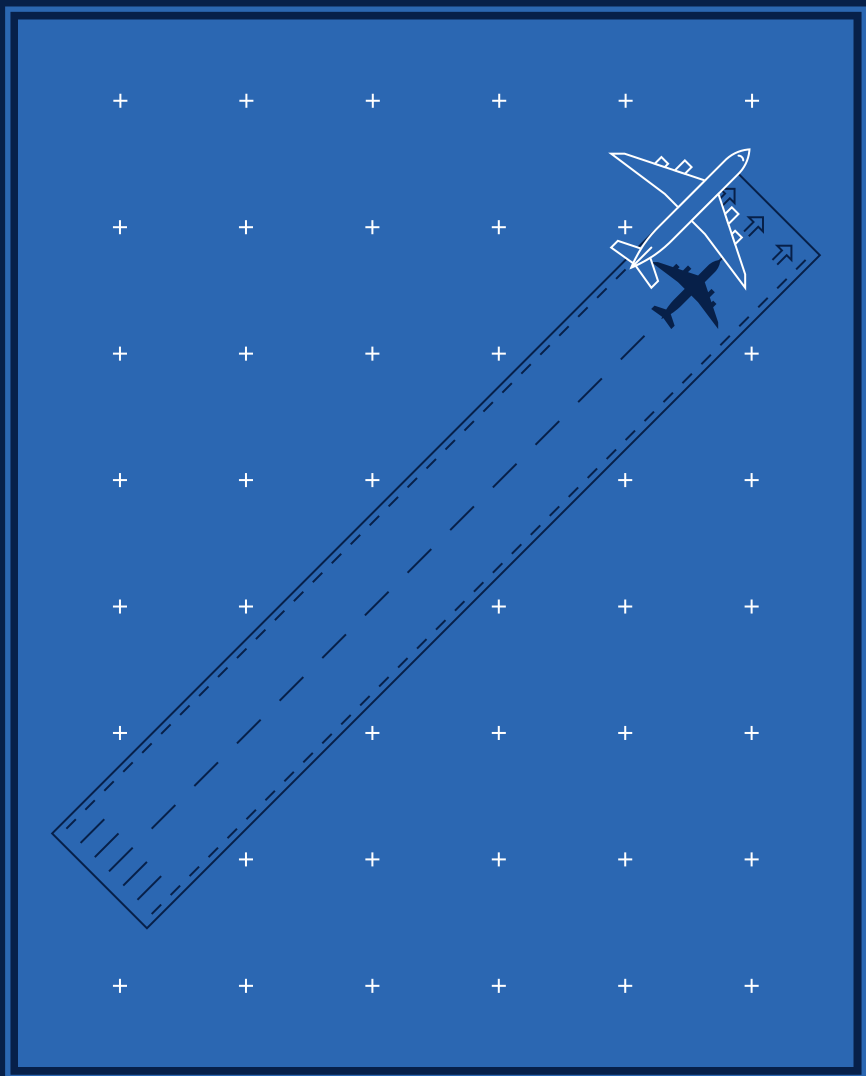
Registration document 2015

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 2015
AIR FRANCE-KLM

INCLUDING THE ANNUAL FINANCIAL REPORT

Group profile

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

89.8
MILLION PASSENGERS

534
AIRCRAFT IN OPERATION

115
COUNTRIES

1.2
MILLION TONS OF CARGO

316
DESTINATIONS (2016 SCHEDULE)

AMF AUTORITÉ DES MARCHÉS FINANCIERS

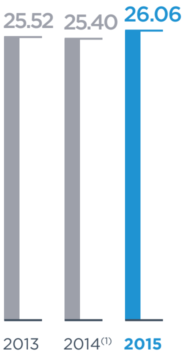
This Registration Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on Tuesday April 12, 2016 pursuant to Article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM 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, not 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, 2014 figuring on pages **2** and **3** of the 2014 Registration Document and the review of the financial situation and results for the financial year ended December 31, 2013 figuring on pages 2 and 3 of the 2013 Registration Document are incorporated by reference in this document (*see also Section 5.4 – Key financial indicators, page* ***161***).

Revenues

(in € billion)

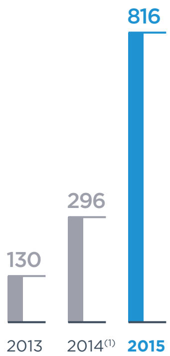


Revenues stood at €26.06 billion, up by 4.6% and down by 3.2% like-for-like (on a constant currency basis and excluding the impact of the 2014 strike).

(1) Adjusted for the estimated impact of the strike. Reported revenues: €24.91 billion.

Income/(loss) from current operations

(in € million)



The income/(loss) from current operations stood at €816 million, up by €945 million and by €698 million like-for-like (on a constant currency basis and excluding the impact of the 2014 strike).

(1) Adjusted for the estimated impact of the strike. Reported income/(loss) from current operations: €(129) million.

Information by business segment

	2015		2014		2013	
At December 31	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	**20.54**	**842**	20.02	289	20.11	174
Cargo	**2.42**	**(245)**	2.72	(188)	2.82	(202)
Maintenance	**1.58**	**214**	1.25	196	1.23	159
Other	**1.47** (1)	**5**	1.41	(1)	1.37	(1)

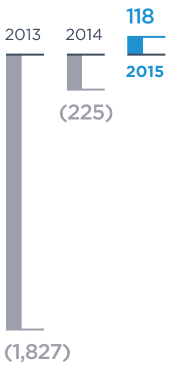
(1) Including Transavia and Catering.

"We are very pleased to post positive results and a reduced net debt for the Group in 2015, reflecting the efforts of all the staff and the loyalty of our clients. The measures deployed with "Transform 2015" have paid off and we are delivering the strategy implemented in the "Perform 2020" plan, with focused growth in long-haul, E&M and the European low-cost operations while restructuring loss-making businesses and reducing unit costs. In spite of the favorable environment created by lower fuel prices, we confirm our ambition to improve our competitiveness within an economic and geopolitical context that remains very uncertain."

Alexandre de Juniac
Chairman and Chief Executive Officer

Net income/(loss), Group share

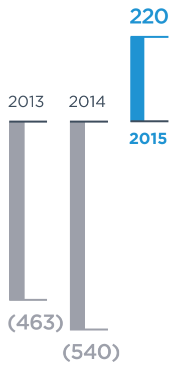
(in € million)



The net income/(loss), Group share comprises operating income of €816 million and notably includes non-recurring items (see opposite), the net cost of financial debt and income taxes.

Restated net income/(loss), Group share

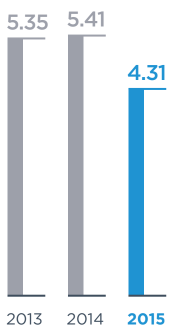
(in € million)



After adjusting for non-recurring items (including the capital gains of €218 million and €230 million respectively on the sale of Amadeus shares and London Heathrow slots, restructuring charges of €159 million and the unrealized foreign exchange result of €(294) million, the restated net income/(loss), Group share stood at €220 million versus €(540) million in 2014, a €760 million increase.

Net debt

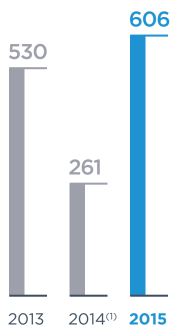
(in € billion, at December 31)



Net debt stood at €4.31 billion at December 31, 2015 versus €5.4 billion at December 31, 2014.

Operating free cash flow

(in € million)

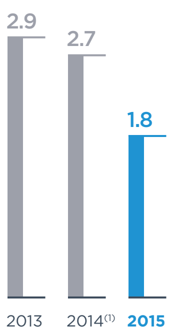


The operating free cash flow does not include free cash flow from financial investments, particularly the cash-in of €327 million from the sale of Amadeus shares in January and the hybrid bond transaction in April raising €600 million.

(1) Adjusted for the estimated impact of the strike. Reported operating free cash flow: €(164) million.

Net debt/EBITDA

(at December 31)

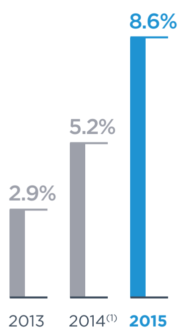


At December 31, 2015, the 12 months trailing net debt/EBITDA ratio stood at 1.8x compared with 2.7x at December 31, 2014, adjusted for the strike.

(1) Adjusted for the estimated impact of the strike on EBITDA. Reported ratio: 3.4x.

Return on capital employed (ROCE)

(at December 31)



The return on capital employed (ROCE) increased by 3.4 points to 8.6% at the end of 2015.

(1) To be able to compare figures based on a constant scope, the Alitalia shares have been excluded from the calculation.

HIGHLIGHTS OF THE 2015 FINANCIAL YEAR

January

Sale of a block of Amadeus shares representing 2.2% of the share capital

On January 15, 2015, Air France–KLM sold a block of 9.9 million Amadeus shares representing around 2.2% of the company's share capital. The net proceeds on the sale stood at €327 million. The Group still holds 9,900,000 Amadeus shares within the framework of the hedging transaction announced on November 25, 2014.

Air France: new measures to improve competitiveness

During the meeting of the Air France Corporate Works Council on January 22, 2015, the Air France management gave a presentation on a number of short-term adaptation measures: downwards revision in fleet and capacity growth, new initiatives to drive revenues, reinforcement of "purchasing" initiatives, maintained wage moderation and productivity efforts, and further adaptation of headcount to requirements. This action plan led the Air France management to present, at the Corporate Works Council meeting on February 13, 2015, two proposed Voluntary Departure Plans, one aimed at the departure of 500 ground staff and the second covering 300 cabin crew positions.

Transavia: a new visual identity

On January 26, 2015, Transavia unveiled its new online brand identity, reaffirming the ''It's a pleasure'' positioning. Combined with the launch of a new website in February 2015, this positioning supports the Group's ambitious low-cost growth plan as set out in the "Perform 2020" plan.

March

Air France–KLM strengthens its presence in Canada and South America

For its Summer 2015 schedule, Air France–KLM strengthened its presence in Canada with the opening of two routes: Vancouver operated by Air France as of March 29, 2015 and Edmonton served by KLM from May 5, 2015. The Group also reinforced its position in South America with the inauguration by KLM of a new service to Bogota and Cali (Colombia) from March 31, 2015.

April

Perpetual subordinated bond issue raising €600 million

On March 26 and April 10, 2015, Air France–KLM successfully placed a perpetual subordinated bond issue raising €600 million. These perpetual bonds have a first repayment option in October 2020 at the issuer's discretion and pay an annual coupon of 6.25% until that date. In accordance with IFRS, they were booked as equity.

This issue enabled the consolidation of the Group's financial structure during the "Perform 2020" implementation period and will thus contribute to the achievement of the adjusted net debt/EBITDAR ratio target of around 2.5 in 2017.

New credit facilities totaling €1.675 billion

At the end of April 2015, Air France–KLM and Air France put in place a new €1.1 billion revolving credit facility with thirteen international banks. This revolving credit facility finalized the early refinancing of the Air France credit facility which was due to mature in April 2016. This new credit facility is composed of two tranches with respective three and five year maturities, amounting to €550 million apiece.

In early July, this facility was completed by a similar facility put in place by KLM with ten international banks, amounting to €575 million.

In total, Air France–KLM now has undrawn credit facilities amounting to €1.775 billion.

May

Renewal of Alexandre de Juniac's Board director mandate and of his mandate as Air France-KLM's Chairman and CEO, and reinforcement of the Group's governance

The Annual General Shareholders' Meeting of May 21, 2015 renewed Alexandre de Juniac's term of office as a Board director for a four-year period. On the same day, the Air France–KLM Board of Directors decided to renew Alexandre de Juniac's mandate as Chairman and Chief Executive Officer of Air France–KLM for the duration of his Board director term of office.

Furthermore, the Board decided to initiate a process to improve the Group's governance and increase the interaction and coherence between Air France–KLM, Air France and KLM. Lastly, the Board expressed its full support for Alexandre de Juniac and his ambitions for Air France–KLM, including the strengthening of the Group's competitiveness within the framework of the "Perform 2020" plan, the improvement in standards of customer service, the commitment of all the teams in these projects and the continued growth of Air France–KLM as a major player in the global air transport industry.

June

Air France wins Skytrax awards for its product move up-market

Within the framework of the Skytrax awards in June 2015, passengers scored individual airlines for the quality of their customer experience, covering the standards of products and services on the ground and in the air. Air France won two awards, the Best First Class Airline Lounge Dining and the World's Most Improved Airline. Air France ranks number 15 (+10) and KLM number 28 (+4) amongst the top 100 airlines.

July

Productivity agreements signed between KLM and the unions

In July 2015, with the VNV pilots union, KLM signed a productivity agreement covering the next three years (January 2015-December 2017). This agreement notably includes a freeze on general salary increases, measures securing productivity gains and a progressive rise in the retirement age. An Air France–KLM profit-sharing agreement and a mechanism offering exposure to the share price will also be put in place. Other productivity agreements of shorter duration were also implemented with the ground staff and cabin crew unions.

Air France–KLM pursues its move up-market

In 2015, Air France and KLM continued to deploy new products and services across their fleets. At the end of the Summer season, 20 Air France B777s were equipped with the last BEST cabins. Having refurbished the World Business Class cabins on all its B747-400s, KLM is progressively equipping its B777 fleet with the new World Business Class and Economy cabins. As of April 2015, Air France also started to deploy its new leather-upholstered seats in 24 A319s on departure from Paris-Charles de Gaulle. It will then equip 25 A320s during the 2016 first half.

October

Presentation of a plan to reduce Air France's long-haul capacity

On October 5, 2015, Frédéric Gagey, Chairman and Chief Executive Officer of Air France, updated the Corporate Works Council on progress with the "Perform 2020" plan.

Facing the impossibility of signing agreements enabling the implementation of productivity measures to restore long-term profitability, and acknowledging that a significant proportion of its long-haul routes were not profitable, Air France was forced to launch a restructuring plan of its long-haul network.

Frédéric Gagey informed the social partners that, while 2016 will necessarily be marked by a reduction in capacity, the Company could return to growth in 2017 were a productivity agreement to be reached in the first months of 2016.

Transfer of slots at London Heathrow

In October 2015, with its partner Delta Air Lines, Air France–KLM signed a contract to transfer six pairs of slots at London Heathrow. The Group had already been making these slots available to Delta for several years, meaning that its flight schedule at London was not affected by this operation, which generated cash proceeds of €247 million.

November

Terrorist attacks in Paris
The terrorist attacks in Paris on November 13, 2015 significantly affected the Group's activity, with the total negative impact on revenues in November and December 2015 estimated at €120 million.

Munich: the first Transavia base outside France and the Netherlands
In November 2015, Air France–KLM announced the opening by Transavia of its first base outside France and the Netherlands. Starting from March 2016, the Group's low-cost operator will offer its customers 18 destinations on departure from Germany to Belgium, Croatia, Denmark, Spain, France, Italy, Morocco, the Netherlands and Portugal. With four B737-800s based in Munich, Transavia will operate over 101 weekly flights on departure from the Bavarian capital during the Summer 2016 season.

The KLM fleet is expanding
In November 2015, KLM took delivery of its first B787s equipped with the new World Business Class, which have been progressively deployed on Abu Dhabi-Bahrain, Dubai and Rio de Janeiro.

In 2015, the KLM order book was renewed with orders for 17 Embraer 175s and two Embraer 190s, the latter two aircraft being delivered in December.

December

Annulment of the European Commission decision imposing fines in the air cargo industry
At the end of December 2015, the General Court of the European Union ruled on the appeal filed against the European Commission decision of November 9, 2010 against fourteen cargo operators, including Air France, KLM and Martinair, for practices deemed to be anti-competitive in the air cargo sector.

The Court decided to annul in its entirety the European Commission's decision and the resulting fines. The Commission will now determine the appropriate follow-up. These fines have been fully provisioned in the financial statements since 2010. At December 31, 2015, the total amount of provisions constituted in respect of all the proceedings concerning anti-trust legislation in the air freight sectors stood at €383 million.

Reinforcement of the strategic partnership with Jet Airways
At the end of December 2015, Air France–KLM announced the reinforcement of its strategic partnership with Jet Airways, India's leading private airline, with the installation as of March 27, 2016 at Amsterdam-Schiphol airport of Jet Airways' main European hub. This installation is supplemented by the implementation of a number of code share agreements with the Group's airlines and with Delta.

1

CORPORATE GOVERNANCE

1.1 THE BOARD OF DIRECTORS

1.1.1 Composition of the Board of Directors

At December 31, 2015, the Board of Directors was composed of fifteen members:

- thirteen Board directors appointed by the Shareholders' Meeting, including:
  - two directors proposed by the French State [1], and
  - two representing the employee shareholders [2];
- one representative of the employees appointed by the *Comité de Groupe Français* [3]; and
- one representative of the French State appointed by ministerial order [4].

Furthermore, as of December 31, 2015, the Board of Directors was composed of eleven members with French nationality and four members with Dutch nationality.

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, 2015, the Board of Directors numbered four women Board directors, *i.e.* a proportion of 28.6% [5], in line with the AFEP-MEDEF recommendations as of this date and the provisions of Act No.2011-103 of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors, and Supervisory Boards, and professional equality.

During the 2015 financial year, the composition of the Board of Directors saw a number of changes as shown in the following table.

Changes in the composition of the Board of Directors during the 2015 financial year:

Dates	Events	Function within the Board
May 15, 2015	Appointment of Solenne Lepage by ministerial order	Director representing the French State
May 21, 2015	Renewal of Alexandre de Juniac's term of office by the Annual General Shareholders' Meeting	Chairman of the Board of Directors
May 21, 2015	Appointment of Patrick Vieu by the Annual General Shareholders' Meeting as proposed by the French State	Director appointed as proposed by the French State
May 21, 2015	Appointment of Jean-Dominique Comolli by the Annual General Shareholders' Meeting as proposed by the French State	Director appointed as proposed by the French State
May 21, 2015	Expiry of Régine Bréhier's term of office	Director representing the French State
November 5, 2015	Appointment of Antoine Santero by the *Comité de Groupe Français*	Director representing the employees

(1) Pursuant to Article 6 of Ordinance No.2014-948 of August 20, 2014, relating to governance and to transactions involving the share capital of State-owned companies.
(2) Board directors representing employee shareholders are appointed pursuant to Article L.225-23 of the Code of Commerce, Article L.6411-9 of the Transport Code and Article 17-2 of the Articles of Incorporation.
(3) Pursuant to the provisions of Article L.225-27-1 of the Code of Commerce and Article 17-3 of the Articles of Incorporation.
(4) Pursuant to Article 4 of Ordinance No.2014-948 of August 20, 2014 relating to governance and to transactions involving the share capital of State-owned companies.
(5) Board directors representing the employees appointed pursuant to Article L. 225-27-1 of the Code of Commerce are not taken into account for the gender parity calculation in line with the provisions of the aforementioned Article.

1

Board directors appointed by the Shareholders' Meeting

First appointed as a Board director:
January 11, 2012

Expiration date of current term of office:
2019 Shareholders' Meeting

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

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

Alexandre de Juniac

Chairman and Chief Executive Officer

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'État* 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 of 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(1) on July 1, 2013.**

Other directorships and offices

French company

— Member of the Vivendi(1) Supervisory Board.

Other

— Member of the IATA (International Air Transport Association) Board of Governors (Canada);
— President of the *Club des Juristes*.

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 of the Economy, Industry and Employment from 2009 to 2011.

(1) Listed company.

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

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

Peter Hartman

Vice-Chairman of the Board of Directors

Expertise and professional experience

Born April 3, 1949, Peter Hartman, a Dutch national, 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 Engineering & 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, Mr. Hartman has been Vice-Chairman of the Air France-KLM (1) Board of Directors.**

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of KPN NV since April 15, 2015;
- Member of the Constellium Board of Directors;
- Member of the Supervisory Board of Royal Ten Cate NV (1) (Netherlands);
- Chairman of the Supervisory Board of Fokker Technologies Group BV (Netherlands);
- Chairman of the Supervisory Board of Texel Airport NV (Netherlands).

Others

- Chairman of Connekt (Netherlands) (independent network of public and private companies aiming to connect different entities to facilitate sustainable travel in the Netherlands);
- Chairman of the Advisory Council for Aeronautics Research in Europe.

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

Non-French companies

- Member of the Supervisory Board of Delta Lloyd NV (1) (Netherlands) until May 2014;
- Director of Alitalia CAI (Italy) until January 2014;
- Member of the Supervisory Board of Stork BV (1) (Netherlands) until January 2013;
- Member of the Supervisory Board of Kenya Airways Limited (Kenya) until July 2013;
- President of the Managing Board of KLM (Netherlands) until June 2013.

Others

- Member of the Board of Directors of the Rotterdam School of Management (Netherlands) until October 2011.

(1) Listed company.

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

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

Maryse Aulagnon

Independent director

Chair of the Audit Committee

Expertise and professional experience

Born April 19, 1949, Maryse Aulagnon, Honorary Master of Petitions at the Conseil d'État, 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 SA[1] (office real estate), 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; representative of Affine, Mab-Finances and Promaffine within the employee representative bodies of the various Affine Group entities;
- Director of Veolia Environnement[1];
- Member of the BPCE Group (Banques Populaires Caisses d'Épargne) Supervisory Board.

Non-French companies

- Affine Group: Chair of Banimmo[1] (Belgium) and Director of Holdaffine BV (Netherlands).

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

French companies

- Affine Group: Member of the Executive Committee of Concerto Development SAS until December 19, 2014, Director of Affiparis SA until December 7, 2012.

Other

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

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

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

Isabelle Bouillot

Independent director

Member of the Remuneration Committee

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 Études Politiques de Paris* and the *École 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, Ms. Bouillot has been President of China Equity Links (SAS).**

Other directorships and offices

French companies

- Director of Saint Gobain[1];
- Majority Manager of IB Finance.

Non-French companies

- President of CELPartners Ltd (Hong Kong);
- Director of Yafei Dendistry Limited[2];
- Director of Crystal Orange Hotel Holdings Limited[2];
- Director of JD Holding Inc.[2].

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

Non-French companies

- Director of Umicore (Belgium) until May 2015;
- Director of Dexia[1] (Belgium) until May 2012.

(1) Listed company.
(2) Unlisted company registered outside France in which China Equity Links has an equity interest.

First appointed as a Board director:
December 14, 2010

Expiration date of current term of office:
2019 Shareholders' Meeting

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

Jean-Dominique Comolli

Board director appointed as proposed by the French State

Member of the Appointments and Governance Committee and of 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 2010, he was Chairman and Chief Executive Officer of Seita, Vice-Chairman of Altadis until 2005 and Chairman of the Board of Altadis between 2005 and 2010. In September 2010, he was appointed Commissioner for State Holdings, a position he was to occupy until October 2012. **Mr. Comolli is currently an Honorary Civil Service Administrator.**

Other directorships and offices representing the French State

French company and public institution

— Director of France Télévisions.

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

French companies and public institutions

— Director of the Établissement Public de l'Opéra Comique until December 2014;
— Director of EDF[1] until November 2012;
— Director of the SNCF until October 2012;
— Member of the Areva[1] Supervisory Board until September 2012;
— Director of France Telecom[1] until September 2012;
— Director of the Fonds Stratégique d'Investissement until September 2012.

First appointed as a Board director:
September 15, 2004[2]

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

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

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

Jean-François Dehecq

Independent director

Chairman of the Appointments and Governance Committee and member of the Audit Committee

Expertise and professional experience

Born January 1, 1940, Jean-François Dehecq is a graduate of the *École Nationale Supérieure 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: Director of Pierre Balmain SA; Chairman of the Balmain SA Board of Directors;
— Director of Provepep since December 2014;
— Director of Provepharm.

Other

— Honorary Chairman of Sanofi[1].

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

French companies

— Chairman of the Sanofi Espoir Foundation until October 2, 2015;
— Chairman of the Strategy Committee of the Commission des Titres d'Ingénieurs (French Engineering accreditation institution) until October 2015;
— Chairman of the Pierre Balmain SA Board of Directors until November 2014;
— Chairman of the Maori Supervisory Board until September 2014;
— Chairman of the Strategy Committee of the Fonds Stratégique d'Investissement until July 2013;
— Director of Veolia Environnement[1] until May 2012.

Others

— Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers) until June 2011.

(1) Listed company.
(2) Date first appointed in the capacity of Board director at Société Air France: January 25, 1995 (*see explanation on page* ***23***).

First appointed as a Board director:
July 7, 2011

Expiration date of current term of office:
2019 Shareholders' Meeting

Number of shares held in the company's stock:
1,025

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

Jaap de Hoop Scheffer

Independent director

Member of the Remuneration Committee

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 in the Governance and International Affairs Faculty of Leiden University (Netherlands).**

Other directorships and offices

Non-French company

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

Others

- Chairman of the Supervisory Board of the Rijksmuseum (Netherlands);
- Member of the Board of Trustees of the Friends of Europe Group, based in Brussels;
- 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);
- President of the Netherlands Civil Honours Advisory Committee (Netherlands);
- Member of the Trilateral Commission.

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

N/A

First appointed as a Board director:
September 15, 2004 (3)

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

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

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 of the Appointments and Governance Committee

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 BV between 1977 and 1982. He was President of the Dutch Industry Federation between 1984 and 1991 and Chairman of the Akzo Nobel NV Management Board between 1994 and 2003. Mr. van Lede was Chairman of the Supervisory Board of Heineken (1) between 2004 and April 2013 and **currently holds a number of company directorships.**

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Royal Philips (Netherlands);
- Senior Advisor with JP Morgan.

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

French company

- Director of Air Liquide (1) until May 6, 2015.

Non-French companies

- Chairman of the Supervisory Board of Royal Imtech (Netherlands) until May 12, 2015;
- Chairman of the Heineken (1) (Netherlands) Supervisory Board until April 2013;
- Director of DE Master Blenders (1) (2) (Netherlands) until February 2013;
- Director of Sara Lee Corporation (United States) until June 2012 (2).

(1) Listed company.
(2) Sara Lee Corporation was dissolved on June 28, 2012 following a spin-off of two separate companies, one of which was DE Master Blenders.
(3) Date first appointed in the capacity of Board director at Société Air France: June 24, 2004.

First appointed as a Board director:
March 27, 2014

Expiration date of current term of office:
2018 Shareholders' Meeting

Number of shares held in the company's stock:
300

Professional address:
Nocibé,
2 rue de Ticléni,
59493 Villeneuve d'Ascq

Isabelle Parize

Independent director

Member of the Remuneration Committee

Expertise and professional experience

Born June 16, 1957, Isabelle Parize is a graduate of the *École Supérieure de Commerce de Paris*.
Having occupied various positions within Procter & Gamble between 1980 and 1993 including notably that of Marketing Manager, Health and Beauty Care, Ms. Parize joined Henkel Group in 1994. She was Managing Director of Schwarzkopf, Henkel France, from 1994 to 1998, then Senior Vice-President in charge of Europe, the Middle East and Africa and of strategic marketing (based in Germany) from 1998 to 2001. She subsequently became Managing Director of Canal+ Distribution and Chief Executive Officer of CanalSatellite in 2001. She then became President of the Fragrance division at Quest International (2005-07) and Managing Director then Vice-Chair of the company Betclic (2007-11). **Isabelle Parize has been Chief Executive Officer of Nocibé since 2011.**

Other directorships and offices

French companies

- Nocibé/Douglas Group: Chair and Chair of the Managing Board of AI Perfume France, CEO and Chair of the Managing Board of Parfumerie Douglas France, Chair and CEO of Douglas Expansion and Chair of Douglas Passion Beauté Achats DPB-Achats.

Non-French companies

- Member of the Supervisory Board of Beiersdorf AG (Germany) since April 17, 2014;
- Nocibé/Douglas Group: Chief Executive Officer of Parfumeria Douglas Portugal SA (Portugal) since October 5, 2014. CEO of Douglas Cosmetics GmbH (Germany) since October 15, 2014, CEO of Douglas Monaco (Monaco) since October 20, 2014, member of the Managing Board of Douglas Spain SA and Parfumerie Iberia Holding SL (Spain) since November 24, 2014.

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

French companies

- Director of Sofipost SA until April 2014;
- Vice-Chair of Betclic Everest until 2011.

Other

- Director of the Invest in France Agency (*Agence Française pour les investisseurs internationaux*) until April 2014.

First appointed as a Board director:
May 21, 2015

Expiration date of current term of office:
2019 Shareholders' Meeting

Professional address:
Conseil Général de l'Environnement et du Développement Durable,
92055 Paris la Défense Cedex

Patrick Vieu

Board director appointed as proposed by the French State

Expertise and professional experience

Born December 2, 1964, Patrick Vieu holds a history degree and a doctorate in philosophy, having graduated from the *Institut d'Études Politiques de Paris* and the *École Nationale d'Administration*.
Mr. Vieu began his career in 1993 at the French Transport Ministry where he occupied, notably, the functions of Deputy Director of motorway and infrastructure concessions (1999-2004). He served as Director of Rail and Public Transport (2005-2008) then Director of Transport Services (2008-2011) at the Ministry of Ecology, Sustainable Development, Transport and Housing. In summer 2011, he became Project Director reporting to the Vice-President of the General Council for the Environment and Sustainable Development before being appointed "Environment and Territories" Advisor responsible for advising the French President on transport and sustainability issues in 2012. **Since June 2014, he has been Advisor to the Vice-President of the General Council for the Environment and Sustainable Development.**

Other directorships and offices

N/A

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

N/A

First appointed as a Board director: September 15, 2004 [2]

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

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

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

Leo M. van Wijk

Board director

Chairman of the Remuneration Committee

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 [1] , an office he held until June 30, 2013. **Mr. van Wijk served as Chairman of the SkyTeam Governing Board between 2007 and 2015 and is currently a company director.**

Other directorships and offices

Non-French company

— Vice-Chairman of the AFC Ajax NV [1] Supervisory Board (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 [1] until June 2013.

Non-French companies

— Chairman of the SkyTeam Governing Board until November 18, 2015;

— Member of the Aegon NV [1] Supervisory Board (Netherlands) until May 20, 2015;

— Member of the Supervisory Board of Randstad Holding NV [1] (Netherlands) until April 2014.

(1) Listed company.
(2) Date first appointed in the capacity of Board director at Société Air France: June 24, 2004.

Board director representing the French State

Pursuant to Article 4 of French Ordinance No.2014-948 of August 20, 2014 concerning governance and transactions involving the share capital of public sector companies and Article 2 of the decree-law No.2014-949 of August 20, 2014 applying French Ordinance No.2014-948, in that the French State holds more than 10% of Air France-KLM's share capital, a seat may be reserved for the French State within the Board of Directors. Solenne Lepage was appointed Board director representing the French State by a ministerial order dated May 15, 2015.

First appointed as a Board director:
March 21, 2013

Expiration date of current term of office:
May 2019

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

Solenne Lepage

Board director representing the French State
Member of the Audit Committee

Expertise and professional experience

Born February 7, 1972, Solenne Lepage holds a philosophy degree and a Diploma of Advanced Studies in history, and is a graduate of the *École Nationale des Chartes*, the *Institut d'Études Politiques de Paris* and the *École 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. Appointed Deputy Director, "Transport and Audiovisual" at the Agency for State Shareholdings, **Ms. Lepage has been Director of Transportation Shareholdings at the Agency for State Shareholdings since October 2012.**

Other directorships and offices representing the French State

French companies and public institutions

- Director of SNCF Mobilités (ex SNCF);
- Director of Aéroports de Paris[1];
- 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 Réseau Ferré de France (now SNCF Réseau) until July 2015;
- Director of France Télévisions until September 2013;
- Director of External Audiovisual for France until September 2013;
- Member of the Supervisory Board of Aéroports de la Côte d'Azur until May 2013;
- Member of the Supervisory Board of Le Havre Grand Port Maritime until March 2013;
- Director of the Société de Financement et d'Investissement pour la Réforme et le Développement (SOFIRED) until January 2013;
- Director of the French Fractionation and Biotechnologies Laboratory (LFB) until October 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 2012.

(1) Listed company.

1

Board directors representing the employee shareholders

Pursuant to Articles L. 225-23 of the Code of Commerce and L. 6411-9 of the Code of Transport, and Article 17-2 of the Articles of Incorporation, in that the employees of Air France-KLM subsidiaries own more than 3% 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; and
— one representative belonging to the other employee category of staff.

These Board directors representing the employee shareholders are appointed by the Shareholders' Meeting having been proposed by the shareholders referred to in Article L. 225-102 of the Code of Commerce. The employee and former employee shareholders are invited to choose their candidates for each of the two colleges (flight deck crew and other employees), the appointment taking place based on a majority vote in two rounds of balloting. 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.

First appointed as a Board director: May 20, 2014

Expiration date of current term of office: 2018 Shareholders' Meeting

Number of shares held in the company's stock: 43,386 and 22,653 FCPE units

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

Louis Jobard

Board director representing the flight deck crew shareholders

Member of the Audit Committee

Expertise and professional experience

Born August 19, 1959, Louis Jobard holds a degree in Economic Sciences and Business Administration from Tours University (1979). Having been, notably, a private pilot instructor and commercial aviation pilot, Mr. Jobard joined Air France in March 1986 as a co-pilot on the B737-200, then on the B747. He became a Flight Captain on the B737-500 in 1995, then on the A310, A340 and A330 until 2007, and on the B747-400 until the withdrawal of this aircraft from the fleet in 2016. **Mr. Jobard has since been Flight Captain on the B777.**

Other directorships and offices

— Titular member (elected) of the Supervisory Boards of the Concorde employee shareholder FCPE;
— Vice-Chairman of the *Association de prévoyance du personnel navigant*.

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

N/A

First appointed as a Board director: September 15, 2004 (1)

Expiration date of current term of office: 2018 Shareholders' Meeting

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

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

Christian Magne

Board director representing the ground staff and cabin crew shareholders

Member of the Audit and Remuneration Committees

Expertise and professional experience

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

Other directorships and offices

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

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

N/A

(1) Date first appointed in the capacity of Board director of Société Air France: September 14, 2001.

Board director representing the employees

Article 17-3 was introduced into the Articles of Incorporation by the 26th resolution adopted by the General Shareholders' Meeting of May 21, 2015 to establish the conditions for the appointment of Board directors representing the employees pursuant to Article L. 225-27-1 of the Code of Commerce. The number of Air France-KLM Board directors mentioned in Articles L. 225-17 and L. 225-18 of the Code of Commerce amounted to twelve during the 2015 financial year: one Board director representing the employees was appointed by the *Comité de Groupe Français* on November 5, 2015 for a two-year term of office.

First appointed as a Board director:
November 5, 2015

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

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

Antoine Santero

Board director representing the employees

Expertise and professional experience

Born June 30, 1963, Antoine Santero began his career as a member of the UTA ground staff in 1985. He then became a flight attendant at Euralair from 1987 to 1998, the date on which he returned to Air France still in the capacity of flight attendant. **Mr. Santero has been Senior Flight Attendant on the Air France long-haul network since 2007.**

Other directorships and offices

— Member of the Board of Directors of the *Caisse de Retraite du personnel navigant de l'Aviation Civile*;
— Member of the Civil Aviation professional flight crew board within the DGAC.

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

N/A

Board director whose term of office expired during the 2015 financial year

First appointed as a Board director:
March 22, 2013

Expiration date of current term of office:
May 21, 2015

Professional address:
Direction des Affaires Maritimes – ministère de l'Écologie, du Développement Durable et de l'Énergie – Arche Sud, 92055 La Défense Cedex

Régine Bréhier

Board director representing the French State

Expertise and professional experience

Born December 10, 1960, Régine Bréhier is a graduate of the *École Polytechnique*, the University of Berkeley and the *École 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 in the transport and infrastructure areas. 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, Ms. Bréhier 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

— Alternate Director at the *École Nationale Supérieure Maritime*.

Others

— 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

— Director of the *Musée de la Marine* until June 25, 2015;
— Director of the *Société Nationale Maritime Corse Méditerranée* (SNCM) until May 7, 2015;
— 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[1] 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.

(1) Listed company.

Composition of the Board of Directors at December 31, 2015

Board director (age at December 31, 2015)	Functions within the Board of Directors	Date appointed to the Air France-KLM Board	Mandate expiry date	Principal current function
Alexandre de Juniac (53 years)	Chairman and Chief Executive Officer of Air France - KLM	January 11, 2012	2019 AGM	Chairman and Chief Executive Officer of Air France - KLM
Peter Hartman (66 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 (66 years)	Independent director Chair of the Audit Committee	July 8, 2010	2017 AGM	Chair and Chief Executive Officer of Affine
Isabelle Bouillot (66 years)	Independent director Member of the Remuneration Committee	May 16, 2013	2017 AGM	President of China Equity Links
Jean-Dominique Comolli (67 years)	Director appointed as proposed by the French State Member of the Appointments and Governance and Remuneration Committees	December 14, 2010	2019 AGM	Honorary Civil Administrator
Jean-François Dehecq (75 years)	Independent director Chairman of the Appointments and Governance Committee and member of the Audit Committee	September 15, 2004	2016 AGM	Vice-Chairman of the National Industry Council
Jaap de Hoop Scheffer (67 years)	Independent director Member of the Remuneration Committee	July 7, 2011	2019 AGM	Professor, Leiden University (Netherlands)
Louis Jobard (56 years)	Director representing the employee shareholders Member of the Audit Committee	May 20, 2014	2018 AGM	B777 Flight Captain
Cornelis van Lede (73 years)	Independent director Member of the Audit Committee and the Appointments and Governance Committee	September 15, 2004	2016 AGM	Company director
Solenne Lepage (43 years)	Director representing the French State Member of the Audit Committee	March 21, 2013	May 2019	Director of Transportation Shareholdings, Agency for State Shareholdings
Christian Magne (63 years)	Director representing the employee shareholders Member of the Audit and Remuneration Committees	September 15, 2004	2018 AGM	Air France Executive
Isabelle Parize (58 years)	Independent director Member of the Remuneration Committee	March 27, 2014	2018 AGM	Chief Executive Officer of Nocibé
Antoine Santero (52 years)	Director representing the employees	November 5, 2015	2017 AGM	Senior Flight Attendant, long-haul Air France
Patrick Vieu (51 years)	Board director appointed as proposed by the French State	May 21, 2015	2019 AGM	Advisor to the Vice President of the General Council for the Environment and Sustainable Development
Leo M. van Wijk (69 years)	Board director Chairman of the Remuneration Committee	September 15, 2004	2016 AGM	Company director

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 deems appropriate.

The Board deliberates on any matters falling within its legal and regulatory remit. In addition, the Board approves prior to any decision or deployment by the Company or major subsidiary (Air France, KLM, and any other major subsidiary, as may be decided by the Board) the:

- Group's strategic orientations and reviews them as a whole at least once a year;
- Group's budget including the investment plan;
- 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;
- following operations by the company and its major subsidiaries when their amount is equal to or in excess of €150 million:
  - (i) operating lease contracts, investments, the acquisition or sale of any assets including, specifically the fleet, interests in companies formed or to be formed, participation in the formation of all companies, groups or organizations, subscriptions to all issues of shares, units or bonds,
  - (ii) borrowings, issues of bonds and aircraft financing,
  - (iii) granting of all exchanges with or without balancing cash adjustments involving the company's assets, stocks or securities.

The Board also approves the appointment of the Chairman and Chief Executive Officer or the Chief Executive Officers of major subsidiaries, as proposed by the Appointments and Governance Committee. It also approves the remuneration of the Chairman and Chief Executive Officer and of the Chief Executive Officers of all major subsidiaries, as recommended by the Remuneration Committee.

Lastly, the Board ensures the proper running of the company and its major subsidiaries and approves the acquisition or sale of any controlling interests when their amount is equal to or in excess of €150 million.

1.1.3 Organization of the Board of Directors

Combined functions of Chairman and Chief Executive Officer

As proposed by its Appointments Committee, the Board of Directors appointed Mr. Alexandre de Juniac 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.

Pursuant to the decision taken by the Board of Directors, as proposed by the Appointments and Governance Committee, Alexandre de Juniac was reappointed as Chairman and Chief Executive Officer following the renewal of his Board director term of office by the General Shareholders' Meeting of May 21, 2015.

The combination of the functions of Chairman of the Board of Directors and Chief Executive Officer 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 as outlined in points (i), (ii) and (iii) of the above *paragraph 1.1.2*.

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 Advisory Committees established within the Board.

The internal regulations are regularly updated: the last update took place on July 23, 2015 and was, notably, aimed at ensuring the establishment of more effective governance within the Air France-KLM Group.

The main changes were as follows:

- more detailed specifications on the missions and prerogatives of the Board of Directors, and notably on the scope of the Board of Directors' competence threshold (€150 million), the nature of the decisions submitted for approval by the Board and the same decisions taken by the governance bodies in the principal subsidiaries; competence on the appointment and remuneration of the Chairman and Chief Executive Officer and the company officers of the principal subsidiaries;
- updating of the Audit Committee's composition and functioning rules;
- updating of the Appointments and Governance Committee's name, composition and prerogatives;
- updating of the Remuneration Committee's composition and prerogatives.

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

Board directors' terms of office

Pursuant to the corporate governance principles as stipulated by the AFEP-MEDEF Corporate Governance Code, the duration of Board directors' terms of office is four years[(1)] and the expiration dates for these terms of office are staggered to facilitate the smooth renewal of the Board of Directors. Furthermore, Board directors[(2)] must own at least ten shares for the duration of their terms of office (*Article 19 of the Articles of Incorporation*).

Independence of the Board directors

During the 2015 financial year, in the light of the criteria stipulated by the AFEP-MEDEF Code, six Board directors (Maryse Aulagnon, Isabelle Bouillot, Jean-François Dehecq, Jaap de Hoop Scheffer, Cornelis van Lede and Isabelle Parize) may be deemed to be independent in that:

- none of these six directors has a direct or indirect 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 General Shareholders' Meeting either by KLM or by the Dutch government[(3)], pursuant to the agreements signed in October 2003),
- any business relationships (supplier/customer relationships) existing between the Group and each of these six directors (or the companies with which they are associated) are insignificant in nature relative to the revenues of both companies concerned given, notably, the nature of Air France-KLM's principal activity (international air transportation of passengers and cargo),
- 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[(4)].

(1) With the exception of Board directors representing the employees whose term of office is two years pursuant to Article 17-3 of the Articles of Incorporation.
(2) With the exception of Board directors representing the employee shareholders, directors elected by employees and directors representing the employees (Article L. 225-25 par. 3 of the Code of Commerce) and' directors appointed by the French State or the Shareholders' Meeting as proposed by the State (Articles 5 paras. 5 and 6 VI of French Ordinance No.2014-948 of August 20, 2014).
(3) The Dutch State is not a shareholder in Air France-KLM.
(4) A detailed explanation of this point can be found on page 23 pursuant to the "comply or explain" principle.

Evaluation criteria pursuant to paragraph 9.4. of the AFEP-MEDEF Code	Maryse AULAGNON	Isabelle BOUILLOT	Jean-François DEHECQ	Jaap DE HOOP SCHEFFER	Cornelis J.A. VAN LEDE	Isabelle PARIZE
Not to have been an employee or executive director of Air France-KLM or one of its subsidiaries in the previous five years	√	√	√	√	√	√
Not to be an executive director of a company in which Air France-KLM holds a directorship, directly or indirectly, or in which an employee appointed as such or an executive director of Air France-KLM holds or held a Board directors' mandate in the previous five years	√	√	√	√	√	√
Not be a customer, supplier, investment banker or commercial banker that is material to the corporation or its Group or for which its Group represents a significant part of its business	√	√	√	√	√	√
Not to be related by close family ties to an executive director	√	√	√	√	√	√
Not to have been an auditor of Air France-KLM within the previous five years	√	√	√	√	√	√
Not to have been a director of Air France-KLM for more than twelve years	√	√	NO (1)	√	√	√
Not to have been a director representing a major shareholder of Air France-KLM	√	√	√	√	√	√
Not to receive or have received material additional remuneration from Air France-KLM in addition to directors' fees, including participation in any form of share options or any other form of compensation linked to performance	√	√	√	√	√	√

(1) *See explanation on page **23**.*

The other directors are either representatives of the French State (Solenne Lepage), or candidates proposed by the French State (Jean-Dominique Comolli and Patrick Vieu), or representatives of the employee shareholders (Christian Magne and Louis Jobard), or representatives of the employees (Antoine Santero), or current or former senior executives of Air France-KLM, Air France and KLM (Alexandre de Juniac, Peter Hartman and Leo van Wijk) and, in this capacity, may not be deemed to be independent.

In view of the above, and in application of the provision of the AFEP-MEDEF Code by which directors representing employee shareholders and directors representing the employees are not included in the calculation of the percentages of independent directors within the Board of Directors and its Committees (§9.2 and §15 of the AFEP-MEDEF Code), the percentages of independent directors at December 31, 2015 were:

- 50% of the Board of Directors;
- 75% of the Audit Committee (Chaired by an Independent director);
- 67% of the Appointments and Governance Committee (Chaired by an Independent director); and
- 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.

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 November 2015 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 not applied	Reasons
Criteria by which Board directors are not deemed to be independent if their term of office dates back more than twelve 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 exercised 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. Mr. Dehecq's Board director mandate will expire at the end of the General Shareholders' Meeting of May 19, 2016.
Evaluation of the Board of Directors – effective 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 2015, 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 contributions from directors to the Board's work and that of its Committees are notably addressed on the renewal of Board directors' mandates.
Meetings of the 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 matters concerning executive directors (such as their 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 and Governance 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.

Stock market and ethical compliance

The Compliance Rules, adopted by the Board of Directors on March 25, 2004, as amended on March 1, 2015, remind notably company officers, senior executives of the company, 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) applying to 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 or sequestration of goods, 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

Pursuant to the recommendations of the AFEP-MEDEF Code, the internal regulations of the Board of Directors stipulate that *"Any director with a conflict of interest, even a potential conflict, because of the position he holds in another company, must so inform the Board and must refrain from any vote on the corresponding resolution. The Chairman may ask him not to be present during deliberations and voting"*. Furthermore, individual directors are asked to confirm, on an annual basis, that no conflicts of interest exist.

To the company's knowledge, none of the Board of Directors 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 as of December 31, 2015 the French State held 17.6% of the Air France-KLM share capital and 50.6% of the share capital of Aéroports de Paris. Furthermore, the SNCF, a State-owned company, is Air France's main competitor on the domestic network.

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

As of December 31, 2015, 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 with the exception of the rules relating to the prevention of insider trading and the statutory obligation to own at least ten shares in the company during their term of office[1].

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 2015 financial year

During the 2015 financial year, the Board of Directors met eleven times (versus twelve meetings in 2014), including one extraordinary meeting. Board meetings averaged more than four hours and the attendance rate for directors was 93% (90% in 2014).

The individual attendance rates at Board of Directors and Annual General Shareholders' meetings are presented in *Section 1.1.6* hereinafter.

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;
- budget including the investment plan;
- financing plan;
- monitoring of the "Perform 2020" strategic and competitiveness plan;
- development of the low-cost business, Transavia;
- alliance strategy;
- maintenance business;
- update on the events arising during the Corporate Works Council meeting of October 5, 2015;
- status report on aviation safety;
- status report on security (following the terrorist attacks of November 13, 2015);
- governance of the Group, appointment and compensation of the principal executives.

In June 2015, the Board of Directors held its annual meeting devoted to the Group's strategy, which took the form of a two-day seminar.

Training for Board directors

On appointment and during their terms of office, individual Board directors can benefit from training that they deem necessary to the exercise of their mandates. This training is proposed, organized and paid for by the company.

Newly-appointed Board directors are encouraged to meet with the company's senior executives and are offered site visits to enable them to increase their understanding of the Group's

(1) This requirement for Board directors to own at least ten shares in the Company for the duration of their terms of office is not applicable to directors representing the employee shareholders, directors elected by the employees and directors representing the employees (Article L.225-25 and para. 3 of the Code of Commerce) as well as to directors appointed by the French State or the Shareholders' Meeting as proposed by the French State (Articles 5 paras. 5 and 6 VI of French Ordinance No.2014-948 of August 20, 2014).

environment and business activities. On their appointment, they are also sent a dossier including, notably, the company's Articles of Incorporation, the internal regulations of the Board, the Registration Document, the latest press releases issued by the company and a reminder of the stock market compliance rules.

On appointment and throughout their terms of office, Board directors representing the employees and employee shareholders may also benefit from training tailored to their functions. This training, which is paid for by the company, is mostly carried out *via* an external training program designed by a professional body and is aimed at gaining a better understanding of the functioning of the Board of Directors and their roles as directors. Accounting and financing modules are also proposed to enable them to improve their financial know-how. Pursuant to the applicable regulation, the Board of Directors meeting of December 9, 2015 decided to end the training program offered to the director representing the employees.

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

At least once a year, the Board conducts an evaluation of its functioning and organization, pursuant to Article 10 of the AFEP-MEDEF Code and Article 2 of the Board's internal regulation. This evaluation is overseen by the Appointments and Governance Committee. Every three years, the Board also calls on the services of an external consultant.

During the 2015 financial year, the Board of Directors commissioned an evaluation of its functioning and that of its Committees by an independent firm.

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

- composition, organization, functioning and dynamic of the Board of Directors and its Committees;
- effectiveness of the Board of Directors and its Committees;
- articulation of the work done by the Board of Directors and those of its subsidiaries;
- principal changes and areas requiring improvement.

The interviews with Board directors were conducted under the seal of anonymity and gave rise to a presentation and discussion within the Board of Directors.

This evaluation highlighted an improvement in the Board's functioning thanks, notably, to a Board more oriented towards action, increased director participation in discussions and a renewed impetus to strategic thinking following the strategy seminar.

Some additional improvements were suggested and notably the simplification of the Group's governance. Other suggestions included an improvement to the presentation of Board dossiers, the management and conclusion of discussions and the monitoring of decisions taken by the Board of Directors.

Suggestions were also made on the composition of the Board of Directors aimed, in particular, at reinforcing the proportion of independent directors and company directors in activity, a representation of Dutch women amongst the Directors and employee shareholder representation, a greater international bias to the Board, a review of possible Board representation for the Dutch employees, the envisaged renewal of aeronautical competence and the addition of digital skills.

Regulated agreements and commitments

Agreements and commitments referred to in Articles L. 225-38 et L. 225-42-1 of the Code of Commerce

The Board of Directors did not authorize the signature of any regulated agreements or commitments during the 2015 financial year. Furthermore, there are no former regulated agreements whose execution continued during the 2015 financial year.

Agreements referred to in Article L. 225-102-1 of the Code of Commerce

Excepting agreements relating to current operations and concluded under ordinary conditions, no agreements were signed in 2015, either directly or *via* an intermediary between, firstly, an Air France-KLM Board director or shareholder holding a fraction of the voting rights above 10% (French State) and, secondly, a company in which more than half the share capital is owned, directly or indirectly, by Air France-KLM.

1.1.5 The Board of Director Committees

Audit Committee

Composition

At December 31, 2015, the Audit Committee was composed of the following six members: Maryse Aulagnon (Chair of the Committee), Jean-François Dehecq, Solenne Lepage, Cornelis van Lede, Christian Magne and Louis Jobard.

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 Code of Commerce, the company's Audit Committee includes 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 fulfill 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 also 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 and pursuant to Article 16.3 of the AFEP-MEDEF Code, they were able to consult with Committee members outside the presence of the Group's senior executives on the occasion of the review of the annual financial statements.

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 reviews 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 fulfill its mission and may, notably, be assisted by persons from outside the company.

Activity

During the 2015 financial year, the Audit Committee met five times (as in 2014) with an attendance rate for members of 93% (87% in 2014). The meetings lasted an average of nearly four hours. The following matters were notably reviewed by the Audit Committee during the 2015 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. The main accounting options adopted were the subject of a special quarterly presentation. In 2015, particular attention was paid to the overall pension obligations, the valuation of the maintenance provisions, the deferred tax assets and oil derivative instruments.

The review of the financial statements by the Audit Committee usually takes place a minimum of two business days prior to their review by the Board of Directors.

— Review and monitoring of the budget

The Audit Committee now reviews the budget prior to its presentation to the Board of Directors and oversees its monitoring on a quarterly basis.

— Internal control and risk management

At each of the Audit Committee meetings, Internal Audit gave a presentation on its quarterly activity report.

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.

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 financial risks (fuel and emission quotas, interest and currency exchange rates, financing).

— Statutory Auditors

The Audit Committee approves the budgeted Statutory Auditors' fees prior to the opening of the financial year together with their final amount as of the closing date.

The Audit Committee recommended to the Board of Directors that it submit the proposed renewal of the mandates of Deloitte & Associés and BEAS to the General Shareholders' Meeting of May 19, 2016.

— Others

In line with its annual work schedule, the Audit Committee also reviewed the following matters in 2015:

- monitoring of cash and the financing strategy;
- pension obligations and other elements liable to impact the balance sheet and the change in the financial situation of the KLM pension funds;
- fuel hedging strategy;
- review of the principal litigation, fiscal and financial risks;
- IFRS update;
- review of the management control systems;
- main estimates and accounting options and review of the impairment tests;
- organization of the finance function.

Remuneration Committee

Composition

At December 31, 2015, the Remuneration Committee was composed of the following six members: Leo van Wijk (Chairman of the Committee), Isabelle Bouillot, Jaap de Hoop Scheffer, Jean-Dominique Comolli, Isabelle Parize and Christian Magne.

Missions

The Remuneration Committee is primarily responsible for formulating recommendations to the Board of Directors 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 and share purchase option schemes or performance share plans.

Activity

The Remuneration Committee met twice during the 2015 financial year (five meetings in 2014) and the attendance rate for members was 100% (97% in 2014).

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 Board directors' fees, and the principles and amounts of 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, as had been requested by the Board of Directors, the processes for determining the remuneration of the latter are now aligned in that the involvement of the Air France-KLM Remuneration Committee is systematically requested by the Group's Chairman and Chief Executive Officer ahead of any decision being taken by the competent Air France and KLM corporate bodies. Pursuant to its amended internal regulation, the Board of Directors will approve, as recommended by the Remuneration Committee, the compensation of the Chairman and Chief Executive Officer of Air France and the President and Chief Executive Officer of KLM due in respect of the 2015 financial year, together with the amount of fixed compensation and the criteria for the variable compensation for these two executives in respect of the 2016 financial year. Subject to structural factors relating to the remuneration of senior executives in France and the Netherlands, the Committee is overseeing the gradual convergence 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, the remuneration of the Group's senior executives.

The Committee continued the review begun last year of the possible options for share-based plans to the benefit of employees, to grant them a bigger share in the results of the strategic plan, create a dynamic of belonging to the Group and align the interests of some employees and senior executives with those of shareholders.

Appointments and Governance Committee

Composition

At December 31, 2015, the Appointments and Governance Committee was composed of the following three members: Jean-François Dehecq (Chairman of the Committee), Jean-Dominique Comolli and Cornelis van Lede.

Missions

The Appointments and Governance Committee is responsible for proposing candidates for the appointment and replacement of Board directors and of the Chairman of the Board of Directors, as well as to replace the executive directors, particularly in the event of unforeseen vacancies. The Appointments and Governance Committee is also consulted and formulates recommendations for the Board of Directors on the appointment of the Chief Executive Officer, other company officers (Executive Vice-Presidents or members of the Management Board) and members of the Boards of Directors or Supervisory Boards of the major subsidiaries.

Furthermore, the Appointments and Governance Committee submits recommendations regarding the governance principles for the Air France-KLM Group and reviews the consistency of the governance in place between the company and the major subsidiaries.

The Appointments and Governance Committee steers the annual evaluation of the functioning of the Board realized either internally or *via* an external consultant.

Lastly, prior to review by the Board of Directors, the Appointments and Governance Committee formulates proposals on the independence of members of the Board of Directors in the light of the criteria in the AFEP-MEDEF Code.

Activity

During the 2015 financial year, the Appointments and Governance Committee met eight times (five meetings in 2014) with an attendance rate for members of 100%, as in 2014.

The Appointments and Governance Committee formulated proposals relating to changes in the composition of the Board of Directors to be submitted to the Shareholders' Meeting, notably concerning the reappointment of the Chairman and Chief Executive Officer and the appointment of a Board director representing the employees pursuant to the Articles of Incorporation which had been amended to take into account Article L. 225-27-1 of the Code of Commerce.

Following the analysis carried out, at the Committee's request, on the articulation of governance between Air France-KLM and its two principal operating subsidiaries (Air France and KLM) within the framework of the Board's evaluation, the Committee proposed that a working group be established to formulate recommendations relating to changes in the governance principles applicable within the Group with a view to their presentation to the Committee then to the Board of Directors. This work led, in particular, to the amendment of Air France-KLM's internal regulation and the adoption of common functioning principles by the Boards of Directors of Air France-KLM and Air France, and by the Supervisory Board of KLM.

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 granting of directors' fees applied in respect of the 2015 financial year are those adopted, as proposed by the Remuneration Committee, by the Board of Directors during its meeting of February 19, 2014. These modalities, confirmed by the Board of Directors during its meeting of February 18, 2015 pursuant to the proposals submitted by the Remuneration Committee, are the following:

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

The amount of additional directors' fees for non-resident directors (€7,000) together with the special fees for Chair persons and Committee members remain unchanged:

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

The allocation rules for directors' fees set out above are applicable to the State representatives and directors appointed as proposed by the French State.

Until the Annual General Shareholders' Meeting of May 21, 2015, all the Directors' fees due to Board directors representing the French State were paid to the latter.

As of the Annual General Shareholders' Meeting of May 21, 2015, pursuant to Ordinance No.2014-948 of August 20, 2014 and the ministerial order of December 18, 2014, the following rules apply:

- for the Directors appointed directly by the French State (Art. 4 of the Ordinance), 100% of the Directors' fees are paid to the State;
- for the Directors appointed by the Shareholders' Meeting as proposed by the French State (Art. 6 of the Ordinance), there are two distinct cases:
  - for public officials, 100% of the Directors' fees are paid to the French State,
  - for those not acting in the capacity of public officials, the Directors' fees must be distributed as follows:
    - 70% paid to the French State,
    - 30% paid directly to the relevant director.

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Compensation granted to Board directors other than the executive directors and individual attendance record at Board meetings and at the Annual General Shareholders' Meeting

The Directors' fees and other compensation paid in respect of the 2015 and 2014 financial years to Board directors other than executive directors were as follows:

	Attendance at Board meetings and the Annual General Shareholders' Meeting (2015 financial year) (1)	Amount of compensation paid (in €)	
		In respect of the 2015 financial year	In respect of the 2014 financial year
Alexandre de Juniac	100%	**N/A**	N/A
Directors' fees		**0**	0
Other compensation		**N/A (2)**	N/A (2)
Peter Hartman	92%	**44,917**	47,000
Directors' fees		**44,917**	47,000
Other compensation		**0**	0
Maryse Aulagnon	100%	**50,400**	46,231
Isabelle Bouillot	75%	**38,750**	37,308
Régine Bréhier (3)	33% (1)	**11,667 (4)**	24,615 (4)
Jean-Dominique Comolli	100%	**47,626 (5)**	45,000 (4)
Jean-François Dehecq	100%	**57,100**	55,500
Jaap de Hoop Scheffer	92%	**49,917**	48,154
Louis Jobard (6)	100%	**48,000**	28,935
Cornelis J.A. van Lede	92%	**57,917**	58,077
Solenne Lepage	100%	**48,000 (4)**	48,000 (4)
Christian Magne (6)	100%	**53,000**	50,000
Isabelle Parize	83%	**40,833**	33,731
Bernard Pédamon (6) (7)	N/A	**N/A**	19,065
Antoine Santero (6) (8)	100% (1)	**3,333**	N/A
Patrick Vieu (9)	100% (1)	**20,000 (4)**	N/A
Leo van Wijk	100%	**54,500**	54,500
Total		**625,960**	**596,116**
of which directors' fees		**625,960**	596,116
of which other compensation		**0**	0

(1) Information given for the number of meetings convened during the period for which the director was in function, for directors whose mandates begin or ended during 2015.
(2) The compensation due and paid in his capacity as Chairman and Chief Executive Officer of Air France-KLM is outlined in the following section devoted to the executive directors.
(3) Director until May 21, 2015.
(4) Amount paid to the General Directorate of Public Finances.
(5) Mr. Comolli having been a director representing the French State until May 21, 2015, his directors' fees were distributed as follows: for the period from January 1 to May 21, 2015, pursuant to the provisions of the French Ordinance dated August 20, 2014 and the ministerial order of December 18, 2014, 70% of the amount was paid to the General Directorate of Public Finances while the remaining 30% was paid to Mr. Comolli, the latter having, however, waived his directors' fees for the period between May 21 and September 1, 2015.
(6) The directors representing the employee shareholders and the director representing employees receive remuneration in respect of their employment contracts with Air France, with no link to their Board director mandates within Air France-KLM. Furthermore, their directors' fees are paid to their unions.
(7) Director until May 20, 2014.
(8) Director since November 5, 2015.
(9) Director since May 21, 2015.

Compensation of the executive directors

Principles for determining the compensation of the executive directors

— 2015 Financial Year

In line with the recommendations formulated by the Remuneration Committee, during its meeting of February 18, 2015 the Board of Directors decided, for the 2015 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 fourth 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 EBITDA (EBITDA compared with the budget)	40%	50%
Quantitative performance: Air France-KLM free cash flow before divestments (free cash flow before divestments relative to the budget)	20%	25%
Qualitative performance		
— implementation of the Perform 2020 plan (including the growth strategy: low-cost, long-haul partnerships, maintenance)	8%	10%
— passenger satisfaction (indicators presented to the Board each quarter)	4%	5%
— progress on the Group's integration process	8%	10%

Alexandre de Juniac's compensation in his capacity as Chairman and Chief Executive Officer in respect of the 2015 financial year

Mr. de Juniac's fixed compensation in his capacity as Chairman and Chief Executive Officer of Air France–KLM amounted to €600,000 in 2015. His variable compensation was set at €462,000 in respect of the 2015 financial year.

This amount corresponds to:

- 65% of his fixed compensation in respect of the quantitative performance (EBITDA and free cash flow being above budget),
- 12% of his fixed remuneration in respect of the qualitative performance (implementation of the Perform 2020 plan strategy including the growth strategy for the low-cost business, long-haul partnerships and maintenance, passenger satisfaction and progress on the Group's integration process).

Summary of Alexandre de Juniac's compensation in respect of the 2015 financial year

In his capacity as Chairman and Chief Executive Officer, the Air France–KLM Board of Directors granted Mr. de Juniac fixed compensation of €600,000 and variable compensation of €462,000, i.e. total compensation of €1,062,000 received in respect of the 2015 financial year.

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— 2016 Financial Year

In line with the proposals formulated by the Remuneration Committee, during its meeting of March 15, 2016 the Board of Directors decided, for the 2016 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 fifth 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 EBITDA (EBITDA compared with the budget)	40%	50%
Quantitative performance: Air France-KLM free cash flow before divestments (free cash flow before divestments compared with the budget)	8%	10%
Qualitative performance		
— implementation of the Perform 2020 plan (including the 1.5% reduction in costs and the international strategy)	16%	20%
— improvement in passenger satisfaction, punctuality and reliability	8%	10%
— improvement in the Group's dynamic and governance	8%	10%

Elements of compensation for the executive directors pursuant to the AMF Recommendation No.2009-16, as amended on April 13, 2015

Summary table of the compensation, options and shares granted to Alexandre de Juniac

(in €)	2015 Financial Year	2014 Financial Year
Compensation due in respect of the financial year	1,062,000	645,000 (1)
Multi-year variable compensation granted during the financial year	N/A	N/A
Stock options granted during the financial year	N/A	N/A
Performance shares granted during the financial year	N/A	N/A
Total	**1,062,000**	**645,000 (1)**

(1) In his capacity as Chairman and Chief Executive Officer, the Air France-KLM Board of Directors granted Mr. de Juniac fixed compensation of €600,000 and variable compensation of €90,000 in respect of the 2014 financial year. In that he waived half of his variable compensation in respect of the 2014 financial year to participate in the Group's recovery efforts and wage restraint, Alexandre de Juniac finally received total compensation of €645,000 in respect of the 2014 financial year.

Summary table of the gross compensation due to Alexandre de Juniac

(in €)	Fixed compensation	Variable compensation	Multi-year variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2015 financial year	600,000	462,000	0	0	0	0	1,062,000
Reminder of 2014	600,000	45,000 (1)	0	0	0	0	645,000 (1)

(1) In his capacity as Chairman and Chief Executive Officer, the Air France-KLM Board of Directors granted Mr. de Juniac fixed compensation of €600,000 and variable compensation of €90,000 in respect of the 2014 financial year. In that he waived half of his variable compensation in respect of the 2014 financial year to participate in the Group's recovery efforts and wage restraint during the last year of the "Transform 2015" plan, Alexandre de Juniac finally received total compensation of €645,000 in respect of the 2014 financial year.

Summary table of the gross compensation paid to Alexandre de Juniac

(in €)	Fixed compensation	Variable compensation	Multi-year variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts paid during the 2015 financial year	600,000	45,000 [(1)]	0	0	0	0	645,000
Reminder of 2014	600,000	75,000	0	0	0	0	675,000

(1) In his capacity as Chairman and Chief Executive Officer, the Air France-KLM Board of Directors granted Alexandre de Juniac variable compensation of €90,000 in respect of the 2014 financial year. In that he waived half his variable compensation in respect of 2014 to participate in the Group's recovery efforts, Alexandre de Juniac finally received variable compensation of €45,000 in respect of the 2014 financial year.

Other commitments made in respect of the executive directors

Alexandre 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.

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, 2015

	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 did not put in place any stock subscription or purchase option schemes to the benefit of its company officers during the financial year, nor in preceding financial years.

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 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. 133,018 PPS, 143,721 PPS, 150,031 PPS, 146,004 PPS, 144,235 PPS, 145,450 PPS and 136,569 PPS were, respectively, granted by KLM on April 1, 2015, April 1, 2014, April 1, 2013, April 1, 2012, July 1, 2011, July 1, 2010 and July 1, 2009 (*see also Note 30 to the consolidated financial statements, on page* ***213***).

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

Air France-KLM and its subsidiaries did not establish a performance share scheme to the benefit of the Air France-KLM company officers during the financial year nor during the preceding financial years.

Summary of transactions 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*)

There were no transactions in Air France-KLM shares during the 2015 financial year.

1.2 THE GROUP EXECUTIVE COMMITTEE

Chaired by the Chairman and Chief Executive Officer of Air France-KLM, the Group Executive Committee is composed of fifteen members:

- the Chairman and Chief Executive Officer of Air France and the President and Chief Executive Officer of KLM, and the two Chief Operating Officers of Air France and KLM; and
- the eleven heads of the Group's functions.

Total compensation (fixed and variable) paid to the Group Executive Committee amounted to €5.6 million in 2015 (€6.4 million in 2014).

		Relevant professional experience	
Members at December 31, 2015	Age at December 31, 2015	Sector	Experience
Alexandre de Juniac Air France-KLM Chairman and Chief Executive Officer	53 years	Public Service, Industry Air Transport	9 years 14 years 4 years
Frédéric Gagey Air France Chairman and Chief Executive Officer	59 years	Air Transport	22 years
Pieter Elbers KLM President and Chief Executive Officer	45 years	Air Transport	23 years
Alain Bassil Air France Chief Operating Officer	61 years	Air Transport	36 years
René de Groot KLM Chief Operating Officer	46 years	Air Transport	25 years
Patrick Alexandre Executive Vice President Commercial – Sales & Alliances, Air France-KLM	60 years	Air Transport	34 years
Pieter Bootsma Executive Vice President Commercial – Strategy, Air France-KLM	46 years	Air Transport	20 years
Adeline Challon-Kemoun (1) Executive Vice President, Marketing, Digital & Communication, Air France-KLM	48 years	Retail Media/Communication Air Transport	10 years 14 years 4 years
Bram Gräber Executive Vice President Transavia, Air France-KLM Executive Vice President Cargo as of March 1, 2015	50 years	Consulting Air Transport	5 years 20 years
Wim Kooijman Executive Vice President Human Resources, Air France-KLM	65 years	Industry Air Transport	25 years 18 years
Jean-Christophe Lalanne Executive Vice President Information Technology, Air France-KLM	54 years	Industry, IT Services Air Transport	20 years 11 years
Jacques Le Pape Executive Vice President Corporate Secretary, Air France-KLM	49 years	Public Service Air Transport	23 years 3 year
Pierre-François Riolacci Chief Financial Officer, Air France-KLM	49 years	Industry Air Transport	23 years 2 years
Franck Terner Executive Vice President Engineering & maintenance, Air France-KLM	55 years	Air Transport	27 years
Erik Varwijk (2) Executive Vice President Cargo, Air France-KLM	54 years	Air Transport	27 years

(1) Subject to consultation with the employee representative bodies.
(2) Until March 1, 2015.

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

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

2

ACTIVITIES

2.1 MARKET AND ENVIRONMENT

Air transport industry growth is heavily dependent on the economic environment and on global politics since economic growth and world geopolitical developments have a significant influence on passenger and cargo flows.

In 2015, global economic growth was slightly lower than in the previous year, at +2.5% (versus +2.7%) However, this average figure covers a number of local disparities. While remaining modest, the recovery accelerated in the European Union. The beginning of a recovery was witnessed in France, with growth of +1.1%, whereas in the Netherlands growth was stronger at +1.9% (*source 1*).

For the airline industry, 2015 proved to be an exceptional year in several respects. Firstly, the fall in the oil price began in late 2014 and accelerated in 2015, the average price halving within the space of fifteen months (*source 2*). This decline continued at the end of the year, reaching a low of under US$30 in early 2016 (*source 3*). For the airlines, its effect is partly mitigated by fuel hedging strategies (*source 4*) and, for the European airlines, by the appreciation in the dollar relative to the euro.

In parallel, restructuring efforts and consolidation in the airline industry made a significant contribution to 2015 results, with an on-going productivity improvement measured by IATA and unit labor costs down by 5.5% between 2014 and 2015 (*source 5*).

Lastly, the magnitude of the growth was also remarkable. Based on the IATA data, global airline traffic increased by 6.7% in 2015 compared with 2014, whereas the previous year's growth had been 6% (*source 5*).

The combination of these factors led to record profits for the industry in 2015, particularly once more in North America. Delta Air Lines more than tripled its operating result, moving from US$2.2 billion in 2014 to US$7.8 billion in 2015, notably thanks to a US$5 billion saving on the fuel bill (*source 6*). In total, over just the three first quarters of 2015, the US airlines posted an aggregate US$17.9 billion of net income (*source 7*).

The global macro-economic environment will remain broadly unchanged in 2016, with growth expected to be +2.6%, in line with its level in 2015, although there should continue to be significant disparities: while Europe and North America continue their recovery, the crisis could prove severe in South America and, more generally, in commodity exporting countries (*source 1*).

