchell Capital	May 24, 2013	3,462,601	1.15	I
UBS London	April 4, 2013	3,137,830	1.05	I
Norges Bank Investment Management	September 5, 2011	3,055,759	1.02	I
Amundi Asset Management	February 12, 2014	2,912,561	0.97	R
Axa IM	January 10, 2013	1,701,826	0.57	I

6.3.7 Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

The Shareholders' Meeting of September 25, 1998 authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at Shareholders' Meetings. Pursuant to Articles L. 6411-2 to 5 and L. 6411-8 of the Code of Transport, as amended by the French law of April 9, 2003, listed French air transport companies are authorized to include a provision in their articles of incorporation allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM articles of incorporation set the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. Thus, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors can decide to reduce this 2% threshold to 10,000 shares.

Air France-KLM publishes a notice informing the shareholders and the public that non-French shareholders as defined by Article 14 of the articles of incorporation own, directly or indirectly, 45% of Air France-KLM's share capital or voting rights. If it appears that non-French shareholders as defined by Article 14 of the articles of incorporation represent, directly or indirectly, more than 45% of Air France-KLM's capital or voting rights on a long-term basis, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form.

Article 10 of the Air France-KLM articles of incorporation specifies the information that must be provided to Air France-KLM by shareholders, whether they are private individuals or corporate bodies, subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder. Article 11 of the articles of incorporation specifies the conditions under which the Board of Directors may exercise its right to approve new shareholders.

Formal notice to sell and mandatory sale of shares

Article 15 of the Air France-KLM articles of incorporation stipulates the information that Air France-KLM must publish and circulate to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality. Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to safeguard its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the Civil Aviation Code. The terms for setting the sale price (market price) are foreseen by this same Code.

6.4 Information on trading in the stock

6.4.1 Air France-KLM in the stock market

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN Code FR0000031122. It is a CACmid60 component.

Since February 2008, Air France-KLM's ADR program (American Depositary Receipt) has been traded on the OTC Market (OTCQX) under the ticker AFLYY.

The Reuters Code for the stock is AIRF.PA or AIRF.AS and the Bloomberg Code AF PA.

The OCÉANE 2.75% 2020 is listed for trading under the ISIN Code FR0010185975, the OCÉANE 4.97% 2015 under the ISIN Code FR0010771766 and the OCÉANE 2.03% 2023 under the ISIN Code FR0011453463, all on Euronext Paris.

6.4.2 Stock market performance

As a cyclical stock positioned in an extremely volatile market under the influence of the crisis in the euro zone in particular, the Air France-KLM share price declined by 2% during the first half of 2013 and increased by 9% in the second half, resulting in an overall rise of 8% for 2013 compared with a 18% increase in the CAC 40. During the first three months of 2014, the Air France-KLM stock gained 32% (+3% for the CAC 40).

	2013	2012	2011
Share price high *(In €)*	8.950	7.596	15.300
Share price low *(In €)*	5.464	3.011	3.414
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at December 31 *(In €bn)*	2.3	2.1	1.2

6.4.3 Transactions in Air France-KLM shares in the past 18 months

Air France-KLM share

Euronext Paris Shares	Trading days	Average price (In €)	Trading range (In €) High	Low	Volume	Amount (In €m)
2012						
September	20	4.580	5.180	3.970	89,851,538	420.0
October	23	5.640	6.500	5.050	112,867,465	646.3
November	22	6.952	7.596	6.324	115,719,138	803.8
December	19	7.145	7.315	6.875	53,647,051	375.3
2013						
January	22	8.093	8.950	7.113	90,401,600	732.2
February	20	8.197	8.755	7.503	76,965,851	625.6
March	20	7.998	8.333	7.188	66,667,751	524.4
April	21	7.146	7.744	6.400	82,104,527	581.1
May	22	7.525	8.050	7.250	68,790,425	519.0
June	20	7.155	7.878	6.538	63,337,355	450.0
July	23	6.456	7.006	5.996	101,299,267	650.6
August	22	6.254	6.670	5.609	77,826,437	483.9
September	21	6.696	7.390	5.464	128,902,810	859.0
October	23	7.546	7.900	7.205	79,032,611	595.8
November	21	7.342	7.747	7.030	57,022,312	419.3
December	20	7.327	7.667	7.124	32,612,765	239.2
2014						
January	22	8.669	9.440	7.490	96,298,677	840.6
February	20	9.001	10.100	8.190	73,254,632	659.8

