AIRFRANCE KLM

REGISTRATION DOCUMENT

2014

INCLUDING THE ANNUAL FINANCIAL REPORT

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

Registration Document 2014

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.

87.4
million passengers

1.3
million tons of cargo

546
aircraft in operation

316
destinations*

115
countries*

* 2015 Schedule.

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This Registration Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on Wednesday April 8, 2015, 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, 2013 figuring on pages 2 and 3 of the 2013 Registration Document and the review of the financial situation and results for the financial year ended December 31, 2012 figuring on pages 2 and 3 of the 2012 Registration Document are incorporated by reference in this document *(See also Section 5.4 – Key financial indicators, page 171).*

Revenues

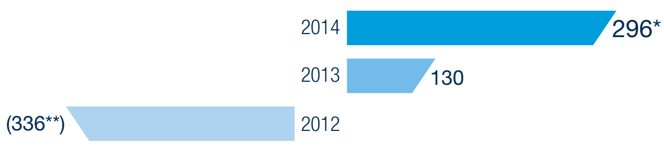
(in € billion)

** Adjusted for the estimated impact of the strike. Reported revenues: €24.91 billion.*
*** Restated for IAS19 Revised, CityJet reclassified as a discontinued operation.*

Excluding the strike, revenues were down by 0.4%, and up by 0.3% like-for-like.

Income/(loss) from current operations

(in € million)



** Adjusted for the estimated impact of the strike. Reported loss from current operations: €(129) million.*
*** Restated for IAS19 Revised, CityJet reclassified as a discontinued operation.*

Excluding the strike, the operating result progressed by €166 million, and by €275 million like-for-like.

Information by business segment

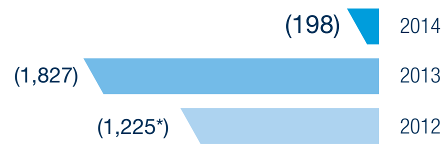
At December 31	2014*		2013		2012**	
	Revenues (in €bn)	Income/(loss) from current operations (in €m)	Revenues (in €bn)	Income/(loss) from current operations (in €m)	Revenues (in €bn)	Income/(loss) from current operations (in €m)
Passenger	20.02	289	20.11	174	19.98	(260)
Cargo	2.72	(188)	2.82	(202)	3.06	(230)
Maintenance	1.25	196	1.23	159	1.10	140
Other	1.41	(1)	1.37	(1)	1.29	14

* *Adjusted for the estimated impact of the strike.*
** *Restated for IAS19 Revised. CityJet reclassified as a discontinued operation.*

In 2014, all the business segments benefitted from the on-going implementation of Transform 2015. The passenger business again increased its profitability thanks, notably, to the reduction in losses in the point-to-point operations. As in previous years, in 2014 air freight was affected by the weakness in global trade and the situation of structural industry overcapacity. The cargo business remained in loss. The maintenance business continued its growth in high-value-added segments (engines and components), significantly improving its profitability. Transavia capacity was strongly increased, reflecting its accelerated development in France (capacity +21%) and the repositioning under way in the Netherlands.

Net income/(loss), Group share

(in € million)



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

In 2012 and 2013, the net result, Group share had included substantial restructuring provisions linked to the Transform 2015 plan. In 2014, the net result benefitted from the impact of changes to fiscal rules on the pension plans in the Netherlands.

Restated net income/(loss), Group share

(in € million)

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

Restated for exceptional or one-off items, the net result, Group share declined by €72 million under the impact of the pilots' strike.

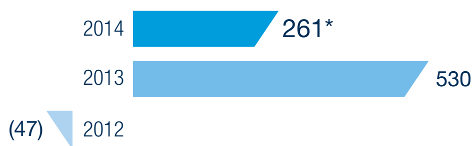
Net debt

(in € billion, at December 31)

A reduction in net debt was one of the main objectives of the Transform 2015 plan. After three years of implementation, the Group reduced its net debt by €1.1 billion. Excluding the strike, net debt would have been reduced by more than €1.5 billion.

Operating free cash flow

(in € million)

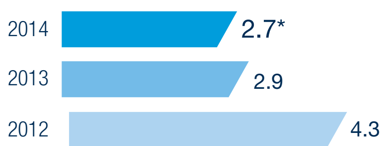


* Adjusted for the estimated impact of the strike.
Reported operating free cash flow: €(164) million.

Excluding the strike, the cost-saving efforts and strict control over investment implemented within the framework of Transform 2015 would again have enabled the Group to record strongly positive operating free cash flow in 2014, amounting to €261 million.

Cover ratio: net debt/EBITDA

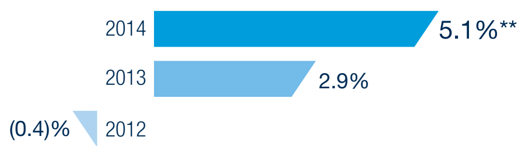
(at December 31)



* Adjusted for the estimated impact of the strike on EBITDA. Reported ratio: 3.4x.

At 2.7x as of December 31, 2014 excluding the strike, the net debt/EBITDA cover ratio continued to improve.

Return on capital employed (ROCE)*



* The Alitalia shares have been withdrawn from the calculation to be able to analyze the figures on a constant scope.
** Adjusted for the estimated impact of the strike. Reported ROCE: 1.6%.

At 5.1% as of December 31, 2014 excluding the strike, the return on capital employed (ROCE) continued its significant improvement.

Highlights of the 2014 financial year

- In February 2014, Air France-KLM and GOL Linhas Aéreas Inteligentes signed an exclusive, long-term strategic partnership agreement stepping up their commercial cooperation between Brazil and Europe. In addition to the existing code share agreement, this partnership involved a US$100 million investment in GOL, of which US$52 million in GOL shares. The partnership also foresees reinforced cooperation in aircraft maintenance. Within the framework of this agreement, Air France inaugurated the Paris-Brasilia service in April 2014.
- In March 2014, Air France launched its new "Air France, France is in the air" signature via a new advertising campaign in 12 countries. This campaign dares to be different to carry the ambitions of the Transform 2015 plan.
- On April 30, 2014, the Group sold CityJet and its VLM subsidiary to Intro Aviation. Air France and CityJet will pursue their close commercial cooperation with CityJet continuing, notably, to operate flights on behalf of Air France on departure from Paris-CDG. This disposal is an integral part of the strategy to refocus the medium-haul operations on the Group's hubs.
- In May 2014, Air France unveiled its new La Première *haute couture* suite. The next stage of the company's vast project to move the Group's products and services up-market, this suite will progressively be installed in 19 Air France Boeing 777-300s. In July, the La Première lounge was named the best first class passenger lounge globally by Skytrax.
- In June 2014, Air France took delivery of its first Boeing 777 equipped with the new Business class seats. By 2016, this seat will be fitted on 44 Boeing 777s, whose cabins will be completely refurbished. For this seat, Air France has chosen positioning in line with the highest industry standards.
- In June 2014, the Group realized an issue of bonds with a seven-year maturity, raising €600 million.
- As foreseen within the framework of the Transform 2015 plan, during the summer of 2014 Transavia France took delivery of three additional aircraft, realizing capacity growth of 21% for the year as a whole. Starting from March 31, 2014, members of the Flying Blue frequent flyer program have been able to use their miles on the entire Transavia network on departure from France.
- As of July 2014, ahead of the launch of Perform 2020, the Group's Board of Directors had decided to reduce the full-freighter fleet based in Amsterdam to three aircraft in operation by the end of 2016. Five MD-11Fs will thus be withdrawn from the fleet to operate five full freighters: two Boeing 777Fs in Paris and three Boeing 747ERFs in Amsterdam compared with a fleet of 14 aircraft in 2013. The reduction in the Group's exposure to this heavily-loss-making activity represents an important lever in Perform 2020.
- In September 2014, for the tenth year running, Air France-KLM was ranked leader of the "Airlines" category by the Dow Jones Sustainability index (DJSI), the main international index evaluating companies on their performance in terms of sustainable development. For the sixth year running, Air France-KLM was also ranked leader of the broader "Transport" category, regrouping air, rail, sea and road transportation, as well as airport activities. Air France thus ranks amongst the 24 most sustainable companies in the world, each in their own sector of activity.
- In early September 2014, the Group unveiled its new strategic plan Perform 2020, the successor to the previous plan, Transform 2015.
- On September 9, 2014, the Group sold around 14.8 million shares in Amadeus IT Holding S.A., representing 3.3% of the company's share capital. This transaction generated cash proceeds of €339 million for Air France-KLM.
- Between September 15 and 29, 2014, the Air France pilots engaged in strike action on the conditions of Transavia's growth in France, their primary demand being the introduction of a single pilot Group on all the aircraft with more than 100 seats based in France. In practice, this demand would have required the replacement of Transavia France's Boeing 737 fleet with Airbus A320s and the operation of all Transavia's aircraft by pilots under Air France contract. Despite protracted negotiations before and during the strike, the SNPL, the main union representing Air France pilots, pursued this strike for a period of 14 days, with an Impact estimated at €425 million at the operating level.
- Following the strike by Air France pilots in September 2014, the Group amended its Transavia growth plan: the project to open bases outside France and the Netherlands was withdrawn with no impact on the financial targets in Perform 2020.
- In October 2014, KLM celebrated its 95th anniversary, becoming the oldest airline in the world operating under its original name, having been officially founded in The Hague, the Netherlands on October 7, 1919. To mark this milestone, KLM inaugurated the "Exploring KLM's 95-Year Journey" exhibition retracing the airline's long history at the Jan Van Der Togt Museum in Amstelveen near Amsterdam.
- On October 15, Camiel Eurlings decided to step down as President and Chief Executive Officer of KLM to be replaced by Pieter Elbers.
- In November 2014, a presentation on the planned re-organization of the short-haul point-to-point operations was made to the Air France Corporate Works Council. As of the Summer 2015 season, this activity will be regrouped within a single business unit called HOP! Air France.
- November 11 marked an important stage in the renewal of KLM's long-haul fleet with the last passenger flight operating the MD-11.

- On November 25, 2014 the Group finalized a hedging transaction to protect the value of 9.9 million Amadeus shares, this transaction being an integral part of the Group's risk management strategy.
- At the end of November 2014, Air France pursued its move up-market by unveiling a new offer on its medium-term network on flights to and from Paris-CDG including, notably, a completely redesigned seat, new fares and a revised catering proposition in both the Business and Economy cabins.
- In mid-December, the SNPL union council approved a draft agreement relating to the temporary secondment of Air France pilots to Transavia. This approval, which followed a consultation process with Air France pilots, ensures the totality of the Transavia development plan in France through to 2019 including, notably, continued strong growth in Summer 2015.
- Throughout the year, KLM deployed its new World Business Class equipped with a fully-reclining "full flat' seat, which can be transformed into a real bed during the flight. The 22 Boeing 747s were all equipped between September 2013 and April 2014, followed by the Boeing 777-200s, all of which will be refitted before the end of 2015. The Boeing 777-200s will also have a new Economy cabin. By the end of 2016, 80% of the KLM fleet will benefit from new cabins.

1

Corporate governance

1.1 The Board of Directors

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

During the 2014 financial year, the Board of Directors saw a number of changes in composition which are summarized in the following table.

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

Summary of the changes in the composition of the Board of Directors during the 2014 financial year:

Date	Event	Board function
March 27, 2014	Appointment of Isabelle Parize	Independent director
May 20, 2014	End of Bernard Pédamon's term of office	Director representing the employee shareholders
May 20, 2014	Appointment of Louis Jobard	Director representing the employee shareholders

1.1.1 Composition of the Board of Directors

At December 31, 2014, the Board of Directors comprised 14 members:

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

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

At December 31, 2014, the Board of Directors numbered five women directors, *i.e.* a proportion of 35.7%, in line with the AFEP-MEDEF recommendations and the provisions of the law of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors.

Board directors appointed by the Shareholders' Meeting

Alexandre de Juniac

Chairman and Chief Executive Officer

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*** on July 1, 2013.

First appointed as a Board director:

January 11, 2012.

Expiration date of current term of office:

2015 Shareholders' Meeting.

Number of shares held in the company's stock:

2,000.

Other directorships and offices

French company

Member of the Vivendi* 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.

Professional address:

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

* *Listed company.*

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

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.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Constellium since June 11, 2014;
- Member of the Supervisory Board of Royal Ten Cate N.V.* (Netherlands);
- Member of the Supervisory Board of Fokker Technologies Group B.V. (Netherlands);

Chairman of the Supervisory Board of Texel Airport N.V. (Netherlands).

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 N.V.* (Netherlands) until May 2014;
- Director of Alitalia CAI (Italy) until January 2014;
- Member of the Supervisory Board of Stork B.V.* (Netherlands) until January 2013;
- Member of the Supervisory Board of Kenya Airways Limited (Kenya) until July 1, 2013;

President of the Managing Board of KLM (Netherlands) until July 2013.

Others

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

Professional address:

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

* *Listed company.*

Maryse Aulagnon

Independent director
Chair of the Audit Committee

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 S.A.*** (office real estate), a company she founded in 1990.

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.

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*;
- Member of the B.P.C.E. Group (Banques Populaires Caisses d'Épargne) Supervisory Board.

Non-French companies

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

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

French companies

- Affine Group: Member of the Executive Committee of Concerto Development SAS until December 19, 2014, Director of Affiparis S.A. until December 7, 2012, Member of the Executive Committee of Business Facility International SAS from 2005 until February 2010.

Other

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

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

* *Listed company.*

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, she has been **President of China Equity Links (SAS)**.

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.

Other directorships and offices

French companies

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

Non-French companies

- Director of Umicore (Belgium);
- President of CEL Partners Ltd (Hong Kong);
- Director of Yafei Dentistry Limited**;
- Director of Crystal Orange Hotel Holdings Limited**;
- Director of JD Holding Inc.**

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

Non-French company

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

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

* Listed company.
** Unlisted company registered outside France in which China Equity Links has an equity interest.

Jean-François Dehecq

Independent director
Chairman of the Appointments 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**.

First appointed as a Board director:

September 15, 2004**.

Expiration date of current term of office:

2016 Shareholders' Meeting.

Number of shares held in the company's stock:

523.

Other directorships and offices

French companies

- Balmain Group: Director of Pierre Balmain S.A.; Chairman of the Balmain S.A. Board of Directors since October 10, 2014;
- Director of Provepharm.

Others

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

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

French companies

- Chairman of the Pierre Balmain S.A. 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* until May 2012;
- Chairman of the Board of Directors of Sanofi-Aventis* until May 2010.

Others

- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers) until June 2011;
- Chairman of the National Committee of États Généraux de l'Industrie until March 2010.

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

* *Listed company.*
** *Date of first appointment as a Board director at Société Air France: January 25, 1995 (cf. explanation on page 25).*

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 at the La Haye campus of Leiden University** (Netherlands).

First appointed as a Board director:

July 7, 2011.

Expiration date of current term of office:

2015 Shareholders' Meeting.

Number of shares held in the company's stock:

1,025.

Other directorships and offices

Non-French company

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

Others

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

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

Cornelis J.A. van Lede

Independent director
Member of the Audit Committee and the Appointments 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 B.V between 1977 and 1982. He was President of the Dutch Industry Federation between 1984 and 1991 and Chairman of the Akzo Nobel N.V. Management Board between 1994 and 2003. He was Chairman of the Supervisory Board of Heineken* between 2004 and April 2013 and currently holds a number of **company directorships**.

First appointed as a Board director:

September 15, 2004**.

Expiration date of current term of office:

2016 Shareholders' Meeting.

Number of shares held in the company's stock:

1,000.

Other directorships and offices

French company

- Director of Air Liquide*.

Non-French companies

- Chairman of the Supervisory Board of Royal Imtech* (Netherlands);
- Member of the Supervisory Board of Philips Electronics* (Netherlands).

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

Non-French companies

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

Other

- Member of the Board of Directors of INSEAD (France) until 2010.

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

** Listed company*
*** Date of first appointment as a Board director at Société Air France: June 24, 2004 (cf. explanation on page 25).*
(1) Sara Lee Corporation was dissolved on June 28, 2012 following a spin-off of two separate companies, one of which is DE Master Blenders.

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 (2000-07) and Managing Director then Vice-Chair of the company Betclic (2007-11).
Isabelle Parize has been **Chief Executive Officer of Nocibé** since 2011.

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 shares.

Other directorships and offices

French companies

Nocibé/Douglas Group: Since June 24, 2014, Chair and Chair of the Managing Board of Al 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 S.A (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 S.A. 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.

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

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

First appointed as a Board director:

September 15, 2004**.

Expiration date of current term of office:

2016 Shareholders' Meeting.

Number of shares held in the company's stock:

3,565.

Other directorships and offices

Non-French companies

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

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

French company

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

Non-French company

- Member of the Supervisory Board of Randstad Holding N.V.* (Netherlands) until April 2014.

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

** Listed company.*
*** Date of first appointment as a Board director at Société Air France: June 24, 2004 (c.f. explanation on page 25).*

Board directors representing the French State

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

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

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 with responsibility for road services and major infrastructure works. In 2006, she became Director of Research and Scientific and Technical Coordination then, from 2008 to 2012, Director of Research and Innovation.

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

First appointed as a Board director:

March 22, 2013.

Expiration date of current term of office:

March 2017.

Other directorships and offices representing the French State

French companies and public institutions

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

Other

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

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

French companies and public institutions

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

Professional address:

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

** Listed company.*

Jean-Dominique Comolli

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

Expertise and professional experience

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

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

First appointed as a Board director:

December 14, 2010**.

Expiration date of current term of office:

January 2017.

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

Non-French companies

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

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

* *Listed company*
** *Appointed by ministerial order from December 14, 2010 and January 30, 2013 (interruption in mandate between October 1, 2012 and January 29, 2013 inclusive).*

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 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 in October 2012, Ms. Lepage has been **Director of Transportation Shareholdings at the Agency for State Shareholdngs** since August 22, 2014.

First appointed as a Board director:

March 21, 2013.

Expiration date of current term of office:

March 2017.

Other directorships and offices representing the French State

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

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

French companies and public institutions
- Director of France Télévisions until September 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.

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

* *Listed company.*

Board directors representing the employee shareholders

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

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

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

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 Boeing 737-200, then on the Boeing 747. He became a Flight Captain on the Boeing 737-500 in 1995, then on the Airbus A310, A340 and A330. He has been a **Boeing 747-400 Flight Captain** since 2007.

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 shares and 22,653 FCPE units.

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.

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 exercized numerous functions linked to defending the interests of Air France employees. He is currently an **executive.**

First appointed as a Board director:
September 15, 2004*.
Expiration date of current term of office:
2018 Shareholders' Meeting.
Number of shares held in the company's stock:
156 shares and 392 FCPE units.

Other directorships and offices

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

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

Board director whose term of office ended during the 2014 financial year

Bernard Pédamon

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

Expertise and professional experience

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

First appointed as a Board director:
July 8, 2010.
Term of office ended:
May 20, 2014.
Number of shares held in the company's stock:
2,959 shares and 8,196 FCPE units.

Other directorship and office

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

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

French company

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

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

* *Date first appointed as a Board director at Société Air France: September 14, 2001 (cf. explanation on page 25).*

Composition of the Board of Directors at December 31, 2014

Board director *(Age at December 31, 2014)*	Functions within the Board of Directors	Date appointed to the Air France-KLM Board	Mandate expiry date	Principal current position
Alexandre de Juniac (52 years)	Chairman and Chief Executive Officer of Air France-KLM	January 11, 2012	2015 AGM	Chairman and Chief Executive Officer of Air France-KLM
Peter Hartman (65 years)	Vice-Chairman of the Air France-KLM Board of Directors	July 8, 2010	2017 AGM	Vice-Chairman of the Board of Directors of Air France-KLM
Maryse Aulagnon (65 years)	Independent director Chair of the Audit Committee	July 8, 2010	2017 AGM	Chair and Chief Executive Officer of Affine
Isabelle Bouillot (65 years)	Independent director Member of the Remuneration Committee	May 16, 2013	2017 AGM	President of China Equity Links
Régine Bréhier (54 years)	Director representing the French State	March 22, 2013	March 2017	Director of Maritime Affairs
Jean-Dominique Comolli[(1)] (66 years)	Director representing the French State Member of the Appointments and Remuneration Committees	December 14, 2010	January 2017	Honorary Civil Administrator
Jean-François Dehecq (74 years)	Independent director Chairman of the Appointments Committee and member of the Audit Committee	September 15, 2004	2016 AGM	Vice-Chairman of the National Industry Council
Jaap de Hoop Scheffer (66 years)	Independent director Member of the Remuneration Committee	July 7, 2011	2015 AGM	Professor, Leiden University (Netherlands)
Louis Jobard (55 years)	Director representing the employee shareholders Member of the Audit Committee	May 20, 2014	2018 AGM	Boeing 747-400 Flight Captain
Cornelis van Lede (72 years)	Independent director Member of the Audit and Appointments Committees	September 15, 2004	2016 AGM	Company director
Solenne Lepage (42 years)	Director representing the French State Member of the Audit Committee	March 21, 2013	March 2017	Director of Transportation Shareholdings, Agency for State Shareholdings
Christian Magne (62 years)	Director representing the employee shareholders Member of the Audit and Remuneration Committees	September 15, 2004	2018 AGM	Air France executive
Isabelle Parize (57 years)	Independent director Member of the Remuneration Committee	March 27, 2014	2018 AGM	Chief Executive Officer of Nocibé
Leo van Wijk (68 years)	Board director Chairman of the Remuneration Committee	September 15, 2004	2016 AGM	Chairman of the SkyTeam Governing Board

(1) Appointed by ministerial order on December 14, 2010 and January 30, 2013 (interruption in mandate between October 1, 2012 and January 29, 2013 inclusive)

1.1.2 Missions of the Board of Directors

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

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

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

1.1.3 Organization of the Board of Directors

Combined functions of Chairman and Chief Executive Officer

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.

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:

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

Internal regulations of the Board of Directors

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

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

Independence of the Board directors

In the light of the criteria stipulated by the AFEP-MEDEF Code:

- six of the directors (Ms. Aulagnon, Ms. Bouillot, Mr. Dehecq, Mr. de Hoop Scheffer, Mr. van Lede and Ms. Parize) may be deemed to be independent in that:
  - none of these six directors has a relationship with the company, its Group or its management that is such as to color their judgement (aside from the fact that the candidature of some of these individuals had been proposed to the Shareholders' Meeting either by KLM [Mr. van Lede] or by the Dutch government (1) [Mr. de Hoop Scheffer], 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 (see explanation hereafter);
- the other directors are either representatives of the French State (Ms. Bréhier, Ms. Lepage and Mr. Comolli), or representatives of the employee shareholders (Mr. Magne and Mr. Jobard), or current or former senior executives of Air France-KLM, Air France and KLM (Mr. de Juniac, Mr. Hartman and Mr. van Wijk) and, in this capacity, may not be deemed to be independent;
- in view of the above, and pursuant to the provision of the AFEP-MEDEF Code by which directors representing employee shareholders are not counted in the calculation of the percentages of independent shareholders within the Board of Directors and its Committees (§9.2 and §16.1 of the Code), the percentages of independent directors at December 31, 2014 were:
  - 50% of the Board of Directors,
  - 75% of the Audit Committee (Chaired by an independent director),
  - 67% of the Appointments Committee (Chaired by an independent director),
  - 60% of the Remuneration Committee.

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

Corporate governance principles and application of the AFEP-MEDEF Code

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

(1) The Dutch State is not a shareholder in Air France-KLM but holds a 5.9% stake in KLM.

Recommendations of the AFEP-MEDEF Code not applied	Reasons
Criteria by which Board directors are not deemed to be independent if their term of office dates back more than 12 years	
"The criteria to be reviewed by the Committee and the Board in order to have a director qualify as independent and to prevent risks of conflicts of interest between the director and the management, corporation or its Group are the following: […] Not to have been a director of the corporation for more than twelve years" (§9.4 of the AFEP-MEDEF Code)	The public exchange offer successfully launched by Air France for KLM shares led, on May 5, 2004, to the takeover of KLM and the privatization of Air France. In view of this privatization, and pursuant to the law of April 9, 2003, the shareholders were convened to a Shareholders' Meeting on June 24, 2004 to renew the composition of the Board of Directors. Some directors already in office before June 24, 2004 were reappointed, their mandates nonetheless being exercized within a radically different context. At the end of the exchange offer on September 15, 2004, the company's assets, liabilities, activities and staff, and notably all the activity of the air transport services branch, were transferred to the current company Air France. Air France thus replaced Air France-KLM in respect of all the goods, rights and obligations of the latter whose corporate purpose was subsequently modified to reflect its new holding company role. These operations led to the constitution of the dual-nationality Air France-KLM Group with an enlarged scope, comprising a holding company with no operational activity (Air France-KLM) and two operational subsidiaries (Air France and KLM). In view of the above and given the profound changes intervening that same year in the governance and legal organization of these companies together with the division of their activities, the Air France-KLM Board of Directors considered it appropriate to date Mr. Dehecq's term of office from 2004.
Evaluation of the Board of Directors – actual contribution of each director	
"The evaluation should have three objectives: *(…)* *- measure the actual contribution of each director to the Board's work through his or her competence and involvement in discussions"* (§10.2 of the AFEP-MEDEF Code)	The annual evaluation covers the collegial functioning of the Board of Directors and its Committees and does not present an individual report for each of the directors. On the occasion of the evaluation realized in early 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 contribution of 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 questions concerning executive directors (appointment, performance and remuneration) are discussed by the Board of Directors outside the presence of the interested parties, after hearing the opinion of, as required, the Appointments or Remuneration Committees.
Chairmanship of the Remuneration Committee	
"The Committee in charge of compensation (…) must be chaired by an independent director." (§18.1 of the AFEP-MEDEF Code)	On the occasion of the change in the composition of the Remuneration Committee on May 16, 2013, the Board of Directors decided to entrust the Chairmanship to Mr. van Wijk due to his extensive knowledge of the Group, the moral authority that he enjoys within both Air France and KLM and the specificities of the French and Dutch remuneration systems. This appointment is justified, in particular, to support the Group's integration phase initiated on July 1, 2013, aimed at ensuring the Group's enduring economic and financial recovery and a new more-integrated mode of functioning.

Stock market and ethical compliance

The Compliance Rules, adopted by the Board of Directors on March 25, 2004, as amended on November 9, 2011, 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*."

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. Note, however, that the French State, which holds 15.9% of the Air France-KLM share capital as of December 31, 2014, also holds 50.6% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

With the exception of the agreements concluded in October 2003 between Air France, KLM and the Dutch government, there 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.

At December 31, 2014 there were no service level contracts binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

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

1.1.4 Functioning of the Board of Directors

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

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

Board activity during the 2014 financial year

During the 2014 financial year, the Board of Directors met 12 times (as in 2013), including three extraordinary meetings. Board meetings averaged more than three hours and the attendance rate for directors was 90% (91% in 2013).

During these meetings the following matters were notably addressed:

- interim and annual financial statements;
- regular status reports on the Group's activity and financial situation;
- monitoring of the "Transform 2015" industrial and strategic project;
- pan-European low-cost project and the development of Transavia;
- commercial cooperation with GOL and the acquisition of a shareholding in the latter;
- change in the cargo business model;
- change in Air France's shareholding in Amadeus;
- Air France pilots' strike;
- bond issue;
- status report on aviation safety;
- governance of the Group, appointment and compensation of the principal executives.

In June 2014, the Board of Directors held its annual meeting devoted to the Group's strategy which, for the first time, took the form of a two-day seminar. Particular attention was paid, notably, to the alliance strategy, the development of the low-cost activities, the growth of the maintenance business, innovation and the new strategic plan, "Perform 2020".

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

In early 2015, the Board of Directors commissioned an evaluation, by an independent firm, of the Board's functioning and that of its Committees with respect to the 2014 financial year.

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.

A presentation on the results of the interviews with Board directors followed by a discussion on this subject is planned for a Board of Directors meeting during the 2015 first half.

Regulated agreements and commitments

Agreements and commitments referred to in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code (*Code de Commerce*)

The Board of Directors did not authorize the signature of any regulated agreements or commitments during the 2014 financial year. Furthermore, there are no former regulated agreements whose execution continued during the 2014 financial year insofar as the situation that initially justified the former regulated agreement procedure no longer exists.

Agreements referred to in Article L. 225-102-1 of the French Commercial Code (*Code de Commerce*)

Excepting agreements relating to current operations and concluded under ordinary conditions, no agreements were signed in 2014 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 Directors Committees

The Audit Committee

Composition

At December 31, 2014, the Audit Committee comprised the following six members: Maryse Aulagnon (Chair of the Committee), Jean-François Dehecq, Solenne Lepage, Cornelis van Lede, Christian Magne and Louis Jobard (the latter having joined the Committee in May 2014).

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

The principal executives responsible for accounting, legal affairs, finance, internal control and internal audit of Air France-KLM 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, they were able to consult with Committee members outside the presence of the Group's senior executives.

Missions

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

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

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

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

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

Activity

During the 2014 financial year, the Audit Committee met five times (as in 2013) with an attendance rate for members of 87% (100% in 2013). The meetings lasted an average of nearly four hours. The following matters were notably reviewed by the Audit Committee during the 2014 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 2014, particular attention was paid to the shareholding in Alitalia, the review of the valuation of the cargo business and the impact of the discount rate on the pension obligations.

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 the 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.

Others

In line with its annual work schedule, the Audit Committee also reviewed the following matters in 2014:

- 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;
- review of the principal litigation and fiscal risks;
- insurance policy;
- IFRS update.

The Remuneration Committee

Composition

At December 31, 2014, the Remuneration Committee comprised 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 (the latter two members having joined the Committee in March 2014).

Missions

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

Activity

The Remuneration Committee met five times during the 2014 financial year (two meetings in 2013) and the attendance rate for members was 97% (100% in 2013).

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted, relating to the modalities for the payment of directors' fees, and the principles and amounts of 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. 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.

To enable employees to share in the results of the strategic plan, create a dynamic of belonging to the Group, align the interests of some employees and senior executives with those of shareholders and supplement the existing compensation and employee loyalty schemes, the Committee reviewed the potential different options for share-based plans to the benefit of employees. This review led the Committee to propose to the Board of Directors that it submit, to the Shareholders' Meeting of May 20, 2014, a proposed authorization to allocate free shares, subject to performance conditions, to the benefit of employees and executive directors of the Group companies (excluding the executive directors of the company Air France-KLM).

The Appointments Committee

Composition

At December 31, 2014, the Appointments Committee comprised the following three members: Jean-François Dehecq (Chairman of the Committee), Jean-Dominique Comolli and Cornelis van Lede.

Missions

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

Activity

During the 2014 financial year, the Appointments Committee met five times (six meetings in 2013) with an attendance rate for members of 100%, as in 2013.

In view of the wish expressed by the Board of Directors to encourage more diverse profiles for Board members, the Committee formulated proposals relating to the appointment of an independent director (Ms. Parize) and a change in the composition of the Board of Directors' Committees.

The Board of Directors having expressed a wish to be more involved in the appointment process for the executive directors in the main subsidiaries, the Committee was consulted by the Group's Chairman and Chief Executive Officer on the proposed renewal of Mr. Gagey's mandate in his capacity as Chairman and Chief Executive Officer of Air France (May 2014) and the appointment of Mr. Elbers to replace Mr. Eurlings as President and Chief Executive Officer of KLM (October 2014), and was able to express an opinion on these candidates.

Lastly, at the end of 2014, the Committee was for the first time involved in planning the evaluation of the Board's functioning. Committee members thus met with representatives of the independent firm responsible for realizing the evaluation to communicate their expectations. On this occasion they, for example, requested that the analysis be extended to the articulation of the governance between Air France-KLM and its two main operational subsidiaries (Air France and KLM).

➤ **Composition of the Board Committees**

	MARYSE AULAGNON	ISABELLE BOUILLOT	JEAN-DOMINIQUE COMOLLI	JEAN-FRANÇOIS DEHECQ	JAAP DE HOOP SCHEFFER	LOUIS JOBARD	CORNELIS VAN LEDE	SOLENNE LEPAGE	CHRISTIAN MAGNE	ISABELLE PARIZE	LEO VAN WIJK
Audit Committee	Chairman			Member		Member	Member	Member	Member		
Appointments Committee			Member	Chairman			Member				
Remuneration Committee		Member	Member		Member				Member	Member	Chairman

✦ Chairman ✦ Member

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.

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

- €15,000 as fixed compensation (versus €20,000 previously);
- €25,000 as variable compensation based on Board of Directors and Shareholders' Meeting attendance (versus €20,000 previously).

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

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

Compensation granted to Board directors other than the executive directors

The directors' fees and other compensation paid in respect of the 2014 and 2013 financial years to Board directors other than executive directors were as follows:

	Rate of participation in Board meetings and the Shareholders' Meeting (2014 Financial Year)*	Amount of compensation paid (In €)	
		In respect of the 2014 Financial Year	In respect of the 2013 Financial Year
Alexandre de Juniac	100%	N/A	375,000
Directors' fees		0	0
Other compensation		N/A(1)	375,000(1)
Peter Hartman	100%	47,000	1,197,494
Directors' fees		47,000	45,462(2)
Other compensation		0	1,152,032(3)
Maryse Aulagnon	77%	46,231	52,000
David Azéma(4)	N/A	N/A	3,077(5)
Patricia Barbizet(6)	N/A	N/A	46,923
Isabelle Bouillot(7)	69%	37,308	17,885
Régine Bréhier(8)	38%	24,615(5)	27,692(5)
Jean-Dominique Comolli	100%	45,000(5)	40,962(5)
Jean-François Dehecq	100%	55,500	55,500
Jean-Marc Espalioux(9)	N/A	N/A	25,673
Claude Gressier(10)	N/A	N/A	7,754(5)
Jaap de Hoop Scheffer	85%	48,154	50,462
Louis Jobard(11) (12)	100%*	28,935	N/A
Cornelis J.A. van Lede	92%	58,077	56,923
Solenne Lepage(13)	100%*	48,000(5)	35,569(5)
Christian Magne(12)	100%	50,000	48,000
Isabelle Parize(14)	91%*	33,731	N/A
Bernard Pédamon(12) (15)	100%*	19,065	48,000
Leo van Wijk	100%	54,500	18,077
Total		**596,116**	**2,106,991**
of which directors' fees		596,116	579,959
of which other compensation		0	1,527,032

* *Information given for the number of meetings convened during the period for which the director was in function, for directors whose mandates began or ended during 2014.*
(1) *The compensation due and paid since July 1, 2013 in his capacity as Chairman and Chief Executive Officer of Air France-KLM is outlined in the following section devoted to the executive directors.*
(2) *Amount paid to KLM.*
(3) *Compensation paid to Mr. Hartman in his capacity as President and Chief Executive Officer of KLM in respect of the 2013 financial year: €731,449 in fixed compensation and €420,583 in variable compensation.*
(4) *Director until February 20, 2013.*
(5) *Amount paid to the General Directorate of Public Finances.*
(6) *Director until December 31, 2013.*
(7) *Director since May 20, 2014.*
(8) *Director since March 22, 2013.*
(9) *Director until May 16, 2013.*
(10) *Director until February 22, 2013.*
(11) *Director since May 20, 2014.*
(12) *The Directors representing the employee shareholders receive remuneration in respect of their employment contracts with Air France, with no link to their Board director mandates within Air France-KLM.*
(13) *Director since March 21, 2013.*
(14) *Director since March 27, 2014.*
(15) *Director until May 20, 2014.*

Compensation of the executive directors

Principles for determining the compensation of the executive directors

2014 Financial Year

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

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

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

Mr. de Juniac's compensation in his capacity as Chairman and Chief Executive Officer in respect of the 2014 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 2014. His variable compensation was set at €90,000 in respect of the 2014 financial year.

This amount corresponds to:

- 0% of his fixed compensation in respect of the quantitative performance (the operating result and free cash flow being below budget);
- 15% of his fixed compensation in respect of the qualitative performance (progression for Air France and KLM on passenger satisfaction in the Skytrax index despite the Air France strike; in respect of Corporate Social Responsibility performance, Air France-KLM remains airline leader in the Dow Jones Sustainability Index for the tenth year running).

Summary of Mr. de Juniac's compensation in respect of the 2014 financial year

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

2015 Financial Year

In line with the proposals 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%

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

(In €)	2014 Financial Year	2013 Financial Year (July 1*-December 31)
Compensation due in respect of the financial year	645,000**	375,000***
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A
Total	**645,000****	**375,000*****

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of Section 1.1.6.

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

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

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

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2014 financial year	600,000	45,000**	0	0	0	645,000**
Reminder of 2013 (July 1* to December 31)	300,000	75,000***	0	0	0	375,000***

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of Section 1.1.6.

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

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

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

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts paid during the 2014 financial year	600,000	75,000**	0	0	0	675,000
Reminder of 2013 (July 1* to December 31)	300,000	0	0	0	0	300,000

* *Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.*
Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of Section 1.1.6.

** *The Air France-KLM Board of Directors granted Mr. de Juniac, in his capacity as Chairman and Chief Executive Officer for the period from July 1 to December 31, 2013 variable compension of €150,000. In that Mr. de Juniac waived half his variable compensation in respect of 2013 to participate in the Group's recovery efforts, he finally received variable compensation of €75,000 for the period from July 1 to December 31, 2013.*

Other commitments made in respect of the executive directors

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

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, 2014**

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

Loans and guarantees granted to company officers

None.

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

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

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

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

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

Since the 2008-09 financial year, KLM has established compensation plans index-linked to the change in the Air France-KLM share price and settled in cash (PPS) which correspond to share-based plans with settlement in cash. Since 2008, this scheme has replaced the option plans. 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, 2014, April 1, 2013, April 1, 2012, July 1, 2011, July 1, 2010 and July 1, 2009 (See also Note 30.2 to the consolidated financial statements).

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

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

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

Relevant individual	Operation date	Nature of the operation	Unit price *(In €)*	Operation amount *(In €)*	Type of financial instrument	Market for the operation
Pierre-François Riolacci Chief Financial Officer, Air France-KLM	March 3, 2014	Acquisition	9.800	19,600	Shares	Euronext Paris
Jaap de Hoop Scheffer Director of Air France-KLM	May 6, 2014	Acquisition	10.475	10,475	Shares	Euronext Paris
Pierre-François Riolacci Chief Financial Officer, Air France-KLM	May 13, 2014	Acquisition	10.750	21,500	Shares	Euronext Paris
Jacques Le Pape Corporate Secretary Air France-KLM	August 7, 2014	Acquisition	7.4252	7,440.05	Shares	Euronext Paris

1.2 The Group Executive Committee

Chaired by the Chairman and Chief Executive Officer of Air France-KLM, the Group Executive Committee comprises 15 members:

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

Total compensation (fixed and variable) paid to the Group Executive Committee amounted to €6.4 million in 2014 (€6.6 million in 2013).