According to IATA forecasts, 2016 should also be an exceptional year, with record profits totaling US$19.2 billion in North America, *i.e.* a net margin of 9.5%, but also in Europe with US$8.5 billion for a net margin of 4.3%, and more variable results in Asia-Pacific with US$6.6 billion, representing a net margin of 3.2% on average (*source 5*).

The competitive environment in Europe will continue to be marked by pressure from the Gulf carriers in view of their order books (*source 8*). In Europe, two other, more-recent competitive phenomena became more marked in 2015 and could prove more significant in 2016: the growing interest in long-haul amongst the low-cost carriers, particularly on the North Atlantic (*source 9*), but also the territorial battle and head-on competition between the different low-cost airlines in the European air space (*source 10*).

2.1.1 The economic environment

Economic context (*source 1*)

Real GDP growth rate (expressed in %)	**2013**	**2014**	**2015** (forecast)	**2016** (forecast)
World	2.4	2.7	**2.5**	2.6
European Union	0.2	1.4	**1.8**	2.0
of which France	0.7	0.2	**1.1**	1.5
of which the Netherlands	(0.4)	1.0	**1.9**	2.1
North America (NAFTA countries)	1.6	2.4	**2.3**	2.4
Asia-Pacific	4.7	4.3	**4.2**	4.4
of which China	7.7	7.3	**6.9**	6.3
Middle-East	1.8	2.8	**2.1**	2.7
Sub-Saharan Africa	4.7	4.6	**3.3**	3.9
Latin America	3.0	1.0	**(0.9)**	(0.1)

2015: growth remained modest

In early 2015, the economists' consensus had pointed to stronger growth, forecast at +2.9% for global GDP, driven in particular by the United States and a pick-up in Latin America. However, as in previous years, forecasts were regularly downgraded, converging towards modest global growth of +2.5%, slightly down on the +2.7% in 2014.

This disappointing global growth was mostly explained by the relative weakness of US growth (at +2.4% *i.e.* 0.9 of a point below the forecasts of early 2015) and the on-going Chinese slowdown (+6.9% in 2015, close to the forecasts of early in the year but versus +7.3% in 2014), combined with recession in Latin America (-0.9% in 2015, versus +1.3% in the initial forecasts) (*sources 1 and 11*).

The European Union saw a continued growth recovery, to +1.8% in 2015 versus +1.4% in 2014: in parallel with steady growth from the United Kingdom (+2.2%) and Germany (+1.5%), a recovery began in France (+1.1% in 2015 versus +0.2% in 2014), while an improvement was also apparent in Southern Europe, with a modest pick-up in Italy (+0.7%) and a stronger recovery in Spain (+3.2%).

North America maintained its growth of +2.3%, slightly down on its 2014 level. The expected acceleration in growth did not materialize in the United States which remained stable at +2.4%, as in 2014.

The Japanese economy posted very modest growth of 0.7% in 2015 versus -0.1% in 2014.

The situation of the major emerging countries remained contrasted, marked by the maintained strong growth in India (+7.4%), the on-going slowdown in Chinese growth (+6.9%) and particularly by the entry into recession of Latin America (-0.9%), driven by the collapse in Brazil (-3.7%), and Venezuela (-7.5%), whereas Chile (+2.1%) and Argentina (+1.3%) continued to see GDP growth in 2015. In the East, the fall in commodity prices and the economic sanctions led to a monetary crisis and recession in Russia (-3.8%) (*source 12*) while the crisis in Ukraine became more serious (-11%).

2015 was marked by a series of geopolitical crises which remain a significant factor for growth and air transport traffic. While the Paris terrorist attacks in January and November 2015 should have a limited impact on regional and global growth (*source 13*), air traffic collapsed by 1.8% in November and by 2.8% in December relative to the previous year at the Paris airports following the attacks of November 13. Traffic is, however, gradually returning to normal (*source 14*). Terrorism is now a global threat, leading to operational constraints and additional costs for the airlines (*source 15*).

2016: a very slight improvement in global growth

In 2016, global growth is expected to be +2.6%, driven in part by the on-going recovery in Europe, particularly in Germany (+2.1%), the United Kingdom (+2.4%) and Spain (+2.9%). In Europe, the threat of exits from the European Union by the United Kingdom (*source 16*) and Greece (*source 17*) remains and, were they to materialize, could negatively impact growth and the ECB policy of March 2016.

Accentuating the trend witnessed in 2015, the fall in the oil price should stimulate growth in the large oil consumer countries (notably North America, Europe, Japan, China and India) while the effect should again be negative for the oil producer countries (*source 18*).

Furthermore, the US Federal Bank announced the first increase in its key interest rate in December 2015 which could have consequences for the US economy whose growth is currently estimated at +2.4%, together with potential impacts at global level (*source 19*).

In Latin America, Brazil was penalized by the collapse in commodity prices but also by the political crisis. The expected appreciation in the dollar compounds these difficulties and points to a 2016 again touched by recession in Brazil (*source 20*). With 90% of its economy dependent on oil, Venezuela has also been badly affected by the fall in the oil price. Its debt is starting to look unsustainable and social unrest could increase (*source 21*). In Argentina, the policy of the new government could, *via* a reduction in subsidies, a currency devaluation and cuts in public spending, lead to a downturn in activity which, together with the impacts of the Brazilian recession and the Chinese slowdown, could herald material short-term difficulties for the country's economy in 2016 (*source 22*).

Chinese growth continues to decelerate and is expected to be +6.3% in 2016. Although other analysts consider this unlikely, some analysts are worried about a scenario which would see a much more serious slowdown in Chinese growth to +2%, widely impacting China's main trading partners and having a very negative effect (-2 points) on global growth. The most exposed countries would be commodity exporters like Chile, Brazil and Russia but also neighboring partners like Japan and Korea, or even Germany (*source 23*).

As in 2015, 2016 could see a recurrence in terrorist attacks world-wide, although historically such events have had only a limited impact on the growth of the relevant countries (*source 13*). This environment could, however, have a negative impact on air transport demand, and particularly that of Asian customers (*source 24*).

Japan should see a slight growth improvement during 2016 (+1.2%) thanks to a modest pick-up in consumption and the beginning of salary increases (*source 25*). In addition, the weak Yen should support exports (*source 26*).

Lastly, subsequent to the 2015 announcements, 2016 is seeing the lifting of economic sanctions against Iran ahead of closer links with this country and thus the development of trade which could be reflected in a significant increase in air traffic between, in particular, Iran and Europe (*sources 27 and 28*).

Oil price: heading lower (*source 2*)

Having risen to US$65 in the spring of 2015, at a time when analysts were forecasting an average of around US$60 for the year (*source 29*), the oil price fell back to US$50 in the third quarter and even traded below this level during the fourth quarter. This was explained by the combination of several factors: production continued to increase while consumption growth slowed, particularly in China (*source 30*).

Trend in the oil price

London Brent (USD per barrel)	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Average price	108	110	102	76	54	62	50	44

If these trends are confirmed and production continues to grow more rapidly than demand during 2016, thereby increasing the supply-demand differential, the oil price could fall below its level of end 2015 (*source 31*). The return to exports by Iran could accelerate the downwards trend (*source 32*). This oil price volatility also has an impact on the major currencies, and particularly the US dollar (*source 33*).

Currency volatility (*source 34*)

Currency volatility is an issue for the airlines and particularly the European carriers for whom a proportion of their costs is linked to the dollar whereas their revenues are sensitive to all currencies. Any depreciation in the euro relative to all currencies enables them to become more competitive at commercial level whereas depreciation against the dollar alone has a negative impact on costs. The hedging strategies put in place by the different airlines aim to reduce the effects of exchange rate volatility. Lastly, this volatility has an indirect impact on airline activity given its influence on leisure demand (*source 35*).

The marked appreciation in the dollar, from US$1.25 for one euro at the end of 2014 to US$1.09 for one euro at the end of 2015, with a particularly sharp move during the 2015 first quarter, thus had an impact on both airline purchasing costs in dollars and travel demand: European tourists curtailed their travel to the United States (*source 36*) whereas American tourists saw their demand stimulated by increased purchasing power (*source 35*).

In Asia, after a decline in the 2014 fourth quarter, the yen strengthened relative to the euro and remained broadly unchanged at an average of around JPY135 for one euro with thus lower volatility against the euro than in 2014. For its part, in August 2015, China allowed the yuan to devalue by several points against the dollar (*source 37*).

Russian ruble volatility was very marked in 2015, with a devaluation of up to 30% in the first quarter before rallying during the second quarter and again falling in the second half of the year. Largely linked to the oil price collapse, this depreciation initially had a strong recessionary effect but could, in 2016, stimulate Russian exports excluding oil and revive a portion of the economy (*source 38*).

In South America too, 2015 proved a very volatile year in the currency markets, with the Brazilian real moving from $R3.22 against the euro in the first quarter to $R4.94 for one euro in the third quarter, before recovering modestly in the fourth quarter to $R4.24. The neighboring Argentine was also touched by a devaluation of around 40% at the end of 2015, following the new governmental policies (*source 39*).

Trend in currency exchange rates

For one euro (average)	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
USD	1.37	1.37	1.33	1.25	1.13	1.11	1.11	1.09
GBP	0.83	0.81	0.79	0.79	0.74	0.72	0.72	0.72
JPY	140.83	140.05	137.73	142.83	134.00	134.35	135.79	132.76
RUB	47.89	47.99	47.99	59.17	70.03	58.19	70.03	76.30
R$	3.24	3.06	3.02	3.18	3.22	3.40	4.94	4.24

2.1.2 The industry context

2015: a year of record profits, masking significant disparities (*sources 5 and 40*)

For 2015, the air transport industry is posting record earnings, propelled by the decline in the oil price but also, more generally, by the reduction in costs enabled by restructuring and productivity improvements. In aggregate, IATA expects the industry to generate a net profit of US$33 billion, significantly higher than its level in 2014 (+US$15.7 billion) for a net margin of +4.6%, double that of the previous year.

These good results do, however, mask some significant disparities, the US airlines alone having generated half of these record profits (US$19.4 billion) and the African and Latin American airlines having been loss-making in 2015 (losses of US$300 million for each group). The record North American results can be attributed to the full effects of industry restructuring in the United States and also to a favorable macro-economic context with, in particular, the appreciation in the dollar. The Asian and European airlines as a whole are posting an improvement in their results thanks to the reduction in the fuel bill but also to restructuring even if the situation tends to vary between airlines.

In 2015, according to IATA, global air traffic should increase by +6.7% relative to 2014, more rapidly than in previous years for capacity growth of 5.5%. This is driving an improvement in load factors which are reaching an annual average of 80.6%, also contributing to the positive results for the industry. However, this global growth was to the detriment of unit revenue per passenger which declined by 11.7% in 2015 in US dollars (of which around 6% points attributable to the appreciation in the dollar, according to IATA).

Furthermore, over the first ten months of the year, the number of passengers increased in both the Premium (Business and First) and Economy cabins. Internationally, passenger growth in Economy class was even a little stronger than for Premium passengers, driven by the fare reductions in recent months (*source 41*).

In 2016, strong capacity growth with a rebound in the Europe-Americas axis (*source 42*)

In view of the schedules announced in early January 2016, on the Europe-Long-Haul axis, the capacity growth forecasts (in available seat-kilometers) for the January to September 2016 period are +6% compared with the same period in 2015. This strong capacity growth is being driven by the on-going development of Turkish Airlines and the Gulf carriers, alongside the American carriers which have been more dynamic on Europe since the beginning of 2015.

The forecasts for capacity growth expressed in seats by geography are as follows:

Europe-North America	+7%
Europe-Latin America	+6%
Europe-Asia	+3%
Europe-Middle East	+9%
Europe-Sub-Saharan Africa	-1%
Europe-Caribbean and Indian Ocean	+9%

In addition to the growth on the Europe-Middle East axis driven by the continued dynamism of the Gulf carriers and Turkish Airlines, 2016 is seeing renewed activity on Europe-North America, an axis which generated positive results in 2015 and is attracting additional capacity not only from the North American carriers like Delta, United Airlines, Air Canada and its subsidiary Air Canada Rouge, but also from new, small players like Norwegian, Eurowings and Wow Air.

In Latin America, despite the difficult macro-economic environment in Brazil and Argentina, the region remains buoyant with, notably, the contribution from markets like Colombia, Peru, Chile and Panama.

In Asia, faced with the indirect competition from the Gulf carriers, the trends vary between regions. Growth is being driven by China and the Chinese airlines. Some South-East Asian carriers are in difficulty, like Malaysia Airways which has significantly retrenched with the closure of several routes including Amsterdam and Paris. The reduction in capacity on Japan accelerated following the terrorist attacks (*source 43*).

Africa is suffering from a volatile economic environment with, in particular in 2015, the Ebola virus whose latest outbreak was declared over for West Africa in December (*source 44*). Despite the uncertainties, Africa is attracting some players: note the on-going growth of Turkish Airlines and Ethiopian Airlines in the region at a time when most of the European carriers and Kenya Airways are encountering difficulties (*source 45*).

On the intra-European routes, in the light of the schedules unveiled in mid-January, capacity growth (in seats) is around +5% for the first nine months of 2016. This growth is mostly being driven by the low-cost carriers and by Turkish Airlines. Note that capacity on Russia is markedly lower. Excluding Russia, intra-European capacity growth is around +6%. These figures are nonetheless liable to change significantly with the approach of the Summer season (*source 46*).

Discussions on European and international regulations under way

National, European and international regulations, whether new or more strictly enforced, are increasing restrictive for the air transport industry, some of which may, furthermore, create serious distortions to competition. However, discussions are under way on a number of major topics.

A global climate protection policy inspired by Europe

At its General Assembly (September-October 2016), the ICAO is expected to examine a global market-based mechanism to offset CO_2 emissions from aviation by 2020 (*source 47*). If the ICAO approves a market-based mechanism, the European emission permit system will continue to be used until 2020 for all intra-European flights (*source 48*).

Protection of consumer rights

The redrafting of Regulation (EC) No.261/2004, which should clarify the rights of passengers notably within the framework of a transfer between two different airlines (interline), has been delayed by a dispute between Spain and the United Kingdom on the subject of Gibraltar (*source 49*). This redrafting has proven necessary due to a ruling by the European Court of Justice (*source 50*), imposing systematic compensation by the airline responsible for the missed connection.

Security

The different terrorist attacks perpetrated in Europe have accelerated the commitment to reaching a compromise on the PNR (Passenger Name Record) for airline passengers. This decision will enable the consolidation of the various PNRs required by the European States and to obtain, in a single database, data on all passengers entering or leaving Europe by air. The data will be retained for five years but will become anonymous after six months. A vote on this new version should again take place in the European Parliament in 2016 (*source 51*). The existence of this single European PNR initiative will facilitate negotiations between the EU and its partners on the sharing of data.

Air traffic control

According to the European Commission, the annual cost of this fragmentation of European air traffic control is at least €5 billion and leads to an additional 50 million tons of CO_2 (*source 52*). Some very modest progress has been made like improved international cooperation around London Heathrow airport (*source 53*), an increase in the number of continuous descent test flights (*source 54*) and the inauguration of 240 new direct routes for the FABEC (France, Germany, Benelux and Switzerland), principally usable at night and leading to an annual reduction of 10,000 tons of CO_2 (*source 55*).

European growth dependent on the level of taxes and fees

Backed by its strong traffic results, Amsterdam-Schiphol airport granted an 11.6% reduction in airport fees for 2016, even higher than the 6.8% reduction in 2015 (*source 56*).

In France, transfer passengers will be exonerated from Civil Aviation Tax as of January 1, 2016 (*source 57*), but the other proposals in the Leroux report on the loss of competitiveness for the French airline industry have yet to be implemented. Authorization has been given to Aéroports de Paris to increase its fees by 1% more than inflation (*source 58*).

In the United Kingdom, IAG announced its inability to finance the "outrageous and inefficient" cost of London Heathrow airport's plans for the construction of a third runway (*source 59*).

For its part, the Scottish government, which will be responsible for the Air Passenger Duty post devolution, plans to halve this levy as of 2018 (*source 60*) while the British government plans a 2.8% increase on April 1, 2016 for long-haul flights (*source 61*).

The Norwegian government is looking to introduce an air passenger excise duty of 80 Norwegian Krone on April 1, 2016 (*source 62*).

A commitment from the Commission to reinforcing the competitiveness of the European air transport industry

On December 7, 2015, the European Commission published a new Aviation Strategy for Europe.

The proposal from the Commission is based on the following goals:

- an external dimension aimed at concluding new external airline agreements with key countries (in particular, the Gulf States, Mexico, the ASEAN countries, Mexico and China) to enable improved market access but also ensure fair and transparent market conditions based on a clear regulatory framework;
- infrastructure optimization. The Commission stresses the importance of completing the Single European Sky project (air traffic control), optimizing the use and costs of the principal airports and monitoring intra-EU and extra-EU connectivity to identify shortcomings;
- maintain high standards for safety, security, the environment, social issues and passenger rights;
- invest in innovation and digital technologies. The Commission thus proposes to create a legal framework relating to the use of drones. The European Union also plans to invest €430 million each year until 2020 in the Single European Sky ATM (SESAR) air traffic management project.

  These orientations were confirmed during the EU Aviation Summit on January 22, 2016 in Amsterdam organized by the EU Dutch Presidency and bringing together representatives of the aviation industry and all the European institutions. This event highlighted, in particular, the need for Europe to establish a regulatory framework ensuring fair and transparent competitive conditions for its airlines.

The Commission is also redoubling its efforts to reorganize European air traffic control (ATC) *via* on-going support (€430 million/year) for the SESAR project which is reviewing the establishment of commercial services using drones (*source 63*).

Rail faced with issues surrounding security, liberalization and increased road and rail competition

In 2015, the Transport Ministers of the EU Member States reached agreement on a further postponement in rail liberalization (4th Railway Package), to 2020 for domestic passenger services not subject to PSO and to 2026 for the opening up to competition of transport markets (*source 64*).

In France, the opening of the second phase of the high-speed line (LGV) East, enabling Strasbourg to be reached in 1h46 from Paris could be delayed for a few months (from April 3 to July 2016) following the accident involving the test train on November 14, 2015 (*source 65*).

After the terrorist attacks which left Europe in mourning, the security screening already in place at the entrance to high-speed trains in Spain and for the cross-Channel services was extended to Thalys trains on departure from France, a measure that could subsequently be extended to other stations (*source 66*).

These measures will require customers to arrive at the station earlier and could be financed by a security tax, like for airline passengers (*source 67*).

Train operator companies are subject to increased competition from coach companies (deregulation in Germany in 2013 and 2015 in France) (*source 68*), ride sharing (like Blablacar [*source 69*]) and the airlines, thereby impacting the economics of Public Private Partnerships and infrastructure managers (*source 70*) and calling into question the planned extension of lines (*source 71*).

Digitization of the industry in response to the expectations of increasingly-demanding and connected customers

Growth in the use of digital technologies has been an underlying trend in recent years, with the number of internet and mobile users continuing to progress world-wide. One in every two people are now equipped with mobiles and there has been very strong growth in smartphones, with two million sold every day globally. Access to the social media by mobile phone is progressing rapidly, with around 20% growth in the number of users in the past year (*source 72*).

Habits are changing: time spent online continues to increase as does online purchasing; consumers are now not only influenced by personal recommendations from friends and family but also online *via* digital channel platforms (*source 73*). In parallel, new entrants are radically transforming the travel industry (AirBnB, Uber, Blablacar) (*source 75*).

As a result, travelers' expectations vis-à-vis airlines have changed: customers now expect an intuitive, instantaneous and personalized experience, like Google and Facebook can offer. The challenge is to respond to these expectations by offering the right information at the right time, like automated messages which inform passengers by SMS or email of a change in terminal for their flights.

The quest for a customized offer also represents a real opportunity for airlines. Initially limited to the low-cost players, fee-based options are developing fast; for the airlines, the revenues generated by add-on services have doubled in four years (*source 76*).

Faced with this challenge, the application of Big Data to the air transport industry is key, particularly when it comes to using the considerable volume of information and its rapid analysis (*source 77*). By tapping into the many sources of available information (Passenger Name Records information input to the booking system, data from loyalty programs and passenger tweets, etc.), airlines can build a more in-depth knowledge of customer needs and improve their interaction with them.

In parallel, distribution systems are developing, with a growing portion of direct airline sales but also new interfaces (API, NDC) enabling offers to be personalized, airline revenues to be maximized and new uses to emerge (*source 78*). Lastly, in the coming years, customers could prioritize the integration of all travel components in one place (accommodation, transport, pre-carriage, etc.) (*source 79*).

2.1.3 Competition

Between restructuring and growth, the European airlines made significant progress in 2015

In 2015, Lufthansa Group pursued its in-depth turnaround in financial results but also had to contend with repeated strikes. With an estimated operating result of between €1.75 billion and €1.95 billion, Lufthansa Group is, however, delivering contrasting results which are below the ambitions of the SCORE program (*source 80*) and facing a tense social climate, notably with its flight crews (*source 81*).

In November 2015, Lufthansa decided to market all its low-cost operations under the Eurowings brand, involving the disappearance of the Germanwings brand (*source 82*) and more generally presenting Eurowings as an open platform for its short and medium-haul operations, potentially poised to regroup in time all this activity for the Group, or even serve as a consolidation tool (*source 83*). 2015 was also the launch year for new long-haul, low-cost leisure offers under the Eurowings brand on departure from Cologne (*source 84*) and under the Lufthansa brand on departure from Frankfurt (*source 85*). Swiss, which is contributing to the Group's positive results, is amongst the long-haul subsidiaries to be growing, with the progressive arrival of B777-300s made possible by the agreement signed with the pilots' unions (*source 86*).

Lufthansa Group also announced plans to take greater control over customer relationships by reinforcing direct sales and differentiating itself by introducing a 16 euro surcharge for all third-party ticket sales with the Group's companies (*source 87*).

Strengthened by its competiveness and on-going cost control, International Air Group (IAG) is also announcing positive results and prospects: the Group now has an annual operating margin target of 12% to 15% by 2020 and a 2015 results forecast of €2.3 billion. Within the Group, a restructured Iberia continued to recapture market share and is posting strong annual growth of 7% through to 2020. 2015 was also marked by the acquisition of Aer Lingus which offers the Group a new competitive tool (*source 88*), whose annual growth for the next few years is expected to be 7%, thereby bolstering its position on the North Atlantic and at London Heathrow airport.

Lastly, IAG continues to reinforce its operations in Europe with its low-cost pan-European airline Vueling, the latter planning average annual growth of 10% to 147 aircraft in 2020, by increasing its bases outside Spain in Rome, Florence, Paris, Brussels and Germany (*source 89*).

Within Europe, these pan-European ambitions are shared by the other low-cost carriers. The two leaders, easyJet and Ryanair, continue to improve their results, easyJet posting a fifth record year with a +18% increase in pre-tax profit (*source 90*), while Ryanair earnings increased by +37% in the first half of the financial year (*source 91*). Their strong growth is leading them to seek new growth levers by adapting their business models: Ryanair is developing its operations at principal airports and launching multi-frequency routes like Cologne-Berlin in September and Amsterdam-Dublin in November (*source 92*); easyJet is launching a program with no administrative charges (change in name/date, etc.) for frequent flyers in 2016 (*source 93*). The two companies have announced that they are assessing the benefits of carrying connecting traffic to the hubs of the long-haul companies (*source 94*).

In addition to easyJet and Ryanair, the other low-cost carriers, whether as part of major groups like Vueling, Eurowings and Transavia or independents, are planning substantial growth: Wizz is thus posting capacity growth of 18% (*source 95*), while Norwegian is planning a +12% uplift in capacity for its medium-haul offer in 2016 but also +40% in long-haul, driven by the arrival of four new B787s and the operation of a B737 for the shortest trans-Atlantic routes, the company envisaging a Cork-Boston service (*source 96*).

The development of long-haul offers by the low-cost carriers was also a feature of 2015: Norwegian reiterated its ambitions and posted a pre-tax profit for the 2015 third quarter above that of 2013 after a disappointing set of 2014 results linked to the investment in long-haul (*source 97*). This low-cost offensive took place, in particular, on the North Atlantic, benefiting from a favorable environment in several respects: a broadly liberalized market but one which is, for the moment, consolidated and profitable, currency exchange rates, short routes, etc., enabling new carrier Wow to add long-haul aircraft to its connecting offer *via* Iceland and include the US West Coast in its proposition (*source 98*).

The Gulf carriers are also present in the European landscape with Qatar having purchased a stake in IAG and Etihad pursuing its strategy with, notably, Air Berlin and Alitalia. Air Berlin is struggling to return to a growth path despite a slight results improvement (*source 99*). Despite losses of €130 million over the first six months of 2015, Alitalia maintains its forecast of a €100 million profit in 2017 and its pursuing the growth foreseen in its turnaround plan (*source 100*).

Divergent positions concerning fair competition with the Gulf carriers is one of the reasons given for the weakening, in 2015, of the Association of European Airlines (AEA), after the departure of the IAG airlines (British Airways and Iberia), followed by the companies linked to Etihad (Air Berlin and Alitalia) (*source 101*). However, the Chief Executive Officers of the five leading European airline Groups (IAG, Lufthansa Group, Air France–KLM, easyJet and Ryanair) have presented their common vision of what should be the common cornerstrone of the European Commission's air transport strategy and have founded a new association, A4E, launched on January 21, 2016 in Amsterdam (*sources 102 and 103*).

The US airlines are exceeding expectations with record earnings

The US airlines are posting another year of record financial results. They alone are responsible for generating half the aggregate profits of the air transport industry and remain, on average, three times more profitable than the European airlines (*source 104*). The US airlines are capitalizing on restructuring efforts and consolidation moves and are widely benefiting from the fall in oil prices given the appreciation in the dollar.

Delta reported net income of US$5.4 billion for the twelve-month period to September 30, 2015 (*source 105*) while, over the first nine months of 2015, United-Continental and American Airlines-US Airways posted a respective US$3.5 billion (excluding one-offs) and US$4.4 billion (*sources 106 and 107*).

Delta is reinforcing its partnerships in Latin America and China: it increased its shareholding in GOL from 3% to 10% in 2015 and is looking to purchase an additional 32% of the Aeromexico share capital taking its stake to 49% (*sources 108 and 109*). Delta is also stepping up its partnership with China Eastern by taking a 3.55% stake in the Chinese carrier, aimed at becoming more competitive on the routes between China and the United States (*source 110*).

The Latin American airlines are in difficulty faced with the economic crisis in the region and particularly in Brazil

Faced with the country's economic crisis, the Brazilian carriers are posting losses for 2015. To contend with this difficult environment, the two main companies, LATAM et GOL, are significantly reducing their capacity in the Brazilian domestic market for the first quarter of the year (between -8% and -10% for TAM and between -5% and -7% for GOL). LATAM is also reducing its international capacity on departure from Brazil and is reinforcing its Spanish-speaking hubs. At the end of September 2015, the Group posted a net loss of US$203 million. Despite this context, GOL maintained its leadership position in terms of passengers carried to Brazil (*sources 111 and 112*).

The number three Brazilian player, Azul, has acquired A330-type wide-bodied aircraft and, since late 2014, has been operating routes to the United States (*source 113*). After United's purchase of around 5% of Azul's share capital, the Chinese company HNA (owner of Hainan Airlines) is expected to acquire a 24% stake in the Brazilian carrier, thereby becoming the largest shareholder (*sources 114 and 115*). Furthermore, a consortium headed by David Neeleman, Azul's Chief Executive Officer, purchased a 61% stake in TAP in 2015, a transaction since transformed into a management contract, the Portuguese government planning to acquire an 11% stake (*source 116*).

Copa Airlines, one of the most profitable airlines in the world with an operating margin approaching 20% in 2014 (*source 117*) is also being negatively impacted by the region's difficult economic context. Copa managed to remain profitable in the first three quarters albeit at a lower level than in the previous year (9% in Q3 2015 vs. 17% in Q3 2014) (*source 118*).

Avianca posted a positive result for the first nine months of 2015, virtually all of which was generated during the third quarter. This was due to the simplification of the cost structure and the fall in the fuel price together with a significant increase in Cargo and ancillary revenues (*source 119*).

Asian carriers: strong growth in China and renewed difficulties in South-East Asia

2015 was marked by an increase in aircraft orders from across Asia, highlighting the dynamism and strong growth of the air transport industry in this region. China Aviation Holding Company, the parent company of the three Chinese majors, thus placed an order in October 2015 for 30 A330s and 100 A320s with Airbus (*source 120*) together with 250 B737s and 50 wide-body aircraft with Boeing (*source 121*) for delivery as of 2017. 2015 was also a year of major orders in India with, notably, 250 A320 Neos ordered from Airbus by low-cost carrier Indigo (*source 122*). In parallel, the Chinese manufacturer Comac has unveiled plans to compete with Airbus and Boeing (*source 123*).

In China, the three large State-owned Chinese airlines (Air China, China Eastern and China Southern) pursued their international development, particularly towards Europe with the reinforcement of Paris and Milan for Air China (*source 124*) and the opening by Xiamen Airlines, a China Southern subsidiary, of a service to Amsterdam (*source 125*). As in the previous year, Hainan Airlines, the number four Chinese player, pursued its partnership strategy in the airline and tourism sectors (*sources 126 and 127*). Their neighbor Cathay Pacific reported a significant results improvement in the 2015 first half (*source 128*) and announced its intention of concentrating its long-haul growth on Europe, particularly by planning new services to Madrid and Copenhague (*source 129*).

In India, despite the difficulties of players like SpiceJet (*source 130*) and new-entrant AirAsia India (*source 131*), Air Vistara, the result of a partnership between Tata and Singapore Airlines (*source 132*), was launched in January 2015. The two new entrants, Air Asia India and Air Vistara, are seeking to secure changes in the regulatory environment to be able to develop their international networks earlier in view of the current legislation (*source 133*).

Singapore Airlines returned to a level of profitability not reached since 2011 (*source 134*). The South-East Asian carrier had a very active year in terms of partnerships and equity interests (*source 135*) and announced a joint-venture with Lufthansa between Singapore, Germany and Switzerland (*source 136*).

2015 was to prove more difficult for the leading Thai and Malaysian airlines. While the Tourism Authority of Thailand (TAT) signed an agreement with Etihad aimed at promoting tourism in Thailand on the European markets, Thai Airways announced a restructuring plan comprising, notably, route closures towards Europe (*source 137*). Facing even greater difficulties, Malaysia Airlines also launched a major restructuring plan involving the closure of all its routes to Europe (except London), a refocusing on regional services and a partnership with Emirates to look after its European passengers (*source 138*).

Lastly, in Japan, the low-cost carrier Skymark Airlines remained in difficulty, a situation which resulted in ANA entering its share capital (*source 139*). Furthermore, in response to the collapse in Japanese demand towards France following the terrorist attacks, Japan Airlines temporarily suspended its flights between Tokyo Narita and Paris (*source 140*).

The African carriers are having to contend with structural constraints and recurring crises although the potential remains substantial

In Africa, the obstacles to development are making things difficult for the African airlines despite the obvious potential. Such obstacles are being highlighted by Fastjet, the low-cost carrier with pan-African ambitions, which is coming up against complex processes (*source 141*). While the heralded end to the Ebola epidemic suggests some improvement (*source 142*), safety issues remain a factor of uncertainty (*source 143*) impacting, in particular, Kenya Airways which was forced to refocus its activity and, in November 2015, launched a recapitalization and restructuring plan (*source 144*).

Oil sector restructuring is also affecting a number of carriers like the Angolan company TAAG (*source 145*) and impacting growth in East Africa (*source 146*).

Only Ethiopian currently seems able to deliver on the growth strategy set out in its Vision 2025 plan which is helping to create local airlines in Togo (ASKY) and Malawi (Malawian). Ethiopian also appears to be more resilient to competition from the Gulf airlines in that its Asian growth is being maintained (*source 147*).

Continued strong growth for the Gulf airlines (Emirates Airlines, Qatar Airways, Etihad Airways) and Turkish Airlines

2015 saw a wealth of partnerships for the three Gulf State airlines: Emirates announced a code share agreement with Flybe covering the United Kingdom (*source 148*) whereas hitherto the only European airline carrying its codes in Europe had been TAP Portugal (*source 149*). As mentioned above, in the Far East, Emirates signed a major agreement with Malaysia Airways, modelled on the agreement with Qantas signed some years previously (*source 138*). It was with SAS that Etihad was to expand its partnerships in Europe during 2015 (*source 150*). Lastly, following a disagreement with American Airlines, Qatar Airways threatened over the summer to leave the oneworld alliance (*source 151*), after having purchased a 10% stake in IAG in January 2015 (*source 152*).

2015 was marked by the debate opposing the three US airlines and the three Gulf carriers. In January, a report published by the US parties denounced the subsidies allegedly received by the Gulf companies (*source 153*). In Europe, the Commission is also looking into this matter (*source 154*), while the Dutch government has announced a freeze on traffic rights for the Gulf airlines (*source 155*) and the German government has challenged the code share between Etihad and Air Berlin (*source 156*).

For the moment, the Gulf airlines are continuing their expansion in the United States (*source 157*) and, more generally, 2015 was another year of strong growth for the three Gulf State carriers and for Turkish Airlines. Capacity measured in Available Seat-Kilometers (ASK) thus increased by 12% for Emirates, 19% for Qatar, 23% for Etihad and 13% for Turkish Airlines (*source 158*). This growth has also been accompanied by significant profits for Emirates, up by +65% in the first half of the financial year to US$1 billion (*source 159*) and for Turkish Airlines, which reported net income of US$877 million for the first nine months of 2015 (*source 160*). Qatar and Etihad do not publish financial reports (*source 161*). In parallel, the competition from the Gulf carriers continued to lead to route closures by other airlines: the only two US services to Dubai will be closed by the US operators: Atlanta by Delta (*source 162*) and Washington by United Airlines (*source 163*), while Lufthansa will also close its service on departure from Munich (*source 164*).

In 2015, a single new entrant to a Global Alliance but more flexibility and growing interest in the low-cost carriers

This year just one airline became a member of a Global Alliance: after the departure of TAM, since July 22, 2015, Avianca Brazil has been offering the Star Alliance access to the Brazilian market (*source 165*).

In addition, following an internal debate, the Star Alliance redefined some of its governance rules and offered members the opportunity to leave the Alliance without penalty until the end of 2015 (*source 166*).

Lastly, the Global Alliances are manifesting a growing interest in the low-cost airlines, as shown by the creation of an IT platform to facilitate interaction between the low-cost carriers and Alliance members, and access for their customers to some of the benefits offered by the Alliances (*source 167*).

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2.2 STRATEGY

2.2.1 The Air France–KLM Group's ambitions

The Air France–KLM Group's ambition is to be a European leader in the air transport industry by offering all customer segments transport offers tailored to their needs, between both Europe and the rest of the world and on intra-European routes. This goal will be supported by the Group's different brands which are positioned in complementary markets with their own specific operating models.

The network brands, Air France and KLM, are based on a system of hubs around high-performance infrastructure at Paris-CDG and Amsterdam-Schiphol, and take advantage of numerous partnerships to offer a high-density network as well as a wide range of top-quality products and services. The point-to-point (HOP! Air France) and low-cost (Transavia) brands aim to offer efficient transportation solutions for both domestic and intra-European travel.

The Air France–KLM Group also plans to develop its positioning as a global reference player in the aeronautics maintenance market by leveraging its recognized know-how in terms of operational performance, innovation and technical expertise.

Lastly, the Group's expertise in the cargo and catering fields supports the Group's airline operations while enabling the marketing of high-quality services to third-party clients.

2.2.2 The strategy of the Air France–KLM Group

Air France–KLM's strategy is based on the following three strategic priorities:

— a product and services upgrade, targeting the highest international level;
— selective development to increase exposure to growth markets: long-haul, intra-European low-cost, aeronautics maintenance;
— an on-going improvement in competitiveness and efficiency within the framework of strict capacity and capex discipline.

The execution of this strategy within the Group's different entities will take place *via* the "Perform 2020" plan which details the various initiatives embodying its deployment.

A continued move up-market for the network airlines

To capture the ever-growing number of international customers, in 2013 the Air France–KLM Group launched a major upgrading program with the installation, on its long-haul fleet, of new cabins for all travel classes, offering standards of comfort aligned with the industry best in class. At December 31, 2015, 37% of the Air France–KLM long-haul fleet had been equipped. The initial results proved consistent with the Group's ambitions, with customer satisfaction scores markedly higher on flights equipped with the new products.

In medium-haul during 2015, the Air France fleet of 24 A319s based at Roissy was equipped with new leather-upholstered seats with adjustable head-rests, wider tray tables and coat hooks to improve the standard of on-board comfort. The 25 A320s based at Roissy will, for their part, be equipped with these new cabins during 2016.

This roll-out of new products is accompanied by a more attentive service to customers throughout their journeys by the Group's airlines, through new ground and in-flight services, and technological innovations at the service of the customer.

All these upgrading initiatives have received wide-spread recognition: Air France and KLM significantly improved their rankings in the Skytrax 2015 survey of the best global airlines, with Air France seeing the most progress.

Development in growth markets and *via* partnerships

Through its various strategic partnerships, the Air France–KLM Group is steadily reinforcing its presence in all world regions, and particularly in geographies offering the most promising long-term growth prospects.

A powerful network of alliances and partnerships enables Air France–KLM to reinforce its global traffic presence.

The joint-ventures with China Eastern and China Southern, reinforced in 2015 with the arrival of Xiamen Airlines in the partnership, enable in-depth coverage of the Chinese market. In Brazil, the partnership with GOL opens up access for Air France–KLM to some 30 Brazilian cities and enables GOL to feed Air France and KLM's trans-Atlantic flights through a code share agreement. Additionally, in 2015, Air France–KLM reinforced its agreement with Jet Airways and Etihad, bolstering the Group's presence in India. Lastly, Air France–KLM is a major player on the trans-Atlantic axis within the framework of its joint-venture with partners Delta and Alitalia (*see Section 2.3.5 – Skyteam alliance and strategic partnerships, on page **53***).

The intra-European air transport market is seeing rapid growth given the strong leisure demand witnessed in the low-cost segment. Transavia, the Group's low-cost brand, posted +9% growth in 2015 and has a cost structure which is competitive with those of the other low-cost players, meaning that it is able to respond to the growth in European demand. Beyond Transavia's historic markets in France and the Netherlands, Air France–KLM plans to give Transavia a European dimension with a geographical footprint and greater scale. In this respect, starting from March 2016, Transavia will operate from its first base outside France and the Netherlands, with 18 destinations served on departure from Munich.

With forecast growth of 3.8% at global level, the aeronautics maintenance segment will enable the maintenance business to pursue its growth and build on Air France–KLM's leadership position in this area. In this regard, Air France–KLM has an order book representing more than five years of revenues. For Air France–KLM, this growth will primarily be reflected in its engine and component activities, both high-value-added maintenance fields requiring a significant technological capability. The development of next-generation aircraft fleets world-wide offers significant growth relays and AFI KLM E&M will be able to capitalize on the introduction of B787s and A350s within the Group's fleets to develop a major role in these product lines.

Lastly, Air France–KLM continues to expand its partnership portfolio towards the east, as seen in the new agreements between KLM and Jet Airways.

On-going productivity and cost-saving efforts

On-going productivity efforts are aimed at supporting the competitiveness of the Group companies to ensure their enduring positioning alongside competitors, and generate results enabling the Group to finance its long-term growth. In respect of the 2015 financial year, negotiations with the KLM unions resulted in productivity agreements with all staff categories while negotiations with the Air France unions are on-going. In parallel, new cost-cutting measures were launched, particularly within the framework of a project to rationalize the support and administrative functions, and through continued network rationalization of the HOP! Air France point-to-point network, the densification of the medium-haul fleet and the retirement of the oldest aircraft, and within the framework of the deployment of the High Performance Organization (HPO) at KLM.

A commitment to sustainable development

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

Air France–KLM's sustainable development approach is recognized by the leading extra-financial ratings agencies. Amongst other awards, in 2015 the Group was named "Airline" sector leader and included in the Dow Jones Sustainability Index (DJSI), the main international index evaluating companies on their sustainability performance, for the eleventh consecutive year. For the seventh 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.

2.2.3 Air France–KLM's strengths

A strong presence in all the major markets

The Air France–KLM Group currently operates the largest network between Europe and the rest of the world. Including the flights operated by Delta within the framework of the trans-Atlantic joint-venture, in Summer 2015 the Group served 120 long-haul destinations world-wide, of which 33 in Africa, 26 in North America, 23 in the Asia-Pacific region, eleven in the Caribbean, three in the Indian Ocean, thirteen in Latin America and eleven in the Middle East. (*See also Section 2.3.6 – Activity for the financial year - Key figures, page **57***).

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 some markets.

Coordinated hubs at developing airports

The Group's network is coordinated around the two intercontinental hubs of Paris-CDG and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. These hubs connect transfer flows with point-to-point traffic. This large-scale optimized system gives small markets world wide access, and offers a dense flight schedule tailored to the frequency needs of customers.

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-CDG and Amsterdam-Schiphol hubs benefit from unsaturated runway capacity. Furthermore, the organization of the Group's activities at Paris-CDG has been significantly improved since the delivery of new infrastructure enabling the regrouping of the operations at terminals 2E, 2F and 2G and the streamlining of flight connections.

A portfolio of strong brands aligned with customer expectations

With "Air France" and "KLM", the Group has a portfolio of powerful brands that benefit from exceptional reputations and identities in both its two national markets and internationally.

The brand portfolio strategy has been reinforced with the low-cost brand Transavia. The latter is already very well known in the Netherlands and, *via* its development in France, will be the leading low-cost carrier on departure from Orly. The new regional brand HOP!, launched in 2013 and whose territory has been extended to all the Air France point-to-point operations under the name "HOP! Air France", embodies the Group's regional activity.

Thanks to these different brands, the Group benefits from a strong affinity with multiple customer bases which prioritize a value for money approach.

A balanced customer base

The Air France–KLM Group's choice of meeting the needs of all types of customer in terms of networks, products and fares has enabled it to build a balanced customer base.

In the traditional network carrier business (Air France and KLM brands), around 40% are business passengers and 60% are travelling for personal reasons. The Group also benefits from a balanced breakdown between transfer and point-to-point passengers. At Air France, connecting passengers represent around 45% of total passengers while, at KLM, this figure is 60%. Furthermore, around 50% of revenue is realized with loyalty scheme customers (members of the Flying Blue frequent flyer program or those whose companies have a corporate contract with the Group).

The recent growth of Transavia, which carried some 10.8 million passengers in 2015 compared with 9.9 million in 2014, enables the Group to complete its portfolio of products to become customers' low-cost carrier of choice.

An efficient fleet

The Group pursued its fleet modernization strategy with the arrival, during 2015, of five new B777-300ERs and the two first B787-9s operated by KLM. In parallel, the oldest aircraft will exit the fleet in 2016, with the retirement of the last MD11 Freighters scheduled for early in the year at KLM and the last B747-400s from the Air France fleet. The arrival of the first A350-900s is planned in 2019 at Air France (*See also Section 2.8 – Fleet, page* ***69***).

Having made a significant investment in cabin retrofitting, the Group now offers its passengers a higher standard of comfort, achieves substantial fuel savings and respects its sustainable development commitments by mitigating noise disturbance for local residents and limiting greenhouse gas emissions.

2.2.4 "Perform 2020", focused on growth and competitiveness

In 2012, the Air France–KLM Group launched "Transform 2015", a business transformation plan which was reflected in a significant recovery in the Group's financial position. 2015 marked the completion of this plan and notably recorded the results over a full year of the initiatives aimed at containing costs excluding fuel and the impact on the Group's debt profile. The "Transform 2015" plan thus enabled the Group to reduce its unit costs while, at the year end, the Group's net debt stood at €4.3 billion, in line with the target.

The reduction by a third in net debt over four years enabled the Group to regain its investment capability which, for the 2015 financial year, stood at €1.6 billion.

Continued productivity efforts and the Group's financial discipline maintained

"Perform 2020", which succeeded "Transform 2015" in September 2014, is a targeted growth plan, aimed at delivering an optimal service for customers and markets while maintaining the Group's goals of deleveraging and cost-competitiveness.

Within the framework of this plan, the Group had set itself a target of reducing the unit cost by 1.5% per year on average over the 2015-17 period or the equivalent of around €1 billion. The reduction in unit costs reached a more modest level in 2015 but this target is maintained for the medium term.

To this end, the restructuring of non-competitive activities will be pursued and the identified cost-savings deployed.

A progressive increase in fleet capex will be undertaken within the framework of strict capex discipline to ensure respect of the debt ratios.

Medium-term financial targets

Summarizing all these projects, Air France–KLM has set the following financial targets:

- an adjusted net debt/EBITDAR ratio of around 2.5 at the end of 2017, with the base businesses generating annual positive free cash flow;
- a unit cost reduction target of 1.5% per year over the medium term.

These targets are consistent with a ROCE of between 9% and 11% as of 2017.

The definition of the financial indicators can be found in *Section 5.4, on page* ***161***.

2.3 PASSENGER BUSINESS

The “passenger” business mostly corresponds to passenger transportation services on the scheduled flights of the network airlines Air France, KLM and HOP!, The passenger business is Air France-KLM’s principal activity, contributing nearly 80% of the Group’s revenues.

Activity in the Transavia low-cost business is outlined in *Section 2.4 – Low-cost business (Transavia), page **58***.

While the last initiatives in the Transform plan took effect in 2015 with, notably, the remaining medium-haul restructuring measures, 2015 marked the launch of the “Perform 2020” strategic plan, aimed at restoring the Group’s competitiveness while positioning customers at the heart of the strategy.

For the passenger business, in 2015 and 2016 “Perform 2020” was reflected in strict capacity discipline, while continuing to invest in the product move up-market.

2.3.1 Short and medium-haul operations

A restructured, clearly-segmented network and an on-going results improvement

The short and medium-haul network remains a cornerstone of the Group’s development thanks to its substantial European footprint which underpins its commercial strength.

The Group currently offers travel experiences to every customer segment:

- on the French short-haul network, HOP! Air France responds to the customer requirement for daily services to 34 airports inter-linking the French regions. Furthermore, the *La Navette* product on four destinations out of Orly (Marseille, Toulouse, Nice and Bordeaux) targets the specific needs of Business travelers;
- in medium-haul, on departure from the Paris-CDG and Amsterdam-Schiphol hubs, the interconnection and density of the network enables a very attractive transfer proposition to satisfy the demand for mobility across Europe, at a range of fares from prices adapted to the leisure market through to products dedicated to business travelers.

The restructuring of this network, particularly at Air France within the framework of “Transform 2015”, is paying off with an improvement in the operating result.

After several years of restructuring, the next big challenge for the Group is to adapt to the seasonality of this network, whose results remain under pressure during the winter.

Increased agility directed at improving network optimization

The Group is demonstrating its ability to adapt its medium-haul offer to evolving market trends and opportunities. Increased agility is a key factor in optimizing the network economics, within a context where the low-cost players are increasingly active in this market.

In 2015, on departure from Amsterdam-Schiphol, KLM thus opened services to Belfast, Krakow and Montpellier, the latter supplementing the frequencies offered out of Paris-CDG.

In parallel, loss-making routes were closed: the Summer 2015 schedule saw the suspension of the international bases on departure from the French provinces (Marseille, Toulouse, Nice and Bordeaux) followed, in Winter 2015, by the closure of secondary routes on departure from Paris-CDG (Stavanger, Vigo, Verona).

In 2016, the Group continues to seize any emerging growth opportunities. In the short-haul network, Air France has suspended the Paris-Orly-Strasbourg service and will this summer open a daily Paris-CDG-Biarritz service to supplement its offer out of Paris-Orly, together with an Amsterdam-Schiphol-Rennes service.

On the transverse network, HOP! Air France will introduce new flights between Lyon and Luxembourg.

In medium-haul, the Group will also propose new destinations with the opening, in Summer 2016 by Air France, of a daily Paris-CDG to Glasgow service and a flight between Paris-CDG and Krakow during the peak Summer season, scheduled on days to complement the KLM services. KLM will close the Amsterdam-Schiphol-Cologne route and will launch new flights over the Summer to Inverness, Southampton (two daily frequencies), Dresden and Genoa. Ibiza will also be served but only during the peak months (July and August). Lastly, Valencia will once more be served on departure from Amsterdam-Schiphol.

Increased fleet efficiency accompanied by a product move up-market

On its feeder network for the Paris-CDG and Amsterdam-Schiphol hubs, the Group continues to optimize the use of its fleet, *via* both the densification of cabin configurations and an increase in the daily aircraft yield, while preserving the quality and number of connections to all the destinations served by the Group.

In parallel, Air France is pursuing its product move up-market with the progressive deployment of new travel cabins since April 2015: the A319s have already been equipped with the “Smart&Beyond” product including new leather-upholstered seats in the Business and Economy cabins, and improved on-board catering. This upgrade will continue on the A320s (between January and July 2016) accompanied by a densification of the configuration (174 seats, an additional nine seats). The upgrade will culminate with the reconfiguration of the A321s, to take place between the end of 2016 and early 2017.

For its part, regional subsidiary KLM Cityhopper will continue to gradually replace its Fokker 70s with Embraer 175s and 190s, with greater fuel efficiency and more seats. In 2015, two Fokker 70s were thus retired and two Embraer 190s joined the KLM fleet (the last in a series of thirteen aircraft). In 2016, there are plans to retire a further four Fokker 70s from the fleet with the arrival of four new Embraer 175s. From 2018 the KLM Cityhopper fleet will be composed of only Embraer aircraft, thereby becoming the airline operating the biggest Embraer fleet in Europe.

In 2016, KLM will also densify its B737-800 fleet with an additional six seats (from 180 to 186).

On board, the connectivity project is now under way on the short and medium-haul network. In early 2016, in partnership with Orange, a three-month Wi-Fi connectivity pilot was launched on two A320s (one aircraft in the medium-haul network and one aircraft in the short-haul network).

2.3.2 Long-haul operations

Targeted growth in capacity maintained

In 2015, the Group saw a modest increase in its long-haul capacity. This capacity growth was focused on the most rapidly-growing regions with, notably, two route openings in North America. Two Eastern destinations were closed following intense and growing competition from the Gulf State carriers.

The Group adjusts its schedule to take into account recent developments and sometimes sudden changes in the operating context (macro-economic, geopolitical situation, etc.). Faced with the tragic events unfolding in France (Charlie Hebdo and the November terrorist attacks), the Group thus adapted its offer on markets where demand weakened, particularly in Japan.

Capacity changes by geography

In North America, the year was characterized by the successful opening of two new Canadian destinations: Vancouver operated on departure from Paris-CDG with up to five frequencies, supplementing the eight frequencies out of Amsterdam-Schiphol (in Summer 2015) and Edmonton outbound from Amsterdam-Schiphol with up to four frequencies since Summer 2015. The partnership with WestJet was stepped up, multiplying the connecting opportunities in the region. In parallel, the Group's joint-venture partner Delta opened an Amsterdam-Salt Lake City service in May 2015. In Summer 2016, KLM will offer three new weekly flights bound for Salt Lake City, supplementing the daily flight operated by Delta Air Lines, thereby reinforcing the proposition at this Delta hub and offering customers even more connecting opportunities to the west of America. Lastly, in Summer 2016 for financial reasons, KLM has suspended its summer season Amsterdam-Dallas-Fort Worth service.

In Latin America, KLM opened Bogota-Cali with three weekly frequencies while Air France has operated five weekly frequencies to Panama City since the end of 2014. In Brazil, in response to an unfavorable economic backdrop, the Group revisited its growth ambitions with capacity adjustments as of the Winter 2015 season on all its Brazilian destinations (Rio de Janeiro, Sao Paulo and Brasilia).

In Asia, capacity remained broadly stable. The Paris-CDG-Kuala Lumpur and Amsterdam-Fukuoka services were suspended in Winter 2015. In Japan, within a difficult context, the Group adapted its offer with frequency reductions on Tokyo Haneda and Tokyo Narita.

The Group's overall strategy on development in Asia now involves a search for effective partnerships.

In Africa, Air France and KLM each added a frequency to Luanda on departure, respectively, from Paris-CDG and Amsterdam; the Group thus offers six weekly frequencies and is adding a frequency to Kinshasa (*via* Luanda).

For 2016, the Group is maintaining its targeted growth strategy, by seizing any development opportunities and further reinforcing its agility when it comes to redeploying capacity in the face of eventual crises. The priority remains increasing the profitability of the long-haul network.

In Iran, while most international sanctions were lifted early this year with the entry into force of the nuclear deal, the Group is positioning itself with the planned opening of a Paris-Tehran service with three weekly frequencies as of April 2016 followed, on departure from Amsterdam-Schiphol, by three weekly frequencies from May.

The Group is also positioning itself at Paris-Orly, with, from June 2016, a flight bound for New York JFK to complement the existing service out of Paris-CDG for passengers from the Paris region and those with connecting flights arriving from the French provinces.

Renewal of the fleet

The Group maintains a considered investment strategy but continues to modernize its fleet: 2015 saw the last commercial flight for the MD11 at KLM while, in January 2016, Air France operated its last scheduled flight in the B747 to Mexico.

The Group is thus gradually retiring the least efficient aircraft from its fleet and taking delivery of next-generation models: in November 2015, KLM took delivery of its first B787s, equipped with the new World Business Class, which were progressively deployed on Abu Dhabi-Bahrain, Dubai and Rio de Janeiro.

Lastly, 2015 witnessed the success of the Quick Change operation during the peak Summer season enabling the adaptation of seventeen Air France Best B777 aircraft to customer demand during this period. Quick Change enables the addition of up to sixty seats per aircraft in the Economy cabin for this period thanks to the removal of seats from the Business cabin. Quick Change will be ramped up in Summer 2016, in parallel with the move up-market.

On-going move up-market for the long-haul product

In 2015, KLM completed the reconfiguration of all its B777-200 aircraft by equipping them with the new World Business Class. The retrofitting of the B777-300s will continue during 2016 meaning that, at the year-end, 75% of KLM's long-haul fleet should be equipped with the new World Business Class.

In 2013, Air France launched a vast program to move its long-haul product up-market, with the redesign of all the travel cabins. In early 2015, seven B777s were retrofitted with the new cabins. The roll-out was subsequently stepped up and, by the end of 2015, 24 aircraft had been renovated and were flying to some thirty long-haul destinations. On board, passengers now have access to new La Première "*haute couture*" suites, a veritable cocoon in the sky for Business with a calm, serene atmosphere, and optimal comfort for the Premium Economy cabins and completely redesigned seats in the Economy cabin. By 2017, the 44 aircraft in the B777 fleet concerned will have been modified. The renovation of the A330s and A380s is also under consideration.

These new cabins have received a warm welcome from customers and this appreciation is being reflected in the customer satisfaction scores.

Amongst the many accolades won this year, the Skytrax 2015 awards acknowledged Air France's investment in this move up-market, Air France moving up ten places in the overall ranking and being named the World's Most Improved Airline. Lastly, for the second year running, Air France won the Best First Class award for the food selection in its La Première lounge at Paris-CDG.

2.3.3 Reinforcing the hubs

Two of the most efficient hubs in Europe

The dual hub system retains its central function within the passenger activity. Thanks to the dual hubs of Paris-CDG and Amsterdam-Schiphol, inter-linked by twelve daily flights, the Group offers a high number of frequencies by destination. The Air France and KLM network has thus been comprehensively optimized to offer customers 316 destinations in 115 countries across the world.

Thanks to its in-depth work on processes within the framework of the Punctuality project, Air France achieved its best year for a decade.

The attractiveness of the Paris-CDG hub was also reinforced in Summer 2015 by work on the structure of the banks with the transfer of a portion of the long-haul operations from the most-saturated time slots to those traditionally totaling fewer flight arrivals and departures. This new spread of operations contributed to ensuring a robust operational performance during peak periods by reinforcing the specific annual action plans devoted to punctuality (Long-haul DO project, 3.2.0 project in medium-haul): in a context of an increase in load factor (+2 points on the previous year), Paris-CDG DO punctuality increased by five points and the successful connection rate by one point to 99%, with positive repercussions for the customer experience.

In 2015, the Paris-CDG hub was named the "World's Most Improved Airport" by Skytrax.

Amsterdam-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". KLM's worldwide network is responsible for Amsterdam-Schiphol ranking amongst Europe's four largest airports, contributing to the Netherlands' position as a gateway to Europe for global trade and travel.

To underline the importance of the Dutch airline industry, in 2015, following a request from the Ministry of Infrastructure and Environment, KLM and Amsterdam-Schiphol Airport jointly worked on input to the Government's "Actieagenda Schiphol" strategic plan which will be presented to the Dutch Parliament in the 2016 second quarter.

On June 3, 2015 Amsterdam-Schiphol successfully implemented the centralized security system for passengers from non-Schengen countries, resulting in an improved security process and a more-optimized customer experience. This project was implemented in close cooperation with KLM and a branch of the SAOC organization.

Amsterdam-Schiphol continues to grow and aims to become Europe's preferred airport. To realize this, it is vital that KLM and its partners continue to expand their European and Intercontinental network.

Furthermore, the phased development of the area-A platform will enable Schiphol to deliver additional gate capacity before the year 2020. It is also important that the capacity and reliability of the Schiphol station is rapidly improved and that local, regional and national interests are aligned in the development of the Schiphol zone.

2.3.4 Accelerating customer-centric initiatives

Air France–KLM pursued its customer-focused initiatives throughout the move up-market for Air France products and services on its European medium-haul network and the on-going equipment of the B777 fleets to optimize on-board comfort.

In 2015, the Net Promoter Score which reflects the level of customer satisfaction and willingness to recommend the service, and is thus the key performance indicator for measuring customer loyalty and the brand experience, increased by two points for Air France and KLM at global level.

Air France–KLM aiming for digital excellence

Against a backdrop of rapidly-evolving consumer needs and a complete transformation in the travel industry, Air France–KLM continues to play a pioneering role in digital innovation. The digital strategy is at the heart of the Group's ambition to become the number one for passenger intimacy.

Customers are permanently connected to the internet using different devices, whether this is to plan their travel, explore their destinations or share their memories. With approaching five billion online sales transactions, the performance of the Group's mobile sites and applications is improving. In 2015, applications were created for mobile technologies like connected watches, KLM launched a new mobile application based on cutting-edge technologies and Transavia inaugurated a new e-commerce platform.

For its part, Air France embarked on a comprehensive redesign of its airfrance.com website to bring it up to date and offer customers more rapid access to information and services. The company also took a first step towards improving the website's accessibility for persons with disabilities.

Functionalities were introduced to assist customers more effectively in the event of problems: the posting of paid-for options, the possibility of requesting reimbursement directly online in the event of flight irregularities and the redesign of the online complaints procedure to facilitate the process.

The Group directs permanent efforts towards ensuring a rewarding customer experience, whether online or on board. Passengers are thus asked to evaluate and comment on their flights on arrival, while staff are equipped with tablet computers and applications to be able to supply a seamless personalized service and up-to-date information. In 2015, Transavia became the first airline to integrate WhatsApp in its online customer services.

The Group's digital initiatives were again recognized and rewarded, notably by a Skifties Social Media Award for the travel brand which is most effective on the social media. Air France's "France is in the air" advertising clip was the most-watched video on YouTube in 2015, while Sherlock, the KLM lost property department dog, has attracted world-wide media attention and won a SAN Award in the Netherlands.

This year, the Group will continue the integration of its digital competencies. Initiatives will be rolled out at the level of the Flying Blue loyalty program, notably by equipping the hub and on-board staff with tablet computers enabling the updating of customer profiles and facilitating customer relationships within the operational context.

Accelerated innovation throughout the customer journey

More autonomy and self-service at the airport

In 2015, in response to customer needs, Air France considerably improved the customer experience at the airport: the Company rolled out the acclaimed new design for its interactive kiosks, deployed self-service recycling facilities in a number of airports world-wide which were immediately adopted by customers and started to install automated boarding gates which should be fully operational in 2016 at Paris-CDG.

Launched In 2014, the home-printed bag-tag option enables passengers to save time queuing at the airport. This service, which has been introduced by Air France at several airports, is already showing encouraging results.

In 2016, Air France will take another major step with the launch of a world-wide program to simplify, streamline and harmonize the customer ground experience at all points of contact.

For its part, KLM launched the use of biometrics to offer a less stressful and more fluid experience at the airport. First used in 2015 at Aruba airport and dubbed Happy Flow, the biometrics process will be deployed at Amsterdam-Schiphol airport in 2016. This process has won KLM several prizes for innovation.

Airlines across the world are currently discovering new applications for automated services and robotics. The Spencer smart robot, developed by a consortium of European universities and research centers, will be trialed by KLM in 2016.

Choice and control

The Air France and KLM trials on the use of Wi-Fi on board since 2013 have proven conclusive. Four aircraft currently offer connectivity with the ground and this figure will rise to sixteen in 2016.

In 2015, Air France further enhanced its digital press application, which is now offered on both Smartphones and tablets to all passengers up to 30 hours before their flight departures. The offer of international titles has increased and the application is now available in more languages. The interface has also been revisited and improved. Around 200,000 publications are downloaded each month *via* this application. Air France podcasts have also been added.

Since December 2015, Air France–KLM has introduced additional "Seat plus" options in Economy class enabling travelers to reserve their seats in advance. This will also facilitate seat allocation for groups, families and Elite customers while offering customers more choice.

Virtual reality and augmented reality, two technologies which have seen growing interest, were also tested by the company in 2015. For example, Air France and its partners presented an innovation showcase on the Toulouse-Paris Orly route.

Differentiation through customer affinity

In their interaction with service industries, customers are increasingly expressing a preference for brands that are capable of offering them genuine, empathetic and responsive human contact.

More and more resources are being made available to the staff in the Group's companies to empower their problem-solving capabilities and improve the in-situ customer experience in a pro-active manner. This involves equipping staff with the right tools and the appropriate training.

For example, Air France currently equips its staff in airports with iPads and a dedicated application giving them access to real-time information and enabling them to resolve complex problems, promote the airline's services and fulfill operating requirements. In 2015, this initiative received the Electronic Business Group prize for the best digital customer experience.

Lastly, the Group has pursued its investment in customer services *via* the social media. Since 2013, Air France has been voted the French brand the most active in the social media on Facebook (by Social bakers). In May 2014, Air France became the only non-Asian airline to make contact with Chinese customers on the WeChat network thanks to the call center in Guangzhou, a city where the airline has been present on the Sina Weibo network since 2013.

Air France currently offers 7/7 customer services in nine languages on Facebook, Twitter, WeChat, Sina Weibo and Instagram, and round the clock in English and French. For its part, KLM offers 24/24 and 7/7 customer services in fourteen languages, is linked to WeChat *via* its existing Salesforce Service Cloud portal and has launched on the Korean one-to-few platform Kakao Talk. KLM remains the first airline to offer payment through the social media and to monitor its own service by posting actual response times.

The Group's goal is to offer the best standard of European customer service by 2020.

A new ambition for the Flying Blue loyalty program

With some 27 million members, the Flying Blue loyalty program this year celebrated its 10th anniversary. Following the merger of the Fréquence Plus (AF) and Flying Dutchman (KL) programs in 2005, Flying Blue has seen steady growth, adding a new member every 20 seconds over this period.

With 37 airline partners and some 100 non-airline partners, Flying Blue won five Freddie Awards (of six) in 2015, including the prestigious Program of the Year accolade and the Best Affinity Credit Card title shared with American Express, for the third year running.

In 2015, an additional offer was studied to facilitate the exchange of "miles" at the best price. The Flying Blue Store, which was redesigned in November 2014, now stocks more than 5,000 items and has payment options in cash or "miles". A sales transaction is realized every five minutes on this platform. Since October 2015, passengers on Transavia flights have been able to redeem their "miles" online, tripling the sale of Reward tickets.

Flying Blue is also pursuing its digital transformation and its quest for customization. It is now possible to join the program rapidly on board flights by contacting cabin staff equipped with iPads and to benefit from the automatic crediting of "miles" immediately on arrival. Visits to the Flying Blue.com website have increased by 20% and the welcome email is very personalized with more than 1,800 possible versions (twelve languages, fourteen different offers, seven levels).

After this first decade, Air France–KLM decided to completely remodel Flying Blue, with a series of changes to be progressively phased in though to 2018 aimed at simplifying the program, making it more relevant and introducing a greater degree of customization.

Pro-active communication

In 2015, with the improvements to the "Perform 2020" program and the promotion of its top-of-the-range ambitions, the Group's transformation was covered in a wide range of media and showcased at various public events. Air France clearly affirmed its mid/high end positioning *via* its "France is in the air" advertising campaign and a new in-flight safety demonstration video. These two events alone generated 28,000 publications in the traditional and social media, of which around a third outside France. On Twitter, the audience for these two events was estimated at 274 million internet users (Twitter accounts potentially exposed to the message).

KLM also showcased this transformation with its very high quality communication campaigns aimed at the mass market. One of the highlights of the year was the new in-flight safety demonstration film, giving the company a new unique identity and watched nine million times on the social media in the space of three weeks. The presentation of the new Dreamliner 787 also proved popular, with 9.7 million views, as did the new travel experience for KLM's youngest passengers, particularly the second film starring Bluey, the KLM children's mascot, which was released at Christmas and was seen by some 10 million people.

2.3.5 SkyTeam alliance and strategic partnerships

To meet all the needs of their customers, airlines supplement their offers thanks to alliances and strategic partnerships. The three largest alliances, SkyTeam (to which Air France and KLM belong), Star Alliance and oneworld, represent some 60% of world-wide traffic. Of the 50 largest airlines, only the low-cost carriers, two of the three Gulf State airlines and a few niche carriers are not members of 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 date back to 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 network growth without additional investment in fleets. These agreements enable frequencies 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 which numbered 20 airline members at December 31, 2015: Aéroflot, Aérolineas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Southern, China Eastern, China Airlines, Czech Airlines, Delta, Garuda Indonesia, Kenya Airways, KLM, Korean Air, MEA Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines and Xiamen Air. While retaining their separate identities and brands, the airlines work together to offer their customers a network and global services.

SkyTeam is managed by a Governing Board comprising the Chairmen and Chief Executive Officers of the 20 member airlines. It meets twice a year to define the major strategic orientations of the alliance.

A centralized management entity, reporting to a Managing Director, is responsible for marketing, sales, airport synergies, interface between information systems, 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 fulfill 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 the products and services proprietary to the alliance.

Belonging to SkyTeam strengthens the reputation of the airlines by enabling them to extend their offer to all world regions, thereby bolstering their commercial presence. As a member of the SkyTeam alliance, Air France-KLM thus has access to a global network offering some 16,300 daily flights to more than 1,000 destinations in 179 countries.

In sharing 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 high number of connecting flights and guarantee its 665 million annual passengers a seamless travel experience on flights with one or several airline members or in one of 636 airport lounges.

The alliance has developed proprietary products such as Passes enabling travel in destination regions at competitive fares, global contracts exclusively for large companies or contracts for the organizers and attendees of congresses and international events.

The 199 million passengers who are members of frequent flyer programs earn air "miles" on all SkyTeam flights that can be redeemed with all the alliance member airlines. In 2015, the SkyTeam airlines rolled out SkyPriority in more than 950 airports, a ground services offer exclusively for their most loyal customers.

Strategic partnerships

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 industry, 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 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 US$13 billion in 2014 and a market share of 24% in Summer 2015, the joint-venture is a major player on the trans-Atlantic, the leading market for international air transportation. Some 250 daily flights link the nine principal hubs: Paris, Amsterdam, Rome, Atlanta, New York, Detroit, Minneapolis, Cincinnati and Salt Lake City. 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 27 in Europe. The sales forces have been regrouped in each region.

The organization of the joint-venture was 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. All these agreements were approved by the European Commission in 2015.

Alitalia

Since 2009, the relationship between Air France–KLM and Alitalia has consisted, firstly, of an equity investment by Air France–KLM in the capital of Alitalia Compagnia Aerea Italiana SpA (Alitalia-CAI) and, secondly, a commercial and industrial partnership between Air France–KLM and Alitalia.

Within the framework of the investment by Etihad Airways in the capital of Alitalia, Alitalia-CAI launched a restructuring process resulting mainly in the transfer of its operations to the company Alitalia-Societa Aerea Italiana (Alitalia-SAI), created on January 1, 2015. Air France- KLM's equity interest was reduced to 1.0395% of the Compagnia Aerea Italiana SpA (formerly Alitalia-CAI) share capital, the latter holding 51% of the shares in the capital of Alitalia-SAI with the remaining 49% held by Etihad Airways.

Independently of the transactions outlined above, Air France–KLM's industrial and commercial partnership with Alitalia based, notably, on joint-ventures on the routes between France and Italy, and between the Netherlands and Italy, remains in force until January 13, 2017. Alitalia is also an integral part of the trans-Atlantic joint-venture with Delta (*see above*).

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 out of its Canton and Beijing hubs and, 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 outstations in the Chinese provinces. The joint-venture services between Europe and China generated revenues of nearly €900 million in 2015.

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 and Australia. Since the Summer 2013 season, four daily flights have been operated between the hubs of the two groups. Etihad uses its code on 24 destinations beyond Paris and Amsterdam and one beyond Abu Dhabi, while Air France and KLM use their codes on sixteen destinations beyond Abu Dhabi.

Strategic partnership with GOL

In 2014, Air France–KLM and GOL Linhas Aéreas Inteligentes signed an exclusive long-term strategic partnership reinforcing their commercial cooperation between Brazil and Europe. In addition to the existing code-sharing agreement, this partnership led to a US$100 million investment in GOL, of which US$52 million in the latter's share capital. It notably enables the maximization of commercial synergies between the two groups and, particularly, the connecting opportunities in the major Brazilian cities served by the Group. In 2015, the partnership led to a significant increase in Air France and KLM passengers transferring to GOL flights in Brazil. Since April 2015, GOL has used its code on Air France and KLM flights between Europe and Brazil, and on European destinations beyond Paris and Amsterdam. Air France–KLM is currently responding to various calls to tender from GOL in the maintenance area.

2.3.6 Activity during the financial year

Key figures for the passenger network business

Financial year	2015	2014[1]	Actual change	Like-for-like change[2]
Number of passengers *(in thousands)*	**79,016**	77,450	+2.0%	-
Capacity *(in ASK million)*	**276,899**	270,789	+2.3%	+0.7%
Traffic *(in RPK million)*	**235,715**	229,347	+2.8%	+1.2%
Load factor	**85.1%**	84.7%	+0.4pt	+0.4pt
Total passenger revenues *(in €m)*	**20,541**	19,570	+5.0%	-2.6%
Scheduled passenger revenues *(in €m)*	**19,707**	18,740	+5.2%	-2.6%
Unit revenue per ASK *(in € cents)*	**7.12**	6.92	+2.8%	-3.3%
Unit revenue per RPK *(in € cents)*	**8.36**	8.17	+2.3%	-3.7%
Unit cost per ASK *(in € cents)*	**6.81**	6.95	-2.0%	-6.7%
Income/(loss) from current operations *(in €m)*	**842**	**(83)**	**925**	**+687**
Of which long-haul (estimated)	**1,140**	740	+400	
Of which medium-haul hub feeding (est.)	**(230)**	(320)	+90	
Of which medium-haul (point-to-point)	**(70)**	(120)	+50	

(1) 2014 restated for change in revenue allocation (€45 million transferred from "other passenger" to "scheduled passenger revenues").
(2) Like-for-like: excluding the strike and on a constant currency basis.