Source: NYSE Euronext.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs) 2.75% 2020

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2012					
September	20	-	-	-	-
October	23	-	-	-	-
November	22	-	-	-	-
December	19	-	-	-	-
2013					
January	22	-	-	-	-
February	20	19.000	19.000	19.000	75
March	20	20.750	21.000	20.500	300
April	21	-	-	-	-
May	22	20.450	20.450	20.450	50
June	20	20.600	20.600	20.600	100
July	23	-	-	-	-
August	22	19.420	19.420	19.420	90
September	21	-	-	-	-
October	23	19.475	19.530	19.420	600
November	21	-	-	-	-
December	20	19.420	19.420	19.420	500
2014					
January	22	21.450	21.450	21.450	110
February	20	20.173	21.000	19.260	2,081

Source: Market Map.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANE) 4.97% 2015

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2012					
September	20	11.895	12.000	11.750	64,041
October	23	11.995	12.710	11.850	169,627
November	22	12.406	12.650	12.000	191,937
December	19	12.700	13.000	12.380	115,393
2013					
January	22	12.858	13.140	12.500	87,313
February	20	12.805	13.000	12.660	46,302
March	20	12.827	13.000	12.700	12,867
April	21	12.259	12.760	11.800	15,661
May	22	12.411	12.640	12.300	24,496
June	20	12.182	12.500	11.600	53,083
July	23	12.042	12.340	11.900	27,298
August	22	12.223	12.400	12.050	37,977
September	21	12.362	12.550	12.200	59,534
October	23	12.644	12.850	12.360	56,173
November	21	12.545	12.710	12.410	19,701
December	20	12.604	12.810	12.150	13,306
2014					
January	22	12.913	13.280	12.450	18,129
February	20	12.829	13.390	12.470	11,053

Source: Market Map.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANE) 2.03% 2023

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2012					
September	20	-	-	-	-
October	23	-	-	-	-
November	22	-	-	-	-
December	19	-	-	-	-
2013					
January	22	-	-	-	-
February	20	-	-	-	-
March	20	10.300	10.300	10.300	867
April	21	10.055	11.330	9.580	6,101
May	22	10.249	10.900	9.710	7,602
June	20	10.014	10.320	9.620	2,434
July	23	9.772	10.580	9.320	2,257
August	22	9.933	10.490	9.410	1,615
September	21	9.878	10.500	9.300	4,466
October	23	10.347	10.770	9.710	18,004
November	21	10.506	10.700	10.210	13,950
December	20	10.396	10.740	10.190	2,998
2014					
January	22	11.413	12.240	10.340	17,819
February	20	11.976	13.020	11.270	6,116

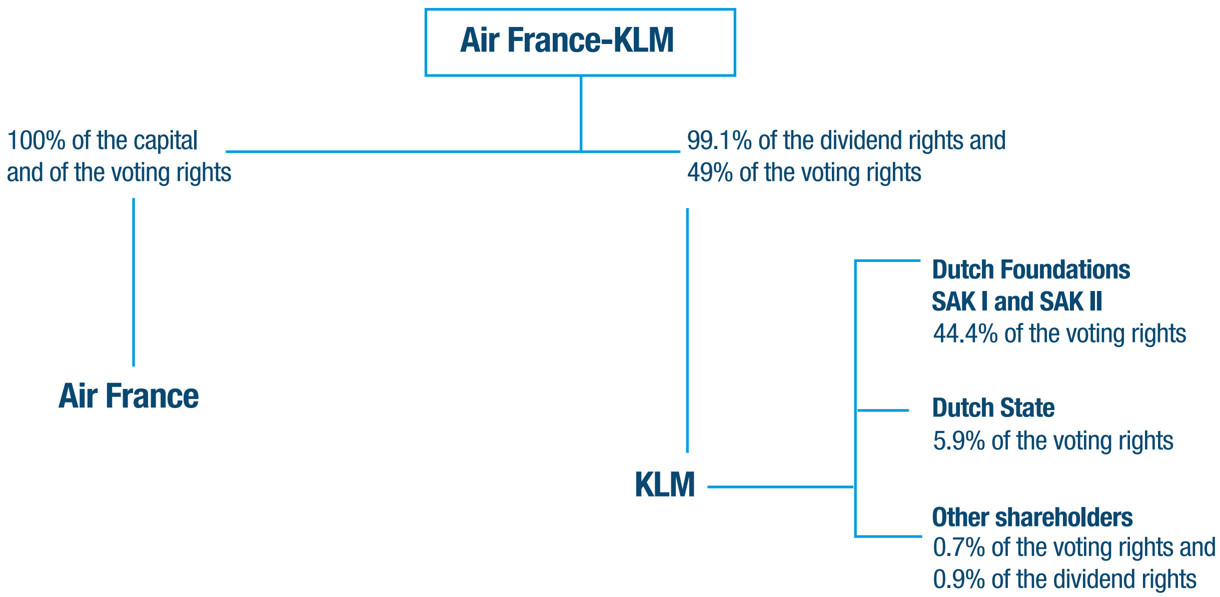
Source: Market Map.