Members at December 31, 2014	Age at December 31, 2014	Relevant professional experience: Sector	Experience
Alexandre de Juniac Air France-KLM Chairman and Chief Executive Officer	52 years	Public Service, Industry Air Transport	9 years 14 years 3 years
Frédéric Gagey Air France Chairman and Chief Executive Officer	58 years	Air Transport	21 years
Pieter Elbers KLM President and Chief Executive Officer	44 years	Air Transport	22 years
Alain Bassil Air France Chief Operating Officer	60 years	Air Transport	35 years
René de Groot KLM Chief Operating Officer	45 years	Air Transport	24 years
Patrick Alexandre Executive Vice President Commercial – Sales & Alliances, Air France-KLM	59 years	Air Transport	33 years
Pieter Bootsma Executive Vice President Commercial – Strategy, Air France-KLM	45 years	Air Transport	19 years
Adeline Challon-Kemoun* Executive Vice President, Marketing, Digital & Communication, Air France-KLM	47 years	Retail Media/Communications Air Transport	10 years 14 years 3 years
Bram Gräber Executive Vice President Transavia, Air France-KLM	49 years	Consulting Air Transport	5 years 19 years
Wim Kooijman Executive Vice President Human Resources, Air France-KLM	64 years	Industry Air Transport	25 years 17 years
Jean-Christophe Lalanne Executive Vice President Information Technology, Air France-KLM	53 years	Industry, IT Services Air Transport	20 years 10 years
Jacques Le Pape Executive Vice President Corporate Secretary, Air France-KLM	48 years	Public Service Transport	23 years 2 years
Pierre-François Riolacci Chief Financial Officer, Air France-KLM	48 years	Industry Air Transport	23 years 1 year
Franck Terner Executive Vice President Engineering & Maintenance, Air France-KLM	54 years	Air Transport	26 years
Erik Varwijk** Executive Vice President Cargo, Air France-KLM	53 years	Air Transport	26 years

* *Subject to consultation with the employee representative bodies*
** *Until March 1, 2015.*

Secretarial services to the Executive Committee are provided by the Chief of Staff.

	Age at December 31, 2014	Relevant professional experience	
		Sector	Experience
Nathalie Stubler Secretary to the Group Executive Committee and Chief of Staff	46 years	Air Transport	22 years

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

Activity

29
long-haul aircraft equipped with new cabins at 12/31/2014

231
cargo destinations globally

+60%
Transavia growth between 2011 and 2014

5.6
billion euros: maintenance order book

546
aircraft in operation

2.1 Market and environment

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

In 2014, global economic growth was 2.6%, slightly above that of 2013, although the situations of different regions varied. The recovery remained subdued in the European Union *(source 1)*. According to the IATA data, global air traffic increased by 5.8% in 2014 for a 5.6% increase in capacity *(source 2)*. Combined with an improvement in load factor and the restructuring plans deployed by numerous airlines, this relatively buoyant demand enabled a modest improvement in the sector's operating margin. However, within a context of slowing global inflation and the fall in oil prices (Brent crude trading at under US$50 a barrel in January 2015), this growth was achieved to the detriment of unit revenues (-3.0% adjusted for inflation in 2014) *(sources 3 and 4)*.

In Europe, the sector remains extremely competitive, particularly given the steady growth of the low-cost carriers, the Gulf State airlines and Turkish Airlines *(source 5)*.

In the United States, the airlines maintained high levels of profitability in 2014 benefiting, in particular, from sector consolidation *(source 6)*. In South America, the deterioration in the economic situation dampened industry growth. Asia was marked by a growth deceleration and a maturing industry, being impacted by a decline in unit revenues and margin erosion (*source 7*). In China, the market remains organized around four large traditional airlines. The expected arrival of low-cost airlines in this country could represent a quantum shift which may propel these traditional airlines towards the increased development of international links. In Africa, the largest airlines are looking to benefit from the expected strong demand growth, particularly by building networks with effective coverage for cross-continental travel *(source 8)*.

The Gulf State carriers and Turkish Airlines pursued their very rapid development, particularly in Africa. They continue to sign multiple partnerships, notably through strategic agreements and new equity interests *(sources 9 and 10)*.

In 2015, economic forecasts point to an acceleration in global economic growth, with positive growth for the Euro zone, but remaining moderate in France and the Netherlands. Against this backdrop and following the decline in oil prices, air transport passenger growth should accelerate (+7% according to IATA) although unit revenues are expected to remain under pressure (-5.1% according to IATA) *(source 11)*.

2.1.1 The economic environment

Economic context

➤ **Real GDP growth rate (expressed in %)**

	2012	2013	2014	2015 (forecast)
World	2.5	2.5	2.6	2.9
European Union	(0.4)	0.1	1.4	1.9
✦ of which France	0.4	0.4	0.4	1.2
✦ of which the Netherlands	(1.6)	(0.7)	0.7	1.4
North America (NAFTA countries)	2.4	2.2	2.4	3.2
Asia-Pacific	4.7	4.6	4.2	4.4
✦ of which China	7.7	7.7	7.4	6.8
Middle-East	2.0	2.2	2.7	2.6
Sub-Saharan Africa	4.4	4.4	4.4	4.6
Latin America	2.5	2.7	0.9	1.3

Source 1.

2014: another year of weak growth

In early 2014, most economists were expecting an accelerating economic recovery, with global GDP growth forecast at +3.1% for the year driven, in particular, by the developed countries. Finally, as in 2013 and the preceding years, growth forecasts were regularly revised down due to a slower-than-expected pick-up in the Euro zone and a more pronounced slowdown in some emerging countries *(sources 12 and 13)*.

Global GDP growth for 2014 is currently estimated at 2.6%, only slightly higher than in 2013 (2.5%) *(source 1)*.

The European economy was largely driven by the United Kingdom (+2.6%) and Germany (+1.5%). In the Euro zone, growth from the French (+0.4%) and to a lesser extent Dutch (+0.7%) economies fell short of the average performance (+0.9%). In Southern Europe, a recovery looked to be taking shape in Spain (+1.3%, with exports being stimulated by a gain in competitiveness), while Italy finally plunged back into recession (-0.4%). In parallel, the consumer price index progressively approached zero, increasing the risk of deflation *(source 14).*

Despite a first quarter affected by poor weather conditions, North America posted growth of 2.4%, an increase relative to 2013 (2.2%) *(source 1)*.

In Japan, economic growth slowed considerably (+0.1%, versus +1.6% in 2013), notably following VAT increases of between 5% and 8% depending on the product (*source 15*).

The large emerging countries experienced different trajectories: an economic improvement in India (+5.3%) but a growth deceleration in China (+7.4%) and especially in Russia (+0.6%), under the impact of geopolitical tensions. Lastly, Latin America experienced a sharp slowdown, particularly in Brazil (+0%), Argentina (-0.4%) and Venezuela (-3.5%) *(source 1)*.

For the airlines, geopolitical risk leading to a series of crises remained a major factor in 2014. Flight MH17, shot down over Ukraine, was a reminder that the escalation in geopolitical tensions represents a serious threat *(source 16)*. Furthermore, the spread of the Ebola virus led to the suspension of services to some African countries as well as the reinforcement of precautionary measures and health screening. The impacts of these events can be very significant and lead to additional costs and operating constraints (*sources 17 and 18*).

2015: a slight improvement forecast in global growth driven by the United States; however major uncertainties remain

In 2015, global growth should be driven by the robust health of the US economy (growth forecast: +3.3%) *(source 1)*.

Following the collapse in oil prices, the major consumer countries (notably North America, Europe, Japan, China and India) should see their energy bills decline, thereby benefiting from a positive impact on growth. Inversely, some producer countries will be fragilized by this fall in prices *(source 19)*.

In Europe, the United Kingdom should post strong growth of +3.0%, even higher than its positive 2014 performance. Within the Euro zone, economic growth should also slightly improve (+1.5% in 2014 versus 0.9% in 2013), the fall in oil prices and the Euro likely to be positive for purchasing power and exports. Nonetheless, the deflation risk remains high. The change of government in Greece and elections in Spain are also factors of uncertainty *(source 14)*.

Amongst the emerging countries, Russia is expected to experience a severe recession (-6.3%), the decline in oil prices being combined with a collapse in the Rouble and geopolitical strains. Chinese growth should continue to slow (+6.8%). Inversely, growth is likely to accelerate in India (+6.1%) thanks to the fall in oil prices and the slowdown in inflation. The pick-up in Brazil is expected to remain modest (+0.1%), under the effect of tighter fiscal policy *(sources 1 and 20)*.

Oil price: a context of uncertainty

Within the space of a few years, fuel has become one of the main cost items for airlines, representing 22% of costs in 2005 and rising to 29% in 2014 *(source 21)*.

Since mid-2014, the oil price has fallen considerably, wrong-footing the forecasts of economists within a context of production growth exceeding that of demand (*source 22*).

➤ **Trend in the oil price**

London Brent *(US$ per barrel)*	**2011**	**2012**	**2013**	**2014**	**2015 (forecast)**
Average price	111.3	111.7	108.7	99.1	55.0
High	126.9	128.4	119.1	115.7	
Low	92.4	88.5	96.7	55.6	

Sources 25 and 26.

Currency volatility

Currency volatility is also an issue for airlines and particularly for the European carriers which have a high proportion of their costs linked to the US Dollar while their revenues are sensitive to currencies across the board. The depreciation in the Euro relative to all currencies makes them more competitive at commercial level. On the other hand, a fall in the Euro relative to the Dollar alone has a negative impact on costs. The hedging strategies put in place by the different airlines aim to mitigate the effects of currency volatility *(source 27)*.

This volatility also has an indirect impact on airline activity given its influence on leisure demand.

In 2014, as in 2013, the Yen devaluation had a significant effect on the revenues generated in Japan by international airlines. In parallel, after their depreciation at the end of 2013, the currencies of some emerging countries remained at a low level, notably under the effect of the tightening in US monetary policy. The end of 2014 was also marked by a sharp fall in the Euro relative to the US Dollar, and by a collapse in the Rouble: consistent with the uncertainties overhanging the Russian economy, the currency lost nearly a third of its value relative to the Euro within the space of three months *(sources 28 and 29)*.

In 2015, the devaluation in the Euro relative to the US Dollar is expected to continue, notably following the launch of the asset buyback program by the European Central Bank. Within this context, in January 2015, the Swiss Central Bank removed the exchange rate cap it had hitherto maintained relative to the Euro, leading to a sharp appreciation in the Swiss franc (*source 30*).

➤ **Trend in currency exchange rates**

For one euro	**2011**	**2012**	**2013**	**2014**
USD	1.3920	1.2823	1.3280	1.3290
GBP	0.8674	0.8108	0.8492	0.8061
Yen	110.98	102.68	129.60	140.36

Source 31.

2.1.2 The industry context

2014: traffic growth in line with capacity at global level

In 2014, according to IATA, global air traffic increased by 5.8% relative to 2013, for capacity growth of 5.5%. However, against a backdrop of slower world-wide economic growth and the decline in oil prices, this traffic growth was achieved to the detriment of unit revenues (-3.0% in 2014, excluding inflation, in USD). At global level, IATA estimates total air transport industry profits to have reached US$20 billion in 2014, an improvement on 2013 (+US$9 billion), and an operating margin of 5.1%, a 1.6 point increase relative to 2013 *(source 4)*.

Over the first eleven months of 2014, the strongest international traffic growth was again posted by the Gulf State airlines (+12.9%) followed by the Asia-Pacific carriers (+5.6%). The Latin American airlines also posted strong growth (+6.0%), as did carriers based in Europe (+5.7%). The weakest international growth was experienced by the North American (+3.1%) and African airlines (+1.1%) *(source 2)*.

At the same time, the Gulf State, European and Latin American airlines saw an increase in their load factors (respectively +0.9 points, +0.5 points and +1 point). Inversely, load factors were under pressure for the African (-1.4 points), Asian (-1.0 point) and North American (-1.1 points) carriers, reflecting variations in balances between capacity and demand *(sources 2 and 32)*.

In particular, after two years of stable capacity, growth picked up on the routes between Europe and North America (+6% in 2014 versus -1.4% in 2012 and +1.5% in 2013) *(source 33)*.

Despite the unfavorable economic climate, traffic (expressed in passengers) was slightly higher (+2.9% to 369 million passengers) for the AEA airlines. Their growth was driven by the long-haul routes (+4.3%) while growth in the intra-European lines was limited to +2.6%. This growth, which was weaker than the growth reported by IATA for the European airlines as a whole, signifies that the non-AEA airlines, and first and foremost the low-cost carriers, continue to gain market share. The overall load factor for AEA airlines gained 0.3 points to a record 80.6%, mainly due to the on-going rise in load factors on the intra-European networks, up by 1.3 points to 76.23% *(source 34)*.

Based on the first ten months of 2014, IATA notes similar growth of 3.6% in both the Premium customer (Business and *La Première)* and Economy cabin segments (in passengers) (*source 35*).

In 2015, capacity growth remains strong

In view of the schedules announced in mid-January 2015, the capacity growth forecasts (in available seat-kilometers) for the first half of 2015 on the Europe-Long-Haul axis are for around 4% to 5% relative to the first half of 2014. The capacity growth forecasts in available seat-kilometers by route are as follows:

- Europe-North America: around +4%;
- Europe-Latin America: +2% to +3%;
- Europe-Asia: +3% to +4%;
- Europe-Middle East: +11% under the influence of the Gulf State carriers;
- Europe-Sub-Saharan Africa: +3% to +4%.

On the intra-European routes, capacity growth (in seats) should be around +3% in the 2015 first half relative to 2014: +4% in intra Western Europe and -1.2% in seats for Eastern Europe (intra Western Europe and between Western and Eastern Europe). These figures are nonetheless liable to change significantly with the approach of the Summer season *(source 36)*.

In December 2014, IATA published a passenger traffic growth forecast of +7% for 2015, much higher than the 5.5% average over the past two decades. At the same time, IATA is forecasting capacity growth of +7.3% which is well above the capacity made available and sellable at the present time. This growth is mainly driven by the oil price and economic growth even if there are significant variations between zones. IATA expects even more pressure on unit revenues with a forecast of -5.1% (adjusted for inflation, excluding surcharges and taxes) *(source 11)*.

The French domestic market remains dominated by the TGV *(source 37)*. The main high-speed rail developments under way are an extension in the LGV East to Strasbourg foreseen for April 2016 and set to impact air traffic between Paris and cities such as Frankfurt, Stuttgart, Basel and Zürich, and the prolongation of the South-West line to Bordeaux expected in July 2017, leading to a one-hour saving on the journey time to this destination and to Biarritz, Pau and Toulouse. Beyond 2017, only the realization of the Bordeaux-Toulouse section is foreseen for 2024 *(sources 38, 39 and 40)*.

Discussions on European and international regulations under way

Whether they are new or subject to stricter enforcement, the European and international regulations are increasingly onerous for the air transport industry leading, for some carriers, to serious distortions in terms of competition. However, discussions are under way on a number of major topics.

A global climate protection policy inspired by Europe

Climate preservation is a priority for the air transport industry in that it is the first industry in the world to have set itself a target for reducing CO_2 emissions. In September 2013, Europe welcomed the agreement reached by the ICAO in September 2013, consisting of mandating the next Assembly in 2016 to propose a market-based mechanism to offset CO_2 emissions, to come into force in 2020. With this in mind, Europe accepted to limit the application scope of its emissions trading system to intra-European flights (EU + Norway + Iceland) until December 31, 2016.

Were the ICAO's 2016 Assembly to fail, a unilateral expansion of the emissions trading system to all flights taking off or landing in Europe could risk reigniting a diplomatic war with extra-European partners *(source 41)*.

(See also Section 3 – Risks and risk management, pages **87** *to* **110**).

Protection of consumer rights and safety

The regulatory and jurisprudence trend is increasingly towards the reinforcement of consumer rights in both Europe and the United States. For example, the European Union Court of Justice has adopted a new interpretation to determine the length of delays to aircraft based on the time of opening of at least one of the aircraft doors (Case Law C-452/13 04/09/2014) and not the time at which the wheels come to a standstill *(source 42)*.

Latvia, which currently holds the Presidency of the European Union Council, would like to re-launch the re-drafting initiated in 2013 of regulation 261/2004 on the common rules for airline compensation and assistance to passengers. The change in this regulation aimed at establishing more precise application conditions could be approved in 2015 *(source 43)*.

While the European regulations on the transportation of liquids in cabins have been slightly relaxed (*source 44*), since July 2014 the authorities in the United States and Canada have required passengers' electronic equipment bound for their territories to be fully charged and functioning when embarked on board aircraft *(source 45)*.

In parallel, discussions are under way between the European Commission, the Member States and the European Parliament on the need for airlines to make data available concerning their customers (“PNR” data) *(source 46)*.

Single European Sky: implementation still unsatisfactory

The result of two “legislative packages” adopted in 2004 and 2009, the "Single European Sky" is aimed at an in-depth reorganization of the air traffic control system to streamline traffic and reduce journey times. To date, its implementation has unfortunately not been satisfactory and the fragmentation of the European air space still results in a 42km prolongation in average flight distance, leading to unnecessarily high levels of fuel consumption and greenhouse gas emissions *(source 47)*.

Since 2012, air navigation service providers have been required to reach a series of performance targets based on punctuality, flight efficiency and unit cost reduction. The slowdown in air traffic growth since 2008 is helping air traffic control to reach its targets on reducing average flight delays but is making it more difficult to achieve their unit cost reduction commitments. Some States have thus posted steep increases in aeronautical charges for 2015 (*e.g.* more than 5% in France and 17% in Germany) *(sources 48 and 49)*.

Faced with this relative failure, in June 2013 the European Commission proposed an update to the Single European Sky rules known as "Single European Sky 2+" foreseeing, for example, the opening to competition of support services, something which is refuted in particular by France. Discussions will continue during the 2015 first half *(source 50)*.

Furthermore, the SESAR project, constituting the technological pillar of the Single European Sky, reached an important milestone in December 2014 with the appointment of a consortium, "SESAR Deployment Alliance", in which Air France-KLM is participating, to ensure the governance, after seven years in the development phase, of its deployment as of the 2015 first quarter *(source 51)*.

Very high taxes and fees in Europe

Although the situation is improving, awareness of the very high taxes and fees affecting the sector in Europe remains patchy. To improve their competitive positioning, some airports have reduced the level of their charges. This is the case for Amsterdam in particular which has announced an average 7.7% reduction in aeronautical fees in 2015 *(source 52)*. Similarly, for London Heathrow, the UK regulator has decided to limit the average annual increase in airline landing charges to 1.5% below inflation for the 2014-18 period *(source 53)*.

At the same time, following a proposal in the report by French *deputé* Mr. Bruno Le Roux expressing concern about a loss of competitiveness for the French air transport industry and the unequal sharing of its value added, the French Parliament adopted an amendment foreseeing the exoneration of passengers transferring flights in France from Civil Aviation Tax by 2016. For example, in 2014, this amounted to €12.21 for a return connecting flight on a Europe-Long-Haul journey *(source 54)*. In a similar vein, the UK government announced the capping of Air Passenger Duty at £142 for passengers bound for long-haul destinations (versus £194 for the farthest-flung destinations) as of April 2015, together with its gradual abolition for passengers aged below 16 years *(source 55)*.

However, for the forthcoming 2016-20 Economic Regulation Agreement to be signed with the French State in July 2015, Aéroports De Paris is tabling an average annual fee increase of 1.75 points above inflation, a proposal which is opposed by most airlines *(source 56)*.

Customers increasingly well-informed, pragmatic, exacting and connected

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

Customers are increasingly better informed and sensitive to the value of the service offered. They are more cost conscious with value for money assuming a primordial dimension in their purchasing decisions. The need for a personalized service is growing, whatever the class of travel. Customers are increasingly requiring the airlines to compete, comparing the offers in terms of, notably, price, journey times, level of comfort and the opportunity to customize their journeys (purchase of add-on options). They are also permanently connected, sharing their experiences through the social media and requiring information in real time *(source 57)*.

The development of mobile devices is changing established practice. Fifteen per cent of the French population was equipped with tablet computers in 2012, rising to 46% in 2014 while, for smartphones, this figure increased from 39% to 61% *(source 58)*. Customers thus expect all communication channels to offer them consistent information and real-time updates. For example, consulting offers on a tablet, purchasing on a computer and receiving confirmation on a mobile device is now an integral part of the user approach to the purchasing process.

To fulfill these requirements, the airlines are developing self-service solutions at all stages of the journey (purchase, check-in, baggage drop-off, boarding, etc.), by multiplying the choices and add-on paid-for options, and ensuring a strong presence on websites and the social media *(source 59)*.

In the next few years, technological innovations will require changes to the traditional distribution systems. The current GDS distribution systems will need to be able to connect in a transparent manner with individual airline systems to exchange information not only on flight times, fares and inventory availability but also on products, services and options. Customers may look to prioritize solutions giving them access to all the components of their travel in the same place: flight, accommodation, car hire, train tickets, etc. *(source 60)*.

New players like Google are liable to change the traditional airline distribution channels and impact their relationships with customers. Google is now playing a role in numerous aspects of airline distribution, sales and marketing: search engine positioning, advertising links, meta-search function, ITA pricing and booking software *(source 59)*.

2.1.3 Competition

The European airlines are engaged in restructuring

In 2014, the major European airlines continued their in-depth restructuring.

At Lufthansa, the "SCORE" program initiated in 2012 had been targeting €2.3 billion of operating income in 2015, a €1.5 billion increase on the 2011 level. This plan notably foresaw 3,500 redundancies and the transfer to the Germanwings brand of all the medium-haul operations excluding the Frankfurt and Munich hubs *(source 61)*. Lufthansa has since decided to go further by replacing Germanwings with the Eurowings entity and extending this brand to both medium-haul excluding Germany and long-haul (three A330-200s based in Cologne and operated by Sun Express Germany). By 2017, Eurowings' regional aircraft will be replaced by A320s, thereby simultaneously contributing to the on-going down-sizing of the Lufthansa regional fleet *(source 62)*.

This point-to-point offer is completed in long haul by the "Jump" project on departure from the Frankfurt hub with, as of Winter 2015, a specific product comprising a fleet of eight A340s reconfigured in a higher-density configuration and with lower staff costs to serve the leisure market *(source 63)*.

In view of the progress achieved, International Airlines Group (IAG, the holding company controlling British Airways, Iberia and Vueling) has revised up its 2015 operating result target to €1.8 billion and aims to reach an operating margin of between 10% and 14% by 2020 *(source 64)*. After drastic restructuring, Iberia is returning to a growth path with annual capacity growth expected to be +6.5% through to 2020 *(source 65)*. Vueling is also pursuing its strong growth, operating 104 aircraft as of 2015 and targeting 150 in 2020 *(source 64)*. Mirroring IAG's pan-European ambitions, Vueling has inaugurated a number of bases outside its country of origin, Spain, and particularly in Italy *(source 66)*. Lastly, in early 2015, IAG filed a takeover bid for Aer Lingus which has been accepted, subject to certain conditions, by the Irish company's Board of Directors *(source 67)*.

The new Alitalia, in which Etihad has purchased a 49% stake for €387 million, plans to relaunch its brand and is targeting a €100 million profit in 2017 together with the entry into revenue service of seven new long-haul aircraft *(source 68)*.

Aeroflot continued its strong growth in 2014 with a traffic increase of +11% (expressed in passengers) *(source 69)*. However, the slowdown in the Russian economy and international tensions led to a €72 million net loss over the first nine months of 2014 *(source 70)*. The outlook for the next few years is gloomy although Aeroflot plans to take delivery of 14 new long-haul aircraft by 2016 *(source 71)*.

At the end of 2014, the Portuguese government re-launched the privatization process on TAP whose main shareholder could become South American *(source 72)*.

EasyJet and Ryanair continue to dominate the pan-European low-cost market *(source 73)*. At the end of 2013, Ryanair announced plans to follow easyJet's example, with a stronger customer focus (improvement in website ergonomics, choice of seat, sales through travel agents, association with Google, acceptance of payment by AMEX card). At the same time, it will now also operate out of principal airports, having announced plans for Amsterdam in Winter 2015 after the launch of flights on departure from Rome Fiumicino and Bruxelles Zaventem *(source 74)*.

In 2013, Norwegian took delivery of its first Boeing 787s and started operating low-cost, long-haul flights to tourist destinations in the United States and Thailand on departure from London and Scandinavia *(source 75)*. To benefit from more extensive traffic rights on departure from the European Union, Norwegian has created a long-haul subsidiary under Irish law and recruited flight crew in Bangkok. Fearing the emergence of "flags of convenience", the United States has yet to recognize this subsidiary *(source 76)*. Norwegian's 2014 results were sharply lower (operating result down by 17% in the third quarter 2014 relative to 2013) whereas Ryanair and easyJet announced profit increases for the same period *(source 77)*. Some analysts remain, however, cautious as to the prospects of success for the European low-cost, long-haul model, mainly since many of the intra-European low-cost levers are not transposable to long haul *(source 78)*.

Record profits for the US airlines

In the United States, after years marked by restructuring and mergers, the three major US airlines are posting remarkable financial results, particularly when compared with the performances of the European carriers. Delta reported 2014 net income of US$2.8 billion (excluding exceptional items) *(source 79)*, United-Continental net income of US$1.1 billion *(source 80)* and American Airlines-US Airways net income of US$2.9 billion *(source 81)*. Following the acquisition by Delta of 49% of Virgin Atlantic, on January 1, 2014 the two airlines launched a joint-venture concerning flights between North America and the United Kingdom *(source 82)*.

Latin American airlines: prudent growth within a deteriorating economic environment

The two leading companies LATAM and GOL reduced their capacity by 1% in 2014, while their traffic increased by a respective +1.9% and +9.6%, enabling the achievement of record load factors *(sources 83 and 84)*. At the same time, Avianca saw traffic growth of +7.5% for capacity up by +6.4% *(source 85)*.

After more than 50% growth in passenger traffic during 2013, in December 2014 the number three Brazilian carrier Azul inaugurated a new long-haul segment to the United States operating an Airbus A330 *(source 86)*.

Total traffic for the Brazilian carriers increased by 5.6% over the first eleven months of 2014 *(source 87)*.

Copa Airlines, the Panama national carrier, continued to reinforce its Panama City hub, increasing capacity and traffic by +9.5% (in ASK and RPK) on a network of 69 destinations in 2014 *(source 88)*. Over the first three quarters, the company managed to maintain its high level of profitability of the previous year (17%) benefiting, notably, from the ideal geographical positioning of its hub at the center of the Americas *(sources 89 and 90)*.

Asia is experiencing a complete transformation

In South-East Asia, the market is still very buoyant being driven, in particular, by the growth of the low-cost carriers which represent 20% of seat capacity but close to 50% of aircraft orders. The Asian airlines are supported by the economic growth in the region. However, 2014 was marked by multiple signs of overcapacity: erosion in unit revenues and margins, and even bankruptcy *(sources 91 and 92)*. This situation was exacerbated by political instability in Thailand and accidents involving Malaysia Airlines and AirAsia, negatively impacting their tourism appeal and transport demand *(source 93)*. In response, the airlines have adjusted their growth plans, particularly *via* the resale or deferred delivery of new aircraft, and launched restructuring plans *(sources 93 and 94)*.

The four large Chinese carriers (Air China, China Southern, China Eastern and Hainan Airlines) remain mostly focused on domestic traffic which contributes some 90% of their passenger traffic *(source 95)*. In November 2013, the Chinese government announced plans to support the development of new players, particularly low-cost carriers, in this market *(source 96)*. The companies are now aiming to increase their share of international traffic. Lastly, having failed to obtain authorization to overfly Siberian airspace, HNA (Hainan Airlines parent company) and its French partner Aigle Azur (in which it holds 48% of the share capital) abandoned plans to launch a Paris-Beijing service *(sources 97)*.

In India, the situation remains unstable for the airlines. Only Indigo (which is pursuing its development on the domestic – 31% of capacity in 2014 versus 26.5% in 2012 – and international networks) was profitable in the last financial year *(sources 98, 99 and 100)*. Spicejet, the number three domestic player, is facing major financial difficulties and needs to be recapitalized *(sources 101)*. Despite this difficult context, two new players were launched in mid-2014 and early 2015 in the Indian domestic market by Tata Group: a low-cost carrier (AirAsia India, a joint-venture with AirAsia) and a "premium" carrier (Air Vistara, a joint-venture with Singapore Airlines). Lastly, following its strategic agreement with Etihad, Jet Airways stepped up the opening of services to Abu Dhabi (launch of eight new lines between January 2014 and April 2015). The company has also opened a daily Paris-Mumbai service, and implemented a code share with Air France *(sources 102 and 103)*.

In Japan, financial difficulties meant that the low-cost airline Skymark was unable to take delivery of the six A380s it had on order. Suffering from competition from new low-cost players (Peach, Jetstar Japan, Vanilla Air and AirAsia Japan as of 2015), the company filed for bankruptcy and is attempting a re-launch by securing code share agreements with ANA and Japan Airlines *(sources 104 and 105).*

Development of the African airlines

Ethiopian Airlines continues its profitable growth (5.3% margin in 2013 and 15% growth in 2014) *(source 106)* and, in terms of traffic, is now hard on the heels of Egypt Air and South African Airways whose results are under pressure: in December 2014, South African was moreover placed under direct administration by the Finance Minister *(source 107)*. Ethiopian's pan-African ambition is reflected in its participation in the creation of a number of African carriers in which it seeks to take a significant equity interest (40% in ASKY in Togo, 49% in Malawian Airlines and the future South-Sudanese carrier; negotiations under way with Rwanda, the Democratic Republic of Congo and Nigeria). The company expects to remain in profit for the current year despite the losses linked to Ebola. Ethiopian estimates that its main long-haul growth markets are to be found in Asia, by overflying the hubs of the Gulf State airlines. In Summer 2015, it will thus add Tokyo to its network *(sources 106 and 108)*.

Pursuing a similar strategy to Ethiopian (capacity up by 13% in the 2014 first half), Kenya Airways nonetheless suffered a marked deterioration in results (operating margin down by 12 points) following the Ebola crisis, an airport fire and a terrorist attack in Nairobi *(sources 109 and 110)*.

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

Between 2005 and 2014, the fleet of the Gulf State airlines (Emirates, Etihad, Qatar Airways) and that of Turkish Airlines grew at an annual rate of 17% *(source 111)*. This strong growth should continue in the coming years given their order book: 390 long-haul aircraft are expected to be delivered to these companies by 2020, the equivalent of nearly 90% of their current fleet of 434 aircraft. In total, almost a quarter of the outstanding orders for wide-bodied aircraft is destined for one of these airlines *(source 112)*.

In 2014, despite the construction work at Dubaï airport which limited operations, Emirates capacity increased by 8%, Qatar Airways capacity rose by 13% and that of Etihad by 25%, while Turkish Airlines posted 14% capacity growth *(source 113)*. By 2017, the Turkish carrier will benefit from the Turkish government's decision to build a new airport to the north-west of Istanbul with annual capacity of 150 million passengers *(source 114)*.

The growth of these airlines is characterized by a proliferation in the number of cities served (32 new destinations net of closures across all continents in 2014) (*source 115*). They are also pursuing their growth at the Air France-KLM hubs, with +20% expected at Paris-CDG and +22% at Amsterdam (in seats, Summer 2015 season) *(source 116)*. Turkish Airlines is also rapidly increasing its capacity on Africa: 25 new destinations in three years, and six additional new services announced for 2015 *(source 117)*.

In parallel, the Gulf State airlines are stepping up their partnerships and investments to expand their networks. Etihad has signed a major strategic agreement with TAAG in Angola *(source 9)* and now has shareholdings in Air Berlin, Aer Lingus, Air Seychelles, Air Serbia, Swiss carrier Darwin (operating as Etihad Regional), Virgin Australia, Jet Airways and, since 2014, Alitalia. The company has code share agreements with all these partners and benefits from their numerous flights to Abu Dhabi, thereby reinforcing its network. To encourage synergies, Etihad has created a dedicated management structure: Etihad Airways Partners *(source 118)*. In 2014, Qatar Airways signed multiple code share agreements with its new Oneworld partners and, in January 2015, acquired a near-10% shareholding in IAG *(sources 119 and 120)*. Inversely, Turkish Airlines and Lufthansa ended their cooperation in March 2014 (*source 121)*.

So-called "fifth freedom" traffic remains a major issue: in December 2014, Emirates obtained confirmation of its traffic rights on the Milan-New York route *(source 122)*; like Qatar Airways, the company also envisages using Barcelona airport as a stop-over for its flights to the United States and Latin America *(sources 123 and 124)*.

Growth in the global alliances

Consolidation remains a key factor behind improving margins in the air transport industry.

In 2014, the traditional alliances continued their growth with Garuda joining SkyTeam in March, Air India joining Star Alliance in July and LATAM joining Oneworld in March.

The Gulf State carriers also continue to develop their policy of strategic partnerships (see above).

2.1.4 Conclusion

Although there has been an improvement in some of the Group's major markets, the economic environment remains challenging and the industry continues to be marked by an imbalance between weak demand and strong capacity growth. Within this context, the impact on the sector of the fall in the fuel price constitutes a significant factor of uncertainty.

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2.2 Strategy

In early 2012, the Air France-KLM Group launched Transform 2015, a three-year transformation plan (2012-14). While this plan aimed to gain competiveness to secure the future, it did not call into question the Group's other strategic choices. The Group effectively continues to invest in customer products and services, reinforce its presence in growth markets, step up cooperation with partners and sign agreements with new partners within the SkyTeam alliance, and leverage its fundamental strengths.

In September 2014, the Group unveiled Perform 2020, its strategic plan for the 2015-20 period, which is presented in Section 2.2.3.

2.2.1 Fundamental strengths

A strong presence in all the major markets

The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. Including the flights operated by Delta within the framework of the trans-Atlantic joint-venture, in Summer 2014 the Group served 120 long-haul destinations world-wide, of which 35 in Africa, 25 in North America, 23 in the Asia-Pacific region, 11 in the Caribbean, three in the Indian Ocean, 12 in Latin America and 11 in the Middle East. *(See also Section 2.3.6 for the key figures by network)*.

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

Two 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, which are organized in waves known as "banks", combine connecting with point-to-point traffic. This large-scale pooling of limited flows gives small markets worldwide access. Furthermore, it enables the use of larger aircraft, thereby reducing noise and carbon emissions. The second bank at the Paris-CDG hub, organized around the arrival of some 60 medium-haul flights and the departure of around 30 long-haul flights, thus enables the offer of more than 1,500 different connections in under two hours with only 90 aircraft.

The efficiency of the hubs largely depends on the quality of airport infrastructures: number of runways usable in parallel, fluidity of circulation and ease of connections between terminals. In this regard, the dual Paris-CDG and Amsterdam-Schiphol platforms 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 images in both its two national markets and internationally. More recently, the Group has invested in two more local brands: the low-cost brand "Transavia" which is already very well known in the Netherlands and which has been the subject of major advertising campaigns in France in addition to the rapid growth of the network on departure from France, and HOP!, launched in 2013 to embody the Group's regional activity, and whose territory was extended at the end of 2014 to all the Air France point-to-point operations under the name "HOP! Air France".

Thanks to its two "historic" brands (Air France has just celebrated its 80th anniversary and KLM its 95th) directly associated with two major European countries, the Group benefits from a strong affinity with multiple customer bases favoring a value for money approach.

A balanced customer base

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

In the traditional network airline 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 revenues 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 nearly 10 million passengers in 2014 compared with 6.3 million in 2011, enables the Group to complete its portfolio of products by meeting the needs of leisure point-to-point customers in both the Netherlands and France.

SkyTeam, the number two global alliance

Serving 1,052 airports globally, SkyTeam is the number two global alliance. At December 31, 2014, it brought together 20 European, American and Asian airlines: Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Airlines, China Eastern, China Southern, Czech Airlines, Delta, Garuda Indonesia, Kenya Airways, Korean Air, Tarom, Vietnam Airlines, Aerolineas Argentinas, MEA (Lebanon), Saudi Arabian Airlines and Xiamen Airlines (the number five Chinese carrier).

The alliance is stepping up initiatives aimed at securing customer loyalty and facilitating connections. It enables the Group to not only offer its passengers an extended network by giving access to the numerous destinations of its partners but also to multiply the services securing customer loyalty. In 2012, SkyTeam thus rolled out SkyPriority, a range of services clearly signposted in airports, systematically offered to frequent flyers (“Elite” status) and to customers in La Première and Business class.

Strategic partnerships

The Group has signed a number of strategic partnerships in key markets.

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

In January 2009, during the relaunch of Alitalia by a syndicate of private investors, Air France-KLM acquired a 25% stake in the share capital of the Italian company (since reduced to less than 1% following transactions involving its share capital and a financial restructuring) and signed a strategic partnership agreement. This agreement generates substantial synergies for the two groups.

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

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

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

A modern fleet

The Group currently operates one of the most rationalized and modern fleets in the sector, enabling it to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local communities and greenhouse gas emissions.

The measures implemented within the framework of the Transform 2015 plan to limit investment did not prevent the fleet’s on-going modernization, with the withdrawal of the last MD11 “passenger” aircraft in October 2014. Furthermore, the Group will start to take delivery of its first Boeing 787s as of the end of 2015 and its first Airbus A350s in 2018 *(See also Section 2.7 – Fleet, page 78)*.

A commitment to sustainable development

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

The Air France-KLM Group’s sustainable development approach is recognized by the main extra-financial ratings agencies. Amongst other awards, in 2014 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 tenth consecutive year. For the sixth year running, Air France-KLM was also ranked leader of the broader “Transport” sector, covering air, rail, sea and road transport as well as airport activities.

2.2.2 The Transform 2015 plan

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

On the launch of the plan, the Group set itself a target of reducing debt by €2 billion between December 31, 2011 and December 31, 2014: from €6.5 billion to €4.5 billion. With the economic environment continuing to negatively impact demand, particularly in medium haul and cargo, additional measures were launched in September 2013 in these two segments. Since these new measures are only expected to produce their full effects in 2015, the Group maintained its debt reduction target but considered that it would only be realized in 2015. At December 31, 2014, net debt stood at €5.41 billion, down by €1.1 billion relative to December 31, 2011. In March 2015, considering the impact of the September strike, the weak unit revenue trend in the 2014 second half and the perpetual bond issue realized at the end of March, the net debt target of €4.5 billion for the end of 2015 was revised. The new target is net debt of around €4.6 billion at the 2015 year end.