In 2015, total passenger revenues stood at €20,541 million, up by 5.0% and down by 2.6% like-for-like. The operating result of the passenger business stood at €842 million, versus a loss of €83 million in 2014, an increase of €925 million. Like-for-like[3], the operating result improved by €687 million.

The Group maintained its strict capacity discipline, increasing total passenger capacity by only 0.7% excluding the strike impact. Unit Revenue per Available Seat Kilometer (RASK) remained volatile, up by 2.0% in nominal value and down by 3.3% like-for-like[3].

On the long-haul network, capacity measured in ASK was up by 3.0% while the unit revenue was down by 4.4% on a constant currency basis, impacted by the capacity-demand imbalance on the different networks, exacerbated by the collapse in demand on departure from Brazil and Japan. In addition, several routes were affected by travel budget reductions implemented by oil and gas-related customers, notably to Africa. Nevertheless, the estimated long-haul operating result was up by €400 million to €1,140 million.

As planned, medium-haul point-to-point capacity (excluding the Paris and Amsterdam hubs) was further reduced by 11.5%, leading to a significant improvement in unit revenue (+7.0% like-for-like[3]) contributing to the €50 million improvement in the point-to-point operating result. In the medium-haul operations feeding the Paris and Amsterdam hubs, unit revenues decreased by 1.6% like-for-like[3] while the estimated operating result of the hub activity stood at a loss of €230 million, an improvement of €90 million versus 2014.

The unit Cost per Available Seat Kilometer (CASK) was further reduced by 6.7% like-for-like[3]. Excluding the positive impact of the fuel bill and the additional pension charges, the CASK decreased by 0.5% over the year.

During 2016, the Group will maintain its strict capacity discipline in the passenger network business.

(3) Like-for-like: excluding the strike and on a constant currency basis.

Key figures by network[1]

	Capacity in ASK (in million)		Traffic in RPK (in million)		Load factor (in %)		No. of passengers (in thousands)		Scheduled passenger revenues (in € million)	
Destination region	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
North America	**60,285**	57,654	**53,225**	50,728	**88.3%**	88.0%	**7,497**	7,182	**4,036**	3,593
Latin America	**33,753**	31,847	**29,180**	27,788	**86.5%**	87.3%	**3,041**	2,885	**1,772**	1,700
Asia-Pacific	**62,945**	61,933	**54,625**	53,580	**86.8%**	86.5%	**6,278**	6,092	**3,365**	3,241
Africa-Middle East	**36,345**	35,752	**29,561**	28,941	**81.3%**	80.9%	**5,322**	5,612	**2,590**	2,497
Caribbean-Indian Ocean	**28,548**	28,206	**25,066**	24,648	**87.8%**	87.4%	**3,438**	3,394	**1,504**	1,425
Total long-haul	**221,875**	**215,392**	**191,658**	**185,685**	**86.4%**	**85.6%**	**25,577**	**25,164**	**13,267**	**12,769**
Medium-haul	**55,024**	**55,398**	**44,058**	**43,662**	**80.1%**	**78.8%**	**53,440**	**52,736**	**6,440**	**6,240**
Total	**276,899**	**270,789**	**235,715**	**229,347**	**85.1%**	**84.7%**	**79,016**	**77,450**	**19,707**	**18,695**

(1) Non restated for the strike.

The **Asia-Pacific** network is the Group's first network with 23% of traffic and capacity. The Group carried 6.3 million passengers to these destinations. Traffic grew by 1.9% for a 1.6% increase in capacity, the load factor standing at 86.8%. Revenues from this network amounted to €3.4 billion.

The **North American** network is the Group's second network with 22.5% of traffic and 22% of capacity. The Group carried 7.5 million passengers (+4.4%) to these destinations. On this network, the Group operates within the framework of the joint venture with Delta and pursued a policy of strict capacity discipline (+4.5%). Traffic increased by 4.9% and the load factor was slightly higher (+0.3 points) at 88.3%. Revenues amounted to €4.0 billion.

The **Africa–Middle East** network represents 13% of traffic and capacity. The Group carried 5.3 million passengers (+1.1%) to these destinations. The overall capacity for this network was up by 1.6% for a 2.1% rise in traffic. The load factor rose by 0.7 points to 81.3%. Revenues stood at €2.6 billion.

The **Latin American** network represents 12% of traffic and capacity. The Group carried 3.04 million passengers on these destinations (+5.4%). Traffic increased by 5.0% and capacity by 5.9%, the load factor declining by 0.8 points to 86.5%. Revenues amounted to €1.8 billion.

The **Caribbean and Indian Ocean** network represents 11% of traffic and 10% of capacity. The Group carried 3.4 million passengers to these destinations, up by 1.3%. Traffic was up (+1.7%) and the load factor gained 0.4 points to 87.8%. Revenues stood at €1.5 billion.

The **medium-haul** network, whose restructuring was one of the "Transform 2015" plan's major objectives, represents 19% of traffic. Capacity was down by 0.7% and the load factor gained 1.3 points to 80.1%. Revenues amounted to €6.4 billion.

2.4 LOW-COST BUSINESS (TRANSAVIA)

Transavia, the Air France-KLM Group's low-cost business, operates point-to-point flights on departure from the Netherlands and France. The seats are mainly sold directly to end customers but the company also operates charter flights on behalf of tour operators.

The structure of Transavia's costs is strictly aligned with the low-cost business model: maximizing the use of aircraft, simplicity of the product and fares, multiple options, a single aircraft type, a light organizational structure, outsourcing of a significant portion of the activities, etc. Its unit costs are thus comparable to those of the other low-cost operators at around five euro cents per ASK (*See results section below*) for an average flight distance of around 1,700 km.

At December 31, 2015, Transavia had a fleet of 53 B737-700 and B737-800 aircraft in service, of which 32 based in the Netherlands and 21 in France, and 2,400 full-time employees. In 2015, the Transavia network comprised 109 destinations in Europe and North Africa. Flights were operated from six different bases, Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes, and Lyon, offering a total of around 200 different routes

2015 saw Transavia pursue its rapid development with capacity expansion of 5%. Transavia carried 10.8 million passengers, up by 9%. In the Netherlands, where Transavia is the leader in the low-cost market, the shift in the charter business model in favor of scheduled flights underway for the past few years further accelerated. The focus has been and remains on the development of scheduled flights, with a 16% capacity increase in ASK. With charter capacity having been reduced by 13%, the Group increasingly offers tour operators blocks of seats on scheduled flights. In addition to this core business in point-to-point, Transavia continued to offer connecting flights thanks to the KLM hub in Amsterdam and from the new base in Munich.

In France, as planned, Transavia continued its accelerated development. In 2015, seven additional aircraft joined the fleet, enabling 25% capacity growth. Transavia's expansion in France is being implemented in close cooperation with Air France to optimize the portfolio of slots and destinations offered on departure from Paris. In 2016, five additional aircraft will join the Transavia fleet in France, enabling a further 20% capacity growth. Transavia will thus become the leading low-cost carrier at Paris-Orly airport.

In January 2015, the new "It's a pleasure" brand identity was officially launched with the arrival of the first aircraft in the new livery and was further rolled out during the 2015 first half. Several commercial initiatives were implemented, including the launch of a new fare structure and the comprehensive integration of the Flying Blue loyalty program, enabling the earning and burning of "miles" on flights across the entire Transavia network.

In 2015, an agreement was signed with the VNV pilots' union in the Netherlands which ensures competitive crew unit cost levels for the coming years for Transavia Netherlands. Within the framework of the "Perform 2020" plan, Transavia will maintain its competitiveness thanks to new cost-saving initiatives and substantial scale effects from increasing its fleet size in coming years. The Group will continue to maximize synergies between its two operations in the Netherlands and France, and between Transavia and Air France-KLM.

To support the accelerated growth of Transavia, the Group has ordered 20 B737-800s (17 firm orders and three options).

With the rapid growth weighing on profitability, the Group expects Transavia to become profitable only as of 2017.

Key figures for Transavia

Financial year	2015	2014	Actual change
Number of passengers *(in thousands)*	**10,805**	9,908	+9.0%
Capacity *(in ASK million)*	**22,432**	21,299	+5.3%
Traffic *(in RPK million)*	**20,169**	19,136	+5.4%
Load factor	**89.9%**	89.8%	+0.1pt
Total passenger revenues *(in €m)*	**1,100**	1,057	+4.1%
Unit revenue per ASK *(in € cents)*	**4.84**	4.92	-1.6%
Unit revenue per RPK *(in € cents)*	**5.38**	5.48	-1.7%
Unit cost per ASK *(in € cents)*	**5.00**	5.09	-1.8%
Income/(loss) from current operations *(in €m)*	**(35)**	(36)	1

2.5 CARGO BUSINESS

The cargo business is the second of the Group's activities, generating revenues of €2.4 billion, representing 9.4% of total Group 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.

2.5.1 Business environment

A slow-down in air freight growth during 2015

In 2015, the weakness in global trade led to a significant slow-down in air freight traffic expressed in revenue ton-kilometers (+2% in 2015 versus +5% in 2014).

2015 was a very difficult year for air freight with weak growth, declining revenues and significant pressure on yields driven by the structural overcapacity in passenger aircraft bellies.

Excluding the US domestic network, overall capacity increased by 6.4% and the international load factor posted a one-point decline to 47.6%.

Over the same period, the volume of world trade grew by around 2.7% versus 3.0% in 2014 (*source: CPB Netherlands*).

Regional differences very marked

The **African airlines** saw air freight volume growth of 1.2% for 2015, the load factor standing at 29.7%, the weakest result of all the regions.

The **Asia-Pacific carriers** posted cargo volume growth of 2.3%, the load factor standing at 53.9%, the highest for all the regions.

The **European airlines** saw traffic down by 0.1% on its 2014 level, the load factor standing at 44.9% in 2015. The sluggish economic situation in the euro zone led to a fall in demand for air freight but imports saw an improvement during the last few months of the year.

The **Latin American airlines** continued their weak performance of recent months, with cargo volumes down by 6% in 2015. The load factor averaged 38.3% for 2015. The economic and political situation deteriorated in Brazil and trading for the region suffered significant volatility.

The **Middle Eastern carriers** enjoyed 11.3% growth in 2015 relative to 2014, with a load factor of 42.8%. The region benefited from network expansion in the emerging markets which was supported by the economic growth in the local economies.

The **North American airlines** saw cargo volume growth of only 0.1% over the year as a whole, the load factor standing at 34.3%.

For the past decade, traffic growth has been heavily concentrated on a few airlines: the Gulf State and the Chinese carriers. In 2015, amongst the largest carriers, Qatar Airways followed by Air China, Nippon Cargo Airlines and China Southern enjoyed the strongest growth. In Europe, Cargolux continued its growth. Emirates maintained its leadership position in terms of cargo transported while Lufthansa Group lost its number two position to Cathay Pacific. Air France-KLM retained its number four position.

The global full-freighter fleet increased during 2015, with the entry into revenue service of 25 new freighters and the return to service of 10 B747-400s which had been parked for several years. This growth was partially offset by the progressive retirement of the B747-classic and the MD11.

Purchases of new high-capacity cargo aircraft saw a gradual slow-down between 2012 and 2015, moving from 42 to 25 annual deliveries. This steady downward trend looks set to continue for the next two years with 19 deliveries expected in 2017.

Over the long term, the overall Cargo fleet world-wide should remain broadly stable at +0.5% on average per year due to the reduction in the number of orders and a strategy of replacement rather than outright expansion.

Belly capacity in the passenger aircraft fleet continued to see strong growth thanks to the expansion in the fleet, the latter expected to see annual growth of 5% between 2011 and 2019. For the years to come, around 400 new aircraft (for the most part B777s, B787s and A350s) will be introduced each year with the phasing out of only some 100 to 200 aircraft per year (mostly B747s, B767s and A340s). Furthermore, the bellies of new aircraft have more capacity than the older aircraft they replace.

As a result, capacity increased by 6.1% in 2015 for global air freight demand up by only 2.2%. For the European market, traffic was virtually stable, whereas capacity was up by 4.3%.

In view of this dynamic, several air freight carriers are following the Air France–KLM Group's example in scaling back their full freighter fleets. Within Europe, the most noteworthy example is Lufthansa which immobilized two MD-11s.

2.5.2 Strategic repositioning for the cargo business

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 5.0% in RTK for 2015, down by 0.6 of a point relative to 2014. This fall in market share reflects the Group's commitment to prioritizing an improvement in profitability and refocusing on the fastest-growing markets.

During the financial year, the Group transported nine billion Revenue Ton-Kilometers of which 75% in the bellies of passenger aircraft and 25% in the dedicated full-freighter fleet, to a network of 316 destinations in 115 countries.

Backed by its two powerful European hubs of 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 and Amsterdam-Schiphol rank amongst the four largest European cargo hubs.

The organization of the business is fully integrated, enabling the Group to offer its customers a single contact point, a single contract and a single network covering the Group's 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 Argentina 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 850 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 22% of the market share on this network: reinforced coordination of commercial strategies, increased integration of sales forces.

A new "belly-dominant" business model, "Transform 2015" and "Perform 2020"

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 bellies and markets in which belly capacity is not adapted to demand.

Over the next four years, Air France–KLM Cargo then implemented a **transformation and adaptation program** focused on revenues, costs, hub productivity and the quality of bellies and combis, to optimize the payload on its full-freighter fleet.

This "Transform 2015" program enabled a maintained contribution of some €940 million from the cargo business to the Group's operating result, despite the significant reduction in capacity (-4.5% in 2015, of which -23% for the full-freighter operations) and a deterioration in unit revenues (-5.6%). Thanks to full freighter fleet rationalization, strict cost management and adaptation to customer requirements, Air France–KLM's cargo business has engaged in a successful restructuring to contend with a highly competitive market where capacity is steadily increasing.

Within an increasingly difficult context, Air France–KLM Cargo's positioning has been reinforced *via* new measures launched within the framework of the "Perform 2020" plan.

A significant reduction in full-freighter capacity: the Group continues to scale back full-freighter capacity with the phasing out of the MD-11Fs based at Amsterdam in view of their age and operating costs. These additional measures foresee a capacity reduction of 46% between 2014 and 2017, with ultimately two full-freighter aircraft to be based at Paris-CDG and three full-freighters at Amsterdam-Schiphol in 2017. Air France Cargo's choice of refocusing the business on its B777 freighters has enabled a return to profitability for the full freighter operations, heralding a positive development for KLM Cargo at the end of this same project. On the other hand, belly capacity will continue its growth in line with the development plan for the passenger fleet. The bellies of passenger aircraft thus accounted for 79% of total capacity in 2015 compared with 54% in 2007-08. By 2017, this figure should exceed 85%.

Strict control over costs: in 2015, under the impact of the "Transform 2015" and "Perform 2020" plans, staff costs continued to fall thanks to increased recourse to subcontracting (Roissy cargo hangar) and the Voluntary Departure Plan in France and the Netherlands. Cargo headcount was reduced by 8.6% over the course of the 2015 financial year.

In addition to the reduction in full-freighter capacity, all the efforts launched by the Group enabled a 3.5% reduction in unit costs in 2015.

A new commercial strategy: Following the deployment of a new strategy at global level to improve commercial efficiency, the next steps are the rationalization and simplification of the products in the cargo business, the development of niche markets and a higher-value-added customer proposition within the framework of a "Freight Made Personal" program.

At the same time, the Group successfully completed the first phase of Cargobus, its new unique reservation and commercial inventory tool, which continues to be deployed, while expanding its digital offer (Quote & Book, e-freight, etc.) aimed at improving the standard of the service offered to customers and their levels of satisfaction.

Thanks to all these efforts, and despite an unfavorable backdrop, the cargo business continues to make an important contribution to the Group's results.

2.5.3 Activity during the financial year

As in previous years, in 2015 air freight continued to be affected by weak trade flows from/to Europe and by the situation of structural industry overcapacity.

Key figures for the cargo business

Financial year	2015	2014	Change	Like-for-like change[1]
Tonnage transported *(in thousands)*	**1,206**	1,303	-7.5%	-
Capacity *(in millions of ATK)*	**14,908**	15,608	-4.5%	-5.8%
Traffic *(in millions of RTK)*	**9,008**	9,843	-8.5%	-10.0%
Load factor	**60.4%**	63.1%	-2.6pts	-2.7pts
Total external revenues *(in €m)*	**2,425**	2,681	-9.5%	-17.4%
Scheduled cargo revenues *(in €m)*	**2,263**	2,509	-9.8%	-17.8%
Unit revenue per ATK *(in € cents)*	**15.18**	16.08	-5.6%	-12.8%
Unit revenue per RTK *(in € cents)*	**25.12**	25.49	-1.4%	-8.8%
Unit cost per ATK *(in € cents)*	**16.82**	17.43	-3.5%	-10.8%
Income/(loss) from current operations *(in €m)*	**(245)**	**(212)**	**(33)**	**(14)**

(1) Like-for-like: excluding the strike and on a constant currency basis.

The Group continued to restructure its cargo activity to address the weak global trade to/from Europe and the structural air cargo industry overcapacity. **During 2015**, full-freighter capacity was reduced by more than 23%, leading to a 4.5% decline in overall capacity. The unit revenue per Available Ton Kilometer (RATK) was down by 12.8% like-for-like, leading to a further decrease in cargo revenues, down by 17.8% like-for-like.

Despite the significant reduction in unit costs, the operating result deteriorated by €14 million like-for-like, and this activity remained loss-making (to the tune of €245 million).

Within the framework of "Perform 2020", the Group will retire nine full-freighters and plans to operate only five full-freighters by the summer of 2016. This reduction should enable the full-freighter business to return to operating breakeven in 2017.

Traffic also declined leading to a 2.7 point reduction in load factor (60.4%). This business generated revenues of €2.43 billion, down by 9.5% (-17.4% like-for-like).

The negative result reflects the purchasing from the passenger business by the cargo business of all the available hold capacity. Cargo's marginal contribution to the Group's long-haul network, measured in third-party sales after deduction of the related costs, is very positive.

Key figures by network

	Capacity in ATK (in million)		Traffic in RTK (in million)		Load factor (in %)		Cargo transportation revenues (in € million)	
Destination region	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Europe	**547**	539	**63**	65	**11.5**	12.0	**48**	50
Americas	**6,433**	6,608	**3,795**	4,135	**59.0**	62.6	**934**	1,010
Asia/Pacific	**4,210**	4,778	**3,243**	3,706	**77.0**	77.6	**673**	826
Africa/Middle East	**2,629**	2,617	**1,485**	1,528	**56.5**	58.4	**467**	484
Caribbean/Indian Ocean	**1,088**	1,066	**422**	409	**38.8**	38.4	**140**	139
Total	**14,907**	**15,608**	**9,008**	**9,843**	**60.4**	**63.1**	**2,263**	**2,509**

As the Group's premier cargo network, the **Americas** represent 43% of capacity, 42% of traffic and 41% of cargo transportation revenues. Over the year, traffic declined by 8.2% for a 2.6% capacity reduction, the load factor losing 3.6 points to 59%. Revenues for this region amounted to €934 million (-8.2%).

The **Asia-Pacific** network accounts for 28% of capacity and 36% of traffic. It was on this network that the Group reduced its capacity most markedly (-11.9%). The decline in traffic was similar in proportion (-12.5%) and the load factor declined slightly (-0.6%) to 77.0%. Revenues stood at €673 million (-17.9%).

Africa-Middle East is the Group's third network with 18% of capacity and 16% of traffic. Traffic fell by 2.8% and capacity was slightly higher (+0.4%), the load factor falling by 1.9 points to 56.5%. Revenues declined by 3.6% to €467 million.

The **Caribbean-Indian Ocean** network represents 7% of capacity but only 5% of traffic. Traffic increased (+3.2%) by more than capacity (+2.1%), taking the load factor to 38.8% (+0.4 of a point). Revenues amounted to €140 million (+1.8%).

2.6 MAINTENANCE BUSINESS

Aircraft maintenance is the Air France–KLM Group's third business, generating third-party revenues of €1,577 million. These revenues generated with third-party clients account for a little over one third of total maintenance revenues. In 2015, the AFI KLM E&M order book saw strong growth, increasing by 12% over the year.

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 Group's fleets, while operating as a leading MRO in its own market.

The Group operates in three major maintenance segments: airframe maintenance, engine maintenance and component support (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 the disassembly of cabins, equipment and some structural elements, and the realization of modification programs, particularly the retrofitting of cabins.

2.6.1 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 at US$65 billion for 2015 (*source: ICF International*).

Revenue trends in this market closely follow those of the commercial airline fleets globally and their operation. In the short term, airlines tend to focus on adjusting their use of older-generation aircraft 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 the next-generation models.

The market is also characterized by increased pricing pressure resulting from fiercer competition between maintenance operators (MROs) and more exacting requirements from client airlines. Furthermore, a growing number of airlines are looking to transfer the financing of spare parts to maintenance service providers within the framework of increasingly-large-scale contracts (in terms of revenue, duration, complexity, etc.). Lastly, the competition from Original Equipment and Engine Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably increased in recent years.

Even fiercer competition

As with all the players in the aeronautics and air transport industry, the MRO operators are participating in a vast consolidation movement to reinforce economies of scale and contend with pricing pressure.

Against this backdrop, airframers, engine manufacturers and aircraft component manufacturers are continuing to develop their after-sales services to offer their clients increasingly-integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to a limited number of maintenance service providers seeking to expand their business activity on certain products. This trend is escalating, especially with the arrival of new aircraft like the E-jet, A350, B787, etc. Ultimately, if it were to result in reduced competition on the MRO market, this trend could have a seriously adverse impact on airline maintenance costs.

The ability to sustain balanced competitive conditions is a priority objective, both for AFI KLM E&M's business activity and to contain Air France and KLM maintenance costs.

The business is also experiencing a technological change which is influencing the scope of the products, processes, methods and competencies within the maintenance business. This is the case with next-generation aircraft and the avionics dimension which is playing a more important role relative to mechanical systems: digital tools, composite structures, connectivity, etc. Innovation is an integral part of all the business processes.

2.6.2 Affirming AFI KLM E&M 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: firstly, cutting costs and maintaining high standards of quality and performance and, secondly, growing the client portfolio in high value-added products and services.

In the past decade, this ambition has been reflected in more than €400 million of investment in modernizing AFI KLM E&M's industrial infrastructure at its principal maintenance sites: Toulouse, Amsterdam, Villeneuve-Le-Roi, Roissy and Orly.

From "Transform 2015" to "Perform 2020"

Backed by the success of the Transform 2015 plan in terms of, for example, competitiveness, customer satisfaction and synergies, the "Perform 2020" plan aims to make AFI KLM E&M a reference brand in its market and an MRO player supported by a powerful global network.

"Perform 2020" has made innovation a key priority, resulting in the creation of "The MRO Lab", the point where all the innovations developed by AFI KLM E&M and its network of subsidiaries converge. Specifically tailored to the challenges of aircraft maintenance, such innovation is the fruit of continuous development aimed at meeting the requirements of airline Operating Performance. In 2015, within this framework, AFI KLM E&M signed a partnership with Ramco Systems to set up a joint MRO Lab innovation center in Singapore.

In aircraft maintenance, adaptation projects also continued to accelerate the recovery in competitiveness in this segment. Cost-saving initiatives were launched to optimize activity on a site-by-site basis, strengthen external partnerships and deploy more efficient work organizations. All this was accompanied by efforts to match resources to the level of business activity and build new career paths.

In 2015, the AFI KLM E&M teams contributed to the entry into revenue service of the B787 in the KLM fleet and proceeded with the first "Quick Change" express cabin modification on the Air France B777s. In parallel, they stepped up preparation for the arrival of the A350 in the Group's fleet.

Three strategies support the growth in the Engines and Components segments: positioning on products and services aligned with market expectations, the development of a global MRO network located close to regions with significant potential, a strategy embodied, for example, by the acquisition of a 50% stake in engine parts trading company, Tradewinds, in 2015 and, lastly, the ability to finance long-term growth in these profitable businesses.

This dynamic was reflected in the Group being voted "MRO of the Year 2015" by trade publications Airline Economics and Aviation Week.

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 manages technical data, implements the maintenance policies, and ensures the permanent availability of the required skilled staff and technical resources.

In 2015, AFI KLM E&M pursued the deployment of its Safety Management System (SMS), enabling the implementation of processes relating to flight safety in a systematic, cross-functional manner. This is done through regular meetings devoted to analyzing events, and the establishment and monitoring of 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.

In 2015, AFI KLM E&M also realized a volunteer-driven oversight evaluation known as MLOSA (Maintenance Line Operations Safety Assessment) in its Paris Aviation division. Consisting of a front-line campaign by a network of observers, this procedure enables the identification and reporting of situations which could present a high risk to Flight Safety. Given the success of this operation in the Aviation division, the approach is likely to be extended to the Engines and Components Divisions.

Airframe maintenance: serving airlines

Line Operations Support

Within the framework of the Transform 2015 plan, the line operations support activities implemented new modus operandi designed to significantly bolster competitiveness in this segment. After a modest decline in 2014 due to the transition to the new modes of functioning, the Operating Performance indicators posted a steady improvement, thereby achieving the target set for 2015.

AFI KLM E&M continues to market its services to customers in the line maintenance segment and to develop its business internationally with, notably, the creation in Dakar of a joint-venture dedicated to line operations support at Leopold-Sedar-Senghor international airport.

Heavy Aircraft Maintenance

Heavy maintenance continues to undergo structural change in a market where prices remain low. A new maintenance master plan was thus implemented, designed to rationalize the aircraft maintenance operations by optimizing activity on a site-by-site basis (Paris-CDG, Amsterdam-Schiphol, Paris-Orly, Toulouse-Blagnac). 2015 also saw the launch of the restructuring of the Airframe maintenance shop at Orly with a dual objective: firstly, to regroup all the heavy maintenance and B777 modifications in one rather than two hangars and, secondly, the outsourcing of the aircraft painting operations.

In Amsterdam, in-depth work was also carried out on organizational structures based on the "hands on metal" concept, which seeks to maximize staff allocation to value-added tasks. In parallel, AFI KLM E&M increased its use of external partners to cut maintenance costs for the Group's fleets and obtain, in return, additional work in the high-growth Engines and Components segments.

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 and medium haul and across the long-haul offering.

In 2015, the move up-market for Air France's in-flight product was reflected in the delivery of the first A320 retrofitted in Toulouse and the on-going modification of the Best 777 cabins at Orly and Schiphol. On the KLM fleet, the installation of the new World Business Class cabin was completed in Amsterdam.

Within the framework of the Best program, the new 777 cabins were modified over the summer to add more economy seats and reduce Business class capacity. This operation, realized for the first time in 2015, proved a technical success for AFI KLM E&M and had a positive impact on Air France.

Component Support: managing a global supply chain

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

The success of these offerings is reflected in the loyalty of AFI KLM E&M clients. In 2015, a number of airline clients renewed their confidence by prolonging their contracts with AFI KLM E&M. This was the case, notably, with the Madagascan carrier Air Madagascar which renewed its full support agreement and the Argentinian airline Aerolineas Argentina which confirmed its strong relationship with AFI KLM E&M.

In 2015, AFI KLM E&M reinforced its global leadership position on B787 equipment support with the signature of a number of contracts with major airlines like Thai Airways and Vietnam Airlines. On the B737 component product, AFI KLM E&M and Boeing renewed and expanded their partnership on the Component Maintenance Program (CSP) to the new B737 MAX.

The development strategy for the global network, aimed at extending geographical coverage to rapidly-growing markets and more comprehensive value chain integration, was stepped up. Significant advances were achieved in 2015 with, notably, the construction of Helios, the new AFI KLM E&M shop dedicated to aerostructures and composites at the Roissy-Charles-de-Gaulle site. Representing an investment of more than €40 million, Helios will implement cutting-edge technologies and innovative processes developed within the framework of the "The MRO Lab" program. AFI KLM E&M also opened a new logistics center in Dubai in the United Arab Emirates.

The relevance of this development strategy for the global network was notably proven by the signature, with Etihad Airways Group, of a component support contract worth several hundred million dollars for the Abu Dhabi carrier's B777 fleet. Furthermore, Bahrain airline Gulf Air signed a component support contract with AFI KLM E&M, covering the maintenance of its whole fleet and the auxiliary power units (APUs) equipping its A330s.

Engines: Very Big Engines (VBE) maintenance capacity further expanded with the GEnx

Component provisioning represents a growing proportion of engine maintenance costs. To contain these costs, AFI KLM E&M regroups a wide range of supply solutions: development of component repair, tear down, asset management and spare parts trading. The acquisition of 50% of Tradewinds was in line with this strategy.

Over the course of the year, the order book for the engines business saw a further significant increase under the effect, notably, of the GE90 support contract signed with Air China Cargo, extending the existing contract with the Group.

In 2015, AFI KLM E&M and rapidly-growing company Jet2.com, specialized in the leisure business, signed a maintenance contract for the B737-800 next-generation engines belonging to the UK carrier. The contract covers CFM56-7 engine repairs, on-site and on-wing assistance and an engine leasing option.

On new products, AFI KLM E&M has very rapidly developed its industrial capacity for the maintenance of GEnx engines.

The Group offers engine support on the following engines:

- **CFM56:** the Group's workshops support one of the world's largest fleets of CFM56 engines, handling some 400 engines operated by numerous airlines. AFI KLM E&M uses its Amsterdam engine shop to position itself on the growing need for CFM56-7B support and the Orly engine shop for the CFM56-5 support requirements (5A, 5B and 5C);
- **CF6:** by offering full-service maintenance at its Amsterdam engine shop, AFI KLM E&M is well positioned to support the CF6-80E1 equipping the A330s and the final phase in the life of the CF6-80C2. AFI KLM E&M's long maintenance track record with these engines means that it currently offers the most suitable maintenance solutions. The progressive retirement from the fleet of the Group's B747-400 aircraft gives AFI KLM E&M access to recycled spare parts and enables the remaining potential of these engines to be used to support its clients' CF6-80C2 fleets;
- **GE90:** AFI KLM E&M offers the main alternative to the engine manufacturer itself for overhauls to this engine on the strength of its state-of-the-art infrastructure. Since 2012, AFI KLM E&M has had a new engine test cell at Paris-CDG. This system can test 300 engines per year, reducing processing time and offering a more cost-effective service for clients. This facility, combined with significant expertise and proven experience, has attracted the interest of a growing number of airlines including LATAM, Philippines Airlines and Vietnam Airlines. AFI KLM E&M has signed major new long-term contracts with Aeroflot and Air China, and more recently with TNT, consolidating its world-wide position.

  In addition to its infrastructure, AFI KLM E&M is building its know-how and can offer clients the benefit of its GE90 operating experience with, for example, On-Site/On-Wing Support enabling remedial as well as preventive actions anywhere in the world. This support can be accompanied by GE90 Engine Monitoring, designed to detect technical problems upstream thereby limiting potential engine damage.
- **GP7200:** in 2013, AFI KLM E&M implemented an investment program and staff training as part of the GP7200 maintenance program. 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. CRMA has become a world leader in the repair of engine combustion chambers and Turbine Center Frames (TCF), with cutting edge technologies. In 2015, AFI KLM E&M carried out its first shop checks and this activity is set to continue;
- **GEnx:** in 2014 Air France-KLM chose the GE engine to equip its B787 fleet. In parallel, AFI KLM E&M became a member of the GEnx-1B repair network. The ramp-up of this capacity was realized in less than six months, making AFI KLM E&M the first non-OEM supplier to realize, as of 2015, Quick Turn checks on this engine;
- **PW4000:** in 2015, the Bonus joint-venture in Miami developed its PW4000-94 revision capacity.

In 2015, AFI KLM E&M was named "Best Engine MRO" by the magazine Aircraft Technology Engineering & Maintenance.

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, Barfield, AMG, AFI KLM E&M Components China) and partnerships (AMES, ATI, SHS Technics, Tradewinds, Spairliners, Max MRO Services, AAF Spares), and leveraging the power of its global logistics network. The development of this MRO network contributes to the "Perform 2020" plan. It guarantees AFI KLM E&M clients local access to the Group's full array of services, tailored solutions and local spare parts inventories.

In 2015, AFI KLM E&M expanded its network with new joint-ventures: Tradewinds (Florida, jet engine parts trading) and SHS Technics for in line maintenance (Dakar).

AFI KLM E&M subsidiaries and joint-ventures

Engines

Located in the Greater Paris area, **CRMA** specializes in repairs to engine parts and, in particular; combustion chambers. Its positioning on the next-generation GE90 and GP7200 products enabled CRMA to pursue the strong growth in its third-party client activity.

Located in Miami (USA), the **Bonus Tech** and **Bonus Aerospace** joint-ventures enable AFI KLM E&M to support the growth in its engines activity. The former specializes in engine tear down, enabling the Group to offer serviceable spare parts at competitive prices. With the second, AFI KLM E&M extends its capabilities to, notably, Pratt & Whitney PW4000-94-type engines.

Based on Florida, **Tradewinds Engine Services**, LLC (Tradewinds) specializes in aero engine parts trading. The company also has expertise in leasing and engine trading. Tradewinds mostly works with MRO (Maintenance, Repair & Overhaul) companies and airlines across the world. The company benefits from extensive experience, a solid historic customer base and a consolidated financial-investor network.

Components

Barfield, an AFI KLM E&M subsidiary, is an FAA and EASA Certified Repair Station offering maintenance services to major passenger, cargo and regional airlines, serving mainly North, South and Central America, together with the Caribbean. Barfield has 250 employees based at its three US sites: Miami, Phoenix and Louisville.

Also in Miami, **Aero Maintenance Group (AMG)** specializes in component support and extends AFI KLM E&M's reach in the American market (North and Latin America), in synergy with Barfield.

In 2015, Barfield and AMG significantly reinforced their synergies.

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

Shanghai-based **AFI KLM E&M Components China** is a 100%-owned subsidiary initially specializing in A320 and B737 avionics systems.

EPCOR, based at Amsterdam-Schiphol, provides state-of-the-art services in Auxiliary Power Unit (APU) maintenance.

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

Hamburg-based **Spairliners** is a joint-venture set up by Air France and Lufthansa Technik to provide end-to-end component support for airlines operating the A380 and, since 2012, Embraer E-Jets.

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

Airframe maintenance

In Morocco, **Aerotechnic Industries (ATI)** is a 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 A320 and B737 aircraft.

At Norwich International Airport in the UK, **KLM UK Engineering Limited** delivers maintenance services for narrow-body and regional aircraft, but also an aircraft disassembly service.

Based at Dakar in Senegal, the **SHS Technics** joint-venture enables AFI KLM E&M to offer in line maintenance services to international airlines at Leopold-Sedar-Senghor airport.

Corporate Social Responsibility as a lever in sustainable levels of performance

As a major contributor to the Group's Sustainable Development goals, AFI KLM E&M has made the Corporate Social Responsibility dimension (CSR) an integral part of its management systems. Every process and project is thus enriched by listening to stakeholders, technological and other forms of innovation, an ergonomic work station program and a circular economy approach aimed at reducing the business's environmental footprint and gaining economic efficiency. AFI KLM E&M thus leverages this sustainable performance lever to the benefit of its customers and other stakeholders.

The MRO Lab ensuring the efficiency of the offer

Within the framework of "The MRO Lab" program, AFI KLM E&M develops the tools to become a key player in industry innovation: building relationships with start-up incubators, partnerships with universities, participative innovation, etc. With its "Participatory Innovation" and MoonShine programs supported by the creativity of its employees, AFI KLM E&M generates significant savings which are renewed every year. In 2015, this "contagious" momentum enabled the emergence of more than 4,900 so-called "DPI" participatory innovation ideas. More than fifty employees won trophies at the events organized in December 2015 in Paris and Amsterdam on the theme of innovation. Bringing together several hundred employees, these events enabled them to share their ideas and envisage the benefits of new technologies for their own working environment.

Similarly, relations with suppliers are regularly re-evaluated to verify that they correspond with AFI KLM E&M's commitment to regular innovation.

The circular economy contributing to high standards of environmental and financial performance

Since 2013, as a member of the French Aviation Industry's Strategic Committee on the Circular Economy, Air France Industries has contributed to the establishment of the industry roadmap which was submitted to the French government in May 2015.

AFI KLM E&M is constantly seeking to factor the circular economy into its practices, for example within the framework of the REVERSE project devoted to cost optimization *via* the reuse of materials, recovery by tear down and the recycling of waste materials.

A procedure has been developed that will be permanently applicable as of 2016 in the Engines and Materials & Services businesses. The materials deposited will thus have five possible destinations: reuse, disassembly, sale in the surplus parts market, dismantling and reprocessing for sale within the framework of an AF product line (non-aeronautic only) and the reprocessing of waste from reject materials not recovered by one of the previous measures.

This process has thus been applied for the handling of seats at the end of their useful lives in the Economy, Business and *La Première* classes. It enriches the Scrap program on the repair of aircraft and engine parts and has a significant environmental impact by, for example, reducing mineral extraction (titanium, nickel, etc.) for component manufacturing. It also generates savings by up-cycling products and giving them a new lease of life.

Apprenticeship to ensure the perpetuation of know-how

Within the framework of its apprenticeship policy, Air France Industries offers diverse paths to apprentices in accordance with their aspirations and training needs. In 2015, the Group welcomed 321 apprentices (full time equivalent) in both the maintenance professions (engine mechanics, logistics, etc.) and support functions. By passing on their know-how, the apprentice masters enable young people to acquire valuable experience that can increase their employability.

As part of its Corporate Social Responsibility approach, Air France Industries also welcomes "School of the Second Chance" (*École de la deuxième chance*) interns who have dropped out of formal education with no qualifications and are seeking a professional direction.

An Integrated Management System to ensure responsible performance

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

In June 2015, within the framework of the Single & Global Certification, Air France commissioned an audit, by Bureau Veritas Certification, of the ISO 14001 (Environment), ISO 22000 (Food Hygiene) and OHSAS 18001 (Occupational Health and Safety) standards across all its activities. For its maintenance activities, this audit was supplemented by the following standards: ISO 9001 (Quality), EN – Aircraft maintenance 9100 (Design), 9110 (Realization), 9120 (Storage) and ISO 15489 (Documentation),

2.6.3 Key figures for the maintenance business

Financial year	2015	2014	Change	Like-for-like change
Total revenues *(in €m)*	**4,012**	3,392	+18.3%	-
Third-party revenues *(in €m)*	**1,577**	1,251	+26.1%	+7.3%
Income from current operations *(in €m)*	**214**	174	+40	-20
Operating margin *(%)*	**5.3%**	5.1%	+0.2pt	-0.8pt

In 2015, third-party maintenance revenues amounted to €1,577 million, up by 26.1% and by 7.3% like-for-like(1). Revenues benefited not only from the strong dollar relative to the euro and from the contracts won in previous years but also from a favorable comparison base during the first six months of the year.

Over the period, the Group recorded a 12% increase in its order book to US$8.4 billion, including significant contract wins for GE90 engines and B787 component support.

The operating result amounted to €214 million, up by €40 million, corresponding to an operating margin of 5.3%. Like-for-like(1), the operating result decreased by €20 million.

(1) Like-for-like: excluding the strike and on a constant currency basis.

2.7 CATERING BUSINESS

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 airline catering market and ranks number four 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 on board aircraft, 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 in Paris. Through its other subsidiaries, Servair also offers customers services such as assistance for passengers with impaired mobility, the management of on-board sales and passenger lounges, 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: service integration, staff training.

With operations in 26 countries, Servair is present at 45 airports.

In the 2015 financial year, Servair pursued its development prioritizing three areas and continued to reduce its costs in Paris to remain competitive in its core business. The first development priority was the consolidation of a number of shareholdings, firstly in catering with Lomé and Macao and, secondly, in in-flight duty free with Dutyfly Solutions. The second priority was to acquire a collective catering production company in Mayotte while the third consisted of creating a business in Abidjan with the opening of a Burger King. During this financial year, Servair established a working time agreement to improve its economic efficiency at Paris-CDG, launched a project to automate the assembly of meal trays and introduced a standardized production management process.

Servair is pursuing a dynamic quality-certification-based strategy. To date, some fourteen of the Servair production sites are ISO 9001 certified while the Canton and Nairobi sites have ISO 22000 certification and Macau is HACCP certified. Servair is pursuing its overall quality standards approach with the Safety and Environment label, from which eight sites currently benefit. The Servair laboratory in Roissy, which carries out more than 50,000 microbiological analyses annually, has held COFRAC certification since 2006, testifying to its technical expertise.

2.7.1 Results for the financial year

Financial year	2015	2014	Actual change	Like-for-like change[1]
Total revenues *(in €m)*	**947**	871	+8.7%	+7.5%
Third-party revenues *(in €m)*	**374**	311	+20.3%	+20.3%
Income from current operations *(in €m)*	**37**	18	+19	

(1) Like-for-like: 2014 restated for the impact of the strike.

In 2015, third-party catering revenues amounted to €374 million, up by 20.3%. The operating result stood at €37 million, up by €19 million. The catering business thus increased its profitability while continuing to reduce costs for internal customers.

2.8 FLEET

At December 31, 2015, the Air France-KLM Group fleet comprised 564 aircraft, of which 534 were in revenue service compared with, respectively, 571 and 546 aircraft at December 31, 2014.

The main operational fleet consisted of 395 aircraft (403 aircraft at December 31, 2014), of which 169 were long-haul aircraft (168 at December 31, 2014), nine were cargo aircraft (fourteen aircraft at December 31, 2014) and 217 were medium-haul aircraft (221 at December 31, 2014) including 53 aircraft in the Transavia Group fleet (45 aircraft at December 31, 2014). The regional fleet in operation comprised 139 aircraft (143 at December 31, 2014).

At December 31, 2015, the average age of the aircraft in the operational fleet was 11 years, of which 11.9 years for the long-haul fleet, 10.3 years for the medium-haul fleet, 14.9 years for the cargo fleet and 10.7 years for the regional fleet.

At December 31, 2015, 36% of the total Group fleet was fully owned (35.4% at December 31, 2014), 22.2% was under finance lease (21.9% at December 31, 2014), and 41.8% under operating lease (42.7% at December 31, 2014).

There were firm orders outstanding for 94 aircraft at December 31, 2015, excluding operating leases, fourteen more aircraft than at December 31, 2014. Options stood at 68 aircraft (71 at December 31, 2014) of which 25 were for B787s and 25 for A350s.

Change in the Air France-KLM Group order book	December 31, 2014	Deliveries during the period	New orders (1) (2)	Option conversion	December 31, 2015
Main fleet	79	3	1	-	**77**
Regional fleet	1	3	17	2	**17**
Total	**80**	**6**	**18**	**2**	**94**

(1) Six B787-9 orders were converted into six B787-10s.
(2) Two A380s were converted into three A350-900s.

Change in the Air France-KLM Group option portfolio	December 31, 2014	Exercise during the period	Options cancelled or expired	New options	December 31, 2015
Main fleet	53	-	-	-	**53**
Regional fleet	18	2	18	17	**15**
Total	**71**	**2**	**18**	**17**	**68**

Fleet management

During the 2015 financial year, the Air France-Group continued to modernize the long-haul fleet:

- the move up-market continued with, notably, the retrofitting of twenty-four B777s with the new "Best" cabin at Air France;
- the first two B787-9s joined the KLM fleet at the end of the year;
- five new B777-300ER aircraft (three for Air France and two for KLM) were added to the B777 fleet which now numbers 90 aircraft;
- the remaining three B747-400s were retired from the Air France fleet in early 2016.

To reinforce the Group's presence in the low-cost business, nine B737-800 aircraft entered the Transavia fleet (one B737-700 was returned to the lessor) while Air France's medium-haul fleet was reduced by seven aircraft over the same period.

The Cargo fleet was reduced by four aircraft, leaving nine freighters in operational service at the 2015 year end.

In 2015, the medium-haul fleet began its renewal process:

- five ATR72-500s were replaced by five new ATR72-600s;
- the last CRJ100s and Embraer 135s were withdrawn from service while the Fokker 70 entered the phasing out process;
- following the cancellation of existing options (10 CRJ1000s, five Embraer 170s and three Embraer 190s), the order book was renewed with the order for 17 Embraer 175s and two Embraer 190s (the latter two aircraft being delivered in December), supplemented with 17 options for Embraer175s, of which two were transformed into firm orders.

Adjustments were made to future delivery schedules, facilitated by aircraft transfers between the Group's companies.

The Air France-KLM fleet at December 31, 2015

Aircraft type	AF (incl. HOP!)	KL (incl. KLC & Martinair)	Transavia France	Transavia NL	Owned	Finance lease	Operating lease	Total	In operation	Change over 31/12/14
B747-400	3	22			21	1	3	25	**25**	**-3**
B777-300	40	10			9	22	19	50	**50**	**5**
B777-200	25	15			16	11	13	40	**40**	
B787-9		2					2	2	**2**	**2**
A380-800	10				1	4	5	10	**10**	
A340-300	13				5	5	3	13	**12**	**-1**
A330-300		5					5	5	**5**	
A330-200	15	11			4	7	15	26	**25**	**-2**
Long-haul	**106**	**65**	**0**	**0**	**56**	**50**	**65**	**171**	**169**	**1**
B737-900		5			1	1	3	5	**5**	
B737-800		25	21	24	8	9	53	70	**70**	**9**
B737-700		18		8	3	8	15	26	**26**	**-1**
A321	21				5	6	10	21	**20**	**-4**
A320	46				8	3	35	46	**43**	**-2**
A319	38				15	10	13	38	**38**	**-3**
A318	18				11	7		18	**15**	**-3**
Medium-haul	**123**	**48**	**21**	**32**	**51**	**44**	**129**	**224**	**217**	**-4**
ATR72-600	5						5	5	**5**	**5**
ATR72-500	6				1	3	2	6	**6**	**-5**
ATR42-500	13				5	3	5	13	**13**	
Canadair Jet 1000	14				14			14	**14**	**1**
Canadair Jet 700	14				14			14	**13**	
Canadair Jet 100	7				7			7		**-4**
Embraer 190	10	30			4	15	21	40	**40**	**2**
Embraer 170	16				8	2	6	16	**16**	
Embraer 145	18				13	5		18	**16**	**1**
Embraer 135	5				5			5		**-1**
Fokker 70		18			18			18	**16**	**-3**
Regional	**108**	**48**	**0**	**0**	**89**	**28**	**39**	**156**	**139**	**-4**
B747-400ERF		3			2	1		3	**3**	**-2**
B747-400BCF		3					3	3	**1**	
B777-F	2				2			2	**2**	
MD-11-CF		5			3	2		5	**3**	
MD-11-F										**-3**
Cargo	**2**	**11**	**0**	**0**	**7**	**3**	**3**	**13**	**9**	**-5**
Total AF-KLM	**339**	**172**	**21**	**32**	**203**	**125**	**236**	**564**	**534**	**-12**

2.8.1 The Air France Group fleet

The Air France Group fleet totaled 360 aircraft at December 31, 2015, of which 252 aircraft in the main fleet and 108 in the subsidiaries. The average age of the aircraft in the operational fleet is 11 years (10.7 years at December 31, 2014). Firm orders amounted to 40 aircraft.

Air France Group fleet	Fleet at December 31, 2014	Aircraft entering the fleet over the period(1)	Aircraft withdrawn over the period(1)	Fleet at December 31, 2015
Long-haul fleet	107	3	4	**106**
Medium-haul fleet (including Transavia France)	144	7	7	**144**
Cargo	4	-	2	**2**
Regional fleet	113	6	11	**108**
Total	**368**	**16**	**24**	**360**

(1) Owned, operating lease and financial lease.

The Air France fleet

The Air France fleet comprised 231 aircraft at December 31, 2015, with 223 in operation (241 and 238 respectively at December 31, 2014). The fleet includes 106 long haul aircraft, 123 medium-haul aircraft and two freighters. At December 31, 2015, the average age of the fleet was 11.5 years, with 11.5 years for the long-haul fleet, 11.6 years for the medium-haul fleet and 6.9 years for the cargo fleet. At December 31, 2014, the average age of the fleet was 10.9 years, with 11 years for the long-haul fleet, 10.8 years for the medium-haul fleet and nine years for the cargo fleet.

Within the fleet, 76 aircraft are fully owned (32.9%), 56 are under finance lease (24.2%) and 99 under operating lease (42.9%).

During the 2015 financial year, the company took delivery of three B777-300ERs. In parallel, four B747-400 passenger aircraft, the last two B747-400 freighters, three A319s and four A321s were withdrawn from the fleet.

The fleet of the regional subsidiaries and Transavia France

At December 31, 2015, the total fleet of these three companies comprised 108 aircraft with a seat capacity of up to 100, of which 93 in operation. The average age of the fleet in operation was eleven years at December 31, 2015: eight years for the HOP! Brit Air fleet, eleven years for HOP! Regional and 14.7 years for HOP! Airlinair.

HOP! Airlinair took delivery of five ATR72-600s while five ATR72-500s were withdrawn. HOP! Britair took delivery of its fourteenth CRJ-1000 while four CRJ-100s and one CRJ-700 were withdrawn. One Embraer 145 exited the HOP! Regional fleet. In this fleet, 65.7% is fully owned, 12.0% is under finance lease and 22.3% under operating lease.

The Transavia France fleet comprises 21 B737-800s, all in operation and under operating lease (fourteen aircraft at December 31, 2014). The average age of this fleet is 5.6 years.

2.8.2 The KLM Group fleet

The KLM Group fleet totaled 204 aircraft at December 31, 2015 (203 aircraft at December 31, 2014) of which 156 in the main fleet and 48 in the regional fleet. The average age of the aircraft in the operational fleet was 10.9 years (10.6 years at December 31, 2014). Firm orders stood at 37 aircraft.

KLM Group fleet	Fleet at December 31, 2014	Aircraft entering the fleet over the period(1)	Aircraft withdrawn over the period(1)	Fleet at December 31, 2015
Long-haul fleet	63	4	2	**65**
Medium-haul fleet (including Transavia Netherlands)	79	2	1	**80**
Cargo (including Martinair)	13	-	2	**11**
Regional fleet	48	2	2	**48**
Total	**203**	**8**	**7**	**204**

(1) Owned, operating lease and financing lease.

The KLM fleet

At December 31, 2015, the KLM fleet comprised 113 aircraft (111 at December 31, 2014), of which 65 long-haul aircraft and 48 medium-haul aircraft. Twenty-seven aircraft are fully owned (23.9%), 34 aircraft are under finance lease (30.1%) and 52 under operating lease (46.0%). In this fleet, 112 aircraft are operational. At December 31, 2015, the aircraft in the fleet had an average age of 11.2 years, with 12.6 years for the long-haul fleet and 9.3 years for the medium-haul fleet. At December 31, 2014, the aircraft in the fleet had an average age of 10.5 years, with 12.2 years for the long-haul fleet and 8.3 years for the medium-haul fleet.

During the 2015 financial year, the company took delivery of two B777-300ERs and its first two B787-9s. One MD-11 and one A330-200 were withdrawn from the fleet.

The fleet of the regional subsidiaries, Martinair and Transavia

The Transavia Netherlands fleet comprises 32 aircraft, of which eight B737-700s and 24 B737-800s. During 2015, two B737-800s entered the fleet while one B737-700 was retired. In this fleet, 12.5% is under finance lease, 68.7% is under operating lease and 18.8% is fully owned. The average age of the aircraft in the fleet is 10.1 years.

Martinair has a fleet of eleven freighters, of which seven in revenue service given the strategy of on-going capacity reduction in the cargo business. In 2015, one MD11F and one B747-400ERF exited the fleet. In this fleet 45.5% of the aircraft are fully owned, 27.3% are under finance lease and 27.2% under operating lease. The average age of the aircraft in the fleet is 17.2 years.

The KLM Cityhopper fleet comprises 48 aircraft, of which 46 were operational at December 31, 2015. Two EMB190s joined the fleet while the Fokker 70 is now being phased out. The average age of the aircraft in operation in this regional fleet was 9.9 years. In this fleet, 37.5% is fully owned, 31.3% is under finance lease and 31.2% under operating lease.

2.9 HIGHLIGHTS OF THE BEGINNING OF THE 2016 FINANCIAL YEAR

Last flight of a legendary aircraft

At 14h00 on January 11, 2016, the last Air France commercial flight for the B747 aircraft landed at Paris-Charles de Gaulle. More than 45 years after the first flight between Paris and New York operated on June 3, 1970 in the aircraft affectionately known as the “Jumbo Jet”, the company waved an emotional goodbye to this aircraft with the well-known silhouette.

Air France Industries KLM Engineering & Maintenance voted “MRO of the Year” for the third year running

On January 18, 2016 in Dublin, AFI KLM E&M received the “MRO of the Year” award during the “Airline Economics Aviation 100 Awards” ceremony organized by the specialized magazine Airline Economics.

For the third year running, the achievement of this award underscores AFI KLM E&M’s long-term commitment to maintaining high standards of performance and quality, and its quest for a continuous improvement.

Dow Jones Sustainability Index

For the eleventh consecutive year, Air France–KLM is a component of the Dow Jones Sustainability Indexes (Dow Jones Sustainability World and DJSI Europe) and was ranked leader in the “Airlines” industry by RobecoSAM.

Furthermore, for the seventh year running, Air France–KLM was ranked leader of the broader “Transportation” category, covering air, rail, sea and road transport as well as airport activities.

This award positions the Group as one of the 24 most responsible companies in the world, each in their own business sectors.

Air France–KLM, a founder member of Airlines for Europe (A4E)

On January 20, 2016, at the European Aviation Summit, the five largest European airline groups – Air France–KLM, easyJet, International Airlines Group, Lufthansa Group and Ryanair – announced the creation of the Airlines for Europe (A4E) association.

The five groups, which carry more than 50% of passengers in Europe, have chosen to join forces with the aim of influencing European aviation policy.

On this occasion, Alexandre de Juniac, Chairman and CEO of Air France–KLM, underlined the opportunity for the Group to defend the interests of European airlines with the national and EU authorities to enable them to effectively compete with the world’s leading airlines.

World’s most admired companies

Air France-KLM excelled in Fortune’s World’s Most Admired Companies 2016, ranking third in the "Airlines" category behind Delta Air Lines and Singapore, and ahead of major players like United Continental (4^{th}), Lufthansa (7^{th}) and IAG (9^{th}). Air France –KLM is one of the few French companies to figure in this ranking.

The Fortune World’s Most Admired Companies ranking is published annually by the monthly magazine Fortune. It is the result of an in-depth survey by the Korn Ferry Hay Group with analysts and company managements operating in the same sector as the companies surveyed. These companies are rated according to various criteria, ranging from financial strength to human resource management and the relevance of their investments.

Regarding Air France-KLM, the economic assessors particularly noted its excellent performance in terms of "global competitiveness", the quality of its products and services and its social and environmental responsibility.

Transavia: best low-cost operator in Europe

The Flight-Report.com website has delivered its verdict: Transavia

is the best European low-cost airline in 2016.

Contributors to the Flight-Report website post daily reviews, photos and notes which are used to establish this ranking.

Transavia is appreciated by customers for:

- the quality of service provided by its cabin crews;
- the comfort of its cabin;
- and the quality of its paying inflight catering service available on board.

This is a real success story for the airline which is seeking to stand out based on the quality of its customer experience.

Plan to open up Servair's share capital

Following a consultation aimed at opening up Servair's share capital to support its growth, the Air France–KLM Group initiated a selection process for the offers received in early March 2016.

Recommended appointment of Alexandre de Juniac as the next Director General and CEO of IATA

On April 5, 2016, Alexandre de Juniac, Chairman and Chief Executive Officer, informed the Air France–KLM Group's Board of Directors of the proposal he had received from the Board of Governors of the International Air Transport Association (IATA) to become the next Director General and CEO of this global organization. Alexandre de Juniac indicated that he would accept the proposal, which is scheduled for discussion at the IATA Annual General Meeting (June 1-3, 2016).

Air France–KLM's Board of Directors has undertaken the preparation of a plan to appoint a successor to Mr. de Juniac given his imminent appointment as the IATA Director General and CEO, as from August 1, 2016 at the latest. Pursuant to the internal regulations of Air France–KLM's Board of Directors, the Air France–KLM Appointments and Governance Committee, assisted by an international recruitment consultancy, has launched the process to identify the executive best able to continue the Group's consolidation and development.

3

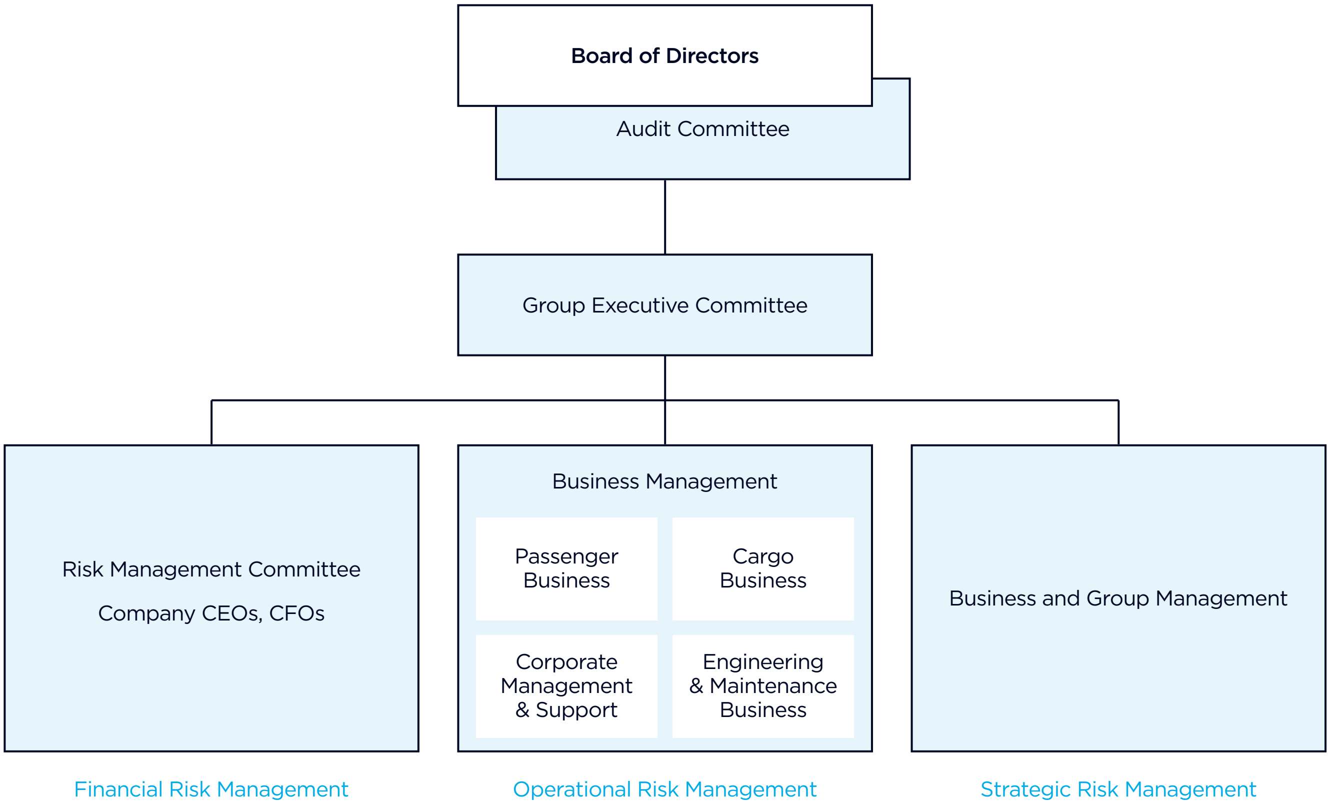
RISKS AND RISK MANAGEMENT

3.1 RISK MANAGEMENT PROCESS

The Air France-KLM Group is exposed to the general risks associated with the air transport industry and with airline operations, and has consequently implemented a system to identify, analyze, monitor, manage and control risks. Risk mapping processes for strategic and operating risks have been established by all the relevant entities supervised by the Internal Audit and Control department. The operational risk mapping is updated every quarter and consolidated by subsidiary (Air France and KLM), and for the Air France-KLM Group. The strategic risk mapping is updated once a year. The Risk Management Committee is responsible for managing market risks (fuel, emission permits, currencies and interest rates), as presented in *Section 3.3.2 Market risks and their management on page **83** and in Note 36 to the consolidated financial statements on page **230***.

Risk mapping comprises a description of the risks, the probability that they will occur and their potential financial impact, together with the measures and controls in place to mitigate these risks. Risks are discussed within the management teams responsible for the corresponding area. The examination covers both risks specific to each entity and transverse risks potentially affecting the whole Group. For each of the risks, the executives concerned are responsible for reviewing the measures implemented to manage them. On a quarterly basis, presentations on the most significant operating and market risks are made by Internal Audit to the Executive Committee and the Audit Committee, together with the measures in place to manage them. The management also evaluates the strategic risks (competition, economic growth, etc.) on a yearly basis and establishes the related action plans. These risks and action plans are also reviewed by the Board of Directors.

Air France-KLM risk management system



The risk management process complies with international regulatory standards including the European Union 8th directive. In addition to the usual insurance policies covering the industrial sites, the real estate assets and the ancillary activities, the Group's subsidiaries subscribe to specific airline insurance policies covering accidental or incidental damage to aircraft and the resulting costs, liability in relation to their passengers and general liability to third parties in connection with their activities.

3.2 RISK FACTORS AND THEIR MANAGEMENT

3.2.1 Risks relating to the air transport activity

Situation of the air transport sector and competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalization of the European market in 1997 and the ensuing increased competition between carriers has led to a reduction in tariffs.

In short and medium-haul, the Group competes with other airlines and, in particular, with the low-cost carriers which have seen very rapid growth over the last fifteen years. It also competes with alternative means of transportation like the high-speed TGV rail network, Eurostar, etc. Any extension to the high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results.

The competition is also very intense in long-haul, particularly for the routes between Europe and Asia due to the development of new rapidly-growing players like the Gulf State airlines. 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-CDG and Amsterdam-Schiphol, it has also enabled Air France and KLM to expand their networks and strengthen cooperation within the SkyTeam alliance within the framework, notably, of the implementation of the trans-Atlantic joint-venture with their partners Delta and Alitalia.

The Group's different strategic plans seek to respond to these risks, particularly *via* the restructuring of the point-to-point activity, the accelerated development of Transavia, cost reduction and the product move up-market, and the development of partnerships in large high-growth markets. In parallel, the Group lobbies the authorities for a legal framework ensuring fairer competition between carriers (*See also Section 2.2 – Strategy, page* ***46***).

The air freight market is characterized by structural overcapacity resulting from weak demand growth and the arrival of new freighters while the 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 wide-bodied aircraft globally. As a result, unit revenues are under structural pressure. Alternative means of transportation, particularly ocean freight with large container ships, also represent growing competition for this business. To respond to these trends, the Group has implemented multiple measures focused on reducing exposure to the heavily-loss-making full-freighter activity (*See also Section 2.2 – Strategy, page* ***46***).

Seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest and variable 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.

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.

Trend in the oil price

The fuel bill is one of the largest cost items for airlines meaning that oil price volatility represents a risk for the air transport industry. A sharp increase in the oil price, as seen during the 2008 first half and again in 2010-12, can have a very material negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies. Similarly, a sharp decline in fuel price is favorable for airline profitability. Reciprocally, the way in which airlines pass on a sharp fall in the fuel price in their fares is a factor of significant uncertainty. *See section 2.2.1 – Economic environment – oil price on page* ***38***.

In addition to permanent efforts to reduce fuel consumption, the Group has implemented a policy of systematically hedging the fuel risk, as outlined in Section *3.3.2 – Market risks and their management on page* ***83***.

Terrorist attacks, threats of attack, geopolitical instability, epidemics and threats of epidemics

In 2015, the security situation resulting from the terrorist attacks of November 13 and political and security issues (Middle Eastern and African countries) all had an impact on activity:

- 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 temporary adaptation procedures enabling it to respond effectively to diverse 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, threats of attack, closure of airspace, military action, existence of an 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 air transport operating losses but is insured for the consequences of an attack on one of its aircraft.

More recently, concerning the management of the health crisis associated with the Ebola virus, the companies have been supported by a dedicated coordination structure. For example, the Air France Health Risks Coordination Committee attached to the Development, Quality Assurance and IMS Coordination division plays a permanent coordination, regulatory intelligence and prevention role, and is responsible for liaising with the national and international health authorities, based on a risk management approach.

Changes in international, national or regional regulations and legislation

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, on the basis of political policies featuring in the transportation White Paper published on March 28, 2011, notably adopt regulations which may be restrictive for airlines and are liable to have a significant organizational and/or financial impact. Any changes to regulations and legislation may 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) or the newly-created (A4E) Airlines for Europe association regarding, firstly, the European and national regulations, and, secondly, a reasonable and balanced allocation of traffic rights to non-European airlines.

Loss of flight slots or lack of access to flight slots

Due to the saturation at major European airports, 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. 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 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.

Passenger compensation regulations

Within the European Union, the rights of passengers in the event of flight delays, cancellation and denied boarding are defined by Regulation (EC) no.261/2004 of February 11, 2004 which came into force in 2005. It applies to all flights, whether scheduled or unscheduled, departing from an airport located in a European Union Member State and 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 (ECJ) in November 2009 (known as the "Sturgeon" ruling), which has since been confirmed, grants the same rights to passengers on delayed flights as to passengers whose flights are cancelled in terms of the compensation foreseen in Article 7 of this Regulation no.261/2004, when they reach their final destination three or more hours after the scheduled arrival time.

Other rulings by the ECJ have contributed to reinforcing passenger rights by reducing the possibilities for airlines to invoke "extraordinary circumstances" to exempt them from the compensation foreseen in Regulation no.261/2004. Since 2008, no fewer than ten rulings have been handed down by the ECJ to interpret and supplement the provision, thereby extending the right to passenger compensation. In September 2015, a further step was taken ("Van der Lans" ruling) in which the ECJ ruled that unexpected technical problems resulting in flight cancellation could not be deemed to be extraordinary circumstances. Only hidden manufacturing defects, or acts of sabotage or terrorism and, for the moment, bird ingestions, now enable airlines to invoke "extraordinary circumstances" to exempt them from their obligation to pay compensation in the event of technical problems.

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

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 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 Air France-KLM 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.

To keep the effects of these regulations as far as possible within financially-bearable limits, the Group engages in lobbying, both directly and indirectly 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 it either to increase its fares 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 authorities (national and European) 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.

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 carbon market-based measure applying world-wide (MBM). The practical conditions for its implementation should be adopted during the Assembly of 2016.

The Group has established a carbon credit risk hedging strategy in the form of forward purchases, a policy whose measures are approved by the Risk Management Committee.

Air France-KLM has always supported the implementation of a market-based mechanism considering that, provided it is equitable, such a system is more effective from an environmental standpoint 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 directed at 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 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, improvement in operating procedures;
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), improvement in 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 in noise hindrance around airports. To ensure its continued development, the Group must 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 public authorities to address all the issues surrounding the effects of air transport activity around airports.

At a number of French 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) has been in force since March 2014. 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, the French and Dutch regulations require noise disturbance issues to be addressed as an integral part of local urban planning. Through the Airport Noise Tax (TNSA) in France and similar measures applying at the Schiphol hub, the Air France-KLM Group contributed €30.2 million to the sound-proofing of homes in 2015.

Operational risks

Natural phenomena leading to exceptional circumstances

Air transportation can be impacted by meteorological conditions and 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 (passenger repatriation and accommodation, schedule modifications, flight 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, can have 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 Group's activity given the regulations requiring the company to assist passengers in the European Union territory.

Within this context, Air France-KLM lobbies, either directly or through representative bodies, the French and European authorities to develop robust crisis management tools.

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 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 the proper application of these rules 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 assurance 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 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. A presentation on 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, was made in December 2011 and these results are the subject of an action plan which forms an integral part of the on-going process to improve safety.

The implementation process for the Safety Management System, launched in 2009, was completed in 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 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.

To reach its objective of achieving a leadership position on safety, KLM has developed an Integrated Safety Management System (ISMS), covering occupational and operational safety, environmental protection and operational security. This ISMS is outlined in KLM's Integrated Safety Management Manual and has been approved by the Dutch civil aviation authorities.

In 2015, a program was initiated to accelerate and deepen the integration of occupational safety in the ISMS. This program covers the safety management processes and IT structures, and will also result in the creation of a well-trained and adequately-staffed organization focused on occupational safety. In 2015, a safety training plan was also developed.

The next step will be to transform the current Safety units into a centralized High Performance Organization (HPO), thereby handling safety matters in a holistic manner and supporting the business with harmonized safety and compliance products. The implementation of the HPO Safety Organization is based on one ambition: KLM wants to achieve a leadership position on aviation safety involving access to a leading, risk and performance-based integrated Safety Management System, so that risk-based decisions can be taken at all levels of the organization.

The safety organization plays a vital role in the continuous improvement of the safety performance and in managing safety risks. In 2015, KLM headed the ranking of the airlines with the best operational safety record in Europe (JACDEC, 2015), the goal now being to maintain this position.

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.

3.2.2 Risks linked to the Group's activity

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 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 different devices (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.

Air France-KLM 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, comprising IT experts, regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Group, and specifically the protection of data of a personal nature pursuant to the laws and regulations requiring its strict confidentiality. In December 2015, the Institutions of the European Union reached a consensus on the new European Union data protection regulation. The regulation foresees financial penalties in the event of a breach. 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.

The Cybercrime program, approved by the Group Executive Committee, covers the prevention and detection procedures such as Cyber-threat surveillance, evaluations of Information System security and tests to pinpoint any Information System incursions *via* the internet. There are regular awareness-raising campaigns on IT security for staff across the company.

Non-compliance with competition rules

Cases of non-compliance with 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, the Group 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 a "Manual Relating to the Application of the Competition Rules" which is available in three languages. This Manual was updated in 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 functions.

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 May 2015, the Directorate General for Competition (DG COMP) adopted a favorable decision pursuant to Article 101 of the Treaty on the Functioning of the European Union on the trans-Atlantic joint-venture (Air France-KLM, Delta, Alitalia). In light of the final commitments offered by the trans-Atlantic joint-venture, the Commission authorized this agreement for a ten-year period as from the date of its adoption.