6.5 Information on the agreements concluded in connection with the business combination between Air France and KLM

In connection with the agreements concluded between Air France and KLM for the creation of the Air France-KLM holding company, various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.

6.5.1 Agreements relating to the KLM shareholding structure

At December 31, 2013, Air France-KLM held 93.4% of the economic rights and 49% of the voting rights, the Dutch foundations 44.4% of the voting rights and the minorities 0.7% of the voting rights and 0.9% of the dividend rights of KLM. Air France-KLM is entitled to 99.1% of any dividend paid on KLM's ordinary shares.



KLM set up two Dutch foundations, SAK I and SAK II, to handle the administration of KLM shares transferred as part of the business combination operations together with the KLM shares acquired by Air France-KLM. SAK I and SAK II are each managed by Boards of Directors comprised of three members. One member is appointed by Air France-KLM, one by KLM and the third, acting as Chairman, is appointed by the first two. The majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be Dutch nationals and reside in the Netherlands. Board decisions are taken unanimously. In return for the shares transferred to SAK I and SAK II, Air France-KLM received share certificates enabling it to benefit from all the economic rights associated with the underlying shares. SAK I and SAK II, however, retain the voting rights attached to these shares. These voting rights are exercised by the members of the SAK I and SAK II Boards of Directors in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France, in the best interests of KLM, Air France-KLM and its shareholders.

Initially established for a three-year period, further to an agreement of April 2, 2007 between Air France-KLM and KLM, the two foundations SAK I and SAK II were maintained for an unspecified period with the same purpose. However, this agreement stipulates that Air France-KLM may, at any time after May 6, 2007, end this administered shareholding structure for the KLM shares held by SAK I and SAK II and proceed to consolidate the economic rights and voting rights on the shares.

6.5.2 Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France and KLM concluded the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France-KLM. As such, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I in the name and for the account of Air France-KLM as long as this foundation is maintained. In the second case, SAK I will issue share certificates for Air France-KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France-KLM the economic right attached to these shares, i.e. a right to a dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France-KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were sold by the Dutch State to SAK I for the account of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period, Air France-KLM had the right to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with such an exchange.

The Dutch State also benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France-KLM at any time.

Option for the Dutch State to subscribe for preferential KLM B shares and the related agreements

This option granted to the Dutch State lapsed in May 2010.

6.5.3 Assurances given to KLM and the Dutch State

Assurances given to the Dutch State

On October 16, 2003, Air France and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

According to the terms of the assurances given to the Dutch State, Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licenses, and will continue to fulfil all of the conditions required for the maintenance of these licenses.

In cooperation with the competent Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are required to operate international lines.

To this end, if an economic decision to shut a service down were likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision.

Air France and KLM confirmed that passenger traffic on flights departing from Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Group and that Air France-KLM will operate a multi-hub system in Europe based on these two airports.

Air France and KLM agreed that the cargo activities at the Roissy-CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group. Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

Pursuant to an agreement concluded on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to extend the assurances given to the Dutch State beyond May 5, 2012 and for an indefinite period, subject to Air France-KLM's right to terminate this with nine months' notice.

Assurances given to KLM

The assurances given to KLM have been null and void since May 6, 2009.