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

The 2014 financial statements confirmed the virtual achievement of this target: as indicated on page 176, adjusted for the impact of the Air France pilots' strike, the unit cost per EASK stood at 6.64 euro cents in 2014. Adjusted for fourth quarter one-offs, this cost stood 6.62 euro cents. On a constant currency, fuel price and pension cost basis, and adjusted for the disposal of CityJet, the same indicator stood at 6.97 cents in 2011. Adding the momentum driven by the Transform 2015 measures which should come through in 2015, the unit cost should fall by a further 0.03 cents. The reduction has thus been 0.38 cents, *i.e.* nearly 95% of the targeted 0.4 cent reduction set at the launch of the Transform 2015 plan.

	2011	2012*	2013**	2014***	2015 with Transform momentum	2012-14	2012-15 (plan)
Net costs *(in €m)*	22,185	23,124	22,637	22,404		+1.0%	
Capacity produced (EASK)	328,746	328,188	333,480	337,352		+2.6%	
Unit cost per EASK, reported	6.75	7.05	6.79	6.64		-1.6%	
Change		+4.4%	-3.7%	-2.2%			
Unit cost per EASK, like-for-like	**6.97**	**6.85**	**6.72**	**6.62**	**6.59**	**-0.35cts**	**-0.38cts**
Change		***-1.7%***	***-2.0%***	***-1.3%***	***-0.5%***		
Unit cost per EASK, like-for-like, ex fuel	**4.98**	**4.86**	**4.72**	**4.63**	**4.60**	**-0.35cts**	**-0.38cts**
Change		***-2.4%***	***-2.8%***	***-1.9%***	***-0.7%***	***-7%***	***-8%***

* *Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation.*
** *Restated for IFRIC 21 and a change in revenue allocation.*
*** *Adjusted for strike impact.*

While the deterioration in the economic environment and the Air France pilots' strike in September 2014 led to several downwards revisions in the Group's EBITDA target for 2014 over the year, all the action plans were effectively reflected in a significant improvement in EBITDA.

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

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

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

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

The implementation of these measures continued in 2014 marked, in particular, by on-going productivity efforts and the launch of new long-haul cabins at Air France.

Limited capacity growth and a downwards revision in investment

Given the uncertain economic environment and the persistent imbalance between transport supply and demand, the Group opted for a very limited increase in capacity in both passenger and cargo. For the passenger business, after growth of 0.6% in 2012, capacity was increased by 1.6% in 2013 and by 1.0% in 2014 (adjusted for the impact of the Air France pilots' strike).

As a result, the Group revised its fleet plan and investment program with the exception of investments aimed at the on-going improvement in operational safety and customer services. This decision led the Group to adjust its medium-term fleet plan by combining, for example, the deferral of aircraft deliveries and the non-exercise of options. Investment was thus revised down from €2.1 billion before sale and leasebacks in 2011 to €1.5 billion in 2012, €1.1 billion in 2013 and €1.4 billion in 2014. The Group also decided to limit sale and leaseback transactions (€600 million in 2012, €100 million in 2013 and €200 million in 2014, versus €800 million in 2010 and €850 million in 2011).

Negotiating the new working conditions

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

Lastly, the Group implemented wage moderation though a freeze on general salary increases and promotions in 2012 and 2013, these measures having been extended for a further year in 2014.

Following the signature of the collective agreements, during 2012 the Group launched voluntary departure plans to reduce headcount in each of the staff categories: incentives to move to part-time working, unpaid leave, etc. The measures concerning ground staff in France enabled a headcount reduction of some 2,900 in Full Time Equivalent compared with a target of 2,700 FTE. The measures concerning the pilots enabled a reduction of around 270 in Full Time Equivalent for a targeted 300 FTE. Lastly, the measures concerning cabin crew enabled a reduction of some 470 in FTE relative to a target of 500 in FTE.

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

In total, these measures were expected to enable a more than €300 million reduction in payroll expenses between 2011 and 2014, on a constant scope and pension expense basis. This target was achieved.

Within the framework of the additional measures decided in autumn 2013, Air France implemented new voluntary headcount reduction measures: incentives to leave the company, incentives to move to part-time working, unpaid leave, etc. For ground staff, a new voluntary departure plan enabled a headcount reduction of around 1,879 Full Time Equivalents for a targeted 1,826 in Full Time Equivalents. For cabin crew, the voluntary headcount reduction measures led to a reduction of around 600 Full Time Equivalents for a target of 700 FTEs. Lastly, for pilots, other voluntary departure measures enabled a headcount reduction of around 153 FTEs for an objective of around 350 FTEs. The freeze on general salary increases was prolonged by one year.

Action plans

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

"Passenger" business

Since the 2008-09 crisis, and despite the action plans, the negative structural trend in unit revenues has led to the deepening of losses in this activity amounting, for example, to more than €800 million in 2012. The long-haul segment is clearly profitable but it cannot operate without an efficient medium-haul feeder network nor entirely offset this level of losses. The action plans have thus been on a larger scale in medium haul.

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

This repositioning has notably involved substantial investment in both in-flight and ground services (new passenger lounge at Paris-CDG, etc.). KLM launched the deployment of a new Business class seat in summer 2013, while Air France began the installation of new cabins in the summer of 2014. This renovation is accompanied by investment in new seats and in-flight entertainment systems consistent with the best industry standards. The initial feedback from customers on these products has been very positive, with a marked improvement in satisfaction scores at both Air France and KLM.

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

At Air France, the emphasis was firstly on improving the utilization of the fleet and the achievement of significant productivity gains by all staff categories. Between 2012 and 2015, the Group thus plans to scale back its fleet by 16% (24 fewer aircraft) while increasing productivity (expressed in flight hours per aircraft) by 9%.

Air France's point-to-point network has been adjusted at both Orly and in the provincial bases (Marseilles, Nice, Toulouse) with 16 fewer aircraft between 2012 and 2015. To limit the impact of these reductions on the revenues of the routes on departure from Orly, the reduction in activity has been focused on high-density routes. Launched in 2011 and 2012, the three provincial bases have not reached break-even at the operational level and, in the summer of 2013, their adaptation enabled a material improvement in revenues. In 2014, their resizing was pursued aimed at basing only 18 aircraft at the provincial bases in Summer 2015, compared with 29 in the summer of 2012. To accompany the reduction in activity and productivity gains, the new Voluntary Departure Plan launched in 2014 mainly covered the French stations.

In parallel, the development of Transavia, a real growth relay at Orly, has been accelerated, the aim being to reach critical mass in the Paris market by 2015 with 21 aircraft compared with eight in Summer 2012. This growth is accompanied by a significant level of commercial investment.

The Group's activity in the regional aircraft segment (below 100 seats) has been extensively reorganized. In April 2013, the Group regrouped its three companies operating this type of aircraft in France (Brit Air, Régional and Airlinair) within a new entity, known as HOP!, operating in two markets. Firstly, it ensures the feeding of the Paris-CDG hub on the lowest traffic flows and, secondly, it operates the point-to-point flights to and from the French regional capitals. In parallel, in April 2014, the Group sold its other regional point-to-point subsidiary, CityJet, which operates mainly outside France.

At KLM, the main medium-haul measures were the increased use of aircraft thanks to cabin densification and the organization of faster aircraft turnaround times. With only two more aircraft, KLM thus plans to increase its medium-haul capacity by 16% between 2012 and 2015. These measures have enabled a significant rebound in medium-haul results, even though the 2014 results were affected by the geopolitical situation in Ukraine and Russia, currency exchange rates and pressure on unit revenues for long-haul connections.

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

The losses in this activity were reduced by more than €350 million between 2012 and 2014. The weakening in unit revenues having negatively impacted, in particular, the networks supporting the hubs, the improvement over the 2012-15 period should be considerable, but insufficient to achieve the targeted reduction in medium-haul losses set in October 2013 (€500 million reduction in losses between 2012 and 2015).

Cargo business

For several years the cargo business has been facing not only a difficult environment (weak demand, high fuel price) but also a situation of persistent overcapacity due to the growth in the fleets of wide-bodied aircraft with significant belly capacity, and the growing competition from ocean transportation solutions.

The measures launched in 2012 included a further reduction in full-freighter capacity, the retirement of unused aircraft, a reduction in manageable costs and the launch of a new commercial and revenue management strategy. In 2013, these measures enabled the Group to realize a good performance on costs while continuing to downsize its full-freighter capacity. These actions only partially offset the decline in revenues, leading the Group to reinforce its action plan with additional measures in autumn 2013: additional reduction in the full-freighter fleet, sub-contracting of the Orly cargo hangar, etc.

In 2014, the continued weak revenue trend led the Group to again review its plans for this activity within the framework of Perform 2020 (see below). The targeted reduction in the losses of this activity set in October 2013 (€200 million reduction in cargo losses between 2012 and 2015 to return this business to breakeven) has thus been abandoned and replaced by a new target, detailed in Section 2.2.3: reach operating breakeven for the full-freighter activity by 2017.

Maintenance business

The strategy for the maintenance business focuses on the development of high added-value activities (engines and components), while gradually downsizing some loss-making areas of the heavy maintenance activity, particularly since Europe is no longer competitive in terms of labor costs. The strong growth in the order book (+€1.8 billion between December 2012 and December 2014) gives this business good visibility on revenue and results growth. Furthermore, the new collective agreements negotiated within the framework of Transform 2015 have enabled this business to pursue its productivity efforts. In parallel, the Group continues to make targeted investments in innovative infrastructure (engine test bench, aero structure workshop) and to locate its operations closer to clients (joint-ventures in the United States and India, acquisition of a majority interest in Barfield, component workshop in Shanghai, etc.).

New governance

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

2.2.3 The Perform 2020 plan

Launched in September 2014, the Perform 2020 plan is the successor to Transform 2015 and covers the 2015-20 period.

Clear, renewed strategic framework: growth and competitiveness

In terms of improving competitiveness, Perform 2020 is the successor to Transform 2015 with a vocation to prepare the way for a return to growth in certain activities. While conserving the imperatives of competitiveness and consolidation of the Group's financial position, this growth plan thus focuses on the following three strategic areas:

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

The clearly stated ambition is to build, by 2020, an air transport Group focused on a leading long-haul network at the heart of global alliances, with a portfolio of unique brands, restructured short and medium-haul operations with a reinforced presence in the low-cost segment in Europe, leadership positions in cargo, maintenance and catering, and a significantly improved risk profile both operationally and financially.

Acceleration in operational initiatives

In an environment which remains challenging but with profitable growth opportunities across all the Group's markets, Air France-KLM plans to reinforce its key strengths, namely its network, products and brands, while adjusting its portfolio of activities.

"Passenger" hub business: a move up-market and strict capacity discipline

The development of the "passenger" hub business will be supported by an upgraded product offer already largely initiated within the framework of Transform 2015, an increased customer focus and stronger brand positioning. By 2017, two-thirds of the long-haul aircraft in the Group's fleet (at both Air France and KLM) should be equipped with new products which are greatly appreciated by customers.

Benefiting from the most extensive long-haul network on departure from Europe, the Group will be able to continue to capture growth opportunities particularly *via* the reinforcement of strategic partnerships.

The Group will also maintain strict capacity discipline with growth in passenger capacity expected to be around 1% to 1.5% for the 2015-17 period. In 2015, capacity is thus expected to increase by just 1.1%.

By 2017, the operating result of the Group's hubs, which stood at around €400 million in 2013 (€800 million on long haul offset by €400 million of losses on the hub support network) should continue to increase.

Further restructuring of the point-to-point operations

The Group will continue the restructuring of its point-to-point operations initiated within the framework of Transform 2015, aimed at a return to operating breakeven by 2017 versus operating losses of €120 million in 2014 (adjusted for the strike). In addition to the full impact of the measures launched in 2013, this objective will be reached thanks to new initiatives to restructure the network and reduce costs, together with the creation of a single business unit combining HOP! and the Air France point-to-point operations.

Accelerated development of Transavia in France

The development of Air France-KLM in the low-cost market will be accelerated based on the two existing companies – Transvia France and Transavia Netherlands – which benefit from levels of unit costs that are sufficiently low to enable profitable growth in this segment.

The approval in December 2014 by the main Air France pilots' union of the agreement relating to the secondment of pilots to Transavia means that the totality of Transavia's accelerated development plan in France is now ensured over the next five years:

- continued strong growth in Summer 2015: 21 aircraft in operation versus 16 in Summer 2014, making Transavia the number one low-cost carrier at Paris-Orly as of Summer 2015;
- 37 Boeing 737s in operation by 2019, on departure from several French airports with the exception of the Paris-CDG hub, notably to destinations already served by Air France.

This agreement also confirms that Transavia will maintain its own operating and remuneration conditions, which are key to achieving its unit cost and operating flexibility objectives.

Transavia's positioning corresponds to the expectations of the most dynamic customer segment, seeking simple point-to-point offers which are transparent and at low fares.

Over the 2015-17 period, Transavia's growth plan in the Netherlands will be based on an in-depth adaptation of the business faced with the rapid decline in the charter segment (which should represent no more than 30% of activity in this country in 2017 relative to nearly 50% in 2014) and on the stepping up of cost-saving efforts.

In France, Transavia's very rapid growth (+26% in 2013 followed by +19% in 2014) will be based on its attractive brand positioning, access to the Group's slot portfolio at Orly, closer ties with Flying Blue, and the Group's other strengths.

The initial plan to open bases outside France and the Netherlands has been withdrawn.

For Transavia, the Group has set itself an objective of reaching break-even at operating level by 2017 and profitability in 2018.

Finalization of the cargo repositioning

The full-freighter fleet will be reduced from 14 aircraft in operation during 2013 to five aircraft at the end of 2016, which should enable this business to return to operating breakeven in 2017 (versus a loss of €95 million in 2014 adjusted for the strike).

To preserve its abillity to achieve a revenue premium on bellies, the Group will maintain a small full-freighter fleet which is useful for serving some market segments as a complement to the belly network. The Group plans to remain a significant player in the European cargo sector thanks to its extensive belly network, but with only very limited remaining exposure (less than 15% of capacity) to full-freighter volatility.

Continued targeted development in maintenance

The recent development of the maintenance business has proven successful, with increased profitability and rapid growth in the order book. The Group will pursue its growth in this segment, particularly in engines and components, including *via* targeted acquisitions. This business should generate an additional €50 million to €80 million of EBITDAR in 2017, depending on acquisitions.

Continued productivity efforts and capacity discipline maintained

The Group will leverage the structured approach implemented within the framework of Transform 2015 to maintain the pace of unit cost reduction. In addition to traditional efforts directed at reducing unit costs (reduction in external expenses, procurement policy and renewal of the long-haul fleet), this target reflects the on-going restructuring of uncompetitive activities and a systematic review of processes using benchmarking based on profit centers. It will also entail negotiating with staff on the achievement of productivity gains paving the way to growth.

The Group has 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.

A progressive increase in fleet capex will be undertaken within the framework of strict capex control. Dedicated sources of funding will be allocated to each significant development opportunitiy to ensure control over credit ratios. For example, the first phase in Transavia expansion will be financed by the €339 million proceeds generated in early September from the partial disposal of the Amadeus shareholding.

This financial discipline was also reflected, at the beginning of 2015, in the downwards revision in the 2015-16 investment plan to take into account the weaker unit revenue trend and the impact of the pilots' strike on the company's financial situation. The investment plan has thus been scaled back by €600 million over this period.

Medium-term financial targets (2017)

As a result of all these initiatives, Air France-KLM has set the following two financial targets:

- an adjusted net debt/EBITDAR ratio of around 2.5 in 2017;
- base businesses to consistently generate annual positive free cash flow.

The definitions of the financial indicators can be found in Section 5.4 on page 171.

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 low-cost operations under the Transavia brand belong to the "Other businesses" segment (see Section 2.6.1)

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

In 2014, the Group continued to implement the action plans launched in 2012 within the framework of Transform 2015. While maintaining strict capacity discipline (growth of 1.0% like-for-like), the passenger business focused its efforts on improving the profitability of each of the Group's networks, continuing to restructure the short and medium-haul operations, developing the network in regions with the most potential, while stepping up investment in products and services and developing new initiatives to serve its customers more effectively.

2.3.1 Medium-haul operations

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

The profitability of this network has seen a significant deterioration since the 2009 crisis. In addition to increased competition from low -cost airlines, this network has experienced a profound change in the behavior of Business customers who have abandoned Business class and flexible fares for the lowest-priced tickets. These structural difficulties (overcapacity in Europe, shift in customer behaviour and thus pressure on prices) have led the Group to redesign its commercial proposition and organization, particularly at Air France, by structuring offers adapted to the major customer segments:

- Air France and HOP! (regrouped under the HOP! Air France marketing brand) to meet the expectations of the "business/network quality" segment: strength of the network (destinations, flight times, frequencies), a simple offer incorporating innovations and attractive fares, in particular for non-business customers.
- Transavia to meet the expectations of the "leisure/low-cost" segment with a basic, low-price offer, at the same levels as the low-cost competitors.

Change in organization: HOP! Air France regroups the short-haul point-to-point network

Within the framework of Transform 2015, Air France's medium-haul activity underwent numerous changes in terms of both its offering and organization. In 2013, the activity was reorganized around three separate business units: one responsible for the flights feeding the Paris-CDG hub, a second unit responsible for the point-to-point operations on departure from Paris-Orly and the provincial bases and, lastly, HOP!, regrouping the three airlines previously operating regional aircraft on behalf of the Group: Brit Air, Régional and Airlinair. In parallel, the CityJet regional subsidiary which operated flights mainly on departure from London City Airport was divested.

The launch of HOP! led to a profound transformation in this activity: implementation of a single organization, change in marketing method (exiting notably the franchise), restructuring of the network, efforts to reduce chartering costs for Air France, a turnaround in the profitability of the proprietary network, launch of the new brand, etc. After 21 months of operation, HOP!'s economic trajectory is in line with the business plan and the latter's net result is expected to reach breakeven by the end of 2015. In 2014, the unit revenue thus progressed by over 7% relative to 2013 within a context of a more-than-19% fall in the level of activity.

Thanks to these initiatives and the efforts of the point-to-point activity operated in medium-haul aircraft from the A320 family, the profitability of the point-to-point operations as a whole saw a significant improvement, moving from an operating loss of €220 million in 2013 to a loss of €120 million in 2014 (excluding the strike).

For the point-to-point activity, the Group is targeting break-even at the operating level in 2017, and profitability thereafter. This target will be achieved thanks to the pursuit of the measures introduced in the last few years: on-going restructuring of the network, whose capacity will have been reduced by some 40% between 2012 and 2017, continued reduction in costs, work on repositioning the offer and reorganization under a single business unit: HOP! Air France. During 2015, the latter will regroup the totality of the network on departure from Paris-Orly and the French provinces, thereby offering a dense network representing 800 daily flights and 13 million customers, for €1.7 billion of revenues.

Feeding the Paris-CDG and Amsterdam-Schiphol hubs

Concerning the feeding of the Paris-CDG and Amsterdam-Schiphol hubs, the Group pursued its efforts to improve the economic efficiency and productivity of all its assets, notably through schedule modifications, more intensive use of the fleet and the densification of aircraft configurations.

At KLM, the retirement of the Fokker 70s continued in 2014 and KLM Cityhopper now has the largest fleet of Embraer 190s in Europe. In parallel, KLM took delivery of its 48th new-generation Boeing 737-800 in the summer of 2014.

In 2014, thanks to fleet productivity gains, KLM supplemented its medium-haul offering and opened three new destinations: Turin (Italy), Bilbao (Spain) and Zagreb (Croatia). In the Summer 2015 season, KLM will launch three new routes: Montpellier in addition to the Air France service to Paris, Krakow (Poland) and Belfast (Northern Ireland).

In 2014, for its part, Air France inaugurated a new destination, Stavanger (Norway). For Air France, 2015 is the launch year for the new "Smart & Beyond" medium-haul product with new cabins to be installed on board the Airbus 319s, which should subsequently be fitted in the Airbus A320s during 2016. These new cabins together with the changes to in-flight catering will support the move up-market for the Air France product.

Lastly, the seasonal adaptation continued at Air France and KLM with the scaling back of winter activity and the optimization of resources during peak periods.

Repositioning the offering

Within a context of constant change in the business environment and increasingly intense competition, work continued on repositioning the medium-haul proposition.

The Group modified its baggage policy in Economy class on European destinations. At KLM, only Flying Blue Silver, Gold and Platinum members, together with SkyTeam Elite and Elite Plus members, benefit from a first piece of hold baggage flown free of charge. Flying Blue Ivory members now receive a 50% discount on the charges in force for hold baggage.

In 2015, Air France will simplify its medium-haul offering to meet the demand for business travel more effectively. The new proposition will see the disappearance of the Premium Economy cabin, to be replaced by the introduction of a flexible fare product in Economy. This enables the maintenance of a level of service consistent with the brand positioning while ensuring the continuity of the customer transfer experience.

Following the launch of a pilot project in March 2014 with Transavia in France, in 2015 members of the Flying Blue loyalty program will not only be able to use their miles for reward tickets on the Transavia network but also to accumulate Flying Blue miles during their flights with Transavia.

2.3.2 Long-haul operations

Targeted growth in capacity and limited investment in the fleet

In 2014, growth in long-haul capacity was focused on Latin America and, to a lesser extent, Asia:

- Following the opening of the service on departure from Paris-CDG in late 2013, Air France increased its frequencies on Panama City: since October 2014, this destination has been served by five weekly flights in addition to the daily flight on departure from Amsterdam-Schiphol;
- Launched in 2013, the Montevideo service as an extension to the Buenos-Aires flight on departure from Paris-CDG has, since April 2014, been operated daily;
- In February 2014, KLM opened the Santiago de Chile service in continuation from Buenos-Aires, with three weekly flights in addition to the daily non-stop flight operated by Air France;
- Consistent with the strategic partnership signed between Air France-KLM and GOL in 2014, the Group reinforced its offer towards Brazil with the opening of the Paris-Brasilia line in April 2014 based on three weekly frequencies.
- The Group reinforced its presence in Japan with the launch of the Fukuoka service on departure from Amsterdam in 2013. Air France reviewed its Tokyo service and initiated operations at Haneda central airport while maintaining a daily flight from Narita airport;
- since July 2014, Jakarta has also been served with a daily flight from Paris-CDG in continuation from Singapore, supplementing the daily KLM flight in continuation from Kuala-Lumpur;
- Since May 2014, the Airbus A380 has been deployed on the Paris-CDG/Hong Kong route.

On North America, the Group reinforced its position within the framework of the trans-Atlantic joint-venture with Delta: in the Summer 2014 season, KLM operated three daily flights on the Amsterdam-New York route following the recovery of a flight formerly operated by Delta Airlines. KLM also added five weekly rotations to the link between the dual Amsterdam and Atlanta hubs, reaching virtually four flights per day in combination with Delta during the Winter season.

In 2015, the Group will pursue its growth on North America with the opening, in May, of the Edmonton (Canada) service by KLM and Vancouver (Canada) by Air France in addition to the flight already operated from Amsterdam. In parallel, Delta will open the Amsterdam/Salt Lake City route.

Since January 1, 2014, the scope of the joint-venture agreement with Kenya Airways has virtually doubled with the addition of four new routes (London-Nairobi, Amsterdam-Entebbe/Kigali, Amsterdam-Lusaka/Harare, Amsterdam-Kilimandjaro/Dar-es-Salaam). The networks were optimized as of the Summer 2014 season with, notably, the introduction by Kenya Airways on the Amsterdam-Nairobi route of its recently-acquired B777-300s equipped with its best product.

Air France has operated its Airbus A380 on Abidjan since the autumn of 2014, inaugurating the first West African destination to be served by this aircraft type.

While applying a strict policy of limited investment, the Group continued to modernize its long-haul fleet. KLM thus operated its last commercial flight in MD-11s in late October 2014 while Air France plans the retirement from revenue service of the Boeing 747s in early 2016. The first Boeing 787 will join the Group's fleet in 2015.

Move up-market for the long-haul product

Within the framework of its strategy of repositioning in line with the industry best-in-class, the Group has intensified its investment in enhancing the travel experience, in particular through major reconfiguration programs for the long-haul cabins.

Having rolled out its new World Business Class cabin on board all its Boeing 747-400s, in 2014 KLM began the operation of its first Boeing 777-200 with fully-renovated cabins: a new World Business Class, a new Economy Class designed by Hella Jongerius and a new in-flight entertainment system. The renovation of all 15 Boeing 777-200s will be finished by the end of 2015, to be followed by the Boeing 777-300s. The customer feedback on these new products is very positive with a virtual doubling in satisfaction scores on the comfort of the Business seat.

At Air France, this ambition has been reflected in the comprehensive redesign of all the cabins, offering everyone a move up-market. The first flight with the new products took place in June 2014. In early 2015, seven aircraft had been equipped and were flying, notably, to New York, Singapore/Jakarta, Shanghai and Tokyo-Haneda. The initial customer feedback on all the routes served shows a very significant improvement in levels of customer satisfaction. For example, the satisfaction score on the comfort of the Business seat has increased by 3.6 points. The refitting of the cabins on 44 Boeing 777s should be completed before the summer of 2017.

The La Première product has also won accolades, with two Skytrax awards for the La Première lounge at Paris-CDG: Best First Class Lounge in the World and Best First Class Food selection (menu by Alain Ducassse).

As of December 31, 2014, 29 of the Group's aircraft had been equipped with the new Business seats and the Group expects 37% of its long-haul fleet to be equipped with the new products by the end of 2015.

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 12 daily flights, the Group offers a high number of frequencies by destination and an extensive range of flight times. The large size of the Group's hubs enables the operation of bigger aircraft like the Boeing 777-300ER and Airbus A380, which are synonymous with the kind of economies of scale that cannot be captured by airlines operating out of smaller hubs.

New initiatives to improve the competitiveness of the hubs

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

At Paris-CDG, the on-going improvement in new airport infrastructures delivered in 2012 by Aéroports de Paris has contributed to operational gains and levels of customer satisfaction. Thanks to new connecting channels, 100% of transfer customers within the "Schengen" zone no longer need to pass through a second security check. The SkyPriority check-in zones have been remodelled to gain rapidity and clarity. Customer satisfaction scores have improved in all segments, reaching their highest level in three years.

Consistent with the targets set within the framework of the Perform 2020 plan, new projects involving all the services at the Paris-CDG hub have been launched, aimed at a sustainable improvement in the hub's economic and operational performance while offering customers a more streamlined and efficient airport experience. These projects put particular emphasis on improving punctuality and adapting customer transit channels in airports, taking advantage of new digital and other technologies. These include upgraded check-in and baggage drop systems, innovative self-service boarding, and a repositioning in customer service with greater attentiveness and increased personalization.

Schiphol airport remains a key partner for KLM and the effectiveness of this partnership plays a vital role in the success of the Amsterdam “mainport”. In 2013, Schiphol and KLM started work on the deployment of a centralized security system for passengers from non-Schengen countries. This project, which significantly changes the organization of the airport and should be finalized in 2015, will be reflected, for example, in an improved security process and a more streamlined customer experience. The organizational change at Schiphol airport is also marked by the upgrading of KLM's long-haul lounge, on which work began in 2014. In addition, KLM will shortly begin the installation of new check-in desks for Premium customers.

2.3.4 Pursuing customer-centric initiatives

In addition to initiatives directed at repositioning the offering and improving the competitiveness of the hubs, the Group is pursuing numerous other customer-focused initiatives.

In 2014, these initiatives aimed at establishing Air France and KLM as their customers' carriers of choice and differentiating them from competitors focused, in particular, on the deployment of products and services ranking amongst the industry best-in-class, and on building closer relationships with customers. All these efforts were supported by a consistent and pro-active communication strategy.

To measure the success of these many initiatives, the Group also reinforced the monitoring of key performance indicators linked to customer satisfaction and, notably, the Net Promoter Score (NPS) measuring both customer satisfaction and the brand image, and the Skytrax surveys for benchmarking with the Group's main competitors. Having been implemented in 2013, as of the first few months, the NPS scores highlighted an improvement in levels of customer satisfaction across the two airlines despite the impact of the Air France pilots' strike. On average for 2014 as a whole, this satisfaction rate stood at 23% for Air France and 36% for KLM. Within the framework of the Skytrax surveys, in 2014 Air France won two awards for the Best First Class Airline Lounge and Best Food Selection in a First Class Lounge. In 2012 and 2013, KLM had received the prize for the best flight crew on intra-European flights.

More choice and control

Thanks to the internet and new mobile technologies, customers have ever-more opportunities to compare offerings and choose those which best meet their needs. *À la carte* purchasing is now a fundamental trend in customer behavior. To respond to this expectation, Air France and KLM are multiplying initiatives enabling customers to personalize and enhance their travel experience, notably through add-on paid-for options giving access to a higher standard of comfort, additional baggage allowance, a more comfortable travel class, improved meal service, etc.

For example, KLM has launched an option introducing greater flexibility in which customers choosing this new service are entitled to change their departure times, dates of travel and even their destinations up to three times until 48 hours before departure.

In 2014, the Group's option catalogue for customers became more exhaustive with new seat choice options, new partnerships, more opportunities to purchase upgrades at the airport or on board, and new personalized services like the pick-up and delivery of luggage at/to passengers' homes. These options now represent a significant additional source of revenue for the Group with online option sales progressing by 48% at Air France in 2014 relative to their 2013 level.

Other innovative offers giving more choice and control to customers were also launched. In the spring of 2014, KLM introduced a new tool on KLM.com to provide passengers with information about their baggage allowances, taking their departure location, destination, flight class and Flying Blue status into account.

In the autumn of 2014, KLM also launched Travel Manager, a tool enabling passengers to nominate an individual to manage their business travel. At the end of 2014, KLM announced the signature of a cooperation agreement with Airbnb. Users of the KLM.com website now have the opportunity to not only book accommodation through Booking.com but also to choose from the accommodation available on Airbnb.

More autonomy and self-service at the airport

The Group has continued to invest in new technologies to improve the customer experience at airports: upgrading the check-in experience, facilitating the baggage drop-off process, boarding, etc.

Launched In 2014, the home-printed bag-tag option enables passengers to save time queuing at the airport. This process is now being rolled out across the Air France and KLM networks.

To streamline and rationalize the check-in process, the Group rolled out new self-service check-in kiosks in its major hub airports, enabling passengers to pay by credit card for excess baggage, an upgrade or a more-comfortable seat. These kiosks have since been equipped with the new contactless NFC payment technology.

KLM was also the first airline to use iBeacon technology to offer transfer passengers a service that guides them to their next boarding gate at Amsterdam-Schiphol. The route to the gate is shown on a map of the airport including the time needed to get there on foot.

Continued digital innovation

In 2014, the Group continued to upgrade its digital organization to make it simpler, more responsive and completely focused on the customer.

In line with the tremendous increase in mobile usage, Air France launched a new version of its application for Smartphones while the mobile site was updated. The innovations include, for example, new booking tools and a "Free time to think" functionality, enabling customers to "lock in" a fare for a 24-hour period at no additional charge before confirming a booking over any channel.

Air France mobile sales have thus increased four-fold while the number of website visits rose by 50% between January 2014 and January 2015. The latest version of the application has been downloaded by 1.5 million customers while some 450,000 people now use the mobile application at least once a month..

Since the spring of 2013 and in partnership with Panasonic Avionics, Air France and KLM have been trialling internet connectivity on board aircraft. A Boeing 777-300 from each company was equipped with a satellite system enabling passengers to hook up to the internet and send SMSs and emails from their WiFi-enabled mobile telephones in return for a flat-rate fee. A portal with free access to live television, news, retail websites and additional entertainment options was subsequently added. The Boeing 787s to be received by the Group as of October 2015 will also be equipped with a broadband connectivity solution.

In parallel, Air France is studying the possibility of offering internet connectivity, live television and video on demand aboard its medium-haul flights. The aim is to launch a pilot project with Orange on two Airbus A320s by Summer 2015. At the end of the trial, the service could be rolled out across the fleet as of 2016.

In 2014, 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. Around 100,000 publications are downloaded each month via this application. Additional options (like books and other forms of entertainment) are being explored for implementation in 2015.

Differentiation via the customer relationship

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. To meet these expectations, Air France-KLM has launched a number of initiatives aimed, notably, at empowering the teams in direct contact with customers. The Group's ambition is to become the leading airline for customer service by 2020.

To build closer relationships with customers and offer them something extra, the KLM Wannagives service enables passengers to surprise a friend or family member at 30,000 feet, the KLM crew presenting them with a beautifully-wrapped gift accompanied by a personal message.

To support these proximity and personalization approaches, Air France and KLM are developing mobile tools to enable a prompt response to information requests from customers. They thus continued to deploy access to iPads for all customer-facing staff: airport-based teams, pilots and cabin crew.

In the event of unforeseen circumstances, the Group has also developed processes to keep passengers informed, propose solutions and assist customers in a pro-active manner. For example, in 2014 KLM introduced a Lost & Found service at Amsterdam-Schiphol in which a dedicated team reunites items forgotten on board aircraft or at the airport with their owners as rapidly as possible.

Lastly, the Group pursued its investment in customer services *via* the social media. Since 2013, Air France has been voted the most socially-devoted Brand in France on Facebook (Social bakers). In May 2014, Air France was the first non-Asian airline to begin engaging with Chinese customers on WeChat in Guangzhou, where the airline has been present on the Sina Weibo network since 2013.

Air France currently offers round-the-clock customer services in nine languages on Facebook, Twitter, WeChat, Sina Weibo and Instagram. For its part, KLM offers customer services in 14 languages and has a presence on LinkedIn, WeChat and SinaWeibo. KLM remains the first airline to offer payment through the social media and to monitor its own service showing actual response times.

A more generous and attractive Flying Blue loyalty program

With nearly 25 million members, over 35 airline partners and more than 100 non-airline partners, Flying Blue is the leading frequent flyer program in Europe. On average, 1.8 million customers join the program each year.

In 2014, the main initiatives were an expansion in the options proposed to members with new credit cards enabling the accumulation of miles, the reorganization of the online store giving members more purchasing options in exchange for their miles: leather goods, jewelry, hotel accommodation, package holidays, car rental, etc. with delivery world-wide.

The program welcomed a new partner, Transavia, on which members can now obtain reward tickets. In 2015, members will also be able to earn miles on their Transavia flights.

With the ambition of becoming customers' airline loyalty program of choice, in 2014 Flying Blue made further strides on customer satisfaction, and was again recognized for its efforts. For the second year running, Flying Blue was voted “Program of the Year” at the “Freddie Awards,” the most prestigious member-generated awards for frequent traveller programs. The program was also recognized as a true leader at the North American "Loyalty 360 Award", winning first prize in the international category.

Pro-active communication

Communication efforts were stepped up to support the Group's numerous initiatives. More than two media events a month were organized, together with four major international events (attended by more than 700 journalists across three continents) in France, China and the United States. These events also targeted the general public via the “Air France, France is in the Air” exhibition showcasing the new long-haul cabins to more than 33,000 visitors in New York, Shanghai and Paris. This communication initiative on the Group's move up-market was covered in 28,500 press articles (3,700 in the traditional media and 24,800 in the social media). The total audience (potential reach) for this social media initiative was estimated at around 343 million people.

In close cooperation with the Corporate Press Office, the media monitoring tools were reinforced and structured by an analytical team. These tools monitor both the results of pro-active communication campaigns by Air France-KLM in more than 80 countries and those of reactive communication across a broad media spectrum. More than 4,000 digital documents (of which more than 500 in the online media and over 3,500 in the social media) are thus analyzed and summarized on a daily basis. These reports enable Corporate Communications, in close cooperation with Air France-KLM's internal stakeholders, to have a clear picture of what is being said about the Group in the media. This monitoring process also plays a crucial role in adapting the communications strategy.

2.3.5 The SkyTeam alliance and strategic partnerships

To meet all the needs of their customers, airlines supplement their offer with 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 numbering 20 airline members at December 31, 2014: 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, Saudia, TAROM, Vietnam Airlines and Xiamen Air. While retaining their separate identities and brands, the airlines work together to offer their customers an extended network and global services. Garuda Indonesia joined SkyTeam in March 2014.

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

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

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

Belonging to SkyTeam strengthens the reputation of the airlines by enabling them to extend their offer to all world regions, 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 177 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 612 million annual passengers a seamless travel experience on flights with one or several airline members or in one of 516 airport lounges.

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

The 199 million passengers who are members of the frequent flyer programs earn air miles on all SkyTeam flights that can be redeemed with several member airlines during the same journey. In 2012, the SkyTeam airlines rolled out a new ground services offer exclusively for their most loyal customers: SkyPriority, deployed in more than 900 airports.

Strategic partnerships

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 (Alitalia-CAI), and, secondly, a commercial and industrial partnership between Air France-KLM and Alitalia.

In connection with the investment by Etihad Airways in the capital of Alitalia (as announced in August 2014, and completed in December 2014), Alitalia realized two capital increases on July 25 and August 8, 2014, following which the Air France-KLM shareholding in Alitalia-CAI was reduced from 7.08% to 1.11% at the end of 2014, leading to Air France-KLM losing its representative on the Alitalia-CAI Board of Directors. Furthermore, since December 2014, Alitalia-CAI has launched a restructuring process resulting, principally, in the transfer of its activity to Alitalia-Societa Aerea Italiana (Alitalia-SAI), a newly incorporated entity. Alitalia-CAI holds 51% of the shares in the capital of Alitalia-SAI, with the remaining 49% being held by Etihad Airways.

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

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

Chinese joint-ventures

Air France and KLM have signed joint-venture agreements with two of the three largest Chinese airlines: in 2010 with China Southern offering the most extensive domestic network at its Canton and Beijing hubs and, 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 more than €800 million in 2014.

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, while Air France and KLM use their codes on 20 destinations beyond Abu Dhabi.

Strategic partnership with GOL

In February 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. Within the framework of this agreement, in April 2014 Air France launched the Paris-Brasilia service which benefits from numerous onward connections in Brasilia. This partnership also foresees reinforced cooperation in aircraft maintenance.

2.3.6 Activity during the financial year

The "passenger" business mostly corresponds to the air transportation of the Group's passengers under the Air France, KLM and HOP! brands. The low-cost operations under the Transavia brand are booked in the "Other businesses" segment. CityJet and its VLM subsidiary having been sold in April 2014, they were treated as a discontinued activity in the 2013 financial statements, and thus do not figure in the following tables.

In 2014, this business benefited from the pursuit of the Transform 2015 plan reflected, notably, in strict capacity discipline, a restructuring of the point-to-point operations and a reduction in unit costs. In addition to the lack of dynamism for the European economies, this business was also impacted, particularly during the second half, by industry overcapacity in some parts of the long-haul network which weighed on unit revenues. Lastly, the fourteen-day strike by Air France pilots in September had a significantly negative impact on the third quarter results from this business and, to a lesser extent, the fourth quarter.