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 anti-trust immunity (ATI) on departure from the United States since 2008.

Commitments made by Air France and KLM to the European Commission

In 2003, for the European Commission to authorize Air France's business combination with KLM, Air France and KLM had to make a number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. Note that no requests for slots have so far been made.

Execution of the "Perform 2020" plan

*See also Section 2.2.4, Strategy, "Perform 2020" plan on page **48**.*

The deployment of the "Perform 2020" plan is continuing across all the entities and has four main priorities: build profitable and sustainable growth, be competitive, be customer minded and change the way we work. Numerous "industrial" projects are being rolled out as planned in the relevant entities: a move up-market for products and services, the opening of new infrastructure (e.g. Helios in maintenance), a repositioning of the businesses around increased outsourcing (e.g. the G1XL cargo hangar, or in the call centers), on-going digitization of the customer experience at the hub together with many other programs which are regularly communicated to staff.

The effects of the action plans leading to staff reductions are limited by the framework imposed by the Forward Planning of Jobs and Skills and by the definition of the scope of a Voluntary Departure Plan to be launched in 2016.

Most of the plans concerning the pilots and cabin crew are subject to negotiation and the outcome of these negotiations remains a source of uncertainty for 2016, in terms of both the financial targets and the social dynamic and image of the company.

Pension plans

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

In view of the IAS 19 Revised accounting rules applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (particularly discount rates, 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 are recognized in stockholders' equity and are never 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 for the balance sheet – provisions for employee benefits" section and in *Note 31.1 – Characteristics of the main defined benefit plans, on page **214***.

Note 31.1 to the consolidated financial statements on page **214** presents the detailed sensitivity analysis on the impact of changes in interest rates and inflation, and the level of salary and pension increases, on the net cost of the defined benefit pension schemes figuring in the balance sheet.

The fiscal rules for accruing pension rights and the Financial Assessment Framework (part of the Pension legislation) in the Netherlands both changed as of January 2015 introducing, for example, higher minimum solvency requirements. Equally, pension funds have gained more time to recover from immediate, material deficits by spreading the effects of financial shocks over rolling ten-year recovery plans.

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 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 in the aeronautics maintenance market, this trend could have a material adverse impact on airline maintenance costs.

This trend is escalating, especially with the arrival of new aircraft such as the E-jet, A350, B787, etc. The ability to maintain balanced competition conditions is a priority objective, both for Air France -KLM's commercial activity in maintenance and to contain the Group's 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 32.1 and 32.2 to the consolidated financial statements on page **222***).

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 is composed of the Chief Financial Officer and Senior Vice-President Financial Operations of Air France-KLM, the Chairman and Chief Executive Officer and Chief Financial Officer of Air France, and the President and Chief Executive Officer and 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. During these meetings it decides on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the Treasury Management and Fuel Purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the market risks of its subsidiaries.

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

The 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 Group'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 the 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 (*see Note 36 to the consolidated financial statements, page 234*).

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 exchange 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. As a result, any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Inversely, 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. 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.

2016 operational exposure

(in millions of currencies at December 31, 2015)	US Dollar	Sterling	Yen
Net position before hedging	(1,850)	620	40,290
Currency hedge	1,350	(222)	(22,950)
Net position after hedging	(500)	398	17,340

For 2016, 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	(52)	59	13
10% fall relative to the euro	43	(57)	(12)

Investment exposure

Aircraft 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. In 2015, a portion of the deliveries between 2021 and 2024 was hedged to take advantage of a highly favorable market configuration.

The net investments in dollars figuring in the table below reflect the contractual commitments at December 31, 2015.

(in US$ million)	2016	2017	2018	2019	2020	2021	2022	2023	2024
Investments	(827)	(898)	(832)	(1,280)	(2,089)	(1,640)	(1,019)	(206)	(104)
Currency hedge	665	602	400	160	274	165	281	45	50
Hedge ratio	80%	67%	48%	13%	13%	10%	28%	22%	48%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2015, 84% 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 (8%), the dollar (5%) and the Swiss franc (3%).

Interest rate risk

A portion of the debt is contracted at floating rates. However, to limit its volatility, 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. After swaps, the Air France-KLM Group's debt contracted at fixed rates represents 67% of the overall total. Based on the consolidated financial statements, the average cost of the Group's debt after swaps stood at 4.02% at December 31, 2015 (4.51% at December 31, 2014).

Exposure to interest rates

(in € million at December 31, 2015)	
Financial assets at floating rates	4,157
Financial liabilities at floating rates	4,020
Net exposure before hedging	(137)
Hedging	(754)
Net exposure after hedging	(891)

The Group's net interest rate exposure amounts to €891 million. A 100 basis points rise in interest rates over twelve months would have a positive impact of €8.9 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%. Furthermore, the hedging is based on the use of simple futures or option-based instruments. These hedging instruments must also be compatible with IAS 39.

As from January 2016, this hedging strategy will exclude fuel consumption linked to the cargo business and will prioritize the use of jet fuel underlyings. Brent and middle distillates (fuel oil) will only be used if the level of liquidity does not enable efficient hedging in jet fuel.

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 31, 2015, the Air France-KLM Group's fuel exposure, based on futures prices at December 31, 2015 ($41.94 a barrel for 2016 and $48.43 a barrel for 2017), was as follows:

(in US$ million)	2016	2017
Gross expenditure before hedging	3,921	4,576
Hedge percentage	57%	22%
Gain on hedging	(1,108)	(183)
Net expenditure after hedging	5,029	4,759

Based on the forward curve at December 31, 2015, an increase of $10 per barrel over 2016 would give an average price of $51.94 per barrel and would lead to a $432 million increase in the fuel bill after hedging, *i.e.* a total fuel bill of $5.461 billion for the Air France-KLM Group. Symmetrically, a fall of $10 per barrel over 2016 would give an average price of $31.94 per barrel and would lead to a $449 million reduction in the fuel bill after hedging, *i.e.* a total expense of $4.58 billion.

Counterparty risk

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

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of A- (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their ratings. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the Air France-KLM parent 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, 2015, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €432 million, principally comprising 9.9 million Amadeus shares. In November 2014, Air France-KLM entered into a hedging transaction in the form of a collar to protect the value of 9.9 million Amadeus shares and maturing in May 2016. At December 31, 2015, the Amadeus share price was higher than the cap on the collar.

Liquidity risk

At December 31, 2015, the Group had credit facilities amounting to a total of €1.8 billion.

- On April 29, 2015, the Group signed a €1.1 billion revolving credit facility, finalizing the early refinancing of the Air France credit facility maturing in April 2016. This new credit facility subscribed with a syndicate of thirteen banks, comprises two €550 million tranches with respective three and five-year maturities. These credit facilities include covenants calculated based on the Air France-KLM Group's consolidated financial statements. As of December 31, 2015, the ratios were respected.
- On July 2, 2015 KLM signed a €575 million credit facility, finalizing the early refinancing of the credit facility maturing in July 2016. This new credit facility with a five-year duration

was subscribed with a syndicate of ten banks. These credit facilities include covenants calculated based on KLM's consolidated financial statements. As of December 31, 2015, the ratios were respected.

Given the Group's €3.8 billion of cash resources at December 31, 2015, and the amount of available credit facilities (a total of €1.8 billion), the Group considers that it incurs no short or medium-term liquidity risk. It does, however, closely monitor its financing capability and the structure of its traditionally negative working capital requirement. Note that the Group has granted €411 million of pledges to financial institutions, principally in respect of the swap contract covering the OCEANE 2005.

Financing risks

Financing strategy

The financing strategy is decided by the Group in coordination with the Air France Group and the KLM Group. The Air France-KLM Group is mainly bond-financed with Air France-KLM SA as the issuer.

However, in view of its investment program, particularly in the fleet, the Air France-KLM Group also plans to be active in the financing market. In the current market conditions, the Group thus intends to finance its forthcoming aircraft deliveries using collateralized debt. These financing or refinancing operations will, as usual, be the subject of requests for proposals.

In anticipation of the application of the Basel III prudential standards, the European banks could continue to reduce their balance sheets in future years and consequently make a more limited volume of lending available to businesses.

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

- more systematic recourse to financing in the market *via* Air France-KLM;
- diversification in the number of banking counterparties.

Air France

To finance its investments, Air France prioritizes long-term resources by raising conventional bank debt secured by its assets (in the form of mortgage debt or finance leases) and, when available, by using export credit.

KLM

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

Air France-KLM

Société Air France-KLM has realized six bond issues. While the issues prior to 2014 had its subsidiaries Air France and KLM as guarantors, the 2014 and 2015 issues were unsecured bonds:

- an issue of convertible bonds with a six-year maturity raising €661 million in June 2009, fully redeemed at maturity in April 2015;
- an issue of plain vanilla bonds with a seven-year maturity raising €700 million in October 2009, partially redeemed in the amount of €97 million in 2014 and 2015;
- an issue of plain vanilla bonds with a six-year maturity raising €500 million in December 2012;
- an issue of convertible bonds with a ten-year maturity raising €550 million in March 2013;
- an issue of plain vanilla bonds with a seven-year maturity raising €600 million in June 2014;
- an issue of perpetual subordinated bonds raising €600 million in March and April 2015. In accordance with IFRS, these securities were booked as equity.

Investment risks

The cash resources of Air France-KLM, Air France and KLM are invested so as to maximize the return for a very low level of risk. They are 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 – 2015 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 Goverance, Board of Directors, page **8**.

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. They are stipulated in Article 30 of the Articles of Incorporation and detailed in the documentation made available to shareholders ahead of the Annual General Shareholders' Meeting.

III Internal control

3.4.1 Definition and goal of internal control

In 2015, Air France–KLM based the internal control for the Group and the two sub-Groups, Air France and KLM, on the new COSO 2013 (Committee Of Sponsoring Organisation of the Treadway Commission) standards.

The COSO 2013 Framework defines internal control as "a process, effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance". The COSO Framework aims to enable the entities to evaluate the effectiveness of their internal control systems in the light of the achievement of objectives set by the management. It outlines three types of objectives:

- operational objectives (these objectives are linked to the effectiveness and efficiency of the entity's operations, notably the operational and financial performance objectives together with the safeguarding of assets from losses);
- financial disclosure objectives (these objectives are linked to the presentation of internal and external financial and non-financial information to stakeholders, including its reliability, timeliness, transparency and other criteria established by the regulatory or standards bodies, or stipulated in the entity's policies;
- compliance objectives (these objectives are linked to compliance with the laws and regulations to which the entity is subject).

The COSO Framework is based on the following principal components:

- control environment;
- assessment of risks;
- control operations;
- information and communication;
- monitoring of internal control.

Underlying these five components of internal control there are 17 core principles, corresponding 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.

As with any control system, internal control is unable to provide an absolute guarantee that such risks have been totally eliminated.

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 some 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 Air France–KLM, the Dutch company KLM has established a report on internal control in accordance with the French Financial Security Law No.2003-706 of August 1, 2003.

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.)

- **The Board of Directors**

  The Board of Directors is the corporate body that determines the orientations of the Group's activity and ensures their implementation; 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*.

- **The Group Executive Committee**

  In December 2015, the Group Executive Committee was composed of fifteen members (the Chairman and Chief Executive Officer, four representatives from Air France and KLM and ten heads of Group functions). The Committee meets every two weeks, alternating between Amsterdam and Paris.

- **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.

  A Group Finance Division has been established around the Group's Chief Financial Officer, staffed by some thirty people (Financial Communication and Investor Relations, Consolidation and Accounting, Group Management Control, Strategy & Mergers-Acquisitions, Financial Operations).

  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 general managements and decentralized organizations in commercial law, transport law, contract law and insurance law.

  Group Legal Affairs draws up a systematic inventory of the disputes in process to assess the risks and be able to constitute the corresponding provisions booked as liabilities.

  The Group's General Counsel 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 objectives 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.

  Each company has retained its own Internal Audit department. Internal Audit has been coordinated at Group level since 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.

  The number of auditors' positions averaged 27 in FTE (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's Internal Audit division has been awarded professional certification by the IFACI (*Institut Français de l'Audit et du Contrôle Interne*). This body has certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2012 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 April 14, 2018.

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 (*see Section 3.2.1 Airline Accident Risk on page **80***), 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 its 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. An "anti-corruption" online training module was made available to all employees at the end of 2014.

— 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 of the Audit Division and guarantees its independence as well as the conditions by 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.

— Internal Control Charter

The Internal Control Charter, signed by the three Chairmen and Chief Executive Officers of Air France–KLM, Air France and KLM in 2014, sets out the components of the Air France–KLM Group's internal control framework and outlines the methodology adopted to guarantee its effective implementation and functioning.

The Internal Control Charter reaffirms the commitment of the three Chairmen and Chief Executive Officers to internal control, aimed at preventing and mitigating the risks associated with the Group's activity.

— Procurement Quality Manual

The organization of the Procurement function common to Air France and KLM is outlined in the 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).

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 buyers 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 safety manuals, etc., 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/IMS manual and the KLM Quality manual, together with the related general procedures.

Passenger service: standards, services signatures, the five attitudes, the PAMs (Passenger Airport Manual), the general sale and after-sales conditions, together with the other procedures associated with customer service common to Air France and KLM.

In terms of management systems: Integrated Management System/IMS and Quality-Safety-Environment manuals of the entities, manual on health and safety in the workplace, flight safety management, environmental management, management of the company's food hygiene, together with the related general procedures.

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, page **77***). 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 safeguard 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 risk management procedures are outlined for each risk together with the situation which is likely to result from their implementation.

Chapter 3 of the Registration Document on Risks and Risk Management outlines the risks to which the Group is exposed and the procedures 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 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 management evaluates the strategic risks (competition, financial situation, etc.) and determines the action plans to reduce these risks.

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. There is also a system in place to track the changes unfolding over time of the risks liable to have an impact on the financial statements.

Generally speaking, the management of operational risks is at the heart of the Air France–KLM Group's steering procedure for the business lines. The additional contributions from the internal control procedure and the Integrated Management System enable the consolidation of an increasingly preventive approach. With regard to the IMS, a risk-scoring matrix (frequency, gravity), an analysis methodology and the "Bowtie" tool are thus used, based on a homogeneous, multi-risk rationale.

Management of market risks

The management of Air France–KLM's market risks is steered by the Risk Management Committee (RMC) which composes, for the Air France–KLM Group, the Chief Financial Officer and the Senior Vice-President Financial Operations, 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 on the hedging to be put in place: targets for hedging ratios, the time periods for the respect of these targets and the types of hedging instruments.

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 risk

Air France–KLM, Air France and KLM's cash positions are monitored daily. A weekly summary of the Air France–KLM, Air France and KLM cash positions is forwarded to the Air France–KLM Group's Finance Division and to the General Managements of the two subsidiaries.

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 are 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 safeguarding of individuals and assets from assault, terrorist attacks or threats, 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 appropriate measures, particularly with regard to the factors involved in geopolitical instability.

Management of IT and telecommunications risks

The Executive Vice-President, Information Technology 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.

The IT and telecommunications systems are of primordial importance when it comes to the Group's day-to-day operations. The IT applications, deployed in the operating centers or *via* cloud computing solutions, are accessed *via* a network of tens of thousands of work positions and a growing number of mobile devices. The information contained in these systems is exposed to a growing number of threats. The information exchanged with customers and third parties is growing while aircraft are increasingly connected to the Information System. The number of laws and regulations to be taken into account is also growing.

This context requires a high level of security, which is guaranteed by the Head of IT and his staff who are responsible for Information System security. Air France and KLM ensure the allocation of the resources required to contend with such threats, secure the information and guarantee the regulatory compliance of the information systems.

Dedicated support centers and redundant networks guarantee the accessibility of the data and the processing of the information in the event of a major incident. The back-up operating center infrastructures and procedures enabling a migration to these back-up operating centers in the event of an emergency are regularly checked. The access controls to the information systems and the verification of the data exchanged outside the Company are governed by rules which are compliant with international legislation and standards.

Specialized IT security companies, the external auditors, Internal Audit and Internal Control all regularly undertake evaluations of the efficiency of the solutions in place.

Cybercrime refers to a wide range of different activities linked to the abusive use of data and the Information System for personal, financial and psychological purposes. Their heavy dependence on information and communication technologies means that airlines are vulnerable to cybercrime.

The Cybercrime program, approved by the Group Executive Committee, covers the prevention and detection procedures such as Cyber-threat surveillance, evaluations of Information System security and tests to pinpoint any Information System incursions *via* the internet. There are regular awareness-raising campaigns on IT security for staff across the Company.

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 health risks

Each company is supported by a coordination structure responsible for prevention, crisis management, the circulation of health advice and liaising with the national and international authorities on outbreaks of epidemics or threats of epidemics (e. g. Ebola virus).

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.). The prevention-based approach is supplemented by the risk management procedures which form an integral part of the Integrated Management System.

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 for a fifth time during the autumn of 2014.
- Air France global IMS certification based on the ISO 14001/Environment, ISO 22000 certification for food health and OHSAS 18001/Vocational Health & Safety (confirmed in autumn 2015)
- ISO 9001/Quality certification for certain entities.

Quality assurance

The control of the operational processes is based primarily on two monitoring methods:

Internal monitoring is carried out by the quality assurance departments articulated around:

- An audit program (covering, in particular, 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 an additional requirement to comply with IOSA standards that are recognized by the profession as the ultimate 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, 2015, 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. Air France–KLM has adopted an “Agile” development process based on the SCRUM methodology. The main aim is to generate business line added value more rapidly, accelerate “Time to Market”, align IT and business line objectives by prioritizing value, not developing rarely-used functionalities, reduce the risks at the earliest-possible opportunity, streamline the development and maintenance process and increase the effectiveness of the teams.

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.

The Group Information Technology Division defines the policies establishing the framework for the functioning, security and consistency of the information systems deployed and has published a Security Information Manual (ISM -ISO 27001 standard), establishing 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 presentation on a fraud prevention activity report was made to the Audit Committee in December 2015.

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 by the Group Executive Committee (fleet, acquisitions, disposals, etc.).

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 Société Air France–KLM, Air France and KLM is communicated weekly to the Air France–KLM Group's Finance Division.

The Société Air France–KLM, Air France and KLM cash positions 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. 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 monthly 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 for the previous day in their own operations.

In addition, the departments of the Group, and of 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.

The Group's Chairman and Chief Executive Officer brings together the commercial teams twice a month, in a meeting to review passenger revenues with a view to determining and approving the required action plans, and monitoring their implementation.

A monthly presentation on the level of transportation revenues (passenger and cargo) is also made to the Group Executive Committee by the senior managers of these entities.

The Shared Services Center (SSC) in Toulouse is in charge of commercial Passenger revenues for the companies Air France and KLM, while the Shared Services Center at Amsterdam-Schiphol is responsible for commercial Cargo revenues for the Group (Air France, KLM and Martinair).

For these two activities, service level agreements have been signed between Air France, KLM and Air France–KLM with January 2014 application dates.

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

Communication within the Group is organized to ensure the effective circulation of information.

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 which conducts cargo marketing and operations (including parcel delivery and postal services);
- the engineering and maintenance activity responsible for maintenance and engineering operations for the airframes, components and engines;
- the leisure activity comprising the Transavia low-cost and chartering operations;
- the "other" activity comprising mostly the airline catering activities with the Servair Group.

The Human Resources functions are proprietary to each company and are coordinated by Air France-KLM's Executive Vice-President, Human Resources.

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.

With the Group's General Counsel, the Group's Executive Vice-President Corporate Secretary coordinates the functioning of the governance for the Group and its entities. He coordinates the secretarial services for the Group's Board of Directors and the Fleet Division which manages all the procurement and leasing of new aircraft for the Group's companies in liaison with the latter's teams.

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 I 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 Air France-KLM consolidation scope includes 160 companies which are fully consolidated and 44 that are equity accounted.

Air France represents 56.8% of the Group's revenues and 44.4% of the total balance sheet.

KLM represents 34.2% of the Group's revenues and 28.4% 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 established by the Group's Strategy Division.

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 and are approved by the Board of Directors.

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 is the subject of a formalized annual 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, 2015.

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 SA

YEAR ENDED DECEMBER 31, 2015

To the shareholders,

In our capacity as Statutory Auditors of Air France-KLM SA 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, 2015.

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.

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, March 16, 2016

KPMG Audit A division of KPMG SA		Deloitte et Associés	
Jean-Paul Vellutini Partner	Eric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot Partner

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CORPORATE SOCIAL RESPONSIBILITY: SOCIAL, CITIZENSHIP AND ENVIRONMENTAL INFORMATION

As a global business, Air France-KLM enables people, economies and cultures to connect, driving economic growth and social advances. The Group assumes its responsibilities and seeks to reconcile growth with environmental protection, social progress and regional development around its hubs and destinations.

To integrate CSR into its activities and operations, Air France-KLM is mobilized around four main priorities:

- reducing its environmental footprint by optimizing operations, innovating in the supply chain and mobilizing all staff and the industry;
- embedding sustainable development across the entire value chain to offer customers sustainable and innovative products and services;
- promoting a responsible social policy and encouraging personal development to ensure the motivation and high professional standards of staff;
- contributing to the economic and social development of the territories where the Group operates.

Air France-KLM's Corporate Social Responsibility strategy enshrines the respect of fundamental rights as defined in the leading international principles: the Universal Declaration of Human Rights, the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, and the Organization for Economic Cooperation and Development's (OECD) guiding principles.

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

Pursuant to Article 225 of the application decree of the French Grenelle II Act of July 12, 2010 and the European Prospectus (EC 809/2004), the Air France-KLM Group presents social, corporate citizenship and environmental data in the form of qualitative information and indicators. All this information is reviewed by one of the Group's Statutory Auditors, as a designated Independent Third Party, based on the conditions outlined in the social and environmental methodologies.

The reporting scope mainly covers the companies Air France and KLM. Any differences in this scope are indicated in the text. Concerning the Air France Group, information on the issues specific to the Servair, ACNA and Paris Air Catering subsidiaries is presented in the management reports of these companies.

4.1 SOCIAL INFORMATION

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group averaged 93,300 in the 2015 financial year (excluding external staff), *i.e.* a 1.4% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France-KLM			Air France Group			KLM Group		
Financial year	2013	2014	2015	2013	2014	2015	2013	2014	2015
Ground staff	66,535	65,088	**64,157**	46,847	45,514	**44,882**	19,688	19,573	**19,275**
Cabin crew	21,779	21,552	**21,287**	14,044	13,720	**13,449**	7,735	7,832	**7,838**
Flight deck crew	8,103	8,027	**7,856**	4,889	4,720	**4,554**	3,214	3,306	**3,302**
Total	**96,417**	**94,666**	**93,300**	**65,780**	**63,955**	**62,885**	**30,637**	**30,712**	**30,415**

Taking into account external staff, averaging a respective 3,116 in Full Time Equivalent during the 2015 financial year and 3,181 in Full Time Equivalent for 2014, the number of employees in the Air France-KLM Group as a whole declined by 1.5%: 64,074 FTE for the Air France Group (65,153 in 2014) and 32,343 FTE for the KLM Group (32,695 in 2014). 66% of staff were employed by Air France and 34% by KLM.

90% of the Group's employees are based in Continental France and the Netherlands with 10% located in the Group's international operations.

61% of the Group's employees are aged between 30 and 50 years.

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

Air France - KLM Group

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

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 seeks to preserve cohesion by fostering a high-quality workplace dialogue and pursuing a policy based on treating people with respect.

Within the context of the launch of "Perform 2020", 2015 was marked by a continued active and regular workplace dialogue.

In addition to support for strategic plans, the coordination of the workplace dialogue in Air France-KLM takes place within the framework of employee representative bodies in each of the entities comprising the Group and within the Group's European Works Council, bringing together the representatives of staff whose head offices or entities are based in the European Community. In 2015, five meetings of the European Works Council took place for sharing information and consultation on matters such as the new phase in the integration process, the organizational adjustments within the Air France - KLM Group and the strategic plans deployed at the level of the Group.

Furthermore, pursuant to Article L. 225-27-1 of the Code of Commerce and Article 17-3 of the company's Articles of Incorporation, on November 5, 2015 the *Comité de Groupe Français* appointed Mr. Antoine Santero, Flight Attendant, as a Board director representing the employees for a two-year term of office expiring at the end of the 2017 General Shareholders' Meeting convened to approve the financial statements for the financial year ended December 31, 2016.

Air France

Functioning of the employee representative bodies

In terms of the functioning of the employee representative bodies, 17 meetings of the Air France Corporate Works Council were organized in 2015. The elected representatives were consulted and/or kept abreast of the major orientations relating to the company's overall situation and, notably, on the results and on-going turnaround measures. The end of 2015 was marked by sometimes difficult discussions and even serious incidents when addressing the reduction in the volume of activity and the long-haul fleet.

The French Corporate Works Council, regrouping the employee representatives from the Air France Group's various subsidiaries, met four times in 2015. During these meetings, presentations were made on the financial situation, the business activity and strategic outlook for Air France, HOP!, Transavia, Servair and BlueLink.

Three meetings of the Strategic Monitoring Committee were organized in 2015. This *ad hoc* body bringing together the general secretaries of the representative union bodies, the chairpersons of the Corporate Works Council's Economy and Employment-Training commissions and the Board directors representing employees enabled sensitive issues like the air transport industry environment and Air France's strategy in its different markets to be addressed in total transparency. In 2015, the weak trend in unit revenues, changes in the environment for airlines between 2000 and 2015 and the importance of Orly within the Group were all handled within this framework.

Negotiations and cross-cutting central agreements

Sixty-six collective labor agreements were signed in the Air France Group during 2015.

For Air France, four inter-category agreements (and one supplementary clause), three pilot agreements (and five supplementary clauses) and one cabin crew agreement were signed in 2015, following negotiations with the unions. These notably covered the:

- framework and contractual resources for the exercise of union law;
- professional gender equality;
- complementary providential and healthcare scheme (*Mutuelle*);
- retirement of the B747-400s from the Air France fleet;
- provincial bases.

Decentralized consultation

In addition to the agreements outlined above, the workplace dialogue was shaped by discussions conducted by activity (long-haul, medium-haul, short-haul, Maintenance, Cargo, etc.) on the avenues and ways of improving economic efficiency in line with the targets set by activity/entity in the "Perform 2020" plan. This business unit-based approach was supplemented by separate discussions by category, with inter-category progress reports in activities where the contributions directed at achieving the financial targets were to come from pilots, cabin crew and ground staff (long- and medium-haul passenger, short-haul passenger).

This differentiated approach by segment enabled the financial, commercial and competitiveness realities and outlook specific to each entity to be fully taken into account, and to prioritize the deployment of measures aligned as closely as possible with local specificities. The approach based on staff category took into account the different legal frameworks and the necessarily-separate levers of action to achieve the targets set and achieve the required change management.

In particular, on the outstations in the Orly-Provinces network, fourteen consultation meetings took place in 2015, of which two inter-category meetings in May and June, four covering the overall objectives of the HOP! Air France business unit and the different generic levers of action by business between July and October, and eight addressing specifically by entity the targets and action plans for the outstations at Orly, Marseille, Nice and in Corsica.

Concerning specifically the ground staff, the continuation of discussions followed the successful realization of the targets in the ground staff section of the Transform 2015 plan. The effect of the guarantees provided to all ground staff by the agreements signed during the 2012-14 period, and notably no recourse to layoffs, was thus able to be extended for 2015. 2015 was also the first year of implementation for the agreement covering the organizational improvements, working conditions, quality of life in the workplace and risk prevention. It was against this backdrop that the negotiations on the three-year agreement for the Forward Planning of Employment, Skills and Professions, including the intergenerational contract, opened in November 2015 with the unions representing the ground staff. In early January 2016, these negotiations resulted in an agreement with the three unions representing more than 50% of the ground staff.

With regard to flight crew (pilots and cabin crew) the discussions conducted by activity in May and June 2015 led to the proposed opening, as of the summer, of negotiations with the unions representing, firstly, the pilots and, secondly, cabin crew, aimed at their finalization by the end of the September, due to fleet scheduling and fleet requirements for the Summer 2016 season. These negotiations not having resulting in the signature of agreements leading to the productivity required for the implementation of the growth plan, the Boards of Directors of Air France-KLM and Air France mandated the Air France management to launch an alternative plan involving a reduction in long-haul activity for 2016. The workplace dialogue continued with a view to finalizing the negotiations and reinstating the growth plan as of 2017.

A focus on the management of overstaffing within the framework of collective agreements

In return for the agreements signed in 2012 and 2013 with the three staff categories within the framework of Transform 2015 and a commitment to no layoffs, headcount reduction plans had been implemented on a voluntary basis in 2012, 2013 and 2014 in the different staff categories comprising Voluntary Departure Plans supporting personal and professional projects, retirement departures, and a series of additional temporary measures (Assisted Part Time Working, etc.).

The recourse to Voluntary Departure Plans (VDP) continued in 2015. For ground staff, this VDP was offered to manage the overstaffing forecast for the end of 2015 in a targeted manner, this overstaffing arising from local situations where the number of volunteers or the reduction in activity within the framework of previous VDPs had fallen short of objectives, and notably the scaling back of the Summer 2015 schedule on the short-haul network and the impact of the productivity efforts already presented and arriving at maturity throughout 2015.

For cabin crew, this VDP was proposed to adapt headcount to the reduction in activity forecast in the long-haul business with the withdrawal of three aircraft as of Winter 2015, while taking into account the remaining overstaffing linked to a lower number of voluntary departures than had been foreseen in the 2014 VDP.

In summary, during the 2015 financial year (actual figures at December 2015 versus actual figures at December 2014), the number of employees on permanent contracts fell by 1,483 for ground staff, *i.e.* -5.3%, and by 320 for cabin crew, *i.e.* -2.5%. The number of pilots was naturally also reduced by 188, *i.e.* -5.1%, a significant proportion of this fall being linked to the departure of pilots within the framework of the 2014 VDP.

Facilitating internal mobility

The number of inter-divisional transfers was slightly down but remained three times the 2012 level and concerned 1,000 employees in 2015. These transfers resulted, in particular, from the VDP departures on the solidarity perimeters of March 2015. The main segments welcoming internal mobility candidates were Commercial and Head Office and Support, whereas most employees transferring jobs originated from the Outstation Assistance activities (long-haul, medium-haul, short-haul).

The action plan for the Orly maintenance operations also generated more than 100 functional and geographical transfers within the framework of a collective reclassification plan.

The “mobility centers”, staffed by some ten internal mobility support specialists, pursued the deployment of their activity in all the sites in Continental France (Paris-CDG, Orly, Montreuil and the French provinces).

More than 1,100 people thus benefited from personalized support within the framework of a mobility project in 2015. Furthermore, 800 people attended the thematic conferences and job-dating events, showcasing the professions in the company which are recruiting, while the number of participants in the mobility workshops (interview preparation, job transfer planning) increased by some 70% in 2015 to 1,500.

Internal mobility is thus considered to be one of the key factors in the success of the Air France employment policy.

Internship program

For more than fifteen years, Air France has been implementing an ambitious policy based on the vocational integration of young people on internships. In 2015, some 1,700 interns (representing 1,057 FTE, *i.e.* 2.48% of total employees) preparing for diplomas of all levels were welcomed into the company and given the support they needed to acquire new skills.

This policy which is formalized within the framework of the Inter-generational Agreement is based on the company’s CSR commitments.

During periods of low recruitment, it involves coordinating support initiatives promoting external employment for interns not recruited on permanent contracts (employment forums, job-seeking workshops, networking with companies in the Paris-CDG labor pool, membership of the *Engagement Jeune* platform).

Organization of working time

The working hours of ground staff are governed by the ground staff collective agreement of October 8, 2012 and the working time agreement of January 24, 2013.

In 2015, this regulatory framework enabled the implementation of annualized working hour grids in some entities, enabling staffing to be tailored to the variations in seasonal activity.

The average length of the working week applied within the company is consistent with the duration stipulated by the law in force. In 2015, the percentage of employees working part time in France remained high (23.6% in 2015), despite the modest fall relative to 2013 and 2014 (24.5% in 2014 and 24.2% in 2013), and continued to be impacted by the measures to encourage part-time working.

The absentee rate for sickness, maternity or work-related accidents amounted to 5.38% in 2015, unchanged relative to its 2014 level (5.38% in 2014).

Compensation

The implementation of the immediate measures within the framework of the Transform 2015 plan led to a freeze on general salary increases for all staff categories in 2015, for the fourth year running, and did not enable the signature of an agreement within the framework of the Annual Wage Negotiation.

In 2015, 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 performance, promotion, exceptional adjustments, exceptional incentive payments and seniority (for non-executive staff).

These various increases saw the basic salary increase by around 1.4% for ground staff present in 2015. Individual wage moderation measures were also pursued for flight crew.

New profit-sharing and bonus agreements were signed on June 27, 2014 for the 2014 to 2016 financial years. These agreements make the payment of a bonus conditional on Air France generating positive results and, consequently, there were no bonus payments made in 2015. Similarly, for the seventh year running, no profit-share payments were made in respect of this financial year.

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

KLM

At KLM, following completion of the “Transform 2015 – Securing our Future” plan in 2014, 2015 marked the first year of the “Perform 2020” plan. The motto adopted for 2015 was “Change, cooperate, win!” To remain competitive in the airline sector, KLM needed to become more flexible and relevant, requiring the launch of a transformation plan.

This transformation, which began in 2015, testifies to KLM’s pioneering aviation spirit. When it became clear the company had to change, KLM employees were encouraged to contribute, and numerous staff from across the organization mobilized around the process to determine the company’s purpose. Some 2,000 suggestions and ideas were submitted to the CEO’s mailbox, generating cost-savings in excess of €10 million. Others contributed by proposing and implementing innovative bottom-up ideas.

In November 2015, KLM organized four seminars in a conference center, attended by over 1,600 employees from across KLM. These interactive “Moving your world” seminars, organized by and on behalf of KLM staff, were aimed at sharing information and were an opportunity for the management to answer the frequently-asked questions from employees.

The HR activity Plan 2015 was based on the HR Connect strategy, defined in 2012, and the KLM Flight Plan 2015. There was a major focus on signing new collective labor agreements with all nine unions and on the definition of a High Performance Organization. Furthermore, special emphasis was put on mobility since the motto “Keeping the Family Together” was no longer feasible.

Workplace dialogue and employee information

Ten meetings of the KLM Works Council were held during 2015 including one meeting attended by the Air France-KLM Group’s Chairman and Chief Executive Officer devoted to a presentation of the new strategic plan “Perform 2020”.

43 requests for consultation and approval were handled this year. The focus for the winter of 2015-16 will be the introduction of the High Performance Organization plan within KLM and four additional meetings were held with the Daily Board of the Works Council to discuss the outline for this.

At KLM, monthly meetings are held with the unions representing the flight deck crew, cabin crew and ground staff to discuss any issues relating to the collective labor agreements. In addition to these regular meetings, meetings were also scheduled in 2015 to modify the pension schemes due to changes in Dutch fiscal regulations.

New collective labor agreements

In December 2014, negotiations for the renewal of the three Collective Labor Agreements were engaged in which KLM presented its main goals for the coming five years: a 1.5% annual reduction in unit costs and a 4% annual increase in productivity. In 2015, KLM finalized the collective agreements with the nine unions, their duration being 15 months for cabin crew, 18 months for ground staff and 36 months for the pilots. These collective labor agreements are historic. The major changes concern an increase in the retirement age for flight deck crew from 56 to 58 years, new working and rest times for intercontinental cabin crew and a reduction in the number of days of leave. Furthermore, the new collective labor agreements include KLM’s strategic objective of a 4% annual increase in productivity over the next five years. All these changes combined are enabling KLM’s payroll costs to become more competitive. The next round of negotiations on the renewal of the collective agreements for cabin crew and ground staff will begin in 2016, and KLM’s aim is a further improvement in competitiveness.

The new MyCAO platform, launched in 2014, was used to inform and foster dialogue with KLM employees on the progress and the content of these negotiations.

Furthermore, KLM seeks a direct dialogue with employees who are encouraged to share their opinions and ideas. In the 2015 fourth quarter, a short version of the survey on employee engagement in all divisions was realized, with the exception of Cargo and Commercial, the latter two divisions carrying out an engagement survey jointly with the Air France-KLM Group. The response rate was 44%. In 2015, the engagement of KLM employees was slightly down on its 2014 level, the fall being mostly explained by a decline in loyalty caused by KLM's currently difficult situation. After a fall in the level of confidence in management during 2014, the survey results posted a modest recovery in the credit afforded to management and showed that employees are now better informed of the KLM strategy. The survey revealed an increase in the level of employee buy-in to the need for rapid change. In 2016, the survey on employee engagement will again be conducted.

Employees were also invited to share their ideas *via* the President and CEO's mailbox and *via* a number of communication channels during the live webcasts and conference center sessions.

During 2015, the KLM Executive Committee established the purpose for KLM, the "KLM Compass" being developed with a group of 100 employees from across the company. This KLM Compass will be used to steer the development of the organization and strengthen the KLM culture.

Employment and mobility

For KLM, the targets in the HR dimension of "Perform 2020" aim to improve productivity and reduce payroll costs. To achieve and support change, a Transformation Office was created. The Transformation Office participates in the construction of the new KLM, in close cooperation with all the divisions, to establish an innovative organization which is constantly improving and learning. Within this framework, a number of transformation projects have been identified like, for example, building a High Performance Organization and a digitization project.

As in 2014, the number of external hires was very low in 2015. The search for internal candidates now having become more difficult, a continuous focus on optimizing the internal mobility process is required. One of the initiatives has been the optimization of the internal recruitment procedures for vacant positions, the lead time in this process having been significantly shortened. KLM plans to implement this new lean process during the 2016 first quarter.

Despite the difficult financial environment, KLM hired sixteen young graduates for its various development programs during 2015. The year saw six young graduates enroll in the KLM Management Trainee Program, four in the IT Management Program, four in the Development Program Finance and two in the MRO Talent Program. Additionally, some 450 interns joined KLM in 2015, illustrating KLM's commitment to assuming its responsibility vis-à-vis students and young graduates by offering them the opportunity to gain valuable work experience and preparing them to enter the jobs market. Short and medium-term internships are offered to students drawn from both vocational training and higher education.

The high number of applications for both the Development Programs (2,677) and internships (2,487) testifies to KLM's attractiveness as an employer.

The principle of limited recourse to external hiring, in place since 2008, was maintained in 2015 and KLM still aims to realise its targets without recourse to layoffs. As in the previous years, this led to the implementation of measures to incentivize internal mobility within the company, in cooperation with the unions.

In 2015, KLM launched a Voluntary Departure Plan, with a total of 1,224 employees being invited to join this program. In early December 2015, 91 employees signed Voluntary Departure Contracts with KLM, with 35 leaving in 2015 and the remainder set to depart in 2016. Another 20 employees are still interested and the option for them to join the program remains open. Furthermore, KLM has negotiated additional collective labor agreement protocol with the unions representing ground staff (*Mobiliteitsafspraken* 2015) aimed at promoting and maximizing internal mobility. 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. To further promote mobility across the different KLM divisions, all divisions have the opportunity to promote themselves and any available positions during these weekly meetings.

In 2015, the number of employees hired on permanent and temporary contracts stood at 1,730 for the KLM Group (versus 1,989 new hires in 2014), while departures stood at 2,146 versus 1,824 in 2014.

Taking into account the recruitment and departures during 2015, the KLM Group had 34,333 employees at the end of 2015, compared with 34,662 at the end of 2014.

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 to contend with a difficult economic environment.

In 2015, KLM continued its participation in the Aviation Sector Fund, a Foundation established notably by KLM and the unions to promote and foster education, employability and mobility in the aviation industry by, for example, coordinating subsidy applications for training and employability activities undertaken by its partners. The subsidy application, which had been filed in 2013 and accepted in 2014 by the Foundation, has since been used to develop industry initiatives in the sector.

Organization of working time

In the Netherlands, the legislation defines part-time working and enables all employees to reduce their hours except in the event this would entail employer bankruptcy. Part-time working is very widespread, particularly amongst women, although this is also increasingly the case for men. In 2015, the proportion of KLM Group employees working part-time stood at 40.3%, slightly increased compared to the previous year (39.1% in 2014).

In 2015, the reform updating the Dutch legislation on leave and working hours came into effect, aimed at reconciling working hours with the personal lives of staff (e.g. healthcare and education). KLM aligned its internal regulation with this new legislation as regards parental leave, for example, or time off to care for family members. In January 2016, new laws relating to working hours will come into force.

The overall absenteeism rate for KLM stood at 6.08% in 2015 (including illness/injury resulting from workplace accidents) versus 5.77% in 2014 while, for maternity leave, which is not considered to be absence due to illness, the rate was 0.53% in 2015.

Compensation policy

There were no general salary increases in 2015.

KLM has three main pension funds for KLM ground staff, flight deck crew and cabin crew. Each fund is independent and has its own Board whose members are appointed by both the employer and the employees.

In 2014, agreements were signed to align the pension schemes with the new pension legislation in force as of 2015, meaning that pensions will be on the agenda for the upcoming negotiations on the cabin crew and ground staff collective labor agreements. The pension funds for cabin crew, ground staff and flight deck crew, which have a combined €18 billion in assets, are currently defined-benefit schemes meaning that KLM financially guarantees the level of pensions. Since this approach is particularly difficult to support over the long term given the current level of profitability, KLM is aiming to replace this with a collective defined contribution scheme. This would enable the pension risks to be more equally shared between KLM and its employees.

4.1.2 Training

Air France

Concerning training, 2015 was characterized by a ground-breaking context for two reasons:

— the finalization of the Transform 2015 plan and the launch of the Perform 2020 strategic plan heralding new business models for the Air France Group;

— the French National Inter-professional Agreement of December 14, 2013 and the Act of March 5, 2014 on vocational training applicable as of January 2015, whose application decrees were published throughout 2015.

Within the framework of Perform 2020, in 2015 as in previous years, Air France maintained its resolute commitment to helping individual employees contend with changes in their functions, the overall organization and new technologies, and to developing their skills and qualifications against a modest improvement in the economic backdrop.

This enduring commitment was reflected in:

— a high rate of access to training which was stable relative to 2014. 95.5% of ground staff received training in 2015. This rate is explained by the choice of remote training, with 45% of training now carried out *via* e-learning, notably through the deployment of the My Learning and My Learning Executive tools since 2014. This teaching approach also enables the personalization of training based on the profiles of individual employees;

  Concerning flight crew, the access rate was 100%, taking into account the regulatory requirements, all employees benefiting from at least one training course over the year. Note that, in "large companies", the access rate averages 60%;

— a high realization rate: in 2015, this rate reached 96.2% (95% in 2014), across all staff categories. This notably illustrates training management tailored to the priorities of both the company and employees by all the players;

— in 2015, the investment in training by employee trained remained stable relative to 2014, averaging 3.9 days of annual training for ground staff, 10.4 days for pilots and an increase of half a day for cabin crew, *i.e.* 3.7 days of annual training.

This resolute commitment towards supporting employees took into account the economic imperative of on-going cost savings. Some €186.3 million was devoted to employee training in 2015.

From a more qualitative perspective, in 2015 flight operations and employee safety, together with the prevention of occupational accidents remained the company's absolute priority, in terms of both investment and training. In 2015, "regulatory" training in response to these priorities represented one third of the training realized by the ground staff.

Lastly, in 2015, the support for mobility, re-training and on-going vocational training was pursued given, in particular, the need to integrate new employees in the light of the voluntary departure plans.

This reflected notably the fact that:

- in 2015, 2,848 people benefited from vocational training, of which 1,653 courses lasted for less than 70 hours, since concerning those on the standard inventory of training. For the latter, there has been a prolongation in the average duration of such training, rising to 29 days of training in 2015 (compared with 26 days in 2014, 17 days in 2014 and fourteen days in 2012);
- the development of training leading to professional diplomas, a title or a certificate of professional qualification, with 390 employees having benefited from this training. Note that some vocational training periods (e.g. aeronautics BTS, IT Developer professional license, CESI engineering qualification) can have a duration of up to two years;
- the implementation of vocational training blended with Validation of Prior Learning-based schemes leading to a diploma and voluntary training for employees on jobs requiring additional skills. The areas concerned in 2014 and 2015 were: the Shared Service Center (HR License Pay option), the Customer Relations Center (Customer Relations License) and the Quality Standards network (Quality Control License);
- lastly, since 2007, Air France has assumed full responsibility for supporting individual employees looking to achieve a formal qualification recognizing their expertise in the form of a Validation of Prior Learning diploma. A total of 441 employees have benefited from this, of whom 68 in 2015.

The development of these different approaches illustrates Air France's commitment to developing training schemes to secure its employees' career paths and increase their employability.

Lastly, training also supported the major transformations taking place within the company, with more than 500,000 hours of training dedicated to supporting projects deployed within the framework of the Transform 2015 Plan. Management being one of the main levers in this transformation, training was provided to support managers within the framework of "Permanent Development of Management Practices" initiatives. The number of hours devoted to training in this area increased by 10% in 2015.

The Act of March 5, 2014 applicable as of January 1, 2015, introduced an in-depth transformation of the training framework by creating, notably, a new right to a Personal Training Account, and by orienting training more specifically towards courses leading to professional qualifications. To support the deployment of this reform, several initiatives were rolled out:

- communication initiatives aimed at all staff: circulation of an explanatory prospectus on, in particular, the Personal Training Account, accompanying January pay slips, the creation of a special section on the intranet and the establishment of an information and assistance unit;
- an information meeting for managers and the Human Resources teams;
- information meetings for employee representative bodies (Corporate Vocational Training Commission, Local Commission, ad hoc meetings, etc.;
- concerning training leading to professional qualifications, in 2014 the company extended a scheme which had been in place for several years adapted, in particular, to the maintenance professions: training resulting in professional qualifications for new IT developers, the CQPM for ground equipment engineers, the AFPA *Formateur pour adultes* title for training professionals, the *CAP* and *BAC pro* Aeronautics qualifications for component and aircraft mechanics, vocational training aimed at professional licences for the Payroll, Customer Relations and Quality Control professions.

KLM

At KLM, training is a key lever in increasing staff employability and supporting their career progression and mobility. Within the framework of the "Perform 2020" plan, KLM continued to focus on vocational training and staff development while containing costs. New training programs were deployed to optimize skills transfer within the company with managers being offered tools to monitor the effectiveness of training initiatives in the workplace.

In 2015, an online development tool, TalentCenter, was launched. TalentCenter is an online platform focused on identifying, developing and tapping into employees' existing skills. The platform offers a variety of tools aimed at skills detection and development such as a self-assessment career game. Employees are able to search for job offers, both in KLM and externally, based on their specific skills. In 2015, 3,506 employees visited the online TalentCenter website.

Also in 2015, the KLM Academy, an in-house training center for managers and specialists, implemented a 360-degree feedback tool, which was used by 55 employees. In liaison with the High Performance Organization, the KLM Academy developed a number of presentations to inform and support employees involved in the HPO reorganization.

In 2014, KLM initiated a mentoring program with 35 mentors being trained and subsequently posting their profiles on the intranet site. In 2015, 25 of these mentors coached individuals signing up for the program.

KLM organized six Guest Seminars (291 participants) and seven Open Podium events (175 participants) in 2015, enabling KLM staff and experts from their networks to share best practices and experience.

Besides KLM-wide initiatives, training activities are also organized directly by individual KLM departments. For example, the Flight Operations, Inflight Services and Engineering & Maintenance divisions carried out a major training initiative linked to the introduction of the new B787 in the KLM fleet. Within Engineering & Maintenance, a simulation tool has been created to enable Engineering & Maintenance staff to simulate parts of the practical training. This way of training is safer and more efficient in that, by using simulation, training can be carried out based on scenarios generally deemed to involve too much risk.

In the Ground Operations division, all supervisory staff attended a mandatory training course on Safety, focused on safety-related subjects relevant to their functions.

For the past few years, the indicator defined by KLM to measure the efforts made with respect to training has been the annual investment in euros per employee. In 2015, the total number of training hours for KLM amounted to 870,155. This is the first year for which KLM has been able to report this figure, which takes into account employee training across the board.

KLM also redoubled its efforts to enable more staff to obtain a formal diploma through the VPL (Validation of Prior Learning) scheme. The new program, offering KLM employees the opportunity to enroll in secondary vocational training without having first obtained a VPL certificate, has proven very successful. In total, 104 employees started a new vocational training program in 2015 and are combining work and study.

In 2015, KLM pursued its partnership with Schiphol Aviation College. This foundation brings together aviation businesses, vocational education institutions and the regional authorities in initiatives to stimulate the Schiphol region employment market by developing and providing innovative programs for individuals seeking work at Schiphol airport. Such programs enable them to develop their skills and benefit from an initial internship at the airport.

In 2015, KLM and Schiphol Aviation College co-operated with a well-known Dutch employment agency to offer temporary assignments within KLM to nine individuals with limited access to the labor market. Participants were offered the opportunity to gain valuable work experience and vocational training. In 2015, Schiphol Aviation College organized two Mobility Days aimed at promoting mobility amongst employees within the aviation sector. In total, 121 employees coming from 20 different companies within the aviation industry have already participated in these events, including 41 KLM employees.

4.1.3 Health and safety in the workplace

Safeguarding employee health and safety in the workplace is a major priority for Air France-KLM and an area in which there can be no compromise. Evaluating and analyzing the risks then deploying the appropriate prevention measures enables the “Perform 2020” plan to be accompanied by pro-active measures in this area.

Air France

2015 ended with stable results on the frequency of accidents in the workplace (*see the social indicators table*) with the company even noting a modest reduction in the accident frequency rate (-1%) as of the end of November. Individual and collective commitment and the comprehensive assumption of the related responsibilities are reaffirmed as priority levers.

The company pursued the process to consolidate its governance and stabilized its Safety Management System by obtaining the renewal of the OHSAS 18001 certification, the guarantor of a continuous improvement-based approach.

Backed by this recognition and aware of the progress still required, in 2015 the company reaffirmed its long-term commitment to the following five priority themes:

- preventing serious accidents since the physical and mental integrity of employees and partners must be a primary concern;
- reinforcing compliance with/respect of regulations, in both the realization of operations and the management of infrastructures and equipment;
- developing ergonomic approaches and reducing the incidence of musculoskeletal disorders;
- improving the quality of life in the workplace and the prevention of psychosocial risks since the well-being of everyone contributes to the company’s levels of performance and customer satisfaction;
- consolidating the health and safety in the Workplace management system: sustainable respect of the OHSAS 18001 requirements constitutes a cornerstone of continuous improvement.

Monitoring the health of employees and advising them on the current and emerging vocational risks

As of the date of this document, 20 vocational illnesses had been recognized in 2015 of the total 60 reported by 53 employees, a number still subject to change in view of the time taken to handle requests by the social bodies. After a significant increase in requests to recognize vocational illnesses in 2014, the 2015 figures returned to their average level of the previous years. The main pathologies remain musculoskeletal disorders linked to repetitive strain injuries or heavy lifting. The incidence of vocational disorders declared and/or recognized at Air France remains very significantly below the French national average.

In 2015, the company’s 28 vocational physicians and 60 nurses ensured the clinical and psychological screening of the company’s employees, advised on healthy lifestyles and the prevention of vocational risks, and provided emergency medical care. This advice was dispensed both individually and during group information sessions and awareness-raising initiatives within the framework of forums, information campaigns and visits to workshops, offices and flight crew rosters.

2015 was marked, at medical level, by on-going efforts to adapt to the Ebola virus epidemic in West Africa, the unexpected development of the Mers-CoV respiratory syndrome in Asia, the emergence of various arboviruses in the West Indies and repeated situations of peak pollution levels in different cities, whose local health impact and the indirect consequences on the reassurance required for cabin crew and staff on assignment proved substantial. At psycho-social level, employees impacted by the terrorist acts in Paris and Bamako benefited from the full commitment of the vocational health teams aimed at the prevention of psycho-traumatic risks. The vocational health teams were also called on following the violent incidents on the fringes of the Corporate Works Council meeting of October 5 whose nature and extensive media coverage negatively impacted some members of staff.

In parallel with the unit's clinical activity, the vaccination program and the management and operation of the psycho-social risk evaluation tool both continued, generating around 40,000 medical examinations, and multiple screening and treatment interventions by vocational nurses.

The vocational health teams also carried out multiple risk evaluation exercises, by pursuing high-level scientific cooperation with teaching hospitals (nanoparticle research, research on "Dead of night" working), the Institute for Radiological Protection and Nuclear Safety and the Health Monitoring Institute (cabin crew Sievert project and research into mortality by cause of death), the *Conservatoire National des Arts et Métiers* and the CREAPT center for research into ageing and the working population (research into the "fragilization of career paths"). These efforts testify to the resolute commitment to high standards of occupational health at Air France *via* the workplace initiatives and the advancement of knowledge.

Steering and management to encourage mobilization

Promoted by a pro-active health and safety Policy, supported by a consolidated health and safety Manual and accompanied by the relevant key performance indicators, the steering of the safety-first approach takes the form of progress reports for the Management Committee and regular strategic updates reviewed by the Air France Executive Committee. *Via* the signature of target-based contracts, the Executive Vice-Presidents in each of the entities formalize their commitment to reducing vocational accidents through their prevention plans. The commitments reflect both the specificities of the fields covered and consistency with the company's major objectives.

The targets and the approach are developed through initiatives which are shared with the social partners: three-year agreement to improve organizations, working conditions, the quality of life in the workplace and the prevention of risks and onerous work, the Charter for Prevention of Harassment in the Workplace and the Charter for Preventing the Risks Linked to Alcohol Consumption.

Detection and sharing to promote a safety-first culture

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 vocational safety dimension in project management, the development of ergonomic approaches during the design/organization 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 which enables the company to have ergonomics experts embedded in the operational teams, in 2015 the company made a commitment to the professional development of employees who will receive a diploma in ergonomics in 2016.

The commitment of in-field management and the vigilance of employees, supported by a network of health and safety point people, all enable the detection of at-risk situations and encourage the application of preventive measures. The health and safety units embedded in the operational teams (both flight crew and ground staff) are being reinforced and help foster a safety-first culture. Members of senior management make regular in-field visits to review health and safety arrangements, encouraging the teams and local management to maintain their efforts. The company also participates in the coordination of a high-performance vocational first-aid network, recognized through an agreement signed with the INRS health and safety organization.

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 various steering bodies. Voluntary input is encouraged since this is a key driver in prevention. Health and Safely innovation is also recognized and shared during corporate events supported, notably, by the Participative Innovation Program.

The sharing of health and safety best practices is a leitmotiv in the company since the deployment of tried-and-tested procedures is vital for the achievement of exemplary standards of vocational safety.

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 both front-line staff and managers, aimed at regulatory compliance and the circulation of best practices, the management of tools and the awareness of individual responsibilities. In-field operational training and e-learning tools are thus deployed to develop a safety-first and prevention culture, and are regularly adapted to reflect changes in regulations and the development of new tools. Training modules on avoiding repetitive strain injuries and posture-related conditions have been developed, tailored to the specificities of the different business segments, 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, encouraging mobilization and fostering a safety-first culture. The prevention network is itself the subject of the development approach aimed at building the appropriate skills and enabling the effective exercise of their functions.

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

The air transport environment requires relentless adaptation and innovation on the part of its players. To respond to this organizational agility challenge, the company is embarked on a process to simultaneously improve its organizational efficiency and working conditions.

In addition to local initiatives pursued in 2014 to gain organizational flexibility and, more generally, to improve working processes (streamlining and rationalization of production methods), the ground staff agreement to improve organizations, working conditions, the quality of life in the workplace and the prevention of risks and onerous work, signed in December 2014 for the 2015-17 period, establishes the foundations of this approach.

Over the past decade, Air France has developed diagnostics and tools to improve working conditions and prevention procedures (diagnostic, action support, stress and anxiety evaluation tools, and innovative agreements serving as the framework for the company's pro-active policy in this area). This new agreement further develops this policy by introducing four main improvements in the Air France approach:

- support measures to accompany local initiatives and encourage the sharing of effective practices in terms of encouraging a safety-first culture and improving working conditions (establishment of a dedicated three-year budget to realize external diagnostics or implement concrete, targeted measures, ergonomic interventions, establishment of a joint observatory on the quality of life in the workplace, etc.);
- measures aimed at improving the Quality of Life in the Workplace and the prevention of psychosocial risks including, notably, the deployment of managerial actions to foster the quality of working relationships (development of employee spaces for discussion and dialogue, establishment of a common "How to Live Better Together With Mutual Respect and Trust" support system) and the development of organizational working methods, sometimes proposed on a voluntary, trial basis depending on the segment (remote working, hot-desking, job sharing, etc.). The use of the "Evaluation and Monitoring of Vocational Stress" diagnostic, action support and evaluation tool continues. More than 18,000 ground staff and flight crew have replied to this questionnaire since its introduction, with a response acceptance rate of approaching 90%, making this a major steering tool for the prevention of psychosocial risks within the company. This tool accompanies a quick questionnaire enabling flash perception screening for rapid evaluations of the rapid actions being trialed by cabin crew at the Orly, Marseille, Nice and Toulouse bases;
- initiatives to prevent hazardous situations and physical risks using tools, procedures and concrete action plans which contribute to evaluating and minimizing situations exposing staff to risks (night working, hazardous tasks including postural stresses and heavy lifting, etc.), to promote the adaptation and equipping of work positions and enable voluntary adjustments for those approaching retirement;
- additional support measures for employees and other players (managers, HR network, Quality of Life in the Workplace point people, health and safety teams, medico-social network, unions, Committee on Health, Safety and Working Conditions) through new measures to support staff facing temporary or long-term personal difficulties (help for family carers, etc.) and the deployment of the appropriate training ("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", etc.). Tools aimed at managers developed in 2013 were trialled in 2014 and 2015 and are being progressively deployed: management self-assessment grid relating to psychosocial risks and quality of life in the workplace, quick questionnaire to identify psychosocial risk factors, and a special Handbook with guidance on how to respond in the event of a serious or exceptional incident.

KLM

In matters of safety, KLM's objective is to become a world leader within the industry. The company's goal is to reduce the number of workplace incidents to the absolute minimum.

In 2015, although there were three serious occupational accidents, KLM reached its goal of fewer than four serious accidents. Despite reaching this goal, the total number of workplace accidents leading to time off work slightly increased to above the company's target.

KLM records cases of occupational illness and accidents in the workplace as part of the overall absenteeism rate (6.08% for 2015, versus 5.77% in 2014). Cases of occupational illness represent a percentage of 0.11%.

Managing vocational health and safety risks

KLM focuses on a combined approach to all health-related matters to be able to pursue a more concrete and efficient policy. This approach, launched in 2013, led to the establishment of a long-term three-year plan and, for 2015, a detailed action plan constituting a framework with a common vision across all business units of the company-wide goals for health and safety. The implementation of this policy is reviewed annually and, if necessary, the long-term plan is updated.

The new health policy pursues the positive, effective initiatives already underway but also introduces a shift in focus. In future, KLM will be increasingly investing in prevention, to both improve working conditions and promote healthy lifestyles for its employees. Risk analysis on irregular working hours and workloads will be focal points in the upcoming years.

As part of the safety system-based approach, pro-active and predictive safety risk assessments are increasingly used when changes in working processes or products are planned or implemented. The results of these safety issue risk analyses, as well as analyses of the incidents and accidents themselves, have resulted in the ranking of safety risks by division, as well as for the company as a whole. Similarly, the High Performance Organization Plan is and will be subject to safety issue risk analyses of its design and implementation.

For ground occupational safety, the risk of injury caused by collisions or slips and trips is classified as "high", and is ranked amongst the Top 5 safety risks for the company. Approximately 50% of all lost-time accidents and over 50% of all accident-related time off work is caused by this type of incident.

Training and awareness-raising initiatives

Training and awareness-raising initiatives aimed at reinforcing safety took place in 2015, and many more are planned. As part of the implementation of the ISMS, a comprehensive safety training plan was developed and is being implemented.

In 2015, KLM organized three Health Theme Events for managers, HR managers and health professionals from both inside and outside the company, and for members of the Works Council. Themes included "E-health", "Sitting, the New Smoking" and "Resilience" and these events were attended by approximately 100 employees.

In 2015, a team was set up to harmonize initiatives related to sustainable employment. Furthermore a team on health promotion produced an overview of the effective health promotion measures, resulting in a blue print on how to further promote health within the different KLM divisions.

Almost all managers and supervisors enrolled in the e-learning program on absenteeism. Furthermore, KLM has tested a number of innovative initiatives that are now being trialed on a small scale. "Hello Physio" delivers online physiotherapy, irrespective of time and place (introduced by the Flight Operations Division). "Healthy Work" gives employees insight into their own vitality and employability and provides concrete personal action plans. "Mirro", a pilot project which began life within Inflight Services provides free online self-help with a range of problems like stress, poor sleep, anxiety, etc. and is now being promoted over a number of channels within KLM.

Optimizing the health-related procedures

In 2015, various lean initiatives were launched to identify bottlenecks in the processes relating to absenteeism and workplace reintegration. The starting point for improvement is the dialogue between the manager and the employee. A case manager supports both managers and employees and can call on other experts if necessary. The role of case manager will be further optimized and professionalized.

A number of different reports were replaced by a KLM-wide monthly Health Monitor publication (strategic level). There are also plans for an annual Health Monitor, to be finalized and introduced as of 2016.

Agreements aimed at improving the quality of life in the workplace

Back in 2013, three major agreements constituting the foundation of KLM's integrated approach to all health-related matters had been signed. These documents cover the 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 meaning that the health policy and the discussion process with the Works Councils (both corporate and localized) are now more harmonized. For example, a number of corporate themes, such as the in-house emergency response organization (BHV), noise disturbance and psychosocial risks linked to the workplace, now form part of the decentralized plans and are discussed with the local Works Councils.

As in previous years, in 2015 the KLM Works Council was again consulted on a range of health and safety-related issues, on matters like air quality in outstations, in-house emergency response organization (BHV), TCP limits and diesel emissions. Furthermore, the Works Council approved a set of overall guidelines governing the reimbursement of health care costs by KLM.

4.1.4 Fostering diversity and combating discrimination

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

In the Corporate Social Responsibility Statement and Social Rights and Ethics Charter, the Group affirms its commitment to fostering a climate of trust and mutual respect in a working environment where no form of discrimination or harassment is tolerated.

Air France

Combating all forms of discrimination

Air France is a signatory of the Diversity Charter which constitutes 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 e-learning training modules, class-room based training for the Handicap Diversity point people and, for managers and HR personnel, a practical guide to "Religious Diversity in the Workplace". More targeted initiatives to raise awareness and promote diversity are also under way in some entities. A "Diversity" e-learning module is also available to inform and build the awareness of employees.

In September 2013, the company signed an agreement relating to the 2013-15 Inter-generational Contract covering the long-term vocational integration of young people, employment of seniors and transmission of knowledge and skills. This agreement, which applies to all Air France staff categories, carries forward 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 (AFMD) and IMS-*Entreprendre pour la Cité*.

Fostering equal opportunity

The commitment to fostering equal opportunity applies to all the collective recruitment and internal selection processes, and to professional development.

The Jobs section of the Air France Corporate website thus includes a Diversity section with a particular emphasis on professional equality between men and women.

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

- the recruitment and internal selection processes are ISO 9001 compliant, with this certification guaranteeing the management and efficiency of the processes having been renewed at the end of 2014;
- 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 requirements 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 best practices for the profession.

Promoting professional gender equality

For more than a decade, 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 under way:

- since 2002, Air France has been committed to fostering professional equality between men and women, notably through the introduction of measures to ensure wage equality and the principle of equitable wage treatment between employees who are pregnant or on maternity leave and other employees. The company has also established an annual comparative diagnostic of the average salaries of men and women;
- the 2015-17 Agreement on professional equality between men and women aims to:
  - perpetuate the measures and tools already in place on professional gender equality,
  - pursue and reinforce the efforts to resist any form of stereotyping by employees and the in-field management, thereby ensuring the positive evolution of the company culture,
  - take concrete measures to ensure that gender equality is an integral part of all human resources processes to eliminate any discrimination between men and women at the earliest opportunity (mobility, training, compensation, career development, etc.). This notably involves neutralizing the factors liable to slow career progression for women, removing any obstacles to diversity, promoting the exercise of leadership by women and giving women access to positions of responsibility;
- with the signature of the 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 contractual agreement-based policy, the company is committed to reducing any wage disparities between men and women. Since 2008, the annual wage agreements have enabled the implementation of a special wage equalization measure whose modalities were presented to the unions. This measure was again applied in 2015.

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.

During 2015, two pilot initiatives were launched following research conducted amongst managers on their perception of the balance between men and women within the business (with the participation of IMS-*Entreprendre pour la Cité*):

- a mentoring scheme was established for high-potential women, alternating collective with individual coaching sessions to promote access for women to positions of responsibility at the highest level within the company and the Group;
- a special training module was established to support employees returning to work after maternity and/or parental leave, aimed at enabling a smooth transition back into working life within the framework of a positive work/life balance.

These initiatives will be pursued in 2016.

The operation of a flight by a women-only crew for International Women's Day on March 8 has been an established tradition within Air France for the past eight years even if other flights are operated with 100% female crews throughout the year. On March 6, 2015, Air France thus operated a B777 flight regrouping one pilot, two co-pilots, one senior flight attendant, two chief flight attendants and twelve hostesses bound for Seoul.

The company also continues to participate in external awareness-raising initiatives with, for example, in 2015, the:

- participation of Air France employees (including female pilots) in the Women in Aviation Day in Mureaux during September 2015 organized by the French Association of Women Pilots (AFFP);

- participation of the Maintenance division in the *Féminisons les métiers de l'Aéronautique* operation, in partnership with Airemploi, aimed at promoting women's access to the Aeronautics profession and the technical aeronautics professions which are traditionally seen as a male preserve to school girls (nomination of female sponsors including ten at Air France, site visits, etc.). 400 young girls and their sponsors thus came together on June 16, 2015, during the Paris air show at Le Bourget, for the awards ceremony of a poster competition illustrating the role of women in the aeronautics industry.

Policy on disability

In 2015, Air France hired twelve 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 continued its recourse to businesses and organizations in the adapted and sheltered employment sector, with spending on procurement from this sector amounting to approximately €16 million in 2015 (€18.5 million in 2014).

Since 1991, Air France has been committed to a pro-active social and vocational integration approach focusing on persons with disabilities, formalized in a three-year collective agreement approved by the French Ministry of Labor and Employment (DIRECCTE) which monitors the implementation of this policy and verifies the achievement of the targets.

The ninth three-year agreement covering 2015-17 was signed with the unions at the end of 2014.

Air France's employment rate for workers with disabilities stood at 5.22% in 2014, a figure higher than its level of the previous year. Air France is pursuing its pro-active policy on the four cornerstones of the three-year agreement, namely recruitment, support for disabled employees with their workplace integration and maintained employment, resource to the adapted and sheltered sector and awareness-raising on disability issues. 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 2015. The company also renewed multiple partnerships to inject a new dynamism into Air France's action in the disability area.

KLM

Gender equality and equal opportunities

KLM is committed to gender equality and, in 2015 for example, two women were appointed to the KLM Board of Directors.

KLM is also committed to the respect of sexual orientation. The Over the Rainbow LGBT social network, launched in 2010 and bringing together gay, bisexual and transgender employees, listens to and provides advice for employees and ensures their equitable treatment, irrespective of sexual orientation. The network has seen steady growth with members numbering around 375 at the end of 2015 (up from 350 in 2014). In 2015, KLM Over the Rainbow launched an "It Gets Better Movie" in which KLM colleagues recount their personal stories. Furthermore, together with Leiden University, KLM Over the Rainbow conducted a survey into the current state of Diversity & Inclusion at KLM. This survey aimed to establish whether workplace experiences, treatment, and well-being were different for heterosexual and LGBT staff within KLM. The results were presented in an Open Podium session in November 2015.

The percentage of women staff within the KLM Group rose to 42.7% in 2015 from 42.6% in 2014. Despite the very limited number of external hires, this increase was also seen at the level of the senior management and executives, where the percentage of women moved up from 20.5% to 21.2%.

The Diversity Council, established in 2013, met six times in 2015. These meetings mainly addressed issues such as the promotion of diversity across the organization and raising awareness. Concrete goals have been set, such as a higher percentage women occupying the function levels MSG3 to 6. Diversity has become one of the themes featured in the divisional plans on Management Development.

In 2015, a Diversity Manager was appointed who then launched a Diversity Journey, whose main goal is to raise awareness and set the agenda for the next few years. Particular attention is paid to diversity within teams, skills management and ensuring the diversity and inclusion policy is an integral part of the company's culture. A number of events were organized for KLM employees. Diversity will be embedded in the cultural change program at KLM which will be rolled out in the coming years.

Vocational integration of persons with disabilities

With the new Participation Act (*Participatiewet*) in force as of January 2015, the Dutch government has introduced legislation aimed at maximizing the vocational integration and potential economic contribution of disabled persons to the Dutch labor market. Government and businesses have set themselves a collective goal of creating 120,000 additional jobs for persons with disabilities by 2026, with Dutch companies responsible for some 100,000 of these additional jobs.

In view of the difficult economic backdrop and within the framework of Dutch legislation, KLM is committed to actively furthering the vocational integration of disabled persons and to maximizing their potential economic contribution. In 2015, KLM joined Aviation Included (*Luchtvaart Inclusief*), an aviation industry initiative in the Schiphol region, which aims to create more jobs for persons with disabilities. This co-operation, coordinated by the Schiphol Aviation College, is a concrete response to the new Dutch Participation Act.

Furthermore, in 2015, KLM began to offer three internships in the baggage handling department to young people with little in the way of academic qualifications. These internships help KLM to gain experience with these target groups operating within KLM.

Besides opportunities within KLM, KLM is exploring other opportunities in cooperation with its suppliers to promote the vocational integration of persons with disabilities.

This represents a common goal for both KLM and its employees. Based on government guidelines, occupational physicians evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and employees on the adjustments in working hours, types of work and work station adaptations that are required to optimize the potential of employees with disabilities.

KLM continues to offer an employment guarantee to individuals whose disability rate is assessed at below 35% (implied capacity is therefore > 65%), meaning that they either remain employed by KLM or receive support in securing employment outside the company. For employees with disabilities making them incapable of work, and who are within seven years of the legal retirement age, KLM offers protection from layoffs.

Employees touched by a situation of disability and returning to work receive 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 complete a new application process. Since 2010 KLM has benefited from an Advisory Committee supporting the monitoring of these measures and proposing improvements. In 2015, this Committee reviewed 533 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. The UWV (the Dutch body which defines disability rates) has recognized and supported KLM's efforts in this area.

At KLM, the number of employees with disabilities stood at 732 in 2015 versus 750 in 2014.