6.5.4 Mechanism to ensure compliance with the assurances given

Air France and KLM set up a Dutch foundation, the Fondation des Assurances KLM, in order to facilitate the formation of binding advices on the interpretation of the assurances given to the Dutch State. The Fondation des Assurances KLM comprises one Committee, which issues binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France-KLM Board of Directors appear to contravene the assurances given to the Dutch State. The Fondation des Assurances KLM was extended for an indeterminate period.

When giving its opinions, the Fondation des Assurances KLM must act in the best interests of KLM, the Air France-KLM group and its shareholders. The Foundation is managed by a Board of four independent directors:

- one appointed by Air France-KLM;
- one appointed by KLM;
- one appointed by the Dutch State; and
- one appointed by the other three directors.

The director appointed by Air France-KLM has double voting rights with regard to the appointment of the fourth director.

Since May 6, 2009, the date on which the assurances given to KLM became null and void, there has been only one committee within the foundation which is responsible for the respect of the assurances given to the Dutch State.

This Committee comprises three members of the Board with the exclusion of the director appointed by KLM.

The submission of a case to the Foundation's Committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors may be made by the Dutch State with regard to the assurances given to it.

If the Committee of the Fondation des Assurances KLM issues a mandatory notice indicating that the decision submitted to it contravenes the assurances given, the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The Committee takes decisions based on a majority vote.

At December 31, 2013, no cases had been submitted to the Foundation's Committee.

6.6 Information relating to the agreements concluded with Alitalia-Compagnia Aerea Italiana (Alitalia-CAI)

Until December 2013, Air France-KLM held a 25% shareholding in Alitalia-Compagnia Aerea Italiana (Alitalia-CAI) pursuant to a series of agreements concluded in January 2009.

In addition to the investment agreement, four additional agreements had then been concluded between Air France-KLM and Alitalia-CAI:

- an industrial and commercial agreement known as the Partnership Agreement;
- an agreement relating to Alitalia-CAI's membership of the SkyTeam alliance;
- an agreement relating to the change in Alitalia-CAI's bylaws notably in terms of governance and shareholders' rights;
- a call option agreement in addition to the aforementioned changes in the bylaws.

Following a capital increase realised by Alitalia-CAI in late December 2013 and the conversion of convertible bonds, the Air France-KLM shareholding in Alitalia-CAI was reduced from 25% to 7.08% at the end of 2013. Despite the reduction in its Alitalia-CAI shareholding, Air France-KLM continues its partnership with this company.

Partnership agreement

Under the terms of this eight-year agreement, Air France-KLM and Alitalia-CAI agreed to maximize the synergies that they have identified in the different areas, particularly in terms of cooperation on the routes between France and Italy, the feeding of their respective hubs, intercontinental routes, frequent flyer programs and sales and distribution.

To ensure the full effectiveness of the agreement, the companies established governance bodies and appointed a Partnership Manager to be responsible for preparing the annual or multi-year actions plans, establishing the monthly reports and, more generally, for monitoring the implementation of the decisions taken by the governance bodies.

The first Partnership Manager, who is a senior executive of Air France-KLM, was appointed in January 2009. His term of office has been renewed and will expire at the end of March 2015. The Partnership Manager is based in Italy.

Amendments to the bylaws following the Alitalia-CAI capital increase

Governance

The Alitalia-CAI General Shareholders' Meeting decided to reduce the composition of the Board of Directors from 19 to 11 members, including one director (four previously) appointed by Air France-KLM.

Ordinary shares and B shares

As an industrial partner, the company Air France-KLM holds B shares which carry the same economic and voting rights as the ordinary shares held by the other shareholders.

Furthermore, these B shares give Air France-KLM a number of specific rights, particularly a right of withdrawal from Alitalia-CAI exercisable, notably, in the event that Alitalia-CAI were to unilaterally proceed with the early termination of the industrial partnership. Symmetrically, Alitalia-CAI is entitled to redeem the B shares held by Air France-KLM on the same basis.

Furthermore, as with all the other shareholders, Air France-KLM has a pre-emption right in the event of a shareholder selling shares to third parties.

Amendments to the bylaws

In view of the changes in the structure of the share capital during December 2013, Air France-KLM no longer has the ability to block any amendments to the bylaws liable to be decided by the Alitalia-CAI General Shareholders' Meeting.