As far as possible, the like-for-like changes have been estimated excluding the impact of this strike and on a constant currency basis, and have been restated for one-offs recorded in the fourth quarter. The fourth quarter financial statements effectively included exceptional items amounting to a net positive of €48 million: in its revenues, the Group recognized an unusually high level of revenues on tickets that had been issued but will never be used, some €100 million higher than in the 2013 fourth quarter. Since this non-recurring variation makes the underlying trends more difficult to read, it has been removed from the like-for-like computations. €52 million of exceptional provisions were also booked, principally on the fleet. Lastly, all the 2013 activity figures mentioned below take into account the adjustments recorded in the December 2014 traffic press release.

Key figures for the passenger business

Financial year	2014	2013*	Actual change	Like-for-like change**
Number of passengers *(in thousands)*	77,450	77,328	+0.2%	-
Capacity *(in ASK million)*	270,789	272,416	-0.6%	+1.0%
Traffic *(in RPK million)*	229,347	228,313	+0.5%	-
Load factor	84.7%	83.8%	+0.9 pt	-
Total passenger revenues *(in €m)*	19,570	20,112	-2.7%	-
Total passenger revenues excluding strike impact *(in €m)*	20,021	20,112	-0.5%	+0.3%
Scheduled passenger revenues *(in €m)*	18,695	19,200	-2.6%	+0.4%
Unit revenue per ASK *(in € cents)*	6.90	7.05	-2.0%	-0.6%
Unit revenue per RPK *(in € cents)*	8.15	8.41	-3.1%	-
Unit cost per ASK *(In € cents)*	**6.93**	**6.98**	**-0.7%**	**-1.7%**
Income/(loss) from current operations *(in €m)*	**(83)**	**174**	**-257**	**-**
Income/(loss) from current operations excluding strike *(in €m)*	**289**	**174**	**+115**	**+208**

* *Restated for IRFIC 21. CityJet reclassified as discontinued operation, and restated for change in revenue allocation (€24 million transferred from "other passenger" to "scheduled passenger" revenues in FY 2013).*

** *Like-for-like: excluding currency, pilot strike impact and Q4 2014 one-offs.*

Full year 2014 total passenger revenues stood at €19,570 million, down by 2.7%. Adjusted for the impact of the strike, revenues stood at €20,201 million, down 0.5% but up by 0.3% like-for-like. The operating result of the passenger business stood at a loss of €83 million, versus income of €174 million over the full year 2013. Adjusted for the strike impact, the operating result would have amounted to €289 million, an increase of €115 million. Like-for-like, the operating result improved by €208 million.

The Group maintained its strict capacity discipline, increasing total passenger capacity by only 1.0% excluding the impact of the pilots' strike. Unit revenue per available seat-kilometer (RASK) remained volatile, down by 0.6% like-for-like over the full year. In the first half, the RASK was up by +0.5% like-for-like, but decreased in the second half, falling by 1.8% in Q3 and by 1.1% in Q4.

In medium haul, traffic increased by 1.3%, accompanied by a 1.3% reduction in capacity realized within the framework of the restructuring of this activity. The load factor thus gained 2.0 points to 78.8%. The unit revenue per available seat-kilometer (RASK) progressed by 1.6% like-for-like.

In long haul, traffic increased by 2.3% for capacity up by 1.6%. Capacity growth covered especially Latin America (+7%) while capacity on the Asia/Pacific routes was reduced by 0.4%. The load factor increased by 0.6 points to 86.3%. The RASK declined by 0.3% like-for-like (-1.7% reported).

During the first half, the Group's capacity increased by 1.2% and traffic by 2.5%, the load factor gaining 1.0 point to 83.8%. The unit revenue per available seat-kilometer was down by 1.8% and was in positive territory (+0.5%) on a constant currency basis. Total revenues for the passenger business amounted to €9.48 billion, down by 1.0% and up by 1.4% on a constant currency basis. The operating loss stood at €123 million, an improvement of €228 million on the previous year.

In the second half, the Group's capacity was up by 0.8% while traffic rose by 1.7%, the load factor gaining 0.8 points to 85.5%. The unit revenue per available seat-kilometer was down by 1.6%. On a constant currency basis, the unit revenue per ASK was down by 1.4%. The operating result was positive to the tune of €78 million, a deterioration of €441 million relative to the previous year, principally due to the pilots' strike.

The Group's long-haul network is organized around the dual Paris-CDG and Amsterdam-Schiphol hubs. The proportion of overall capacity represented by the long-haul network increased by one point relative to the previous year, under the effect of a reduction in medium-haul capacity. It represents 81% of traffic and 80% of capacity.

Scheduled long-haul passenger revenues stood at €12.8 billion, a rise of 1.3% like-for-like (-0.2% reported). On a constant currency basis, the unit revenue fell by 0.3%, driven by premium class (+3%) while it was lower in economy (-0.9%). The respective contributions of the different long-haul networks did not change significantly relative to the previous financial year.

➤ Key figures by network*

	Capacity in ASK *(In million)*		Traffic in RPK *(In million)*		Load factor *(In %)*		No. of passengers *(In thousands)*		Scheduled passenger revenues *(In € million)*	
Destination region	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
North America	57,654	57,076	50,728	50,381	88.0%	88.3%	7,182	7,137	3,593	3,611
Latin America	31,847	30,255	27,788	26,813	87.3%	88.6%	2,885	2,759	1,700	1,760
Asia/Pacific	61,933	63,134	53,580	54,006	86.5%	85.5%	6,092	6,095	3,241	3,430
Africa/Middle East	35,752	36,233	28,941	29,066	80.9%	80.2%	5,612	5,218	2,497	2,568
Caribbean/Indian Ocean	28,206	28,689	24,648	24,252	87.4%	84.5%	3,394	3,347	1,425	1,429
Total long haul	**215,392**	**215,387**	**185,685**	**184,518**	**85.6%**	**85.7%**	**25,164**	**24,556**	**12,769**	**12,797**
Medium haul	**55,398**	**57,032**	**43,662**	**43,799**	**78.8%**	**76.8%**	**52,736**	**52,720**	**6,240**	**6,403**
Total	**270,789**	**272,416**	**229,347**	**228,316**	**84.7%**	**83.8%**	**77,450**	**77,276**	**18,695**	**19,200**

* *Not restated for the strike.*

The **Asia-Pacific** network is the Group's first network with 23% of traffic and capacity. The Group carried 6.1 million passengers (-0.1% like-for-like) to these destinations. Traffic declined by 0.8% for a 1.9% reduction in capacity, the load factor gaining one point to 86.5%. Unit revenue declined by 0.5% like-for-like. Revenues from this network amounted to €3.24 billion (-0.9% like-for-like).

The **North American** network is the Group's second network with 22% of traffic and 21% of capacity. The Group carried 7.2 million passengers (+0.6%) 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 (+1.0%). Traffic increased by 0.7% and the load factor was slightly lower (-0.3 points) at 88.0%. Unit revenue increased by 1.0% like-for-like. Revenues amounted to €3.59 billion (+3.9% like-for-like).

The **Africa-Middle East** network represents 13% of traffic and capacity. The Group carried 5.1 million passengers (+1.1%) to these destinations. The overall capacity for this network was down by 1.3% for a modest fall in traffic (-0.4%). The load factor rose by 0.7 points to 80.9%. Unit revenue rose by 1.0% like-for-like. Revenues stood at €2.49 billion, up by 0.9% like-for-like.

The **Latin American** network experienced rapid growth in 2014, representing 12% of traffic and capacity. The Group carried 2.9 million passengers on these destinations (+4.6%). Traffic increased by 3.6% and capacity by 5.3%, the load factor declining by 1.3 points to 87.3%. Unit revenue increased by 6.2% like-for-like. Revenues amounted to €1.7 billion, a 0.4% increase like-for-like.

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 1.4%. Traffic was up (+1.6%) despite the reduction in capacity (-1.7%), the load factor gaining 2.9 points to 87.4%. Unit revenue increased by 2.3% like-for-like. Revenues stood at €1.45 billion, growth of 1.8% like-for-like.

The impact of Transform 2015 was most apparent in the **medium-haul** network, whose restructuring is one of the plan's major objectives. While capacity only declined by 2.9% and its weight in overall capacity by a single point, this was due to Transform 2015 having fairly different impacts on the segments of this network. Productivity gains and cabin refitting enabled capacity to rise by 6.3% at the Amsterdam hub, while productivity gains were combined with a reduction in the fleet at the Paris-CDG hub, implying a slight reduction in capacity (-1.6%). Capacity was notably significantly reduced on the point-to-point routes excluding the hubs: the 13.5% reduction was principally due to the adjustment in capacity at the provincial bases and the capacity reduction for the regional subsidiaries within the framework of the launch of HOP!. Traffic responded well to these adaptations, growing by 1.3% for a 1.3% reduction in overall capacity like-for-like, the load factor gaining 2.0 points to 78.8%. The unit revenue increased by 1.6% like-for-llike (+1.0% reported). Revenues amounted to €6.24 billion, up by 0.3% like-for-like (-0.2% reported).

(See also Section 2.2.2– Strategy, Transform 2015 plan, page 48).

2.4 Cargo business

The cargo business is the second of the Group's activities, generating revenues of €2.7 billion which contributed 10.8% 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.

2.4.1 Business environment

2014: growth recovery for the global cargo business

In 2014, the global economic backdrop showed considerable variation but the overall environment for global air freight proved supportive, with growth (expressed in Revenue Ton-Kilometers) of 4.8% relative to 2013, a significant acceleration from the low 1.2% growth experienced in 2013 (-0.6% in 2011 and -1.9% in 2012).

Most of this growth was, however, localized in the Asia-Pacific and Middle Eastern regions, which contributed a respective 46% and 29% of the increase (expressed in RTKs).

Overall capacity rose by 4.2% and the international load factor saw only a marginal 0.2-point increase to 49.2% (49.0% in 2013, 49.5% in 2012 and 50.8% in 2011).

Over the same period, the volume of world trade grew by around 3.2% versus 2.7% in 2013 *(source: CPB Netherlands)*.

Regional differences still very marked

In 2014, after a decline of 1.0% in 2013, the **Asia-Pacific** carriers saw traffic growth of 5.4%. Freight volumes benefitted from increased import demand in addition to robust manufacturing output, with particularly strong contributions from the Japanese and Chinese markets. Overall capacity expanded by 5.7% leading to a slight fall in load factor to 55.4%, which remains the highest of any region.

The **North American** airlines reported cargo volume growth of 2.4% following a 0.4% decline in 2013. After a beginning of the year negatively impacted by adverse weather conditions, growth then accelerated. Carriers in this region scaled back capacity by 0.5% in 2014, driving an increase in load factor which nonetheless remained low at 35.3%.

The **European** airlines saw traffic increase by 2.0% in 2014 (after 1.8% in 2013). With capacity increasing by 3.0%, the load factor declined, impacted by the lack of dynamism in the Euro zone and economic sanctions in Russia.

The **Middle Eastern** carriers enjoyed the strongest traffic growth of any region, with traffic increasing by 11.0% (+12.8% in 2013) in line with capacity growth of 11.1%. The Middle East is in the process of becoming a major hub for global air freight, having contributed more than 37% of worldwide cargo capacity growth in 2014.

The **Latin American** airlines saw their cargo volumes fall by 4.5% in December 2014. Latin America was the only region to post a decline, with demand being impacted by the economic slowdown particularly in Brazil and Argentina. For the year as a whole, these carriers saw traffic growth of 0.1% for a 0.3% increase in capacity.

The **African carriers** saw air freight volume growth of 6.7% for 2014 as a whole after a 1.0% increase in 2013. Despite the underperformance of several major economies like Nigeria and South Africa, regional trade performed well, underpinning demand for air freight transportation. Capacity rose by just 0.9%, resulting in an increase in load factor.

For the past decade, traffic growth has been heavily concentrated on a few carriers: the Gulf State airlines and the Chinese carriers. In 2014, amongst the largest carriers, China Southern, followed by Qatar Airways, Air China and Etihad, enjoyed the strongest growth. In Europe, Cargolux continued its growth. Emirates confirmed its leadership position in terms of cargo transported while the Lufthansa Group retained its number two position, followed by Cathay Pacific and Air France-KLM.

Following a reduction in the global full-freighter fleet during 2013, the number of full-freighters in revenue service increased in 2014. Thirty-three new full-freighters were delivered (41 in 2013): 28 Boeings (14 B747-8Fs, nine B777Fs and five B767-3Fs for Fedex) and five Airbus A330Fs. No aircraft were converted into full-freighters in 2014 compared with eight aircraft in 2013. The operators continued to withdraw the traditional B747s, MD-11s and the old B747-400BCF/BSFs.

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

Most of the air freight carriers are facing difficult economic situations but their responses have differed with some players reducing their fleets or divesting parts of their activity (Polet Airlines, Centurion Air Cargo, Air France-KLM) while others have modernized their fleets (Cargolux, Lufthansa).

2.4.2 Strategic repositioning of the cargo business

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

Air France-KLM Cargo remains a significant European and world-wide player with a market share of 5.6% in RTK for 2014, down by 0.4 of a point relative to 2013. 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 more than 9.8 billion Revenue Ton-Kilometers of which 70% in the bellies of passenger aircraft and 30% in the dedicated full-freighter fleet, to a network of 231 destinations in 103 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 is the number two European air cargo hub while Amsterdam-Schiphol ranks number three.

The organization of the business is fully integrated, enabling the Group to offer its customers a single contact point, a single contract and a 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 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 1,000 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 24% of the capacity available on this network: reinforced coordination of commercial strategies, increased integration of sales forces (colocation of the sales and revenue management teams, etc.).

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.

In the very difficult context prevailing during 2013 and 2014, this positioning was reinforced by new measures launched within the framework of the Transform 2015 plan.

For the past four years, Air France-KLM Cargo has thus been implementing an **extensive 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.

A significant reduction in full-freighter capacity: in 2014, the Group's full-freighter capacity was sharply reduced within the framework of Transform 2015, resulting in a total reduction of 23% in full-freighter capacity between 2011 and 2014. In addition, the Group has decided to further reduce the number of full-freighter aircraft between 2015 and 2017, planning the gradual retirement of the MD11Fs based in Amsterdam in view of their age and operating costs. These additional measures are part of the new Perform 2020 plan, foreseeing a further capacity reduction of 47% between 2014 and 2017, with only two full-freighter aircraft based at Paris-CDG and three full-freighters at Amsterdam-Schiphol in 2017. On the other hand, belly capacity will continue its growth in line with the growth in passenger capacity. Thus, excluding the strike, belly capacity would have risen by 1.3% in 2014 after +1.3% in 2013. The bellies of passenger aircraft thus accounted for 73% of total capacity in 2014 compared with 54% in 2007-08. By 2017, this figure should exceed 85%.

Strict control over costs: in 2014, under the impact of the Transform 2015 plan, staff costs were significantly reduced thanks to increased recourse to subcontracting (Orly warehouse, regional stations) and the Voluntary Departure Plan in France. Cargo headcount was reduced by 5.2% over the course of the 2014 financial year. With the Perform 2020 plan, cargo overstaffing should again decline with further headcount reduction measures and a major improvement to processes in the Netherlands.

In addition to the reduction in full-freighter capacity, all the efforts launched by the Group enabled a 1.9% (like-for-like) reduction in unit costs in 2014. The cargo business was thus able to reduce its losses despite the marked deterioration in unit revenues (-0.9% like-for-like).

A new commercial strategy: in 2013 and 2014, the new commercial strategy was rolled out worldwide to improve commercial efficiency, adapt to market conditions, satisfy customers with more effective contractual terms, adapt customer segmentation, implement a reinforced large-account structure reflecting the organization of the Group's customers and, lastly, rationalize and simplify the product portfolio.

Thanks to all these efforts launched by the Group, the cargo business has succeeded in reducing its losses despite the marked deterioration in unit revenues (-3.4% like-for-like).

In 2015, the Group will launch Cargobus, a unique reservation and commercial inventory tool which will enable greater sales force efficiency, an increase in revenues, an improvement in customer satisfaction and the reinforcement of the multi-hub strategy.

The Perform 2020 plan foresees additional commercial initiatives like the development of niche markets and a customer offering with more value added within the framework of the "Freight Made Personal" program.

Thanks to all these measures, the Group has set itself a target of a return to breakeven for the full-freighter activity by 2017 compared with losses of €110 million in 2013 and €95 million in 2014 (excluding the pilots' strike). If there is no improvement in the profitability of this business, the Group remains ready to consider additional measures.

2.4.3 Activity during the financial year

As in previous years, in 2014 air freight was affected by the weakness in trade flows from/to Europe and by the situation of structural industry overcapacity. As with the passenger business, the Air France pilots' strike in September significantly affected the third quarter results in this business. As far as possible, the like-for-like changes have been estimated excluding the impact of this strike and currency effects, and restated for exceptional items recorded in the 2014 fourth quarter (see page 61 for the detail on the exceptional items).

➤ Key figures for the cargo business

Financial year	2014	2013	Actual change	Like-for-like change*
Tonnage transported *(in thousands)*	1,302	1,341	-2.9%	-
Capacity *(in millions of ATK)*	15,608	15,972	-2.3%	-0.9%
Traffic *(in millions of RTK)*	9,843	10,089	-2.4%	-
Load factor	63.1%	63.2%	-0.1 pt	-
Total cargo revenues *(in €m)*	2,681	2,816	-4.8%	-
Total cargo revenues excluding the strike *(in €m)*	2,725	2,816	-3.2%	-2.4%
Freight transport revenues *(in €m)*	2,509	2,619	-4.2%	-1.8%
Unit revenue per ATK *(in € cents)*	16.08	16.40	-2.0%	-0.9%
Unit revenue per RTK *(in € cents)*	25.49	25.96	-1.8%	-
Unit cost per ATK *(in € cents)*	17.43	17.66	-1.3%	-1.9%
Income/(loss) from current operations *(in €m)*	**(212)**	**(202)**	**-10**	**-**
Income/(loss) from current operations excluding the strike *(in €m)*	**(188)**	**(202)**	**+14**	**+33**

** *Like-for-like: excluding currency, pilot strike impact and Q4 2014 one-offs.*

The Group continued restructuring its cargo activity to adapt to the weakness in trading flows from/to Europe and structural air cargo industry overcapacity. During **full year 2014**, full-freighter capacity was reduced by more than 7%, leading to a 0.9% decrease in total capacity. Unit revenue per available ton-kilometer (RATK) was nevertheless down by 0.9% like-for-like leading to a further decrease in full year revenues, down by 2.4% like-for-like.

Thanks to the good performance on unit costs, the operating result improved by €33 million like-for-like, although this business remained loss-making (€188 million loss excluding strike impact).

Within the framework of Perform 2020, the Group willl phase out nine full-freighters and plans to operate only five full-freighters by the end of 2016. This reduction should enable the full-freighter business to return to operating break-even in 2017 (versus a loss of €95 million in 2014, excluding the pilots' strike).

Full-freighter capacity was reduced during the **first half** (-7.2%), underpinning a 1.5% reduction in overall capacity. Traffic remained stable implying a one point increase in load factor (64.0%). Revenues for this business reached €1.34 billion, down by 1.6% like-for-like (-4.3% reported). The unit revenue per available ton-kilometer (RATK) remained stable like-for-like (-2.7% reported). Thanks to cost-saving efforts, the Group succeeded in reducing its operating losses by 21%, posting an operating loss of €79 million.

In addition to a substantial currency effect, the **second half** was marked by an even greater decline in unit revenues. Despite the continued reduction in full-freighter capacity (-8.3%), overall capacity was down by only 3.0%. Traffic declined by 4.8% and the load factor lost 1.1 points to 62.2%. Revenues reached €1.3 billion, down by 3.2% like-for-like (-5.2% reported). The decline in the unit cost per ATK (-0.1% like-for-like, but -1.4% reported) did not enable a reduction in operating losses, which amounted to €(133) million.

➤ Key figures by network

	Capacity in ATK *(In million)*		Traffic in RTK *(In million)*		Load factor *(In %)*		No.of tons *(In thousands)*		Cargo transportation revenues *(In € million)*	
Destination region	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Europe	539	527	65	67	12.0	12.6	46	48	50	51
Americas	6,608	6,671	4,135	4,149	62.6	62.2	512	511	1,010	1,053
Asia/Pacific	4,778	4,980	3,706	3,890	77.6	78.1	435	468	826	849
Africa/Middle East	2,617	2,706	1,528	1,568	58.4	57.9	256	260	484	524
Caribbean/Indian Ocean	1,066	1,088	409	415	38.4	38.2	54	55	139	142
Total	**15,608**	**15,972**	**9,843**	**10,089**	**63.1**	**63.2**	**1,303**	**1,341**	**2,509**	**2,619**

As the Group's premier cargo network, the **Americas** represent 42% of capacity, 42% of traffic and 40% of cargo transportation revenues. Over the year, traffic experienced a slight 0.3% decline for a 0.9% capacity reduction, the load factor gaining 0.4 points to 62.6%. Revenues amounted to €1.01 billion (-4.1%).

The **Asia-Pacific** network accounts for 31% of capacity and 38% of traffic. It was on this network that the Group reduced its capacity most markedly (-4.1%). The decline in traffic was similar in proportion (-4.7%) and the load factor declined slightly (-0.5%) to 77.6%. Revenues stood at €826 million (-2.7%).

Africa-Middle East is the Group's third network with 17% of capacity and 16% of traffic. Traffic fell by 2.6% and capacity by 3.3%, the load factor gaining 0.5 points to 58.4%. Revenues declined by 7.6% to €484 million.

The **Caribbean-Indian Ocean** network represents 7% of capacity but only 4% of traffic. Traffic declined (-1.4%) by less than capacity (-2.0%), taking the load factor to 38.4% (+0.2 of a point). Revenues amounted to €139 million (-2.1%).

2.5 Maintenance business

Aircraft maintenance is the Air France-KLM Group's third business line, generating third-party revenues of around €1.3 billion, *i.e.* some 5% of the Group's total revenues. These revenues generated with third-party clients account for a little over one third of total maintenance revenues. In 2014, the AFI KLM E&M order book saw strong growth to €5.6 billion, a 28% increase over the year, and 70% relative to its level at the launch of the Transform 2015 plan (December 31, 2011).

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

The Group operates in three major maintenance segments: airframe maintenance, engine maintenance and 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 refitting of cabins.

2.5.1 Business environment

An attractive market despite the growing constraints

The global MRO market which comprises the maintenance and modification spending by aircraft operators, either directly or through sub-contractors, is estimated to have amounted to US$63 billion in 2014 *(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 new-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 scale effects 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 maintenance service providers seeking to exercise 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.

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

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

This strategy is two-pronged: firstly, cutting costs and maintaining a high level 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, Orly.

The Transform 2015 dynamic

For AFI KLM E&M, the Transform 2015 plan enabled the adaptation and growth momentum to be stepped up. At the end of the plan, the Group's maintenance unit costs had been reduced to 93.5 points (including inflation) compared with a base of 100 in 2011. At the same time, Transform 2015 was reflected in the on-going development of the global network aimed at increased levels of performance to the benefit of AFK KLM E&M clients. Lastly, a new organization was implemented to reinforce, notably, the efficiency of the product-based management of the business.

In aircraft maintenance, adaptation projects continued to speed up the recovery in competitiveness in this segment. Cost-saving initiatives were based on optimizing activity site-by-site, strengthening external partnerships and the deployment of more efficient working structures. All this was accompanied by efforts to match resources to the level of business activity and build new career paths.

Three strategies support the growth in the Engines and Components segments: the ability to finance long-term growth in these profitable businesses, positioning on products and services aligned with market expectations, and the development of a global MRO network located close to regions with significant potential, as was the case, for example, with the acquisition of Barfield in 2014.

Lastly, the AFI KLM E&M teams stepped up preparations for the arrival, during 2015, of the Boeing 787 in the Group's fleets.

This dynamic was reflected in the Group being voted "MRO of the Year 2014" by trade publication Airline Economics.

Contributing to flight safety programs and participating in 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 2014, 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 analysing 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 2014, AFI KLM E&M also launched a volunteer-driven oversight system known as MLOSA (Maintenance Line Operations Safety Assessment). Consisting of a front-line campaign by a network of observers, this procedure enables the identification and reporting of high-risk situations relating to Flight Safety.

Airframe maintenance: serving airlines

Line Operations Support

Within the framework of Transform 2015, the line operations support activities implemented new modus operandi designed to significantly bolster competitiveness in this segment. While consistency was maintained at target level, based on Paris-CDG a number of Operating Performance indicators declined relative to 2013, due to the transition to the new modes of functioning.

Heavy Aircraft Maintenance

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

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, Paris-Orly, Toulouse). It was within this framework that AFI KLM E&M inaugurated an AWACS facility at Roissy in April 2014, enabling a modernized infrastructure proposition for this activity which was formerly based at Le Bourget.

In Amsterdam, in-depth work was 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 exchange, additional work in the high-growth Engines and Components segments.

As a complement to the facilities in Amsterdam, Paris and Toulouse, the Casablanca (ATI) and Norwich (KLM UK Engineering) based aircraft maintenance centers expanded their capabilities to the A320 and Boeing 737 families, enabling the Group to offer competitively-priced airframe maintenance solutions and proximity to operators in Europe, the Middle East and Africa. KLM UK Engineering also opened an aircraft disassembly and recycling center in Norwich during 2014. This is one of the first aircraft recycling centers in Europe.

Aerostructures

At the end of June 2014, AFI KLM E&M broke ground for Hélios, its new aerostructures center of excellence at Paris-CDG. As of 2015, this new 18,500 m^2 workshop will regroup, in a modern building, the activities hitherto realized at Le Bourget. AFI KLM E&M's aim is to reduce handling time, and increase its competeveness and market shares in composite products. Between 250 and 300 highly-qualified staff will be employed at this site. This project contributes to optimizing AFI KLM E&M's industrial base by regrouping at Paris-CDG all the activities in the northern Ile de France.

In accordance with this aerostructures ambition, AFI KLM E&M extended its maintenance offer to 787 nacelles in December 2014.

Modifications

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

Thus, having designed and launched the installation of KLM's new "World Business Class" in 2013, AFI KLM E&M began the mid-life cabin modernization on KLM's 777s in 2014.

In 2014, the move up-market for the Air France in-flight product was reflected in the delivery of the first 777 cabins modified within the framework of the Best & Beyond program. Designed by the AFI KLM E&M engineering teams, this modification aims to position the Air France product in line with the best international standards.

The year was also marked by the February delivery of the first French Air Force AWACS aircraft, modified within the framework of their mid-life modernization program.

Component Support: a service activity *par excellence*

Component Support covers the repair of a broad technological spectrum of aircraft parts, the management of technical and reliability standards and 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.

The success of these offerings is reflected in the loyalty of AFI KLM E&M clients. In 2014, a number of airline clients renewed their confidence by prolonging their contracts with AFI KLM E&M. This was the case, notably, with the Canadian carrier Sunwing Airlines for equipment support on its four new Boeing 737-800s, and with Royal Jordanian, a partner for the past ten years, which renewed an equipment support contract with AFI KLM E&M covering all its A320s.

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 2014 with, notably, the acquisition of Barfield, a brand leader in the aeronautics maintenance market in the Americas region, offering services ranging from repairs to flight-hour solutions including spares support, the design of test equipment and the distribution of spare parts. The development of the network was also marked by the expansion to the United States of the AAF Spares joint-venture, specialized in asset management, and by the ramp-up of the Chinese subsidiary dedicated to component support.

The validity of this development strategy for the global network was notably proven by the signature, with the LATAM Airlines Group, of the largest component support contract ever signed by AFI KLM E&M, covering the support of the Latin American carrier's Boeing 767, 777 and 787 aircraft. This contract is based on the Group's industrial facilities in Amsterdam, Paris and Miami.

AFI KLM E&M reinforced its overall leadership position in component support for the Boeing 787 with the signature, during 2014, of several contracts with major airlines, like Virgin Atlantic.

On Boeing 777 equipment support, AFI KLM E&M and Boeing announced the renewal of their partnership enabling the offer of a common component support program under the Customer Services Program brand.

In 2014, AFI KLM E&M was named "Best Component MRO" by Aircraft Technology Engineering & Maintenance magazine and best "Source of Repair" by the NATO Support Agency (NSPA).

Engines: Very Big Engines (VBE) maintenance capacity further expanded

The Engines business expanded its portfolio in 2014 with the GEnx and the PW400-94. In December 2014, AFI KLM E&M thus carried out a first "Quick Turn" check on the GEnx-1B. During the year, the order book for the engines business again saw strong growth under the effect, notably, of the GE90 support contract secured with Air China, the largest signed by AFI KLM E&N to date.

AFI KLM E&M was also chosen by Safran to carry out development tests on the **LEAP** engine, destined to equip the new generation of medium-haul aircraft (A320neo, 737MAX, Comac C919). These tests are carried out on AFI KLM E&M's Phoenix Engine Test Bench at Paris-CDG.

The Group offers engine support on the following engines:

- **CFM56:** the Group's workshops support the world's largest fleet 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 CFM56-5B support requirements.
- **CF6:** by offering full-service maintenance at its Amsterdam engine shop, AFI KLM E&M is well positioned to support the final phase in the life of the CF6-80C. AFI KLM E&M's long maintenance track record with these engines means that, currently, it can offer the most suitable maintenance solutions. The progressive retirement from the fleet of the Group's 747-400 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' fleets.

- **GE90:** AFI KLM E&M offers the main alternative to the engine manufacturer itself for overhauls to this Very Big Engine (VBE) on the strength of its state-of-the-art infrastructure. Since 2012, AFI KLM E&M has had a new engine test cell at Paris-CDG. This system can test up to 300 engines per year, reducing processing time and offering a more cost-effective service for clients. This facility has enabled AFI KLM E&M to attract the interest of a growing number of airlines including LATAM, Philippines Airlines and Vietnam Airlines, and has seen Air Canada extend the scope of its GE90 engine support contract. More recently AFI KLM E&M has also signed major new long-term contracts with Aeroflot and Air China, 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. This includes, for example, the GE90 Engine Monitoring offering, designed to detect new technical problems upstream and implement both preventive and remedial action at an early stage.
- **GP7200:** in 2013, AFI KLM E&M implemented an investment program and carried out staff training as part of its plans to offer GP7200 maintenance services. The Group can also rely on its CRMA subsidiary in this respect since it is very well-placed on this engine as a Primary Repair Source identified by the manufacturer, Engine Alliance. CRMA has become a world leader in the repair of engine combustion chambers and turbine center frames (TCF), with cutting edge technologies. In 2014, AFI KLM E&M developed its Quick Turn capability and the first workshop checks are planned for 2015.
- **GEnx:** in 2014 Air France-KLM chose the GE engine to equip its Boeing 787 fleet. In parallel, AFI KLM E&M became a partner of the GEnx GBSA network. The ramp-up of this capacity was realized in less than six months, currently making AFI KLM E&M the leading non-OEM supplier to realize Quick Turn checks on this engine.
- **PW4000:** in 2014, the Bonus joint-venture in Miami carried out the first PW4000-94 checks.

In 2014, the Elancourt and Amsterdam repair facilities developed and ramped up new repair services to add to their existing capabilities. Thanks to the increased use of second-hand equipment, AFI KLM E&M has also been able to reduce its clients' maintenance costs on mature products like the CF6, CFM and PW4000.

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 and AMG) and partnerships (AMES, ATI, Spairliners, MAX MRO Services, AAF Spares), and leveraging the power of its global logistics network. The development of this MRO network is one of the objectives of the Transform 2015 plan. It guarantees AFI KLM E&M clients local access to the Group's full array of services, tailored solutions and local spare parts inventories.

In component support, the 2014 acquisition of Barfield, an FAA and EASA Certified Repair Station offering maintenance services to major passenger, cargo and regional airlines, enabled the Group to significantly reinforce AFI KLM E&M's presence in the Americas region.

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 new-generation GE90 and GP7200 products enabled CRMA to pursue the strong growth in its third-party client activity in 2014, building on the progress made in previous years. New capabilities were launched within CRMA like *ad hoc* repair for the Fan Hub Frame on the GE90 and GP7200 Inner/Outer Liners.

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.

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. To focus activity on its core business, at the end of 2014 AMG sold its pipe manufacturing and distribution business (AirPro brand).

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 Airbus A320 and Boeing 737 avionics systems.

EPCOR, based at Amsterdam-Schiphol, provides state-of-the-art services in Auxiliary Power Unit (APU) maintenance. In 2014, EPCOR extended its offering to the APS 500 equipping the Boeing 787, and now delivers maintenance services on this product to major airlines like Air Canada.

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 Airbus A380 and, since 2012, Embraer E-Jets.

Aerostructures

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 the medium-haul A320 and Boeing 737 aircraft.

At Norwich International Airport in the UK, **KLM UK Engineering Limited** delivers maintenance services for narrow-body and regional aircraft. In 2013, in addition to its maintenance activities for Boeing 737s, KLM UK Engineering extended its maintenance capabilities to aircraft in the Airbus A320 family, but also to aircraft disassembly.

2.5.3 An approach directed at generating sustainable levels of performance

AFI KLM E&M also contributes to the Group's Corporate Social Responsibility (CSR) results. By embedding the Sustainable Development dimension in its day-to-day projects and actions, the division can identity its goals more effectively, anticipate their impacts and share them with stakeholders, thereby raising levels of financial, social and environmental performance.

Innovation to enhance levels of service performance and increase customer satisfaction

AFI KLM E&M personnel have a strong culture of innovation. Each year, the quality and quantity of ideas submitted within the framework of the Quality Innovation and MoonShine programs remains remarkable. Inventiveness combined with simplicity shows that everything is perfectible: from improving services to shortening Turn Around Times (availability of the aircraft, engine and components) to acting on ideas to reduce the number of accidents in the workplace. Everything converges towards an on-going improvement in levels of day-to-day performance.

AFI KLM E&M is constantly factoring technological innovations into its solutions to the benefit of clients. At the 2014 Innovation Trophies awards ceremony, a dedicated exhibition enabled the presentation of all the new technologies to employees, opening up a whole array of applications.

In 2015, AFI KLM E&M plans to further its innovation momentum by rolling out an organization devoted to innovation supported by representatives in each of its operational units. This ambitious program aims to increase client recognition of the Group's status as the MRO leader for innovation.

Environmental performance generating savings

In 2014, to reduce its environmental footprint, Air France set itself a target of reducing its energy consumption by 8%.The AFI KLM E&M operations require extensive real estate including a fleet of hangars, offices and multiple-site facilities, scaled to meet the maintenance needs of clients.

Air France Industries thus deployed an "energy performance contract" with its multi-technical service provider for the 2013/14 winter, aimed at reducing heating consumption by 12.5%, measured in constant Degree Days Unified. The reduction obtained over this season amounted to around 30%, *i.e.* more than double the target set for the season. The commitment *vis-à-vis* the Group was thus comfortably respected and generated additional savings.

The aeronautics industry has long embraced the principle of "repairability", prolonging aircraft lifespans for as long as possible to optimize their cost of operation. AFI KLM E&M systematically applies manufacturer recommendations and those of its authorization bodies. The "repairability" of aircraft components and engines implies cleaning and component repair protocols, and a strict procedure governing the monitoring of component tear downs at the end of their lives. Particular attention is paid to the management of aeronautical waste at AFI KLM E&M and a comprehensive program to recycle engine parts and aircraft carpeting (Scrap Program) has been in place for several years. Within the framework of the project to refit new seats in Economy, Business and La Première, the old seats were sold, stored for replacement purposes or dismantled to recover the parts. When none of these options were possible, the parts were destroyed under the control of a specialized official and the materials resold for recycling by specialists in aeronautical waste.

All of these examples not only have a positive impact on Air France-KLM's environmental footprint but also on the savings they generate.

Sharing know-how

Within the framework of its apprenticeship policy, the Group offers diverse paths to apprentices in accordance with their aspirations and training needs. In 2014, the Group welcomed some 230 apprentices in both the maintenance professions (engine mechanics, logistics, etc.) and the support functions. By passing on their know-how, the apprentice masters enable the younger generation to acquire valuable experience that can increase their employability.

As part of its corporate social responsibility approach, Air France Industries welcomes interns to the "School of the Second Chance" (*École de la deuxième chance*). Employees are committed to passing on their values, passion for their profession and know-how to students aged between 18 and 25 years, who have dropped out of formal education with no qualifications and are seeking a professional direction.

Continuous improvement in 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 the continuous improvement of its performance, effective compliance, and the prevention of risks.

In September 2014, 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.

During the Single & Global Certification process, Air France completed the following evaluation/Certification audits on the standards linked to particular areas: ISO 9001 (Quality), ISO 15489 (Documentation), EN – Aircraft maintenance 9100 (Design), 9110 (Realization), 9120 (Storage) and ISO 26000 (Corporate Social Responsibility).

As the world's first aircraft maintenance operator to be certified ISO 26000 on its publication in 2010, Air France Industries has built the principal ISO 26000 guidelines into its Integrated Management System. The September 2014 audit thus showed a steady progression in the structuring of the approach and the inclusion, within the integrated management system and its projects, of the standard's guidelines (organizational governance, human rights, labor practices, environment, fair operating practices, consumer issues, community involvement and development).

A close relationship with stakeholders

AFI KLM E&M listens to the needs of its MRO clients so that it can satisfy their expectations while engaging in dialogue with suppliers and other stakeholders, thereby collectively building long-term relationships based on the win/win principle and mutual respect.

Within the framework of the sustainable procurement program, AFI KLM E&M's suppliers sign a Sustainable Development Charter testifying to their commitment to this approach, and checks are subsequently carried out to verify the respect of their commitments.

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

During the ISO 26000 audit realized in September 2014 by Bureau Veritas Certification, a number of stakeholders were interviewed to evaluate the quality of the company's listening process. They highlighted the "*quality of the relationships with real efforts in common extending beyond the matters in question*". The dialogue was deemed to be *"effective, regular and highly professional",* conducted in *"full transparency"* and moving in the *"direction of converging interests".*

The strong commitment of AFI KLM E&M staff and the relations maintained with stakeholders contribute to high levels of corporate social responsibility performance across the business.

2.5.4 Results for the financial year

➤ **Key figures for the maintenance business**

12-month financial year to	2014	2013	Actual change	Like-for-like change
Total revenues *(in €m)*	3,392	3,280	+3.4%	-
Third-party revenues *(in €m)*	1,251	1,225	+2.1%	+3.5%
Income from current operations *(in €m)*	174	159	+15	-
Income from current operations excluding strike *(in €m)*	196	159	+37	+42
Operating margin *(%)*	5.8%	4.8%	+1.0 pt	+1.1 pt

Full year 2014 third-party maintenance revenues amounted to €1,251 million, up by 2.1% and by 3.5% like-for-like. The Air France pilots' strike had a €22 million negative impact on the operating result due to lower internal revenues from the maintenance of the Air France fleet. Adjusted for this impact, operating income would have reached €196 million, up by €37 million year-on-year and an increase of €42 million like-for-like.