4.2 SOCIAL INDICATORS FOR THE GROUP

4.2.1 Consolidated social data for the Air France-KLM Group

Headcount at 12/31[1] (permanent contracts and fixed-term contracts)	2013	2014	2015	Change
		Air France-KLM Group		
Scope of NRE Social reporting	**96%**	**96%**	**95%**	**-1.0%**
Total staff	**100,569**	**99,277**	**96,282**	**-3.0%**
Ground staff	66,512	65,545	**63,110**	-3.7%
Cabin crew	25,548	25,282	**24,947**	-1.3%
Flight deck crew	8,509	8,450	**8,225**	-2.7%
Staff under permanent contract	**96,368**	**94,592**	**92,044**	**-2.7%**
Recruitment under permanent contract at 12/31[2]	1,253	1,648	**1,333**	-19.1%
Recruitment under fixed-term contract at 12/31[2]	4,249	5,643	**5,896**	4.5%
Departures at 12/31[3]	9,975	10,577	**11,638**	10.0%
Of which redundancies (incl. economic)	492	455	**445**	-2.2%
Percentage of women at 12/31[4]	42.9%	43.2%	**43.3%**	0.1%
Percentage of part-time employees at 12/31[4]	27.4%	27.7%	**27.8%**	0.4%
Breakdown of staff by age at 12/31				
≤ 29 years	7,878	7,058	**6,432**	-8.9%
between 30 and 39 years inclusive	28,081	24,938	**22,317**	-10.5%
between 40 and 49 years inclusive	37,259	36,823	**36,288**	-1.5%
50 years and above	27,351	30,458	**31,245**	2.6%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	4,483	3,733	**3,807**	2.0%
North & South America	2,029	2,021	**1,871**	-7.4%
Caribbean/Indian Ocean (including French overseas territories)[5]	1,042	1,034	**971**	-6.1%
Asia/Pacific	1,728	1,702	**1,588**	-6.7%
Africa/Middle East	1,531	1,466	**1,342**	-8.5%
The Netherlands	30,496	30,477	**30,101**	-1.2%
Continental France	59,260	58,844	**56,602**	-3.8%

(a) Air France Group: Air France and Air France subsidiaries.
Air France subsidiaries: Aero Maintenance Group, Airlinair, BlueLink, Brit Air, CRMA, Régional, Sodexi, Transavia France and in the Servair Group: ACNA, OAT, Passerelle, Servair SA, PAC SA.
(b) 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[a]				KLM Group[b]			
Total Air France Group		Of which Air France		Total KLM Group		Of which KLM	
2014	2015	2014	2015	2014	2015	2014	2015
94%	93%	100%	100%	98%	98%	100%	100%
64,615	61,949	52,541	49,901	34,662	34,333	28,805	28,384
44,721	42,569	34,786	32,763	20,824	20,541	16,934	16,509
15,081	14,736	13,991	13,583	10,201	10,211	9,055	9,050
4,813	4,644	3,764	3,555	3,637	3,581	2,816	2,825
61,680	59,287	50,881	48,426	32,912	32,757	28,155	27,665
884	838	388	390	764	495	694	321
4,418	4,661	1,585	2,040	1,225	1,235	190	335
8,753	9,492	5,247	6,363	1,824	2,146	798	1,094
343	315	112	110	112	130	78	87
43.5%	43.5%	45.2%	45.5%	42.6%	42.7%	43.4%	43.6%
21.5%	20.8%	24.5%	23.6%	39.1%	40.3%	40.3%	42.0%
4,423	3,859	3,113	2,612	2,635	2,573	1,556	1,463
16,900	14,800	13,944	12,001	8,038	7,517	6,422	5,901
24,519	24,521	20,144	20,131	12,304	11,767	10,514	10,024
18,773	18,769	15,340	15,157	11,685	12,476	10,313	10,996
1,505	1,383	1,504	1,382	2,228	2,424	930	940
1,557	1,436	1,294	1,204	464	435	463	435
979	917	774	719	55	54	55	54
752	720	748	716	950	868	950	868
985	902	958	881	481	440	481	440
43	43	43	43	30,434	30,058	25,876	25,593
58,794	56,548	47,220	44,956	50	54	50	54

4.2.2 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)[a]

	2014	2015	Change
Absenteeism[1]			
Due to illness	*3.81%*	***3.91%***	*3%*
Due to work accidents	*0.69%*	***0.72%***	*4%*
Maternity leave	*0.88%*	***0.75%***	*-15%*
Health and safety			
Total workplace accidents[2]	2,283	**2,256**	-1%
Number of fatal workplace accidents	0	**1**	
Frequency rate of workplace accidents[3]	*31.04*	***30.93***	*0%*
Severity rate of workplace accidents[3]	*0.87*	***0.96***	*10%*
Training			
Number of training hours by employee[4]	28	**29**	2%
Disabled staff[5]			
Total staff with disabilities	1,699	**1,560**	-8%
Total staff with disabilities recruited during year	23	**12**	-48%
Yearly spending in the sheltered sector in M€[6]	18	**16**	-11%
Signed collective agreements	**36**	**22**	

(a) Data in italics concerns only Air France in Continental France and the French overseas territories.
(1) (2) (3) (4) (5) (6): See Note on the Methodology.

Air France subsidiaries

	2014	2015	Change
Scope of reporting for Air France subsidiaries	**75%**	**71%**	**-5%**
Health and safety			
Total workplace accidents[2]	959	**1,031**	8%
Training			
Number of training hours by employee[4]	18	**22**	23%
Disabled staff[5]			
Total staff with disabilities	622	**605**	-3%
Total staff with disabilities recruited during the year	16	**10**	-38%
Signed collective agreements	**52**	**40**	

(2) (4) (5): see Note on the Methodology.

4.2.3 Other social data for the KLM Group (according to local legislation)

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

	2014	2015	Change
Absenteeism [(1)]			
Due to illness	5.64%	**5.97%**	6%
Due to workplace accidents	0.13%	**0.11%**	-15%
Maternity leave	0.49%	**0.53%**	8%
Health and safety			
Total workplace accidents [(2)]	199	**232**	17%
Number of fatal workplace accidents	0	**0**	0%
Frequency rate for workplace accidents [(3)]	4.25	**5.12**	20%
Severity rate of workplace accidents [(3)]	0.22	**0.18**	-18%
Training			
Number of training hours by employee [(4)]	NA	**31**	NA
Disabled staff [(5)]			
Total staff with disabilities	750	**732**	-2%
Signed collective agreements	**0**	**3**	

(a) KLM: data concerns KLM without international staff.
(1) (2) (3) (4) (5): see Note on the Methodology.
NA: Not Available.

KLM Subsidiaries

	2014	2015	Change
Scope of reporting for KLM subsidiaries	**94%**	**94%**	**0%**
Health and safety			
Total workplace accidents [(2)]	159	**86**	-46%
Number of fatal workplace accidents	0	**0**	0%
Frequency rate for workplace accidents [(3)]	15.25	**8.62**	-43%
Severity rate of workplace accidents [(3)]	0.10	**0.29**	190%
Training			
Number of training hours by employee [(4)]	NA	**38**	NA
Disabled staff [(5)]			
Total staff with disabilities	92	**89**	-3%
Signed collective agreements	**7**	**6**	

(2) (3) (4) (5): see Note on the Methodology.
NA: Not Available.

4.3 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 Régulations 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 that 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, a department of KPMG SA, for review before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to appoint one of its Statutory Auditors, KPMG Audit, a department of KPMG SA, to be responsible for verifying a selection of its reported social indicators.

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

- attest that the required CSR information is presented 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 French Commercial Code (Statement attesting to the presence of the CSR information);
- express a moderate assurance conclusion on the fact that the CSR data, taken as a whole, are presented in all their significant aspects, in a true manner pursuant to the standards (Reasoned opinion on the true nature of the CSR information).

4.3.1 Reporting scope

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

The NRE reporting scope covers 95% 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 exercises 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.

Three entities exceeding the above thresholds, NAS Airport Limited, Service Abidjan and BlueLink International CZ, are excluded from the scope due to difficulties currently being encountered with their inclusion in the reporting process. A number of measures have been taken to progressively expand the reporting scope to these three subsidiaries in the coming financial years. Note that the number of employees for Air France and KLM and their subsidiaries comprises their entire workforces including staff employed internationally:

- for the 2015 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Airlinair, BlueLink, Brit Air, CRMA, Regional, Servair Group (ACNA, Orly Air Traiteur, PAC SA, Servair SA and Passerelle), Sodexi and Transavia France, representing 71% of the employees of the subsidiaries in the Air France Group;
- for the 2015 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.

The Air France and KLM reporting scopes remained unchanged between 2014 and 2015.

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 2015 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.

4.3.2 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 meeting to launch the process and 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.

4.3.3 Details and methodology – comments on changes in the indicators

"Consolidated social data for the Air France-KLM Group" table

This table presents the indicators relating to employees, recruitment, departures, the proportion of women employees and the percentage of staff 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 social indicator tables, *paragraph 4.2.1, pages **114** to **115***.

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 2015 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: for 2015, the Air France Group employees in the French Overseas Territories and Dominions, *i.e.* 659 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.

This explanation is not applicable to the "Number of training hours by employee" indicator which was not reported by the KLM Group in previous years and, for this first financial year, has a limited reporting scope detailed in *Note 4, page **120***. The consolidated indicator will be reported once the indicator's reporting scope is exhaustive at the level of the Air France-KLM Group.

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 (less than 20% of the Air France-KLM Group headcount), the monitoring measures being in the verification process at the level of these entities. Measures will be taken to progressively expand the reporting scope of this indicator in the coming years.

— Air France

Note 1: the absenteeism rates are calculated based on the hours of absence expressed as a ratio of the hours theoretically worked (excluding leave). For Air France flight crew, absenteeism is broken down into days then converted into hours by multiplying by five hours.

The absenteeism rate for accidents in the workplace also takes into account travel-related accidents.

— KLM and KLM subsidiaries

Note 1: since the 2014 financial year, the absenteeism rates due to work-related accidents or illness have been reported separately.

The absenteeism rates are calculated by expressing the number of calendar days of absence as a percentage of the calendar days theoretically worked (365*FTE days theoretically worked). Absenteeism is tracked on the basis of figures declared by the KLM entities in the Netherlands.

Health and safety – work-related accidents

There are significant differences in the definition criteria for work-related accidents between France and the Netherlands (*see also paragraph on absenteeism*).

— Air France and Air France subsidiaries together with KLM and KLM subsidiaries

Note 2: work-related accidents taken into account are work-related accidents involving time off work (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.

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 financial year. Part-time working for health reasons is booked as sick leave.

The frequency and severity rates for work-related accidents in Air France subsidiaries (around 13% of Air France-KLM Group headcount) are not reported due to the absence of a centralized reporting procedure. Measures will be taken to progressively expand the reporting of these indicators in the coming years.

— **KLM and KLM subsidiaries**

Note 3: the frequency and severity rates are calculated for all staff based on the hours theoretically worked.

The days lost for work-related accidents are tracked based on figures declared by the KLM entities in the Netherlands.

Training

Note 4: the "Number of training hours by employee" indicator is calculated based on all the training sessions, divided by the average monthly headcount.

— **KLM and KLM subsidiaries**

Note 4: the hours of training dispenses to KLM Group administrative employees and the hours of training given to employees of the Transavia and Martinair subsidiaries in the Netherlands (less than 10% of the Air France-KLM Group headcount) are not booked in the "Training Hours" indicator due to there being no information population process in place. Measures will be taken to progressively expand the reporting of these indicators in the coming years.

Number of disabled employees

— **Air France and Air France subsidiaries**

Note 5: for Air France, the number of disabled employees are those who, based in Continental France and the French Territories and Dominions, were on the payroll on December 31, 2015 and 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 2015 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: the definition of a disabled person varies according to the local legislation governing the entities in the Netherlands and the United Kingdom.

For KLM and KLM's Dutch subsidiaries, 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.

For KLM's UK subsidiaries, the reported number of employees with disabilities refers to the employees on the payroll at December 31, 2015, for whom a valid certificate, pursuant with national legislation, is available.

— **Air France**

Note 6: "yearly spending in the sheltered sector" indicator. This concerns useful revenues (which is to say linked to the cost of labor) expressed in millions of euros generated with companies in the protected sector. This is an estimated figure as of the date of publication, ahead of the final submission of the declarations within the framework of the DOETH (mandatory declaration of employees with disabilities).

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 the priorities which are key to its business and those that stakeholders deem 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 also enables the Group to understand the changes taking place in wider society more effectively, and to identify emerging issues. Such interaction also enables an improvement in the Group's reporting. 2015 saw the disclosure of more comprehensive information on the materiality of CSR priorities, on the measures taken to mitigate the impacts linked to climate change, on waste management and the circular economy, and on training programs followed by staff based in the international outstations.

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

- internal barometers and meetings to garner employee suggestions;
- customer perception and satisfaction surveys;
- materiality testing of representative individuals;
- dialogue and evaluation of supplier Corporate Social Responsibility performance;
- exchange of best practices and working groups within the industry and with other large companies;
- discussions with shareholders and Socially Responsible Investment (SRI) investors together with recommendations from extra-financial ratings agencies;
- opinions and remarks gleaned from the dedicated email addresses, websites and the social media;
- feedback channels deployed to enable stakeholders (particularly employees, customers and local residents around airports) to communicate any complaints.

Some examples of stakeholder dialogue:

Employees

- annual perception study on CSR: participation of 13,231 Air France employees in 2015. 55% of staff members see CSR as an integral part of Air France's strategy, 47% feel personally engaged and 94% would like to see a higher level of involvement from the company. The actions considered to be priorities within the major themes are as follows: reducing and recycling waste, offering innovative and sustainable products and services, guaranteeing high standards of health and safety in the workplace, supporting humanitarian and environmental projects, protecting and promoting Human Rights;
- survey on commuting organized by the *R'Pro'mobilité* inter-company association, of which Air France is a member, and which was created to improve travel for employees at the Paris-Charles de Gaulle hub: participation of 4,400 employees from the seven member companies of the association. 84% favor cars as their main means of transport and 9% public transport. The average daily round-trip journey time recorded for employees at the hub is 106 minutes between their homes and workplaces, including all forms of transport. 73% of employees remain satisfied with their current transport solution;
- on the Air France-KLM Yammer platform, a dedicated "CSR at KLM" page was launched in 2015 to facilitate employee communication and interaction. At the end of 2015, there were 220 members of this group.

Customers

- CSR perception survey of Flying Blue customers: this survey enables a better understanding of customer expectations and the identification of issues they deem to be priorities. Main issues identified in 2013: investing in a modern fleet, reducing water and energy consumption and waste, supporting aviation-related research and research into renewable energies. A new survey will be carried out in 2016. Furthermore, two group meetings and a survey of more than 6,400 customers was carried out in 2015, firstly to verify the level of knowledge and acceptability of sustainability initiatives in the air transport industry and, secondly, to measure the level of interest in biofuels amongst airline passengers;
- KLM Takes Care online platform: the KLM Takes Care website posts articles and videos, and offers customers the opportunity to share their ideas on sustainability topics;
- KLM customers and suppliers participated in a CSR Dutch Heroes in Sustainability and Innovation seminar during the KLM Open Golf tournament;
- Social media: 20.4 million friends on Facebook and 3.22 million followers on Twitter. Air France and KLM are communicating more widely on the social media. For example, in 2015, the videos accompanying the Lab'line project were posted on Twitter.

Partnerships and NGOs

- WWF-Netherlands: WWF-NL participated in the brainstorming process on KLM's options and objectives within the framework of the establishment of the company's CSR strategy for 2020, notably on biofuels and sustainable catering;
- associations dedicated to CSR: as a member of associations like IMS-*Entreprendre pour la Cité*, *Entreprises pour l'Environnement* (EpE), *Orée*, Comité 21 and Global Compact France, Air France maintains a permanent dialogue with experts and other French companies;
- UNICEF the Netherlands: partnership with KLM to promote knowledge and increased expertise on the issue of Children's Rights impacted by the airline sector, and aimed at raising awareness.

4.4.2 Fair commercial practice

Air France-KLM's Corporate Social Responsibility Statement affirms the Group's commitment to fostering fair practices with all its stakeholders. As signatories of the United Nations Global Compact, Air France and KLM are committed to respecting and applying in their sphere of influence the fundamental principles of human rights, and to combating all forms of corruption. Every year, Air France and KLM renew their commitment to the United Nations Global Compact and have obtained the Advanced Level status.

A commitment to respecting Human Rights

In its Social Rights and Ethics Charter, the Group undertakes to respect human rights and oppose all forms of child and forced labor. Employees have the right to working conditions that respect their health, safety and dignity, and which guarantee social dialogue. The charter applies to all Air France and KLM employees and to those in their European subsidiaries.

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 properly respected, everywhere in the world. Suppliers are invited to sign a Sustainable Development Charter based on the principles of the United Nations Global Compact.

Furthermore, particular attention is paid to children's rights. Since 2013, KLM has been working with UNICEF Netherlands on Children's Rights and Business Principles (CRBP) and their impact within the company.

Affirming the business conduct rules

Air France-KLM ensures that ethical principles are respected in the way it does business and has formalized these principles in a series of documented guidelines. 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 functions 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 certain employees with access to inside 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.

The Group has developed an Anti-Corruption Program to raise employee awareness of the international legislation and regulations in force governing business ethics and compliance. An Air France and KLM Anti-Corruption Manual was circulated at the end of 2013 and is available to all Air France and KLM employees in French and English. It is currently being deployed with the Air France Group subsidiaries. At the end of 2014, the Manual was supplemented with an e-learning module on the prevention of corrupt practices, enabling everyone to ensure a high degree of integrity in their business relationships. This module is composed of a training phase to understand the definitions and principles, then a series of practical examples enabling the recognition of at-risk situations. Lastly, there is a test phase to verify the knowledge acquired. More than 13,300 Air France and KLM employees were offered this training module in 2015.

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. A range of 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 in posts requiring 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 functions.

4.4.3 Measures to safeguard consumer health and safety

Flight safety and risk management

Flight safety is paramount for Air France-KLM. It is key to retaining 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 checks and certifications, 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. At the end of the IOSA audits in September 2014 and January 2015, the Air France and KLM certification was renewed for a two-year period.

To achieve the highest attainable standard of flight safety, the two airlines continuously update and upgrade their respective Safety Management Systems (SMS) which deal specifically with the management of aviation risks. The SGS is an integral part of the airlines' organization, processes and cultures, and is validated at the highest level of management within the Group, and by training and awareness-building initiatives for all members of staff.

Air France's Integrated Management System (IMS) covers the following areas: flight safety, health and occupational safety, service quality, operational performance, environment, food safety and security. It enables the analysis and management of risks within the framework of a coordinated approach. The IMS aims to ensure operational safety standards, transverse consistency and overall steering oriented towards the on-going improvement of all the processes in these areas.

KLM's Integrated Safety Management System (ISMS) covers occupational safety, operational safety, operational security and the environment. In all these areas, the ISMS provides a framework for continuously reducing safety risks to an acceptable level. In 2014, the system was approved by the Dutch Civil Aviation Authority.

More generally, flight safety is an integral part of the risk management procedures (*see Chapter 3 Risks and Risk Management, on page **76***).

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.

Air France 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. This risk domain is now an integral part of the company's Integrated Management System. It is within this framework that the ISO 22000 certification was renewed in 2014 for a three-year period, following a unique IMS certification audit. In 2016, the "Food services in the Paris departure lounges" process will be included in the ISO 22000 certification scope.

To ensure strict control over standards of hygiene, Air France carries out some hundred hygiene checks and around 15,000 in-house microbiological checks each year of the 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 for a total volume of 19,000 tons on departure from Paris.

All Air France and KLM cabin crew are qualified in first aid and the aircraft are systematically equipped with first aid kits and automated external defibrillators. To prevent the risk of thrombosis, an in-flight video on long-haul services screens exercises for passengers. Air France's 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 their outbound flights, on arrival at their destinations and during their return flights. 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

Paris-CDG and Amsterdam-Schiphol airports are hubs offering multiple connections. They form an extensive, high-quality network which generates an attractive business environment.

With 90% 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. The KLM Group is the third largest private sector employer in the Netherlands with 30,058 of the 65,000 directly-generated jobs in the Schiphol catchment area.

With more than 39,200 employees in the Île-de-France, Air France is a leading private sector employer in the Paris region. In September 2015, the airline reaffirmed its commitment to the Paris region with the bringing into service of Hélios, a new workshop dedicated to aerostructure maintenance based at Paris-CDG.

Through their purchasing volumes, the two companies also contribute to regional and national development: 74% of Air France's procurement in France (excluding fuel) comes from the Paris region, and represents a total of €2 billion in France.

The Group's operations also generate numerous direct and indirect jobs around their hubs: ground handling and catering services, cleaning and the sub-contracted services required for aircraft operation. In the Île-de-France region, the airline industry represents 115,000 direct jobs, *i.e.* 2% of regional employment. Including indirect and spin-off jobs, the industry generates more than 270,000 jobs linked to aviation. Proximity to the airport leads to the development of other activities like hotels and congresses, company show-rooms, commercial and marketing functions, innovative activities, business services, catering and retailing.

The Group fosters innovation by supporting small and medium-sized companies and start-ups. Air France is a signatory of the Charter for Public-Owned Companies in Favor of Innovative SMEs and participates in the annual survey. The scores given by small and medium-sized companies confirm the quality of the relationships between Air France and its suppliers, while enabling the airline to identify areas for improvement.

Air France is a partner of Paris&Co and a member of start-up incubators (Welcome City Lab, Starburst). Within the framework of the Lab'line for the Future project, seven French start-ups were selected to test their products on the Toulouse-Orly route and benefit from an innovative "miles" crowd-funding program: Flying Blue members can donate their "miles" to these start-ups to help them with their development projects.

In 2009, KLM and its partners, Schiphol airport, Rabobank and Delft University, jointly created the Mainport Innovation Fund, aimed at accelerating innovation in the air transport industry by investing in start-ups.

Air France contributes to the promotion of France as a destination in its advertising campaigns and on-board magazine, supports tourism in France with Atout France, supports the French bid for the 2025 universal exposition and, in 2015, signed a partnership with the French Ministry of Culture to showcase France's artistic and cultural heritage.

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.

Air France is a permanent member of all the Environmental Advisory Committees (CCE) and Advisory Committees for Resident Assistance (CCAR) in France. KLM and stakeholders ranging from Schiphol airport to Dutch Government Ministers and local communities 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 an increase in the number of aircraft movements and noise abatement. 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). The CROS was established in 2003 to discuss the development of the airport and noise abatement measures.

Both airlines regularly organize visits to their facilities for elected representatives and other stakeholders to present their activities and engage in dialogue on matters like sustainable development and innovation. During the COP21 United Nations climate change conference, visits were organized enabling the general public to discover the facilities at the Air France hub.

Created in 2003 at the initiative of Air France, the *Pays de Roissy-CDG* association brings together companies, local elected representatives and residents of the Paris-CDG catchment area, enabling projects concerning economic development, housing, transportation, culture, training and research to come to fruition. Through this association, Air France reinforces its territorial foundations and works in partnership with the local players.

Air France is contributing to the major debates on the projects set to shape the areas surrounding its hubs over the coming two decades, such as the consultation process on the *Nouveau Grand Paris*, *Métropole du Grand Paris* and *Grand Roissy* infrastructure projects. Air France is also involved alongside other regional players with the Aerotropolis Europe and Hubstart Paris associations to reinforce the international profile and economic attractiveness of Paris-CDG airport.

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 educational programs for young people.

Initiated by Air France in 2010, the project OPEN (*Ouvrons nos Portes à tous les Élèves Naturellement*) aims to enable teenagers coming from priority districts to spend one week learning about the Air France professions. In 2015, this initiative was repeated and 28 pupils from seven local schools were welcomed to the airline's head office. Educational and vocational workshops held over a one-week period gave the young visitors an unparalleled opportunity to research a potential career in the corporate sector.

Since 2013, KLM has 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 training programs (*see also paragraph 4.1.2*).

The two companies notably support the following associations:

AFMAé trains air transport industry apprentices at its training center which provides 25% of the training for the air transport professions in France.	458 young apprentices trained in 2015 of whom 234 were welcomed by Air France.
Airemploi offers information on career opportunities and training courses in the air transport and aeronautical professions.	In 2014-15, 210 *Terre et Ciel* conferences attended by 4,278 school children, 28 *Terre et Ciel* conferences and 12 workshops with 624 careers advisors, and 58 trade fairs and seminars with 8,233 people. Projects to promote a better professional balance between men and women such as the *Féminisons les Métiers de L'Aérien* operation.
JEREMY (*Jeunes en Recherche d'Emploi à Roissy et Orly*) promotes the vocational integration of young local people without formal qualifications who are excluded from the workplace through a scheme combining training with work experience and social support.	In 2015, 61 interns completed a foundation course leading to a qualification within Air France. These initiatives are implemented in partnership with the Île-de-France region, local support agencies and job centers, the Apprenticeship Training Centers (CFA), and regional institutions and associations. More than 200 interns welcomed to a new training initiative focused on English as used in airports within the framework of a regional development scheme. Twelve interns were trained in airport security and a further 16 in the receptionist profession.

The *Fondation de la Deuxième Chance* contributes to the realization of professional projects by vulnerable people.	Since 2005, through its Sodesi subsidiary, Air France has been committed to the *Fondation de la Deuxième Chance* for which it coordinates the airport catchment area site located in Roissy.
The Regional Education Centers (ROC) provide vocational training.	The KLM Maintenance division partners five ROC establishments and offers internships to students training to be aeronautics mechanics. In 2015, 50 ROC students benefited from internships at KLM.
The JINC Amsterdam Foundation gives young people from eight to sixteen years of age the opportunity to learn what the labor market has to offer and the skills required for specific jobs.	Since 2013, KLM has provided 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 school and secondary-level vocational 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 promoting international development, particularly through its support of NGOs and projects sponsored by its own employees. Concretely, Air France-KLM supports development projects in various different ways:

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which, in 2015, actively intervened in 82 projects across 31 countries.

For more than three decades the airline has partnered the Acting for Life NGO, which promotes child protection, economic development and sustainable tourism. In 2015, the organization supported 40 projects in Africa, Asia, Latin America and Europe.

Air France has also supported *Aviation Sans Frontières* (Aviation Without Borders) since its creation in 1980, providing it with financial assistance and transport facilities for crews deployed in Africa. Many of Air France’s current and retired employees are also involved in volunteer schemes, whether for aircraft maintenance or helping sick children get urgent medical treatment everywhere in the world. Air France also regularly participates in key events with *Aviation Sans Frontières*, helping to raise its visibility.

Air France also acts as an information conduit notably in raising passenger awareness of the devastation caused by child sex tourism, by financing ECPAT International’s prevention campaign and diffusing literature during flights to so-called at-risk destinations.

The KLM AirCares program continues under the name KLM Takes Care, in partnership with UNICEF Netherlands, WWF-NL and five other partners: Close the Gap, Doctor2Doctor, Aviation Without Borders, Wings of Support and SHO.

In partnership with a number of treasured Dutch cultural icons, KLM also makes a major contribution to the preservation and promotion of art and culture to the benefit of local communities and the development of sustainable tourism.

A total of 219 million “miles” were donated by members of the Flying Blue frequent flyer program to partner associations in 2015.

Logistical support

In 2015, through more than 30 partnerships with NGOs providing medical assistance to children, the Air France Humanitarian Aid department issued 504 tickets for medical teams and the repatriation of sick children. Free transportation of excess baggage was also donated to more than 72 NGOs, for the transportation of medical and emergency public health equipment.

In 2015, KLM donated tickets and transported 53 tons of cargo and approximately 500 kg of excess baggage to its KLM Takes Care partners.

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 €15.7 billion in 2015 and was realized with some 4,000 contractual suppliers. Fuel purchasing amounts to some 39% of this expenditure, followed by aircraft maintenance and components, airport and navigation fees and airport handling. 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 volumes which it can use to encourage responsible practices across the supply chain.

For a number of years, the Air France-KLM combined Procurement function has aimed to incorporate Corporate Social Responsibility principles 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 2015, the proportion of suppliers having demonstrated their CSR commitment reached 73%. Since 2015, this charter has been supplemented by a "Supplier Code of Conduct";
- most specification sheets attached to tender documentation list the criteria enabling the evaluation of the environmental impact of the products or services, which are 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 based on the relevant products and services.

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 215 suppliers scored in 2015, consistent with the Air France-KLM CSR compliance policy, those who did not reach an acceptable level will have to implement remedial measures to meet the Procurement division's requirements.

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 commitment was updated in 2015. 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 Supplier Relations Management System (SRMS) was deployed. This system is based on building 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. In 2015, the SRMS was deployed in the procurement domains and established in close liaison with the businesses. Suppliers are deemed to be SRM suppliers when they qualify after being segmented. In the different domains, the SRM approach now applies to 15 suppliers, ranging from aircraft interior cleaning companies, like Asito and Kluh, to facility management companies like Atalian and Sodexo.

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

Procurement also cooperates with associations and companies in the sheltered sector on multiple projects representing approximately €16 million of the Group's procurement (for example, the cleaning of blankets in Economy and Business classes). Through a formalized action plan, it also fosters the development of small and medium-sized companies and start-ups *via* initiatives such as the creation of an innovation counter, and participation in business incubators and themed initiatives such as the Lab'Line for the Future project.

In 2015, for the third time, the Group obtained the "SME label" through the measures pursued within the framework of the "Innovative SME Charter" and its resolute SME supplier relationship commitment was rewarded during the *Trophée des Achats 2015*.

Air France participates jointly with Procurement in responsible purchasing working groups organized by AFNOR.

Partnering local development

The services sub-contracted by Air France-KLM represent a significant number of direct jobs, of which more than three-quarters are based in Europe. The Group also contributes to the development of activity in specific sectors in the regions where the two hubs are located and in the countries served, through purchasing from local suppliers. For example, the Group contributes to developing local activity in the French regions (more than €500 million of contractual procurement in 2015, excluding the 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 Group's external expenses. Based on this estimate, the amount of external expenses, excluding fuel, potentially linked to sub-contracting procurement concerns principally catering, airport handling, aircraft sub-contracting and maintenance. This figure amounted to €2.4 billion in 2015.

Taking into account social and environmental priorities

The obligations of suppliers 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 monitored by a performance indicator included in the company's annual 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 less impact on biodiversity, particularly fish, soy and palm oil.

4.5 ENVIRONMENTAL INFORMATION

4.5.1 Overall environmental policy

Organization and responsibilities

The Group's environmental policy is enshrined within its Corporate Social Responsibility Statement, signed by the Chairman and Chief Executive Officer of Air France-KLM, and providing a framework for action and the establishment of a series of environmental goals and targets.

At Air France, the Environment and Sustainable Development policy is steered by an Executive Vice-President who is a member of the Executive Committee. At KLM, this role is fulfilled by the President of the Managing Board, as Chairman of the Executive Committee.

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 monitoring the programs in each company. The two departments closely coordinate their activities and steer the Group's environmental strategy, while carrying out the common environmental reporting. They are also responsible for the deployment of the Environmental Management Systems in their respective companies.

At Air France, the Environment and Sustainable Development department establishes the environmental policy, ensures the consistency of the action plans in the divisions and coordinates the network of Environmental managers. Individual divisions are then responsible for applying the environmental policy across their scope and appointing the environmental managers to be in charge of deploying the Environmental Management Systems. They ensure regulatory compliance in their business segments, implement the risk mitigation action plans and monitor the upgrade plans.

The deployment of the environmental policy is reflected in the establishment of contracts based on annual targets. Signed at Executive Committee level by the Chairman and Chief Executive Officer and by the Executive Vice-Presidents for each entity, these contracts set both quantitative and qualitative targets. In 2015, the environmental targets included aircraft energy efficiency, the energy efficiency of the ground operations, a reduction in the noise footprint, waste recycling and regulatory compliance.

At KLM, the Corporate Social Responsibility (CSR) & Environmental Strategy department steers, advises and monitors the environmental policy. It is the responsibility of individual divisions, assisted by the CSR and Environment coordinators, to implement this policy. All KLM departments have their own environmental coordinators reporting to the Quality Managers and to the Executive Committee members, who are themselves members of the Safety Review 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 air and ground operations in metropolitan France and the Netherlands. This certification was renewed for a three-year period in 2014 for Air France and in 2015 for KLM.

The Environmental Management System enables the monitoring and control of the implementation of defined actions within each entity and to evaluate, on an on-going basis, the environmental impacts of the company's activity based on a continuous improvement approach. There are also a series of internal and external audits to verify the effective deployment 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.

Employee training and information on environmental protection

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

- Air France offers a number of training modules aimed at maintaining the skills of the Environmental manager network: management of the environmental management system, handling of hazardous products, and the management of waste and Classified Installations for Environmental Protection (ICPE);
- employees in the two companies are offered e-learning modules on Corporate Social Responsibility including the environmental aspects. It is recommended for managers and all those whose functions require such expertise;
- training in responsible driving is available to staff at Air France, offering advice and best practices for safer driving which is more fuel efficient;
- flight crews are regularly informed of the actions deployed to optimize flight procedures and kerosene consumption;
- environmental awareness and incident reporting is an integral part of the basic training for operational staff at both Air France and KLM.

At Air France, within the framework of the Integrated Management System, a documentation system enables employees to identify any manuals, procedures and instructions applicable to their individual functions. To ensure the consistency of the documentation system, an overall procedure sets out the applicable management rules and serves as a reference resource for all the divisions.

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

- Air France and KLM regularly organize, notably during Sustainable Development Week, meetings on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs. In 2015, Air France initiated a cycle of "Managers Cafés" or internal conferences on subjects addressing current sustainable development themes;
- In-house communication channels (newspapers, newsletters, intranet) provide information on the environmental initiatives. In 2015, at Air France, information on the COP21 conference and the Lab'line operation was relayed using these communication resources;
- Awareness-raising initiatives for employees are run on sustainable development through in-house surveys, enabling their perceptions and suggestions to be gathered. In 2015, two surveys were carried out at Air France on sustainable development and commuting to/from work, which met with response rates of 25% and 12% respectively.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

Environmental analysis contributes an accurate picture of the environmental aspects of the company's activities, products and services and their impact on the environment. It also enables the significant environmental aspects to be determined, for which mitigation action plans and risk management measures must be put in place.

At Air France, each division establishes the environmental analysis for its scope based on the methodology established by the Environment and Sustainable Development department, which is available in the airline's documentation system. The company has a number of tools with which to evaluate the environmental risks and to steer the environmental analyses and associated action plans.

The management of ICPE classified installations, whose functioning presents a risk for the environment, is the subject of specific monitoring and the list of Air France's installations is reviewed annually. The company numbers some 150 classified sites, of which most concern the maintenance operations, the other entities being cargo, ground operations and the IT division. The main risks identified – combustion and explosion risk, emissions to the air and effluents in the water – are linked, notably to the use of battery chargers, mechanical engineering involving metals and alloys, the use or storage of flammable, abrasive or toxic liquids and the use of other toxic substances such as lacquers, paints and glues. Air France's ICPE sites in France are included in the Group's environmental reporting.

Emergency situations which represent a significant risk to the environment are first described then preventive measures and intervention instructions are identified. Whenever possible, emergency situation exercises are organized by the relevant divisions.

Environmental risk management also involves the inventorying and analysis of any in-field incidents and malfunctions. Such events are recorded and handled in the e-CARE tool. E-CARE is also a management system for operational incidents and compliance audits. It records all of the data relating to flight safety, customer service, the environment, occupational health and safety, security and food hygiene. For each area of risk, this approach aims to identify the "undesirable events" and "unsafe situations" which are then ranked in a reference matrix.

In 2015, KLM continued the integration of the existing management systems for Operational Safety, Occupational Safety, Environmental Safety and Operational Security into a single Integrated Safety Management System (ISMS). The ISMS provides an overall framework for continuously reducing operational, occupational, operational security and environmental risks, thereby maintaining the highest-possible level of safety. This system implements risk management measures and monitors the results. The integration process will continue in 2016.

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. The Air France Environmental managers regularly meet to analyze, at corporate level, any environmental incidents and define any remedial measures required.

Some risks deemed to be strategic at the level of the company, including environmental risks, are the subject of specific reporting by the Group's Internal Audit and Control division. Every three months, a presentation of the significant operational and financial risks, and the results of any remedial measures deployed, is made to the Executive Committee and the Audit Committee of the Air France-KLM Group's Board of Directors (*see Chapter 3, Risks and risk management, on page **76***).

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

Air France and KLM regularly evaluate the level of environmental regulatory compliance, notably through a regulatory monitoring procedure and internal and external surveillance processes.

At Air France, the French and European environmental regulations are monitored monthly, the relevant divisions being responsible for identifying any changes in local regulations. Every three months, regulatory changes are analyzed with the Environment manager network and the level of compliance at the company's sites is reviewed.

Individual divisions are responsible for establishing and following their proprietary surveillance programs. Internal audits are conducted by qualified auditors pursuant to the central procedure. The results of these audits are shared and may give rise to remedial actions or cross-cutting preventive measures.

External monitoring of regulations and standards is carried out by the governmental and certification bodies.

To ensure compliance with the legal and regulatory requirements relating to Air France and KLM's ground operations in the international stations, the Station Management Manual presents the Group's environmental policy and the contribution of the outstation to environmental risk management. Whenever possible, Air France-KLM outstation operations must be carried out in accordance with the company's recommended environmental practices.

Change management and continuous improvement

The Environmental Management System foresees the evaluation of the environmental impacts during project deployment. As far as possible, the inclusion of analyses of the risks and opportunities of the product or service is recommended throughout its life cycle. This approach aims to reduce the consumption of resources and reduce waste *via* the reuse or recyling of materials.

The monitoring and feedback systems embedded in the Environmental Management System enable any cases of non-compliance with the relevant requirements (regulations, standards, internal reference frameworks, stakeholder requests). Cases of non-compliance may emerge from a number of sources: internal and external audits, inspections, scheduled checks, incident feedback reports, emergency situation exercises, indicators. Every case of non-compliance is the subject of causal analysis and a remedial action plan.

Lastly, Air France and KLM have developed innovative participatory approaches encouraging employees to submit suggested improvements, through dedicated management tools.

Environmental expenditure and investment

Air France-KLM's policy is for environmental management to be an integral part of all its business operations, meaning that it is difficult to identify the portion of expenditure for purely environmental purposes.

The Group continuously invests in new aircraft and the installation of new cabins, thereby offering passengers a higher standard of comfort, achieving substantial fuel savings and respecting its sustainable development commitments by reducing greenhouse gas emissions and noise disturbance for residents around airports.

Furthermore, the air transport industry is subject to numerous 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. *See also Chapter 3 on Risk factors and their management, on page **76***.

To reduce the noise impact on inhabitants of communities around airports, the Dutch and French governments have implemented policies aimed at adapting urbanization as a function of 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 2015, the Group paid a total of €30.2 million in airport noise taxes. The Air France Group's contribution (Air France, Transavia and HOP! Air France) to the Airport Noise Tax (TNSA) paid to the French State for every take-off amounted to €17.2 million. The proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise. In 2015, KLM paid €13 million in noise taxes for sound-proofing and compensation for loss of value in property around Schiphol airport.

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage up to a sum of €50 million per claim and per year, an amount potentially subject to specific sub-limits. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries including those with flight operations like HOP! and Transavia France.

KLM's aviation insurance covers environmental damage due to an aircraft accident, fire or explosion. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable.

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities in this regard.

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 for both 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.

Most of the gas and particle emissions come from aircraft movements (taxiing, takeoff and landing). The remainder is produced by the ground operations and the maintenance activities, airport logistics and road travel by passengers, employees and suppliers.

Air France-KLM reduces its local emissions through three levers:

- a modern fleet with more energy-efficient aircraft;
- ground vehicles and runway equipment which are more respectful of the environment;
- optimized operational procedures for the ground operations: taxiing time, taxiing using only a single engine, the use of auxiliary power units to ensure the functioning of on-board systems, replacing the auxiliary generators on kerosene-powered aircraft.

Air France has implemented a "Company Travel Plan" for its employees, the aim being to reduce pollutant emissions linked to commuting between home and work by promoting public transport, encouraging flexible office hours and remote working for positions that enable this, and creating a car pooling website.

The effluents released from the Air France and KLM's maintenance operations are the subject of regular checks to ensure that the thresholds defined by local legislation 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).

Servair has introduced measures to reduce the evacuation of used water by adjusting the concentrations of detergents in washing machines and the cleaning of buildings, and by deploying systems for the recycling of cooking oils. Substantial investments have been made in waste water pre-treatment stations in the maintenance business.

For the cleaning of aircraft exteriors, Air France uses the EcoShine system, enabling a significant reduction in the quantity of water consumed and the reprocessing of waste water.

Prevention, recycling and evacuation of waste

Across the entire supply chain, Air France-KLM strives to minimize waste and increase the proportion that is recycled or reprocessed. Air France and KLM base their actions on the four principles of the circular economy: rethink, reduce, reuse and recycle.

Air France has set itself a target of recycling 100% of non-hazardous waste and 60% of hazardous waste by 2020. The target set for 2015 was to increase the recycling rates for both hazardous and non-hazardous waste by two percentage points (relative to their level in 2014). Following the study on waste management within the company, a training program has been developed to raise employee awareness of waste recycling and respect of the regulations in force.

Similarly, in 2015, KLM redefined its "no waste of resources and materials" goals by focusing them on waste prevention, reduction and recycling, except for waste where recycling and recovery is not legally permitted.

Around 70% of non-hazardous waste is due to catering and the waste generated on board aircraft. To reduce and handle this waste in a responsible manner, it needs to be sorted effectively and its recycling planned ahead. The Group implements recycling initiatives and is developing the principle of eco-design to reduce the overall impact of waste. For example, at Air France, a significant proportion of reusable equipment, like trays, drawers, blankets and trolleys, is recycled every year.

At KLM, the use of less packaging for products has been a focus of the efforts to reduce the volume of waste. On all the European flights, on-board waste is sorted and the trolleys have been adapted to collect beakers. Glasses, cans, aluminum lids and PET plastic bottles are also sorted and recycled.

Servair and KLM Catering Services run programs to continuously improve their waste management: reduction in waste, increase in the recycled portion and identification of the appropriate reprocessing facilities. Pursuant to the European Regulation, all food waste produced on the international routes is incinerated and used in energy generation.

Air France and KLM have introduced a procedure for recycling metal aeronautical waste. After transformation, a portion of this waste is used to manufacture new components. This program has been extended to four other types of waste: furniture, equipment, pallets and blankets. At Air France, the installation of new long- and medium-haul seats has been accompanied by the implementation of a recycling and dismantling process for the old seats ranging from the reuse and recovery of spare parts to the recycling of foams and metals. Every year, KLM Engineering & Maintenance evaluates the flow of waste that can potentially be reused or recycled.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing system and its management is 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 in the light of regulatory changes.

The two companies are also working on initiatives to up-cycle waste into new uses like, for example, the collection and recycling of used uniforms.

At Air France, re-useable components like medical equipment are recovered from out-of-date on board survival kits. Outdated life vests and giant advertising tarpaulins are used to manufacture travel amenity bags and kits.

Lastly, Air France and KLM work in partnership with players in the aeronautics sector to take the circular economy more effectively into account and identify new potential for recycling and reprocessing facilities. In 2015, they participated in opportunity studies to introduce the circular economy into the catchment areas around Paris-CDG and Amsterdam-Schiphol airports.

Measures taken to limit noise pollution

While accommodating the increasing customer demand for mobility, one challenge for the aviation industry is to maintain noise hindrance at an acceptable level for those living near airports. Air France-KLM has formalized its commitment to noise mitigation by making it a requirement enshrined in its Corporate Social Responsibility Statement.

Fleet modernization and procedural improvements are the two pillars of the Group's noise abatement strategy.

All the aircraft in the Air France-KLM fleet meet the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm covering the acoustic quality of civil aircraft. In 2015, Air France significantly reduced its noise footprint by withdrawing seven B747s from operational service. The last two aircraft of this type were definitively retired from the fleet in January 2016. Fleet renewal enabled a 32.4% reduction in the Air France-KLM Group's noise footprint between 2000 and 2015, whereas the number of aircraft movements increased by 13.7% over the same period.

Specific solutions are also sought to reduce the noise from aircraft. For example, local residents' associations had identified a specific issue with noise coming from the A320 in the approach phase. As soon as a technical solution was available, and although there was no regulation requiring this, Air France decided to fit it on all the aircraft in its medium-haul fleet (A318, A319, A320, A321). In 2015, Air France equipped 85 of its 116 aircraft with Air Flow Deflector noise-reduction kits. A number of residents' associations have already reported the positive impacts coming from this measure: reduction in overall noise energy, faster emergence from noise as the aircraft passes over, disappearance of the characteristic whistling sound. Air France is mobilizing around the equipping of the rest of the fleet by the end of 2016.

Air France and KLM are committed to strengthening their relationships with stakeholders in every territory, with both companies engaging in a permanent dialogue at local level. Within the framework of a number of bodies, they meet with the representatives of local communities, the airport authorities and air traffic control to identify measures and solutions enabling a reduction in the noise hindrance potentially affecting the inhabitants of areas located near airports.

In the Netherlands, KLM participates in the Alders Table which addresses issues surrounding noise. For the region around Schiphol, KLM is a member of the Regional Consultative Committee (CROS).

In France, this dialogue is mainly conducted within the context of the CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all the French airports where it has operations. In 2015, Air France was actively involved in a Night Flights working group, overseen by the Prefect of the region for Paris-Charles de Gaulle. This working group notably proposed new "dead of night" continuous descent procedures and welcomed the voluntary withdrawal of noisy aircraft including Air France's B747s. Lastly, the punctuality of flights scheduled for late at night or early in the morning will be the subject of a specific monitoring procedure.

4.5.3 Sustainable use of resources

Water consumption and the water supply adapted to 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. The activities with the highest water consumption are catering, which represents around 45% of total water consumption, and maintenance where water used to wash aircraft and engines represents some 25% of the overall total.

To clean aircraft exteriors, for several years Air France has used the EcoShine process, introduced in partnership with one of its suppliers. More economical in water and using wipes and biodegradable products, this process has enabled the division by 100 of the required quantity of water, saving around eight million liters of water a year.

Servair and KLM Catering Services continue to deploy tools enabling the consumption of their 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 and the localization of most of its ground operations at the Paris airports and Amsterdam-Schiphol, 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

The Air France-KLM Group is committed to reducing its carbon footprint and optimizing fuel consumption. For flight operations, Air France and KLM are targeting a 20% reduction in CO_2 emissions by 2020 relative to their 2011 level (in g. CO_2/passenger/km).

The main lever in CO_2 emission reduction is fleet renewal since modern aircraft are more fuel efficient. The average age of the Air France-KLM fleet is eleven years. The Group continued the modernization of the fleet in 2015 (*see Chapter 2.8, Fleet, page **169***).

Operational measures can also significantly 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.

Within the framework of the fuel-saving program, Air France's Fuel department aims to identify and implement all potential means of saving fuel while strictly respecting the imperative of flight safety. In 2015, the Fuel department extended the "eco-piloting" initiatives deployed since 2013 thanks to the efforts of pilots. New initiatives having a impact on fuel consumption have also been launched with the pilots. On the medium-haul aircraft, for example, the "idle factor", an operational parameter calibrating the profile and descent of the aircraft, was set at -3 instead of 0, enabling the optimization of fuel consumption on descent. On the long-haul Airbus aircraft, fuel consumption linked to belly cooling has been optimized. Furthermore, within the framework Air France's Lab'line for the Future development program, a weekly flight between Toulouse and Orly was powered with biofuel for the whole of 2015. This flight enabled a 6% saving on CO_2 emissions (500kg of CO_2 emissions per flight), an annual saving of 26 tons.

In 2015, within the framework of the Climate Action Plan, KLM saved 5,000 tons of fuel (relative to 2014) thanks to the deployment of operational measures like fleet renewal and weight reduction.

Energy consumption and measures taken to improve energy efficiency and the use of renewables

Air France and KLM are targeting a 20% reduction in CO_2 emissions from their ground operations by 2020 relative to the 2011 level in eq.kWh/m², by improving energy efficiency and increased use of renewable energies.

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.

In addition to the 2020 target, Air France has set itself a target for 2015 corresponding to a 2% annual reduction in energy consumption (in kWh/m²), notably 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.

Soil use conditions

In view of its activity, the Air France-KLM Group 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

Climate Action Plan

Air France-KLM's Climate Action Plan embodies the Group's strategy for reducing its impact on climate change. The Plan is composed of six main priorities, on which basis targets are identified and action plans established:

- 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 sustainable alternative biofuels 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 2012, the Group has been subject to the application of the EU-ETS on intra-European flights. The EU-ETS, limited to the intra-European scope, should be seen as a first step towards a global system which will need to be defined by the ICAO (International Civil Aviation Organization). Air France, KLM and the IATA airline members are all making an active contribution towards this end.

At the end of 2013, the ICAO reaffirmed its intention of implementing, by 2020, a market-based mechanism for CO_2 emissions. The principles of this mechanism are expected to be adopted in 2016 during the next ICAO Assembly.

Air France and KLM participate in IATA initiatives aimed at proposing operational solutions enabling respect of the emission reduction commitment made by the aviation sector in 2009. The aviation emission reduction objectives are as follows:

- by 2020, a 1.5% annual improvement in energy efficiency;
- from 2020, neutral growth in CO_2 emissions, particularly *via* market-based mechanisms;
- by 2050, a 50% reduction in CO_2 emissions relative to their 2005 level.

In 2015, just a few months before the COP21 meeting in Paris, Air France submitted, to the French Ecology and Foreign Affairs Ministries, its "COP21 Seen from the Sky" manifesto, formalizing its commitment, alongside Aéroports de Paris and the Group of French Aeronautical and Space Industries (GIFAS), to reducing greenhouse gas emissions by 2020.

At the end of 2014, Air France signed the City of Paris Climate Protection Action Plan, backed by the Paris Mayor's office, in which its signatories comprising large Paris-based companies committed, alongside the City of Paris, to reducing greenhouse gas emissions and combating global warming.

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 ground-breaking technologies are envisaged for commercial aviation before 2050 at the earliest.

The Group's goal is to contribute to the establishment of a sustainable biofuels industry for aviation. Air France and KLM have demonstrated the feasibility of operating aircraft powered by biofuel, both safely and sustainably. They have established innovative partnerships with corporate customers, suppliers, airports and logistics partners, to develop a new sustainable biofuels industry for aviation.

Defining demanding sustainability criteria: the Group supports the use of various sustainable raw materials provided their production meets strict standards such as a material reduction in CO_2 emissions, a minimal impact on biodiversity, no competition with food production or access to food resources, and a positive impact on local development. Air France and KLM have been members of the Roundtable on Sustainable Biomaterials (RSB) since 2008, in their capacity as founder members of the Sustainable Aviation Fuel Users Group (SAFUG).

Stimulating the industry: Air France and KLM are members of working groups and support research projects aimed at the creation of a biofuels market for aviation, like 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 a 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. Air France is participating in the Ini-FCA French Future Alternative Fuels Initiative, led by the French Civil Aviation Authority, working towards the production of 200,000 tons of biofuels in France by 2020.

Innovating in the supply chain: in 2010, in cooperation with Argos and Spring Associates, KLM created the SkyNRG venture to develop a sustainable fuel supply chain from purchase to delivery. SkyNRG is now a world leader in bio-kerosenes, supplying more than 15 airline companies globally including Air France-KLM.

Involving customers and partners: as part of its WWF-NL partnership and the Green Deal commitment, KLM launched the BioFuel program in 2012, a first for aviation. Between September 2014 and January 2016, within the framework of the Lab'Line for the Future project, Air France operated a weekly biofuel-powered flight on the Toulouse/Paris-Orly route. This initiative was realized with the help of the fourteen partners involved in this project.

Offsetting emissions

On their respective websites, Air France and KLM give their customers access to CO_2 emission calculators which are directly linked to an offsetting system, enabling passengers to entirely neutralize the carbon emissions associated with their travel, should they so wish.

Air France partners the GoodPlanet Foundation's Solidarity Action Carbon Program for the financing of carbon offsetting projects aimed at promoting renewables to replace non-renewable energies in Peru, Bolivia and India, and implementing waste recycling projects in Madagascar. These offsetting projects are systematically evaluated and registered for accreditation with the most exacting international labels, particularly the Gold Standard (GS) and the Voluntary Carbon Standard (VCS).

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.

Climate change adaptation measures

In its 2014 report, the Intergovernmental Panel on Climate Change (IPCC) assesses the current level of knowledge on climate change and its consequences, together with the potential for adaptation to limit the vulnerability of human societies. The impacts of climate change will concern the entire planet but their consequences will be more or less serious depending on the world region: more frequent extreme weather events, disruption of certain ecosystems, falling agricultural yields, increased health risks, rising sea levels. At regional level, these impacts could be a source of conflict and population migrations.

For air transportation, these impacts could have consequences for route networks and the destinations served. The size of the Air France-KLM network, with services balanced between the different continents and the flexibility linked to fleet composition are all assets when it comes to minimizing the economic consequences of these impacts and adapting schedules to market requirements.

Aviation's mission is primarily to guarantee flight safety, security and the best-possible service to customers, in terms of both service continuity and on board comfort.

Through its international operations, the Group is present in all continents and already operates in all weather conditions. It has thus already deployed the procedures and resources to ensure operations in extreme climate conditions. The Group regularly reviews risk analysis to improve and optimize the existing measures.

The more frequent emergence of extreme climate events could, however, affect flight operations (re-routing, flight cancellations and delays, etc.). In response, Air France and KLM have developed programs in which employees receive special training on the management of emergency situations. The two companies also work with airports to ensure the best-possible operational and passenger handling conditions and, in such circumstances, deploy commercial measures to enable passengers to defer their travel if they so wish, or change their destination.

Health risks and the global geopolitical situation could also have an impact on activity. To respond to epidemic risk situations, Air France and KLM deploy measures which comprise the adaptation of services to some destinations, on-going epidemiological monitoring with the health authorities, training for flight crew on how to handle an infected passenger on board and the loading of special protection kits.

Furthermore, to guarantee the protection of customers and staff in all stations where the Group has operations, the Air France and KLM Security divisions organize the permanent monitoring of intelligence on the international geopolitical situation in liaison with the governmental authorities. The mission of these dedicated teams is to ensure service continuity and, if necessary, implement additional safety measures.

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.

The Holistic Forestry Conservation Program in Madagascar, supported by Air France since 2008 and co-founded by the French Development Agency (AFD) and the French Global Environment Facility (FFEM) since 2014, contributes to the development of the living standards of local communities while protecting the biodiversity of the island. The second phase of the project (2014-17) aims to strengthen the conservation activities, expand and improve the propagation of sustainable alternatives to deforestation, and to validate the project under one of the existing REDD+ international labels.

In 2014, HOP! launched an innovative, collaboration-based project to assess biodiversity around airports, identify best practices and promote natural resource management, within the constraints of aircraft operations taking place. An initial study was carried out of four volunteer airports in France by the HOP! Biodiversity association's scientific committee composed of researchers and multidisciplinary academics. The initiative, launched with the HOP! staff and partner airports, is set to continue, with the aim of involving new partners in promoting the transition to a green economy.

The investment in these projects on advancing knowledge and conserving biodiversity also contributes to understanding the issues surrounding ecosystem services like sustainable biofuel 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 guaranteeing 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 and snacks every 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 sustainable, and particularly products sourced from organic agriculture or of certifiable origin.

KLM's sustainable catering policy focuses primarily on the preservation of biodiversity in production areas but also takes human rights and working conditions into account. Emissions from transportation and packaging waste are also accounted for in the procurement process.

In view of their impact on biodiversity, particular attention is paid to 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 its aircraft. Since 2009, KLM has targeted the introduction of at least 15 sustainable catering products on board each year.

The company is on schedule with its objective of replacing products containing palm oil and non-responsible soya with sustainable products. A number of products that are responsibly labeled, local and respectful of animal welfare are served on board like MSC-certified fish, eggs and chicken. UTZ-certified coffee is served on all KLM flights and in its passenger lounges at Schiphol and administrative offices. Due to its financial situation, KLM is evaluating its responsible catering ambitions for 2016 in line with customer needs and recognition to determine whether its 2020 goals can be maintained.

4.6 ENVIRONMENTAL INDICATORS

4.6.1 Air Operations

Environmental indicators		Unit	2013	2014	2015	Change
				Air France-KLM Group		
Consumption						
Consumption of raw materials	Fuel √	ktonnes	8,755	8,755	**8,752**	0%
Emissions						
Greenhouse gas emissions	CO_2 (3) √	ktonnes	27,576	27,577	**27,569**	0%
Emissions of substances contributing to acidification and eutrophication	NO_x low altitude *(< 3.000 ft)*	ktonnes	9.5	9.9	**10.2**	+3.0%
	SO_2 emissions	ktonnes	11.8	11.8	**11.8**	0.0%
	SO_2 low altitude *(< 3.000 ft)*	ktonnes	0.82	0.89	**0.88**	-1.1%
In-flight fuel jettison	Occurences of fuel jettison	number	33	36	**N/A (4)**	N/A (4)
	Fuel jettisoned	tonnes	1,104	1,283	**N/A (4)**	N/A (4)
Other emissions	HC low altitude *(< 3.000 ft)*	ktonnes	0.8	0.8	**0.8**	0.0%
Noise impact						
Global noise energy indicator		10^{12} kJ	1.62	1.54	**1.70**	+10.4%

√ Figures verified by KPMG for 2015 (reasonable level of assurance).
(1) Air France Group scope: all flights under AF and A5 code operated by Air France and HOP!, all flights under TO code operated by Transavia France.
(2) KLM Group scope: all flights operated by KLM, KLM Cityhopper, Martinair and Transavia.
(3) GreenHouse Gas Protocol scope 1.
(4) Data not available in 2015.

	Air France Group [1]				KLM Group [2]			
	2013	2014	2015	Change	2013	2014	2015	Change
	4,918	4,903	**4,886**	-0.3%	3,837	3,852	**3,866**	+0.4%
	15,491	15,443	**15,392**	-0.3%	12,085	12,134	**12,177**	+0.4%
	6.2	6.0	**6.2**	+3.3%	3.3	3.9	**4.0**	+2.6%
	6.8	6.9	**6.8**	-1.4%	5.0	4.9	**5.0**	+2.0%
	0.54	0.56	**0.55**	-1.8%	0.28	0.33	**0.33**	0.0%
	23	20	**N/A [4]**	N/A [4]	10	16	**10**	-37.5%
	758	671	**N/A [4]**	N/A [4]	346	612	**318**	-48.0%
	0.6	0.6	**0.6**	0.0%	0.2	0.2	**0.2**	0.0%
	1.12	1.03	**1.02**	-1.0%	0.50	0.51	**0.67**	+31.4%

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4.6.2 Ground Operations

Environmental indicators		Unit	Air France-KLM Group 2013	2014	2015	Change
Consumption						
Water consumption		m^3	825,566	792,767	**806,038**	+1.7%
Electricity consumption		MWh	383,605	374,064	**366,243**	-2.1%
Consumption of other energies		MWh	534,375	451,626	**446,276**	-1.2%
Emissions						
Greenhouse gas emissions	CO_2 (3)	tonnes	88,885	78,842	**76,807**	-2.6%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	135	107	**98**	-8.4%
	Emissions of HC	tonnes	137	158	**145**	-8.2%
Emissions of substances contributing to acidification and eutrophication	NO_x	tonnes	675	638	**622**	-2.5%
	SO_2	tonnes	15.8	14.5	**7.8**	-46.2%
Waste						
Waste production	Quantity of non-hazardous industrial waste	tonnes	54,966	57,895	**55,259**	-4.6%
	Quantity of hazardous industrial waste	tonnes	7,073	5,808	**6,291**	+8.3%
	% of hazardous industrial waste recovered	%	61%	51%	**58%**	+7pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	98%	100%	**100%**	0pt
	Phosphorus compounds	%	97%	98%	**97%**	-1pt
	Metals (4)	%	99%	100%	**99%**	-1pt

(1) Air France and subsidiaries: HOP! (Airlinair, BritAir, Regional, Servair and its subsidiaries (France only), Sodexi, CRMA, BlueLink and Transavia France.
(2) KLM and its subsidiaries: KLM Cityhopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Martinair and Transavia. EPCOR is included for waste since 2014.
(3) GreenHouse Gas Protocol scope 1.
(4) Cr, Cd, Ni, Cu, Pb, Sn et Zn.

Air France Group (1)				KLM Group (2)			
2013	2014	2015	Change	2013	2014	2015	Change
640,120	640,588	**649,494**	+1.4%	185,445	152,179	**156,545**	+2.9%
288,218	279,945	**276,265**	-1.3%	95,387	94,119	**89,978**	-4.4%
304,890	260,891	**244,557**	-6.3%	229,485	190,735	**201,719**	+5.8%
37,782	36,704	**33,466**	-8.8%	51,103	42,138	**43,341**	+2.9%
87	55	**52**	-5.5%	48	52	**46**	-11.5%
76	100	**91**	-9.0%	61	58	**54**	-6.9%
409	387	**426**	+10.1%	266	251	**196**	-21.9%
11.4	11.1	**4.8**	-56.8%	4.4	3.4	**3.0**	-11.8%
38,185	40,269	**38,604**	-4.1%	16,781	17,626	**16,655**	-5.5%
4,420	4,280	**4,730**	+10.5%	2,653	1,528	**1,561**	+2.2%
44%	43%	**51%**	+8pts	89%	75%	**79%**	+4pts
90%	94%	**100%**	+6pts	100%	100%	**100%**	0pt
93%	97%	**95%**	-2pts	100%	100%	**100%**	0pt
99%	100%	**99%**	-1pt	100%	100%	**98%**	-2pts

4.7 NOTE ON THE METHODOLOGY FOR THE REPORTING OF THE ENVIRONMENTAL INDICATORS

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined to comply with the requirements of the French New Economic Regulations law (*Les Nouvelles Régulations Économiques*, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Since 2013, and in accordance with the provisions of Article L. 225-102-1 of the Code of Commerce, it has been the responsibility of our Independent Third Party Body to:

- attest that the required CSR Information appears in the management report and that the exclusion of any information is explained in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information).

Furthermore, the data relating to the "fuel consumption" and "CO_2 emissions" indicators linked to the air operations have been verified with the highest level of assurance, reasonable assurance (indicated by the symbols √) since 2007-08.

4.7.1 Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the commercial flights under the AF and A5 codes operated by Air France and its HOP!, subsidiaries (*HOP!*, BritAir, *HOP!* Regional, *HOP!* Airlinair) and the TO codes operated by Transavia. CityJet was divested in 2014 and is no longer part of the Group;
- all the commercial flights under the KLM code operated by KLM and its subsidiaries KLM Cityhopper (KLC), Martinair and Transavia.

For the ground operations, the consolidation scope for the environmental reporting is identical to last year since CityJet had not been included, and covers nearly 100% of the sites in France and the Netherlands (some very small subsidiaries being excluded). The international outstations are not taken into account:

- the Air France consolidated subsidiaries are: HOP!, CRMA, Sodexi, BlueLink, Servair and its subsidiaries (only the activities in France) and Transavia France.

  Furthermore, for Air France, the indicators in the domestic outstations are not reported when there is no detail available on the charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data;
- the KLM consolidated subsidiaries are KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia, Martinair and EPCOR (for a portion of the indicators).

4.7.2 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, in 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.

4.7.3 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 and for the calculation and consolidation methodologies 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 (N) is estimated based on the value reported for the previous year (N-1).

The reporting period for the Group's environmental data is set at a rolling twelve months from October 1 N-1 until September 30 N.

4.7.4 Flight operations

CO_2 emissions

The CO_2 emissions are those in the Greenhouse Gas Protocol scope 1 (direct emissions).

The Air France-KLM Group's CO_2 emissions were stable between 2014 and 2015, in line with the Group's 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 and SO_2 low altitude (LTO) emissions

Note: the "low altitude" and "LTO" for Landing-TakeOff cycle denominations are equivalent.

The calculation of the SO_2 emissions from flight operations is based on the average sulfur 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 and its subsidiaries, and by Air France and its subsidiaries.

The differences between 2014 and 2015 are mainly the result of changes in the level of sulfur content in kerosene.

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. The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note that, since the actual taxiing time is not available for Transavia France, the standard ICAO values have been used for this subsidiary.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 in 2014) 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 Air France Group, the data concerning the incidence of in-flight fuel jettison was not available in time for the reporting of the figures. Due to the significant volatility from one year to another linked to the exceptional nature of this type of operation, the N-1 value may change and cannot be estimated.

Total noise energy

This indicator was established by the Air France-KLM Group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

The trend in noise energy and traffic is determined by comparing the total noise energy calculated for the calendar year with the value for the year 2000.

For the KLM Group, the increase in total noise energy between 2014 and 2015 is explained by the change in scope. Martinair (MP) and Transavia (HV) are included in the indicator calculation for 2015.

4.7.5 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 quality of gas specific to France and the Netherlands;
- superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- jet fuel A1 for testing engines;
- domestic Fuel Oil (DFO) for power generators;
- non-road diesel fuel for a portion of the Air France runway equipment and for Servair heavy trucks;
- petrol and diesel fuel for Air France and Servair vehicles and for Air France and KLM ground support equipment.

The decrease seen between 2014 and 2015 for the Air France Group is mainly explained by the updating of the carbon energy factors derived from the Ademe Carbon Database.

For KLM, there was an increase in energy consumption between 2014 and 2015 (weather related).

Emissions from ground operations (CO_2, SO_2 and NO_x)

As for the air operations, the CO_2 emission calculation is based on the Greenhouse Gas Protocol scope 1 (direct emissions).

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 CO_2 emissions for the 2015 reporting campaign are based on the emission factors in the ADEME Carbon Database, http://bilans-ges.ademe.fr, except for kerosene for which the factor is the one used by the ICAO.

The decrease in SO_2 emissions for the Air France Group is explained by an over-estimation of the Servair emissions in 2014. The increase for the KLM Group comes from the reduction in the number of engine tests (-9%).

The rise in NO_x emissions for the Air France Group is mainly due to a change in calculation methodology. The figures are now based on the European standards euro 1 to 6 for light vehicles and heavy trucks, and Stage I to IV for diesel engines (European Directive 97/68/EC for non-road mobile machinery), setting the emission limits based on engine power. The reduction in NO_x emissions for the KLM Group is mainly due to the replacement of runway equipment and the type of engines tested in the engine test benches. For KLM, the NO_x emissions from vehicles and runway equipment are determined either from direct measurements from manufacturer data or from external databases.

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 both the Air France Group and KLM, the decrease between 2014 and 2015 is mainly due to fewer aircraft being painted.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling.

The reduction for the Air France Group in 2015 is due to a change in methodology for calculating the emissions from runway equipment and heavy trucks.

For KLM, the fall is explained by the replacement of runway gear with more efficient equipment, and a 9% reduction in the number of tests carried out at the test benches.

Non-hazardous waste

Non-hazardous waste mainly comes from on-board catering and represents more than 80% of total waste.

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.

The increase for the Air France Group is mainly explained by the exceptional recovery of electrical batteries from runway equipment and the higher recovery level at the Maintenance division's DGI Nord site.

Effluents

Both Air France and KLM entities are required to comply with the French and Dutch legislation on effluents. Each relevant site has regulatory limits on effluents and the frequency of measurement.

The reported data reflects the number of times a regulatory threshold is exceeded relative to the number of measurements for each type of effluent.

For 2015, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements, were, respectively:

- for Air France, 0/14 for Nitrogen compounds, 3/62 for Phosphorus compounds and 7/724 for metals;
- for KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 1/280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.8 TABLE OF CONCORDANCE FOR THE SOCIAL, CORPORATE CITIZENSHIP AND ENVIRONMENTAL INFORMATION

This table of concordance uses the sections required by Decree No.2012-557 of April 2012 relating to companies' social and environmental transparency obligations, and provides the page numbers in this document where the information relating to each of these sections can be found.

Section	Grenelle II – April 24 2012 decree	GRI4 Indicators	Advanced level Global Compact criteria
OVERALL PRINCIPLES			
4	Perimeter	G4-17; 20; 23	Criteria 1 and 2
4.3.1 4.4	"Comply or explain"	Principle	
5.5.3	Data comparability	G4-22; 23	
4.7.1	Reference to international reporting standards	G4-32	
4.8	Attestation	G4-33	
	Certification by an independent party	G4-33	
SOCIAL INFORMATION			
Employment			
4.1 4.2.1	Total headcount and distribution of employees	G4-9; 10; LA1; LA12	Criteria 3 to 8
4.1.1	Recruitment and redundancies	LA1; EC6	
4.1.1 4.2.1	Remuneration and changes in remuneration	G4-51; 52; EC1	
Work organization			
4.1.1	Work time organization	LA	Criteria 3 to 8
4.1.1 4.2.2	Absenteeism	LA6	
Labor relations			
4.1.1	Organization of social dialogue	LA4	Criteria 3 to 8
4.1.1 4.2.2	Summary of collective agreements		
Health and safety			
4.1.3	Occupational health and safety conditions	LA5 to LA8	Criteria 3 to 8
4.1.3	Summary of collective agreements regarding health and safety	LA8	
4.1.3 4.2.2	Occupational accidents and diseases	LA6; LA7	
Training			
4.1.2	Policy on training	LA10	Criteria 3 to 8
4.1.2 4.2.2	Total number of training hours	LA9	

Equal opportunities			
4.1.4 4.2.2	Measures implemented to promote gender equality	LA12	Criteria 3 to 8
4.1.4 4.2.2	Measures implemented to promote the employment and integration of disabled people	LA12	
4.1.4	Policy against discrimination	LA12; HR3	
Promotion and compliance with ILO fundamental conventions			
4.1.4 4.2.2	Freedom of association and recognition of the right to collective bargaining	LA4; HR4	Criteria 3 to 8
4.1.4	Elimination of discrimination in respect of employment	HR3	
4.1.4	Elimination of all forms of forced labor	HR6	
4.1.4	Abolition of child labor	HR5	
ENVIRONMENTAL INFORMATION			
General environmental policy			
4.5.1	Organization of the company to integrate environmental issues		Criteria 9 to 11
4.5.1	Information and training measures for employees regarding environmental protection		
4.5.1	Resources allocated to preventing environmental risks and pollution	EN31	
4.5.1	Environmental risk provisions and guaranties		
Pollution and waste management			
4.5.2	Measures to prevent, reduce or repair discharges into the atmosphere, water and soil, severely impacting the environment	EN20, EN21, EN22, EN24	Criteria 9 to 11
4.6.1	Measures regarding waste prevention, recycling and disposal	EN23, EN25	
4.6.2	Provision for noise and of any other pollution specific to the activity		
Sustainable use of resources			
4.5.3 4.6.2	Water consumption and water supply adapted to local constraints	EN8; EN9	Criteria 9 to 11
4.5.3 4.6.1	Consumption of raw materials and measures implemented to improve energy efficiency and renewable energy use	EN1; EN27	
4.5.3	Energy consumption and measures implemented to improve energy efficiency and renewable energy use	EN3; EN6; EN7	
4.5.3	Land usage		
Climate change			
4.5.4 4.6.1 4.6.2	Greenhouse gas emissions	EN15 to EN19	Criteria 9 to 11
4.5.4	Adaptation to consequences of climate change		
Biodiversity protection			
4.5.5	Measures implemented to protect and conserve the biodiversity	EN12	Criteria 9 to 11

CORPORATE CITIZENSHIP INFORMATION

Territorial, economic and social impact of the company's activity			
4.4.4	Regional employment and development On local populations	EC8; EC9; SO1	Criteria 16 to 18 and 21
Relations with stakeholders			
4.4.1 4.4.4	Dialogue with stakeholders	G4-24 to 27; G4-37	Criteria 2 and 16 to 18
4.4.1 4.4.4	Partnership and sponsorship initiatives	EC1; EC7	
Subcontractors and suppliers			
4.4.5	Integration of social and environmental issues into the company procurement policy	EC9; EN33; G4-LA14; HR4; HR7; HR9	Criteria 2 to 11
4.4.5	Importance of subcontracting and consideration of social and environmental responsibility in the relationships with subcontractors and suppliers	EC9; EN32; EN33; LA14; HR4 ; HR7; HR9; SO9	
Fair business practices			
4.4.2	Actions to prevent corruption	G4-56 to 58; SO4	Criteria 12 to 14
4.4.2	Measures implemented to promote consumer health and safety	EN27; PR1	
4.4.2	**Other actions to protect Human Rights**	**G4-HR**	Criteria 3 to 5

4.9 ASSURANCE REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED LABOR, ENVIRONMENTAL AND SOCIAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

This is a free translation into English of the designated Independent Third Party's report issued in French and it is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For year ended December 31, 2015

To the Shareholders,

In our capacity as Statutory Auditors of Air France-KLM Group, appointed as Independent Third Party and certified by COFRAC under number 3-1049 (1), we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31, 2015, presented in the management report (hereinafter named "CSR Information"), pursuant to article L. 225-102-1 of the French Commercial Code.