6.7 Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after ratification.

6.7.1 Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the "transit right";
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;
- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

6.7.2 European legislation

Single European air space

Within the European Union, these eight freedoms have been supplemented, since April 1, 1997, by common legislation that creates a homogeneous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European air space. Furthermore, any resident of an EU Member State may hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework eliminates the need for bilateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Open Skies agreement between Europe and the United States

Based on the mandates issued by the Council of Ministers, the European Union and its Member States have signed air transport agreements with the following third-party countries:

- United States. The agreement signed in April 2007 was amended by a protocol of June 2010 enabling, notably, European airlines to operate an unlimited number of flights, aircraft and routes to the United States from any European airport with the freedom to set prices, and to operate their services within the framework of cooperation agreements with partners of their choice. This agreement does not change the US rules on ownership and control and, similarly, cabotage remains forbidden;
- Canada. The agreement signed in December 2009 offers EC carriers similar opportunities to those figuring in the agreement with the United States and also includes the same restrictions;
- Morocco. The agreement signed in December 2006 was the first in a series of agreements signed with European Union neighboring countries: Georgia and Jordan in December 2010, Moldavia in June 2012 and Israel in June 2013. These agreements foresee the liberalization of bilateral air relations subject to the relevant countries adopting the EU aviation-related acquis;
- Balkan States (Albania, Bosnia, Macedonia, UNMIK, Montenegro, Serbia): the agreement signed in June 2006 aims to create a common air space. At the end of transition periods that vary by country, the Balkan airlines will benefit in Europe from the same traffic rights as EC airlines. At this stage, only the 3rd and 4th freedom rights have been liberalized.

In April 2002, the European Union also signed an air transport agreement with Switzerland giving Swiss carriers, which are assimilated with EU carriers, access to all the intra-Community rights with the exception of cabotage.

Passenger rights

Passenger rights in the European Union relating to flight delays, cancellation and refused boarding are defined by EC Regulation no. 261/2004 which came into force in 2005 and applies to all flights, whether scheduled or unscheduled, departing from an airport located in a Member State of the European Union. The Regulation establishes common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading. A new version of the Regulation which is currently in the revision phase is expected during 2015 aimed at enabling a uniform application of the legislation within the European Union, clarifying a number of grey areas – particularly so-called "extraordinary" circumstances – and including different precedent cases of the Court of Justice of the European Union.

If a flight is overbooked, air carriers are encouraged to develop policies based on calling for volunteers to take a different flight. If this policy does not prevent boarding refusals, the passengers affected receive compensation. If a flight is cancelled, the air carrier's obligations are based on their ability to adequately inform their passengers. The earlier the passenger is informed, the fewer the constraints for the carrier.

If these obligations are not met (and in the absence of extraordinary circumstances), the passenger may claim compensation which currently varies between €250 and €600, based on the final destination mileage zone and the time period in which he or she was rescheduled. A passenger who is seated in a class lower than the reservation class benefits from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone.

If a flight is delayed for at least five hours, passengers may request the reimbursement of their tickets (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

In March 2013, the European Commission published a proposed revision to Regulation 261/2004, aimed at balancing the text of the regulation in force and clarifying a number of provisions.

The principles of jurisprudence issued by the European Court of Justice since the entry into force of the Regulation, and particularly the so-called "Sturgeon" ruling granting compensation for delays of more than three hours, were adopted in this draft. While it proposes to mitigate the consequences by adopting different thresholds triggering compensation (at least five hours) based on the distance of the flight, the Commission has introduced new obligations potentially leading to additional costs for air carriers (compensation for delays on connecting flights, limitation of the sequential usage rule on flight coupons, partial ban on the policy applied in the event of no-shows, etc.)

Furthermore, the application scope for this text covers all the EC carriers' flights (whereas only the flights of airlines in third-party countries on departure from the European Union are subject to the Regulation). Some compensation provisions for delay, comprising an extra-territorial nature as proposed, may not even be applicable to non-European airlines, potentially compounding the distortion to competition already imposed by the original text. As a consequence, it seems vital to the European airlines that they should be taken into account in the revision of the Regulation.

During the past seven years, thirty national regulations governing passenger rights have been implemented globally and others are expected to emerge in the coming months.