Over the period, the Group recorded a 28% increase in its order book to €5.6 billion, notably thanks to a major contract with Air China covering the maintenance of GE90 engines.

2.6 Other businesses

The main activities in this segment are the catering business and the low-cost business, which operates under the Transavia brand in both the Netherlands and France.

2.6.1 Low-cost activity (Transavia)

Despite an unfavorable economic backdrop, the international traffic of the European airlines saw growth of 5.7% in 2014 according to IATA. The traffic of AEA member airlines increased by just 2.7% showing that, as in previous years, traffic growth was mainly driven by non-AEA member airlines, and particularly the low-cost carriers. Based on the long-term trends, this growth differential is likely to continue in the coming years. Developing its offering in this segment enables Air France-KLM to access a source of substantial growth.

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 1,800 km.

At December 31, 2014, Transavia had a fleet of 45 Boeing 737-700 and 737-800 aircraft, of which 31 based in the Netherlands and 14 in France, and 2,400 full-time employees. In 2014, the Transavia network comprised 98 destinations in Europe and North Africa. Flights were operated from six different bases, Amsterdam, Rotterdam, Eindhoven, Paris-Orly, Nantes, and Lyons, offering a total of 200 different routes

2014 saw Transavia pursue its rapid development with capacity expansion of 8%. Transavia carried 9.9 million passengers, up by 11%. In the Netherlands, where Transavia is the leader in the low-cost market, the focus has been and remains on the development of scheduled flights, with a 12% capacity increase. With charter capacity having been reduced by 4%, 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 connections at the KLM hub in Amsterdam.

In France, Transavia continued its accelerated development as planned within the framework of Transform 2015. In 2014, three additional aircraft joined the fleet, enabling 22% 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 2015, seven additional aircraft will join the Transavia fleet in France, leading to a further 30% capacity growth. Transavia will thus become the leading low-cost carrier at Paris-Orly airport and will serve 49 destinations on departure from France.

From a commercial standpoint, 2014 was marked by major phases in the implementation of Transavia's new positioning: launch of a new e-commerce platform, finalization of plans for the new brand identity, including new uniforms for cabin crew. The new, "It's a pleasure" brand identity was officially launched in January 2015 with the arrival of the first aircraft in the new livery, and will be further rolled out during the 2015 first half. Other commercial initiatives will be implemented in 2015, 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 December 2014, an agreement was signed with the SNPL pilots' union in France organizing the secondment of Air France pilots to Transavia. Thanks to this agreement, the totality of Transavia's rapid development plan in France is ensured over the next five years foreseeing, notably, the operation of 37 Boeing 737s by 2019. Transavia maintains its own operating and remuneration conditions which are key to achieving its unit cost and operating flexibility objectives.

To support the accelerated growth of Transavia, the Group has ordered 20 Boeing 737-800s (17 firm orders and three options).

In parallel, within the framework of the Perform 2020 plan, Transavia will maintain its competitiveness thanks to new cost-saving initiatives and substantial scale effects from the virtual doubling in its fleet in five years. The Group will continue to maximize synergies between its two operations in the Netherlands and France, and between Transavia and Air France-KLM.

With the rapid growth weighing on profitability, the Group expects Transavia to reach break-even in 2017 and profitability as of 2018. In the medium term, Transavia's operating margin should be above 5%.

➤ Key figures for Transavia

12-month financial year to	2014	2013	Actual change
Number of passengers *(in thousands)*	9,908	8,896	+11.4%
Capacity *(in millions of ASK)*	21,299	19,675	+8.3%
Traffic *(in millions of RPK)*	19,136	17,716	+8.0%
Load factor	89.8%	90.0%	-0.2 pt
Total passenger revenues *(in €m)*	1,056	984	+7.3%
Scheduled passenger revenues *(in €m)*	1,001	948	+5.6%
Unit revenue per ASK *(in € cents)*	4.94	4.98	-0.7%
Unit revenue per RPK *(in € cents)*	5.50	5.53	-0.5%
Unit cost per ASK *(in € cents)*	5.11	5.09	+0.3%
Income/(loss) from current operations *(in €m)*	(36)	(23)	-13

In 2014, as planned within the framework of Transform 2015, Transavia capacity was up by 8.3%, reflecting the accelerated development in France (+21%, with a load factor of above 87%) and the repositioning under way in the Netherlands (scheduled capacity up by 11.8% and charter capacity down by 4.3%). Traffic rose by 8.0% and the number of passengers carried approached 10 million. The load factor remained high (89.8%, down 0.2 of a point) despite the substantial increase in capacity.

Transavia revenues stood at €1,056 million, up by 7.3%. Unit revenue per ASK decreased by 0.7% while the unit cost per ASK was stable (+0.3%). The operating result was a €36 million loss, down by €13 million relative to the previous year, reflecting principally the rapid ramp-up in France.

Transavia's development will accelerate in 2015: capacity up by 30% in France, operation of a network of 44 destinations on departure from Paris, new brand identity, new website, order for 20 Boeing 737s, closer ties with Flying Blue, etc.

2.6.2 Catering business

Activity

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

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

- catering and logistics with the assembly of meal trays for passengers and crews and their loading, within the respect of regulations specific to the air transport sector and the pre-preparation of meals;
- the cleaning and loading of cabins through its subsidiary ACNA. Through its other subsidiaries, Servair also offers 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.

Servair has operations at 45 airports in 26 countries.

During the 2014 financial year, Servair sold part of its shareholding in Newrest Servair SL in Spain and acquired shares in new entities in Belgium (Brussels, Charleroi), Chile (Santiago) and Canada (Montreal, Calgary, Toronto). In mid-2014, it launched operations in Sao Paolo with GOL as the launch airline, and finalized construction of its new facility in Sao Paulo which should be operational in the 2015 first quarter. At the end of the year, Servair invested in the Democratic Republic of Congo by taking a majority shareholding in a new center based in Kinshasa.

Servair pursues a dynamic quality-certification-based strategy. To date, some 14 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.

Results for the financial year

12-month financial year to	2014	2013	Actual change	Like-for-like change*
Total revenues *(in €m)*	871	915	-4.8%	+2.1%
Third-party revenues *(in €m)*	311	341	-8.8%	+9.7%
Income from current operations *(in €m)*	18	24	-25.0%	+20.8%

** Like-for-like: 2013 restated for the sale of Air Chef, and excluding the impact of the pilots' strike.*

In **full year 2014**, third-party catering revenues amounted to €311 million, down by 8.8%. At constant scope (excluding the impact of the sale of Air Chef taking place during the 2013 second quarter), third-party revenues increased by 5.9% reflecting the signature of new contracts and the launch of new operations, particularly in Brazil. The operating result stood at €18 million, up 20.8% at constant scope and adjusted for the impact of the Air France pilots' strike on internal revenues. Catering thus increased its profitability while continuing to reduce costs for internal customers.

2.7 Fleet

At December 31, 2014, the Air France-KLM Group fleet comprised 571 aircraft, of which 546 were in revenue service compared with, respectively, 611 and 583 aircraft at December 31, 2013. The 34 CityJet and VLM aircraft were withdrawn from the Group given the sale of these subsidiaries.

The main operational fleet consisted of 403 aircraft (401 aircraft at December 31, 2013), of which 168 were long-haul aircraft (171 at December 31, 2013), 14 were cargo aircraft (14 aircraft at December 31, 2013) and 221 were medium-haul aircraft (216 at December 31, 2013) including 45 aircraft in the Transavia Group fleet (41 aircraft at December 31, 2013). The regional fleet in operation comprised 143 aircraft (182 at December 31, 2013).

At December 31, 2014, the average age of the aircraft in the operational fleet was 10.7 years, of which 11.5 years for the long-haul fleet, 9.9 years for the medium-haul fleet, 15.2 years for the cargo fleet and 10.7 years for the regional fleet compared with 10.6 years at December 31, 2013, of which 10.9 for the long-haul fleet, 9 for the medium-haul fleet, 14.2 for the cargo fleet and 11.9 for the regional fleet.

At December 31, 2014, 35% of the total Group fleet was fully owned (38% at December 31, 2013), 22% was under finance lease (unchanged on December 31, 2013), and 43% under operating lease (40% at December 31, 2013). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €1,048 million (€912 million at December 31, 2013). Disposals of flight equipment stood at €269 million, of which €198 million in sale and leaseback transactions (€225 million and €123 million respectively at December 31, 2013).

There were firm orders outstanding for 80 aircraft at December 31, 2014, 16 more than at December 31, 2013. Options stood at 71 aircraft (85 at December 31, 2013) of which 25 were for Boeing 787s and 25 for Airbus A350s.

Change in the Air France-KLM Group order book	December 31, 2013	Deliveries during the period	New orders	Option conversion	December 31, 2014
Main fleet	63	3	17	2	79
Regional fleet	1	-	-	-	1
Total	**64**	**3**	**17**	**2**	**80**

Change in the Air France-KLM Group option portfolio	December 31, 2013	Exercise during the period	Options cancelled or expired	New options	December 31, 2014
Main fleet	64	2	12	3	53
Regional fleet	21	-	3	-	18
Total	**85**	**2**	**15**	**3**	**71**

A fleet policy at the heart of the Group's adaptation

2014 was marked by the placing of a firm order for 17 Boeing 737-800s, in addition to three options, aimed at reinforcing the Transavia fleet.

The Air France-KLM Group pursued its pro-active fleet policy to, firstly, ensure a fleet scaled in line with the Group's transformation and, secondly, take more advantage of technological developments in the constant quest to reduce the environmental impact of flight operations and respect the following principles:

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

During the 2014 financial year, in application of previous decisions, 14 new aircraft joined the fleet, seven in the Air France Group and seven in the KLM Group, while 54 aircraft were withdrawn, of which 34 aircraft following the disposal of CityJet-VLM, ten aircraft from Air France and ten aircraft from KLM.

The Air France-KLM Group pursued the implementation of the Transform Plan with the downsizing of the medium-haul and regional fleets at Air France, virtual stability at KLM and growth in the Transavia fleet, thereby contributing to fleet modernization. The Group maintains a significant level of flexibility in terms of capacity thanks to the use of operating leases and the management of its order book. In addition to the 17 new 737-800s ordered to support growth in the Group's low-cost business, two options were also exercised on 777-300ERs for long haul.

The closure of KLM's MD-11 (passenger) division became effective in the autumn of 2014 and the closure of Air France's Boeing 747-400 division (passenger and cargo) remains scheduled for the end of 2015.

KLM also decided significantly to scale back its cargo fleet by planning the withdrawal of the MD-11 freighters by the end of 2015.

The Group pursued its policy of reconfiguring long-haul cabins with, notably, the bringing into revenue service of Air France's first 777s in the "Best" version. The Boeing 787 will make its debut within the Group in late 2015, at KLM, with two aircraft under operational lease.

2.7.1 The Air France Group fleet

The Air France Group fleet totalled 368 aircraft at December 31, 2014, of which 255 aircraft in the main fleet and 113 in the subsidiaries. The average age of the aircraft in the operational fleet is 10.7 years (10.7 years at December 31, 2013). Firm orders amounted to 42 aircraft.

	Fleet at December 31, 2013	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2014
Long-haul fleet	106	1	-	107
Medium-haul fleet (including Transavia France)	145	3	4	144
Cargo	6	-	2	4
Regional fleet excluding CityJet and VLM(1)	114	3	4	113
Total excluding CityJet and VLM(1)	**371**	**7**	**10**	**368**
CityJet and VLM(1)	34	-	34	-
Total	**405**	**7**	**44**	**368**

* *Purchases, operating lease and financial lease*
(1) *CityJet and VLM were disposed.*

The Air France fleet

The Air France fleet comprised 241 aircraft at December 31, 2014, with 238 in operation (246 and 238 respectively at December 31, 2013). The fleet includes 107 long-haul aircraft, 130 medium-haul aircraft and four freighters. At December 31, 2014, the average age of the fleet was 10.9 years, with 11.0 years for the long-haul fleet, 10.8 years for the medium-haul fleet and 9.0 years for the cargo fleet. At December 31, 2013, the average age had been 9.9 years, with 10.3 years for the long-haul fleet, 9.7 for the medium-haul fleet and 8.0 years for the cargo fleet.

Within the fleet, 78 aircraft are fully owned (32%), 51 are under finance lease (21%) and 112 under operating lease (47%).

During the 2014 financial year, the company took delivery of one Airbus A380. In parallel, two Boeing 747-400ERFs, one Airbus A319ER and three Airbus A320s were withdrawn from the fleet.

The fleet of the regional subsidiaries and Transavia France

Since the sale of CityJet and VLM Airlines, the fleet of the regional subsidiaries has been organizd around three aircraft families: the Embraer family at HOP! Régional, the Bombardier family at HOP! Brit Air and the ATR family at HOP! Airlinair. At December 31, 2014, the total fleet of these three companies comprised 113 aircraft, with a seat capacity of up to 100, of which 96 in operation. The average age of the fleet in operation was 11.0 years at December 31, 2014: 8.4 years for the HOP! Brit Air fleet, 9.9 years for HOP! Régional and 16.2 years for HOP! Airlinair.

During the 2014 financial year, three aircraft joined the regional fleet, at HOP! Airlinair, and four aircraft were retired (one aircraft at HOP! Brit Air, two aircraft at HOP! Régional and one aircraft at HOP! Airlinair). Sixty-six per cent of the fleet is fully owned, 13% is under finance lease and 21% under operating lease. The order book remained at one aircraft under firm order at December 31, 2014.

The Transavia France fleet comprises 14 Boeing 737-800s, all in operation and under operating lease (11 aircraft at December 31, 2013). The average age of this fleet is 6.5 years.

Air France fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
B747-400	3	-	1	-	3	-	7	-	6	(1)
B777-300	9	(2)	11	+2	17	-	37	-	37	-
B777-200	14	(1)	3	+1	8	-	25	-	25	-
A380-800	1	-	4	-	5	+1	10	+1	10	+1
A340-300	4	-	6	-	3	-	13	-	13	-
A330-200	4	+1	1	(1)	10	-	15	-	15	-
Long haul	***35***	***(2)***	***26***	***+2***	***46***	***+1***	***107***	***+1***	***106***	***-***
B747-400	0	(2)	-	-	2	-	2	(2)	2	-
B777-F Cargo	2	-	-	-	-	-	2	-	2	-
Cargo	***2***	***(2)***	***-***	***-***	***2***	***-***	***4***	***(2)***	***4***	***-***
A321	6	-	6	-	13	-	25	-	24	(1)
A320	9	(1)	2	(1)	35	(1)	46	(3)	45	+1
A319	15	(2)	10	+2	16	(1)	41	(1)	41	-
A318	11	-	7	-	-	-	18	-	18	-
Medium haul	***41***	***(3)***	***25***	***+1***	***64***	***(2)***	***130***	***(4)***	***128***	***-***
Total	**78**	**(7)**	**51**	**+3**	**112**	**(1)**	**241**	**(5)**	**238**	**-**

HOP! fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
Airlinair										
ATR72-500	1	-	3	-	7	+3	11	+3	11	+3
ATR72-200	-	-	-	(1)	-	-	-	(1)	-	(1)
ATR42-500	4	-	4	-	5	-	13	-	13	-
Total	**5**	**-**	**7**	**(1)**	**12**	**+3**	**24**	**+2**	**24**	**+2**
Brit Air										
Canadair Jet 1000	13	-	-	-	-	-	13	-	13	-
Canadair Jet 700	13	+3	2	(3)	-	-	15	-	13	-
Canadair Jet 100	11	(1)	-	-	-	-	11	(1)	4	(3)
Total	**37**	**+2**	**2**	**(3)**	**-**	**-**	**39**	**(1)**	**30**	**(3)**
Régional										
EMB190	4	-	-	-	6	-	10	-	10	-
EMB170	8	-	2	-	6	-	16	-	16	-
EMB145-EP/MP	17	+4	2	(5)	-	-	19	(1)	15	(3)
EMB135-ER	4	-	1	(1)	-	-	5	(1)	1	(1)
Total	**33**	**+4**	**5**	**(6)**	**12**	**-**	**50**	**(2)**	**42**	**(4)**
Total HOP! fleet	**75**	**+6**	**14**	**(10)**	**24**	**+3**	**113**	**(1)**	**96**	**(5)**

Other regional fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
CityJet										
AVRO RJ 85	-	(11)	-	-	-	(11)	-	(22)	-	(19)
Total	**-**	**(11)**	**-**	**-**	**-**	**(11)**	**-**	**(22)**	**-**	**(19)**
VLM Airlines										
Fokker 50	-	(12)	-	-	-	-	-	(12)	-	(12)
Total	**-**	**(12)**	**-**	**-**	**-**	**-**	**-**	**(12)**	**-**	**(12)**

Other fleet (Transavia)

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
Transavia France										
B737-800	-	-	-	-	14	+3	14	+3	14	+3
Total	**-**	**-**	**-**	**-**	**14**	**+3**	**14**	**+3**	**14**	**+3**
Total Air France Group	**153**	**(24)**	**65**	**(7)**	**150**	**(6)**	**368**	**(37)**	**348**	**(33)**

2.7.2 The KLM Group fleet

The KLM Group fleet totalled 203 aircraft at December 31, 2013 (206 aircraft at December 31, 2013) of which 155 in the main fleet and 48 in the regional fleet. The average age of the aircraft in the operational fleet was 10.6 years (10.4 years at December 31, 2013). Firm orders stood at 21 aircraft.

KLM Group fleet	Fleet at December 31, 2013	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2014
Long-haul fleet	66	1	4	63
Medium-haul fleet (including Transavia Netherlands)	77	2	-	79
Cargo (including Martinair)	13	-	-	13
Regional fleet	50	4	6	48
Total	**206**	**7**	**10**	**203**

* *Purchases, operating lease and financing lease.*

The KLM fleet

At December 31, 2014, the KLM fleet comprised 111 aircraft (113 at December 31, 2013), of which 63 long-haul aircraft and 48 medium-haul aircraft. Twenty-two aircraft are fully owned (20%), 36 aircraft are under finance lease (32%) and 53 under operating lease (48%). In this fleet, 110 aircraft are operational. 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. At December 31, 2013, the average age of the fleet had been 10.1 years, including 11.9 years for the long-haul fleet and 7.5 years for the medium-haul fleet.

During the financial year, one Airbus A330-300 and one Boeing 737-800 joined the KLM fleet, while four MD11s were withdrawn.

The fleet of the regional subsidiaries, Martinair and Transavia

The Transavia Netherlands fleet comprises 31 aircraft, of which nine Boeing 737-700s and 22 Boeing 737-800s. Nineteen per cent is under finance lease, 68% is under operating lease and 13% of the fleet is fully owned. The average age of the aircraft in the fleet is 9.8 years.

Martinair has a fleet of 13 full freighters, of which 10 in revenue service given the strategy of on-going capacity reduction in the cargo business. Twenty-three per cent of these aircraft are fully owned, 38.5% are under finance lease and 38.5% under operating lease. The average age of the operational fleet is 17.6 years.

The KLM Cityhopper fleet comprises 48 aircraft, of which 47 were operational at December 31, 2014. The average age of the aircraft in operation in this regional fleet was 9.9 years. Forty-two per cent of the fleet is fully owned, 27% is under finance lease and 31% under operating lease.

KLM fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**
B747-400	15	-	2	-	5	-	22	-	22	-
B777-300	-	-	8	-	-	-	8	-	8	-
B777-200	-	-	6	-	9	-	15	-	15	-
MD11	1	(3)	-	(1)	-	-	1	(4)	-	(4)
A330-300	-	-	-	-	5	+1	5	+1	5	+1
A330-200	-	-	6	-	6	-	12	-	12	-
Long haul	***16***	***(3)***	***22***	***(1)***	***25***	***+1***	***63***	***(3)***	***62***	***(3)***
B737-900	1	+1	1	(1)	3	-	5	-	5	-
B737-800	5	-	5	-	15	+1	25	+1	25	+1
B737-700	-	-	8	-	10	-	18	-	18	-
B737-400	-	-	-	-	-	-	-	-	-	-
Medium haul	***6***	***+1***	***14***	***(1)***	***28***	***+1***	***48***	***+1***	***48***	***+1***
Total	**22**	**(2)**	**36**	**(2)**	**53**	**+2**	**111**	**(2)**	**110**	**(2)**

Regional fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**	**12/31/2014**	**YoY ch.**
KLM Cityhopper										
F70	20	(6)	-	-	-	-	20	(6)	19	(7)
EMB 190	-	-	13	-	15	+4	28	+4	28	+4
Total	**20**	**(6)**	**13**	**-**	**15**	**+4**	**48**	**(2)**	**47**	**(3)**

Other fleet (Transavia and Martinair)

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
Transavia Netherlands										
B737-800	2	+1	5	-	15	-	22	+1	22	+1
B737-700	2	-	1	-	6	-	9	-	9	-
Total	**4**	**+1**	**6**	**-**	**21**	**-**	**31**	**+1**	**31**	**+1**
Martinair										
B747-400ERF	-	-	3	-	1	-	4	-	3	-
B747-400 BCF	-	-	-	-	3	-	3	-	1	-
MD-11-CF	3	-	-	-	-	-	3	-	3	-
MD-11-F	-	-	2	-	1	-	3	-	3	-
Total	**3**	**-**	**5**	**-**	**5**	**-**	**13**	**-**	**10**	**-**
Total other fleet	**7**	**+1**	**11**	**-**	**26**	**-**	**44**	**+1**	**41**	**+1**
Total KLM Group	**49**	**(7)**	**60**	**(2)**	**94**	**+6**	**203**	**(3)**	**198**	**(4)**

Total Air France-KLM Group fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.	12/31/2014	YoY ch.
Total	**202**	**(31)**	**125**	**(9)**	**244**	**-**	**571**	**(40)**	**546**	**(37)**

2.8 Highlights of the beginning of the 2015 financial year

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

The highlights of the beginning of the 2015 financial year are as follows:

- On January 15, 2015 the Group sold a block of 9.9 million Amadeus shares representing around 2.2% of the company's share capital. The net proceeds of the sale stood at €327 million. The Group retains 9.9 million Amadeus shares which are hedged within the framework of the transaction announced on November 25, 2014;
- During the meeting of the Air France Corporate Works Council on January 22, 2015, the Air France management gave a presentation on the planned implementation of a series of short-term 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, two proposed Voluntary Departure Plans aimed at the departure of 500 ground staff and 300 cabin crew;
- At the end of January 2015, Transavia unveiled its new online visual brand identity, reaffirming its positioning: "It's a pleasure". This positioning together with the launch of the new website in February 2015 support the Group's low-cost development ambition as stated in the Perform 2020 plan.
- At the end of March 2015, the Group realized a perpetual subordinated bond issue raising €400 million. This bond has a first repayment option in 2020 at the issuer's discretion. These securities being booked as equity, the Group updated its net debt target for end 2015 from some €5 billion to around €4.6 billion.

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3

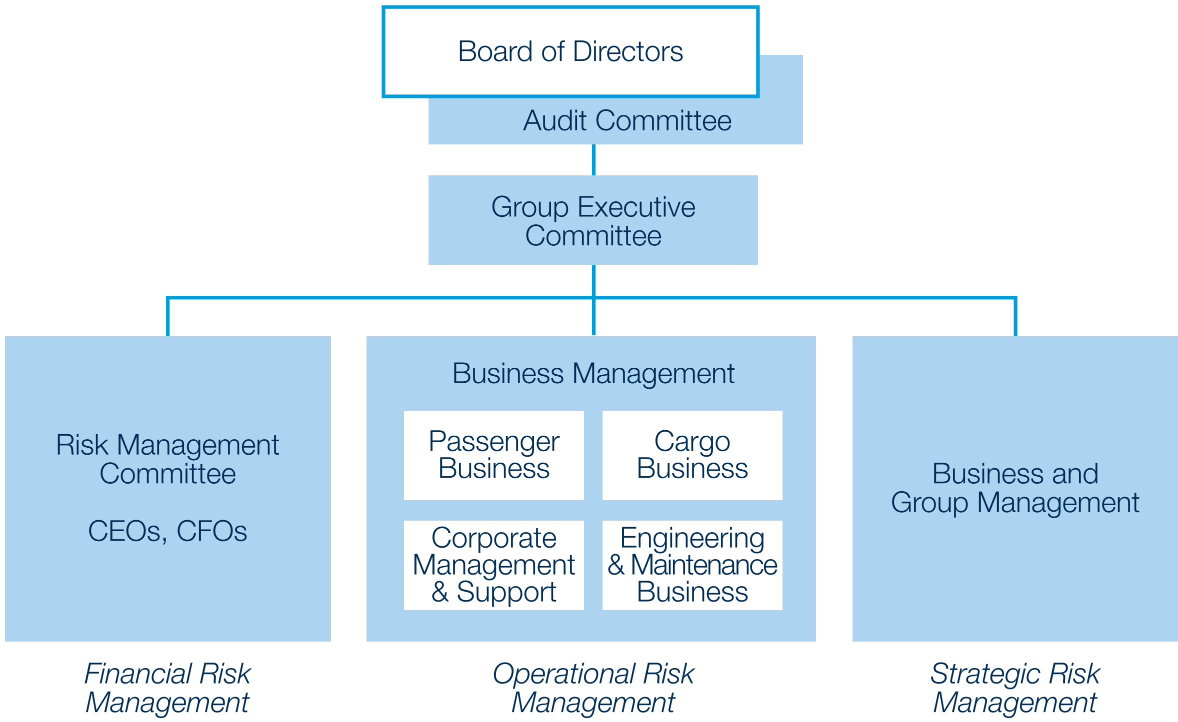
Risks and risk management

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 (page 96).

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 tough in long haul, particularly for the lines 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 more equitable competition between carriers *(See also Section 2.2, Strategy,* page **47**).

The air freight market is characterized by structural overcapacity resulting from weak demand growth and the arrival of new freighters while old cargo aircraft are gradually being withdrawn from operation. Belly capacity is also seeing rapid growth due to the substantial increase in the number of 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 **47**).

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. 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 2.1.1 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, page **96** and in Note 34 to the consolidated financial statements.

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

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

- in terms of safety, the airlines in the Group comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures in place;
- the Group has also developed emergency plans and 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, existance 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 unit manned by staff from the Quality Assurance 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 figuring 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 could increase the Group's operating expenses or reduce its revenues.

The Air France-KLM Group actively defends its positions with the French and Dutch governments and European institutions directly or through industry bodies such as the Association of European Airlines (AEA) regarding, 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, passenger rights are defined by regulation 261/2004 which came into force in 2005, applying to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union. This regulation establishes the common European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

The ruling from the European Court of Justice in November 2009 (known as the "Sturgeon" ruling) gives passengers experiencing delayed arrival at their final destination the same right to compensation as passengers whose flights are cancelled. They can thus invoke the right to compensation provided in Article 7 of this ruling when they reach their final destination three or more hours after the scheduled arrival time. In October 2012, at the request of IATA and three airlines who challenged the application of this ruling by the UK Civil Aviation Authority, the UK High Court of Justice referred a number of questions back to the European Court of Justice which upheld the aforementioned Sturgeon ruling.

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

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

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

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

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

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

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

As might have been expected, the deputies opted to publish a text that was less balanced than the Commission’s version to be able to negotiate more effectively with the Council whose position, reflecting the Member States’ different points of view, seems much more measured although a general orientation is still awaited before the end of 2015.

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

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

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

In May 2014, the US Department of Transportation (DoT) published a new Notice of Proposed Rulemaking aimed at expanding the disclosure obligations. It proposes to require airlines and ticket agents to disclose at all points of sale the fees for certain basic ancillary services associated with the air transportation service consumers are buying or considering buying, in particular seat choice and bagage fees.

In November 2013, the DoT also published a Final Rule requiring airline websites aimed at the US public and automated airport kiosks in the United States to be accessible to individuals with disabilities.

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

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that 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. At the same time, the ICAO’s Air Transport Regulation Panel comprising 27 ICAO Member States reached agreement on a draft text of the ICAO core principles on consumer protection at its May 2014 meeting. The outcome is positive in that it incorporates key elements of the industry’s core principles.

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

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.

The principle of the European Emissions Trading System consists of setting an annual budget of quotas or CO_2 emission rights (key figure: one ton of fuel burned = 3.15 tons of CO_2 emitted), with each relevant company then being allocated a number of personalized quotas (one quota corresponding to one ton of CO_2). At the end of each year, companies must return an amount of emission allowances equivalent to the tons of CO_2 emitted. Depending on their emissions, they can also purchase or sell quotas (exchangeable quotas). For the aviation sector, free quotas are distributed to each operator on a pro rata basis based on their revenue ton-kilometers (RTK) generated in 2010. In early 2014, the European Union amended the text of the directive by limiting the geographical application scope to intra-EU flights and introducing an exemption for flights to and from the French overseas territories and dominions This amendment enables greater regulatory stability on emission permits for aviation through to 2016, or even 2020, the application date by the ICAO of a global system on the carbon market which could replace the current system.

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 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, it 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. For example, Frankfurt airport is now subject to a curfew between the hours of 23h00 and 5h00. For the moment, the implementation of such a measure is not envisaged for Paris-CDG and Amsterdam-Schiphol airports.

To 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, Air France-KLM contributed €31.5 million to the sound-proofing of homes in 2014.

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 (repatriation and passenger 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, firstly, develop robust crisis management tools and, secondly, to obtain an adjustment in the regulation regarding the company's responsibilities towards passengers in such exceptional circumstances.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of such situations for its customers. The Group has no hedging in place for operating losses.

Airline accident risk

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

The national civil aviation authority carries out a series of checks on 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 complied with the IATA Operational Safety Audit certification which is renewed every two years.

At Air France, the Independent Safety Review Team, created in September 2009, produced its final report in January 2011, formulating 35 recommendations covering the organization and operating modes with an impact on flight safety. Given its commitment to the highest possible standards of flighty safety, the company immediately implemented these recommendations. The Corporate Flight Safety Committee within the Air France Board of Directors thus meets every quarter to analyze the flight safety indicators for the Air France Group. 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 ongoing 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 currently deployed in all areas of the company.

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

The materialization of this risk could have an impact on the Group's reputation and legal or financial consequences. This risk is covered by the aviation insurance policy.

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 terminals (micro-computers, mobile systems, automated airport kiosks, etc.)

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

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 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. 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.

Non-respect of the competition rules

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

Following the inquiries conducted by the anti-trust authorities in a number of States concerning alleged anti-competitive agreements or concerted actions involving 25 companies in the air freight sector including the Air France-KLM Group, 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 January 2012, the Directorate General for Competition (DG COMP) announced the closure of the inquiry dating back nearly a decade concerning the SkyTeam alliance, together with the opening of a new procedure concerning only the members of the trans-Atlantic joint-venture (Air France-KLM, Delta, Alitalia) and limited to some routes. The European Commission is thus adopting a consistent approach by successively examining the effects on the European market of the three existing trans-Atlantic joint-ventures. This new procedure does not call into question the continued implementation of the company's cooperation with partners on the trans-Atlantic routes. The parties in the joint-venture are in the process of finalizing their discussions with the DG Competition, which may lead to a limited number of concessions on their part, such as making slots available to competitors at some airports.

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. The fulfilment of these commitments should not have a material negative impact on the activities of Air France and KLM. Note that no request for slots has, to date, been made.

Execution of the Perform 2020 plan

(See also Section 2.2.3, Strategy, page 52)

In September 2014, the Group launched a new strategic plan for the 2015-20 period. Within the framework of this plan, the Group set itself a series of targets on unit cost reduction and the restructuring of certain uncompetitive activites. The achievement of these targets will require the negotiation of new collective labor agreements with the different categories of staff.

Any strikes or stoppages of work linked to the implementation of these different transformation projects could have a negative impact on the Group's activity, financial results and reputation. Furthermore, the final terms and conditions of these collective agreements and the measures taken within the framework of the restructuring of some of its activities could prove insufficient to achieve the objectives set.

Pension plans

The company'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.

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. Furthermore, 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.

Depending on the outcome of negotiations in the first half of 2015, the Group will continue to incur the risk of having to make additional cash contributions to its pension funds should financing deficits arise. At the end of December 2014, the regulatory solvency levels were calculated for the three KLM funds. For 2015, this additional payment risk is mitigated by the solvency levels noted at the end of December 2014.

Given the IAS 19 Revised accounting rule 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 will be recognized in stockholders' equity and will never be taken against profit and loss. The current calculations lead to the three KLM pension funds figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the liabilities. In the financial statements, the potential volatility is explained in the "Accounting policies for the balance sheet – provisions for employee benefits" and in Note 31.1 "Retirement benefits".

Note 31.1 to the consolidated financial statements 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.

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 and Boeing 787. 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.

For its part, Air France-KLM plans to defend its ability to offer a multi-product proposition in a competitive market, thereby enabling airlines to maintain control over their maintenance costs.

3.2.3 Legal risks and risks of legal arbitration proceedings

Within the normal exercise of their activities, the company and its subsidiaries are involved in disputes which may give rise to provisions in the consolidated accounts and information in the notes regarding potential liabilities *(See also Notes 31.3 and 31.4 to the consolidated financial statements)*.

3.3 Market risks and their management

3.3.1 Organization of the Air France-KLM Group

The aim of the Air France-KLM Group's risk management strategy is to reduce its exposure to these risks and their volatility. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Financial Officer 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 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 also page 39 and Note 34.1 to the consolidated financial statements page 240)*.

3.3.2 Market risks and their management

Currency risk

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

The principal exposure relates to the US dollar. Since expenditure on items such as fuel, aircraft operating leases and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars. 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.

2015 operational exposure *(In millions of currencies at December 31, 2014)*	US Dollar	Sterling	Yen
Net position before hedging	(3,783)	600	67,598
Currency hedge	2,285	(196)	(33,000)
Net position after hedging	(1,498)	404	34,598

For 2015, 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	(53)	50	16
10% fall relative to the euro	63	(45)	(10)

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 2014, a portion of the deliveries between 2021 and 2024 was hedged to take advantage of a highly favorable market configuration.

The net investments figuring in the table below reflect the contractual commitments at December 31, 2014.

(In US$ million)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Investments	(534)	(960)	(589)	(959)	(1,050)	(1,669)	(1,302)	(783)	(213)	(218)
Currency hedge	363	519	163	78	141	68	132	341	45	50
Hedge ratio	68%	54%	28%	8%	13%	4%	10%	44%	21%	23%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2014, 86% 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 (7%), the dollar (4%) 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 69% of the overall total. Based on the consolidated financial statements, the average cost of the Group's debt after swaps stood at 4.51% at December 31, 2014 (4.39% at December 31, 2013).

Exposure to interest rates *(In € million at December 31, 2014)*	
Financial assets at floating rates	3,956
Financial liabilities at floating rates	4,533
Net exposure before hedging	577
Hedging	(1,169)
Net exposure after hedging	(592)

The Group's net interest rate exposure amounts to €592 million. A 100 basis points rise in interest rates over twelve months would have a positive impact of €5.9 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%. The underlyings can be Brent, which is preferred due to the level of forward prices and liquidity, or middle distillates (fuel oil and jet fuel) enabling the core risk to be hedged but at a higher cost. Furthermore, the hedging is based on the use of simple instruments that are either un-capped (collars, swaps, calls, etc.) or capped (four ways, call spread, etc.). These hedging instruments must also be compatible with IAS 39.

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

At December 29, 2014, the Air France-KLM Group's fuel exposure, based on futures prices at December 26, 2014 ($63.96 a barrel for 2015 and $70.80 a barrel for 2016), was as follows:

(In US$ million)	**2015**	**2016**
Gross expenditure before hedging	6,036	6,561
Hedge percentage	61%	24%
Gain on hedging	(1,396)	(354)
Net expenditure after hedging	7,432	6,915

Based on the forward curve at December 26, 2014, an increase of $10 per barrel over 2015 would give an average price of $73.96 per barrel and would lead to a $537 million increase in the fuel bill after hedging, *i.e.* a total fuel bill of $7.97 billion for the Air France-KLM Group in 2015. Symmetrically, a fall of $10 per barrel over 2015 would give an average price of $53.96 per barrel and would lead to a $531 million reduction in the fuel bill after hedging, *i.e.* a total expense of $6.90 billion *(See also Section 2.1.1 on the economic environment and the oil price, page* ***38****)*.

Counterparty risk

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

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of A- (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their ratings. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate) and investments. The positions of both Air France and KLM, together with those of the holding company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by realtime 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, 2014, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth €719 million, principally comprising Amadeus shares valued at €654 million. The Group is mainly exposed to the risk of fluctuation in the value of Amadeus shares. As a result, in November 2014, Air France-KLM entered into a hedging transaction to protect the value of 9.9 million Amadeus shares. At December 31, 2014, a 1% variation in the Amadeux share price represented a €3 million variation in the unhedged portion of this shareholding. On January 15, 2015, after the closing date, the Group sold all of its unhedged Amadeus shares.

Liquidity risk

At December 31, 2014, the Group had credit facilities amounting to a total of €1,770 million.

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

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

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

These ratios are calculated every six months and were respected at December 31, 2014.

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

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

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

These ratios are calculated every six months and were respected at December 31, 2014.

Lastly, the Air France-KLM holding company has a financing facility of €150 million, maturing on October 4, 2017, undrawn at December 31, 2014. This credit facility is reduced by €50 million every year on the October 4 anniversary date.

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

- EBITDAR must be equal to at least one and a half times net interest charges added to one third of operating lease payments;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at December 31, 2014.

Given the current conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €3.5 billion at December 31, 2014 and the available credit facilities (a total of €1.77 billion), the Group considers that it incurs no 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 €595 million of pledges to financial institutions in respect of the guarantee given to the European Union on the anti-trust litigation and the swap contract covering the OCEANE 2005.

Financing risks

Financing strategy

The 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 S.A. 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 and to refinance some unsecured assets (aircraft and real estate). These financing or refinancing operations will, as usual, be the subject of requests for proposals.

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:

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

Air France Group

To finance its investments, the Air France Group prioritizes long-term resources by raising conventional bank debt secured by its assets (in the form of mortage debt or finance leases) and, when available, by using export credit.

KLM Group

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

Air France-KLM holding company

The Air France-KLM holding company has realized five bond issues. While the issues prior to 2014 had its subsidiaries Air France and KLM as guarantors, the June 2014 issue is an unsecured bond:

- convertible bonds with a six-year maturity raising €661 million in June 2009;
- plain vanilla bonds with a seven-year maturity raising €700 million in October 2009, partially redeemed in the amount of €94 million in 2014;
- plain vanilla bonds with a six-year maturity raising €500 million in December 2012;
- convertible bonds with a ten-year maturity raising €550 million in March 2013;
- plain vanilla bonds with a seven-year maturity raising €600 million in June 2014.