Company's responsibility

The Management Board is responsible for preparing a company's management report including the CSR Information required by article R. 225-105-1 of the French Commercial Code in accordance with Guidelines used by the Company (hereinafter 'the Guidelines'), summarised in the management report and available upon request to the Environment and Sustainable Development division of Air France-KLM.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics of our profession and the requirements of article L. 822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R. 225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information);
- at the request of the Group, express reasonable assurance that the CSR Information selected by the Group and identified by the symbol √ in the chapter 4 "Corporate Social Responsibility: social, citizenship and environmental information" of the management report is fairly presented, in all material respects, in accordance with the Guidelines.

Our work involved nine persons and was conducted between December 2015 and February 2016, during a twelve weeks intervention period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the French professional standards and with the order dated 13 May 2013 defining the conditions under which the Independent Third Party performs its engagement and with ISAE 3000 (2) concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R. 225-105-1 of the French Commercial Code.

(1) For which the scope is available on the site www.cofrac.fr.
(2) ISAE 3000 – *Assurance engagements other than audits or reviews of historical financial information.*

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, *i.e.*, the Company, its subsidiaries as defined by article L. 233-1 and the controlled entities as defined by article L. 233-3 of the French Commercial Code within the limitations set out in the chapter 4 "Corporate Social Responsibility: social, citizenship and environmental information" of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted more than ten interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and comprehensibility, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important (in the following table):

- at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities[(1)] selected by us on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 76% of headcount and between 41% and 100% of quantitative environmental data disclosed.

(1) **Environment:** Air France Industrial Division (Orly, VLR and Roissy), Air France in France (energy consumption, carburant consumption from equipment and vehicles), Servair 1, Acna Roissy, KLM Schiphol **for ground operations**.
Air France, HOP!, KLM, KLM CityHopper and Transavia, **for air operations**.
Social: Air France in France, Transavia France, KLM et KLM Catering Services in Netherlands.

Social indicators	Assurance level
Total staff at 31/12 and distribution by age and geographical area	Limited
Percentage of women at 31/12	
Recruitments – permanent and fixed-term contract	
Redundancies (incl. Economic)	
Absenteeism due to illness, work accidents and maternity leave	
Total workplace accidents	
Frequency rate of workplace accidents	
Severity rate of workplace accidents	
Number of training hours by employee	
Total staff with disabilities	
Total staff with disabilities recruited during year	
Signed collective agreements	

Environmental indicators	Assurance level
Environmental indicators for air operations	
Fuel consumption and CO_2 emissions	Reasonable
Global noise energy indicator	Limited
HC, NO_x et SO_2 low altitude emissions	
Environmental indicators for ground operations	
Water consumption	Limited
Electricity consumption	
Other energies consumption	
Quantity of non-hazardous industrial waste	
Quantity of hazardous industrial waste	
Percentage of hazardous industrial waste recovered	
Emissions of VOC ground	
Emissions of CO_2, SO_2 and NO_x ground emissions	
Compliance rate of effluents with regulatory limits	

Qualitative informations

Social	Organization of social dialogue including information procedures, consultation and negotiation with the employees Occupational health and safety conditions Policies implemented regarding training Measures implemented to promote gender equality Measures implemented to promote employment and integration of disabled people
Environmental	The organization of the company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues Information and training measures for employees regarding the protection of the environment Resources allocated to prevention of environmental risks and pollution Measures of prevention, reduction or repair of discharges into the air, water and ground, impacting severely the environment
Societal	Territorial, economic and social impact of the company activity regarding regional employment and development Measures implemented to promote consumers health and safety

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgment, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

3. Reasonable assurance on a selection of CSR Information

Nature and scope of the work

For the information selected by the Group and identified by the symbol √, our audit consisted of work of the same nature as described in paragraph 2 above for the CSR Information considered the most important, but in a more extensive way, particularly regarding the number of tests.

The sample selected represents 95% of the quantitative environmental information identified by the symbol √.

We consider that this work enables us to express a reasonable assurance for the information selected by the Group and identified by the symbol √.

Conclusion

In our opinion, the CSR Information selected by the Group and identified by the symbol √ is fairly presented, in all material aspects, in compliance with the Guidelines.

Paris-La Défense, February 18th 2016

KPMG SA

Jean-Paul Vellutini Partner	Eric Jacquet Partner	Philippe Arnaud Partner Climate Change & Sustainability Services

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5

FINANCIAL REPORT

5.1 INVESTMENTS AND FINANCING

During the 2015 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €1,647 million. The €353 million proceeds on disposals of tangible and intangible assets comprised, in particular, €20 million from sale and lease-back transactions (€198 million in 2014) and the impact of the transfer to Delta Air Lines of six pairs of slots at London Heathrow airport in return for a total of €247 million. Within the framework of "Transform 2015" then "Perform 2020", the Group maintained strict control over investments before sale and lease-back transactions and the operation to transfer pairs of slots at London Heathrow to Delta Air Lines. Investments thus amounted to €1,561 million and, while up by €201 million relative to 2014, remained below the level of amortization and depreciation (€1,631 million). After sale and lease-back transactions and the operation to transfer pairs of slots at London Heathrow to Delta Air Lines, net investments stood at €1,294 million, €132 million higher than in 2014. With net cash flow from operating activities amounting to €1,900 million, the Group generated positive operating free cash flow of €606 million.

At December 31, 2015, the Group's net cash position amounted to €3.79 billion, including €466 million of investments with maturities of above three months, €18 million of cash pledges and €204 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, 2015 (*see also Section 3 – Liquidity risk, page **85***).

Net debt stood at €4.31 billion (€5.41 billion at December 31, 2014). The detailed net debt calculation can be found in *Section 5.6, page **229***.

5.1.1 Investments

(in € million)	2015	2014
Acquisition of intangible assets	**(174)**	(210)
Investment in flight equipment	**(1,347)**	(1,054)
Other property, plant and equipment	**(126)**	(167)
Acquisitions of subsidiaries, of shares in non-controlled entities	**(7)**	(43)
Loss of control over subsidiaries, disposal of shares in non-controlled entities (of which Amadeus)	**342**	354
Proceeds on disposal of property, plant and equipment and intangible assets	**353**	269
Dividends received	**5**	20
Net decrease (increase) in investments between 3 months and 1 year	**(208)**	285
Net cash flow used in investing activities of discontinued operations	**-**	(20)
Net cash flow used in investing activities	**(1,162)**	**(566)**

Investment in tangible and intangible assets amounted to €1,647 million during the 2015 financial year (€1,431 million in 2014), of which €1,347 million in flight equipment. Investment in intangible assets amounted to €174 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 €353 million (€269 million in 2014) including €86 million on the sale of flight equipment (€71 million in 2014), €20 million of proceeds on sale and lease-back transactions (€198 million in 2014) and also the impact of the transfer of six pairs of slots at London Heathrow airport to Delta Air Lines in return for a total of €247 million.

On January 15, 2015, the Group sold a block of Amadeus shares representing around 2.2% of the share capital for cash proceeds of €327 million included in the line "Loss of control over subsidiaries, disposal of shares in non-controlled entities".

In total, including financial investments and disposals, dividends and discontinued operations, the net cash flow used in investing activities amounted to €1,162 million in 2015.

5.1.2 Financing

(in € million)	2015	2014
Perpetual	**600**	-
Capital increase	**1**	-
Sale of minority interest without change in control	**4**	-
Issuance of new debt	**1,077**	1,583
Repayment on debt	**(1,549)**	(2,024)
Repayment of debt on finance lease liabilities	**(664)**	(565)
New loans	**(89)**	(10)
Repayment on loans	**140**	36
Dividends and coupons paid on perpetual	**(24)**	(3)
Net cash flow from financing activities	**(504)**	**(983)**

In order to consolidate its financial structure during the "Perform 2020" implementation period, during the first fortnight of April 2015, the Group issued a perpetual subordinated bond for a total amount of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25%, have a first repayment option in October 2020, at the issuer's discretion. They are classified as equity, in accordance with the IFRS rules. The first coupon relating to this instrument was paid on October 1, 2015 for an amount of €18 million.

Excluding commercial paper, the financing put in place during 2015 mostly related to asset financing for twelve aircraft.

In parallel, the Group repaid €1,549 million of borrowings (€2,024 million in 2014) and €664 million of debt relating to finance lease liabilities (€565 million in 2014).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

The Group's gross debt stood at €9.08 billion at December 31, 2015, of which €5.05 billion is guaranteed by pledged or mortgaged assets amounting to €7.37 billion, representing 54% of the net book value of the relevant assets (*see also Note 39.1 to the consolidated financial statements, page* ***243***). After hedging, 67% of the gross debt is at fixed rates and 84% is denominated in euros. The average cost of the debt is 4.02%. (*see also Section 3.3 – Market risks and their management, page* ***83***).

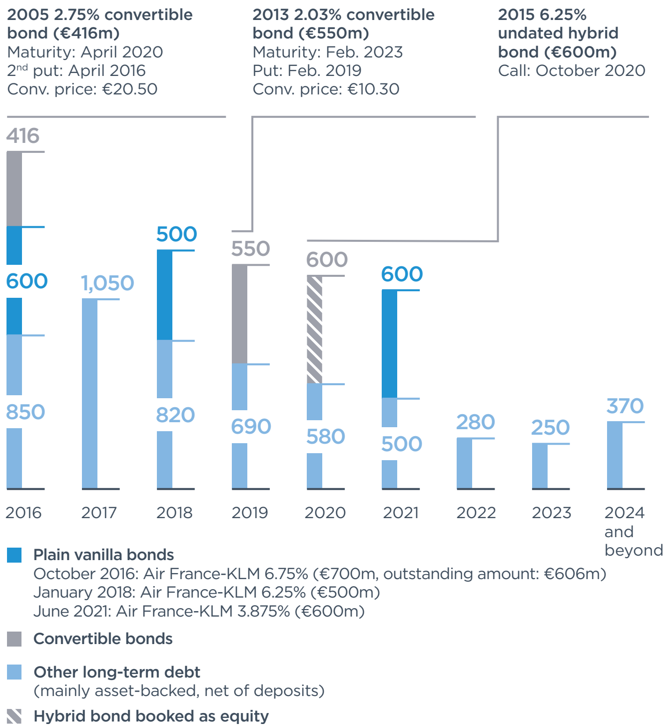
The structure of the debt is as follows:

- market financing (OCEANEs, bonds and perpetual subordinated loan stock): €3.21 billion;
- capital lease commitments: €4.22 billion;
- other borrowings including bank debt and accrued interest: €1.66 billion.

Reimbursement profile for debt and perpetual subordinated bonds

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 € million, net of deposits on financial leases and excluding KLM perpetual debt, €637m)



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, 2015	December 31, 2014
Flight equipment	**8,719**	**8,728**
Other property, plant and equipment		
Land and buildings	**1,063**	1,082
Equipment and machinery	**338**	365
Assets in progress	**83**	135
Others	**186**	168
Total other property, plant and equipment	**1,670**	**1,750**

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in *Note 38 to the consolidated financial statements, on page **242***).

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 at December 31 (in square meters)	Air France Group		KLM Group		Air France-KLM Group	
	2015	2014	2015	2014	2015	2014
Passenger	**461,193**	436,555	**150,421**	150,675	**611,614**	587,230
Cargo	**314,805**	273,811	**101,626**	101,359	**416,431**	375,170
Maintenance	**617,072**	616,345	**299,549**	299,584	**916,621**	915,929
Support	**359,515**	430,224	**100,138**	100,622	**459,653**	530,846
Total	**1,752,585**	**1,756,934**	**651,734**	**652,240**	**2,404,319**	**2,409,174**

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 2015, the Le Bourget site was handed back and the Helios building delivered (17,208 m^2) together with the restitution of tertiary premises.

Financing

	Air France Group	KLM Group	Total
Fully owned	36%	86%	50%
Finance lease	21%	-	15%
Operating lease	43%	14%	35%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.4 billion at December 31, 2015 (*see also Note 37.2 to the consolidated financial statements, page* ***241***).

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 square meters)	Type of financing
Air France Group		
Paris-CDG Airport	712,233	Ownership, finance lease, rental
Orly Airport	335,790	Ownership, finance lease, rental
Toulouse	70,471	Ownership, finance lease, rental
Le Bourget		Site handed back at the end of 2015
Montreuil	20,195	Rental
Valbonne	17,963	Ownership
KLM Group		
Schiphol Airport	39,177	Operating lease
Schiphol Centrum	136,966	Ownership, operating lease
Schiphol Oost	378,676	Ownership, operating lease
Schiphol Rijk	16,846	Ownership, operating lease
Schiphol Noord	22,025	Ownership
Amstelveen	29,572	Ownership
Other	28,471	Operating lease

Main rental contracts

Sites	**Approximate surface area** (in square meters)	Type of financing
Air France Group		
Commercial head office, Montreuil	20,195	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM Group		
Schiphol Airport	39,177	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, 2015

Restatement of the 2014 financial statements

During the 2015 financial year, the Group made a number of changes to its financial statements:

- change in the presentation of capitalized production in the income statement. This change is described in *Note 2.1 to the financial statements, page **173***;
- change in the conversion method for provisions in foreign currencies. This change is described in the *Note 2.2 to the financial statements, page **173***;
- change in the presentation of the financial statements in conformity with the other sources of financial communication. This change is described in *Note 2.3. to the financial statements, page **174***.

The 2014 financial statements have been restated to ensure the consistency of the information presented.

Scope at December 31, 2015

The consolidation scope comprised 160 fully consolidated companies and 40 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 are principally involved in air transportation (HOP!, KLM Cityhopper), maintenance, catering (Servair Group and KLM Catering Services), low-cost transportation (Transavia) and aircraft financing.

As far as possible, the changes in like-for-like figures have been estimated excluding the impact of the 2014 Air France pilots' strike and on a constant currency basis.

(in € million)	2015	2014	Change
Revenues	**26,059**	24,912	1,147
EBITDAR	**3,474**	2,462	1,012
EBITDA	**2,447**	1,589	858
Income/(loss) from current operations	**816**	(129)	945
Income/(loss) from operating activities	**1,115**	751	364
Net income/(loss) from continuing operations	**127**	(212)	339
Net income/(loss) from discontinued operations	**-**	(4)	4
Net income/(loss), Group share	**118**	(225)	343
Basic earnings/(loss) per share, Group *(in €)*	**0.34**	(0.76)	1.10

Revenues

Consolidated revenues for the period amounted to €26.1 billion, a 4.6% increase but a decline of 3.2% like-for-like (excluding the pilots' strike and at constant currency). The 2015 financial year was characterized by a significant fall in unit revenues on a constant currency basis, mainly linked to the decline in fuel costs partially offset by a very positive currency effect. From a capacity perspective, Air France-KLM pursued its policy of strict discipline (passenger network capacity up by only 0.2% like-for-like) whereas the industry as a whole saw capacity growth. For its part, air cargo continued to be affected by the weakness in global trade and structural industry overcapacity. Revenues in the passenger network business increased by 5.0% and those of the maintenance business were 26.1% higher. Cargo business revenues declined by 9.5% and Transavia revenues increased by 4.1% while revenues from the other businesses were up by 17.8%.

Operating expenses

Operating expenses increased by 0.8% to €25.24 billion. On a constant currency basis and excluding the strike, operating expenses were down by 5.8% despite inflation, the decline being greater than that of capacity.

External expenses increased by 3.4% to €15.68 billion versus €15.17 billion over the previous twelve months. Excluding fuel, external expenses increased by 11.2% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(in € million)	2015	2014	% Ch.
Aircraft fuel	**6,183**	6,629	(6.7)
Chartering costs	**430**	438	(1.8)
Landing fees and en route charges	**1,947**	1,840	5.8
Catering	**655**	591	10.8
Handling charges and other operating costs	**1,536**	1,476	4.1
Aircraft maintenance costs	**2,372**	1,729	37.2
Commercial and distribution costs	**896**	870	3.0
Other external expenses	**1,663**	1,598	4.1
Total	**15,682**	**15,171**	**3.4**

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year declined by 22.3% on a constant currency basis excluding the strike effect and by 6.7% reported. This fall was mainly the result of a price effect, volumes consumed being stable on the previous year (decrease of 0.7%);
- **chartering costs** incurred through leasing aircraft capacity from other airlines fell by 1.8% relative to the previous year, and by 6.9% a constant currency basis and excluding the strike effect, under the effect of a reduction in the capacity purchased;
- **landing fees and en route charges** relating to air navigation services and the use of airports increased by +5.8%, and by +0.6% on a constant currency basis and excluding the strike effect, in line with activity;
- **catering costs** relating to services supplied on board aircraft were up by 10.8%. 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 4.1% reported and by 8% like-for-like (on a constant currency basis excluding the strike);
- **aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. These costs increased by 37.2% reported. This growth was mainly explained by Air France and KLM cabin retrofitting within the framework of their move up-market, by the growth in third-party sales (7.3% on a constant currency basis) and by a significant currency effect (€285 million);
- **commercial and distribution** costs increased by 3.0% reported but decreased by 2% like-for-like (on a constant currency basis and excluding the strike) notably due to the fall in sales commissions which followed the revenue trend in the passenger business;
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. They increased by 4.1% reported and by 3.5% like-for-like (on a constant currency basis excluding the strike). This rise was notably explained by a €5 million increase in rental and maintenance costs, a €17 million rise in IT expenses and a €7 million increase in insurance costs.

Salaries and related costs amounted to €7.85 billion versus €7.64 billion in 2014, *i.e.* an increase of 2.8%. On a constant scope and pension expense, they increased by 0.7%. The average headcount declined (-1.46%) to 96,417 employees.

Taxes other than income taxes stood at €167 million versus €169 million at December 31, 2014, down by 1.2%.

Other income and expenses stood at a net profit of €1,113 million versus €508 million at December 31, 2014. This increase of €605 million is mainly explained by the increased gain on the settlement of currency hedges (+€268 million) and by the rise in capitalized production (+€302 million) in line with the higher aircraft maintenance costs.

EBITDAR

EBITDAR amounted to €3,474 million (versus €2,462 million at December 31, 2014).

The contributions to EBITDAR by business segment were as follows:

(in € million)	2015	2014 Excl. strike	2014	% Ch.(1)
Passenger network	**3,016**	2,439	2,012	23.7
Cargo	**(196)**	(103)	(127)	(90.3)
Maintenance	**453**	411	444	10.2
Transavia	**122**	74	74	64.9
Others	**79**	66	59	19.7
Total	**3,474**	**2,887**	**2,462**	**20.3**

(1) Change calculated compared to figures excluding the Air France pilots' strike in September 2014.

Aircraft operating lease costs

Aircraft operating lease costs increased by 17.4%, under the influence of the euro/dollar exchange rate and the renegotiation of contracts on expiry. On a constant currency basis, they increased by 0.9%.

EBITDA

EBITDA amounted to €2,447 million (versus €1,589 million at December 31, 2014).

The contributions to EBITDA by business segment were as follows:

(in € million)	2015	2014 Excl. strike	2014	% Ch.(1)
Passenger network	**2,124**	1,671	1,243	27.1
Cargo	**(210)**	(126)	(150)	(66.7)
Maintenance	**453**	411	444	10.2
Transavia	**2**	(8)	(8)	ns
Others	**78**	66	60	18.2
Total	**2,447**	**2,014**	**1,589**	**21.5**

(1) Change calculated compared to figures excluding the Air France pilots' strike in September 2014.

Amortization, depreciation and provisions

This line totalled €1.63 billion at December 31, 2015 versus €1.72 billion at December 31, 2014.

Income/(loss) from current operations

The result from current operations was income of €816 million (versus a loss of €129 million at December 31, 2014).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	2015		2014	
(in € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger network	**20,541**	**842**	19,570	(83)
Cargo	**2,425**	**(245)**	2,681	(212)
Maintenance	**1,577**	**214**	1,251	174
Transavia	**1,099**	**(35)**	1,056	(36)
Others	**417**	**40**	354	28
Total	**26,059**	**816**	**24,912**	**(129)**

The unit cost per EASK (equivalent available seat-kilometer) was reduced by 1.3%. This change was the combined result of a 7.2% fall due to the decline in fuel price and a 5.9% increase on currency variation.

Income/(loss) from operating activities

The result from operating activities was a €1,115 million profit versus a profit of €751 million at December 31, 2014.

Over the financial year ended December 31, 2015, the result from operating activities included, notably:

- restructuring costs amounting to €159 million;
- a disposal gain of €218 million concerning the Amadeus shares;
- a gain on the sale of slots at London Heathrow amounting to +€230 million.

These operations are detailed in *Note 11 to the financial statements on page **193***.

Net cost of financial debt

The net cost of financial debt fell to €310 million versus €370 million during the previous financial year. The cost of net debt decreased by twelve basis points from 6.79% in the 2014 financial year to 6.67% in 2015.

Other financial income and expenses

Other net financial income amounted to a negative €605 million at December 31, 2015 versus a negative €359 million at December 31, 2014. The breakdown was as follows:

- a currency loss of €360 million (versus a €199 million loss at December 31, 2014). At December 31, 2015, the foreign exchange loss mainly included a currency loss on the net debt amounting to €188 million mainly linked to the appreciation in the US dollar, Swiss franc and the Japanese yen relative to the euro and an additional adjustment in the value of the cash held by the Group in Venezuelan bank accounts to take into account the currency conversion risk and a currency loss of €112 million on provisions, mainly linked to the revaluation of the dollar portion of the maintenance and phase-out provisions;
- a €178 million negative variation in the fair value of financial assets and liabilities (€92 million negative variation at December 31, 2014) mostly due to the €163 million negative impact of the fuel hedges and the €9 million negative impact from currency hedges;
- allocations to provisions of €28 million versus €44 million at December 31, 2014. As of December 31, 2015, the Group recognized, in particular, an impairment on its GOL shares;
- a €39 million negative item versus €24 million at December 31, 2014. This mainly corresponded to the effect of accretion on long-term provisions for €(57) million together and a €26 million gain on the repurchase by KLM of subordinated loan stock in Swiss francs.

Net income/(loss) – Group share

Income taxes amounted to €43 million versus €195 million at December 31, 2014.

Share of profits/(losses) from associates contributed a loss of €30 million at December 31, 2015 versus a negative contribution of €39 million in the previous year. This essentially comprised the Group's share of Kenya Airways' losses. At December 31, 2015, the equity value of Kenya Airways was nil.

The **result from discontinued operations** was nil at December 31, 2015 versus a negative contribution of €4 million during the previous financial year.

The **net income/(loss), Group share** stood at income of €118 million at December 31, 2015 versus a loss of €225 million at December 31, 2014. Adjusted for non-recurring items, the adjusted net result amounted to a €220 million profit, up relative to its level of 2014 (a loss of €540 million, *see Section 5.4 – Key financial indicators, on page **161***).

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The contributions to the net result by quarter were, respectively, €(559) million at March 31, 2015, €(79) million at June 30, 2015, €480 million at September 30, 2015 and €276 million at December 31, 2015.

Basic earnings/(loss) per share, Group share, amounted to €0.34 at December 31, 2015 versus €(0.76) at December 31, 2014.

5.3.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €1.65 billion over the financial year (€1.43 billion at December 31, 2014) of which €444 million of investment in the fleet, €438 million in maintenance, €157 million in components, €308 million in cabin refurbishment and €300 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €353 million versus €269 million at December 31, 2014.

During the financial year ended December 31, 2015, four operating lease contracts on B777-200 aircraft were reclassified as finance lease contracts. These contracts amounted to a total of €128 million. The Group also concluded non-monetary leasing contracts for a total of €28 million. Neither the asset increase nor the debt attached to these items had any impact on the cash flow statement.

Operating cash flow was positive to the tune of €1.90 billion (€1.01 billion at December 31, 2014).

At December 31, 2015, the Group had €3.79 billion of net cash, of which €3.10 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 €4.31 billion at December 31, 2015 (€5.41 billion at December 31, 2014).

5.3.3 Air France–KLM parent company results

The Air France–KLM parent company results were closed on December 31, 2015.

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, 2015, the operating result was thus at break-even.

The net result was a €125 million loss, mainly due to the financial costs on the bond issues together with the costs on undrawn credit lines.

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, 2015, accounts payable stood at €11 million of which €4 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At December 31, 2014, accounts payable stood at €9 million of which €4 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.3.4 Equity as of December 31, 2015

Equity attributable to equity holders of Air France–KLM amounted to €225 million against €(692) million as of December 31, 2014 restated. The €917 million change was due to:

- €356 million from the change in fair value of the Group's defined benefit pension schemes (net of tax);
- €(155) million from impairment of deferred tax assets on changes in fair value of French-fiscal-Group pension provision;
- €600 million corresponding to the issuance of a perpetual;
- income for the period – equity holders amounting to €118 million.

5.4 KEY FINANCIAL INDICATORS

Adjusted operating result and adjusted operating margin

In accordance with generally accepted practice for analysing the air transport sector, operating leases are capitalized at seven times for the capital employed and level of debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with financial charges, *i.e.* 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of the different airlines.

(in € million)	2015	2014
Income/(loss) from current operations *(in €m)*	**816**	(129)
Portion of operating leases corresponding to financial charges (34%) *(in €m)*	**349**	297
Adjusted income/(loss) from current operations *(in €m)*	**1,165**	**168**
Revenues *(in €m)*	**26,059**	24,912
Adjusted operating margin	**4.5%**	**0.7%**

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

(in € million)	2015	2014(1)
Net income/(loss), Group share	**118**	(225)
Net income/(loss) from discontinued operations	**-**	4
Impairment on shares available for sale	**16**	30
Depreciation of deferred tax assets	**-**	89
Change in fair value of financial assets and liabilities (derivatives)	**91**	73
Unrealized foreign exchange gains and losses	**294**	163
Non current income and expenses	**(299)**	(880)
Income tax linked to legislative impacts on pensions in the Netherlands	**-**	206
Restated net income/(loss), Group share	**220**	**(540)**
Restated net income/(loss) per share, Group share *(in euros)*	**0.68**	(1.82)

(1) Restated for the change in conversion method for foreign currency provisions.

Financial cover ratios

Within the framework of "Transform 2015" then "Perform 2020", the financial cover ratios considerably improved with, for example, the net debt/EBITDA ratio falling from 4.8x at December 31, 2011 to 1.8x at December 31, 2015.

Net debt/EBITDA ratio

	2015	2014
Net debt *(in €m)*	**4,307**	5,407
EBITDA *(in €m)*	**2,447**	1,589
Net debt/EBITDA	**1.8x**	**3.4x**
Net debt/EBITDA restated for the strike	**-**	2.7x

EBITDA/net cost of financial debt ratio

	2015	2014
EBITDA *(in €m)*	**2,447**	1,589
Net cost of financial debt *(in €m)*	**310**	370
EBITDA/net cost of financial debt	**7.9x**	**4.3x**
EBITDA/net cost of financial debt restated for the strike		5.4x

Adjusted net debt/EBITDAR ratio

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times. Within the framework of the “Perform 2020” plan, the Group has set itself an adjusted net debt/EBITDAR ratio target of around 2.5x at the end of 2017.

	2015	2014
Net debt *(in €m)*	**4,307**	5,407
Aircraft operating leases x 7 *(in €m)*	**7,189**	6,111
Total adjusted net debt *(in €m)*	**11,496**	**11,518**
EBITDAR *(in €m)*	**3,474**	2,462
Adjusted net debt/EBITDAR	**3.3x**	**4.7x**
Adjusted net debt/EBITDAR restated for the strike		4.0x

EBITDAR/adjusted net cost of financial debt

The adjusted net cost of financial debt includes the portion of operating leases corresponding to interest charges (34%).

	2015	2014
EBITDAR *(in €m)*	**3,474**	2,462
Net cost of financial debt *(in €m)*	**310**	370
Portion of operating leases corresponding to interest charges (34%) *(in €m)*	**349**	297
Adjusted net cost of financial debt *(in €m)*	**659**	667
EBITDAR/adjusted net cost of financial debt	**5.3x**	**3.7x**
EBITDAR/adjusted net cost of financial debt restated for the strike		4.3x

Return on Capital Employed (ROCE)

The return on capital employed measures the return on invested capital by expressing a result after tax as a percentage of capital employed. The calculation methodology is as follows:

- the calculation of capital employed is based on an additive method by identifying the relevant balance sheet items. The capital employed for the year is obtained by taking the average of the capital employed on the opening and closing balance sheets, to which is added the capital employed corresponding to aircraft under operating leases (seven times the amount of operating leases for the year);
- the adjusted result after tax corresponds to the sum of the operating result adjusted for the portion corresponding to financial charges in operating leases (34%), dividends received, and the share of profits/(losses) of associates.

(in € million)	Dec 31, 2015	Dec 31, 2014[1]	Dec 31, 2014[1]	Dec 31, 2013[2]
Goodwill and intangible assets	1,265	1,252	1,252	1,133
Flight equipment	8,743	8,728	8,728	9,391
Other property, plant and equipment	1,670	1,750	1,750	1,819
Investments in equity associates	118	139	139	177
Other financial assets excluding shares available for sale, marketable securities and financial deposits	225	152	152	128
Provisions excluding pension, cargo litigation and restructuring	(1,558)	(1,434)	(1,434)	(1,105)
WCR, excluding market value of derivatives	(5,125)	(4,928)	(4,928)	(4,905)
Capital employed on the balance sheet	**5,338**	**5,659**	**5,659**	**6,638**
Average capital employed on the balance sheet	5,499		6,149	
Capital employed corresponding to flight equipment under operating leases (operating leases x 7)	7,189		6,111	
Average capital employed (A)	**12,688**		**12,260**	
Operating result, adjusted for operating leases	1,165		168	
Dividends received	(3)		(17)	
Share of profits/(losses) of associates	(30)		(39)	
Tax recognized in the adjusted net result	(43)		100	
Adjusted result after tax (B)	**1,089**		**212**	
ROCE (B/A)	**8.6%**		**1.7%**	
Adjusted result after tax, excluding the strike (C)	**-**		**637**	
ROCE excluding the strike (C/A)	**-**		**5.2%**	

(1) Restated for the change in conversion method for foreign currency provisions.
(2) Restated for IFRIC 21.

Cost of capital

	2015	2014
Cost of stockholders' equity	**16.1%**	15.4%
Marginal cost of debt, post tax	**2.8%**	3.5%
Percentage of stockholders' equity/target debt		
Stockholders' equity	**32.7%**	30%
Debt	**67.3%**	70%
Weighted average cost of capital after taxation	**7.1%**	**7.1%**

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.

	2015	2014(1)
Revenues *(in €m)*	**26,059**	24,912
Income/(loss) from current operations *(in €m)*	**816**	(129)
Total operating expense *(in €m)*	**(25,243)**	(25,041)
Passenger business – other passenger revenues(2) *(in €m)*	**834**	830
Cargo business – other air freight revenues *(in €m)*	**162**	172
Third-party revenues in maintenance *(in €m)*	**1,577**	1,251
Transavia(2) – other revenues *(in €m)*	**13**	10
Other businesses – revenues other than Transavia transportation *(in €m)*	**417**	354
Net cost *(in €m)*	**22,240**	**22,424**
Net cost, excluding strike *(in €m)*		**22,494**
Capacity produced, reported in EASK	**337,993**	332,602
Capacity produced, reported in EASK, excluding strike		337,352
Net cost, excluding strike *(in € cents per EASK)*	**6.58**	**6.67**
Change excluding strike		**-1.3%**
Currency effect on net costs *(in €m)*		1,426
Change at constant currencies		**-7.2%**
Oil price effect *(in €m)*		(1,721)
Change on a constant currency and fuel price basis		**0.0%**
Change in pension-related expenses *(in €m)*		139
Net cost per EASK on a constant currency, fuel price and pension-related expenses basis *(in € cents per EASK)*	**6.58**	**6.62**
Change on a constant currency, fuel price and pension-related expense basis		**-0.6%**

(1) Restated for the change in conversion method for foreign currency provisions.
(2) Full Year 2014 restated for change in revenue allocation (€45 million transferred from "other passenger" to "scheduled passenger" revenues).

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5.6 Notes to the consolidated financial statements

5.5 CONSOLIDATED FINANCIAL STATEMENTS

5.5.1 Consolidated income statement

Period from January 1 to December 31 (in € millions)	Notes	2015	2014 restated[1]
Sales	6	**26,059**	**24,912**
Other revenues		**3**	18
Revenues		**26,062**	**24,930**
External expenses	7	**(15,682)**	(15,171)
Salaries and related costs	8	**(7,852)**	(7,636)
Taxes other than income taxes		**(167)**	(169)
Other income and expenses	10	**1,113**	508
EBITDAR	2	**3,474**	**2,462**
Aircraft operating lease costs		**(1,027)**	(873)
EBITDA	2	**2,447**	**1,589**
Amortization, depreciation and provisions	9	**(1,631)**	(1,718)
Income from current operations		**816**	**(129)**
Sales of aircraft equipment	11	**(6)**	-
Other non-current income and expenses	11	**305**	880
Income from operating activities		**1,115**	**751**
Cost of financial debt	12	**(373)**	(446)
Income from cash and cash equivalents		**63**	76
Net cost of financial debt		**(310)**	(370)
Other financial income and expenses	12	**(605)**	(359)
Income before tax		**200**	**22**
Income taxes	13	**(43)**	(195)
Net income of consolidated companies		**157**	**(173)**
Share of profits *(losses)* of associates	22	**(30)**	(39)
Net income from continuing operations		**127**	**(212)**
Net income from discontinued operations	14	**-**	(4)
Net income for the period		**127**	**(216)**
Non controlling interests		**9**	9
Net income – Group part		**118**	(225)
Earnings per share – Equity holders of Air France-KLM *(in euros)* — basic and diluted	16	**0.34**	(0.76)
Net income from continuing operations – Equity holders of Air France-KLM *(in euros)* — basic and diluted	16	**0.34**	(0.75)
Net income from discontinued operations – Equity holders of Air France-KLM *(in euros)* — basic and diluted	16	**-**	(0.01)

(1) *See Note 2 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

Period from January 1 to December 31 (in € millions)	**Notes**	**2015**	**2014 restated[(1)]**
Net income for the period		**127**	**(216)**
Fair value adjustment on available-for-sale securities			
Change in fair value recognized directly in other comprehensive income		**71**	7
Change in fair value transferred to profit or loss		**(221)**	(250)
Fair value hedges			
Effective portion of changes in fair value hedge recognized directly in other comprehensive income		**(60)**	27
Change in fair value transferred to profit or loss		**-**	74
Cash flow hedges			
Effective portion of changes in fair value hedge recognized directly in other comprehensive income		**(955)**	(1,387)
Change in fair value transferred to profit or loss		**1,216**	123
Currency translation adjustment		**8**	**10**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	13.2	**(48)**	**341**
Total of other comprehensive income that will be reclassified to profit or loss		**11**	**(1,055)**
Remeasurements of defined benefit pension plans		**498**	**(2,260)**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	13.2	**(295)**	**583**
Total of other comprehensive income that will not be reclassified to profit or loss		**203**	**(1,677)**
Total of other comprehensive income, after tax		**214**	**(2,732)**
Recognized income and expenses		**341**	**(2,948)**
Equity holders of Air France-KLM		**330**	(2,942)
Non-controlling interests		**11**	(6)

(1) *See Note 2 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 € millions)	Notes	December 31, 2015	December 31, 2014 restated[1]
Goodwill	17	**247**	243
Intangible assets	18	**1,018**	1,009
Flight equipment	20	**8,743**	8,728
Other property, plant and equipment	20	**1,670**	1,750
Investments in equity associates	22	**118**	139
Pension assets	23	**1,773**	1,409
Other financial assets	24	**1,224**	1,502
Deferred tax assets	13.4	**702**	1,042
Other non-current assets	27	**295**	243
Total non current assets		**15,790**	**16,065**
Assets held for sale	15	**4**	3
Other short-term financial assets	24	**967**	787
Inventories	25	**532**	538
Trade receivables	26	**1,800**	1,728
Other current assets	27	**1,138**	961
Cash and cash equivalents	28	**3,104**	3,159
Total current assets		**7,545**	**7,176**
Total assets		**23,335**	**23,241**

(1) *See Note 2 in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity (in € millions)	Notes	December 31, 2015	December 31, 2014 restated[1]
Issued capital	29.1	**300**	300
Additional paid-in capital	29.2	**2,971**	2,971
Treasury shares	29.3	**(85)**	(86)
Perpetual	29.4	**600**	-
Reserves and retained earnings	29.5	**(3,561)**	(3,877)
Equity attributable to equity holders of Air France-KLM		**225**	**(692)**
Non-controlling interests		**48**	39
Total equity		**273**	**(653)**
Pension provisions	31	**1,995**	2,119
Other provisions	32	**1,513**	1,404
Long-term debt	33	**7,060**	7,994
Deferred tax liabilities	13.4	**11**	14
Other non-current liabilities	35	**484**	536
Total non-current liabilities		**11,063**	**12,067**
Other provisions	32	**742**	731
Current portion of long-term debt	33	**2,017**	1,885
Trade payables		**2,395**	2,444
Deferred revenue on ticket sales		**2,515**	2,429
Frequent flyer programs		**760**	759
Other current liabilities	35	**3,567**	3,330
Bank overdrafts	28	**3**	249
Total current liabilities		**11,999**	**11,827**
Total liabilities		**23,062**	**23,894**
Total equity and liabilities		**23,335**	**23,241**

(1) *See note 2 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 € millions)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Perpetual	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non-controlling interests	Total equity
December 31, 2013 – Restated (1)	**300,219,278**	**300**	**2,971**	**(85)**	**-**	**(935)**	**2,251**	**48**	**2,299**
Fair value adjustment on available for sale securities	-	-	-	-	-	(228)	(228)	-	(228)
Gain/(loss) on cash flow hedges	-	-	-	-	-	(900)	(900)	(4)	(904)
Gain/(loss) on fair value hedges	-	-	-	-	-	67	67	-	67
Remeasurements of defined benefit pension plans	-	-	-	-	-	(1,663)	(1,663)	(14)	(1,677)
Currency translation adjustment	-	-	-	-	-	7	7	3	10
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(2,717)**	**(2,717)**	**(15)**	**(2,732)**
Net result for the period	-	-	-	-	-	(225)	(225)	9	(216)
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**(2,942)**	**(2,942)**	**(6)**	**(2,948)**
Treasury shares	-	-	-	(1)	-	-	(1)	-	(1)
Dividends paid	-	-	-	-	-	-	-	(3)	(3)
December 31, 2014 – Restated (1)	**300,219,278**	**300**	**2,971**	**(86)**	**-**	**(3,877)**	**(692)**	**39**	**(653)**
Fair value adjustment on available for sale securities	-	-	-	-	-	(138)	(138)	-	(138)
Gain/(loss) on cash flow hedges	-	-	-	-	-	179	179	-	179
Gain/(loss) on fair value hedges	-	-	-	-	-	(38)	(38)	-	(38)
Remeasurements of defined benefit pension plans	-	-	-	-	-	201	201	2	203
Currency translation adjustment	-	-	-	-	-	8	8	-	8
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**212**	**212**	**2**	**214**
Net result for the period	-	-	-	-	-	118	118	9	127
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**-**	**330**	**330**	**11**	**341**
Perpetual	-	-	-	-	600	-	600	-	600
Dividends paid and coupons on perpetual	-	-	-	-	-	(12)	(12)	(5)	(17)
Change in scope	-	-	-	-	-	(2)	(2)	3	1
Treasury shares	-	-	-	1	-	-	1	-	1
December 31, 2015	**300,219,278**	**300**	**2,971**	**(85)**	**600**	**(3,561)**	**225**	**48**	**273**

(1) *See Note 2 in notes to the consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.5 Consolidated statement of cash flows

Period from January 1 to December 31 (in € millions)	Notes	2015	2014 restated(1)
Net income from continuing operations		**127**	(212)
Net income from discontinued operations	14	**-**	(4)
Amortization, depreciation and operating provisions	9	**1,631**	1,725
Financial provisions	12	**59**	68
Loss (gain) on disposals of tangible and intangible assets	11	**(224)**	(19)
Loss (gain) on disposals of subsidiaries and associates	11	**(224)**	(184)
Derivatives – non monetary result		**91**	73
Unrealized foreign exchange gains and losses, net		**294**	163
Share of (profits) losses of associates	22	**30**	39
Deferred taxes	13	**4**	158
Impairment	41.1	**5**	114
Other non-monetary items	41.1	**32**	(1,042)
Financial capacity		**1,825**	**879**
including discontinued operations		**-**	(6)
(Increase)/decrease in inventories		**36**	(24)
(Increase)/decrease in trade receivables		**(55)**	98
Increase/(decrease) in trade payables		**(62)**	29
Change in other receivables and payables		**156**	10
Change in working capital requirement		**75**	113
Change in working capital from discontinued operations		**-**	20
Net cash flow from operating activities		**1,900**	**1,012**
Acquisition of subsidiaries, of shares in non-controlled entities	41.2	**(7)**	(43)
Purchase of property, plant and equipment and intangible assets	21	**(1,647)**	(1,431)
Proceeds on disposal of subsidiaries, of shares in non-controlled entities	11	**342**	354
Proceeds on disposal of property, plant and equipment and intangible assets	11	**353**	269
Dividends received		**5**	20
Decrease/(increase) in net investments, more than 3 months		**(208)**	285
Net cash flow used in investing activities of discontinued operations		**-**	(20)
Net cash flow used in investing activities		**(1,162)**	**(566)**

5

Period from January 1 to December 31 (in € millions)	Notes	2015	2014 restated[1]
Capital increase		**1**	-
Perpetual	29.4	**600**	-
Sale of minority interest without change in control		**4**	-
Issuance of debt		**1,077**	1,583
Repayment on debt		**(1,549)**	(2,024)
Payment of debt resulting from finance lease liabilities		**(664)**	(565)
New loans		**(89)**	(10)
Repayment on loans		**140**	36
Dividends and coupons on perpetual paid		**(24)**	(3)
Net cash flow from financing activities		**(504)**	**(983)**
Effect of exchange rate on cash and cash equivalents and bank overdrafts		**(43)**	(77)
Change in cash and cash equivalents and bank overdrafts		**191**	**(614)**
Cash and cash equivalents and bank overdrafts at beginning of period	28	**2,910**	3,518
Cash and cash equivalents and bank overdrafts at end of period	28	**3,101**	2,910
Change in cash of discontinued operations		**-**	(6)
Income tax (paid)/reimbursed (flow included in operating activities)		**(41)**	(35)
Interest paid (flow included in operating activities)		**(359)**	(420)
Interest received (flow included in operating activities)		**37**	39

(1) *See Note 2 in notes to the consolidated financial statements.*

Period from January 1 to December 31 (in € millions)	Notes	2015	2014 restated[1]
Net cash flow from operating activities		**1,900**	1,012
Purchase of property, plant and equipment and intangible assets		**(1,647)**	(1,431)
Proceeds on disposal of property, plant and equipment and intangible assets		**353**	269
Net cash flow from operating activities from discontinued operations		**-**	(14)
Operating free cash flow excluding discontinued activities		**606**	**(164)**

(1) *See Note 2 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.

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. RESTATEMENT OF ACCOUNTS 2014

2.1 Modification in the presentation of the income statement

To facilitate performance analysis, the Group decided, as from January 1, 2015, to isolate the items relating to capitalized production in a single line of the income statement ("Other income and expenses") whereas they had previously been allocated by type of expenditure. To facilitate comparison the consolidated financial statements as of December 31, 2014 have been restated. The impacts of this reclassification on the income statement as of December 31, 2014 are the following:

(in € millions)	December 31, 2014
External expenses	(445)
Salaries and related costs	(128)
Other income and expenses	573
Income from current operations	**-**

2.2 Modification in the conversion method for provisions in foreign currencies

The Group records provisions for maintenance and restitution of aircraft under operating leases. A significant portion of these provisions is made to cover the purchase of spare parts that will be paid for in US dollars whatever the functional currency of the entity. To facilitate analysis of the impacts linked to the dollar variation, the Group decided, as from January 1, 2015, to isolate the foreign currency effects on provisions in "Other financial income and expenses" whereas these effects had previously been recorded in "Amortization, depreciation and provisions".

Furthermore, the closing rate will be used to convert provisions at the closing date. Previously, the Group used the average rate of the US dollar to convert the maintenance provisions. The consolidated financial statements as of December 31, 2014 have been restated to facilitate comparison.

The impacts of this restatement on the income statement are the following:

(in € millions)	December 31, 2014
Other financial income and expenses	(41)
Income before tax	**(41)**
Income taxes	14
Net income for the period	**(27)**

The impacts of this restatement on the balance sheet are the following:

(in € millions)	January 1, 2014	December 31, 2014
Deferred tax assets	(3)	11
Total assets	**(3)**	**11**
Reserves and retained earnings	6	(21)
Other provisions	(9)	32
Total equity and liabilities	**(3)**	**11**

2.3 Change in the presentation of the financial statements in conformity with the other sources of financial communication

In conformity with the reporting standard IAS 1 "Presentation of Financial Statements" and the guide the AMF (*Autorité des Marché Financiers*) issued on July 1, 2015, the Group Air France-KLM chose to change the presentation of its financial statements to align them more closely with the aggregates used for the Group's financial communication. The changes in the presentation are the following:

Consolidated income statement

— **Presentation of the EBITDAR and EBITDA lines**

These indicators are defined in *Note 4.9, page **179**. Note 6.1 – Information by business segment on page **187*** has been changed accordingly. This change includes the presentation of a line "Aircraft operating lease costs" and the following reclassification:

(in € millions)	December 31, 2014
External expenses	873
Aircraft operating lease costs	(873)
Total	**-**

— **Reclassification of temporary staff expenses from "external expenses" to "salaries and related costs" and the disclosure on the number of employees (*see Notes 7 and 8, pages 190 and 191*)**

(in € millions)	December 31, 2014
External expenses	192
Salaries and related costs	(192)
Total	**-**

Consolidated statement of cash flows

- presentation of the sub-total "Change in working capital from discontinued operations";
- re-naming of the sub-total "cash flow" in "financial capacity";
- disclosure of operating free cash flow excluding discontinued activities. This indicator is defined in *Note 4.9, page **179***.

Net debt

- presentation of the calculation of net debt (*see Note 34, page **229***).

NOTE 3. SIGNIFICANT EVENTS

3.1 Events that occurred in the financial year

Shares in Amadeus

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2% of the company's share capital. The net result from the sale amounted to €218 million, for cash proceeds of €327 million (*see Note 11, page **193***).

After this operation, the Group still holds 9.9 million Amadeus shares. The value of these shares is completely covered by a hedging transaction concluded on November 25, 2014 (*see Notes 24, page **207** and 36.1, page **230***).

Voluntary departure plans

During the meeting of the Corporate Works Council on February 13, 2015, the Air France management presented voluntary departure plans for ground staff and cabin crew, aimed at the departure of approximately 800 full time equivalents. The Group accordingly charged an amount of €56 million to the income statement as of December 31, 2015.

After earlier voluntary departure measures implemented in 2014, Martinair, in consultation with the pilot union, initiated another voluntary departure arrangement on May 8, 2015 to reduce the number of Martinair Cargo cockpit crew further to the phasing out of the full freighters, corresponding to around 110 full time equivalents. The Group accordingly charged an amount of €40 million to the income statement as of December 31, 2015.

In June 2015, KLM presented a voluntary departure plan to reduce the number of employees in the cargo and maintenance businesses by around 330 full time equivalents. The Group accordingly charged an amount of €31 million to the income statement as of December 31, 2015.

The provisions mentioned above are the best estimate of the costs involved in these voluntary departure plans, as mentioned in *Note 11, page **193***.

Perpetual subordinated bond

In order to consolidate its financial structure during the "Perform 2020" implementation period, in early April 2015, the Group issued a perpetual subordinated bond amounting to a total of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25%, have a first repayment option in October 2020, at the issuer's discretion. They are classified as equity, in accordance with the IFRS rules (*see Note 29.4, page **212***).

On October 1, 2015, Air France–KLM paid the first coupon relating to this instrument, amounting to a total of €18 million.

Credit line

On April 29, 2015, the Group signed a credit facility for €1.1 billion, finalizing the early refinancing of the Air France's credit facility maturing in April 2016. This new credit facility, implemented through a syndicate of 13 leading banks, comprises two €550 million tranches with respective three and five-year maturities (*see Note 33.8, page **338***).

On July 2, 2015, KLM signed a €575 million revolving credit facility with ten international banks, finalizing the early refinancing of its credit facility which was due to mature in July 2016. The facility has a duration of five years (*see Note 33.8, page **228***).

Sale of slots

On October 21, 2015 the Group transferred to Delta Air Lines six pairs of slots at London Heathrow airport in return for total proceeds of €247 million, and generating a gain of €230 million (*see Note 11, page **193***).

3.2 Subsequent events

Litigation relating to anti-trust legislation in the air freight industry

On January 13, 2016, within the context of its decision made on December 16, 2015 (*see Note 32.1.3, page **222***), the European Commission Court cancelled its guarantee requirement through a cash pledge. This event has been taken into account for the determination of the amount of pledged assets as of December 31, 2015 (*see Notes 24, page **207** and 39.1, page **243***).

The appeal period for the decision handed down on December 16, 2015 having expired on February 29, 2016, during the 2016 first quarter the Group reversed the provision covering the late interest payment on the fine imposed by the European Commission. This provision reversal will be €41 million. As the European Commission remains free to pursue the proceedings against Air France–KLM, Air France, KLM and Martinair, this decision has no impact on the provision booked as of December 31, 2015 which amounts to €340 million.

NOTE 4. ACCOUNTING POLICIES

4.1 Accounting principles

Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the consolidated financial statements of the Air France-KLM Group as of December 31, 2015 were established in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Commission on the date these consolidated financial statements were established.

IFRS, as adopted by the European Union 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 17, 2016.

Change in accounting principles

— **IFRS standards and IFRIC interpretations which are applicable on a mandatory basis to the 2015 financial statements:**

The amendment to the standard IAS 19 "Employee Benefits" relating to employees' contributions is effective as from February 1, 2015. This amendment has no significant impact on the financial statements of the Group as of December 31, 2015.

— **IFRS standards and IFRIC interpretations which are applicable on a mandatory basis to the 2016 financial statements:**

- Amendment to IFRS 11 "Joint Arrangements", effective for the period beginning January 1, 2016;
- Amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", effective for the period beginning January 1, 2016;
- Amendment to IAS 1 "Presentation of Financial Statements", effective for the period beginning January 1, 2016.

The Group does not expect any significant impact on the amendments mentioned above.

— **Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union, are described below:**

- Amendment to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements", effective for the period beginning January 1, 2016;
- Standard IFRS 15 "Revenue Recognition from Contracts with Customers", effective for the period beginning January 1, 2018 and replacing the standards IAS 18 "Revenues", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes";
- Standard IFRS 9 "Financial Instruments", effective for the period beginning January 1, 2018.

The Group does not expect any significant impact on the amendments mentioned above.

The implementation of IFRS 9 and IFRS 15 is followed as a project. For each standard, the Group has set up dedicated working groups with the individual business segment and department concerned. The initial aim is to identify the changes relative to the current standards, so as to be in a second step, in the position to evaluate the financial impacts.

After the IASB issued IFRS 16 "Leases" on January 13, 2016, whose application date will be January 1, 2019, the Group will start a project to be able to establish the impact of the new standard.

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, 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 areas of estimates are disclosed in the following Notes:

- *4.6 Revenue recognition related to deferred revenue on ticket sales;*
- *4.7 Flying Blue frequent flyer program;*
- *4.11 Financial assets;*
- *4.13 and 4.14 Tangible and intangible assets;*
- *4.18 Pension assets and provisions;*
- *4.19 and 4.20 Other provisions;*
- *4.23 Deferred tax assets.*

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 on the basis of financial parameters available at the closing date. Concerning the non-current assets, the assumptions are based on a limited level of growth.

Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3 Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial figures for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated. An entity is controlled when the Group has power on it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.

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.

Interest in associates and joint ventures

In accordance with IFRS 11 "Join arrangements", the Group applies the equity method to partnership over which it exercises control jointly with one or more partners (joint-venture). Control is considered to be joint when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties with whom control is shared. In cases of a joint activity (joint operation), the Group recognizes assets and liabilities in proportion to its rights and obligations regarding the entity.

In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are also 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.

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;
- 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.

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.

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 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

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.

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 Note 4.14, page **182***).

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 4.11 – Financial instruments, valuation of financial assets and liabilities on page **179***.

4.5 Business combinations

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 twelve 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 twelve-month measurement period that follows the acquisition date and insofar as the initial measurement had still been presented as provisional. 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 for in profit or loss as well as elements previously recognized in other comprehensive income.

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 twelve months from the date of acquisition.

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 tickets and freight awb's are consequently recorded as "Deferred revenue upon issuance date".

Nevertheless, sales relating to the value of tickets that have been issued but never been 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 the completion method.

4.7 Loyalty programs

The airlines of the Group have a common frequent flyer program “Flying Blue”. This program enables members to acquire “miles” as they fly with airline partners or from transactions with non-airline partners (credit card companies, 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-airline 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” 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 recommendation No. 2009-R.03 from the French 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, the recording of an impairment loss on goodwill and significant provisions for litigation.

4.9 Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortization): by extracting the main line of the income statement which does not involve cash disbursement (“Amortization, depreciation and provision”) from income from current operations, EBITDA provides a simple indicator of the Group’s cash generation on current operational activities. It is thus commonly used for the calculation of the financial coverage and enterprise value ratios.

EBITDAR (Earnings Before Interests, Taxes, Depreciation, Amortization and Rents): this aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA (as defined above). It is also used to calculate the financial coverage and enterprise value ratios.

Operating free cash flow: this corresponds to the cash available after investment in flight equipment, other property, plant and equipment and intangible assets for solely operational purposes, net of proceeds on disposals. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities of discontinued operations.

4.10 Earnings per share

Earnings per share are calculated by dividing the 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.

4.11 Financial instruments, valuation of financial assets and liabilities

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. Purchases and sales of financial assets are accounted for as of the transaction date.

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 non-quoted securities, the valuation is made on the basis of the financial statements of the entity. 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 entitled "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. For securities quoted on an active market, a prolonged or significant decrease of the fair value below their acquisition cost is objective evidence of impairment.

Factors used by the Group to evaluate the prolonged or significant nature of a decrease in fair value are generally the following:

— the decrease in value is prolonged when the share price at the market close has been lower than the cost price of the share for more than 18 months;

— the decrease in value is significant when there is a decrease of more than 30% relative to the cost price, at the closing date.

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 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.

Convertible bonds

Convertible bonds are deemed to be 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 this value and the bond's nominal value at issuance. 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.

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 has 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.

Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded:

- at their net book value for bonds;
- based on amortized cost calculated using the effective interest rate for the other long-term debts. 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.

Fair value hierarchy of the financial assets and liabilities

The table presenting a breakdown of financial assets and liabilities categorized by value (*see Note 36.4*) 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 an 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 an 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.

4.12 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 taking place prior to April 1, 2004 were 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 4.15, page **182***, 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.

4.13 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 tools required 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, impairment as described in *Note 4.15 on page **182*** is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in *Note 4.21* and the "Risks on carbon credit" paragraph in *Note 36.1, page **230***. 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

The development on information technology is amortized over the same useful life as the underlying software. In some, well documented, cases the developed information technology could be amortized over a longer period.

4.14 Property, plant and equipment

Principles applicable

Property, plant and equipment are recorded at their acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to advance payments made on account of investments in aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans at the end 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).

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 airframe and engine overhaul (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 spare parts (maintenance business) 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.

Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight-line method over their useful lives as follows:

Buildings	20 to 50 years
Fixtures and fittings	8 to 20 years
Flight simulators	10 to 20 years
Equipment and tooling	3 to 15 years

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.

Assets held under finance leases 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 profits 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 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.

4.15 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's correspond to the Group's business segments: passenger network, cargo, maintenance, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is recognized. 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.

4.16 Inventories

Inventories are measured at the lower of their 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.

4.17 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.

4.18 Employee benefits

The Group's obligations in respect of defined benefit pension plans, including 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 (mainly jubilees) are recognized in the income statement.

The Group recognizes 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").

4.19 Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft with a defined level of potential.

The Group provides for restitution costs related to aircraft under operating leases. This provision is based on the standard cost of a shop visit and is estimated using the phase-out costs indicated in the contract and taking into consideration the probability of the aircraft phase-out at the end of the contract.

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.

4.20 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 "Other financial income and expenses".

Restructuring provisions are recognized once the Group has established a detailed and formalized restructuring plan which has been announced to the parties concerned.

4.21 Emission Trading Scheme

Since January 1, 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;
- quotas purchased on the market are accounted at their acquisition cost.

These intangible assets are not amortized.

If the allocated quotas are insufficient to cover the actual emissions 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 actual emissions, the provision is written-off in exchange for the intangible assets returned.

4.22 Equity and debt issuance costs

Debt issuance costs are mainly amortized as financial expenses over the term of the loans using the actuarial method.

Capital increase costs are deducted from paid-in capital.

4.23 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 the 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 relating 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 the budgets and medium term plans prepared by the Group. The assumptions used are the same as those used for the impairment tests on assets (*see Note 4.15, page **182***).

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 as from January 1, 2010 and replaced it with the new TEC (Territorial Economic Contribution/*Contribution Économique 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".

4.24 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 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.

NOTE 5. CHANGE IN THE CONSOLIDATION SCOPE

— Year ended December 31, 2015

In 2015, several operations have been initiated within the catering business (Servair Group). The main transactions are the following:

- acquisition of Panima;
- increase of the share capital in Lomé Catering, Macau Catering Services and Dutyfly Solutions.

All these entities are fully consolidated as of fiscal year 2015.

The goodwill generated by these transactions amounts to €2 million as of December 31, 2015.

— Year ended December 31, 2014

Scope in

On June 30, 2014, Air France Industries US and Sabena technics signed an agreement in which the maintenance business of the Group acquired 100% of the capital of Barfield, an US maintenance company specialized in equipment support.

Pursuant to IFRS 3 and IFRS 10, Barfield has been accounted for using the acquisition method and fully integrated in the Group's accounts starting from its acquisition date. The acquisition did not generate any goodwill.

Scope out

On April 30, 2014, the Group sold its previously 100% held subsidiaries, the Irish and Belgium regional airlines CityJet and VLM, to Intro Aviation GmbH.

Since these two entities had been valued at their disposal value within the framework of their classification under discontinued operations in 2013, the result on their disposal had no significant impact on the Group's consolidated financial statements as of December 31, 2014.

NOTE 6. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

Business segments

The segment information 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 network: passenger network operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (except Transavia), 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 and 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 worldwide.

Transavia: the revenues from this segment come from the "low cost" activity realized by Transavia. Until December 31, 2014, these revenues had been included in the "Others" segment. The revenues relating to this activity are henceforth disclosed as a separate business segment for both the actual and the 2014 comparative figures.

Other: the revenues from this segment come primarily from catering supplied by the Group to third-party airlines.

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 accounts receivable, 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

— Activity by origin of sales area

Group activities by origin of sale are broken down into eight geographical areas:

- Metropolitan France;
- Benelux;
- Europe (excluding France and Benelux) and North Africa;
- Africa (excluding North Africa);
- Middle East, Gulf, India (MEGI);
- Asia-Pacific;
- North America;
- Caribbean, West Indies, French Guyana, Indian Ocean, South America (CILA).

Only segment revenue is allocated by geographical sales area.

— Activity by destination

Group activities by destination are broken down into six geographic areas:

- Metropolitan France;
- Europe (excluding France) and North Africa;
- Caribbean, West Indies, French Guyana and Indian Ocean;
- Africa (excluding North Africa), Middle East;
- Americas and Polynesia;
- Asia and New Caledonia.

6.1 Information by business segment

Year ended December 31, 2015

(in € millions)	Passenger network	Cargo	Maintenance	Transavia	Other	Non allocated	Total
Total sales	21,972	2,446	3,990	1,100	1,045	-	30,553
Intersegment sales	(1,431)	(21)	(2,413)	(1)	(628)	-	(4,494)
External sales	**20,541**	**2,425**	**1,577**	**1,099**	**417**	**-**	**26,059**
EBITDAR	3,016	(196)	453	122	79	-	3,474
EBITDA	2,124	(210)	453	2	78	-	2,447
Income from current operations	842	(245)	214	(35)	40	-	816
Income from operating activities	1,180	(286)	179	10	32	-	1,115
Share of profits (losses) of associates	(37)	-	1	-	6	-	(30)
Net cost of financial debt and other financial income and expenses	-	-	-	-	-	(915)	(915)
Income taxes	-	-	-	-	-	(43)	(43)
Net income from continuing operations	**1,143**	**(286)**	**180**	**10**	**38**	**(958)**	**127**
Depreciation and amortization for the period	(1,247)	(48)	(236)	(29)	(36)	-	(1,596)
Other non monetary items	(386)	23	(27)	21	(235)	(238)	(842)
Total assets	**10,310**	**879**	**2,975**	**460**	**475**	**8,236**	**23,335**
Segment liabilities	6,693	639	1,007	370	111	5,162	13,982
Financial debt, bank overdraft and equity	-	-	-	-	-	9,353	9,353
Total liabilities	**6,693**	**639**	**1,007**	**370**	**111**	**14,515**	**23,335**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,245**	**15**	**194**	**86**	**107**	**-**	**1,647**

The non-allocated assets, amounting to €8.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €4 billion, pension assets of €1.8 billion, financial assets of €0.9 billion, deferred tax of €0.7 billion and derivatives of €0.8 billion.

The non-allocated segment liabilities, amounting to €5.2 billion, mainly comprise pension provisions for €2 billion, a portion of other provisions for €0.3 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €1.6 billion.

Financial debts, bank overdrafts and equity are not allocated.

Year ended December 31, 2014 restated

(in € millions)	Passenger network	Cargo	Mainte-nance	Transavia	Other	Non allocated	Total
Total sales	21,007	2,701	3,392	1,057	961	-	29,118
Intersegment sales	(1,437)	(20)	(2,141)	(1)	(607)	-	(4,206)
External sales	**19,570**	**2,681**	**1,251**	**1,056**	**354**	**-**	**24,912**
EBITDAR	2,013	(127)	444	74	59	-	2,463
EBITDA	1,243	(150)	444	(8)	60	-	1,589
Income from current operations	(83)	(212)	174	(36)	28	-	(129)
Income from operating activities	775	(253)	166	39	24	-	751
Share of profits (losses) of associates	(46)	-	1	-	6	-	(39)
Net cost of financial debt and other financial income and expenses	-	-	-	-	-	(729)	(729)
Income taxes	-	-	-	-	-	(195)	(195)
Net income from continuing operations	**729**	**(253)**	**167**	**39**	**30**	**(924)**	**(212)**
Depreciation and amortization for the period	(1,199)	(53)	(278)	(27)	(32)	-	(1,589)
Other non monetary items	138	45	45	69	(311)	(83)	(97)
Total assets	**10,397**	**928**	**2,863**	**401**	**469**	**8,183**	**23,241**
Segment liabilities	6,695	673	753	336	98	5,211	13,766
Financial debt, bank overdraft and equity	-	-	-	-	-	9,475	9,475
Total liabilities	**6,695**	**673**	**753**	**336**	**98**	**14,686**	**23,241**
Purchase of property, plant and equipment and intangible assets (continuing operations)	**1,076**	**48**	**139**	**77**	**91**	**-**	**1,431**

The non-allocated assets, amounting to €8.2 billion, mainly concern the financial assets held by the Group. They notably comprise cash and cash equivalents of €3.8 billion, pension assets of €1.4 billion, financial assets of €1.3 billion, deferred tax of €1 billion and derivatives of €0.5 billion.

The non-allocated segment liabilities, amounting to €5.2 billion, mainly comprise pension provisions for €2.1 billion, a portion of other provisions for €0.4 billion, tax and employee-related liabilities of €1.1 billion and derivatives of €1.6 billion.

Financial debts, bank overdrafts and equity are not allocated.

6.2 Information by geographical area

External sales by geographical area

Year ended December 31, 2015

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux) and North Africa	Africa (except North Africa)	Middle-Eastern gulf and India (MEGI)	Asia Pacific	North America	West Indies, Caribbean, Guyana, Indian Ocean and South America (CILA)	Total
Scheduled passenger	5,823	1,799	4,465	948	505	1,957	2,970	1,240	19,707
Other passenger sales	346	144	146	55	5	91	24	23	834
Total passenger	**6,169**	**1,943**	**4,611**	**1,003**	**510**	**2,048**	**2,994**	**1,263**	**20,541**
Scheduled cargo	313	252	664	158	36	432	260	148	2,263
Other cargo sales	30	13	37	14	2	22	33	11	162
Total cargo	**343**	**265**	**701**	**172**	**38**	**454**	**293**	**159**	**2,425**
Maintenance	943	511	25	-	-	-	98	-	1,577
Transavia	390	647	50	-	4	2	6	-	1,099
Others	235	33	11	79	-	9	-	50	417
Total	**8,080**	**3,399**	**5,398**	**1,254**	**552**	**2,513**	**3,391**	**1,472**	**26,059**

Year ended December 31, 2014

(in € millions)	Metropolitan France	Benelux	Europe (except France and Benelux) and North Africa	Africa (except North Africa)	Middle-Eastern gulf and India (MEGI)	Asia Pacific	North America	West Indies, Caribbean, Guyana, Indian Ocean and South America (CILA)	Total
Scheduled passenger	5,702	1,782	4,438	896	430	1,805	2,469	1,173	18,695
Other passenger sales	351	162	165	47	6	103	18	23	875
Total passenger	**6,053**	**1,944**	**4,603**	**943**	**436**	**1,908**	**2,487**	**1,196**	**19,570**
Scheduled cargo	370	253	748	140	49	510	287	152	2,509
Other cargo sales	40	14	39	11	2	23	33	10	172
Total cargo	**410**	**267**	**787**	**151**	**51**	**533**	**320**	**162**	**2,681**
Maintenance	753	407	27	-	-	-	64	-	1,251
Transavia	324	732	-	-	-	-	-	-	1,056
Others	218	32	2	67	-	1	-	34	354
Total	**7,758**	**3,382**	**5,419**	**1,161**	**487**	**2,442**	**2,871**	**1,392**	**24,912**

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Traffic sales by geographical area of destination

Year ended December 31, 2015

(in € millions)	Metropolitan France	Europe (except France) and North Africa	Caribbean, French Guyana, and Indian Ocean	Africa (except North Africa) and Middle East	Americas and Polynesia	Asia and New Caledonia	Total
Scheduled passenger	1,902	4,538	1,504	2,590	5,808	3,365	19,707
Scheduled cargo	3	39	141	467	933	680	2,263
Total	**1,905**	**4,577**	**1,645**	**3,057**	**6,741**	**4,045**	**21,970**

Year ended December 31, 2014

(in € millions)	Metropolitan France	Europe (except France) and North Africa	Caribbean, French Guyana, and Indian Ocean	Africa (except North Africa) and Middle East	Americas and Polynesia	Asia and New Caledonia	Total
Scheduled passenger	1,851	4,389	1,425	2,497	5,292	3,241	18,695
Scheduled cargo	5	45	139	484	1,010	826	2,509
Total	**1,856**	**4,434**	**1,564**	**2,981**	**6,302**	**4,067**	**21,204**

NOTE 7. EXTERNAL EXPENSES

Period from January 1 to December 31 (in € millions)	2015	2014 restated
Aircraft fuel	**6,183**	6,629
Chartering costs	**430**	438
Landing fees and air route charges	**1,947**	1,840
Catering	**655**	591
Handling charges and other operating costs	**1,536**	1,476
Aircraft maintenance costs	**2,372**	1,729
Commercial and distribution costs	**896**	870
Other external expenses	**1,663**	1,598
Total	**15,682**	**15,171**
Excluding aircraft fuel	**9,499**	8,542

NOTE 8. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

Period from January 1 to December 31

(in € millions)	2015	2014 restated
Wages and salaries	**5,548**	5,315
Pension costs linked to defined contribution plans	**578**	595
Net periodic pension cost of defined benefit plans	**296**	388
Social contributions	**1,174**	1,157
Cost of temporary employees	**185**	192
Other expenses	**71**	(11)
Total	**7,852**	**7,636**

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 "pension costs linked to defined contribution plans".