Limiting the proliferation of uncoordinated laws, whose extra-territorial influence and incompatibility with the existing international conventions could rapidly make them mutually contradictory and difficult to manage for carriers operating global networks, currently constitutes a challenge for the whole industry.

6.7.3 International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transportation: the Montreal Convention, the Chicago Convention and the Rome Convention.

A fourth treaty, the Tokyo Convention (1963), plays a particular role in combating safety offences committed on board aircraft.

The Montreal Convention (1999)

The Montreal Convention of May 1999, ratified to date by 103 States, aims to provide better protection for victims suffering damages. This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first tier that sets an objective liability for the air transport company of up to 113,100 Special Drawing Rights (SDR);
- a second tier, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages are exclusively a result of the acts of a third party.

Furthermore, with regard to compensation, the rule relating to the regional authority of courts has been extended.

The Chicago Convention (1944)

The Convention relating to international civil aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic airspace and their relations with one another.

Signed in December 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 191 signatory States in all areas of civil aviation.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification by making a distinction between everyday risk and terrorist risk.

The Tokyo Convention (1963)

The Tokyo Convention, in force since December 4, 1969, sets out the principles and establishes the procedures for handling offences against penal law (except those of a political nature and based on racial or religious discrimination) and acts endangering the safety of the aircraft or that of the persons and property on board.

One of the specific characteristics of this Tokyo Convention is that it recognizes certain powers and immunities of aircraft commanders, exonerating them, under certain conditions, from responsibility for any harm potentially caused to individuals committing such unlawful acts.

This Tokyo Convention (ratified by France in 1970) is currently the subject of a revision process within the ICAO.

6.7.4 Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. A European regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). In Asia, the allocation of slots is generally done on the basis of recommendations made by IATA (Bangkok, Tokyo, Hong Kong, Singapore, etc.). In the United States, with the exception of New York and O'Hare Airport (Chicago) this procedure is replaced with a system based on the assignment of boarding gates.

For airports within the European Union, each Member State with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organisations and the airport authorities, designates a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

6.8 Information and control

6.8.1 Person responsible for the Registration Document and for the annual financial report

Alexandre de Juniac, Chairman and Chief Executive Officer.

6.8.2 Certification by the person responsible for the Registration Document

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions to this effect, the information contained in this Registration Document reflects reality and that nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the company and all the companies within the consolidation scope, and that the information contained in the management report figuring on pages 4 to 5, on pages 8 to 40, on pages 42 to 53, on pages 59 and 61, on pages 64 and 65, on pages 70 to 72, on pages 73 to 80, on pages 82 to 94, on pages 106 to 147, on pages 155 to 158, on pages 159 to 163 , on page 264 and on pages 274 to 278, provides a true and fair view of the changes in the business, results and financial position of the company and all the companies within the consolidation scope, together with a description of the principal risks and uncertainties that they face.

I have obtained a completion letter from the Statutory Auditors confirming that they have verified the information regarding the financial position and the financial statements contained herein and reviewed the entire Registration Document.

The consolidated financial statements for the financial year ended December 31, 2013 included in this Registration Document were the subject of a Statutory Auditors' report figuring on pages 250 and 251 which contains an observation relating to the change in accounting policy following the application, by Air France-KLM, of IAS 19 Revised "Employee Benefits", effective as from January 1, 2013.

The consolidated financial statements for the financial year ended December 31, 2012 included in the Registration Document filed with the AMF on April 9, 2013 under registration number D.13-0314 were the subject of a Statutory Auditors' report figuring on pages 245 and 246.

The consolidated financial statements for the nine-month financial year ended December 31, 2011 included in the Registration Document filed with the AMF on April 19, 2012 under registration number D.12-0367 were the subject of a Statutory Auditors' report figuring on pages 245 and 246.

Alexandre de Juniac,

Chairman and Chief Executive Officer

6.8.3 Statutory auditors

Incumbent Statutory Auditors

Deloitte et Associés
185, avenue Charles-de-Gaulle – 92200 Neuilly-sur-Seine
represented by Dominique Jumaucourt

Starting date of first mandate: September 25, 1998

Renewed for a six-year period by the Shareholders' Meeting of July 8, 2010.

KPMG Audit
A division of KPMG S.A.
1, cours Valmy – 92923 Paris-La Défense
represented by Valérie Besson and Michel Piette

Starting date of first mandate: September 25, 2002

Renewed for a six-year period by the Shareholders' Meeting of July 10, 2008.