Investment risks

The cash resources of Air France, KLM and the holding company are invested so as to maximize the return for a very low level of risk. They are 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 – 2014 Financial Year

(Article L. 225-37 of the Code de 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

II – Modalities for shareholder participation in the General Shareholders' Meeting

Pursuant to Article 30 of the company's Articles of Incorporation, the modalities for shareholder participation in Shareholders' Meetings are those foreseen by the regulation in force.

III – Internal control

3.4.1 Definition and goal of internal control

In 2014, 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 objective:

- 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 six employees working within the Internal Control divisions and 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 the Air France-KLM holding company, the Dutch company KLM has established a report on internal control in accordance with the French Financial Security Law.

This organization takes into consideration the structure of each of the Group's two companies, characterized by the existence of three principal businesses (passenger transportation, cargo and maintenance), the subsidiaries of these two companies representing only a minority percentage of activity and revenues. Due to the interdependence of each of the businesses, this organization involves numerous transverse processes (sale of space in the bellies of passenger aircraft to the cargo business, maintenance services relating to the aircraft of the passenger and cargo activities, IT services, etc.)

- **Board of Directors**
  The Board of Directors is the corporate body that 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*.
- **Group Executive Committee**
  The Group Executive Committee comprises 15 members (the Chairman and Chief Executive Officer, four representatives from Air France and KLM and the heads of Group functions). The committee meets every two weeks, alternating between Amsterdam and Paris. Its competence covers the following areas: Human Resources, Finance, Commercial Passenger, Maintenance, Cargo, Information Technology, Public Affairs and International, together with the advertising campaigns at global level.
- **Finance functions**
  The Finance functions are performed by each of the two companies within the framework of the organization in place at the time of the merger and they report to the Group Executive Committee.
  Since mid-November 2012, a Group Finance division has been constituted 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 management and decentralized organizations in commercial law, transport law, contract law and insurance law.
  Legal Affairs draws up a systematic inventory of the disputes in process to assess the risks and be able to constitute the corresponding provisions booked as liabilities.
  The Group's Legal Affairs Director fulfills a planning and steering role for the Group's policies on legal matters and coordinates the Group's actions in legal matters in all the relevant areas.
- **Internal audit**
  The management of an entity such as the Air France-KLM Group is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies the reinforcement of the internal control functions so as to provide the Group's management with the reasonable assurance that this autonomy is being used correctly by each entity.
  Air France-KLM's internal audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated 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.
  Given the Group's governance rules, each company has retained its own Internal Audit department; the coordination of internal audit at Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Head of Internal Audit has overall responsibility and reports directly to Air France-KLM's Chief Financial Officer. Both Internal Control departments in the two sub-groups use identical methodologies (Group charter, Group audit manual, etc.).
  The internal audit function carries out audits at the level of the Group and its subsidiaries (Air France and KLM) and sub-subsidiaries. Audits are conducted in collaboration with the internal auditors of the two airlines.
  There are 27 auditors (excluding management structure).
  The Internal Audit division reports on its work to the Group Executive Committee and to Air France-KLM's Audit Committee in a summary report presented quarterly.
  To execute its mission, Internal Audit, which operates within the framework of the internal Audit Charter established by the Audit Committee of the Air France-KLM Group, either acts on its own initiative or intervenes at the request of the Group Executive Committee, the Audit Committee or the Board of Directors.

An annual program of missions is established and submitted for approval to the Group Executive Committee and to the Group's Audit Committee.

The different types of audit missions undertaken are:

- operational audits to review the effectiveness of the Group's internal control procedures,
- thematic audits dedicated to a theme common to several functions or entities or centered around the company's projects,
- specific audit missions undertaken at the request of the general management or the heads of operational units to ascertain that internal control is properly implemented in the entities,
- ICT audits,
- consultancy missions.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including the risks together with the corresponding recommendations.

The audited entities then establish corrective action plans and a follow-up is conducted in the next few months.

The Air France-KLM Group'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 2011 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented. This certification is valid until January 19, 2015.

Organization of responsibilities

The organization of the individual companies has been defined to ensure compliance with the principles of secure and effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations, ground operations, engineering and maintenance as well as catering and security.

The managers of the relevant entities and subsidiaries are required to apply these principles and organization at their level, and ensure that the organizational charts, job descriptions and the procedures defined by business process are up to date. They must ensure their consistency and adequacy and that these are taken into account in the main information systems and appropriately integrated within the organization.

Furthermore, pursuant to the preliminary recommendations of the Independent Safety Review Team, on July 8, 2010 the Board of Directors of Air France decided to set up a Flight Safety Committee.

Reference standards

Charters and manuals

Air France, KLM and their respective subsidiaries have a Social Rights and Ethics Charter that enshrines their individual commitment to corporate social responsibility by orienting its corporate and ethical policy towards respect for individuals at the professional, social and citizenship levels.

The Air France Group has also published a charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements signed for the benefit of employees. The legal purpose of this charter is to set forth the principles of prevention, define the actions, stress everyone's individual legal and human responsibility and establish internal prevention procedures.

For its part, the KLM Group has published a code of conduct addressing the following principal matters: compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, corporate social responsibility and intellectual property.

KLM has also implemented a Code of Ethics intended principally for employees in the finance function.

Manual to prevent the risks of corruption

The Air France-KLM Group is committed 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. This manual 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). 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-risks 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, 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 and KLM's cash positions are monitored daily and are forwarded to the General Management once a week. Every week, a summary of the Air France, KLM and Air France-KLM cash positions is forwarded to the Air France-KLM Group's Finance division.

In each Air France and KLM company, a Treasury Management Committee regrouping the principal finance executives defines the treasury management policy and implements comprehensive procedures to optimize cash management.

Management of the fuel hedging risk

The fuel hedges aim to reduce Air France-KLM's exposure and thus to preserve the budgeted margins. They are the subject of a weekly report to the General Managements of Air France-KLM, Air France and KLM.

Management of risks by the Risks-Insurance departments

Within Air France and KLM, each of the Risks-Insurance departments 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.

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 and fine-tuned by 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 (obtained in autumn 2014);
- ISO 9001/Quality certification for certain entities.

Quality assurance

The control of the operational processes is based primarily on three monitoring methods:

Internal monitoring is carried out by the Quality Assurance departments articulated around:

- an audit program (covering, in particular, 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, 2014, this review was carried out within the framework of the French Financial Security Law and the work on internal control decided by the Group after the delisting from the New York Stock Exchange.

The procedures put in place aim to ensure the:

- reliability of the IT and telecommunications systems;
- integrity of the data through the appropriate resources, infrastructure and controls;
- continuity of IT services and the availability of data on the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- confidentiality of information based on national laws and the security of IT infrastructure through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the IT systems are developed within the framework of defined strategic objectives.

Project management and software application development tools are also deployed: the so-called Symphony method for common Air France-KLM projects was based on the Tempo (Air France) and Prince2/Steelband (KLM) methods.

The work carried out in connection with internal control projects and the ongoing project to gradually establish a coordinated and optimized organization is leading to the launch of action plans designed to strengthen internal control, particularly as regards risks such as business continuity.

Lastly, in 2005-06, Air France and KLM published the Security Information Manual (ISM –ISO 17799 standard), thus defining a common security policy for information systems.

Procurement

The common Air France-KLM Procurement organization has been operational since September 1, 2008. It is headed by a Group Chief Procurement Officer from KLM, seconded by an Air France Executive Vice-President, Procurement, and has been structured around seven procurement teams since January 2013. These procurement teams act in a transverse and coordinated manner for each of the Air France and KLM companies as well as for, when required, a number of the Group's airline subsidiaries. Their objective is to optimize the Group's external resources.

The activity of the Procurement function aims to supply the entities with suitable products and services at the required time and at the best possible cost of ownership.

This is achieved by applying a procurement policy focused on the expertise of the buyers, with separate responsibilities (buyer, referrer, and supplier), the establishment of contracts and the use of web-based technologies.

The CPO Board, comprising the Group Chief Procurement Officer and Air France's Executive Vice-President, Procurement, coordinates the Procurement teams through regular meetings and presents the key performance indicators for combined procurement.

A Procurement Coordination Committee comprising the Heads of Procurement meets every two months (DPO Day) to develop joint programs and share best practices.

Prevention of ticketing fraud

A Fraud Prevention unit is responsible for optimizing the prevention of risks relating to the fraudulent use of stolen, falsified or illegally-purchased tickets and improperly acquired Flying Blue miles.

A presentation on a fraud prevention activity report was made to the Audit Committee in December 2014.

Financial procedures and processes and the accounting year end

Finance process

Investments are managed at the level of each company but, since July 1, 2013, the decision-making process has been coordinated by the Group Investment Committee (GIC) through decision-making platforms (above €0.5 million) regrouping all the stakeholders (business line and management controllers at company and Group level). This Group Investment Committee comprises Air France-KLM's Chief Financial Officer, Air France's Chief Financial Officer and the Chief Financial Officer of KLM.

All investments of more than €5 million are submitted for approval to the Group Executive Committee (fleet, acquisitions, disposals, etc.) by the Group's Management Controller and the Group's Chief Financial Officer.

The management of Air France-KLM's market risks is overseen by the Risk Management Committee (RMC), which meets each quarter and, after examining the Group reporting, determines the hedges to be set up during the coming quarters: the hedging ratios to be achieved, the time period for respecting these targets and, potentially, the preferred type of hedging instrument.

These decisions are then implemented in each company by the Treasury Management and Fuel Purchasing departments in compliance with the procedures for the delegation of powers.

Regular meetings are organized between the Fuel Purchasing departments of the two companies, and between the Treasury Management departments, to optimize the coordination of decision implementation (hedging instruments, the strategies planned and counterparties).

A summary of the cash positions of Air France, KLM and Air France-KLM is communicated weekly to the Air France-KLM Group's Finance division.

The Air France and KLM cash positions are monitored daily and forwarded to the General Management once a week. They are the subject of monthly reports to the Finance departments. These reports include the interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a capital rationing tracking statement by counterparty. The Risk Management Committee sets the minimum thresholds in terms of the financial quality of counterparties, determines the maximum amount to be allocated to a single counterparty and is responsible for monitoring the quarterly positions.

The fuel hedges are covered in a weekly report forwarded to the general managements of the Air France-KLM Group, Air France and KLM.

The hedge strategies aim to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless expressly authorized by the Chief Financial Officer of Air France or the Chief Financial Officer of KLM. Generally speaking, no trading or speculation is authorized.

Any substantive change in the hedging strategy is the subject of a systematic presentation to the Audit Committee.

Accounting and financial statements process

The consolidated financial statements of the Air France-KLM Group are prepared on the basis of the data provided by the Finance departments of the Air France-KLM holding company and its subsidiaries.

The Group is principally comprised of the two operational sub-Groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

The accounting information reported by the different companies must comply with the Group's accounting rules, methods and standards defined by the Group, and the presentation of the financial statements must comply with the format circulated by the Group.

All the companies within the Group refer to the Accounting Procedures Manual which is based on the international financial reporting standards governing the establishment of the financial statements of European listed companies.

The consolidated financial statements are submitted to the General Management then presented to the Audit Committee every quarter. Furthermore, the half-year and annual financial statements are also reviewed by the Statutory Auditors prior to their formal closure.

The parent company's financial statements are closed annually, reviewed by the Statutory Auditors and presented to the Management and the Audit Committee.

Process for reporting commercial passenger and cargo revenues

This process is performed in each of the companies and enables weekly revenue figures to be communicated to management. Furthermore, Air France and KLM have established a procedure known as the progressive revenue process making it possible to know the estimated amount of passenger revenues with only a two-day time lag for their own operations.

In addition, departments of the Group, Air France and KLM analyze the results by market and by route (unit revenues per passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer etc.) at the level of the passenger and cargo businesses.

A monthly presentation on the level of transportation revenues (passenger and cargo) is 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.

Management control reporting process

The Group Management Control department coordinates the reporting process with the management controllers in the two sub-groups.

In liaison with the Group's principal divisions and subsidiaries, these three teams of controllers then analyze the past month's economic performance and estimate the results for the coming months (forecast adjustment process) through to the end of the current financial year.

Once the accounting result for the month is known, Group Management Control produces a monthly document (management report) that summarizes the monthly key business, employee-related and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year for the Group, the two sub-groups and each business line. The same applies to the figures on cash flow, and the cash and debt positions.

This monthly Group management report is presented to the Group Executive Committee by the Group's Chief Financial Officer or the Group Management Controller (budget or medium-term target presentation, annual results).

3.4.5 Information and communication

The Group's information and telecommunication systems are based on the proprietary systems of the two companies, Air France and KLM, which permanently seek to optimize resources and maximize synergies. A single Group manager oversees the two IT and Telecoms departments, facilitating their convergence.

Communication within the Group is organized to ensure the effective circulation of information.

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 the Executive Vice-President, Human Resources.

Since mid-November 2012, a Group Finance division has been established to support the Group's Chief Financial Officer, and which is responsible for coordinating the finance functions in the companies, in the respect of the competencies of the latter.

The coordination of strategic decisions impacting the commercial, financial, technical and operational areas is ensured by the Group Executive Committee, which is the principal governance body described in Section III above. Since July 2013, this governance body has been supplemented by eight functional units at the level of the Air France-KLM Group (passenger strategy, commercial passenger, cargo, maintenance, IT, human resources, finance and corporate secretary).

The Air France-KLM consolidation scope includes 152 companies which are fully consolidated and 42 that are equity accounted.

Air France represents 56.6% of the Group's revenues and 44.6% of the total balance sheet (like-for-like).

KLM represents 34.7% of the Group's revenues and 26.4% 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.

Detailed estimates of the impact on revenues, costs, staff, investments and cash flows of the strategic orientations thus adopted are subsequently produced.

The budgets for the following financial year are established on this basis.

IV – Summary of the evaluation of internal control relating to accounting and financial information

Internal control is structured firstly around the annual evaluation of the Air France-KLM Group's control environment and, secondly, around a detailed evaluation of the controls carried out on accounting and financial information at significant process level.

3.4.7 Evaluation of the control environment

Each Group division or department has been the subject of a multi-year evaluation of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and effectiveness tests.

Air France and KLM have also established whistle blower procedures and formalized the anti-fraud program together with a procedure for identifying and testing the effectiveness of the control environment.

Similarly, overall control of the information systems has been the subject of a formalized evaluation.

3.4.8 Detailed evaluation of key controls on financial and accounting information at significant process level

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of risks, the Group has identified the most important companies and, within these entities, the processes that make a predominant contribution to the establishment of the financial statements.

For each of these significant processes, process and key control documentation has been established, followed by existence and effectiveness testing.

Following the delisting from the New York Stock Exchange, the Air France-KLM Group's Executive Committee and Audit Committee requested that high standards be maintained and that the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act be capitalized upon and its principles enshrined within the framework of the Group's day-to-day management.

The Group's different major divisions and subsidiaries had thus evaluated the effectiveness of internal control over financial information as at December 31, 2014.

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 of Air France-KLM

3.5 Statutory Auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code *(Code de commerce)* on the report prepared by the Chairman of the Board of Directors of Air France-KLM S.A.

This is a free translation into English of a report issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2014

To the Shareholders,

In our capacity as Statutory Auditors of Air France-KLM S.A. and in accordance with Article L. 225-235 of the French Commercial Code (*Code de Commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code (*Code de Commerce*) for the year ended December 31, 2014.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L. 225-37 of the French Commercial Code (*Code de Commerce*), particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Paris La Défense and Neuilly-sur-Seine, February 19, 2015

KPMG Audit		Deloitte et Associés	
A division of KPMG S.A.			
Jean-Paul Vellutini	Eric Jacquet	Pascal Pincemin	Guillaume Troussicot
Partner	Partner	Partner	Partner

4

Social, corporate citizenship and environmental information

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

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

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

Pursuant to Article 225 of the application decree for the French Grenelle II legislation of July 12, 2010 and the European Prospectus directive (EC 809/2004), the reporting is shown in the text and in the tables of indicators. The social, corporate citizenship and environmental information has been reviewed in its entirety by one of the Group's Statutory Auditors, based on the modalities stipulated in the notes on the social and environmental methodologies.

The reporting scope covers mainly the companies Air France and KLM. Any difference in scope is indicated in the text. Concerning the Air France Group, information on issues specific to the Servair, ACNA and Paris Air Catering subsidiaries is presented in the Servair management report.

4.1 Social information

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group averaged 94,666 in the 2014 financial year (excluding external labor), *i.e.* a 1.8% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France-KLM			Air France Group*			KLM Group		
Financial year	**2012**	**2013**	**2014**	**2012**	**2013***	**2014**	**2012**	**2013**	**2014**
Ground staff	69,994	66,535	65,088	49,795	46,847	45,514	20,199	19,688	19,573
Cabin crew	22,347	21,779	21,552	14,640	14,044	13,720	7,708	7,735	7,832
Flight deck crew	8,403	8,103	8,027	5,119	4,889	4,720	3,284	3,214	3,306
Total	**100,744**	**96,417**	**94,666**	**69,553**	**65,780**	**63,955**	**31,190**	**30,637**	**30,712**

* *Scope taken into account for the Air France Group: for 2012, the CityJet Group is included in the reporting but Airlinair, which became part of the Group on March 31, 2013, is not taken into account; for 2013 and 2014, the CityJet Group is excluded whereas Airlinair is included.*

Taking into account external labor, averaging a respective 3,181 in Full Time Equivalent during the 2014 financial year and 2,976 in Full Time Equivalent for 2013, the number of employees in the Air France-KLM Group as a whole declined by 1.6%: 65,153 FTE for the Air France Group (66,886 in 2013) and 32,695 FTE for the KLM Group (32,507 in 2013). Sixty-eight per cent of staff were employed by the Air France Group and 32% by the KLM Group.

Ninety per cent of the Group's employees are based in Continental France and the Netherlands with 10% located in the Group's international operations.

Sixty-two per cent 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

The Corporate Social Responsibility Statement and the Social Rights and Ethics Charter form the foundation of the Group's commitments by reaffirming the values and fundamental rights that guide its social and ethical policy. However, 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 a 2014 context of transition between the completion of the Transform 2015 plan and the launch of Perform 2020, this fostering of the workplace dialogue enabled the implementation of the Group's strategic plans and the management of change for all employees.

HR dimension of the Transform 2015 and Perform 2020 plans

In 2012, within a globalized and extremely competitive air transport sector, Air France-KLM launched a transformation plan, Transform 2015, to enable a recovery in the Group's competitiveness by the end of 2014.

This plan was adapted within each company to ensure the most appropriate response to achieving these objectives *(see also Section 2.2, Strategy)* and was accompanied by a review of all the collective labor agreements relating to the payroll, employees, working time and social security contributions. A negotiation process specific to each company was subsequently launched, resulting in the establishment of new working conditions.

At Air France, in addition to immediate measures concerning investment, costs, revenues and human resources, a series of more structural measures were defined *via* the negotiation and consultation process, then deployed in each of the entities. These were aimed at achieving a 20% improvement in economic efficiency by 2014, relative to the 2011 results, by mobilizing a number of levers: controlling the payroll, reducing headcount *via* Voluntary Departure Plans, increasing the number of hours worked, adapting scheduling to requirements and facilitating mobility.

The consultation process with the Air France Corporate Works Council on the orientations of the new Perform 2020 strategic plan and their consequences for the Forward Planning of Jobs and Skills took place between September and December 2014.

At KLM, 2014 was the third and final year of the Transform 2015 – Securing Our Future plan and the company was focused on achieving the plan's objectives. A presentation on the results, together with the forthcoming phases, was made to staff during two live webcast sessions and four conference-center-based meetings attended by some 1,100 employees from across KLM. During these interactive webcast sessions and meetings, presentations were also made on the new Perform 2020 plan.

The HR Connect strategy, defined in 2012 to translate the Transform 2015 objectives into the HR dimension for 2012-15, was also pursued. Within this framework, the new initiatives included the creation of decentralized mobility centers and work on the overall concept of leadership to give a clearer picture of what it entails and how it might evolve in future. One of the main HR Connect activities was the launch of e-HRM (MyHR), an online HR management system for all KLM staff.

Workplace dialogue

In addition to supporting the strategic plans, the coordination of the workplace dialogue at Group level was also pursued within the framework of employee representative bodies in each of the entities composing the Group, and within the European Works Council which brings together the employee representatives of the subsidiaries whose head offices or operations are based in the European Community. In 2014, five meetings of the European Works Council took place for information dissemination and consultation on matters such as the new integration phase for the Air France-KLM Group, organisational adjustments within Air France-KLM and the strategic plans implemented at Group level.

The signature of agreements also continued to mark the workplace dialogue in 2014, with negotiations conducted within the Group's different companies leading to the signature of a total of 95 collective labor agreements.

Within a context of the on-going turnaround and return to profitability, Air France and KLM are committed to maintaining a high-quality workplace dialogue at the service of the two companies and their employees. This dialogue promotes transparency on the situation within each of the companies and enables the management, in anticipation and during regular updates, of support for the staff concerned by the changes taking place. This workplace dialogue then needs to be translated into a series of strategic plans over a longer time frame (five years), which are established in individual entities based on a "bottom-up" methodology taking into account the market realities.

Air France

Results of the Transform 2015 plan and workplace dialogue

In terms of the functioning of the employee representative bodies, 14 meetings of the Air France Corporate Works Council were organized in 2014. The elected representatives were consulted and/or informed on the major orientations relating to the company's overall situation and, notably, on the results and turnaround measures.

In addition, the French Corporate Works Council, regrouping the employee representatives from the Air France Group's various subsidiaries, met three times in 2014. During these meetings presentations were made on the financial situation, business activity and strategic outlook for Air France, HOP!, Transavia, Servair and BlueLink, as well as progress reports on the brainstorming process being conducted by the working group on the Group's short and medium-haul strategy.

Eighty-eight collective labor agreements were signed in the Air France Group during 2014.

For Air France, 12 Ground Staff agreements, nine Pilot agreements and five Cabin Crew agreements (excluding agreements/clauses for the Flight Deck Crew category of staff) were approved in 2014, following negotiations at staff category or inter-category level with the unions. These notably covered:

- social protection (complementary scheme and health care costs, coverage of the long-term illness, invalidity and death assurances);
- implementation of profit-sharing and bonus schemes;
- framework and contractual resources for the exercise of union law;
- planning for the union elections in March 2015 and the renewal of the mandates of the employee representative bodies, works councils, Corporate Works Council and employee representatives expiring during that month;
- improvement of the organizations, working conditions, quality of life in the workplace and risk prevention;
- employment, including the employment of persons with disabilities;
- Transform 2015 plan measures.

In addition to the agreements outlined above, the workplace dialogue was shaped by the joint observatories for the deployment of Transform 2015. These observatories, deployed at the level of the Ground Staff, Pilots and Cabin Crew, enabled the transparent monitoring of progress on the changes under way, based on a series of shared indicators measuring economic efficiency. Involving members of the management and representatives of the unions who were signatories of the Transform 2015 framework agreements, these three observatories met quarterly as of the launch of Transform 2015, sometimes within the framework of meetings common to the three staff categories, resulting in more than 30 discussion meetings.

The final quarter of 2014 was the opportunity to share with the employee representatives the detailed results of the Transform 2015 plan, in the light of benchmarking realized in each of the business segments.

For the Ground Staff, these Transform 2015 results were notably shared in November 2014, after the first nine months of the 2014 financial year, with the unions who had been signatories of the main Ground Staff collective labor agreements covering the period of the plan. This report highlighted the overall successful achievement of the targets in the Ground Staff section of the plan, with the implementation of priority measures which contributed to delivering a structural improvement in the company's situation. These required changes for the company and its staff were carried out while respecting a series of pre-determined guarantees on employment, industrial scope and compensation.

Given these results and perpetuating the agreement-based Transform 2015 dynamic initiated by the Ground Staff framework and methodology agreement signed in March 2012, a third clause to the July 2012 Transform 2015 agreement was signed in December 2014 and entered into force on January 1, 2015. This clause improves the guarantees made to ground staff at a time when the company is embarking on a consolidation phase to pursue the company's turnaround. Furthermore, it offers a time frame which is more adapted to the forthcoming negotiations on the three-year Forward Planning of Jobs and Skills agreement and the prevention of the consequences of economic changes.

As regards Flight Deck Crew, agreements aimed at a 20% improvement in economic efficiency were signed with the Pilots in November 2012 and with Cabin Crew in March 2013. The implementation of the Cabin Crew agreement was broadly in line with its objectives, even though some measures still require structural integration. The objective of the Pilots agreement has been partially achieved, with some measures awaiting implementation. Furthermore, a pilots' strike saw a dispute between pilots and the management in September 2014 regarding the development of Transavia France. An agreement was finally signed enabling the development of Transavia France for up to 40 aircraft. (*See also pages 4 and 5, and section 2.2.3, page 53*).

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

In return for the agreements signed with the three staff categories and a commitment to no layoffs for the 2013-14 period, headcount reduction plans were established in 2012 and 2013 for each employee category comprising Voluntary Departure Plans in support of personal and professional projects, and retirement departures.

The difficult economic environment and the competitive situation in the various markets required additional headcount reduction in 2014, essentially in the segments posting the widest cost disparities relative to the competition (ground handling and, in particular, point-to-point) or experiencing a decline in demand (cargo).

It was to enable this headcount reduction while respecting the General Management's commitment to no lay-offs that a new Voluntary Departure Plan for Ground Staff targeting 1,826 FTEs was launched at the end of 2013.

This additional plan was the subject of a new agreement, dated November 26, 2013, significantly stepping up the offer to employees by, in particular, reinforcing the support measures to encourage professional conversion (formalized career path involving "occupational re-training" leading to a diploma or certificate and a bona fide job offer at the end of the conversion course), improving the tapered temporary support and the availability of transport facilities.

Voluntary Departure Plans concerning Pilots and Cabin Crew were also offered in 2014.

Naturally, all of these measures consistently respected the three key principles: voluntary, free access to information and the confidentiality of individual plans.

The Voluntary Departure Plan for Ground Staff broadly achieved its target, *i.e.* a headcount reduction of 1,660 FTEs (90% of the target), while the Cabin Crew plan enabled a reduction of 426 FTEs and the Pilots plan a reduction of 99 FTEs.

Facilitating internal mobility

The number of inter-divisional transfers more than tripled relative to 2012, reaching 1,200 in 2014. These transfers resulted from the growth of the maintenance activities, the closure of cargo sites and departures within the framework of the Voluntary Departure Plans.

Within the framework of the closure of cargo sites at Orly and in the French provinces (except Lyons) more than 100 employees were transferred to new positions in, principally, the maintenance business. The latter welcomed a total of more than 250 staff from other divisions, most of them benefiting from the opportunity to gain a professional qualification or diploma. Commercial Marketing also welcomed around a hundred employees.

The internal jobs exchange recorded 7,000 applications for some 900 job offers.

The mobility centers, staffed by some ten internal mobility support specialists, offered their services in virtually all the sites in Continental France (Roissy, Orly, Montreuil and the French provinces).

More than 1,400 people thus benefited from personalized support within the framework of a mobility project in 2014. Furthermore, the number of participants in the thematic conferences and job-dating events, showcasing the professions in the company which are recruiting, doubled relative to 2013 (1,600 at the end of October 2014) while the number of interview preparation workshops (150) tripled.

Internal mobility is thus considered to be one of the key factors in the success of the employment policy.

Internship program

Within the framework of the Intergenerational Agreement signed with the unions in 2013, Air France pursues an ambitious recruitment policy for interns drawn from both vocational training and higher education.

In 2014, Air France welcomed some 1,550 interns (710 FTEs, *i.e.* approaching 2% of total staff), representing a 7% increase (in FTE) relative to 2013.

Since the recruitment opportunities at the end of internships are very limited given the company's financial situation (most of the 49 new recruits were for the maintenance division in 2014), Air France has launched a series of vocational integration initiatives to support interns not recruited on permanent contracts (job-seeking workshops, employment forums, networking with companies in the Paris-CDG labor pool).

Organization of working time

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

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

The average length of the working week applied within the company is consistent with the duration stipulated by the law in force. In 2014, the percentage of employees working part time in France remained stable relative to 2013, and continued to be impacted by the measures to encourage part-time working (21.1% in 2012, 24.2% in 2013 and 24.5% in 2014).

The absentee rate for sickness, maternity or work-related accidents amounted to 5.38% in 2014, slightly down on its level in 2013 (5.58% in 2013).

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 2014 for the third consecutive year, and did not enable the signature of an agreement within the framework of the Annual Wage Negotiation.

In 2014, 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 impacted the basic salary trend which increased by around 1.4% for Ground Staff present in 2014. Individual wage moderation measures were also pursued for Flight Crew.

With regard to the profit-sharing scheme for the 2013 financial year, a figure of €7.8 million was paid. For the sixth year running, there were no bonus payments made in respect of this financial year.

New bonus and profit-sharing agreements were signed on June 27, 2014 for the 2014 to 2016 financial years. These agreements make the payment of a profit-share conditional on Air France generating positive results.

An Individual Employee 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

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

Workplace dialogue and employee information

Ten meetings of the KLM Works Council were held during 2014. One additional meeting was organized, attended by the Air France-KLM Group's Chairman and Chief Executive Officer, Alexandre de Juniac, devoted to a presentation of the new strategic plan Perform 2020.

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

In 2014, the Conscientious Objections Procedure was finalized. This procedure was developed in cooperation with the KLM Works Council and applies to all KLM staff, including those in its European subsidiaries.

At KLM monthly meetings are held with the unions representing Flight Deck Crew, Cabin Crew and Ground Staff to discuss issues relating to the collective labor agreements. In addition to these monthly meetings, meetings were also scheduled in 2014 to establish a new salary structure for Cabin Crew and to align the pension schemes due to changes in the Dutch fiscal regulations.

In December 2014, negotiations for the renewal of the three Collective Labor Agreements were engaged during which KLM presented its main goals for the coming five years: a 1.5% annual reduction in unit costs, a 10% reduction in labor costs and a 4% annual increase in productivity. In 2014 the new MyCAO platform was launched to inform and foster dialogue with KLM employees on the content of the CLA negotiations.

Furthermore, KLM seeks a direct dialogue with its employees who are encouraged to share their opinions and ideas. In 2014, KLM carried out an employee engagement survey within all the company's divisions except in Cargo and Commercial, the latter two departments carrying out an engagement survey jointly with the Air France-KLM Group. The results of this survey will be analyzed in early 2015. Employees were also invited to share their ideas *via* a number of communication channels during the live webcasts and conference center sessions.

New collective labor agreements

For KLM, the targets in the HR dimension of the Transform 2015 plan aimed to improve productivity and reduce support staff by 10% without recourse to layoffs. The application of the internal mobility scheme was pursued to fill positions left vacant following departures.

As in 2013, the number of external hires was very low in 2014. The search for internal candidates now having become more difficult, a resolute focus on optimizing the mobility process is required.

Despite the difficult financial environment, KLM hired a limited number of young professionals in different development programs during 2014. For example, the year saw nine young professionals enrol in the KLM Management Trainee program and four in the IT Management Program. Additionally, more than 450 interns joined KLM in 2014, illustrating KLM's commitment to assuming its responsibility vis-à-vis students and young professionals by offering them the opportunity to gain valuable work experience and preparing them to enter the jobs market. Short and long-term internships are offered to students drawn from both vocational training and higher education.

Recruitment Services represents KLM in a series of campus recruitment events. The high number of applications for both the KLM Management Programs (more than 3,400) and internships (more than 800) testifies to KLM's attractiveness as an employer. Furthermore, in 2014, KLM was ranked amongst the ten Best Dutch Employers in the Effectory Best Employer survey (category for companies with 1000+ employees).

Employment and mobility

The principle of limited recourse to external hiring, in place since 2008, was maintained in 2014. As in previous years, this led to the implementation of measures to incentivize internal mobility within the company, in cooperation with the unions.

In 2014, the number of employees hired on permanent and temporary contracts stood at 1,989 for the KLM Group (versus 1,319 new hires in 2013), while departures stood at 1,824 versus 1,256 in 2013.

Taking into account the recruitment and departures during 2014, the KLM Group had 34,662 employees at the end of 2014, compared with 34,664 at the end of 2013.

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.

The principle of non-replacement of staff, a policy in place for some years, was maintained during 2014. 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 that are proving difficult to fill during these weekly meetings.

Various programs have been designed to encourage employees to be more mobile and familiarize them with the tools at their disposal. A number of initiatives have been launched with, for example, the Ground Services division putting in place a number of mobility centers to meet the specific needs of employees in this division.

In 2014, 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. In 2014, the subsidy application, filed in 2013 by the Foundation, was granted and will be used to develop industry initiatives in the sector.

Organization of working time

Due to the legal provision for part-time working in the Netherlands, which 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 2014, the proportion of KLM Group employees working part time stood at 39.1%, unchanged on the previous year (39.1% in 2013).

The overall absenteeism rate for KLM stood at 5.77% in 2014 (including illness/injury resulting from workplace accidents, which was 0.13%) versus 5.30% in 2013 while, for maternity leave, which is not considered to be absence due to illness, the rate was 0.49% in 2014.

Compensation policy

There were no general salary increases in 2014.

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

In 2014, agreements were signed to align the pension schemes with the new pension legislation in force as of 2015 and renewed discussions are planned on “future-proofing” the pension schemes over the longer term during the current year.

4.1.2 Training

Air France

At the very heart of its concerns, flight safety, the safety of individuals and the prevention of accidents in the workplace are all absolute priorities for Air France when it comes to both investment and training. In 2014, training meeting these requirements represented more than one third of overall training hours.

Furthermore, against a backdrop of on-going cost saving, Air France maintained a high level of investment in training during 2014, with €186 million dedicated to employee learning. The rate of employee access to training was above 90%, knowing that, in large companies, this figure averages 60%.

Access to training for all employees is thus a resolute focus for Air France and is supported, notably, by innovative apprenticeship initiatives such as an e-learning tool developed for Cabin Crew and accessible by digital tablet, the roll-out of virtual classes for foreign language learning, the deployment of My Learning (a new self-service training platform aimed at managers) and blended learning, etc.

Lastly, Air France also pursued its policy regarding personal training entitlements (DIF or *Droit Individuel à la Formation*) which represented 12% of hours of training in 2014, as in 2013.

All the above indicators illustrate Air France’s commitment to providing employees, notably *via* training, with the means to exercise their functions (development of skills and qualifications) and supporting them in their career mobility and professional transformation.

In 2014, the major challenge was to facilitate mobility and professional transfers. As a function of the requirement for job transfers and professional qualifications defined with the framework of the Forward Planning of Jobs and Skills, Air France focused its support on employees changing divisions and professions with the dual objective of developing the skills required by their new positions and securing their career paths by increasing their employability. Several types of schemes were put in place:

- adaptation training for new accountants, buyers and secretaries in the business lines;
- training leading to professional diplomas and other qualifications in the:
  - maintenance division: CAP, BAC pro, BTS Maintenance, DUT technology degree in Logistics, CESI Engineering qualification,
  - IT division in partnership with the IUT d’Orsay: vocational degree in Developing New Technologies. An IT Network DUT technology degree is also being studied for future network technicians;
- vocational training blended with Validation of Prior Learning-based schemes and training to round-out this experience aimed at both developing the skills of existing employees and increasing their employability: a first year’s intake was established for the payroll profession in partnership with the University of Rennes, aimed at obtaining an HR Professional Degree specializing in payroll management with other trials being launched for, notably, the Customer Relations and IT Network technicians professions.

In 2014, Air France also pursued its training policy aimed at supporting projects within the framework of Transform 2015 like, for example, the “Service Signatures” training which was deployed on a massive scale for all front-line staff. Training also supported the transformation of managerial practices through both the deployment of the “Development of Managerial Practices” initiative and the launch of a new My Learning platform, a collaborative platform dedicated to the 8,000 Air France managers, and aimed at self-service learning addressing their day-to-day issues.

KLM

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

Within the framework of the Transform 2015 plan, KLM 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 2014, the KLM Academy, an in-house training center for managers and specialists, launched the Develop Yourself Tool, an online platform which enables staff to learn anywhere, at any time. Six months after its launch, 1,500 employees had visited the platform. The KLM Academy also launched a new offer for managers with eight new one-day workshops on different themes to supplement the longer existing programs. Last year, 160 managers enrolled in these workshops.

KLM also initiated a mentoring program to train 35 mentors who have subsequently posted their profiles on the intranet site. Applicants for the mentoring program are free to choose their own mentors. Additionally, ninety-six employees spread across a number of different sessions participated in “intervision”, a peer-to-peer event aimed at discussing practical solutions and helping each other move forward.

In 2014, KLM organized ten “Guest Seminars” and nine “Open Podium” sessions during which KLM staff and experts from their networks shared best practices and experience.

Besides KLM-wide initiatives, training activities were also organized in individual KLM departments. For example, the KLM Business Campus, in cooperation with Ground Services, re-engineered the learning program for new Passenger Handling employees, resulting in an annual cost saving of more than €200,000. Other savings were achieved by replacing a classroom-based training program in the Baggage Handling department by a mobile device-based game (app), which can be played during off-peak hours.

In KLM’s IT department, a number of training initiatives were organized to support employees in “The New World of Work”. For example, three training modules were developed specifically for managers since it is they who have to support and steer change. The themes of these modules included “Managing for results”, “Leadership” and “Work-life Balance”. On average, some 40 employees participated in those three modules.

In 2014, training expenses amounted to €76.6 million for the Netherlands, representing an investment of €3,229 per employee, a 22.4% increase relative to 2013. 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. This choice results from both the statistical tracking tools used by the company and from Dutch legislation.

KLM also continued its efforts to enable more staff to obtain a formal diploma through the VPL (Validation of Prior Learning) scheme, which resulted in 112 employees gaining vocational training diplomas in July 2014 and 19 employees continuing their program (second year). The new program, offering KLM employees the opportunity to enroll in secondary vocational training without having first obtained a VPL certificate, is proving very successful. In total, 91 employees started a new vocational training program in September 2014.

In 2013, KLM became a partner of Luchtvaart College Schiphol (Schiphol Aviation College), which brings together aviation businesses, vocational education institutions and the regional authorities in initiatives to stimulate the Schiphol region employment market by acting as a resource center for information on aviation jobs and training. In 2013, KLM and Schiphol Aviation College joined forces with a well-known Dutch employment agency to offer temporary assignments to individuals with limited access to the labor market, offering them the opportunity to gain valuable work experience and vocational training. The first seven candidates started in September 2013, and five will be finishing their educational program in February 2015. A new group is scheduled to start in February 2015. Luchtvaart College Schiphol also initiated a program for 15 unemployed young people living in the Schiphol region. This program aims to prepare these young people to enter the jobs market in the Schiphol region by making them aware of employment and training opportunities. In October 2014, Luchtvaart College Schiphol organized a “Mobility Day” aimed at connecting employers in the aviation sector and showcasing mobility.