Average number of employees

Period from January 1 to December 31

	2015	2014 restated
Flight deck crew	**7,856**	8,027
Cabin crew	**21,287**	21,552
Ground staff	**64,158**	65,087
Temporary employees	**3,116**	3,181
Total	**96,417**	**97,847**

NOTE 9. AMORTIZATION, DEPRECIATION AND PROVISIONS

Period from January 1 to December 31

(in € millions)	2015	2014
Amortization		
Intangible assets	**111**	98
Flight equipment	**1,246**	1,253
Other property, plant and equipment	**238**	238
	1,595	**1,589**
Depreciation and provisions		
Inventories	**(6)**	2
Trade receivables	**8**	8
Risks and contingencies	**34**	119
	36	**129**
Total	**1,631**	**1,718**

The amortization changes for intangible and tangible assets are presented in *Notes 18, page **202** and 20, page **204***.

As at December 31, 2014, the amortization on aeronautical assets included an amount of €35 million relating to the B747 aircraft further to the review of the amortization schedule to take into account their expected phase out.

The changes relating to inventories and trade receivables are presented in *Notes 25, 26 and 27, on pages **209** and **210***.

The movements in provisions for risks and contingencies are detailed in *Note 32, page **221***.

NOTE 10. OTHER INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)	2015	2014 restated
Capitalized production	**875**	573
Joint operation of routes	**(87)**	(88)
Operations-related currency hedges	**310**	42
Other	**15**	(19)
Other income and expenses	**1,113**	**508**

As from January 1, 2015, the Group opted to isolate the items relating to capitalized production in a line of the income statement ("Other income and expenses") whereas they had previously been allocated by type of expenditure. To facilitate comparison the consolidated financial statements 2014 have been restated, as mentioned in *Note 2, page **173***.

NOTE 11. OTHER NON-CURRENT INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)	2015	2014
Modification on pension plans	**20**	824
Depreciation of CGU Cargo	**-**	(113)
Depreciation of assets available for sale	**(4)**	(11)
Restructuring costs	**(159)**	2
Disposal of slots	**230**	-
Disposal of shares available for sale	**221**	187
Disposals of subsidiaries and affiliates	**3**	(3)
Other	**(6)**	(6)
Other non-current income and expenses	**305**	**880**

Year ended December 31, 2015

Change in pension plans

Further to a renegotiation of pilots pension plans in KLM and Transavia Airlines CV, the Group booked, as of December 31, 2015, a net income of €20 million in "Other non-current income and expenses", as described in *Note 31.3, page* ***219***.

Restructuring costs

As of December 31, 2015, this line mainly includes provisions, amounting to:

- €56 million relating to the new voluntary departure plans announced by Air France in February 2015;
- €40 million relating to the voluntary departure plan for Martinair pilots;
- €31 million relating to the new voluntary departure plan announced by KLM in June 2015.

These voluntary departure plans are presented in *Note 3.1, page* ***175***.

This line also includes provisions, amounting to:

- €22 million relating to the new voluntary departure plans announced by HOP! Group in the context of its reorganization and merger initiated between several entities of the Group;
- €11 million relating to several voluntary departure plans initiated in the other Air France and KLM subsidiaries and establishments located abroad.

Sale of slots

On October 21, 2015, the Group transferred to Delta Air Lines six pairs of slots at London Heathrow airport in return for a total of €247 million, generating a gain of €230 million (*see Note 3.1, page* ***175***).

Disposal of shares available for sale

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2% of the company's share capital.

As mentioned in *Note 3.1, page* ***175***, this transaction generated:

- a positive result on the disposal of the shares amounting to €218 million in the "Other non-current income and expenses" part of the income statement;
- cash proceeds of €327 million.

After this operation, the Group still holds 9.9 million of Amadeus shares. The value of these shares was fully hedged in a transaction concluded on November 25, 2014.

Year ended December 31, 2014

Legal modification on pension plans

Following a change to the legislation governing pension plans in The Netherlands, the Group had recorded a non-current income amounting to €824 million as of December 31, 2014, under the pilot, cabin crew and ground staff plans.

Depreciation of CGU Cargo

After a significant reduction in activity at Paris-CDG in recent years, the Group decided to decrease its full-freighter fleet at Schiphol (The Netherlands) in financial year 2014. An impairment amounted to €113 million had been recognized in non-current expenses to decrease the cargo CGU's carrying value into line with its market value, based on appraiser's valuations, in respect of both the aeronautical assets and the other tangible assets.

Depreciation of assets held for sale

As part of the review of its fleet plan, the Air France Group had decided to sell a number of aircraft in its French regional fleet. The impact of the revaluation of these non-operational aircraft on their sale value amounted to €7 million (*see Note 15, page **199***). The Group also recognized an additional impairment loss of €4 million on the engines on one of the B747 aircraft classified as assets held for sale.

Restructuring costs

This line mainly includes:

- a provision of €21 million for a voluntary departure plan relating to Martinair Cargo pilots;
- an aid of €26 million from the European Union concerning the measures proposed by the Air France Group within its voluntary departure plan "Transform 2015".

Disposal of shares available for sale

On September 9, 2014, as part of its active balance sheet management policy, the Group had sold 4,475,819 shares in the Spanish company Amadeus IT Holding SA ("Amadeus") by a private placement, representing 1.0% of the company's share capital.

The Group had simultaneously sold an additional 10,345,200 shares, representing 2.31% of the company's share capital, within the framework of the settlement of the hedging transaction implemented in 2012 and covering 12 million shares in Amadeus.

These transactions generated:

- a positive result on the disposal of the shares amounting to €187 million in the "Other non-current income and expenses" part of the income statement;
- a change of fair value of financial assets and liabilities for €(4) million in the part "Other financial income and expenses" of the income statement;
- cash proceeds of €339 million.

After these transactions, the Group continued to hold circa 4.4% of Amadeus IT Holding SA's share capital.

Gain on disposal of subsidiaries and affiliates

This line included the proceeds on the disposal of shares held by the Servair Group in Newrest (25%).

Other

This line mainly included:

- the result on the sale of several tangible assets, amounting to €15 million;
- a book loss of €17 million on engines no longer in use.

NOTE 12. NET COST OF FINANCIAL DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Period from January 1 to December 31

(in € millions)	2015	2014 restated
Income from marketable securities	**17**	25
Other financial income	**46**	51
Financial income	**63**	**76**
Loan interests	**(230)**	(268)
Lease interests	**(68)**	(72)
Capitalized interests	**14**	10
Other financial expenses	**(89)**	(116)
Gross cost of financial debt	**(373)**	**(446)**
Net cost of financial debt	**(310)**	**(370)**
Foreign exchange gains (losses), net	**(360)**	(199)
Change in fair value of financial assets and liabilities	**(178)**	(92)
Including:		
— fuel derivatives	**(163)**	(135)
— currency derivatives	**(9)**	50
— interest rates derivatives	**(4)**	(1)
— other derivatives	**(2)**	(6)
Net (charge)/release to provisions	**(28)**	(44)
Other	**(39)**	(24)
Other financial income and expenses	**(605)**	**(359)**
Total	**(915)**	**(729)**

Net cost of financial debt

The financial income mainly consists of interest income and the result on the disposal of financial assets at fair value recorded in the income statement.

As of December 31, 2015 the gross cost of financial debt includes an amount of €36 million corresponding to the difference between the nominal and effective interest rate (after taking into account the equity component) of the OCEANE bonds issued (€51 million as of December 31, 2014).

Foreign exchange gains (losses)

As of December 31, 2015, the foreign exchange losses mainly include:

- a currency loss on the net debt amounting to €188 million mainly linked to the appreciation in the US dollar, Swiss francs and Japanese yen relative to the euro and also to an additional adjustment in the value of the cash held by the Group in Venezuelan bank accounts to take into account the currency conversion risk;
- a currency loss of €112 million mainly linked to the revaluation of the US dollar portion of the maintenance and restitution provisions relating to aircraft in operational lease.

As of December 31, 2014, the foreign exchange losses mainly included an adjustment in the value of the cash held in Venezuela to take into account the currency conversion risk together with a latent foreign exchange variation on the valuation of the debt in US Dollars.

As explained in *Note 2, page **173***, the foreign exchange gain (loss) as of December 31, 2014, was restated due to modification in the conversion method for provisions for maintenance and restitution of aircraft under operational leases.

Net (charge)/release to provisions

As of December 31, 2015, the net addition to provisions comprises mainly the constitution of a provision on GOL shares.

As of December 31, 2014, the line "Net (charge) release to provisions" included a loss of €21 million relating to the Alitalia shares – resulting from the conversion of the bonds subscribed in December 2013 within the framework of the financial restructuring of Alitalia – to reduce this shareholding to its fair value.

Other financial income and expenses

As of December 31, 2015, the line "other" comprises mainly the effect of the accretion on long-term provisions (€57 million expense) and a €26 million gain on repurchase by KLM of perpetual subordinated loan stock in Swiss francs.

As of December 31, 2014, other financial income and expenses included especially the effect of the accretion on long-term provision.

NOTE 13. INCOME TAXES

13.1 Income tax charge

Current income tax expenses and deferred income tax are detailed as follows:

Period from January 1 to December 31

(in € millions)	2015	2014 restated
Current tax (expense)/income	**(39)**	**(37)**
Change in temporary differences	**191**	(141)
CAVE impact	**3**	3
(Use/de-recognition)/recognition of tax loss carry forwards	**(198)**	(20)
Deferred tax income/(expense) from continuing operations	**(4)**	**(158)**
Total	**(43)**	**(195)**

The current income tax charge relates to the amounts paid or payable in the short term to the tax authorities for the period, in accordance with the regulations prevailing in various countries and any applicable treaties.

— French fiscal group

In France, tax losses can be carried forward for an unlimited period. However, there is a limitation on the amount of fiscal loss recoverable each year to 50% of the profit for the period beyond the first million euros. The recoverability of the deferred tax losses corresponds to a period of seven years, consistent with the Group's operating visibility.

— Dutch fiscal group

In The Netherlands, tax losses can be carried forward over a period of nine years without limitation in the amount of recovery due each year.

In 2015, some accounting principles in the KLM income tax fiscal unity have been changed as a result of which the result for tax purposes increased with €730 million. This decrease in tax losses carried forward is fully offset by an increase in temporary differences. After this change in tax accounting, the recoverability period of the deferred tax losses is four years.

In 2014, the three years target for the Group showed that for part of the tax losses generated in 2009-10 (yearly closing March 31, 2010) was not expected to be recovered in the nine year window. To take this into account, a tax limitation of €65 million was recorded as of December 31, 2014. The recoverability period of the deferred tax losses was seven years.

— Martinair

As of December 31, 2014, within the framework of its considerations on the full-freighter activity at Schiphol, the KLM Group had decided to fully de-recognize the deferred tax asset on Martinair's pre-acquisition fiscal losses. This created a tax expense of €24 million.

For both the French and Dutch fiscal groups, the calculation of the recoverability of deferred tax losses is based on the future taxable income projected in the three year target, approved by the management and used, as outlined in *Note 19, page **203**,* for the impairment test of tax assets.

If the assumptions in the three year plan are not achieved, this could have an impact on the horizon of recoverability of the deferred tax assets.

13.2 Deferred tax recorded in equity (equity holders of Air France-KLM)

Period from January 1 to December 31

(in € millions)	2015	2014
Other comprehensive income that will be reclassified to profit and loss	**(48)**	**341**
Assets available for sale	**12**	15
Derivatives	**(60)**	326
Other comprehensive income that will not be reclassified to profit and loss	**(295)**	**583**
Pensions	**(295)**	583
Total	**(343)**	**924**

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 € millions)	2015	2014 restated
Income before tax	**200**	22
Standard tax rate in France	**34.43%**	34.43%
Theoretical tax calculated based on the standard tax rate in France	**(69)**	(8)
Differences in French/foreign tax rates	**12**	58
Non deductible expenses or non-taxable income	**71**	11
Variation in unrecognized deferred tax assets	**(40)**	(249)
CAVE impact	**(20)**	(20)
Other	**3**	13
Income tax expenses	**(43)**	**(195)**
Effective tax rate	**21.4%**	NS

NS: not significant.

For 2015, the tax rate applicable in France is 38% including additional contributions. Since the French fiscal group realized a fiscal deficit as of December 31, 2015, the tax proof 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 Variation in deferred tax recorded during the period

(in € millions)	January 1, 2015 (restated) [(1)]	Amounts recorded in income statement	Amounts recorded in OCI	Currency translation adjustment	Reclassification and other	December 31, 2015
Flight equipment	(1,163)	(30)	-	-	-	**(1,193)**
Pension assets	(297)	(12)	(87)	-	-	**(396)**
Financial debt	763	76	-	-	6	**845**
Deferred revenue on ticket sales	165	49	-	-	-	**214**
Debtors and creditors	365	-	(59)	-		**306**
Provisions	344	112	(210)	2	-	**248**
Others	(359)	(1)	13	-	1	**(346)**
Deferred tax corresponding to fiscal losses	1,210	(198)	-	1	-	**1,013**
Deferred tax asset/(liability) net	**1,028**	**(4)**	**(343)**	**3**	**7**	**691**

(1) *See Note 2.*

(in € millions)	January 1, 2014 (restated)	Amounts recorded in income statement	Amounts recorded in OCI	Reclassification and other	December 31, 2014 (restated) [(1)]
Flight equipment	(1,277)	114	-	-	(1,163)
Pension assets	(608)	(174)	485	-	(297)
Financial debt	780	(16)	-	(1)	763
Deferred revenue on ticket sales	177	(12)	-	-	165
Debtors and creditors	36	2	327	-	365
Provisions	295	(56)	97	8	344
Others	(379)	4	15	1	(359)
Deferred tax corresponding to fiscal losses	1,229	(20)	-	1	1,210
Deferred tax asset/(liability) net	**253**	**(158)**	**924**	**9**	**1,028**

(1) *See Note 2.*

The deferred taxes recognized on fiscal losses for the French fiscal group amounts to €710 million as of December 31, 2015 and 2014 with a basis of €2,062 million.

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €274 million as of December 31, 2015 versus €479 million as of December 31, 2014 with the respective bases of €1,107 million and €1,916 million.

As of December 31, 2015, the position of deferred tax on temporary differences in the French fiscal group being close to nil and the time schedule of the deferred tax asset on fair value revaluation on pension provision being uncertain, the Group completely impaired this deferred tax asset, amounting to €155 million, through the “other comprehensive income”.

13.5 Unrecognized deferred tax assets

	December 31, 2015		December 31, 2014	
(in € millions)	Basis	Tax	Basis	Tax
Temporary differences	**731**	**248**	337	115
Tax losses	**5,105**	**1,721**	4,931	1,664
Total	**5,836**	**1,969**	**5,268**	**1,779**

— French fiscal group

As of December 31, 2015, the cumulative effect of the limitation on the deferred tax assets results in the non-recognition of a deferred tax asset amounting to €1,827 million (corresponding to a basis of €5,306 million), including €1,586 million relating to tax losses and €241 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions and pensions).

As of December 31, 2014, the cumulative effect of the limitation on the deferred tax assets resulted in the non-recognition of a deferred tax asset amounted to €1,656 million (corresponding to a basis of €4,810 million), including €1,543 million relating to tax losses and €113 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuring provisions).

— Dutch fiscal group

As of December 31, 2015 and 2014, the cumulative effect of the limitation on the deferred tax assets resulted in the non-recognition of a deferred tax asset amounting to €65 million (corresponding to a basis of €260 million), entirely constituted of tax losses.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forward by Air France and KLM subsidiaries, not belonging to the fiscal groups, in particular some in the United Kingdom.

NOTE 14. NET INCOME FROM DISCONTINUED OPERATIONS

As of December 31, 2014, the line "net income from discontinued operations" corresponded to the contribution from the CityJet and VLM entity amounting to €(4) million.

NOTE 15. ASSETS HELD FOR SALE

— Year ended December 31, 2015

As of December 31, 2015, the line "assets held for sale" includes the fair value of eight aircraft held for sale for a total amount of €4 million.

— Year ended December 31, 2014

As of December 31, 2014, the line "Assets held for sale" includes the fair value of four aircraft held for sale for a total amount of €3 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 results used to calculate earnings per share are as follows:

— **Results used for the calculation of basic earnings per share**

As of December 31

(in € millions)	2015	2014 restated
Net income for the period – Equity holders of Air France-KLM	**118**	(225)
Net income from continuing operations – Equity holders of Air France-KLM	**118**	(221)
Net income from discontinued operations - Equity holders of Air France-KLM	**-**	(4)
Coupons on perpetual	**(18)**	-
Basic net income for the period – Equity holders of Air France-KLM	**100**	(225)
Basic net income from continuing operations – Equity holders of Air France-KLM	**100**	(221)
Basic net income from discontinued operations – Equity holders of Air France-KLM	**-**	(4)

Since perpetual subordinated loan is considered as preferred shares, coupons are included in the basic earning per share.

Reconciliation of the number of shares used to calculate earnings per share

As of December 31

	2015	2014
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)
— other treasury stock	**(3,040,345)**	(3,063,384)
Number of shares used to calculate basic earnings per share	**296,062,513**	**296,039,474**
OCEANE conversion	**-**	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**296,062,513**	**296,039,474**

16.2 Non-dilutive instruments

The Air France-KLM Group held no non-dilutive instrument as of December 31, 2015.

16.3 Instruments issued after the closing date

No instruments were issued subsequent to the closing date.

NOTE 17. GOODWILL

17.1 Detail of consolidated goodwill

As of December 31

(in € millions)	2015 Gross value	2015 Impairment	2015 Net value	2014 Gross value	2014 Impairment	2014 Net value
Passenger network	**195**	**-**	**195**	195	-	195
Cargo	**1**	**-**	**1**	1	-	1
Maintenance	**25**	**(4)**	**21**	23	(4)	19
Other	**31**	**(1)**	**30**	29	(1)	28
Total	**252**	**(5)**	**247**	**248**	**(5)**	**243**

17.2 Movement in net book value of goodwill

As of December 31

(in € millions)	2015	2014
Opening balance	**243**	**237**
Acquisitions	**-**	2
Change in scope	**2**	-
Currency translation adjustment	**2**	4
Closing balance	**247**	**243**

NOTE 18. INTANGIBLE ASSETS

(in € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2013	**293**	**107**	**1,066**	**1,466**
Additions	-	-	210	210
Change in scope	4	2	-	6
Disposals	-	-	(11)	(11)
Reclassification	-	-	5	5
Amount as of December 31, 2014	**297**	**109**	**1,270**	**1,676**
Additions	-	-	174	174
Change in scope	-	-	-	-
Disposals	(17)	-	(74)	(91)
Reclassification	-	-	(2)	(2)
Amount as of December 31, 2015	**280**	**109**	**1,368**	**1,757**
Depreciation				
Amount as of December 31, 2013	**(3)**	**(104)**	**(463)**	**(570)**
Charge to depreciation	(1)	(2)	(95)	(98)
Releases on disposals	-	-	1	1
Amount as of December 31, 2014	**(4)**	**(106)**	**(557)**	**(667)**
Charge to depreciation	(1)	(1)	(109)	(111)
Releases on disposals	-	-	36	36
Reclassification	-	-	3	3
Amount as of December 31, 2015	**(5)**	**(107)**	**(627)**	**(739)**
Net value				
As of December 31, 2014	293	3	713	1,009
As of December 31, 2015	**275**	**2**	**741**	**1,018**
Including:				
— passenger network	263			
— other	5			
— maintenance	6			
— cargo	1			

The 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

Year ended December 31, 2015

Concerning the methodology followed for the impairment test, 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 its business segments (*see "Accounting Policies", page **193***).

The recoverable value of the CGU assets (other than cargo) has been determined by reference to their value in use as of December 31, 2015. 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 recoverable value of the cargo CGU assets has been determined by reference to their market value, based on appraiser's valuations, for both aeronautical assets and other tangible assets.

The discount rate used for the test corresponds to the Group's Weighted Average Cost of Capital (WACC). This stood at 7.1% at December 31, 2015 as at December 31, 2014.

After the aforementioned test, no impairment was recognized on the Group's other CGUs.

A 50-basis point increase in the WACC would have no impact on the Group's CGUs evaluated as of December 31, 2015. A 50-basis point decrease in the long-term growth rate would also have no impact on the value of the CGUs as of the same date. The same holds true for a 50-basis point decrease in the target operating margin.

Year ended December 31, 2014

After a reduction in activity at Paris-CDG in recent years, the Group had decided to decrease its full freighter fleet at Schiphol (The Netherlands). An impairment amounting to €113 million was recognized in non-current expenses (*see Note 11, page **193***) to reduce the cargo CGU's carrying value and align this with its market value, based on appraiser valuations, in respect of both the aeronautical assets and the other main tangible assets.

After the recognition of this impairment, the net carrying amount of the CGU stood at €647 million of which €370 million related to aeronautical assets and €140 million to other tangible assets.

NOTE 20. TANGIBLE ASSETS

	Flight equipment					Other tangible assets					
(in € millions)	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, 2013	**8,862**	**6,732**	**400**	**2,163**	**18,157**	**2,828**	**1,331**	**95**	**882**	**5,136**	23,293
Acquisitions	131	-	857	104	1,092	20	30	97	20	167	**1,259**
Disposals	(742)	(85)	-	(140)	(967)	(3)	(14)	-	(7)	(24)	**(991)**
Change in scope	-	-	-	-	-	1	7	-	-	8	**8**
Fair value	-	-	(155)	-	(155)	-	-	-	-	-	**(155)**
Reclassification	155	270	(559)	190	56	(41)	10	(57)	11	(77)	**(21)**
Currency translation	-	-	-	-	-	-	4	-	1	5	**5**
Impairment	(56)	(34)	-	(21)	(111)	-	-	-	-	-	**(111)**
As of December 31, 2014	**8,350**	**6,883**	**543**	**2,296**	**18,072**	**2,805**	**1,368**	**135**	**907**	**5,215**	23,287
Acquisitions	163	1	1,110	86	1,360	10	38	94	23	165	**1,525**
Disposals	(621)	(111)	(4)	(191)	(927)	(5)	(19)	(7)	(32)	(63)	**(990)**
Change in scope	-	-	-	-	-	5	5	1	2	13	**13**
Fair value	-	-	(112)	-	(112)	-	-	-	-	-	**(112)**
Reclassification	981	(34)	(1,024)	166	89	74	(86)	(140)	155	3	**92**
Currency translation	-	-	-	-	-	1	4	-	1	6	**6**
Impairment	(4)	-	-	-	(4)	(1)	-	-	-	(1)	(5)
As of December 31, 2015	**8,869**	**6,739**	**513**	**2,357**	**18,478**	**2,889**	**1,310**	**83**	**1,056**	**5,338**	23,816
Depreciation											
As of December 31, 2013	**(5,335)**	**(2,489)**	**-**	**(942)**	**(8,766)**	**(1,668)**	**(949)**	**-**	**(700)**	**(3,317)**	(12,083)
Charge to depreciation	(672)	(436)	-	(154)	(1,262)	(126)	(72)	-	(42)	(240)	**(1,502)**
Releases on disposal	526	88	-	140	754	2	12	-	6	20	**774**
Reclassification	110	(99)	-	(81)	(70)	69	8	-	(2)	75	**5**
Currency translation	-	-	-	-	-	-	(2)	-	(1)	(3)	**(3)**
As of December 31, 2014	**(5,371)**	**(2,936)**	**-**	**(1,037)**	**(9,344)**	**(1,723)**	**(1,003)**	**-**	**(739)**	**(3,465)**	(12,809)
Charge to depreciation	(673)	(423)	-	(123)	(1,219)	(124)	(70)	-	(44)	(238)	**(1,457)**
Releases on disposal	580	111	-	126	817	5	17	-	25	47	**864**
Change in scope	-	-	-	-	-	(1)	(3)	-	(2)	(6)	**(6)**
Reclassification	(400)	401	-	10	11	17	89	-	(110)	(4)	**7**
Currency translation	-	-	-	-	-	-	(2)	-	-	(2)	**(2)**
As of December 31, 2015	**(5,864)**	**(2,847)**	**-**	**(1,024)**	**(9,735)**	**(1,826)**	**(972)**	**-**	**(870)**	**(3,668)**	(13,403)
Net value											
As of December 31, 2014	2,979	3,947	543	1,259	**8,728**	1,082	365	135	168	**1,750**	**10,478**
As of December 31, 2015	**3,005**	**3,892**	**513**	**1,333**	8,743	**1,063**	**338**	**83**	**186**	1,670	10,413

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

*Note 39, page **243*** details the amount of pledged tangible assets.

Commitments to property purchases are detailed in *Notes 38 and 39, on pages **242** and **243***.

The net book value of tangible assets financed under capital lease amounts to €4,373 million as of December 31, 2015 versus €4,438 million as of December 31, 2014.

NOTE 21. CAPITAL EXPENDITURES

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 € millions)	2015	2014
Acquisition of tangible assets	**1,526**	1,217
Acquisition of intangible assets	**174**	210
Accounts payable on acquisitions and capitalized interest	**(53)**	4
Total	**1,647**	**1,431**

NOTE 22. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in investments in associates and joint ventures:

(in € millions)	Passenger network	Maintenance	Other	Total
Carrying value of share in investment as of December 31, 2013	**67**	**38**	**72**	**177**
Share in net income of equity affiliates	(46)	1	6	**(39)**
Distributions	-	-	(3)	**(3)**
Change in consolidation scope	-	-	(11)	**(11)**
Other variations	1	-	(2)	**(1)**
Capital increase	7	2	1	**10**
Currency translation adjustment	1	2	3	**6**
Carrying value of share in investment as of December 31, 2014	**30**	**43**	**66**	**139**
Share in net income of equity affiliates	(37)	1	6	**(30)**
Distributions	-	-	(2)	**(2)**
Change in consolidation scope	-	3	-	**3**
Other variations	2	-	-	**2**
Currency translation adjustment	2	1	3	**6**
Carrying value of share in investment as of December 31, 2015	**(3)**	**48**	**73**	**118**

Passenger network

As of December 31, 2015 and 2014, the equity affiliates in the passenger business mainly concerned Kenya Airways, a Kenyan airline based in Nairobi over which the Group exercises a significant influence.

The financial statements of Kenya Airways as of March 31, 2015 include revenues for €970 million, a net result of €(227) million, equity for €(58) million and total balance sheet for €1,756 million.

The market value of the shares in this listed company amounts to €18 million as at December 31, 2015.

Given the net equity position of this entity, the carrying amount of the Kenya Airways shares is zero as of December 31, 2015.

Maintenance

As of December 31, 2015 and 2014, the equity affiliates in the maintenance business mainly comprise joint venture partnerships entered into by the Group to develop its maintenance activities worldwide. These partnerships, for which the country localizations and the percentages of interest are presented in *Note 43.2, page **251***, have been concluded either with airlines or with independent players in the maintenance market.

Other

As of December 31, 2015 and 2014, the equity affiliates in the Group's other businesses are mainly joint venture partnerships entered into by the Group to develop its catering activities worldwide. The regions of the activities and the percentages of interest in these partnerships are presented in *Note 43.2, page **251***.

NOTE 23. PENSION ASSETS

As of December 31

(in € millions)	2015	2014
Opening balance	**1,409**	**2,454**
Net periodic pension (cost)/income for the period	**(159)**	515
Contributions paid to the funds	**190**	390
Reclassification	**(25)**	-
Fair value revaluation	**358**	(1,950)
Closing balance	**1,773**	**1,409**

The detail of these pension assets is presented in *Note 31*.

Further to a renegotiation of the pilot pension plan in KLM, the Group booked a non-current expense of €(25) million as of December 31, 2015. Following a change in the legislation governing pension plans in The Netherlands, the Group recorded non-current income of €824 million as of December 31, 2014. These items are described in *Notes 11 and 31.3 on pages **193** and **219**.*

NOTE 24. OTHER FINANCIAL ASSETS

As of December 31

(in € millions)	2015 Current	2015 Non-current	2014 Current	2014 Non-current
Financial assets available for sale				
Available shares	-	29	-	85
Shares secured	-	403	-	634
Assets at fair value through profit and loss				
Marketable securities	406	60	13	60
Cash secured	411	-	595	-
Loans and receivables				
Financial lease deposit *(bonds)*	-	204	25	141
Financial lease deposit *(others)*	131	322	132	452
Loans and receivables	19	229	22	151
Gross value	**967**	**1,247**	**787**	**1,523**
Impairment at opening date	-	(21)	-	(19)
New impairment charge	-	(2)	-	(2)
Impairment at closing date	**-**	**(23)**	**-**	**(21)**
Total	**967**	**1,224**	**787**	**1,502**

Financial assets available for sale are as follows:

(in € millions)	Fair Value	% interest	Stockholder's equity	Net income	Stock price (in €)	Closing date
As of December 31, 2015						
Amadeus [(1)]	403	2.21%	NA [(2)]	NA [(2)]	40.69	December 2015
Alitalia CAI	-	1.04%	NA [(2)]	NA [(2)]	NA [(3)]	December 2015
Other	29	-	-	-	-	-
Total	**432**					
As of December 31, 2014						
Amadeus [(1)]	654	4.41%	1,867	632	33.09	December 2014
Alitalia CAI	-	1.11%	(93)	(578)	NA [(3)]	December 2014
Other	65	-	-	-	-	-
Total	**719**					

(1) Listed company.
(2) Non-available.
(3) Non-applicable.

Financial assets available for sale

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2% of the capital of the company (*see Note 3.1, page* ***175***).

After this transaction, the Group still holds 9.9 million Amadeus shares. The value of these shares is fully covered by a hedging transaction concluded on November 25, 2014 (*see Note 36.1, page* ***230***).

Following the acquisition by Etihad of an equity interest in Alitalia in 2014, Air France–KLM's shareholding in Alitalia was diluted. As of December 31, 2015, the interest in Alitalia-CAI is 1.04%. Since this operation, the Group is no longer represented in the board of the new Alitalia-SAI.

Assets at fair value through profit and loss

The assets at fair value through profit and loss mainly comprise shares in mutual funds that are not classified as "cash equivalents" and cash pledged mainly within the framework of the swap contract signed with Natixis on the OCEANE 2005 (*see Note 33, page* ***224***).

Loans and receivables

Loans and receivables mainly include deposits on flight equipment made within the framework of operational 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, in July 2012, a tripartite receivables delegation agreement with reference to the loan agreement. Through this agreement, the CILs commit to repay directly the bank 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 repayments of the loan and interest.

As of December 31, 2015, the amount of transferred receivables stood at €108 million (versus €109 million as of December 31, 2014). The associated loan stood at €81 million as of December 31, 2015 (versus €80 million as of December 31, 2014).

Loan of shares agreement

On November 25, 2014, the Group entered into a loan of shares agreement on Amadeus shares. This loan was linked to the hedging transaction to protect the value of Amadeus shares. The entire 2.21% of Amadeus shares is covered by this hedge contract.

Transfer of financial assets that are derecognized in their entirety

Since 2011, the Group has established non-recourse factoring agreements concerning passenger, cargo and airline trade receivables. These agreements apply to receivables originating in France and other European countries for a total transferred amount of €233 million as of December 31, 2015, against €247 million as of December 31, 2014.

The Group retains the risk of dilution regarding these transferred assets for which guarantees have been secured for €15 million as of December 31, 2015, against €16 million as of December 31, 2014.

At the end of December 2015, the Group concluded with a bank a non-recourse cash transfer by way of discount on the entire Receivable Tax Credit for Competitiveness Employment (CICE) 2015 with a notional amount of €63 million versus €64 million as of December 31, 2014. The contract of assignment transferring substantially all the risks and rewards of the debt to the bank, the debt has been fully derecognized.

NOTE 25. INVENTORIES

As of December 31

(in € millions)	2015	2014
Aeronautical spare parts	**544**	520
Other supplies	**135**	171
Production work in progress	**16**	12
Gross value	**695**	**703**
Opening valuation allowance	**(165)**	(164)
Charge to allowance	**(18)**	(15)
Use of allowance	**22**	13
Currency translation adjustment	**(1)**	-
Reclassification	**(1)**	1
Closing valuation allowance	**(163)**	**(165)**
Net value of inventory	**532**	**538**

NOTE 26. TRADE ACCOUNTS RECEIVABLES

As of December 31

(in € millions)	2015	2014
Airlines	**445**	347
Other clients:		
— passenger network	**641**	642
— cargo	**329**	348
— maintenance	**430**	429
— other	**60**	60
Gross value	**1,905**	**1,826**
Opening valuation allowance	**(98)**	(87)
Charge to allowance	**(25)**	(19)
Use of allowance	**17**	11
Currency translation adjustment	**(2)**	-
Reclassification	**3**	(3)
Closing valuation allowance	**(105)**	**(98)**
Net value	**1,800**	**1,728**

NOTE 27. OTHER ASSETS

As of December 31

(in € millions)	2015 Current	2015 Non-current	2014 Current	2014 Non-current
Suppliers with debit balances	105	-	104	-
State receivables (including income tax)	118	-	109	-
Derivative instruments	480	291	248	239
Prepaid expenses	128	-	170	1
Other debtors	310	4	336	3
Gross value	**1,141**	**295**	**967**	**243**
Opening valuation allowance	(6)	-	(2)	-
Charge to allowance	(1)	-	(5)	-
Use of allowance	4	-	1	-
Closing valuation allowance	**(3)**	**-**	**(6)**	**-**
Net value	**1,138**	**295**	**961**	**243**

As of December 31, 2015, non-current derivatives include €37 million relating to currency hedges on financial debt, against €22 million as of December 31, 2014.

As of December 31, 2015, current derivatives include €4 million relating to currency hedges on financial debt. This amount was nil as of December 31, 2014.

NOTE 28. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

As of December 31

(in € millions)	2015	2014
Liquidity funds (SICAV) (assets at fair value through profit and loss)	1,085	754
Bank deposits and term accounts (assets at fair value through profit and loss)	1,261	1,475
Cash in hand	758	930
Total cash and cash equivalents	**3,104**	**3,159**
Bank overdrafts	(3)	(249)
Cash, cash equivalents and bank overdrafts	**3,101**	**2,910**

The Group holds €3,104 million in cash and cash equivalents as of December 31, 2015.

The cash position in local currency in Venezuela is €3 million and has been valued using the SIMADI rate given the political and economic situation in Venezuela.

NOTE 29. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

29.1 Issued capital

As of December 31, 2015, 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)	2015	2014
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 21, 2015 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, outside the context of public tender offers, 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 €150 million.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

As of December 31

	% of capital		% of voting rights	
	2015	2014	2015	2014
French State	**18**	16	**18**	16
Employees and former employees	**7**	7	**7**	7
Treasury shares	**1**	1	**-**	-
Other	**74**	76	**75**	77
Total	**100**	**100**	**100**	**100**

The line "Employees and former employees" includes the shares held by employees and former employees identified in the "Fonds Communs de Placement d'Entreprise (FCPE)".

Other securities giving access to common stock

OCEANE

*See Note 33.2, page **225**.*

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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 € millions
December 31, 2013	**4,179,804**	**(85)**
Change in the period	-	-
December 31, 2014	**4,179,804**	**(86)**
Change in the period	(30,209)	-
December 31, 2015	**4,149,595**	**(85)**

All the treasury shares are classified as a reduction of equity.

29.4 Perpetual subordinated bond

In order to consolidate its financial structure during the "Perform 2020" implementation period, in early April 2015, the Group issued a perpetual subordinated bond for a total amount of €600 million. These securities, which have no maturity date and bear an annual coupon of 6.25%, have a first repayment option in October 2020, at the issuer's discretion. They are classified as equity, in accordance with the IFRS rules. The loan is subordinated to all other existing and future Air France-KLM debts.

On October 1, 2015, Air France-KLM paid €18 million for the first coupon relating to this instrument.

29.5 Reserves and retained earnings

(in € millions)	December 31, 2015	December 31, 2014 (restated)
Legal reserve	**70**	70
Distributable reserves	**301**	412
Pension defined benefit reserves	**(2,660)**	(2,846)
Derivatives reserves	**(736)**	(881)
Available for sale securities reserves	**289**	428
Other reserves	**(943)**	(835)
Net income (loss) – Group share	**118**	(225)
Total	**(3,561)**	**(3,877)**

As of December 31, 2015, the legal reserve of €70 million represents 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

KLM PPSs plan

During the periods ending December 31, 2015 and December 31, 2014, 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 December 31, 2015
KLM	7/1/2010	145,450	7/1/2010	7/1/2015	43,107
KLM	7/1/2011	144,235	7/1/2011	7/1/2016	18,270
KLM	4/1/2012	146,004	4/1/2012	4/1/2017	8,575
KLM	4/1/2013	150,031	4/1/2013	4/1/2018	-
KLM	4/1/2014	143,721	4/1/2014	4/1/2019	-
KLM	4/1/2015	133,018	4/1/2015	4/1/2020	-

The changes in PPSs were as follows:

	Number of PPSs
PPSs outstanding as of December 31, 2013	**520,358**
Of which: PPSs exercisable at December 31, 2013	***330,807***
PPSs granted during the period	143,721
PPSs exercised during the period	(107,126)
PPSs forfeited during the period	(31,250)
PPSs outstanding as of December 31, 2014	**525,703**
Of which: PPSs exercisable at December 31, 2014	***342,836***
PPSs granted during the period	133,018
PPSs exercised during the period	(69,952)
PPSs forfeited during the period	(65,397)
PPSs outstanding as of December 31, 2015	**523,372**
Of which: PPSs exercisable at December 31, 2015	***355,416***

The vesting conditions on 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.* €7.02 and amounts to €4 million.

NOTE 31. RETIREMENT BENEFITS

(in € millions)	Retirement benefits
Amount as of December 31, 2013	**1,853**
Of which: non-current	1,853
New provision	40
Use of provision	(90)
Fair value revaluation	311
Currency translation adjustment	7
Reclassification	(2)
Amount as of December 31, 2014	**2,119**
Of which: non-current	2,119
New provision	94
Use of provision	(77)
Fair value revaluation	(135)
Currency translation adjustment	17
Reclassification	(23)
Amount as of December 31, 2015	**1,995**
Of which: non-current	1,995

As of December 31, 2015, a curtailment of the pension plan at Air France and its regional subsidiaries is made, amounting to €22 million, within the framework of the voluntary departure plan and has been recorded to "Other non-current income and expenses" (*see Note 11, page* ***193***). As of December 31, 2014, the amount was €36 million.

31.1 Characteristics of the main defined benefit plans

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.

Pension plan related to KLM flight deck crew – The Netherlands

The pension plan related to the flight deck crew in the KLM entity is a defined benefit plan based on average salary with a reversion to the spouse on the beneficiary's death. For the year 2015 the age of retirement defined in the plan is 56 years old. As of July 2016 the retirement age for pension accrual will gradually increase to 58 years. Implementation of the increase is phased in four steps of a half year starting July 2016. As of July 2019 the retirement will be 58 years for all members.

The Board of the pension fund is composed of members appointed by the employer and employees. The board is full responsible for the execution 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.

To satisfy the requirements of the Dutch regulations and the rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 123% to 125% of the projected long-term obligation. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan that also includes projected future return on investments.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Cockpit Crew pension fund is 122.0% as at December 31, 2015 versus 126.3% as at December 31, 2014.

If the coverage ratio is under the funding ratio detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the 125% threshold within ten years and includes projected future returns on investment. If the threshold cannot be realized within ten years (transition period of twelve years as from 2015) additional contributions are payable by the company and the employees. The amount of regular 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 limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of €100,000 and lower future accrual rate are applicable as from 2015.

The return on plan assets, the discount rate used to value the commitments and the longevity and characteristics of the active population are the main factors that impact the coverage ratio and could lead to a risk of additional contributions for KLM on the long term.

The funds, 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.

Pension plan related to KLM ground staff – The Netherlands

The pension plan related to the ground staff of the KLM entity is a defined benefit plan based on average salary with reversion to the spouse on the beneficiary's death. The age of retirement defined in the plan is 67 years.

The Board of the pension fund is composed of members appointed by the employer and employees. The board is fully responsible for the execution 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 rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term obligation. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment. As a consequence the existing recovery plan for the Ground Staff plan has been updated as per July 1, 2015.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Ground Staff pension fund is 109.2% as at December 31, 2015 versus 116.3% as at December 31, 2014.

If the coverage ratio is under the funding ratio detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the 125% threshold within ten years and includes projected future returns on investment. If the threshold cannot be realized within ten years (transition period of twelve years as from 2015) additional contributions are payable by the company and the employee. The amount of regular 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 limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of €100,000 and lower future accrual rate are applicable as from 2015.

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 that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions are limited to 22% of the pension base.

The funds, 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, to reduce the sensitivity to a decline of the interest rate, approximately 50% of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Pension plan related to cabin crew – The Netherlands

The pension plan related to the cabin crew in the KLM entity is a defined benefit plan with reversion to the spouse on the beneficiary's death.

The pension is based on final salary. For a closed group of active members the pension is based on an average salary.

The age of retirement defined in the plan is 60 years.

The Board of the pension fund is composed of members appointed by the employer and employees. The board is fully responsible for the execution 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.

To satisfy the requirements of Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding ratio of approximately 125% of the projected long-term obligation. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK), applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan that also includes projected future return on investment. As a consequence the existing recovery plan for the Cabin Crew plan has been updated as per July 1, 2015.

Based on the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratio of the Cabin Crew pension fund is 106.3% as at December 31, 2015 versus 115.1% as at December 31, 2014.

If the coverage ratio is under the funding ratio detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the 125% threshold within ten years and includes projected future returns on investment. If the threshold cannot be realized within ten years (transition period of twelve years as from 2015) additional contributions are payable by the company and the employee. The amount of regular and additional employer contributions is limited to 48% of the pension basis. Any additional employee contributions are limited to 0.7% of the pension basis.

A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction in a year is limited to twice the normal annual contribution. Given the new Dutch fiscal rules, amongst others, a lower future accrual rate is applicable as from 2015.

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 that impact both the coverage ratio and the level of the regular contribution for future pension accrual.

The funds, 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, to reduce the sensitivity to a decline of the interest rate, approximately 50% of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

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 guarantees a capital of 10% equal to the amount of capital invested in units of account in its collective fund, 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 on 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, 2015, the three Dutch plans and the two French plans presented above represented a respective 80% and 10% of the Group's pension liabilities and 92% and 4% of the Group's pension assets.

31.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2015 and December 31, 2014. 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 years depending on the localization and the applicable laws;
- inflation rates are determined using the inflation swaps listed as reference applied on the Group cash flows and are also determined according to the schemes duration:

As of December 31	2015	2014
Euro zone – Duration 10 to 15 years	**1.50%**	1.70%
Euro zone – Duration 15 years and more	**1.65%**	1.70%

- 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 plan, 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	2015	2014
Euro zone – Duration 10 to 15 years	**1.80%**	1.65%
Euro zone – Duration 15 years and more	**2.35%**	2.35%

The duration between ten and fifteen years mainly concerns the plans located in France while the duration of fifteen 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 1.36% for the Group as of December 31, 2015 against 1.65% as of December 31, 2014.

  The rate of pension increase (excluding inflation) is 1.12% for the Group as of December 31, 2015 against 1.29% as of December 31, 2014.

- the sensitivity of the pension obligations to a change in assumptions, based on actuarial calculations, is as follows:

Sensitivity to changes in the inflation rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2015	Sensitivity of the assumptions for the year ended December 31, 2014
25 bp increase in the inflation rate	**283**	743
25 bp decrease in the inflation rate	**(264)**	(668)

The sensitivity to the change in the inflation rate diminished in 2015 since KLM changed for its main pension fund the type of rate used to determine the impact on the indexation.

Sensitivity to changes in the discount rate

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2015	Sensitivity of the assumptions for the year ended December 31, 2014
100 bp increase in the discount rate	**(3,141)**	(3,397)
100 bp decrease in the discount rate	**4,162**	4,506

Sensitivity to changes in salary increase (excluded inflation)

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2015	Sensitivity of the assumptions for the year ended December 31, 2014
25 bp increase in the salary increase rate	**106**	118
25 bp decrease in the salary increase rate	**(97)**	(105)

Sensitivity to changes in pension increase

(in € millions)	Sensitivity of the assumptions for the year ended December 31, 2015	Sensitivity of the assumptions for the year ended December 31, 2014
25 bp increase in the pension increase rate	**835**	889
25 bp decrease in the pension increase rate	**(658)**	(733)

31.3 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, 2015 and 2014.

	As of December 31, 2015			As of December 31, 2014		
(in € millions)	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	16,862	2,373	878	13,669	2,116	797
Service cost	212	73	13	355	60	12
Interest cost	391	38	36	490	60	36
Employees' contribution	129	-	1	57	-	1
Plan amendments	26	-	(9)	(824)	-	1
Settlement and curtailment	(438)	(23)	-	(47)	(37)	-
Benefits paid	(414)	(96)	(36)	(381)	(106)	(32)
Transfers of assets/liability through balance sheet	2	-	-	5	(1)	(4)
Actuarial loss/(gain) demographic assumptions	3	8	2	(279)	(4)	(2)
Actuarial loss/(gain) financial assumptions	(433)	(134)	(18)	3,928	308	24
Actuarial loss/(gain) experience gap	(121)	(13)	(22)	(100)	(23)	(9)
Currency translation adjustment and other	1	-	47	(11)	-	54
Benefit obligation at end of year	16,220	2,226	892	16,862	2,373	878
Including benefit obligation resulting from schemes totally or partly funded	16,108	2,159	777	16,752	2,305	764
Including unfunded benefit obligation	112	67	115	110	68	114
Fair value of plan assets at beginning of year	18,039	750	614	15,903	748	532
Actual return on plan assets	223	39	(37)	2,084	72	42
Employers' contributions	202	13	18	398	23	29
Employees' contributions	129	-	1	57	-	1
Settlements	(394)	-	-	(32)	-	-
Benefits paid	(393)	(91)	(28)	(368)	(92)	(29)
Currency translation adjustment and other	-	1	30	(3)	(1)	39
Fair value of plan assets at end of year	17,806	712	598	18,039	750	614
Amounts recorded in the balance sheet (1):						
Pension asset	1,773	-	-	1,407	-	2
Provision for retirement benefits	(187)	(1,514)	(294)	(233)	(1,624)	(262)
Net amount recognized	1,586	(1,514)	(294)	1,174	(1,624)	(260)
Net periodic cost:						
Service cost	212	73	13	355	60	12
Interest cost	(32)	27	10	(89)	40	11
Plan amendments, curtailment and settlement	(18)	(23)	(9)	(839)	(36)	-
Actuarial losses/(gain) recognized in income statement	-	-	-	10	-	-
Net periodic cost	162	77	14	(563)	64	23

(1) 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, curtailment and settlement of pension plans

— As of December 31, 2015

As of January 1, 2016, Transavia Airlines Cockpit Crew pension plan changed from a defined benefit to a defined contribution arrangement. The plan assets and defined benefit obligations decreased with respectively €394 million and €439 million. The net positive settlement amounts to €45 million and has been recorded in "Other non-current income and expenses" (*see Note 11, page **193***).

In addition for the KLM Cockpit crew pension plan an increase of the pension age from 56 to 58 years offset by an increased yearly accrual rate was agreed, which overall resulted in a negative settlement of €25 million. This settlement is recorded in "Other non-current income and expenses" (*see Note 11, page **193***).

As of December 31, 2015, a curtailment of the pension plan at Air France and its regional subsidiaries is made, amounting to a profit of €22 million, within the framework of the voluntary departure plan.

— As of December 31, 2014

KLM followed the new Dutch fiscal pension rules as from January 1, 2015. These new fiscal rules consist of lower future annual accrual rates and a maximum pensionable salary of €100,000 for all Dutch employees. The related amendments had been agreed with the respective Dutch Collective Labor Parties in December 2014.

This lowered the defined benefit obligations of the KLM pension plans €824 million. Given the significant impact of these amendments, the result of €824 million was recorded in other non-current income as of December 31, 2014 (*see Note 11, page **193***).

In addition the KLM Catering Services defined benefit plan had been closed in 2014, resulting in a €11 million release. As from 2014 the KLM Catering Services employees have a (collective) defined contribution plan, partly at an industry wide pension plan for the catering industry and partly a separate insured pension plan.

As of December 31, 2014, a curtailment of the pension plan at Air France and its regional subsidiaries was made, amounting to €36 million, within the framework of the voluntary departure plan.

31.4 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, 2015		Funds invested as of December 31, 2014	
	France	The Netherlands	France	The Netherlands
Equities	**38%**	**32%**	39%	36%
Bonds	**47%**	**53%**	48%	51%
Real estate	**-**	**13%**	-	13%
Others	**15%**	**2%**	13%	-
Total	**100%**	**100%**	**100%**	**100%**

Equities are mainly invested in active markets in Europe, United States and emerging countries.

The bonds primarily comprise government bonds, rated at least BBB, and invested in Europe, United States and emerging countries.

The 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.

31.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relative to the defined benefit pension plans will amount to €245 million for the year ending December 31, 2016. The weighted average duration of the obligation is 19 years.

The funding, capitalization and matching strategies implemented by the Group are presented in *Note 31.1, page **214***.

According to this description, both the fiscal rules for accruing pensions as well as the new Financial Assessment Framework, part of the Dutch pension law, in The Netherlands has changed as from January 1, 2015. Amongst other this results in higher minimum required solvency levels. The risk for the Group could remain that in case of a long term shortage, based on existing or future financing agreements, KLM could be required to make additional cash payments (actual funding ratios are presented in *Note 31.1, page **214***). On the other hand, as from 2015, pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan.

For 2016, this additional payment risk is mitigated by the solvency levels and the rolling ten years recovery plan noted since December 31, 2015.

NOTE 32. OTHER PROVISIONS

(in € millions)	Maintenance and restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of December 31, 2013 (restated)[1]	**745**	**442**	**474**	**249**	**1,910**
Of which:					
— non-current	597	-	439	204	**1,240**
— current	148	442	35	45	**670**
New provision	282	72	41	94	**489**
Use of provision	(136)	(192)	(31)	(101)	**(460)**
Reversal of unnecessary provisions	(2)	(2)	(4)	(7)	**(15)**
Currency translation adjustment	42	-	-	2	**44**
Accretion impact	20	-	-	6	**26**
Reclassification	139	3	(1)	-	**141**
Amount as of December 31, 2014 (restated)[1]	**1,090**	**323**	**479**	**243**	**2,135**
Of which:					
— non-current	774	-	447	183	**1,404**
— current	316	323	32	60	**731**
New provision	333	161	26	86	**606**
Use of provision	(279)	(195)	(29)	(142)	**(645)**
Reversal of unnecessary provisions	(1)	-	(15)	(7)	**(23)**
Currency translation adjustment	102	-	-	6	**108**
Accretion impact	51	-	-	6	**57**
Reclassification	(26)	21	13	9	**17**
Amount as of December 31, 2015	**1,270**	**310**	**474**	**201**	**2,255**
Of which:					
— non-current	895	-	464	154	**1,513**
— current	375	310	10	47	**742**

(1) *See Note 2, page **173**.*

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The movements on restructuring provision with a significant impact on the income statement are charged to “Other non-current income and expenses” (*see Note 11, page* ***193***).

The movements on maintenance and restitution provisions relating to operational leased aircraft with a significant impact on the income statement are charged to “Amortization, depreciation and provisions”. Only the effect of accretion is recognized in “Other financial income and expenses” (*see Note 12, page* ***195***).

The discount rate used for the calculation of these provisions for maintenance and restitution relating to operational leased aircraft, based on a short term risk-free rate increased by a spread on risky debt (used for the companies with high financial leverage), is 6% as of December 31, 2015 and remains unchanged since December 31, 2014.

The Group is exposed to the risk of variation of the discount rate mentioned above. A 25 basis point variation (increase or decrease) of this discount rate would have an impact of €6 million on the line “Amortization, depreciation and provisions” on the income statement.

The movements on provisions for litigation and other risks and charges with an impact on the income statement are charged to the accounts of the income statement corresponding to the nature of the expenses.

As of December 31, 2014, the reclassification of provisions for the maintenance and restitution of aircraft, amounting to €139 million, were made after the finalization of some harmonization projects within the Group. The counter balance was accounted for in the rubric “Other current and non-current liabilities”.

32.1 Provisions

32.1.1 Restructuring provisions

As of December 31, 2015 and 2014, the restructuring provisions mainly concern the voluntary departure plans of Air France and its regional subsidiaries, KLM and Martinair.

32.1.2 Litigation

An assessment of litigation risks with third parties has been carried out with the Group’s attorneys and provisions have been recorded whenever circumstances require.

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 reasonably 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, its subsidiaries Air France and KLM and their subsidiaries are involved in litigation cases, some of which may be significant.

32.1.3 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 25 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, 2015, most of these investigations have been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission, and by the Swiss anti-trust authority, which are still pending.

In Europe, the decision of the European Commission of 2010 against a dozen airline companies, including the companies of the Group Air France, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015.

As the grounds for the annulment of the European Commission decision do not preclude the European Commission from pursuing the proceedings against Air France–KLM, Air France, KLM and Martinair, the €340 million provision in respect of the fine has been maintained in the accounts of the Group as of December 31, 2015.

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

As of December 31, 2015, the total amount of provisions in connection with the anti-trust cases amounts to €386 million.

32.1.4 Other provisions

Other provisions relate principally to power-by-the-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.

32.2 Contingent liabilities

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

32.2.1 Litigations concerning anti-trust laws in the air-freight industry

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

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

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

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

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

32.2.2 Litigations 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 in the passenger air transport service from/to Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation in such a conspiracy.

32.2.3 Other litigations

Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight in 2009, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and more recently in France. Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

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

Except for the matters specified under the *paragraphs 32.1* and *32.2, page **222**,* the Group is not aware of any governmental, judicial and arbitration dispute or proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have a significant impact on the Group’s financial position, earnings, assets, liabilities or profitability, for a period including at least the past twelve months.

NOTE 33. FINANCIAL DEBT

As of December 31

(in € millions)	2015	2014
Non-current financial debt		
Perpetual subordinated loan stock in Yen	**238**	216
Perpetual subordinated loan stock in Swiss francs	**346**	348
OCEANE (convertible bonds)	**489**	873
Bonds	**1,104**	1,706
Capital lease obligations	**3,647**	3,469
Other debt	**1,236**	1,382
Total	**7,060**	**7,994**
Current financial debt		
OCEANE (convertible bond)	**415**	655
Bonds	**603**	-
Capital lease obligations	**577**	654
Other debt	**327**	453
Accrued interest	**95**	123
Total	**2,017**	**1,885**

33.1 Perpetual subordinated bond

33.1.1 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.* €238 million as of December 31, 2015.

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.

33.1.2 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. In 2015, this loan is the result of a partial redemption by mutual agreement for an amount of CHF 44 million. Following the repurchases made by KLM, the outstanding subordinated bond amounts to CHF 375 million, *i.e.* €346 million as of December 31, 2015.

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 a fixed-rate (5.75% on a CHF 270 million portion and 0.75% on a CHF 105 million portion).

This debt is subordinated to all other existing and future KLM debts.

33.2 OCEANE

33.2.1 OCEANE issued in 2005

In April 2005, the company Air France, a subsidiary of the Air France-KLM Group, issued convertible bonds maturing in fifteen 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, 2015, 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 at a fixed price of €21. Natixis is the owner of the acquired OCEANEs and did not exercise its early repayment option on April 1, 2012;
- a swap contract, effective as from December 14, 2011 and expiring on April 1, 2016 with a notional amount of €392.5 million;
- the contract is subject to a cash pledge guarantee (*see Note 24, page **207***).

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 exercise of the repayment option by some holders.

As of December 31, 2015, the debt value amounts to €415 million.

33.2.2 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 on 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 the 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, 2015, the debt value amounts to €489 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.

33.3 Bonds

33.3.1 Bonds issued in 2009

On 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%.

As of June 18, 2014, a nominal amount of €94 million of these bonds were repurchased and cancelled by Air France-KLM following an intermediated exchange offer and the issue of new bonds (*see Note 33.2.2*). On October 1, 2015, a nominal amount of €4 million was repurchased and cancelled by Air France-KLM. After these transactions, the outstanding nominal amount of the bonds issued in 2009 is €603 million.

33.3.2 Bonds issued in 2012

On 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%.

33.3.3 Bonds issued in 2014

As of June 4, 2014, Air France-KLM issued bonds for a total amount of €600 million, maturing on June 18, 2021 and bearing an annual interest rate of 3.875%.

33.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of December 31

(in € millions)	2015	2014
Aircraft		
Future minimum lease payments – due dates:		
Y+1	**583**	655
Y+2	**640**	539
Y+3	**576**	548
Y+4	**573**	513
Y+5	**418**	508
Over 5 years	**1,259**	1,200
Total	**4,049**	**3,963**
Including:		
— principal	**3,789**	3,655
— interest	**260**	308
Buildings		
Future minimum lease payments – due dates:		
Y+1	**53**	66
Y+2	**57**	52
Y+3	**61**	58
Y+4	**38**	61
Y+5	**39**	37
Over 5 years	**241**	247
Total	**489**	**521**
Including:		
— principal	**359**	385
— interest	**130**	136
Other property, plant and equipment		
Future minimum lease payments – due dates:		
Y+1	**12**	13
Y+2	**11**	11
Y+3	**10**	10
Y+4	**10**	10
Y+5	**10**	10
Over 5 years	**57**	68
Total	**110**	**122**
Including:		
— principal	**76**	83
— interest	**34**	39

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in *Note 24, page **207***.

33.5 Other debt

Other debt breaks down as follows:

As of December 31

(in € millions)	2015	2014
Reservation of ownership clause and mortgage debt	**814**	1,049
Other debt	**749**	786
Total	**1,563**	**1,835**

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.

Other debt corresponds mainly to bank borrowings.

33.6 Maturity analysis

The financial debt maturities break down as follows:

As of December 31

(in € millions)	2015	2014
Maturities in:		
Y+1	**2,439**	2,414
Y+2	**1,239**	2,020
Y+3	**1,471**	1,160
Y+4	**1,397**	1,410
Y+5	**664**	1,323
Over 5 years	**3,084**	3,172
Total	**10,294**	**11,499**
Including:		
— principal	**9,077**	9,879
— interest	**1,217**	1,620

As of December 31, 2015, the expected financial costs amounts to €431 million for the 2016 financial year, €507 million for the financial years 2017 to 2020, and €279 million thereafter.

As of December 31, 2015, it has been considered that the perpetual subordinated loan stocks and the OCEANEs would be reimbursed according to their most probable maturities:

- probable exercise date of the issuer call for the perpetual subordinated loans;
- second exercise date of the investor put, *i.e.* April 1, 2016, for the majority of the OCEANEs issued in 2005 (*see Note 33.2.1, page **225***);
- probable exercise date of the investor put, *i.e.* February 15, 2019, for the majority of the OCEANEs issued in 2013 (*see Note 33.2.2, page **225***).

Repayable bonds issued in 2009, 2012 and 2014 will be reimbursed at their contractual maturity date (*see Notes 33.3, page **225***).

33.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31

(in € millions)	2015	2014
Euro	**7,293**	8,235
US Dollar	**650**	595
Swiss franc	**356**	359
Yen	**778**	690
Total	**9,077**	**9,879**

33.8 Credit lines

As of December 31, 2015, the Group holds undrawn credit lines amounting to €1,775 million. The two main undrawn credit lines amount, respectively, to €1,100 million for the holding Air France-KLM and Air France and €575 million for KLM.

On April 29, 2015, the Group signed a credit facility for €1.1 billion, finalizing the early refinancing of the Air France's credit facility maturing in April 2016. This new credit facility, implemented through a syndicate of thirteen leading banks, comprises two €550 million tranches with respective three and five-year maturities (*see Note 3.1, page **175***).

The financial covenant ratios are calculated based on Air France-KLM's consolidated financial statements and are respected as of December 31, 2015.

On July 2, 2015, KLM signed a €575 million revolving credit facility with ten international banks, finalizing the early refinancing of its credit facility which was due to mature in July 2016. The facility has a duration of five years (*see Note 3.1, page **175***).

The financial covenant ratios are calculated based on the KLM Group's consolidated financial statements and are respected as of December 31, 2015.

NOTE 34. NET DEBT

As of December 31

(in € millions)	Note	2015	2014
Current and non-current financial debt	33	**9,077**	9,879
Financial lease deposits (others)	24	**(453)**	(584)
Cash secured on OCEANE swap [1]		**(393)**	(196)
Currency hedge on financial debt	27 and 35	**(40)**	(21)
Accrued interest	33	**(95)**	(123)
Gross financial debt (I)		**8,096**	**8,955**
Cash and cash equivalents	28	**3,104**	3,159
Marketable securities	24	**466**	73
Cash secured (on other than OCEANE swap) [1]		**18**	399
Financial lease deposit (bonds)	24	**204**	166
Bank overdrafts	28	**(3)**	(249)
Net cash (II)		**3,789**	**3,548**
Net debt (I-II)		**4,307**	**5,407**
(1) Cash secured:	24	**411**	595

As of December 31

(in € millions)	Note	2015	2014
Opening net debt		**5,407**	**5,348**
Operating free cash, cash flow excluding discontinued activities		**(606)**	164
Change in perpetual	29.4	**(588)**	-
Disposal of subsidiaries, of shares in non-controlled entities	11	**(342)**	(354)
Acquisition of subsidiaries, of shares in non-controlled entities	41.2	**7**	43
Non monetary variation of the debt	41.4	**156**	14
Currency translation adjustment		**185**	158
Amortization of OCEANE optional part		**36**	51
Reclassification		**(4)**	3
Change in scope		**(8)**	(1)
Other		**64**	(19)
Closing net debt		**4,307**	**5,407**

The increase of the "Cash secured on OCEANE swap" is the result of the fact that as of December 31, 2015, the OCEANE 2005 contract is the subject to a guarantee with cash collateral for 100% of the notional of the swap while as at December 31, 2014, the OCEANE 2005 contract was guaranteed with cash collateral for half of the notional of the swap and with a pledge of Amadeus shares for the other half.

The decrease of the "Cash secured (on other than OCEANE swap)" is mainly the result of the cancellation of the guarantee, initially required by the General Court of the European Commission, with respect to allegations of anti-competitive agreements in the air-freight industry (*see Note 3, page* ***175***).

The operating free cash flow includes an amount of €(247) million relating to the transfer to Delta Air Lines of six pairs of slots at London Heathrow airport.

NOTE 35. OTHER LIABILITIES

As of December 31

(in € millions)	2015 Current	2015 Non-current	2014 Current	2014 Non-current
Tax liabilities	**680**	**-**	688	-
Employee-related liabilities	**895**	**-**	810	-
Non current assets' payables	**70**	**-**	46	-
Derivative instruments	**1,283**	**319**	1,153	433
Deferred income	**249**	**97**	231	67
Other	**390**	**68**	402	36
Total	**3,567**	**484**	**3,330**	**536**

As of December 31, 2015 and 2014, the non-current derivatives used to cover the debts in foreign currencies amount to €1 million.

As of December 31, 2015 and 2014, there is no current derivative instruments used to cover the debts in foreign currencies.

NOTE 36. FINANCIAL INSTRUMENTS

36.1 Risk management

— Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officers of Air France and 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 market fluctuations. The RMC also defines the policy of the counterparty-risk management.

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 the 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 regular 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 underlying used, average hedge levels, the resulting net prices and stress scenarios, 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, operational 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, the Group is a net seller of other currencies, the level of revenues exceeding expenditure. The main exposures concern 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, 2015, 84% of the Group's 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 the yen, US dollar and Swiss francs.

Despite this active hedging policy, not all exchange rate risks are covered. 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

Market financing is contracted at fixed rates. The financing of assets are mainly contracted at floating rates, in line with market practice. The Air France-KLM Group uses interest rate swaps to modulate the fixed part of its financial debt. After hedging, the Air France-KLM Group's gross debt contracted at fixed rates represents 67% 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, to reach at the end of the current quarter:

- 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, Gasoil and Jet Fuel.

The strategy of the Group recommends the use of three underlying instruments which are Brent, Gasoil and Jet Fuel. To date, the volumes have mostly been hedged in Brent given the unattractive market prices for Gasoil and Jet Fuel. Since the second half-year 2015, the Group privileges the hedge in Jet Fuel for the first quarters to cover.

Instruments: swap, call, call spread, three ways, four ways and collar.

IAS 39 rule: the instruments 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 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 (2015), to anticipate all the needs of the following year (2016) by hedging a portion of the latter, and also a part of the next one (2017), based on an applicable scope identical to that of 2013.

Underlyings: EUA, EUAA and CER 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 deposits, 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 high-quality foreign-currency denominated 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.

On January 15, 2015, the Group sold a block of 9,857,202 shares in the Spanish company Amadeus IT Holding SA ("Amadeus"), representing approximately 2.2% of the capital of the company. The cash proceeds were €327 million (*see Note 11, page **193***).

After this transaction, Air France-KLM still holds 9.9 million Amadeus shares which are fully covered by a hedge agreement. This hedge transaction (collar) enables the Group to protect the value of these shares (*see Notes 3 and 24, on pages **175** and **207***). The Group is only limited exposed to the risk of a significant variation in the fair value of its Amadeus IT Holding shares.

The treasury shares held by Air France-KLM are not deemed to be investments. Furthermore, the 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 *Note 4.11, page **179***. Derivative instruments are governed by the ISDA and FBF compensation master agreements. Within the framework of these agreements, compensation (in the event of default) must be made by counterparty for all the derivatives governed by each type of 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 (Standard & Poors)	**As of December 31, 2015**	**As of December 31, 2014**
Higher than AA	**204**	168
AA	**-**	100
A	**1,378**	1,674
BBB	**17**	100
Total	**1,599**	**2,042**

This presentation does not include money market funds (OPCVM) and current accounts.

— Liquidity risk

The liquidity risk relates to the credit lines held by the Group, as described in *Note 33.8, page **228***.

36.2 Derivative instruments

As of December 31, 2015, the fair value of the Group's derivative instruments and their expected maturities are as follows:

(in € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	138	136	2	-	-	-	-
	Liability	(1,300)	(1,119)	(181)	-	-	-	-
Interest rate derivative instruments	Asset	44	4	1	-	-	-	39
	Liability	(82)	(2)	(10)	(11)	(17)	(8)	(34)
Currency exchange derivative instruments	Asset	583	335	77	57	19	17	78
	Liability	(149)	(91)	(22)	(25)	(3)	(5)	(3)
OCEANE swap (1) instrument	Asset	-	-	-	-	-	-	-
	Liability	(7)	(7)	-	-	-	-	-
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(64)	(64)	-	-	-	-	-
Carbon credit derivative instruments	Asset	6	5	1	-	-	-	-
	Liability	-	-	-	-	-	-	-
Total	**Asset**	**771**	**480**	**81**	**57**	**19**	**17**	**117**
	Liability	**(1,602)**	**(1,283)**	**(213)**	**(36)**	**(20)**	**(13)**	**(37)**

(1) *See Note 33.2.1, page* ***225****.*

As of December 31, 2014, the fair value of the Group's derivative instruments and their expected maturities are as follows:

(in € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	1	-	1	-	-	-	-
	Liability	(1,385)	(1,126)	(259)	-	-	-	-
Interest rate derivative instruments	Asset	26	3	3	-	-	-	20
	Liability	(109)	(2)	(10)	(14)	(18)	(20)	(45)
Currency exchange derivative instruments	Asset	450	241	154	17	18	2	18
	Liability	(82)	(29)	(34)	(8)	(8)	(1)	(2)
OCEANE swap (1) instrument	Asset	4	-	-	4	-	-	-
	Liability	-	-	-	-	-	-	-
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(14)	-	(14)	-	-	-	-
Carbon credit derivative instruments	Asset	6	4	2	-	-	-	-
	Liability	4	4	-	-	-	-	-
Total	**Asset**	**487**	**248**	**160**	**21**	**18**	**2**	**38**
	Liability	**(1,586)**	**(1,153)**	**(317)**	**(22)**	**(26)**	**(21)**	**(47)**

(1) See *Note 33.2.1, page* ***225****.*

36.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Diesel and Jet CIF are presented below, at their nominal value:

As of December 31, 2015

(in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Commodity risk (cash flow hedging operating flows)								
Swap	309	217	92	-	-	-	-	(113)
Options	2,178	1,452	726	-	-	-	-	(1,049)
Total	**2,487**	**1,669**	**818**	**-**	**-**	**-**	**-**	**(1,162)**

The fair value is very negative further to the significant decrease of the price of Brent on the period.

As of December 31, 2014

(in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Commodity risk (cash flow hedging operating flows)								
Swap	133	133	-	-	-	-	-	(50)
Options	2,986	2,476	510	-	-	-	-	(1,334)
Total	**3,119**	**2,609**	**510**	**-**	**-**	**-**	**-**	**(1,384)**

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:

As of December 31

	2015		2014	
(in € millions)	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	**(26)**	**35**	32	(25)
Gains/(losses) taken to equity	**414**	**(422)**	396	(389)

36.2.2 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:

As of December 31, 2015 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash flow hedging	**3,349**	**339**	**418**	**417**	**327**	**322**	**1,526**	**(67)**
Interest rate swaps	3,239	321	385	404	314	289	1,526	(56)
Options	110	18	33	13	13	33	-	(11)
Operations qualified as fair value hedging	**195**	**17**	**-**	**-**	**-**	**-**	**178**	**33**
Interest rate swaps	195	17	-	-	-	-	178	33
Operations qualified as fair value through profit and loss	**84**	**8**	**-**	**-**	**76**	**-**	**-**	**(4)**
Interest rate swaps	84	8	-	-	76	-	-	(8)
Other								4
Total	**3,628**	**364**	**418**	**417**	**403**	**322**	**1,704**	**(38)**

As of December 31, 2014 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash flow hedging	**1,741**	**170**	**197**	**427**	**252**	**121**	**574**	**(97)**
Interest rate swaps	1,501	90	167	297	252	121	574	(95)
Options	240	80	30	130				(2)
Operations qualified as fair value hedging	**225**	**10**	**32**	**-**	**-**	**-**	**183**	**23**
Interest rate swaps	225	10	32	-	-	-	183	23
Operations qualified as fair value through profit and loss	**79**	**-**	**10**	**-**	**-**	**69**	**-**	**(9)**
Interest rate swaps	79	-	10	-	-	69	-	(9)
Total	**2,045**	**180**	**239**	**427**	**252**	**190**	**757**	**(83)**

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 (in € millions)	2015				2014			
	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	**2,053**	**2.0%**	**2,053**	**2.0%**	2,337	2.2%	2,337	2.2%
Fixed-rate financial liabilities	**5,110**	**4.2%**	**5,864**	**4.0%**	5,655	4.5%	6,861	4.2%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	**1,931**	**0.4%**	**1,931**	**0.4%**	1,485	0.7%	1,485	0.7%
Floating-rate financial liabilities	**4,020**	**1.5%**	**3,266**	**1.7%**	4,533	1.6%	3,364	1.9%
Without-rate financial assets	**1,306**	**-**	**1,306**	**-**	1,624	-	1,624	-

As of December 31, 2015 and December 31, 2014, 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 €9 million on the financial income for the year ended December 31, 2015 versus €6 million for the year ended December 31, 2014.