Deputy Statutory Auditors

BEAS
7/9, Villa Houssaye – 92200 Neuilly-sur-Seine
represented by William Di Cicco

Starting date of first mandate: September 25, 1998

Renewed for a six-year period by the Shareholders' Meeting of July 8, 2010.

Denis Marangé
1, cours Valmy – 92923 Paris-La Défense

Starting date of first mandate: July 10, 2008

Appointed for a six-year period by the Shareholders' Meeting of July 10, 2008.

6.8.4 Person responsible for financial information

Bertrand Delcaire
Head of Investor Relations
Mailing address:
Air France-KLM / AFKL.FI
95737 Roissy Charles de Gaulle Cedex

6.8.5 Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) figure, notably:

- the 2013, 2012, 2011, 2010-11, and 2009-10 Registration Documents filed with the *Autorité des marchés financiers*;
- the financial press releases (traffic, quarterly, half-year and annual results);
- the offering memoranda;
- the financial presentations;
- the company's articles of incorporation.

Glossaries

Air transport glossary

AEA

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometres traveled.

Available ton-kilometers (ATK)

Total number of tons available for the transportation of cargo, multiplied by the number of kilometres traveled.

Biometry

Technique enabling the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Coordinated airport

Airport where a coordinator has been appointed to allocate landing and take off slots according to rules established in advance. All large European Union airports are coordinated.

Cabotage

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity

Capacity is measured in available seat-kilometers.

Catering

In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Code share

In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Code sharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as free flow, the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi

Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Connecting traffic

Traffic between two destinations which are not linked by a direct flight.

DGAC

Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL

Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services

Range of ground services offered by Air France and KLM to their passengers, based on the new information technologies. E-services notably enable passengers to check in using self-service kiosks or *via* the airlines' websites as well as the use of electronic tickets.

EASA

European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticket

All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces a traditional paper ticket.

Equivalent available seat-kilometer (EASK)

Overall measure of production for the Air France-KLM group after conversion of cargo tons into equivalent available seats.

Equivalent revenue passenger-kilometers (ERPK)

Overall measure of the Air France-KLM group's traffic after conversion of cargo tons into equivalent revenue passenger-kilometers.

Fare combinability

System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's Schiphol hub and a journey with an onward flight connection at Air France's Roissy-Charles de Gaulle hub. With fare combinability, customers benefit from a choice of more frequencies *via* one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

FAA

Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

High contribution

Fare classes corresponding to business or first class.

Hub

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with various commercial and financial support services.

IATA year

Financial year which runs from April 1 to March 31 of the following year.

ICAO

The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation world-wide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from world-wide destinations.

Over-reservation or over-booking

Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, over-booking enables management of the fact that some passengers cancel their trips but not their reservations. It thus allows many passengers to find a seat on board flights that could have departed with available seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic

Traffic between two airports, excluding passengers prolonging their trip with a connecting flight.

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operation and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening, and the screening and questioning of passengers.

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment

Section of a flight between two destinations. The number of passengers is calculated by segment carried.

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.).

Ton-kilometers transported

Total number of tons transported multiplied by the number of kilometer covered.

Traffic

Traffic is measured in Revenue Passenger-Kilometers (RPK).

Unit revenue

In the passenger business, corresponds to the revenue for one available seat or for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over five months.

Financial Glossary

Adjusted operating income

Adjusted operating income corresponds to income from current operations increased for the portion of operating leases deemed to be interest charges.

Adjusted operating margin

The adjusted operating margin is the percentage of revenues represented by operating income adjusted for the portion of operating leases (34%) deemed to be financial charges. The adjusted operating margin calculation is detailed in section 5.4, page 159.

Adjusted net debt

Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge).

ADR

American Depositary Receipt. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. The Air France-KLM level 1 ADR program is traded on the OTCQX Market.

Earnings per share

Net income divided by the average number of shares for the period.