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 analysing 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

2014 saw deteriorating results on the frequency of accidents in the workplace (see the social indicators table) with the company noting a modest increase in the accident frequency rate (+4%). Individual and collective commitment and the comprehensive assumption of the related responsibilities are reaffirmed as a high priority.

The company thus embarked on a process to consolidate its governance and stabilized its safety management system by obtaining 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 is focusing on the following 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, 21 vocational illnesses had been recognized in 2014 of the total 95 reported, a number subject to change in view of the time taken to handle requests by the social bodies. Note, however, the 25% increase in the number of conditions reported relative to 2013. The main pathologies remain musculoskeletal disorders linked to repetitive strain injuries or heavy lifting, and difficulties with hearing. The incidence of vocational disorders declared and/or recognized at Air France remains very significantly below the French national average.

In 2014, the company's 30 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 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.

This year was marked by numerous questions surrounding the Ebola virus epidemic which prompted the vocational medical teams to direct substantial efforts towards information, communication and data reliability to provide the entire company with the most up-to-date scientific and medical advice, and inform the decision-making process in terms of the prevention measures and organization required to mitigate this new risk.

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.

Lastly, 2014 saw the renewal of the operating authorization for Air France's Vocational Medicine department, delivered for the maximum five-year period foreseen by legislation.

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: actions to develop Quality of Life In the Workplace and on the Prevention of Psycho-Social Risks, the Charter for Prevention of Harassment in the Workplace, the Charter for Preventing the Risks Linked to Alcohol Consumption and the Action Plan for the Prevention of Onerous or Hazardous Work.

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 was reinforced in 2014, the company also has ergonomics experts embedded in the operational divisions.

The commitment of in-field management and the vigilance of employees, supported by a network of Health and Safety point people, 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 improving organizations, working conditions, quality of day-to-day life in the workplace and preventing risks and hazardous situations, 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 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 continued. 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 rapid screening for rapid actions being trialled by Cabin Crew at the Orly, Marseilles, 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, onerous 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 trialed in 2014: 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. They will be gradually rolled out starting from 2015.

KLM

In matters of safety, KLM's primary objective is to become a world leader within the industry. The company is thus targeting a "zero accident" situation and does its utmost to minimize the number of workplace incidents.

In 2014, with a ratio of three serious occupational accidents, KLM reached its goal of fewer than four serious accidents. However, 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 (5.77% for 2014, versus 5.3% in 2013). Cases of occupational illness represent a percentage of 0.13%.

Integrated safety management

In its quest to achieve a leadership position on safety, KLM has developed an Integrated Safety Management System (ISMS), covering occupational and operational safety, environmental protection and operational security. The functioning of this ISMS is outlined in KLM's Integrated Safety Management Manual and has been approved by the Dutch civil aviation authorities.

In 2014, 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 a well-trained and adequately-staffed organization focused on occupational safety.

Managing vocational health and safety risks

As part of the safety system-based approach, pro-active integrated safety risk assessments are increasingly used when changes in working processes are considered or implemented. The results of these Safety Issue Risk Analyses, as well as analyses on incidents and accidents, have resulted in the ranking of safety risks by division, as well as for the company as a whole.

For ground occupational safety, the risk of injury caused by colliding with a piece of equipment or by falls and trips is analyzed 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 are caused by collisions, falls and people tripping over. The Top 5 risks are deemed to be high priority for risk mitigation in 2015.

KLM focuses on an integrated approach to all health-related matters to be able to pursue a more concrete and efficient policy. This approach, launched in 2013, led to the establishment of a long-term three-year plan and, for 2014, a detailed action plan constituting a framework presenting a common vision across all business units on the company-wide goals for health and safety. The implementation of this policy 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. To support this broader priority at KLM-wide level, an integrated review of all risk analyses on working conditions was conducted in 2014.

Training and awareness-raising initiatives to promote Health and Safety

Training and awareness-raising initiatives aimed at reinforcing safety took place in 2014, and many more are planned. As part of the implementation of the ISMS, a safety training needs analysis exercise took place for all KLM employees and, more specifically, for functions responsible for the safety management system. The roll-out of the required training thus identified is already under way and will continue in 2015. At KLM level, a Safety f@cts online video was launched for all employees, focused on the reporting of at-risk situations. In 2014, Safety Services employees were trained in the ISMS and all HR managers received training on health and safety legislation.

In the last quarter of 2014, a Safety Culture evaluation was carried out. The results will be compared with those of the previous evaluation in 2011 and any follow-up actions will be determined in early 2015.

In 2014, KLM began to organize Health Theme Events with two taking place in this same year, one on self-management and one on the promotion of healthy lifestyles. These sessions saw managers and professionals from both inside and outside the company share their knowledge and best practices.

Furthermore, an e-learning training module was developed and implemented in 2014, to train and support managers in the management of absenteeism.

Improving the quality of life

A number of initiatives have been developed, tailored to the relevant target group, ranging from information sessions on specific themes to programs involving a number of different activities. For example, the "Fit on the Vliegtuigopstelplaats" lifestyle program was rolled out in the Ground Services division during 2013 before subsequently becoming the "FeelFit" program in 2014. This program offers a wide range of activities from health screening to individual and group training on healthy lifestyles (*e.g.* smoking cessation).

Furthermore, in 2014, a pilot program known as "HelloFysio" was launched for flight deck crew, offering online physiotherapy treatment by experienced physiotherapists. The results of this pilot are expected in 2015.

Other examples include training on mindfulness (over 100 participants from the Commercial division) and the launch of an "Energy Strategy" training unit focused on employee information and the promotion of healthy lifestyles, both developed and implemented by the KLM Business Campus.

In 2013, three major agreements constituting the foundation of KLM's integrated approach to all health-related matters were 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 2014 KLM's Works Council was again consulted on a range of health and safety-related issues, on matters as diverse as the quality of air around operations, the handling of hazardous substances and preventive medical screening. The development and implementation of the e-learning module on managing absenteeism was also discussed with the Works Council.

In terms of air quality, KLM has developed a website which posts the Air Quality Index and provides information. Furthermore, a protocol has been implemented on air quality levels and their management to reflect the management's "duty of care" in this area. In 2014, a policy framework on preventive medical screening was also agreed with the Works Council.

4.1.4 Fostering diversity and combating discrimination

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

This commitment to respecting human rights and opposing all forms of child and forced labor is enshrined in the Group's Corporate Social Responsibility Statement and its Social Rights and Ethics Charter.

Within the framework of operations, the Group has identified the risk factors relating to human rights with the responses implemented covering a number of different areas: health and safety in the workplace, equal opportunity, work-life balance and data protection measures for customers and employees. .

In its relations with suppliers, the Group has a monitoring system in place to ensure that sub-contractors comply with the universal human rights and principles on a global basis. Suppliers are encouraged to sign a Sustainable Development Charter incorporating social and environmental principles.

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 some management categories, 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 employees.

In September 2013, the company signed an agreement relating to the 2013-15 Intergenerational Contract covering the long-term vocational integration of young people, 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 (Association Française des Managers de la Diversité* – AFMD), the Corporate Social Responsibility Observatory *(Observatoire de la Responsabilité Sociétale des Entreprises* – ORSE) and IMS-*Entreprendre pour la Cité*.

Fostering equal opportunity

The commitment to fostering equal opportunity applies, in particular, to the collective recruitment and internal selection processes.

Since December 2013, the new Jobs website has included a "Diversity" section highlighting, notably, professional equality between men and women.

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

- the recruitment processes have been ISO 9001 compliant since 2001, with this certification guaranteeing the management and efficiency of the processes currently in the renewal process;
- any individual liable to use the selection tools, consult job application files or have access to confidential information is required to respect the ethical and moral obligations set out in the Ethics Charter of the Recruitment, Selection and Redeployment department. This Charter is updated annually as a function of regulatory changes and best practices for the profession.

Promoting professional gender equality

For some ten years, Air France has reaffirmed professional gender and wage equality between men and women as a major priority for the business and an area in which the company would like to make progress in terms of human resources management. To this end, in April 2013, Air France signed a framework agreement with the French Ministry of Women's Rights, formalizing a number of commitments in terms of work-life balance, combating the glass ceiling, increasing the proportion of women in Board committees and supporting small subcontractors and suppliers in the professional equality approach. This agreement was in addition to the initiatives already 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 2014 "action plan on professional equality between men and women" has the following aims:
  - perpetuate the diagnostic of the comparative professional situations of men and women and measure any disparities,
  - take concrete measures to ensure that gender equality is an integral part of all human resources processes to eliminate wage discrimination between men and women at the earliest opportunity and move from a "remedial" rationale to one of on-going "monitoring",
  - propose concrete measures to ensure a greater balance between professional and personal life.
- 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 2014.

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

To assess the facts objectively and inform the action plans, a number of studies were also conducted:

- an in-house study relating, in particular, to parenthood involving Air France Industries employees (response rate of more than 23%) enabled the identification of two priorities for the 2015 action plan: increased communication on parental leave based on the existing channels and an information campaign on the introduction of systematic interviews by managers before and after parental leave;
- again at Air France Industries, a second study highlighted the fact that 75% of the relevant female population, in their last allocation, had not chosen the overalls designed specifically for women, due either to unfamiliarity or choice. An awareness-raising initiative on this clothing is thus planned for each distribution scheduled for 2015;
- in another example, a study on the perception of the male-female balance within the company (in liaison with the IMS *Entreprendre pour la Cité* association) will benchmark the perception of Air France managers relative to the perception of those in eight large French companies and submit a proposed action plan for 2015 consistent with the expectations expressed.

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 7, 2014, Air France thus operated an A380 flight regrouping one pilot, two co-pilots, one Senior Chief Flight Attendant, two Chief Flight Attendants and 18 hostesses. The passengers bound for Johannesburg were welcomed on board by the largest-ever women-only crew.

The company also continues to participate in external awareness-raising initiatives with, for example, in 2014:

- the participation of Air France employees (including female pilots) in the Women in Aviation Day at Nevers airport on September 28, 2014 organized by the AFFP, the French Association of Women Pilots;
- the participation of the Ground Operations division in the "*Assistance en escale au feminine*" project carried out by the French National Federation of Commercial Aviation *(Fédération Nationale de l'Aviation Marchande* – FNAM) and the Île-de-France region aimed, notably, at promoting the aviation professions and handling in particular to women. An awareness-raising initiative and company site visits (including to Air France) saw 100 young boys and girls from the region discover the aviation-related professions, in school-based curricula or *via* professional qualifications, and take part in a competition to produce a poster on diversity in the workplace. The prizes were awarded at ceremonies held at the *Musée de l'Air* and Le Bourget on June 10, 2014.

Policy on disability

In 2014, Air France hired 23 new employees with disabilities. The company also ensured the maintained employability of staff with disabilities through numerous support programs and the adaptation of work stations.

Furthermore, the company's stepped up its recourse to businesses and organizations in the adapted and sheltered employment sector, with spending on procurement from this sector amounting to €18 million in 2014 (€16 million in 2013).

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 Employment 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 4.95% in 2013. 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 2014. The company has also established multiple partnerships, particularly with associations, to help achieve its objective of recruiting and promoting the vocational integration of disabled workers, and changing how disability is perceived.

KLM

Gender equality and respect for sexual orientation

The company is committed to gender equality and respect for sexual orientation. The Over the Rainbow social network, launched in 2010 by KLM and bringing together homosexual, bisexual and transgender employees, provides advice and ensures their equitable treatment, irrespective of sexual orientation. The network has seen steady growth with members numbering around 350 at the end of 2014. On Coming Out Day (October 2014), Over the Rainbow organized a luncheon event, at which the themes of gender equality and diversity were addressed.

The percentage of women staff within the KLM Group rose to 42.6% in 2014 from 42.3% in 2013. 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 19.8% to 20.5%.

In cooperation with Leiden University, KLM has launched a survey of its staff to gain an insight into their perception of diversity in the workplace. The results of this survey are expected in early 2015.

In 2013, KLM established a Diversity Council which met five times in 2014 (compared with the four meetings originally scheduled). These meetings addressed issues such as how to promote diversity across the organization and raise awareness. Diversity is consequently one of the themes featured in the divisional plans on Management Development. Another concrete result was the appointment of a Diversity Manager, effective February 1, 2015.

Vocational integration of persons with disabilities

Within the framework of Dutch legislation, KLM is fully committed to actively furthering the vocational integration of disabled persons and to maximizing their potential economic contribution. This represents a common goal for both KLM and its employees. Based on government guidelines, occupational physicians evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and employees on the 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 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.

The return to work for employees with disabilities receives pro-active support from KLM. When KLM employees are unable to return to their jobs due to disability, they are automatically offered an appropriate position without having to complete a new application process. Since 2010 KLM has benefited from an Advisory Committee supporting the monitoring of these measures and proposing improvements. In 2014 this committee reviewed 523 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.

On return from sick leave, when employees are considered to be in a situation of permanent disability, even if they have changed jobs and now occupy positions adapted to their disabilities, they are deemed to be disabled for legal purposes.

At KLM, the number of employees with disabilities increased from 710 in 2013 to 750 in 2014.

4.2 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM Group's social performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law *(Les Nouvelles Regulations Economiques*, NRE, May 15, 2001) and the European regulation (EC 809/2004).

In 2011, work to optimize these indicators was undertaken to align, as of 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 S.A., for review before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit, a department of KPMG S.A.

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)[1].

4.2.1 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 96% of the average employees in the Air France-KLM Group at the end of the calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group has at least 50% control, whose acquisition dates back at least one full year and which have at least 250 employees, are included in this NRE social reporting scope.

Two entities exceeding the above thresholds, NAS Airport Limited and BlueLink International CZ, are excluded from the scope due to difficulties currently being encountered with their inclusion in the reporting process.

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

- for the 2014 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Airlinair, BlueLink, Brit Air, CRMA, Régional, Servair Group (ACNA, Orly Air Traiteur, PAC SA, Servair SA and Passerelle), Sodexi and Transavia France, representing 75% of the employees of the subsidiaries in the Air France Group;
- for the 2014 financial year, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering Limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 94% of the employees in the subsidiaries of the KLM Group.

In 2014, Airlinair was included in the reporting scope of the Air France subsidiaries while CityJet and VLM were withdrawn due to the disposal of these subsidiaries.

The reporting scope for the KLM subsidiaries remains unchanged.

The reference number of employees for calculating the coverage rate of the NRE social reporting is the average number of employees in full time equivalent during 2014 derived from the Management Control division's BFC tool.

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

4.2.2 Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYstem for ReportIng on Sustainability) reporting software at the disposal of contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors to the Osyris tool are available in both French and English.

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

This system is supplemented by a 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.

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

4.2.3 Details and methodology/Commentary on changes in the indicators

"Consolidated social data for the Air France-KLM Group" 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 tables on pages 128 to 131.

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 2014 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 2014, the Air France Group employees in the French Overseas Territories and Dominions, *i.e.* 700 employees, are included in the Caribbean and Indian Ocean geographical zone.

"Other social data" tables

The indicators reported in the "other social data" tables are subject to **different qualification and legal reporting obligations** in France **and the Netherlands**, meaning that they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the Reporting scope section above.

Absenteeism - Health and safety in the workplace

A significant portion of the work-related accidents reported by Air France is due to cases of barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France whereas they are recorded as sick leave by KLM in accordance with Dutch law.

The absenteeism rate is not communicated for the Air France and KLM subsidiaries, the follow-up measures being in the verification process at the level of these entities.

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 5 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. These indicators have also been calculated for the 2013 financial year.

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 same financial year.

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

Air France and Air France subsidiaries

Note 4: The "Number of training hours by employee" indicator is calculated based on all the training sessions, irrespective of whether their nature requires them to be included in the 2483 Regulatory Declaration.

The hours of training for the subsidiaries of the Air France Group are calculated without the data related to the Transavia France subsidiary.

KLM and KLM subsidiaries

Note 4: KLM does not currently have a centralized reporting procedure solely for the costs of training within KLM and its subsidiaries. Note that the disclosure of the total number of training hours is not required by Dutch law.

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

Number of disabled employees

Air France and Air France subsidiaries

Note 5: For Air France and Servair, the number of disabled employees are those who, based in Continental France and the French Territories and Dominions, were on the payroll for at least one day in the year 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.

For the other Air France subsidiaries, the reported number of disabled employees refers to the employees on the payroll at December 31, 2014 and for whom a valid certificate, pursuant to French law, is available.

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 2014 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, 2014, 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).

4.3 Social indicators for the Group

4.3.1 Consolidated social data for the Air France-KLM Group

	Air France-KLM Group			
Headcount at 12/31[1] (permanent contracts and fixed-term contracts)	**2012**	**2013**	**2014**	**14/13**
Scope of NRE Social reporting	***96%***	***96%***	***96%***	***0.0%***
Total staff	104,130	100,569	**99,277**	-1.3%
Ground staff	69,516	66,512	**65,545**	-1.5%
Cabin crew	25,863	25,548	**25,282**	-1.0%
Flight deck crew	8,751	8,509	**8,450**	-0.7%
Staff under permanent contract	100,273	96,368	**94,592**	-1.8%
Recruitment under permanent contract at 12/31[2]	848	1,253	**1,648**	31.5%
Recruitment under fixed-term contract at 12/31[2]	4,313	4,249	**5,643**	32.8%
Departures at 12/31[3]	8,571	9,975	**10,577**	6.0%
of which redundancies (incl. economic)	640	492	**455**	-7.5%
Percentage of women at 12/31[4]	42.8%	42.9%	**43.2%**	0.7%
Percentage of part-time employees at 12/31[4]	25.5%	27.4%	**27.7%**	1.1%
Breakdown of staff by age at 12/31				
<= 29 years	8,222	7,878	**7,058**	-10.4%
between 30 and 39 years inclusive	30,305	28,081	**24,938**	-11.2%
between 40 and 49 years inclusive	37,255	37,259	**36,823**	-1.2%
50 years and above	28,348	27,351	**30,458**	11.4%
Breakdown of staff by geographical area at 12/31				
Europe (except France and the Netherlands)	4,607	4,483	**3,733**	-16.7%
North & South America	2,013	2,029	**2,021**	-0.4%
Caribbean/Indian Ocean (including French overseas territories)[5]	1,109	1,042	**1,034**	-0.8%
Asia/Pacific	1,678	1,728	**1,702**	-1.5%
Africa/Middle East	1,607	1,531	**1,466**	-4.2%
The Netherlands	30,562	30,496	**30,477**	-0.1%
Continental France	62,554	59,260	**58,844**	-0.7%

* *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 Servair group: ACNA, OAT, Passerelle, Servair SA, PAC SA.

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

(1) (2) (3) (4) (5): See note on the Methodology.

Air France Group*				KLM Group**			
Total Air France Group		Of which Air France		Total KLM Group		Of which KLM	
2013	2014	2013	2014	2013	2014	2013	2014
95%	*94%*	*100%*	*100%*	*98%*	*98%*	*100%*	*100%*
65,905	**64,615**	53,423	**52,541**	34,664	**34,662**	28,718	**28,805**
45,466	**44,721**	35,344	**34,786**	21,046	**20,824**	16,941	**16,934**
15,450	**15,081**	14,215	**13,991**	10,098	**10,201**	9,086	**9,055**
4,989	**4,813**	3,864	**3,764**	3,520	**3,637**	2,691	**2,816**
63,262	**61,680**	52,029	**50,881**	33,106	**32,912**	27,926	**28,155**
782	**884**	313	**388**	471	**764**	430	**694**
3,401	**4,418**	889	**1,585**	848	**1,225**	317	**190**
8,719	**8,753**	5,553	**5,247**	1,256	**1,824**	707	**798**
414	**343**	179	**112**	78	**112**	49	**78**
43.3%	**43.5%**	45.0%	**45.2%**	42.3%	**42.6%**	43.6%	**43.4%**
21.2%	**21.5%**	24.2%	**24.5%**	39.1%	**39.1%**	40.2%	**40.3%**
4,654	**4,423**	3,302	**3,113**	3,224	**2,635**	2,202	**1,556**
19,207	**16,900**	15,842	**13,944**	8,874	**8,038**	7,239	**6,422**
24,371	**24,519**	19,908	**20,144**	12,888	**12,304**	10,970	**10,514**
17,673	**18,773**	14,371	**15,340**	9,678	**11,685**	8,307	**10,313**
2,204	**1,505**	1,584	**1,504**	2,279	**2,228**	933	**930**
1,582	**1,557**	1,309	**1,294**	447	**464**	446	**463**
986	**979**	780	**774**	56	**55**	56	**55**
746	**752**	742	**748**	982	**950**	982	**950**
1,021	**985**	997	**958**	510	**481**	510	**481**
154	**43**	32	**43**	30,342	**30,434**	25,743	**25,876**
59,212	**58,794**	47,979	**47,220**	48	**50**	48	**50**

4.3.2 Other social data for the Air France Group (according to local legislation)

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

	2013	2014	14/13
Absenteeism[(1)]			
Due to illness	3.91%	**3.81%**	-3%
Due to work accidents	0.68%	**0.69%**	1%
Maternity leave	0.99%	**0.88%**	-11%
Health and safety			
Total workplace accidents[(2)]	2,238	**2,283**	2%
Number of fatal workplace accidents	1	**0**	
Frequency rate of workplace accidents[(3)]	29.56	**31.04**	5%
Severity rate of workplace accidents[(3)]	0.88	**0.87**	-1%
Training			
Number of training hours by employee[(4)]	28	**28**	0%
Disabled staff[(5)]			
Total staff with disabilities	1,727	**1,699**	-2%
Total staff with disabilities recruited during year	16	**23**	44%
Yearly spending in the sheltered sector (in €m)[(6)]	16	**18**	13%
Collective agreements	47	**36**	

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

➤ **Air France subsidiaries**

	2013	2014	14/13
Scope of reporting for Air France subsidiaries	*73%*	*75%*	*3%*
Health and safety			
Total workplace accidents[(2)]	1,048	**959**	-8%
Training			
Number of training hours by employee[(4)]	20	**18**	-10%
Disabled staff[(5)]			
Total staff with disabilities	609	**622**	2%
Total staff with disabilities recruited during the year	22	**16**	-27%
Collective agreements	58	**52**	

(1) (2) (3) (4) (5) (6): See note on the Methodology.

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

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

	2013	2014	14/13
Absenteeism(1)			
Due to illness	5.20%	**5.64%**	8%
Due to workplace accidents	0.10%	**0.13%**	30%
Maternity leave	0.54%	**0.49%**	-9%
Health and safety			
Total workplace accidents(2)	186	**199**	7%
Number of fatal workplace accidents	1	**0**	
Frequency rate for workplace accidents(3)	4.01	**4.25**	6%
Severity rate of workplace accidents(3)	0.18	**0.22**	22%
Training(4)			
Total training costs *(in K€)*	62,412	**76,596**	23%
Total training costs (in € per full time equivalent)	2,638	**3,229**	22%
Disabled staff(5)			
Total staff with disabilities	710	**750**	6%
Collective agreements	*0*	***0***	

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

➤ KLM Subsidiaries

	2013	2014	14/13
Scope of reporting for KLM subsidiaries	*94%*	***94%***	*0%*
Health and safety			
Total workplace accidents(2)	72	**159**	121%
Number of fatal workplace accidents	0	**0**	
Frequency rate for workplace accidents(3)	6.77	**15.25**	125%
Severity rate of workplace accidents(3)	0.09	**0.10**	11%
Training(4)			
Total training costs *(in K€)*	18,524	**27,320**	47%
Total training costs *(in € per full time equivalent)*	2,885	**4,238**	47%
Disabled staff(5)			
Total staff with disabilities	99	**92**	-7%
Collective agreements	2	**7**	

(1) (2) (3) (4) (5): See note on the Methodology.

4.4 Corporate citizenship information

4.4.1 Dialogue with stakeholders

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

This on-going dialogue helps the Group to understand the changes taking place in wider society more effectively, together with the challenges and issues with which it is faced. It encourages the emergence of new subjects and serves as a starting point for the brainstorming process on pilot projects. Such interaction also enables an improvement in the Group's reporting. The 2014 financial year saw the disclosure of more comprehensive information on the management of risks linked to climate change, on the respect of human rights notably amongst employees and sub-contractors, and the taking into account of social and environmental criteria in the evaluation of suppliers.

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

- internal barometers and meetings to garner employee suggestions;
- 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 sector 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 digital addresses, websites and the social media;
- feedback channels deployed to enable stakeholders (notably employees, customers and local residents around airports) to communicate any complaints.

Some examples of stakeholder dialogue:

Employees

- Annual perception study on CSR: 4,500 Air France employees surveyed in 2013. Seventy-five per cent of staff members feel that their division is involved in the airline's CSR policy, while 66% feel they are personally engaged. 230 suggestions were submitted, notably on the recycling of waste.
- Annual *Boussole* survey on commuting in the Paris region: 3,000 Air France employees participated in 2013. Thanks to their suggestions, teleworking was proposed more widely within the company in 2014.
- KLM Takes Care Strategy: during the process to establish KLM's CSR strategy through to 2020, over 100 KLM experts and managers, as well as the KLM Works Council, participated in a series of interviews, debates and workshops.
- Quarterly "CSR Cafés": guest speakers are invited to inspire and inform KLM employees on various current and future sustainability initiatives. In 2014, 3 CSR Café events took place attended by more than 200 employees.

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, energy consumption and waste, supporting aviation-related research and research into renewable energies.
- 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.
- Social media: 13.2 million friends on Facebook and 1.6 million followers on Twitter.

Local stakeholders

- Dialogue with local residents: Air France and KLM are members of local committees based around airports which constitute the main forum for dialogue between air transport professionals and local communities, thereby helping to orientate the environmental measures accompanying airport development. Air France participates in the Environmental Advisory Committees (CCE) and Advisory Committees for Resident Assistance (CCAR) in the main French airports while KLM remains committed to pursuing dialogue through the Alders Table and CROS (Schiphol Regional Consultative Committee).
- Grand Roissy: Air France is contributing to the extensive discussions on projects set to shape the areas surrounding Paris-CDG airport. Air France is also a member of local development associations whose aim is to reinforce the international appeal of the Paris-CDG catchment area.
- Visits and meetings: Air France and KLM regularly organize visits to their facilities for government officials and other stakeholders giving them an insight into the airline business and exchanging views on a variety of issues such as sustainable development and innovation.

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 responsible catering.
- Associations dedicated to CSR: as a member of associations such as ORSE, Comité 21 and Global Compact France, Air France maintains a permanent dialogue with experts and other French companies.
- UNICEF the Netherlands: strategic collaboration with KLM concerning the definition of criteria relating to Children's Rights impacted by the airline sector.

4.4.2 Fair commercial practice

Air France-KLM's commitment to sustainability is enshrined in its Corporate Social Responsibility Statement which affirms the Group's commitment to fostering respect for the environment, social equity and local development. As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting and applying in its 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 Corporate Social Responsibility Statement, the Group undertakes to respect human rights and oppose all forms of child and forced labor.

The Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of trust and mutual respect in a working environment where no form of discrimination or harassment is tolerated. Employees have the right to working conditions that respect their health, safety and dignity, and which guarantee social dialogue. The Charter applies to all 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 implementation within the company, together with the definition of guidelines for the air transport industry.

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 employees of the company 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.

Air France-KLM combats all forms of corruption. Consistent with the evolving international legislative and regulatory context, an Air France and KLM Anti-Corruption Manual was circulated at the end of 2013 and is available to all employees. In 2014, 14,000 Air France and KLM employees were invited to complete an e-learning module on the prevention of corrupt practices. This training aims to increase awareness of the importance of corruption prevention. This e-learning tool includes a knowledge verification component requiring a score of 80 per cent to pass.

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

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

Compliance with competition law

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

An online training module on the application of competition law is now mandatory for all Air France and KLM executives 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.

To achieve the highest attainable standard of flight safety, the Safety Management System (SMS) has been implemented across the two airlines. The SMS applies an approach specific to the management of aviation risks, and is supported by a commitment at the highest level of management within the Group, and by training and awareness-raising initiatives among all members of staff.

More generally, flight safety is an integral part of the risk management procedures (see Chapter 3 Risks and Risk Management).

Measures to safeguard consumer health

The Group must guarantee the integrity of its in-flight catering for both customers and flight crew. The manufacturing and supply of food products are governed by European regulations which impose multiple requirements: the auditing of caterers, micro-biological and temperature analyses, staff training in the best hygiene practices, etc.

To respect these requirements, the two airlines have established a quality-first procedure. 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 MSI certification audit.

To ensure strict control over standards of hygiene, Air France carries out some 15,000 in-house microbiological checks each year for 45 million meals served on board aircraft. In terms of the sanitary quality of the water embarked on aircraft, around 400 to 500 analyses are carried out annually.

Furthermore, within the framework of a European regulation on consumer information, passengers and cabin crew are informed of any allergens present in the in-flight services on departure from Europe or offered in the European lounges.

All Air France and KLM cabin crew are, furthermore, 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 Airbus A380s also have a fully-equipped medical area.

The Group also offers a number of health-related services to passengers. For example, KLM Health Services offers a comprehensive three-stage service to its customers during 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 30,434 of the 65,000 directly-generated jobs in the Schiphol catchment area.

Air France's more than 40,700 employees in the Ile-de-France make it the leading private sector employer in the Paris region. In 2014, the airline reaffirmed its commitment to the Paris region with the construction of Hélios, a new workshop dedicated to aerostructures to be based at Paris-CDG and operational as of September 2015.

Through their purchasing volumes, the two companies also contribute to regional and national development: 76% of Air France's procurement in France (excluding fuel) comes from the Paris region, and represents a total of €1.9 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. The activity of Paris-CDG airport generates almost 248,000 direct, indirect and spin-off jobs, including 86,000 with the 700 businesses based in the airport catchment area.

The Group fosters innovation by supporting small and medium-sized companies and start-ups. Since signing the Charter for Public-Owned Companies in Favor of Innovative SMEs in late 2012, Air France has supported small and medium-sized companies by helping them implement innovative projects. Air France has been a founding member of the Welcome City Lab incubator since March 2014. 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 by investing in start-ups.

Through its extensive global network the Group participates in the dynamism of the economic and social fabric of the countries and regions it serves. This dynamism involves investment, recourse to local production, skills transfer and spin-off economic activity. The Group makes a pro-active contribution to developing the economic regions where its operations are based.

The wide range of professions and services required for the Group's out-station activity generates a significant number of direct and indirect jobs. For example, Air France's Servair subsidiary is present in more than 50 international airports where the company prioritizes local employment and procurement. Through partnerships, Servair has gradually established itself as the leading African airline caterer in numerous outstations.

A permanent dialogue with local communities

Air France and KLM maintain a pro-active and transparent dialogue with all the regional stakeholders. These regular discussions are the key to successful cooperation on issues such as noise and the quality of life around airports.

Association Pays de Roissy-CDG

Created in 2003 at the initiative of Air France, the association brings together companies, local elected representatives and residents of the 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.

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

Active in the main French airports, the CEEs constitute the main forum for dialogue between the operators and local communities, thereby helping to orientate the environmental measures accompanying airport development. The CCARs are advisory bodies specially dedicated to supporting the sound proofing housing in communities located near to airports. Air France is a member of all the CCEs and CCARs in France.

Grand Roissy and Grand Paris

Air France is contributing to the major debates on projects set to shape the areas surrounding its hubs over the coming twenty years, such as the consultation process on the Nouveau Grand Paris, Métropole du Grand Paris and Grand Roissy projects. Air France is a member of the Grand Roissy Economique commission which aims to coordinate the economics of the region. The company is also involved alongside other regional players with the Aerotropolis Europe and Hubstart Paris associations to reinforce the international profile and economic attractiveness of Paris-CDG airport.

Alders Table

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.

CROS

KLM has been investing for several years in dialogue and cooperation with inhabitants of the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS). The CROS was established in 2003 to discuss the development of the airport and noise abatement measures.

Landschap Noord Holland

Since 2010, KLM has been working in partnership with Landschap Noord Holland Foundation as part of its commitment to supporting nature conservation and biodiversity in the territories served by KLM including the Netherlands home base. Amongst the Foundation's many projects, KLM has specifically "adopted" the Ilperveld region. This area of reclaimed land is a stunning example of Dutch water management as well as being particularly rich in bird and plant life.

Contributing to skills development, the vocational integration of young people and the social integration of the vulnerable

Air France and KLM encourage initiatives promoting access to training leading to professions in the airline industry through a number of different associations and educational programs for young people. The two companies notably support the following initiatives:

OPEN *(Ouvrons nos Portes à tous les Elèves Naturellement)*

Initiated by Air France in 2010, this project aims to enable teenagers with little or no access to the business environment to spend one week learning about the Air France professions. In 2014, this initiative was repeated and 200 pupils from 10 local schools learned about careers in the air transport industry, while 14 children gained valuable work experience at the company's head office.

AFMAé apprentice training center

The AFMAé trains air transport industry apprentices at its training center which provides 25% of the training in the air transport professions in France: in 2014, 624 young apprentices were trained there (of whom 50% were welcomed by Air France). Air France is a founder member of AFMAé.

Airemploi

Air France is a founder member of this association which offers information on career opportunities and training courses in the air transport and aeronautical professions. In 2014, the association took part in 150 *Terre et Ciel* conferences with 3,000 school children, 40 *Terre et Ciel* conferences with 350 careers advisors, 14 *Découverte des Métiers* workshops with 300 career advisors, and 79 trade fairs and seminars in the Île-de-France and the French regions attended by 13,000 people. Airemploi runs projects to promote a better professional balance between men and women: in 2014, *L'Assistance au féminin*, and participation in the *Je Filme Le Métier Qui Me Plaît* competition perpetuated the operation in place since 2009, *Féminisons les Métiers de L'aérien*.

JEREMY *(Jeunes en Recherche d'Emploi à Roissy et Orly)*

Air France is a founder member of the association which promotes the vocational integration of young local people without formal qualifications who are excluded from the workplace through a scheme combining training with professional experience and social support. In 2014, some 134 interns completed a foundation course leading to a qualification within Air France. These initiatives are implemented in partnership with the Île-de-France region, the French Department of Education, the Apprenticeship Training Centers (CFA), and regional institutions and associations. In 2014, JEREMY welcomed more than 200 interns to a new training initiative focused on English as used in airports.

Fondation de la Deuxième Chance

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. This Foundation contributes to the realization of professional projects by vulnerable people.

ROC

KLM pursues its policy of investing in educational programs alongside Regional Education Centers (ROC). The KLM Maintenance division partners five ROC establishments which provide vocational training and offer internships to students training to be aeronautics mechanics. In 2014, 60 ROC students benefited from internships at KLM.

Luchtvaart College Schiphol

In 2013, KLM entered into a partnership with the Luchtvaart College Schiphol (Schiphol Aviation College), a Schiphol Group and ROC Amsterdam initiative. This institution enables the development of professional skills within the aviation sector by offering various vocational (MBO) training programs to people already working in the airline industry as well as on-the-job learning programs and internships.

JINC

Since 2013, KLM has partnered JINC Amsterdam, a foundation giving young people from eight to 16 years of age the opportunity to learn what the labor market has to offer and the skills required for specific jobs. KLM provides financial support for JINC projects, and KLM employees can volunteer to be coaches or trainers. Various KLM divisions, amongst them Inflight Services, Health Services, Engineering & Maintenance and Flight Operations, are participating in two JINC projects, the largest being the "Flash Internship", during which primary 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 spearheaded by its own employees. Concretely, Air France-KLM supports development projects in various different ways:

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which, in 2014, actively intervened in 110 projects across as many 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 2014, the organization supported 37 projects in Africa, Asia, Latin America and Europe. Air France has also provided long-term support for humanitarian air transport missions carried out by *Aviation Sans Frontières* (Aviation Without Borders). The company also acts as an information conduit by raising passenger awareness of the 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 smaller partners: "Close the Gap", "Doctor2Doctor", "Aviation without Borders", "Wings of Support" and "Get It Done".

A total of 113 million miles were donated by members of the Flying Blue frequent flyer program to partner associations in 2014.

Logistical support

In 2014, 739 Air France tickets and free transportation of excess baggage were donated to more than 30 NGOs, principally involved in providing medical assistance.

In 2014, KLM donated tickets and transported 53 tons of cargo and approximately 500 kg of excess baggage to its AirCares program 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 €15.8 billion in 2014 and was realized with some 4,200 contractual suppliers. Fuel purchasing amounts to more than 42% of this expenditure followed by airport and navigation fees, airport handling, aircraft maintenance and components. Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and making the supply chain more sustainable are priorities for the Group and contribute to improving profitability. Air France-KLM has significant leverage *via* its procurement policy and purchasing 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 2014, the proportion of suppliers having demonstrated their CSR commitment increased to 75%. In 2015, this charter will be reinforced with the "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 179 suppliers scored in 2014, 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 document and the Sustainable Development Charter are available on the Procurement website. Furthermore, an internal process has been established to guide buyers in making responsible purchasing decisions including web links providing more information on best environmental practices together with training and seminars to build buyer awareness and develop their skills, ensuring they take environmental and social criteria into account wherever possible in their work.

Mobilizing and innovating with suppliers

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

During 2013, the foundations of a Supplier Relations Management System (SRMS) were 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 2014, the SRM was itself deployed.

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

Procurement also cooperates with associations and companies in the sheltered sector on multiple projects representing a total €18 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.

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

Partnering local development

The services sub-contracted by Air France-KLM represent a significant number of direct jobs, of which more than two-thirds are based in Europe. The Group also contributes to the development of activity in specific sectors in the regions where the two hubs are located and in the countries served, through purchasing with local suppliers. For example, the Group contributes to developing local activity in the French regions (more than €470 million of contractual procurement in 2014, 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 amounted to €2.6 billion in 2014.

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 through fish, soy and palm oil.

4.5 Environmental information

4.5.1 Overall environmental policy

Organization and responsibilities

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

Every year, the issues surrounding sustainable development are reviewed in the Group Strategic Framework, which is approved by the Board of Directors during the annual meeting devoted to the Group's strategy.

At Air France, the sustainable development policy is steered by an Executive Vice-President who is a member of the Executive Committee. At KLM, this role is fulfilled by the President of the Managing Board, as Chairman of the Executive Committee.

Air France's Director of Environment and Sustainable Development and KLM's Director of Corporate Social Responsibility (CSR) & Environmental Strategy are responsible for implementing the CSR strategy and monitoring the programs in each company. The two departments closely coordinate their activities, collectively advise on the Group's environmental strategy and work together on a wide range of issues. They are notably responsible for carrying out the common environmental reporting through the Corporate Social Responsibility report.

Both departments are also responsible for the deployment of the company's Environmental Management System. At Air France, the Environment and Sustainable Development department establishes the environmental policy, ensures the consistency of the action plans in the entities and coordinates the network of Environmental managers in all the operational divisions. Individual divisions are then responsible for applying the environmental policy, ensuring regulatory compliance in their business segment, implementing the risk mitigation action plans and achieving the environmental targets and levels of performance. The overall environmental management system is reviewed by the Executive Committee every six months.