36.2.3 Exposure to exchange rate risk

The nominal amounts of futures and options linked to exchange rates are detailed below given the nature of the hedging operations:

As of December 31, 2015 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Exchange risk (cash flow hedging of operating flows)	**2,718**	**1,939**	**779**	**-**	**-**	**-**	**-**	**167**
Exchange rate options	1,255	839	416	-	-	-	-	73
Forward purchases	1,032	757	275	-	-	-	-	94
Forward sales	431	343	88	-	-	-	-	-
Exchange risk (fair value hedging of flight equipment acquisition)	**3,378**	**1,284**	**689**	**396**	**238**	**255**	**516**	**264**
Forward purchases	2,763	928	632	378	205	193	427	328
Forward sales	615	356	57	18	33	62	89	(64)
Exchange risk (trading)	**399**	**13**	**122**	**140**	**32**	**64**	**28**	**3**
Forward purchases	193	-	61	70	16	32	14	37
Forward sales	193	-	61	70	16	32	14	(37)
Others	13	13	-	-	-	-	-	3
Total	**6,495**	**3,236**	**1,590**	**536**	**270**	**319**	**544**	**434**

As of December 31, 2014 (in € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Exchange risk (cash flow hedging of operating flows)	**3,655**	**2,548**	**1,107**	**-**	**-**	**-**	**-**	**238**
Exchange rate options	1,880	1,230	650	-	-	-	-	105
Forward purchases	1,447	1,032	415	-	-	-	-	127
Forward sales	328	286	42	-	-	-	-	6
Exchange risk (fair value hedging of flight equipment acquisition)	**2,603**	**718**	**922**	**280**	**138**	**131**	**414**	**127**
Forward purchases	2,122	558	622	259	138	131	414	154
Forward sales	481	160	300	21	-	-	-	(27)
Exchange risk (trading)	**445**	**70**	**27**	**110**	**126**	**30**	**82**	**3**
Forward purchases	209	35	-	55	63	15	41	22
Forward sales	209	35	-	55	63	15	41	(22)
Others	27	-	27	-	-	-	-	3
Total	**6,703**	**3,336**	**2,056**	**390**	**264**	**161**	**496**	**368**

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

As of December 31 (in € millions)	Monetary assets		Monetary liabilities	
	2015	2014	2015	2014
US dollar	**254**	159	**561**	502
Pound sterling	**36**	26	**-**	1
Yen	**1**	5	**843**	745
Swiss francs	**5**	6	**346**	348

The amount of monetary assets and liabilities disclosed above do 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 € millions)	US dollar		Pound Sterling		Yen	
	2015	2014	2015	2014	2015	2014
Income before tax	**(25)**	(14)	**(12)**	(8)	**(89)**	(75)
Gains/(losses) taken to equity	**179**	299	**(28)**	(23)	**(15)**	(25)

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 € millions)	US dollar		Pound Sterling		Yen	
	2015	2014	2015	2014	2015	2014
Income before tax	**2**	(5)	**-**	3	**78**	64
Gains/(losses) taken to equity	**(131)**	(215)	**31**	18	**12**	31

36.2.4 Carbon credit risk

As of December 31, 2015, the Group has hedged its future purchases of CO_2 quotas via forward purchase for a nominal of €34 million with a fair value of €6 million, versus a nominal of €25 million with a fair value of €9 million as of December 31, 2014. These contracts mostly expire within less than two years.

36.3 Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods. 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, 2015 and 2014, 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 if the positions would be closed out as of December 31, 2015 and 2014 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:

	2015		2014	
As of December 31 (in € millions)	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	**275**	**279**	175	181
Financial liabilities				
Bonds	**2,611**	**2,771**	3,234	3,551
OCEANE 2005	**415**	**433**	402	447
OCEANE 2009	**-**	**-**	655	690
OCEANE 2013	**489**	**577**	471	613
Bond 2009	**603**	**630**	606	652
Bond 2012	**500**	**532**	500	547
Bond 2014	**604**	**599**	600	602
Perpetual subordinated loans	**584**	**279**	564	264
Other borrowings and financial debt	**1,872**	**1,945**	1,770	1,663

36.4 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 4.11*):

As of December 31 (in € millions)	Level 1		Level 2		Level 3		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Financial assets available for sale								
Shares	**429**	702	**3**	17	**-**	-	**432**	719
Assets at fair value through profit and loss								
Marketable securities and cash secured	**37**	38	**840**	630	**-**	-	**877**	668
Cash equivalents	**1,063**	729	**1,283**	1,500	**-**	-	**2,346**	2,229
Derivative instruments assets								
Interest rate derivatives	**-**	-	**44**	26	**-**	-	**44**	26
Currency exchange derivatives	**-**	-	**583**	450	**-**	-	**583**	450
Commodity derivatives	**-**	-	**138**	1	**-**	-	**138**	1
ETS derivatives	**-**	-	**6**	5	**-**	-	**6**	5
Others	**-**	-	**-**	4	**-**	-	**-**	4

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 37. LEASE COMMITMENTS

37.1 Capital leases

The debt related to capital leases is presented in *Note 33.4, page **226***.

37.2 Operating leases

The minimum future payments on operating leases are as follows:

As of December 31	Minimum lease payments	
(in € millions)	2015	2014
Flight equipment		
Due dates:		
Y+1	**1,131**	1,041
Y+2	**1,099**	1,009
Y+3	**952**	960
Y+4	**804**	818
Y+5	**640**	704
Over 5 years	**1,360**	1,727
Total	**5,986**	**6,259**
Buildings		
Due dates:		
Y+1	**210**	210
Y+2	**153**	159
Y+3	**127**	132
Y+4	**111**	111
Y+5	**92**	94
Over 5 years	**707**	768
Total	**1,400**	**1,474**

The commitments relating to operational leased aircraft are denominated in US dollars.

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

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NOTE 38. FLIGHT EQUIPMENT ORDERS

Due dates for commitments to firm orders with a view to the purchase of flight equipment are as follows:

As of December 31 (in € millions)	2015	2014
Y+1	**811**	566
Y+2	**972**	797
Y+3	**984**	811
Y+4	**1,462**	1,064
Y+5	**1,644**	1,001
> Year Y+5	**2,870**	3,792
Total	**8,743**	**8,031**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

As of December 31, 2015, the total amount of commitments relating to flight equipment orders is USD 9,519 million, against USD 9,750 million as of December 31, 2014.

The number of aircraft under firm order (excluding operational lease) as of December 31, 2015, increased by fourteen units compared with December 31, 2014 and stood at 94 aircraft.

This change is explained by the delivery of six aircraft (including two new orders during the fiscal year), the order of 17 regional aircraft and substitution of A380s by A350s.

Long-haul fleet (passenger)

The Group took delivery of three B777-300s.

The Group substituted at two A380s on order, three A350-900s.

Regional fleet

The Group took delivery of two Embraer 190s ordered beginning this year.

The Group took delivery of one Bombardier CRJ 1000.

The Group signed a firm order for fifteen Embraer 175s and two options were converted into firm orders.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A380	**As of December 31, 2015**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2014	-	-	-	2	-	-	2
A350	**As of December 31, 2015**	**-**	**-**	**-**	**6**	**8**	**14**	**28**
	As of December 31, 2014	-	-	-	2	6	17	25
B787	**As of December 31, 2015**	**1**	**2**	**3**	**4**	**4**	**11**	**25**
	As of December 31, 2014	-	1	4	4	3	13	25
B777	**As of December 31, 2015**	**3**	**1**	**-**	**-**	**-**	**-**	**4**
	As of December 31, 2014	3	3	1	-	-	-	7
Medium-haul fleet								
A320	**As of December 31, 2015**	**-**	**2**	**1**	**-**	**-**	**-**	**3**
	As of December 31, 2014	-	3	-	-	-	-	3
B737	**As of December 31, 2015**	**4**	**8**	**5**	**-**	**-**	**-**	**17**
	As of December 31, 2014	-	5	7	5	-	-	17
Regional fleet								
EMB 175	**As of December 31, 2015**	**4**	**8**	**5**	**-**	**-**	**-**	**17**
	As of December 31, 2014	-	-	-	-	-	-	-
CRJ 1000	**As of December 31, 2015**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	As of December 31, 2014	1	-	-	-	-	-	1
Total	**As of December 31, 2015**	**12**	**21**	**14**	**10**	**12**	**25**	**94**
	As of December 31, 2014	4	12	12	13	9	30	80

NOTE 39. OTHER COMMITMENTS

39.1 Commitments made

As of December 31 (in € millions)	2015	2014
Call on investment securities	**4**	4
Warranties, sureties and guarantees	**280**	348
Secured debts	**5,051**	5,194
Other purchase commitments	**104**	149

The restrictions and pledges as of December 31, 2015 are as follows:

(in € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	1,018	-
Tangible assets	March 1999	September 2027	5,918	10,389	57.0%
Other financial assets	November 1999	May 2027	1,448	2,191	66.1%
Total			**7,366**	**13,598**	

39.2 Commitments received

As of December 31 (in € millions)	2015	2014
Warranties, sureties and guarantees	**185**	178

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

NOTE 40. RELATED PARTIES

40.1 Transactions with the principal executives

As of December 31, 2015, directors and their relatives held less than 0.2% of the voting rights.

Short term benefits granted to the principal company officers and booked in expenses amount to €0.6 million as of December 31, 2015 and 2014.

During these two financial years, there were no payments of post-employment benefits.

40.2 Transactions with the other related parties

The total amounts of transactions with related parties are as follows:

As of December 31 (in € millions)	2015	2014
Assets		
Net trade accounts receivable	**65**	109
Other current assets	**8**	17
Other non-current assets	**9**	8
Total	**82**	**134**
Liabilities		
Trade accounts payable	**104**	95
Other current liabilities	**48**	56
Other long-term liabilities	**69**	72
Total	**221**	**223**

As of December 31 (in € millions)	2015	2014
Net sales	**173**	227
Landing fees and other rents	**(421)**	(407)
Other selling expenses	**(158)**	(156)
Passenger service	**(44)**	(41)
Other	**(28)**	(30)
Total	**(478)**	**(407)**

The variations noticed between December 31, 2015 and 2014, are mainly related to the fact that Alitalia was a related party in 2014, while it is not anymore in 2015.

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 €371 million and €361 million for the periods ended December 31, 2015 and 2014.

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 amounts to €37 million for the year ended December 31, 2015 versus €31 million as of December 31, 2014.

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 amounts to €109 million as of December 31, 2015 versus €106 million for the year ended December 31, 2014.

Amadeus

For the year ended December 31, 2015, total transactions with Amadeus amount to an expense of €128 million for the Group, compared with €130 million for the year ended December 31, 2014.

NOTE 41. CONSOLIDATED STATEMENT OF CASH FLOW

41.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

As of December 31 (in € millions)	Notes	2015	2014
Variation of provisions relating to restructuring plan		**(12)**	(154)
Variation of provisions relating to pension		**36**	(88)
Other Impairment	20	**5**	-
Impairment of cargo CGU	19	**-**	113
Changes of pension plan KLM	31.3	**(20)**	(824)
Depreciation of assets held for sale	11	**4**	11
Other		**24**	14
Total		**37**	**(928)**

41.2 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 € millions)	2015	2014
Cash disbursement for acquisitions	**(16)**	(45)
Cash from acquired subsidiaries	**9**	2
Net cash disbursement	**(7)**	**(43)**

During 2015, the Group acquired the Panima company, based in Mayotte, and whose activity is catering. The Group has, also, taken control of several catering companies consolidated by the equity method previously (*see Note 5, page **185***).

During 2014, the Group acquired Barfield, a company based in the United States whose activity is maintenance (*see Note 5*).

41.3 Disposal of subsidiaries without loss of control, of owned shares

As of December 31, 2015 and 2014, this line essentially consists of the sale of Amadeus shares, as described in *Note 11, page **193***.

41.4 Non cash transactions

In financial year 2015, four operational lease contracts of B777-200 aircraft were reclassified as financial lease contracts. The total amount of these contracts was €128 million. The Group also concluded non-monetary financial leases for a total of €28 million.

During financial year 2014, the Group entered into a non-monetary transaction on engines. The Group also concluded non-monetary financial leases. The total amount of the transactions was €36 million.

These operations have no impact on the cash flow statement.

NOTE 42. FEES OF STATUTORY AUDITORS

KPMG

As of December 31 (in € millions)	2015 Amount	2015 %	2014 Amount	2014 %
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	**3.5**	**90%**	3.8	91%
— Air France-KLM SA	**0.7**		0.7	
— Consolidated subsidiaries	**2.8**		3.1	
Other ancillary services and audit services	**0.3**	**8%**	0.3	7%
— Air France-KLM SA	**0.1**		0.1	
— Consolidated subsidiaries	**0.2**		0.2	
Sub-total	**3.8**	**97%**	**4.1**	**98%**
Other services				
Legal, tax and corporate	**0.1**	**3%**	0.1	2%
Total Air France-KLM	**3.9**	**100%**	**4.2**	**100%**

Deloitte & Associés

As of December 31 (in € millions)	2015 Amount	2015 %	2014 Amount	2014 %
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	**3.5**	**95%**	3.7	94%
— Air France-KLM SA	**0.6**		0.7	
— Consolidated subsidiaries	**2.9**		3.0	
Other ancillary services and audit services	**0.1**	**3%**	0.1	7%
— Air France-KLM SA	**0.1**		0.1	
Sub-total	**3.6**	**97%**	**3.8**	**97%**
Other services				
Legal, tax and corporate	**0.1**	**3%**	0.1	3%
Total Air France-KLM	**3.7**	**100%**	**3.9**	**100%**

NOTE 43. CONSOLIDATION SCOPE

As of December 31, 2015 the scope includes 160 fully-consolidated entities and 40 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.

The interest percentage in KLM is calculated based on the ordinary shares.

43.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.	Netherlands	Multisegment	99	49
AIR FRANCE GROUND HANDLING INDIA PVT LTD	India	Passenger	51	51
HOP! 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
COBALT GROUND SOLUTIONS LIMITED	United Kingdom	Passenger	99	49
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC B.V.	Netherlands	Passenger	99	49
HOP!	France	Passenger	100	100
IAS ASIA INCORPORATED	Philippines	Passenger	40	40
IASA INCORPORATED	Philippines	Passenger	99	49
HOP!- TRAINING	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
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 LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	99	49
LYON MAINTENANCE	France	Passenger	100	100
HOP! REGIONAL	France	Passenger	100	100
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Netherlands	Passenger	99	49
BLUE CROWN B.V.	Netherlands	Cargo	99	49

Entity	Country	Segment	% interest	% control
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
MARTINAIR HOLLAND N.V.	Netherlands	Cargo	99	49
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	China	Maintenance	100	100
AIR ORIENT SERVICES	France	Maintenance	100	100
BARFIELD INC	United States	Maintenance	100	100
BLUE TEAM II	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
REGIONAL JET CENTER B.V.	Netherlands	Maintenance	99	49
BLUE TEAM III	France	Transavia	100	100
TRANSAVIA AIRLINES B.V.	Netherlands	Transavia	99	49
TRANSAVIA AIRLINES C.V.	Netherlands	Transavia	99	49
TRANSAVIA AIRLINES LTD	Bermuda	Transavia	99	49
TRANSAVIA COMPANY	France	Transavia	100	100
TRANSAVIA SERVICES GMBH	Germany	Transavia	99	49
TRANSAVIA FRANCE SAS	France	Transavia	100	100
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
AIR LOUNGES MANAGEMENT	United States	Other	98	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	79	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	79	39
AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	59	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	75	49
BLUE TEAM I	France	Other	100	100
BLUE YONDER IX B.V.	Netherlands	Other	99	49
BLUE YONDER XIV B.V.	Netherlands	Other	99	49
B.V. KANTOORGEBOUW MARTINAIR	Netherlands	Other	99	49

Entity	Country	Segment	% interest	% control
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0
DAKAR CATERING	Senegal	Other	64	65
DUTY FLY SOLUTIONS	France	Other	49	50
DUTY FLY SOLUTIONS SPAIN	Spain	Other	49	100
DUTY FLY SOLUTIONS ITALY	Italy	Other	49	100
DUTY FLY SOLUTIONS LUXEMBOURG	Luxembourg	Other	49	100
DUTY FLY SOLUTIONS ROMANIA	Romania	Other	49	100
EUROPEAN CATERING SERVICES	United States	Other	98	100
FONDEG CATERING CONGO	Congo	Other	32	51
GIE JEAN BART	France	Other	10	10
GIE SERVCENTER	France	Other	98	100
GIE SURCOUF	France	Other	100	100
GUINEENNE DE SERVICES AEROPORTUAIRES SA	Guinea	Other	30	60
HORIZON CATERING	Mali	Other	70	100
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM AIR CHARTER B.V.	Netherlands	Other	99	49
KLM CATERING SERVICES SCHIPHOL 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 OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM UNTERSTUTZUNGSKASSEN GMBH	Germany	Other	99	49
LOME CATERING	Togo	Other	26	52
LYON AIR TRAITEUR	France	Other	98	100
MACAU CATERING SERVICES	Macao	Other	17	34
MALI CATERING	Mali	Other	70	99
MARTINAIR VESTIGING VLIEGVELD LELYSTAD B.V.	Netherlands	Other	99	49
MARTINIQUE CATERING	France	Other	96	98
MAURITANIA CATERING	Mauritania	Other	25	51
MAYOTTE CHR	Mayotte	Other	50	100
NAS AIRPORT SERVICES LIMITES	Kenya	Other	58	100
NEWREST SERVAIR PANAMA	Panama	Other	98	100
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49
ORLY AIR TRAITEUR	France	Other	96	98
PANIMA	Mayotte	Other	50	100
PARIS AIR CATERING	France	Other	98	100
PASSERELLE CDG	France	Other	50	51
PELICAN	Luxembourg	Other	100	100

Entity	Country	Segment	% interest	% control
PMAIR	France	Other	50	51
PYRHELIO-STAETE B.V.	Netherlands	Other	99	49
QUASAR-STAETE B.V.	Netherlands	Other	99	49
RIGEL-STAETE B.V.	Netherlands	Other	99	49
SCI BBP INVEST	France	Other	49	100
SENCA	Senegal	Other	32	51
SEREP	Senegal	Other	57	59
SERGEST	Senegal	Other	98	100
SERVAIR (CIE D'EXPLOITATION DES SERVICES AUXILIAIRES AÉRIENS)	France	Other	98	98
SERVAIR ABIDJAN	Ivory Coast	Other	78	80
SERVAIR BRASIL REFEICOES AEREAS E SERVICOS LTDA	Brazil	Other	50	100
SERVAIR BURKINA FASO	Burkina Faso	Other	84	86
SERVAIR CARAIBES	France	Other	98	100
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
SHELTAIR	France	Other	50	51
SIA OCEAN INDIEN	France	Other	50	52
SIA NWK HOLDING	France	Other	63	65
FFSI	France	Other	50	51
SIA KENYA HOLDING LIMITED	Kenya	Other	58	59
SKYCHEF	Seychelles	Other	54	55
SERVAIR INVESTISSEMENTS AEROPORTUAIRES	France	Other	98	100
SNC PANIMA INVEST	Mayotte	Other	50	100
SOGRI	France	Other	95	97
SORI	France	Other	49	50
SPICA-STAETE B.V.	Netherlands	Other	99	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	99	49
SVRL@LA RÉUNION	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

Entity	Country	Segment	% interest	% control
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
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
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	99	49
TREASURY SERVICES KLM BV	Netherlands	Other	99	49
UILEAG HOLDING COMPANY LIMITED	Ireland	Other	100	100
WEBLOK B.V.	Netherlands	Other	99	49

43.2 Equity affiliates

Entity	Country	Segment	% interest	% control
AIR COTE D'IVOIRE	Ivory Coast	Passenger	20	20
AEROLIS	France	Passenger	50	50
KENYA AIRWAYS LIMITED	Kenya	Passenger	26	27
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 SERVICES	India	Maintenance	26	26
NEW TSI	United States	Maintenance	50	50
SHS TECHNICS	Senegal	Maintenance	49	50
TRADEWINDS ENGINE SERVICES LLC	United States	Maintenance	50	50
ATLAS AIR CATERING AIRLINES SERVICES	Morocco	Other	20	40
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
CITY LOUNGE SERVICES	France	Other	17	35
COTONOU CATERING	Benin	Other	24	49
DOUAL'AIR	Cameroun	Other	25	25

Entity	Country	Segment	% interest	% control
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
FLYING FOOD SERVICES	United States	Other	48	49
FLYING FOOD SERVICES USA	United States	Other	48	49
GUANGZHOU NANLAND AIR CATERING	China	Other	24	25
GUEST LOUNGE SERVICES	France	Other	17	35
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Italy	Other	25	25
MAINPORT INNOVATION FUND B.V.	Netherlands	Other	25	25
MAINPORT INNOVATION FUND II B.V.	Netherlands	Other	24	24
NEWREST SERVAIR BELGIUM	Belgium	Other	49	50
NEWREST SERVAIR CHILE	Chile	Other	34	35
NEWREST SERVAIR LCY UK LTD	United Kingdom	Other	39	40
OVID	France	Other	33	33
SCHIPHOL LOGISTICS PARK B.V.	Netherlands	Other	45	45
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	52	45
SERVAIR CONGO	Congo	Other	49	50
SERVICHEF	France	Other	44	45
SERVICHEF ESPACE SUD	France	Other	44	45
SKYNRG B.V.	Netherlands	Other	30	30
SIA MOROCCO 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, 2015

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, 2015, on:

- the audit of the accompanying consolidated financial statements of Air France-KLM SA;
- 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, 2015 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 matter set out in Note 2 to the consolidated financial statements regarding a change in accounting policies related to the presentation of some aggregates in the income statement and the statement of cash flows, a change in accounting policies related to the presentation of capitalized production and temporary staff expenses in the income statement as well as the conversion method of provisions in foreign currencies.

2. Justification of assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*), we bring to your attention the following matters:

- 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, 4.23 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, 4.18 and 31 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 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 4.18 to the consolidated financial statements was appropriate;
- 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 32.1 and 32.2 to the consolidated financial statements. We have examined particularly the estimates and the assumptions used regarding the restructuring provisions 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, 4.15 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. We have also verified that the information as disclosed in the notes to the consolidated financial statements was appropriate.

— 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 18, 2016
The Statutory Auditors

KPMG Audit A division of KPMG SA		Deloitte et Associés	
Jean-Paul Vellutini Partner	Eric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot 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, 2015

5.8.1 Income statement and balance sheet

Income statement

(in € millions)	Notes	2015	2014
Operating income	2	**50**	38
External expenses	3	**(47)**	(30)
Salaries and related costs		**(2)**	(2)
Other expenses		**(1)**	(1)
Total operating expenses		**(50)**	(33)
Income from current operations		**-**	**5**
Financial income		**41**	62
Financial expenses		**(176)**	(190)
Net financial income	4	**(135)**	**(128)**
Earnings before tax and non-recurring items		**(135)**	**(123)**
Non-recurring expenses		**(1)**	-
Non-recurring income/(loss)	5	**(1)**	**-**
Income tax	6	**11**	12
Net income/(loss)		**(125)**	**(111)**

5

Balance sheet

Assets (in € millions)	Notes	December 31, 2015	December 31, 2014
Long-term investments	7	**4,671**	4,668
Loans & receivables related to long-term investment	7-11	**692**	764
Fixed assets		**5,363**	**5,432**
Trade receivables	11	**28**	22
Other receivables	11	**45**	32
Marketable securities	8	**942**	988
Cash		**81**	178
Prepaid expenses		**8**	1
Current assets		**1,104**	**1,221**
Amortisation of capital expenses		**16**	16
Bond redemption premium		**2**	7
Total Assets		**6,485**	**6,676**

Liabilities & equity (in € millions)	Notes	December 31, 2015	December 31, 2014
Capital	9.1	**300**	300
Additional paid-in capital	9.2	**2,971**	2,971
Legal reserve		**70**	70
Reserves		**302**	413
Income for the year		**(125)**	(111)
Shareholders' equity	9	**3,518**	**3,643**
Other equity	10	**600**	**-**
Financial debt	10	**2,321**	3,001
Trade payable	11	**12**	10
including: — trade payables and related accounts — tax security and social debts		 **11** **1**	 9 1
Other liabilities		**34**	22
Liabilities	11	**2,367**	**3,033**
Total Liabilities & equity		**6,485**	**6,676**

5.8.2 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2015.

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

Marketable securities

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

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

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, 2015.

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.

Financial instruments

Financial derivative instruments are used to reduce exposure to interest rate risk. They are over the counter instruments with first class counterpart. Group management policy bans subscription of trading instruments.

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, 2015 to use the "Air France–KLM" brand (€17 million as of December 31, 2014). It also includes the provision of services paid by Air France and KLM for €31 million as of December 31, 2015, (€20 million as of December 31, 2014).

3. External expenses

Period (in € millions)	2015	2014
Fees and surveys	**12**	6
Insurance	**2**	2
Sub-contracting and rents re-invoiced by Air France and KLM	**28**	20
Financial communication	**2**	2
Other	**3**	1
Total	**47**	**31**

During the financial year 2015, the teams assigned to Air France-KLM holding company were still reinforced with additional staff. They represent 90 full-time equivalent seconded from Air France and 40 full-time equivalent seconded from KLM. As a result the amount of sub-contracting re-invoiced by Air France and KLM increased.

4. Net financial income

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

Period (in € millions)	2015	2014
Interests on loans and other financial expenses (1)	**(170)**	(167)
of which related companies	**(18)**	(26)
Financial income from equity investment	**1**	8
of which related companies	**1**	8
Interests received on loans	**26**	36
of which related companies	**26**	36
Other financial income (2)	**14**	16
of which related companies	**6**	6
Allocation to provisions (3)	**(6)**	(23)
Reversal of provisions on treasury shares (4)	**-**	2
Total	**(135)**	**(128)**

(1) Of which interests on OCEANE amounting to €(19) million at December 31, 2015 and €(44) million at December 31, 2014, on bond amounting to €(84) million at December 31, 2015 and €(87) million at December 31, 2014, on perpetual subordinated loan €(28) million at December 31, 2015, commission on the guarantees granted by Air France and KLM amounting to €(18) million at December 31, 2015 and €(26) at December 31, 2014, cost of the sale to a bank of the tax receivable of the tax group for the CICE €(1) million at December 31, 2015 and €(4) million as of December 31, 2014.
(2) Of which €8 million of income in respect of investment in mutual funds and certificates of deposit at December 31, 2015 and €10 million at December 31, 2014 (*see Note 7*).
(3) Of which €(4 million) at December 31, 2015 and €(21) million on shares of Compagnia Aerea Italiana SpA at December 31, 2014.
(4) Of which as reversal of provision on treasury shares transferred at OCEANE conversion.

5. Non recurring income/(loss)

Mainly sanctions imposed by *Autorité des Marchés Financiers* (AMF) for €1 million on March 6, 2015.

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 gain of €11 million to Air France-KLM for this financial year (€12 million on the previous financial year).

7. Long-term investments

7.1 Net book value

(in € millions)	Beginning of year	Acquisitions Capital increases	Transfer	Provision Variation	End of year
Equity investments	4,998	4 (1)	4	-	5,006
Loans & receivables related to long term investment	764	(68)	(4)	-	692 (2)
Other long- term investments	75	(1)	-	-	74
Gross amount	**5,837**	**-**	**-**	**-**	**5,772**
Depreciation	**(405)**	**-**	**-**	**(4)**	**(409)**
Net amount	**5,432**	**(65)**	**-**	**(4)**	**5,363**

(1) During the financial year, purchase of KLM shares from a minority holder, increasing share of capital held to 99.4% (*see Note 12, page* ***195***).
(2) Net increases of loans & receivables related to long term investment granted to KLM, Air France-KLM Finance, and Transavia Company (*see Note 10, page* ***192***).

7.2 Equity investments

Companies (in € millions)	Gross value at beginning of year	Transfers or Acquisitions	Sales	Gross value at end of year
Air France	3,821	-	-	3,821
KLM	817	4	-	821
Compagnia Aerea Italiana SpA (1)	355	-	-	355
Air France-KLM Finance	5	-	-	5
Transavia Company	-	4	-	4
Total	**4,998**	**8**	**-**	**5,006**

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

Companies (in € millions)	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Compagnia Aerea Italiana SpA (1)	(356)	-	-	(356)
Impairment	(356)	-	-	(356)
Net Value	**4,644**	**7**	**-**	**4,651**

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

7.3 Other financial investments

(in € millions)	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	75	-	(1)	74

(in € millions)	Provision at beginning of year	Allocation	Reversal	Provision at end of year
Impairment on treasury shares	(50)	(4)	-	(54)
Net Value	**25**	**(4)**	**(1)**	**20**

8. Marketable securities

(in € millions)	December 31, 2015 Net carrying amount	December 31, 2014 Net carrying amount
Mutual funds, certificates of deposit & marketable term notes	**942**	988
Total	**942**	**988**

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 is entitled to one voting right.

It is as follows:

	% of capital		% of voting rights	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
French State	**17%**	16%	**18%**	16%
Employees and former employees [1]	**7%**	7%	**7%**	7%
Treasury stock	**1%**	1%	**-**	-
Public	**75%**	76%	**75%**	77%
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, 2014 only 595 OCEANE had been converted, of which 510 into 525 new shares during 2007-08 financial year. Between January 1, 2015 and December 31, 2015, 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 on page **192*** for comments on other OCEANE.

9.2 Statement of changes in shareholders' equity

(in € millions)	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2013	**300**	**2,971**	**805**	**(322)**	**3,754**
Allocation of earnings	-	-	(322)	322	-
Earnings for the period	-	-	-	(111)	(111)
At December 31, 2014	**300**	**2,971**	**483**	**(111)**	**3,643**
Allocation of earnings	-	-	(111)	111	-
Earnings for the period	-	-	-	(125)	(125)
At December 31, 2015	**300**	**2,971**	**372**	**(125)**	**3,518**

10. Financial debt and other equity

(in € millions)	December 31, 2015	December 31, 2014
Other equity		
Perpetual subordinated loan	**600**	-
Total other equity	**600**	**-**
Non-current financial debt		
OCEANE (convertible bonds)	**550**	550
Bonds	**1,100**	1,706
Total non-current debt	**1,650**	**2,256**
Current Financial Debt		
OCEANE (convertible bond)	**-**	661
Bonds	**603**	-
Accrued interest	**68**	84
Total current debt	**671**	**745**
Total financial debt	**2,321**	**3,001**

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) for a total amount of €661 million which has been reimbursed at maturity on April 1, 2015. During the financial year, 28,588 OCEANE have been converted in existing shares. The conversion ratio is one Air France-KLM share for one bond.

On October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an annual coupon of 6.75%. On June 18, 2014, a nominal amount of €93.8 million of these bonds was bought and then cancelled by Air France-KLM, as part of a bid intermediate and the issuance of new bonds (*see below*). On October 1, 2015, Air France-KLM bought and then cancelled bonds for a nominal amount of €3.5 million. After these operations, the par value of the bond issued in 2009 is €603 million.

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

On March 28, 2013, Air France-KLM issued 53,398,058 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on February 15, 2023 for a total amount of €550 million. The bonds have a nominal value of €10.30 and the annual coupon is 2.03%. During the financial year, 1,621 OCEANE were converted. The conversion ratio is one Air France-KLM share for one bond.

On June 18, 2014, Air France-KLM issued €600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%. In August 2015, an amount of €200 million has been hedged and converted to a floating rate through a swap.

Between April 1 and April 17, 2015, Air France-KLM issued a €600 million perpetual subordinated loan. These securities, which have no maturity date, have a first repayment option in 2020 at Air France-KLM discretion. The first annual coupon of 6,25% has been paid on October 1, 2015 for €19 million. These securities are presented as other equity.

Some of the proceeds were used to issue loans to Air France, KLM, Air France-KLM Finance and Transavia Company. As of December 31, 2015 these loans amount to €123 million with Air France, €393 million with KLM, €96 million with Air France-KLM Finance and €81 million with Transavia Company, (*See Note 7.1, page **190***).

11. Maturity of receivables and debt

As of December 31, 2015 Receivables (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Non-current assets				
Loans and receivables related to long-term investment	692	235	457	692
Current assets				
Trade receivables and related accounts	28	28	-	28
Other receivables (including tax receivables) (1) (2)	45	45	-	29
Total	**73**	**73**	**-**	**57**

(1) Of which €7 million as accrued income with related companies on December 31, 2015 and €6 million on December 31, 2014.
(2) The €63 million CICE 2015 tax receivable of the tax group was sold to a bank, thus this receivable has been withdrawn from assets.

As of December 31, 2015 Debt (in € millions)	Gross amount	Up to one year	More than one year	Related companies
Financial debt (1)	2,321	671	1,650	-
Trade payables and related accounts	12	12	-	7
Other payables	34	34	-	34
Total	**2,367**	**717**	**1,650**	**41**

(1) *See Note 10, page **192**.*
This amount includes €68 million of accrued interests (€84 million at December 31, 2014).

12. List of subsidiaries and equity investments

(in € millions) Companies or Groups of companies	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held		Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for financial year	Net profit or loss for financial year	Dividends booked during financial year
				Gross	Net					
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France) (1)	127	(394)	100%	3,820	3,820	123	21	15,115	(13)	-
KLM (Netherlands) (1)	94	303	99.4%	821	821	393	-	9,905	54	1
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA	-	N/A	1.04%	356	-	-	-	-	-	-

(1) Statutory financial statements at December 31, 2015.

13. Estimated value of the portfolio

(in € millions)	Amount at beginning of year gross carrying amount	Amount at beginning of year net carrying amount	Amount at end of year gross carrying amount	Amount at end of year net carrying amount
Portfolio fractions valued:				
Air France	3,820	3,820	3,820	3,820
KLM	817	817	821	821
Compagnia Aerea Italiana SpA	356	-	356	-

Estimated value of equity investments is based on Italian Gaap equity or on medium term profitability outlook.

This estimated value supports net book value at year end.

14. Items concerning related companies

(in € millions)	Amount
Trade receivables & related accounts	
Of which:	
— Air France	14
— KLM	13
Other receivables	
Of which:	
— Air France	21
— CRMA	1
— KLM	2
— Air France Finance	3
— Air France-KLM Finance	1
— Others	1
Trade payables and related accounts	
Of which:	
— Air France	6
— KLM	1
Other payables	
Of which:	
— Servair	12
— Acna	5
— CPA	4
— Regional	4
— Britair	2
— OAT	2
— Airlinair	1
— Bluelink S.A	1
— Other	3

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 had to sell its cumulative preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer had occurred during the first three years following the business combination.

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

At the end of the initial three-year period, Air France-KM 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. This guarantee has been renewed in July 2014.

The guarantee is now expressly limited to €21 million.

16. Litigation

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

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

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

In Europe, the decision of the European Commission of 2010 against a dozen airline companies, including the companies of the Group AF, KLM and Martinair, was annulled by the General Court of the European Union on December 16, 2015. As the grounds for the annulment of the EU Commission decision do not preclude the European Commission from pursuing the proceedings against Air France-KLM, Air France, KLM and Martinair the €340 million provision in respect of the fine has been maintained in the accounts of the Group as of December 31, 2015.

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

Other provisions

Other provisions relate principally to power-by-the-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.

17. Contingent liabilities

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

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

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

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

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

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

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

Litigation anti-trust in the sector of passage

Canada

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

Other litigation cases

Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight in 2009, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and more recently in France. Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

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

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

18. Subsequent events

The European Commission did not appeal the decision taken on December 16, 2015 concerning the Group's anti-trust cases in the air freight industry (the possibility of an appeal existed until February 29, 2016). The European Commission is nevertheless able to issue a new decision on this case.

5.9 FIVE-YEAR RESULTS SUMMARY

Year ended 31	December 2015	December 2014	December 2013	December 2012	December 2011
	12 months	12 months	12 months	12 months	9 months
1. Share capital at year end					
Share capital *(in €)*	**300,219,278**	300,219,278	300,219,278	300,219,278	300,219,278
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	**74,449,544**	130,459,042	130,459,042	77,070,585	78,617,176
— 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	**(134,768)**	(103,207)	(104,303)	(67,637)	(41,836)
Income tax	**(10,484)**	(12,273)	(3,779)	(4,947)	(3,938)
Employee profit-sharing for the year	**-**	-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	**(125,192)**	(111,263)	(322,275)	(116,429)	(111,893)
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	**(0.41)**	(0.30)	(0.33)	(0.23)	(0.13)
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	**(0.42)**	(0.37)	(1.07)	(0.39)	(0.37)
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, 2015

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, 2015, on:

- the audit of the accompanying financial statements of Air France-KLM SA;
- 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, 2015 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

In accordance with the requirements of article L. 823-9 of the French Commercial Code ("*Code de Commerce*") relating to the justification of our assessments, we bring to your attention the following matters:

- 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, March 16, 2016

KPMG Audit Division of KPMG SA		Deloitte et Associés	
Jean-Paul Vellutini Partner	Eric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot 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

YEAR ENDED DECEMBER 31, 2015

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, conditions of those agreements and commitments, as well as the reasons justifying their interest for the company, 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.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted to the approval of the Shareholders' Meeting pursuant to article L.225-38 of the French Commercial Code.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments approved in prior years which remained current during the year

We hereby inform you that we have not been advised of any agreement or commitment previously approved by the Shareholders' Meeting which remained in force during the year.

Paris La Défense and Neuilly-sur-Seine, March 16, 2016
The Statutory Auditors

KPMG Audit A division of KPMG SA		Deloitte et Associés	
Jean-Paul Vellutini Partner	Eric Jacquet Partner	Pascal Pincemin Partner	Guillaume Troussicot 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

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 B707s 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 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 Paris-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 Paris-CDG.

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 Air Lines 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

May: Air France–KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange. 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: 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: 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 OTCQX market.

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

In April, Air France, KLM and Delta implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.
On June 1, the Group faces the tragic loss of Air France flight AF447 over the Atlantic between Rio de Janeiro and Paris with 216 passengers and twelve crew members on board.

2010-2011

In April 2010, the eruption of an Icelandic volcano leads to the shut-down of the European air space, grounding most European airlines for a period averaging six days.
Political crises in the Middle East and Africa, together with the earthquake followed by a tsunami in Japan seriously impact the Group's activity to and from these regions.

2012

Launch of the "Transform 2015" plan targeting a €2 billion reduction in net debt, the restoration of the Group's competitiveness and a turnaround in the short- and medium-haul network.

2013

The implementation of Transform 2015 continues in all segments of the company.

2014

In early September, the Group unveils its new strategic plan "Perform 2020", foreseeing an on-going improvement in competitiveness and an increase in the Group's exposure to growth markets.

2015

The Air France–KLM Group returns to profitability after seven years of losses. However, the Group must pursue its efforts to improve its competitiveness relative to peers.
The B787 enters the KLM fleet.

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 Code of Commerce and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003, relating to air transport companies and notably to 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 45 rue de Paris, Tremblay en France, 95737 Paris-CDG Cedex.

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 Annual General Shareholders' Meetings (*see also Section 1 – Corporate governance, pages **8** to **34** and Section 5.11 – Statutory Auditors' special report on regulated agreements and commitments, page **269***).

6.3 INFORMATION RELATING TO THE SHARE CAPITAL

6.3.1 Share capital

At December 31, 2015 the Air France-KLM share capital 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. Until April 2, 2016, each share has one voting right attached. As from April 3, 2016, in the absence of a provision to the contrary in the Air France-KLM Articles of Incorporation[1], all fully paid-up shares held in registered form in the name of the same shareholder for at least two years benefit from a double voting right. There are no other specific rights attached to the shares.

Furthermore, 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, 2013	300,219,278	300,219,278
December 31, 2014	300,219,278	300,219,278
December 31, 2015	300,219,278	300,219,278

(1) The resolution submitted to the General Shareholders' Meeting of May 21, 2015 aimed at including in the Articles of Incorporation a clause maintaining single voting rights was rejected by 56.63% of the votes.

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 21, 2015 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 share capital. At December 31, 2015, the company had not used these authorizations.

Resolution	Delegation	Maximum amount of emissions in nominal	Balance available at December 31, 2015
No.10	Capital increase (outside the context of public tender offers) **maintaining** preferential subscription rights	€150 million in nominal (*i.e.* 50% of the current share capital)	€150 million in nominal (*i.e.* 50% of the current share capital)
No.11	Capital increase (outside the context of public tender offers) **without** preferential subscription rights but with a **mandatory priority subscription period**	€45 million in nominal (*i.e.* 15% of the current share capital)	€45 million in nominal (*i.e.* 15% of the current share capital)
No.12	Capital increase (outside the context of public tender offers) without preferential subscription rights but with an **optional priority subscription period** (authorization limited to issues by the company and one of its subsidiaries of securities granting access to securities to be issued in the future and the issuance of securities within the framework of public exchange offers)	€30 million in nominal (*i.e.* 10% of the current share capital)	€30 million in nominal (*i.e.* 10% of the current share capital)
No.13	Capital increase (outside the context of public tender offers) by way of a private placement with qualified/limited number of investors	€30 million (*i.e.* 10% of the current share capital)	€30 million (*i.e.* 10% of the current share capital)
No.14	Increase in the amount of the initial issue in the event of a capital increase (outside the context public tender offers) with or without preferential subscription rights ("greenshoe")	15% of the initial issue (within a limit not to exceed the ceilings set by resolutions 10, 11, 12 and 13)	15% of the initial issue (within a limit not to exceed the ceilings set by resolutions 10, 11, 12 and 13)
No.15	Capital increase (outside the context public tender offers) to compensate contributions in kind granted to the company	€30 million in nominal (*i.e.* 10% of the current share capital)	€30 million in nominal (*i.e.* 10% of the current share capital)
No.16	Capital increase (outside the context public tender offers) *via* capitalization of reserves, profits, premiums or other amounts eligible for capitalization	€150 million in nominal (*i.e.* 50% of the current share capital)	€150 million in nominal (*i.e.* 50% of the current share capital)
No.23	Capital increase (within the context of public tender offers) *via* capitalization of reserves, profits, premiums or other amounts eligible for capitalization	€75 million in nominal (*i.e.* 25% of the current share capital) **[charged against the ceiling of the 16th resolution, usable outside the context of public tender offers]**	€75 million in nominal (*i.e.* 25% of the current share capital) **[charged against the ceiling of the 16th resolution, usable outside the context of public tender offers]**
No.24	**Capital increases reserved to members of a company or Group savings scheme**	€150 million (i.e. 50% of the current share capital) limited to 2% of the share capital at the time of each issue	€150 million (i.e. 50% of the current share capital) limited to 2% of the share capital at the time of each issue

A common sub-ceiling of €30 million applies to resolutions 12, 13, 14 and 15. A common sub-ceiling of €45 million applies to resolutions 11, 12, 13, 14 and 15. A common sub-ceiling of €150 million applies to resolutions 10, 11, 12, 13, 14, 16 and 24.

6.3.2 Securities conferring entitlement to shares

The bonds convertible and/or exchangeable into new or existing Air France–KLM shares (OCEANE) issued in 2009 were fully redeemed at maturity on April 1, 2015.

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

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

Further to the payment of dividends from the "other reserves" account in respect of the financial year ended March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-20 issue contract. The 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 with a four-year duration. To cover this agreement, between December 7 and December 13, 2011, Natixis acquired 18,692,474 OCEANEs, *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 OCEANEs 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, 2015 stood at 20,449,146.

Bonds convertible and/or exchangeable into new or existing Air France–KLM shares (OCEANEs) 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, 2015, 11,134 bonds had been converted into existing shares, reducing the number of bonds in circulation to 53,386,924.

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.

During the 2015 financial year, the Group neither purchased nor sold Air France–KLM shares within the framework of these authorizations.

As of December 31, 2015, Air France–KLM held 4,149,595 of its own shares, *i.e.* 1.4% of the share capital, including 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €29.1 million at December 31, 2015.

6.3.4 Air France-KLM shareholder structure

Changes in the shareholder structure

Financial year ended	% of share capital			% of voting rights		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Number of shares and voting rights	**300,219,278**	300,219,278	300,219,278	**296,069,683**	296,039,574	296,039,574
French State	**17.6**	15.9	15.9	**17.8**	16.1	16.1
Employees (FCPE)	**6.5**	6.8	7.2	**6.6**	7.0	7.3
Treasury stock	**1.4**	1.4	1.4	**-**	-	-
Others	**74.5**	75.9	75.5	**75.6**	76.9	76.6

The number of shares has not changed since December 31, 2012.

As of April 3, 2016, in application of French law, shareholders holding their shares in registered form for more than two years will benefit from a double voting right.

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 was carried out on December 31, 2015 on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 5,000 shares. Including the registered shares, the holders of 99.7% of the capital were identified. Based on the TPI analysis of December 31, 2015, Air France-KLM is more than 50% held by shareholders who are citizens of the European Union Member States and States party to the European Economic Area Agreement, of whom 57.3% are French nationals.

Financial year ended	Number of shares			% of the share capital		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
French State	**52,763,693**	47,663,693	47,663,693	**17.6**	15.9	15.9
Employees (FCPE)	**19,541,980**	20,454,150	21,621,222	**6.5**	6.8	7.2
French individual shareholders	**35,550,502**	44,235,517	55,778,590	**11.8**	14.7	18.6
Resident institutions	**64,187,628**	57,978,825	47,589,014	**21.4**	19.3	15.8
Non-resident institutions and individual shareholders	**128,175,475**	129,884,887	127,566,759	**42.7**	43.3	42.5

At December 31, 2015, Air France-KLM was 57.3% owned by French interests (57.7% at December 31, 2014) and 78.3% by European institutions (73.3% at December 31, 2014). The principal European countries are the United Kingdom (10.5%), Switzerland (2.5%), the Netherlands (1.8%) and Germany (1.6%). North American institutions hold 18.7% of the share capital (19.8% at December 31, 2014) of which 16 million shares in ADR form (21.7 million at December 31, 2014).

Shareholder pacts

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

Dividend policy

In the past few financial years, Air France–KLM did not distribute any dividends.

Financial year	Earnings per share (in €)	Dividend paid (in €)
2013	(6.17)	-
2014[1]	(0.76)	-
2015	**0.34**	**-**

(1) Restated figure, *see Note 2 to the consolidated financial statements, page* ***173***.

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

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.com in 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 maintains regular contact with financial analysts and institutional investors through road-shows and transport conferences in Europe and the United States. Investor Days are also 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 policy on engaging with individual shareholders based on an educational approach. Financial notices are regularly published in the press. Every three months, the ACTION'air newsletter, containing information on the Group's business activity and current issues, is sent by mail to the 6,000 members of the Shareholders' Club, and 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 industry and to address shareholder concerns. During the last twelve months, the Group thus met with its shareholders based in Strasbourg and Lille. 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 twelve members, the committee meets five times a year including one meeting devoted to planning the Annual General Shareholders' Meeting. It also participates in major company events like the meeting with 400 individual shareholders at the Paris Air Show in June 2015.

In December 2015, for its relations with individual shareholders, the magazine Le Revenue awarded the Group the Silver Award for the company with the best digital communication in the "SBF120 outside the CAC40" category. In respect of the same period, the Group won a special prize for its "Registration Document and Shareholders' Meeting" in the "small and mid-caps" category, awarded by the newspaper Les Echos-Investir.

6.3.6 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the Code of Commerce, 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 5% 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 no later than four trading days, and the French securities regulator the *Autorité des Marchés Financiers* (AMF) no later than five 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 Code of Commerce.

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
Rothschild & Cie Gestion	June 23, 2015	14,916,731	4.97	R
The Capital Group Companies	October 9, 2015	14,303,655	4.76	R
Marathon Asset Management	April 13, 2015	12,162,927	4.05	I
DNCA Finance	May 18, 2015	10,206,420	3.50	R
Majedie Asset Management	December 9, 2015	8,806,915	2.93	R
Citadel	November 19, 2015	8,456,281	2.82	R
Edmond de Rothschild AM	July 9, 2014	4,757,764	1.58	I
Dimensional Fund Advisors	March 10, 2015	4,459,230	1.49	R
Crédit Suisse	December 16, 2015	3,243,463	1.08	I
Amundi Asset Management	July 17, 2015	2,675,284	0.89	R
Millenium Capital Partners	December 11, 2015	1,813,103	0.60	I

6.3.7 Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

Pursuant to Articles L. 6411-2 to 5 and L. 6411-8 of the Code of Transport, as amended by the French law No.2004-734 of July 26, 2004, 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 5% 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 5% 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. Following an amendment to the Articles of Incorporation in 2014, citizens of the European Union Member States and States party to the European Economic Area Agreement are considered to be French nationals.

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 14 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 of the Articles of Incorporation, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the Civil Aviation Code and the Code of Transport. The terms for setting the sale price (market price) are foreseen by the Code of Transport.

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 CAC MID 60 component.

Since February 2008, Air France–KLM's ADR program (American Depositary Receipt) has been traded on the OTC Pink Marketplace under the ticker AFLYY.

The Reuters code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF FP.

The OCEANE 2.75% 2020 is listed for trading under the ISIN code FR0010185975 and the OCEANE 2.03% 2023 under the ISIN code FR0011453463, both on Euronext Paris.

Pursuant to Article 222-1 of the *Autorité des Marchés Financiers* (AMF) General Regulation, Air France-KLM SA having its registered office in France, its Home Member State, as defined by Directive 2004/109/EC, as modified (Transparency Directive), is France and the AMF is consequently its competent market authority as regards ensuring compliance with its regulated information obligations.

6.4.2 Stock market performance

The Air France–KLM share price declined by 20.9% during the first half of 2015, before increasing by 11.4% during the second half. Over the 2015 financial year, the share price was down by 13.4% compared with an 8.53% increase for the CAC 40.

	2015	2014	2013
Share price high *(in €)*	**8.5**	11.945	8.950
Share price low *(in €)*	**5.51**	5.932	5.464
Number of shares in circulation	**300,219,278**	300,219,278	300,219,278
Market capitalization at December 31 *(in €bn)*	**2.1**	2.4	2.3

6.4.3 Transactions in Air France-KLM shares in the past 18 months

Air France-KLM share

		Trading days (in €)				
Euronext Paris Shares	Trading days	Average price (in €)	HIgh	Low	Volume	Amount (in €m)
2014						
September	22	8.104	8.79	7.360	85,098,233	681.7
October	23	6.598	7.367	5.680	146,591,685	955.9
November	20	7.333	8.73	6.760	74,489,452	554.7
December	21	8.078	8.89	7.300	74,377,829	600.6
2015						
January	21	7.775	8.5	7.310	76,249,755	592.7
February	20	7.323	7.795	6.990	74,965,668	547.8
March	22	7.418	8.263	7.015	71,139,858	530.4
April	20	8.167	8.491	7.654	60,122,759	489.7
May	20	7.905	8.41	7.458	51,498,295	408.7
June	22	6.749	7.64	6.15	67,501,407	451.4
July	23	6.379	6.938	5.779	59,082,941	375.5
August	21	6.230	6.55	5.518	42,290,330	261.0
September	22	6.411	6.949	5.901	59,159,372	381.4
October	22	6.342	7.06	5.811	66,895,737	423.4
November	21	6.647	7.27	6.05	63,848,122	423.2
December	22	6.605	7.048	6.155	49,512,109	324.4
2016						
January	20	7.577	8.03	7.02	82,611,464	625.6
February	21	7.323	7.795	6.990	75,189,368	548.0

Source: NYSE Euronext.

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

		Trading range (in €)			
	Trading days	Average price (in €)	High	Low	Volume
2014					
September	22	-	-	-	-
October	23	-	-	-	-
November	20	-	-	-	-
December	21	20.500	20.500	20.500	100
2015					
January	21	-	-	-	-
February	20	-	-	-	-
March	22	-	-	-	-
April	20	20.12	20.12	20.12	68
May	20	-	-	-	-
June	22	19.03	19.03	19.03	23
July	23	-	-	-	-
August	21	19.03	19.03	19.03	42
September	22	18.82	18.98	18.69	1,163
October	22	17.07	17.16	17.05	1,572
November	21	-	-	-	-
December	22	19.26	20.00	18.52	350
2016					
January	20	-	-	-	-
February	21	-	-	-	-

Source: Market Map.

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

			Trading range (in €)		
	Trading days	Average price (in €)	High	Low	Volume
2014					
September	22	11.321	11.710	11.050	5,866
October	23	10.410	11.150	9.970	4,206
November	20	10.766	11.500	10.050	5,651
December	21	11.060	12.000	10.810	799
2015					
January	21	12.057	13.450	11.160	952
February	20	11.241	12.300	10.700	767
March	22	10.92	11.2	10.6	1,643
April	20	11.13	11.6	10.6	764
May	20	10.82	11.6	10.62	374
June	22	10.47	10.63	10.3	333
July	23	10.53	11	10.1	1,548
August	21	10.23	10.5	10.07	1,707
September	22	10.28	10.5	10.06	308
October	22	10.33	10.59	10.06	238
November	21	10.45	10.85	10.1	4,211
December	22	10.24	10.8	10.12	5,253
2016					
January	20	10.8	11	10.14	2,443
February	21	10.91	11.16	10.51	48

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 business combination taking place in 2004 between Air France and KLM for the creation of the Air France-KLM holding company, agreements were entered into with various stakeholders, some of whose provisions continue to apply.

6.5.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

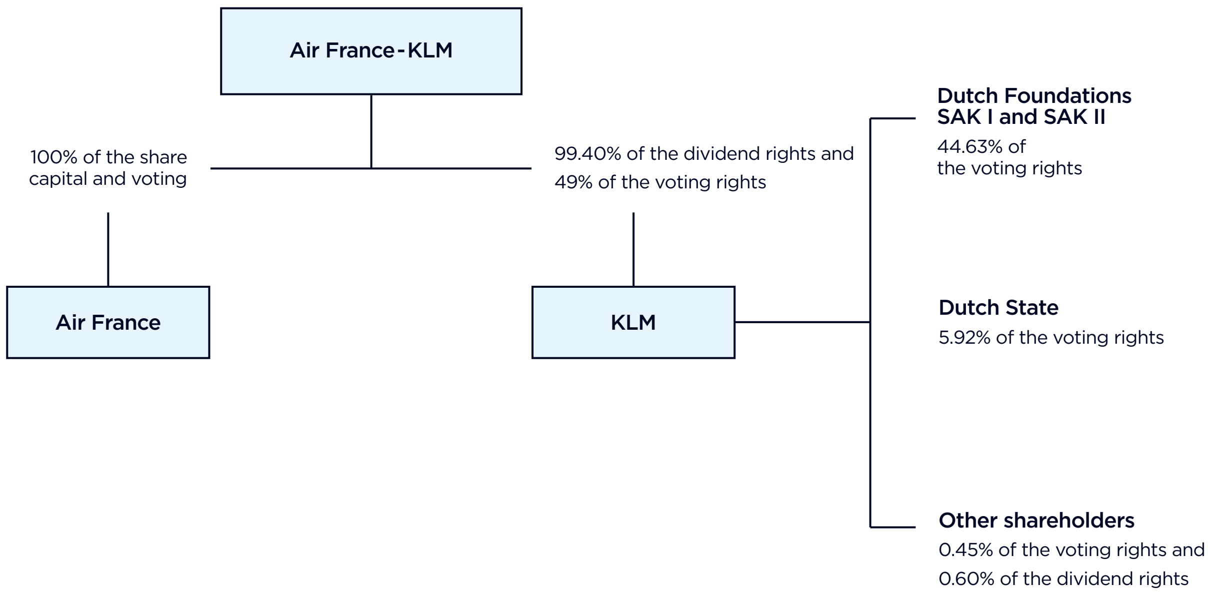
In order to continue to comply with specific regulatory requirements relating to KLM air transport operations, a system to separate the rights attached to KLM shares and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was put in place in 2004.

Pursuant to this system which is still in force, Air France-KLM held, as at December 31, 2015, 93.63% of KLM's economic rights, 99.40% of KLM's dividend rights and 49% of KLM's voting rights, while the two Dutch foundations held, together, 44.63% of KLM's voting rights.

Furthermore, as at December 31, 2015, the Dutch State held 5.92% of KLM's voting rights and the remaining minority shareholders held 0.45% of KLM's voting rights and 0.60% of its dividend rights.

In KLM General Shareholders' Meetings, the two Dutch foundations, SAK I and SAK II, exercise the voting rights they hold in accordance with decisions taken unanimously by the three Board directors constituting their respective Boards of Directors, it being specified that these Board directors must act in accordance with the corporate governance principles defined in the agreements relating to the business combination between KLM and Air France, and in the best interests of KLM, Air France-KLM and its shareholders. If a unanimous decision cannot be reached by the three Board directors in the Board of Directors for each of the Dutch Foundations, no resolution may be passed by the Board of the relevant Foundation, which consequently cannot then vote on the relevant resolutions in the KLM General Shareholders' Meeting.

Amongst the three Board directors for each of the foundations, one member is appointed by Air France-KLM, one by KLM and the third, acting in the capacity of Chairman of the Foundation, is appointed by the first two directors, it being specified that the majority of the members of the Boards of Directors of each Foundation, including the Chairman, must be Dutch residents.



Unilateral termination option for Air France-KLM at any time

Initially incorporated in 2004 for a three-year period, the two SAK I and SAK II foundations were however extended for an unlimited period by a 2007 agreement. Nevertheless, this agreement provides that Air France-KLM may, at any time as of May 6, 2007 and at its sole discretion, terminate this administered shareholding structure for KLM shares through SAK I and SAK II and proceed to regroup the economic and voting rights attached to the KLM shares, thereby holding 93.63% of KLM's voting rights.

6.5.2 Agreements with the Dutch State

To enable the completion of the business combination and safeguard KLM's traffic rights, airline status and the scale of its network and operations at Schiphol, Air France and KLM entered into 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 pursuant to which the Dutch State agreed to decrease its interest in KLM proportionately to any reduction by the French State of its stake in Air France-KLM. To this end, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I on behalf of Air France-KLM as long as this foundation is maintained. In such case, SAK I will issue share certificates to the benefit of 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 the transferred cumulative preferential A 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 transferred by the Dutch State to SAK I on behalf of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period (2004 to 2007), Air France-KLM had the option to exchange the share certificates against cumulative preferential A shares, and to directly hold the cumulative preferential A shares. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with this exchange but could still do so at any time, in whole or in part. In addition, Air France-KLM is free to decide to dissolve the foundations at any time and at its sole discretion.

Furthermore, the Dutch State benefits from the right to transfer, at any time, as many cumulative preferential A shares as it wishes to Air France-KLM.

These agreements relating to the cumulative preferential A shares remain in force.

Option for the Dutch State to subscribe for preferential KLM B shares

This option granted to the Dutch State lapsed in May 2010.

Assurances given to the Dutch State

Nature and duration of the assurances – unilateral termination option

Within the framework of the 2004 business combination, Air France and KLM granted the Dutch State, for an initial eight-year period starting from the completion of the business combination (*i.e.* expiring in 2012), various assurances as to KLM's airline status, its air services and the scale of its passenger and cargo operations at Schiphol airport with a view to maintaining the quality of KLM's network at Schiphol 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 (the "**Assurances**").

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.

Pursuant to an agreement entered into on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to extend the Assurances given to the Dutch State, with the exclusion, however, of an assurance foreseeing that the combined growth should not negatively impact KLM's operations in the passenger and cargo segment, beyond May 5, 2012 for an indefinite period, subject to Air France-KLM's right to terminate these Assurances, at its sole discretion, with prior notice of nine months. This agreement was confirmed by a meeting between, *inter alia*, the Minister for Transportation of the Netherlands, the Chairman and Chief Executive Officer of Air France-KLM and the Chairman of the Management Board of KLM which took place on March 12, 2015.

Mechanism to ensure compliance with the Assurances

Air France and KLM set up a Dutch foundation, known as the KLM Assurances Foundation (*Stichting Assurances KLM* – duration extended in 2010) to facilitate the provision of binding advice (*bindend advise*) on the interpretation of the Assurances granted to the Dutch State (the "**Advice**"). These advices are issued by a KLM Assurances Foundation Committee in the event that a decision taken by the KLM Supervisory Board, KLM Management Board or Air France-KLM Board of Directors is considered to be in conflict with the Assurances given to the Dutch State.

When giving its Advice, the KLM Assurances Foundation must act in the best interests of KLM, the Air France-KLM Group and its shareholders.

The Committee is composed of three members:

- one member appointed by Air France-KLM;
- one member appointed by the Dutch State; and
- one member jointly appointed by the first two members as well as by a Board member of the KLM Assurances Foundation appointed by KLM who is not a Committee member; it being specified that the member appointed by Air France-KLM has a double voting right for the appointment of the third Committee member.

The filing of a case with 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 can be made by the Dutch State only in relation to the Assurances given to it.

If the KLM Assurances Foundation Committee issues an Advice indicating that the decision submitted to it contravenes the Assurances given to the Dutch State, 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 nullify the effects of any measure taken in connection with the said decision, in accordance with the issued Advice. The Committee's decisions are adopted by majority vote of its members.

As at December 31, 2015, no Advice had been rendered by the KLM Assurances Foundation Committee.

6.5.3 Assurances given to KLM

The assurances granted to KLM have been null and void since May 6, 2009.

6.6 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.

6.6.1 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.

6.6.2 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 third-party countries

Based on 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,

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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;
- **European Union neighboring countries**. The agreement signed with Morocco 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.

Access to the market between France and States other than those mentioned above for which there are existing agreements at European Community level remains governed by bilateral aviation agreements signed between France and these third-party States.

Community air transport policy

The regulation applicable to air transport within the European Union is primarily of European Community origin. The aims as outlined in the work programs of the European Commission are to reinforce the competitiveness of European Community airlines while insisting on the need to reduce the air transport industry's environmental impact and offer a high degree of passenger protection. The principal positive measures consist of establishing a legal framework favoring fairer competition between EU and third-party carriers, the effective implementation of the Single European Sky and a commitment to developing biofuels. The European Commission also proposed a series of measures known as the "Better Airports" package, aimed at reducing the cost of infrastructure use within the European Union. The latter initiatives have only come to very partial fruition due to persistent disagreements within the European institutions. A new European Commission Aviation Strategy was published on December 7, 2015 but the concrete results of the proposed measures have yet to be evaluated.

6.6.3 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 result exclusively from 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 Convention relating to compensation for damage caused to third parties following acts of unlawful interference with aircraft, signed in Montreal on May 2, 2009 by nine States, for the most part African, is still not applicable. It has only been ratified by seven (Congo, and the Democratic Republic of Congo, Ivory Coast, Ecuador, Gabon, Kuwait and Montenegro) of the 35 States required for its entry into force.

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.

A Protocol to amend the Tokyo Convention, adopted in Montreal on April 4, 2014, has been signed by 29 States but only one ratification has been recorded to date (that of Congo in February 2015). The Protocol can only enter into force when 22 ratifications or signatures have been filed.

Neither France nor the United States have signed the Protocol. Spain is the only member of the European Union to have signed the Protocol (in September 2015) but has not ratified it.

This Montreal Protocol expands the jurisdiction by recognizing, under certain conditions, the jurisdiction of the State of Landing and the State of the Operator over offences and acts committed on board aircraft. The establishment of such jurisdiction over offences is mandatory if the criteria stipulated in the Protocol are respected. Furthermore, the Protocol grants legal recognition and some protections to in-flight security officers. It also contains provisions covering matters such as intra-State coordination, due process of law and fair treatment.

6.6.4 Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is subject to 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, after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, must designate 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.

6.7 INFORMATION AND CONTROL

6.7.1 Person responsible for the Registration Document and for the Annual Financial Report

Alexandre de Juniac, Chairman and Chief Executive Officer.

6.7.2 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 **6**, on pages **8** to **34**, on pages **36** to **48**, on pages **56** to **57**, on page **58**, on pages **61** to **62**, on pages **67** to **68**, on pages **69** to **74**, on pages **76** to **86**, on pages **100** to **149**, on pages **156** to **164** and on pages **275** to **279**, 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, 2015 included in this Registration Document are the subject of a Statutory Auditors' report figuring on pages **253** and **254**, which contains an observation regarding a change in accounting policies related to the presentation of some aggregates in the income statement and the statement of cash flows, a change in accounting policies related to the presentation of capitalized production and temporary staff expenses in the income statement as well as the conversion method of provisions in foreign currencies.

The consolidated financial statements for the financial year ended December 31, 2014 included in the Registration Document filed with the AMF on April 8, 2015 under registration number D.15-0299 were the subject of a Statutory Auditors' report figuring on pages **264** and **265**.

The consolidated financial statements for the financial year ended December 31, 2013 included in the Registration Document filed with the AMF on April 8, 2014 under registration number D.14-0311 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.

Alexandre de Juniac
Chairman and Chief Executive Officer

6.7.3 Statutory Auditors

Incumbent Statutory Auditors

Deloitte et Associés

185 avenue Charles-de-Gaulle, 92254 Neuilly-sur-Seine Cedex
represented by Pascal Pincemin and Guillaume Troussicot
Starting date of first mandate: September 25, 1998

Renewed for a six-year period by the Annual General Shareholders' Meeting of July 8, 2010.

KPMG Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Defense Cedex
represented by Eric Jacquet and Jean-Paul Vellutini
Starting date of first mandate: September 25, 2002
Renewed for a six-year period by the Annual General Shareholders' Meeting of May 20, 2014.

Deputy Statutory Auditors

BEAS

7/9 Villa Houssaye, 92200 Neuilly-sur-Seine
Starting date of first mandate: September 25, 1998
Renewed for a six-year period by the Annual General Shareholders' Meeting of July 8, 2010.

KPMG ID Audit

A division of KPMG SA
Tour EQHO, 2 avenue Gambetta,
CS 60006, Paris-La Defense Cedex
Starting date of first mandate: May 20, 2014
First appointed for a six-year period by the Annual General Shareholders' Meeting of May 20, 2014.

6.7.4 Head of Investor Relations

Marie-Agnès Lucas de Peslouan
Mailing address: Air France-KLM/AFKL.FI
95737 Paris-CDG Cedex

6.7.5 Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm.com) figure, notably:

- the 2015, 2014, 2013, 2012 and 2011 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)

The EASK or equivalent available seat-kilometer is an overall indicator of the Group's air transportation activity. In view of the weight of the passenger business (including the low-cost activity), the indicators for the cargo business (ATK and RTK) are converted into "equivalents" of the passenger business's ASK and RPK indicators. Unit revenue per EASK corresponds to the revenues from passenger and cargo transportation divided by the number of EASK. The unit cost per EASK corresponds to the net costs divided by the number of EASK. The calculation of the unit cost per EASK is detailed in *Section 5.4, page* ***164***.

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 Paris-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.

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: Paris-CDG 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.

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.

Premium

Fare classes corresponding to business or first class.

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.

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.).

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.

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* ***161***.

Adjusted net debt

Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge). The calculation is detailed *in Section 5.4, page* ***162***.

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 OTC Pink Open Marketplace.

Earnings per share

Net income divided by the average number of shares for the period.

EBITDA

Earnings before interest, taxation, depreciation and amortization.

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* ***85.***

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 manœuvre.

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 income, Group share

Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

OCEANE

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 method is detailed in *Section 5.4, page* ***162***.

Revenues

Revenues correspond 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 (*see Note 4.6, page* ***178***).

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.

TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

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.

No.	Information based on Annex 1 of the regulation	Pages
21	**Additional information**	
21.1	Share capital	p. **211**, p. **260**, p. **266** and p. **275**
21.2	Memorandum and bylaws	p. **274** and p. **280** to **281**
21.2.1	Corporate purpose	p. **274**
21.2.2	Provisions relating to the company officers and the general management	p. **20** to **24**, p. **33** to **34**
21.2.3	Rights, privileges and restrictions attached to the shares	p. **275**
21.2.4	Actions required to modify the rights of shareholders	p. **279** and **280** – **281**
21.2.5	Convening of General Shareholders' Meetings	p. **87**
21.2.8	Conditions governing changes in the capital	not applicable
22	**Material contracts**	**not applicable**
23	**Third party information and statements by experts and declarations of interest**	**not applicable**
24	**Documents on display**	**p. 20 and p. 290**
25	**Information on holdings**	**p. 205 and p. 251, p. 252, p. 259 and p. 262**

INFORMATION INCLUDED BY REFERENCE

Pursuant to Article 28 (EC) No. 809/2004, the following information is included by reference in this Registration Document:

2014 Financial Year

The Registration Document for the 2014 financial year was filed with the *Autorité des Marchés Financiers* on April 8, 2015 under the registration number D. 15-0299. The consolidated financial statements are presented on pages **178** to **184** and the related Statutory Auditors' report on pages **264** and **265**. The full statutory financial statements can be found on pages **266** to **267** and the related Statutory Auditors' certification on page **278** to **279**. The selected financial information is presented on pages **2** and **3** of the Registration Document. The management report figures on pages **4** and **5** pages **8** to **36**, **38** to **53**, **61** to **63**, **66** and **67**, **74** to **77**, **78** to **85**, **88** to **100**, **112** to **160**, **167** to **176**, page **277** and pages **286** to **290**.

2013 Financial Year

The Registration Document for the 2013 financial year was filed with the *Autorité des Marchés Financiers* on April 8, 2014 under the registration number D. 14-0311. The consolidated financial statements are presented on pages **166** to **172** and the related Statutory Auditors' report on pages **250** and **251**. The full statutory financial statements can be found on pages **252** to **263** and the related Statutory Auditors' certification on page **265**. The selected financial information is presented on pages **2** and **3** of the Registration Document. The management report figures on pages **4** and **5**, pages **8** to **40**, **42** to **53**, **59** to **61**, **64** and **65**, **70** to **72**, **73** to **80**, **82** to **94**, **106** to **147**, **155** to **158**, **159** to **163**, page **164** and pages **274** to **278**.

TABLE OF CONCORDANCE FOR THE ANNUAL FINANCIAL REPORT

This Registration Document contains all the elements of the financial report as referred to in Article 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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The annual statutory financial statements	p. **255** to **265**
The Group's consolidated financial statements	p. **165** to **252**
Management report	p. **4** to **6**, p. **8** to **34**, p. **36** to **48**, p. **56**, p. **57**, p. **58** p. **61** to **62**, p. **67** and **68**, p. **69** to **74**, p. **76** to **86**, p. **100** to **149**, p. **156** to **164** and p. **275** to **279**
Certification by the person responsible for the Annual Financial Report	p. **290**
Statutory Auditors' report on the statutory financial statements	p. **267** to **268**
Statutory Auditors' report on the consolidated financial statements	p. **253** to **254**
Statutory Auditors' fees	p. **246**
Report of the Chairman of the Board of Directors on internal control	p. **87** to **96**
Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of the company Air France–KLM	p. **97**

6

Document produced by the Air France-KLM Investor Relations Department
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