EASK (revenue and cost)

The EASK or equivalent available seat-kilometer is an overall indicator of the Group's air transport activity. Given the weight of the passenger business (including the leisure business), the indicators for the cargo business (ATK and RTK) are converted into the ASK and RPK "equivalents", the indicators used in the passenger business. Unit revenue per EASK corresponds to the revenues generated by the passenger and cargo businesses divided by the number of EASK. Unit cost per EASK corresponds to the net costs divided by the number of EASKs. The calculation of the unit cost per EASK is detailed in section 5.4, page 159.

EBITDA

Earnings before interest, taxation, depreciation and amortization. The calculation method is detailed in section 5.4, page 159.

EBITDAR

Earnings before interest, taxation, depreciation, amortization and operating leases. This metric facilitates comparison between companies with different aircraft financing policies.

Fuel hedging

Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing financial instruments, mostly in the form of options, whose value fluctuates as a function of the jet fuel price and the related oil products (oil, diesel). The hedging strategy is detailed in section 3.3, page 91.

Gearing ratio

The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the company's financial independence: the lower it is, the greater the company's room for manoeuvre.

IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN

International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

Net adjusted interest costs

Net interest costs are adjusted for the portion (34%) of operating leases deemed to be financial costs.

Net income, Group share

Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

OCÉANE

Acronym of Obligations Convertibles En Actions Nouvelles ou Existantes or bonds convertible and/or exchangeable into new or existing shares.

OPE

Offre Publique d'Échange. A public exchange offer (PEO) is an offer to purchase shares in a target company in exchange for shares in the company initiating the offer.

Operating income

Operating income is the amount remaining after operating expenses (external expenses, payroll costs, amortization and provisions) have been deducted from revenues. It shows what the company earns from its principal activity before the impact of financial and exceptional items.

ORS

Offre Réservée aux Salariés or offer reserved for employees. Within the context of privatizations, the State sells a tranche of shares to employees of the company at preferential conditions.

Return on capital employed (ROCE)

A measure of the returns that a company is making on the capital employed to ensure its business activity. The calculation is detailed in section 5.4, page 159.

Revenues

Revenues corresponds to the total sales generated by the Air France-KLM group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales.

Share capital

Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

SSE

Shares-for-Salary Exchange. In connection with the French State's sale of Air France-KLM shares, employees were offered shares in exchange for a salary reduction over a six-year period.

Stockholders' equity

Stockholders' equity represents accounting value of the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

TPI

Titre au Porteur Identifiable or identifiable bearer shares. TPI analysis enables a company to identify its shareholders holding stock in bearer form.

Tables of concordance

This concordance table uses the sections required by European Commission Regulation (EC) no. 809/2004 ("the Regulation") of April 29, 2004 and provides the page numbers in this document for the information relating to each of these sections.

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No.	Information based on Annex 1 of the Regulation	Page
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Information included by reference

Pursuant to article 28 (EC) no. 809/2004, the following information is included by reference in this Registration Document:

2012 Financial Year

The Registration Document for the 2012 financial year was filed with the *Autorité des marchés financiers* on April 9, 2013 under the registration number D.13-0314. The consolidated financial statements are presented on pages 156 to 162 and the related Statutory Auditors' report on pages 245 and 246. The full statutory financial statements can be found on pages 247 to 258 and the related Statutory Auditors' certification on page 260. The selected financial information is presented on pages 2 and 3 of the Registration Document. The Management Report figures on page 4, pages 6 to 32, 34 to 44, 50 to 52, 55 and 56, 61, 62 and 63, 64 to 71, 74 to 95, 99 to 135, 146 to 149, 150 to 153 and 270 to 274.

2011 Financial Year

The Registration Document for the 2011 financial year was filed with the *Autorité des marchés financiers* on April 19, 2012 under the registration number D.12-0367. The consolidated financial statements are presented on pages 148 to 244 and the related Statutory Auditors' report on pages 245 and 246. The full statutory financial statements can be found on pages 247 to 259 and the related Statutory Auditors' certification on page 261. The selected financial information is presented on pages 2 and 3 of the Registration Document. The Management Report figures on pages 6 to 34, 36 to 41, 51 to 53, 56 to 57, 62 to 64, 66 to 72, 74 to 94, 98 to 127, 138 to 147 and 270 to 274.

Table of concordance for the annual financial report

This Registration Document contains all the elements of the financial report as referred to in articles L. 451-1-2 of the Monetary and Financial Code and required by article 222-3 of the AMF's General Regulation. The table below resumes the elements of the financial report.

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