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 flights and operations in France and the Netherlands. This certification was renewed for a three-year period in 2014 for Air France and in 2012 for KLM.

The Environmental Management System enables the monitoring and control of the implementation of defined actions and to evaluate, on an on-going basis, the environmental impacts of the company's activity based on a continuous improvement approach. For each entity, the processes are identified, planned, monitored and verified. 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.

Environmental reporting/Verification of extra-financial data

Air France and KLM generate and report a series of environmental indicators for the whole of the Air France-KLM Group using tools that are proprietary to each company.

Air France generates environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application, enabling the population, verification and consolidation of the data for all the ground operations to be centralized. For flight operations, the data are calculated using the DataWareHouse tool.

KLM manages and reports its environmental indicators in a similar fashion using the CaeSaR database tool.

The environmental reporting procedure common to the Group is outlined in a document common to Air France and KLM containing the definitions and scope of the indicators. Within the framework of a pro-active approach, since 2008 Air France-KLM has had a number of its environmental indicators verified by one of its Statutory Auditors. The verification is carried out with the highest level of assurance known as reasonable assurance for the indicators that are the most significant for the air transport industry (namely CO_2 emissions and fuel consumption in the flight operations). The other indicators, together with the text, are verified based on the modalities outlined in the note on the methodology.

Employee training and information on environmental protection

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

- In 2014, Air France rolled out 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. This training was also followed by managers in the real estate division.
- Employees in the two companies are offered e-learning modules on Corporate Social Responsibility including the environmental aspects. This training, which is accessible to all Air France and KLM employees, is recommended for managers and all those whose functions require such expertise like, for example, the members of the Environment Committee;
- Training in sustainable driving is offered to staff at Air France, aimed at sharing a range of best practices for safer driving which is more respectful of the environment. An eco-pocket calculator enables the visualisation of the potential reductions in fuel consumption and CO_2 emissions;
- 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.

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, conferences and workshops on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs;
- information is regularly circulated *via* in-house communication channels to update employees on the latest environmental news concerning Air France and KLM;
- KLM regularly organizes a Corporate Social Responsibility (CSR) Café, enabling employees to meet representatives from NGOs, front-runner companies and supply chain partners, and discuss subjects relating to sustainable development.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

The identification and management of environmental risks is an integral part of the Environmental Management System. In each division, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the proprietary action plans.

In 2014, Air France deployed an overall tool to manage environmental risks and the related action plans at divisional level, while ensuring the level of regularly compliance.

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

In parallel, Air France has developed a system for managing operational incidents and compliance audits. This system also enables employees to report any situations perceived as a potential risk. Used by the operational entities and based on a common risk management matrix, this system inventories all the data related to flight safety, customer service, the environment, health and safety in the workplace, security and food hygiene.

In 2013, KLM started to integrate the management systems for Operational Safety, Occupational Safety, Environmental Safety and Operational Security into an Integrated Safety Management System (ISMS) which provides a framework for continuously reducing operational, occupational, operational security and environmental risks, thereby maintaining the highest-possible level of safety. The ISMS identifies hazards, threats and potential safety issues, collects and analyses data and assesses safety risks. It then implements mitigation measures and monitors the results. This integration process will continue in 2015.

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 analyse, at corporate level, environmental incidents and define any remedial measures required.

In 2014, Air France carried out a mapping exercise for all the waste generated by its activities enabling analysis of the risks associated with waste management.

See also Chapter 3 on Risk factors and their management.

Environmental expenditure and investment

Air France-KLM's policy is to fully integrate environmental management within the business operations, meaning that it is difficult to identify the portion of expenditure for purely environmental purposes.

The Group has continuously invested in new aircraft and currently operates a rationalized, modern fleet. This enables it to offer passengers a higher standard of comfort, achieve substantial fuel savings and respect 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.

Since January 1, 2012, the aviation sector has been part of the European Union Emissions Trading System (EU-ETS) pursuant to European directive no. 2008/101/EC of November 19, 2008, amended in April 2014.

Furthermore, in 2013, the International Civil Aviation Organisation (ICAO) affirmed its intention to implement a global system of market-based measures for CO_2 emissions in 2020. The principles of this system should be adopted in 2016 at the next ICAO Assembly.

To reduce the noise impact on populations around airports, for some years 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 2014, the Group paid a total of €31.5 million in airport noise taxes. Air France's contribution to the Airport Noise Tax (TNSA) paid to the French State for every take-off amounted to €13.3 million. The proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise. In 2014, KLM paid €18.1 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 risk up to a sum of €50 million per claim and per year, with lower specific limits depending on location and/activity. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries including those with 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. One exception however: the provision made within the framework of the agreement between KLM and the WWF-NL on the 1% goal for biofuel use in 2015.

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

Air France and KLM regularly evaluate the level of environmental regulatory compliance, notably through a series of checks and internal and external audits.

At Air France, the Regulatory Intelligence Committee is regularly convened, in the presence of a legal counsel, to monitor any regulatory changes, review the compliance indicators for the divisions and implement any relevant remedial measures. The process is supported by a new tool, developed in 2014, enabling the analysis of new applicable laws and regulations, and the monitoring of the level of regulatory compliance in the company's different divisions.

To ensure compliance with the legal and regulatory requirements relating to Air France and KLM's ground operations in the international stations, KLM has adopted an environmental code of best practice in its outstations (GEP = Good Environmental Practices).

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities during the financial year.

4.5.2 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.

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).

Prevention, recycling and evacuation of waste

Air France-KLM constantly strives to minimize the generation of waste and increase the proportion that is recycled or reprocessed. Within the framework of the Environmental Management System, Air France is aiming to increase the proportion of recycled waste to 100% for non-hazardous waste and 60% for hazardous waste by 2020. The target set for 2015 is to increase the recycling rates for both hazardous and non-hazardous waste by two percentage points (relative to their level in 2014). Similarly, in 2013, KLM defined its "no waste of resources and materials" goals for waste prevention and reduction, targeting 100% waste recycling and recovery in 2020, except for waste where recycling and recovery is not legally permitted.

The recycling of on board waste is an abiding priority for the Group which implements recycling initiatives and is developing the principle of eco-design to acquire the means to improve the environmental evaluation of its products and reduce their overall impact. For example, at Air France, a significant proportion of reusable equipment, like trays, drawers, blankets and trolleys, is recycled every year.

Air France and KLM have extended their recycling program for metal aeronautical waste to four other types of waste: furniture, equipment, pallets and blankets. At Air France, the installation of new long-haul seats within the framework of the Best project 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.

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 with reference to regulatory changes.

The two companies are also working on initiatives to upcycle waste into new uses like, for example, the collection and recycling of used uniforms. In 2013, used KLM uniforms and old Business class carpeting were recycled into fibers used to manufacture the carpets currently installed in the airline's new Business class. For its part, KLM Catering Services has also developed initiatives to increase the types of recycled waste.

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.

Measures taken to limit noise pollution

While accommodating the increasing demand for mobility, one challenge for the aviation industry is to maintain noise hindrance at an acceptable level for those living near airports. Air France-KLM has formalized its commitment to noise mitigation by making it a requirement enshrined in its Corporate Social Responsibility Statement. The Group monitors the trend in the global noise disturbance from its activities through an annual noise energy indicator.

The most effective way to reduce noise hindrance is to operate modern, noise-minimized aircraft. The entire Air France-KLM fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm covering the acoustic quality of civil aircraft.

Improving departure and approach procedures can also help to reduce noise hindrance for local residents. Air France and KLM actively contribute to the implementation of noise abatement procedures. The environmental benefits of each new procedure are assessed, approved and made public by the French and Dutch civil aviation authorities.

Through discussion forums, Air France and KLM strengthen their ties with local residents and other stakeholders. In France, this dialogue is conducted within the context of CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all airports where it has operations. In the Netherlands, KLM participates in the Alders Table which addresses issues surrounding noise.

Within the framework of the Schiphol Regional Consultative Committee (CROS) and the Works Councils, KLM and Air France work with representatives of local populations, airport authorities and air traffic control to identify measures and solutions to mitigate the noise hindrance that can affect local residents around airports.

4.5.3 Sustainable use of resources

Water consumption and the water supply as a function of the local constraints

The Air France-KLM Group makes a continuous effort to reduce water consumption through better management of its processes, making its teams more accountable and by factoring environmental criteria into the design and realization of its tools and work stations. 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.

Air France's Maintenance division has established an aircraft washing process which consumes much less water, saving around eight million liters of water a year.

For its part, Servair continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

In view of its activity, the Air France-KLM Group is not significantly concerned by the "Water supply as a function of the local constraints" theme.

Consumption of resources and the measures taken to optimize their use

The Air France-KLM Group has a long-standing commitment 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/FTK).

The main lever in CO_2 emission reduction is fleet renewal since new aircraft are more fuel efficient. The average age of the Air France-KLM fleet is 10.7 years. Air France and KLM continued the modernization of their fleets in 2014.

In addition to fleet modernization, operational measures can also increase aircraft fuel efficiency. These cover four main areas:

- aircraft: reducing the mass loaded on board, reducing fuel consumption of engines and Auxiliary Power units, reducing drag, etc.;
- airspace: optimizing flight paths, reducing aircraft waiting times, optimizing altitude, etc;
- fuel carried on board: optimizing regulatory quantities of fuel, optimizing operational fuel;
- flight operations: optimizing flight procedures based on the recommendations of aircraft and engine manufacturers and equipment suppliers.

Within the framework of the fuel-saving program, Air France's Jet-Fuel Plan aims to identify and implement all potential means of saving fuel while strictly respecting the imperative of flight safety. One hundred and fifty measures have already been pinpointed and more than thirty implemented. In 2014, the Jet-Fuel Plan extended the "eco-piloting" initiatives deployed in 2013 thanks to the actions of pilots. New initiatives having a material impact on fuel consumption have been launched with the pilots, mainly on the medium-haul aircraft, like taxiing on departure using a single engine and take-off with a reduced flap configuration. In parallel, in liaison with Ground Operations, the Jet-Fuel Plan continued to work on optimizing the amount of drinking water carried on board long-haul aircraft, and reducing the fuel consumption of the APUs, the auxiliary engines for aircraft used to generate electricity and air conditioning on the ground. New "eco-responsible" initiatives have been launched thanks to Air France's commitment to the Green Taxiing project for the long-haul aircraft, following the project conducted on the medium-haul aircraft. In 2014, the entry into the fleet of two new Airbus A320s equipped with sharklets enabled a fuel reduction of between 2% and 4%. All these actions combined enabled a saving of around 40,000 tons on fuel consumption during 2014.

In 2014, within the framework of the Climate Action Plan, KLM saved 7,000 tons of fuel (relative to 2013) thanks to the deployment of operational measures like fleet renewal and weight reduction. Besides fuel savings, in 2014 KLM was the only airline to operate a series of long-haul flights partially powered with sustainable bio-kerosene.

Energy consumption and measures taken to improve energy efficiency and the use of renewables

Air France and KLM are targeting a 20% reduction in CO_2 emissions from their ground operations by 2020 relative to the 2011 level, by improving energy efficiency and increased use of renewable energy.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average 2% annual reduction in its energy consumption. In 2012, KLM signed a fourth multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020. Since 2013, 100% of the electricity in KLM's offices has been green energy from hydropower.

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/m^2), 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 contribution to reducing its impact on climate change is based on the Climate Action Plan focusing on six main areas:

- pursuing fleet modernization and contributing to aeronautics research;
- mobilizing all the Group's internal and external players around ambitious action plans enshrining eco-design principles;
- promoting the emergence of 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 January 1, 2012, the EU-ETS directive establishing the European Community Emissions Trading Scheme has been extended to aviation. Air France-KLM has always supported the principle of a market-based mechanism, considering that it is more effective from an environmental standpoint than a simple tax, providing that it is equitable.

The EU-ETS, limited to the intra-European scope, must be seen as a first move towards a global system which will need to be defined by the ICAO (International Civil Aviation Organisation). Air France, KLM and the IATA airline members are all making an active contribution towards this end. Air France-KLM welcomed the key agreement between ICAO Member States aimed at developing, as of 2020, a system of market-based measures at global level for air transport emissions. Following this agreement, the European Union proposed an amendment to the EU-ETS. The Group is in favor of the application of the EU-ETS to intra-European flights, and advocates for greater stability in the European regulation relating to CO_2 emissions from aviation until 2020.

Air France and KLM actively participate in IATA initiatives aimed at proposing operational solutions enabling respect of the emission reduction commitment made by the aviation sector in 2009, namely:

- by 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures);
- from 2020, stabilization and neutral growth in CO_2 emissions;
- by 2050, a 50% reduction in CO_2 emissions relative to their 2005 level.

In 2014, Air France signed the City of Paris Climate Protection Action Plan 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 alternative technologies are likely to emerge before 2050. To ensure the future of commercial aviation, Air France-KLM therefore considers the transition from fossil fuels to renewables to be a priority.

The Group's strategy is to explore the entire value chain from research to commercialization.

Stimulating the industry: Air France is participating in a project to produce biofuel from forestry waste, spearheaded by the CEA *(Commissariat à l'Énergie atomique et aux energies alternatives)*, France's Atomic and Renewable Energy Commission. Air France and KLM both support the European Commission's ITAKA initiative (Initiative Towards sustainable Kerosene for Aviation). This project will establish links between farmers, biofuel producers, distributors and users to break down the barriers to commercial rollout.

Supporting regulatory incentives: Air France and KLM are involved in the Biofuel Flightpath 2020 European initiative, which aims to produce two million tons of sustainable biofuels in Europe by 2020.

Innovating in the supply chain: In 2010, in cooperation with Argos and Spring Associates, KLM created the SkyNRG venture to develop a sustainable fuel supply from purchase to delivery. SkyNRG is now the world leader in bio-kerosenes, supplying more than 15 airline companies globally including Air France-KLM.

Involving customers and partners: To create a market for sustainable biofuels for aviation, Air France and KLM are collaborating with partners and customers. As part of its WWF-NL partnership and the Green Deal commitment, KLM has launched the BioFuel program, a first for aviation. At the end of 2014, within the framework of the Lab'Line for the Future project, Air France introduced weekly biofuel-powered flights on the Toulouse/Paris-Orly route. With the help of the 14 partners involved in this project, these flights will be operated for a twelve-month period.

Offsetting emissions

On their respective websites, Air France and KLM give their customers access to CO_2 emission calculators, with the opportunity to entirely neutralise their emissions should they so wish. The Group offers certified sustainable carbon reduction credits that guarantee a high-level of offsets.

Air France's partnership with GoodPlanet finances carbon offsetting projects aimed at promoting renewables to replace non-renewable energies in Peru, Bolivia and India, and implementing waste recycling projects in Madagascar, Togo and Cameroon. 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 CO2ZERO program and the launch of the KLM BioFuel program for corporate customers enables KLM customers to take part in CO2 emission saving and contribute, 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 firstly 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 in the management of emergency situations. The two companies also work with airports to ensure the best-possible operational and passenger handling conditions.

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.

Air France is taking part in a holistic forestry conservation project, launched in 2008 by Air France, the GoodPlanet Foundation, Etc Terra and the WWF. Covering 500,000 hectares of forestry in Madagascar, this program aims to reduce the current level of deforestation and the degradation of forestry, contribute to improving the living conditions of local populations and, in parallel, protect the country's extraordinary biodiversity. The program also aims to advance scientific knowledge on carbon stored in forests.

The results of the first phase (2008-13) show that all the targets set in 2008 were achieved. The program has been extended to new partners (French Development Agency) and also involves the Madagascan authorities. Phase two (2013-17) aims to prolong and reinforce these results. It will put particular emphasis on practices which offer an alternative to deforestation, and perpetuate over the long term the support offered to the local communities.

For its part, KLM is supporting three nature preservation programs within the framework of its partnership with WWF-Netherlands: the Coral Triangle in Indonesia, the Bonaire Marine Park and the APRA program in the Amazon. The APRA program is supporting various Biodiversity programs across a vast tract of the Amazon region (around 15% of the surface area and 60 million hectares) to protect and enforce the recovery and conservation of its biodiversity (*e.g.* REDD+ programs, reforestation and ecosystem services).

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 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 responsible in that they guarantee animal rearing and food standards, are organic and contain no palm oil.

In line with KLM's ambition to remain a front-runner in sustainable airline catering, the airline is striving to achieve 100% sustainable inflight catering products, with a first step of 100% sustainable catering out of Amsterdam in 2020 by:

- responsible product choices;
- reducing packaging materials;
- reducing the energy required for production and transportation;
- attention to animal welfare.

KLM's sustainable catering policy focuses primarily on the preservation of biodiversity in production areas but also animal welfare. Emissions from transportation and packaging waste are also taken into account. This policy is developed within the framework of the partnership with WWF-Netherlands.

In view of their impact on biodiversity, particular attention is paid to fish, palm oil and soy. To this end, KLM is a member of the Responsible Soy (RTRS) and Sustainable Palm Oil (RSPO) Round Tables and offers certified products on board. Since 2009, KLM has targeted the introduction of at least 15 sustainable catering products on board each year. The company is in line with its objective of replacing products containing palm oil and non-responsible soya with sustainable products, 80% of the former products having been replaced in 2014.

A number of products that are labelled, local and respectful of animal well-being are served on board like MSC-certified fish, eggs and chicken. KLM reaffirmed its commitment to responsible catering through a long-term partnership with a Dutch beef producer which guarantees rearing conditions and uses no additional feed or growth supplements. Lastly, UTZ-certified coffee is served on all KLM flights and in its administrative offices.

4.6 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European regulation (EC 809/2004).

Since 2013, and in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code, it has been the responsibility of our Independent Third-party Body to:

- attest that the required CSR Information appears in the management report and that the exclusion of any information is explained in accordance with paragraph 3 of Article R. 225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information)[1].

Furthermore, 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.

4.6.1. Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the commercial flights under the AF code operated by Air France and its subsidiaries HOP!, and 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).

4.6.2 Reporting tools

The environmental indicators are assembled at local level *via* two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, which are available, respectively, 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.

4.6.3 Details and methodology, comments on variations

At Air France-KLM Group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document entitled the Environment Instruction Memo, which is updated annually. The modalities for the assembly of the data 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.

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

4.6.4 Flight operations

CO_2 emissions

The Air France Group's CO_2 emissions were stable between 2013 and 2014, in line with activity.

Note that there are differences between the scope of the CO_2 emissions reported and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), so comparison is not meaningful.

SO_2 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 sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM and its subsidiaries, and by Air France and its subsidiaries.

For the Air France Group, the increase is due to the higher average sulfur content of the fuel used.

For the Air France Group, the 20% indicated increase is in fact lower. The values to three decimal places show emissions at 0.560 kt in 2014 versus 0.544 kt in 2013, *i.e.* a real increase of around 3%. Rounding to one decimal place mechanically generates a more substantial difference.

For the KLM Group, the variation of 0% due to rounding is in reality 15% (move from 276 t to 325 t) due the expansion in the scope of this indicator to Martinair and Transavia.

NO_X and HC low altitude emissions (LTO)

The methodology used for the calculation of low altitude emissions, *i.e.* below 3,000 feet, is common to Air France and KLM. It is based on the LTO (Landing-TakeOff) cycle and on engine data communicated by the ICAO[1]. The taxiing time taken into account is the actual taxiing time, which is more precise than 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.

For Air France, using a more precise value, the low altitude HC emissions were, in fact, down by nearly 5%.

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).

Total noise energy

This indicator was established by the Air France-KLM Group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[2]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

Martinair and Transavia are excluded from the global noise energy indicator. The change in noise energy and traffic is determined by comparing total noise energy for the calendar year with the value for the year 2000.

4.6.5 Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included. The decline in water consumption for KLM is explained by the transfer of a laundry service provider occupying KLM premises to another building in the airport. This consumption had been reported since 2012.

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;
- off-road diesel fuel for a portion of the Air France runway equipment;
- petrol and diesel fuel for Air France and Servair vehicles and Air France and KLM ground support equipment.

(1) *International Civil Aviation Organization.*
(2) *Direction Générale de l'Aviation Civile.*

The decrease seen between 2013 and 2014 for the Air France Group is mainly explained by the reduced consumption of gas and superheated water for heating.

For KLM, there was a reduction in natural gas consumption due to the milder winter and the exclusion of a building occupied by a laundry service provider. Since 2014, the offices of KLM Cargo, Transavia and Martinair have been included in the reporting.

Emissions from ground operations (CO_2, SO_2 and NO_X)

CO_2, SO_2 and NO_X emissions and their trends are linked to the energy consumption listed above.

For Air France, the NO_X emissions related to engine testing are calculated based on a methodology similar to the one used for flight operations which reflects the actual testing conditions.

The emission factors used for the 2014 financial year are those in the ADEME V6 Methodology Guide, except for kerosene whose emissions are calculated based on the ICAO engine emissions databank.

The emissions from the ground operations for the 2015 reporting campaign will be based on the emission factors in the ADEME Carbon Database, http://bilans-ges.ademe.fr/

The decrease in NO_x emissions is mainly due to the reduction in off-road diesel fuel used by runway equipment.

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 the Air France Group, the decrease between 2013 and 2014 is mainly due to fewer aircraft being painted in 2014.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling. The increase between 2013 and 2014 is explained by the expansion in the reporting scope to the emissions from Servair trucks.

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 reduction for the KLM Group is explained by the fact that a portion of KLC's used water is no longer deemed to be Hazardous Industrial Waste by the local authorities.

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 2014, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements, were, respectively:

- for Air France, 1/16 for Nitrogen compounds, 2/64 for Phosphorus compounds and 4/810 for metals;
- for KLM, there were no breaches of thresholds this year (52 measurements for Nitrogen and Phosphorus compounds and 280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.7 Environmental indicators

4.7.1 Air Operations

Environmental indicators		Unit	Air France-KLM Group 2012	2013	2014	14/13
Consumption						
Consumption of raw materials: fuel √		ktonnes	8,956	8,755	**8,755**	0.0%
Emissions						
Greenhouse gas emissions	CO_2 √	ktonnes	28,210	27,576	**27,577**	0.0%
Emissions of substances contributing to acidification and eutrophication	NOx low altitude (< 3,000 ft)	ktonnes	9.2	9.5	**9.9**	4.2%
	SO_2	ktonnes	9.9	11.8	**11.8**	0.0%
	SO_2 low altitude (< 3,000 feet)	ktonnes	0.7	0.8	**0.9**	12.5%
In-flight fuel jettison	Occurences of fuel jettison	number	41	33	**36**	9.1%
	Fuel jettisoned	tonnes	1,839	1,104	**1,283**	16.2%
Other emissions	HC low altitude (< 3,000 feet)	ktonnes	0.8	0.8	**0.8**	0.0%
Noise impact						
Global noise energy indicator		10^{12} kJ	1.69	1.62	**1.54**	-4.9%

√ *Figures verified by KPMG Audit, a department of KPMG S.A. for 2014 (reasonable level of assurance).*
(1) *Air France Group scope: all flights under AF code operated by Air France and HOP!, flights operated by Transavia France.*
(2) *KLM Group scope: all flights operated by KLM, KLM Cityhopper, Martinair and Transavia. Martinair and Transavia are excluded for the global noise energy indicator.*

Air France Group(1)				KLM Group(2)			
2012	2013	2014	14/13	2012	2013	2014	14/13
5,078	4,918	**4,903**	-0.3%	3,878	3,837	**3,852**	0.4%
15,997	15,491	**15,443**	-0.3%	12,213	12,085	**12,134**	0.4%
6.3	6.2	**6.0**	-3.2%	2.9	3.3	**3.9**	18.2%
6.4	6.8	**6.9**	1.5%	3.5	5.0	**4.9**	-2.0%
0.5	0.5	**0.6**	20.0%	0.2	0.3	**0.3**	0.0%
27	23	**20**	-13.0%	14	10	**16**	60.0%
1,210	758	**671**	-11.5%	629	346	**612**	76.9%
0.6	0.6	**0.6**	0.0%	0.2	0.2	**0.2**	0.0%
1.16	1.12	**1.03**	-0.8%	0.53	0.50	**0.51**	2.0%

4.7.2 Ground Operations

Environmental indicators		Unit	Air France-KLM Group 2012	2013	2014	14/13
Consumption						
Water consumption		000 m3	812	825	**793**	-3.9%
Electricity consumption		MWh	392,223	383,605	**374,064**	-2.5%
Consumption of other energies		MWh	513,562	534,375	**451,626**	-15.5%
Emissions						
Greenhouse gas emissions	CO_2	tonnes	85,680	88,885	**78,842**	-11.3%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	146	135	**107**	-20.7%
	Emissions of HC	tonnes	145	137	**158**	15.3%
Emissions of substances contributing to acidification and eutrophication	NO_X	tonnes	773	675	**638**	-5.5%
	SO_2	tonnes	16.1	15.8	**14.5**	-8.2%
Waste						
Waste production	Quantity of non-hazardous industrial waste	tonnes	57,060	54,966	**57,895**	5.3%
	Quantity of hazardous industrial waste	tonnes	7,009	7,073	**5,808**	-17.9%
	% of hazardous industrial waste recovered	%	58%	61%	**51%**	-10pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	100%	98%	**100%**	+2pts
	Phosphorus compounds	%	99%	97%	**98%**	+1pt
	Metals (3)	%	98%	99%	**100%**	+1pt

(1) Air France and subsidiaries: HOP!, 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 in 2014.
(3) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

Air France Group(1)				KLM Group(2)			
2012	2013	2014	14/13	2012	2013	2014	14/13
624	640	**641**	0.2%	188	185	**152**	-17.8%
293,406	288,218	**279,945**	-2.9%	98,817	95,387	**94,119**	-1.3%
295,757	304,890	**260,891**	-14.4%	217,805	229,485	**190,735**	-16.9%
36,841	37,782	**36,704**	-2.9%	48,839	51,103	**42,138**	-17.5%
102	87	**55**	-36.8%	44	48	**52**	8.3%
86	76	**100**	31.6%	59	61	**58**	-4.9%
508	409	**387**	-5.4%	265	266	**251**	-5.6%
12.9	11.4	**11.1**	-2.6%	3.2	4.4	**3.4**	-22.7%
40,236	38,185	**40,269**	5.4%	16,824	16,781	**17,626**	5.0%
4,474	4,420	**4,280**	-3.2%	2,535	2,653	**1,528**	-42.4%
43%	44%	**43%**	-1pt	85%	89%	**75%**	-14pts
100%	90%	**94%**	+4pts	100%	100%	**100%**	0pt
98%	93%	**97%**	+4pts	100%	100%	**100%**	0pt
98%	99%	**100%**	+1pt	100%	100%	**100%**	0pt

4.8 Table of concordance for the social, corporate citizenship and environmental information

This table of concordance uses the sections required by **Decree n°. 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
4.2.1	♦ "Comply or explain"	Principle	
4.4	♦ Data comparability	G4-22; 23	
4.5.3 4.6.1	♦ Reference to international reporting standards	G4-32	
4.8	♦ Attestation	G4-33	
	♦ Certification by an independent party	G4-33	
Social information			
	Employment		
4.1 4.3.1	♦ Total headcount and distribution of employees	G4-9; 10; LA1; LA12	Criteria 3 to 8
4.1.1	♦ Recruitment and redundancies	LA1; EC6	
1.1.5 1.1.6 4.1.1 4.3.1	♦ 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 4.3.2	♦ Absenteeism	LA6	
	Labor relations		
4.1.1	♦ Organization of social dialogue	LA4	Criteria 3 to 8
4.1.1 4.3.2	♦ 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 4.3.2	♦ Occupational accidents and diseases	LA6; LA7	
	Training		
4.1.2	♦ Policy on training	LA10	Criteria 3 to 8
4.1.2 4.3.2	♦ Total number of training hours	LA9	

Section	Grenelle II – April 24 2012 decree	GRI4 Indicators	Advanced level Global Compact criteria
	Equal opportunities		
4.1.4 4.3.2	♦ Measures implemented to promote gender equality	LA12	Criteria 3 to 8
4.1.4 4.3.2	♦ 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 4.3.2	♦ 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
4.7.1	♦ Measures regarding waste prevention, recycling and disposal	EN23, EN25	
4.7.2	♦ Provision for noise and of any other pollution specific to the activity		
	Sustainable use of resources		
4.5.3 4.7.2	♦ Water consumption and water supply adapted to local constraints	EN8; EN9	Criteria 9 to 11
4.5.3 4.7.1	♦ 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 4.7.1 4.7.2	♦ 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

Section	Grenelle II – April 24 2012 decree	GRI4 Indicators	Advanced level Global Compact criteria
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
	♦ On local populations		
	Relations with stakeholders		
4.4.1 4.4.4 6.3.5	♦ 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 labour, environmental and social information presented in the management report

This is a free translation into English of the Statutory Auditor'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.

Year ended December 31, 2014

To the Shareholders,

In our capacity as Statutory Auditor of Air France-KLM S.A., appointed as Independent Third Party, accredited by the COFRAC registered under number 3-1049[(1)], we hereby present to you our report on the consolidated environmental, labour and social information (hereinafter the "CSR Information") for the year ended December 31st, 2014, presented in the management report. This report has been prepared in accordance with Article L. 225-102-1 of the French Commercial Code.

Responsibility of the company

The Board is responsible for preparing the company's management report including CSR Information in accordance with the provisions of Article R. 225-105-1 of the French Commercial Code and with the guidelines used by the company (hereinafter the "Guidelines"), summarized in the management report and available on request from the company's head office.

Independence and quality control

Our independence is defined by regulations, the French Code of Ethics governing the audit profession and the provisions of Article L. 822-11 of the French Commercial Code. We have also implemented a quality control system comprising documented policies and procedures for ensuring compliance with the codes of ethics, professional auditing standards and applicable law and regulations.

Responsibility of the Statutory Auditor

On the basis of our work, it is our responsibility to:

- attest that the required CSR Information is presented in the management report or, in the event that any CSR Information is not presented, that an explanation is provided in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code (Statement of completeness of CSR Information);
- express limited assurance that the CSR Information, taken as a whole, is presented fairly, in all material respects, in accordance with the Guidelines (opinion on the fair presentation of the CSR Information);
- express, at the Group's request, a reasonable assurance on the fact that the indicators 'Fuel consumption' and 'CO_2 emissions' relating to air operations, identified by the symbol √ were free from material misstatement.

Our work was performed by a team of seven people between October 2014 and February 2015 and took around twelve weeks. We were assisted by our specialists in corporate social responsibility.

We performed the procedures below in accordance with professional auditing standards applicable in France, with the decree dated May 13, 2013 determining the manner in which the independent third party should carry out his work, and with ISAE 3000[(2)] concerning our opinion on the fair presentation of CSR Information.

Statement of completeness of CSR Information

On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its social commitments and, where applicable, any initiatives or programmes it has implemented as a result.

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. For any consolidated information that was not disclosed, we verified that the explanations provided complied with the provisions of Article R. 225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the consolidation scope, *i.e.* the company, its subsidiaries as defined by Article L. 233-1 and the entities it controls as defined by Article L. 233-3 of the French Commercial Code, within the limitations described in the chapter 4 "Social, corporate citizenship and environmental information" of the management report, especially the explanations given to justify that the reporting scope of the number of training hours covers only 65% of the total workforce.

(1) Details available on www.cofrac.fr
(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Based on these procedures and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

Reasoned opinion on the fairness of the CSR Information

Nature and scope of the work

We conducted about five interviews with the people responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, with those responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, impartiality and understandability, taking into account best practice, where appropriate;
- verify that a data-collection, compilation, processing and control procedure has been implemented to ensure the completeness and consistency of the Information and review the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and controls according to the nature and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impact of its activities, its sustainable development strategy and best practice.

With regard to the CSR Information that we considered to be the most important (listed in the tables below):

- at parent entity level and subsidiaries and controlled entities level, we consulted documentary sources and conducted interviews to substantiate the qualitative information (organization, policy, action), we performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and consolidation of the data. We also verified that the data was consistent by cross-checking it with other information in the management report;
- at the entity level for a representative sample of entities selected[(1)] on the basis of their activity, their contribution to the consolidated indicators, their location and risk analysis, we conducted interviews to verify that the procedures were followed correctly and to identify any undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations made and reconcile the data with the supporting documents. The selected sample represents 83% of headcount, between 31% and 100% of quantitative environmental information.

(1) *Environment: Air France Industrial Division (Orly and Roissy), Air France and KLM ground vehicles & equipment, Servair 1, Acna Roissy, KLM Schiphol, KLM Maintenance services for ground operations. Air France, HOP! and KLM for air operations. Social: Air France in France, Servair and its subsidiaries filiales, KLM in the Netherlands and Transavia.*

	Level of assurance
Social indicators	
Total staff at 31/12 and distribution of employees by age and geographical area	Moderate
Percentage of women at 31/12	
Recruitment under permanent and fixed-term contract at 12/31	
Redundancies (including Economic)	
Absenteeism due to illness, work accidents and maternity leave	
Total workplace accidents	
Frequency rate of workplace accidents	
Severity rate of workplace accidents	
Total training costs	
Number of training hours by employee	
Total staff with disabilities	
Total staff with disabilities recruited during year	
Collective Agreements	
Environmental indicators **Environmental indicators for air operations**	
Fuel consumption and CO_2 emissions	Reasonable
Global noise energy indicator	Moderate
NO_X, HC and SO_2 low altitude emissions	
Occurrences and quantity of fuel jettison	
Environmental indicators for ground operations	
Water consumption	
Electricity consumption	
Consumption of other energies (super-heated water, iced water for air conditioning, DFO, natural gas)	
Quantity of non-hazardous industrial waste	
Quantity of hazardous industrial waste	
Percentage of hazardous industrial waste recovered	
Emissions of volatile organic compounds VOC	
Emissions of CO_2, SO_2, NO_X	
Compliance rate of effluents with regulatory limits	

Qualitative Information	
Social aspects	Organization of social dialogue Occupational health and safety conditions Policies implemented regarding training Measures implemented to promote gender equality and employment and integration of disabled people
Environmental aspects	The assessments and certification process regarding environmental issues Resources allocated to prevention of environmental risks and pollution Consumption of raw materials and measures implemented to improve efficiency in their use Energy consumption and measures implemented to improve energy efficiency
Societal aspects	Territorial, economic and social impact of the company activity regarding regional employment Action implemented against corruption Measures implemented to promote consumers health and safety

For the other consolidated CSR information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations given for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes used, based on our professional judgement, were sufficient to enable us to provide limited assurance; a higher level of assurance would have required us to carry out more extensive work. Due to the use of sampling techniques and other limitations intrinsic to the operation of information and internal control systems, we cannot completely rule out the possibility that a material irregularity has not been detected.

Conclusion

Based on our work, we did not identify any material anomalies likely to call into question the fact that the CSR Information, taken as a whole, is presented fairly in accordance with the Guidelines.

Observation

Without qualifying our conclusion above, we draw your attention to the following point which is indicated in the note on the methodology for the reporting of the social performance indicator: the indicator "Number of disabled employees" is not calculated using the same methodology across the different entities of the Group. The various methodologies are detailed in the note on the methodology for the reporting of the social performance indicators.

Reasonable assurance on a selection of CSR information

Nature and scope of our procedures

Concerning the information selected by the Group and identified by the sign √, we conducted the same work as the one described on paragraph 2 hereinabove for the CSR information considered as the most important but in a more extensive way, particularly concerning the number of tests.

The Entities selected represent 91% of the consolidated environmental Data identified by the sign √.

In our opinion, our work allows us to express a reasonable assurance on the information selected by the Group and identified by the sign √.

Conclusion

In our opinion, the indicators identified by the symbol √ in the 2014 report of the Board of Directors have been prepared, in all material aspects, in accordance with the above-mentioned Protocol.

Appointed Independant Third-Party Auditor
French original signed by:

Paris La Défense, 20th February 2015

KPMG S.A.

Jean-Paul Vellutini	Eric Jacquet	Philippe Arnaud
Partner	*Partner*	*Partner*
		Climate Change and Sustainability Services

5

Financial report

Financial Statements:

5.1 Investments and financing

During the 2014 financial year, excluding discontinued operations, the Air France-KLM Group's capital expenditure on tangible and intangible assets amounted to €1,431 million. The €269 million proceeds on disposals of tangible and intangible assets comprised €71 million from straightforward disposals (€122 million in 2013) and €198 million from sale and lease-back transactions (€123 million in 2013). Within the framework of Transform 2015, the Group maintained strict control over investments before sale and lease-back transactions; investments thus amounted to €1,360 million. While up by €296 million reduction relative to 2013, they remained well below the level of amortization and depreciation (€1,718 million). After sale and lease-back transactions, net investments stood at €1,162 million, €221 million higher than in 2013. With net cash flow from operating activities amounting to €998 million, the Group generated negative operating free cash flow of €164 million (a positive €261 million restated for the strike). (*See also Section 5.4 – Key financial indicators, page* **171**).

At December 31, 2014, the Group's net cash position amounted to €3.55 billion, including €73 million of investments between three months and one year, €399 million of cash pledges and €166 million of bond deposits. In addition, the Group had credit facilities of €1.77 billion subscribed by Air France, KLM and Air France-KLM, fully available at December 31, 2014 (*See also Section 3.3.2 – Liquidity risks, page* **98**).

Net debt stood at €5.41 billion (€5.35 billion at December 31, 2013). The detailed net debt calculation can be found in Section 5.4, page **172**.

5.1.1 Investments

(In € million)	2014	2013
Acquisition of intangible assets	(210)	(166)
Investment in flight equipment	(1,054)	(906)
Other property, plant and equipment	(167)	(114)
Acquisitions of subsidiaries, of shares in non-controlled entities	(43)	(27)
Loss of control over subsidiaries, disposal of shares in non-controlled entities (of which Amadeus)	354	27
Proceeds on disposal of property, plant and equipment and intangible assets	269	245
Dividends received	20	17
Net decrease (increase) in investments between 3 months and 1 year	285	5
Net cash flow used in investing activities of discontinued operations	(20)	(5)
Net cash flow used in investing activities	**(566)**	**(924)**

Investment in tangible and intangible assets amounted to €1,431 million during the 2014 financial year (€1,186 million in 2013), of which €1,054 million in flight equipment. Investment in intangible assets amounted to €210 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 €269 million (€245 million at December 31, 2013) including €71 million on the sale of flight equipment (€122 million in 2013) and €198 million of proceeds on sale and lease-back transactions (€123 million in 2013).

Acquisitions of controlling interests in subsidiaries and equity interests amounted to €43 million, *versus* €27 million in 2013. In September 2014, the Group unwound all its hedging on Amadeus shares and sold a block of shares representing 1% of the share capital for a net gain of €339 million.

In total, including financial investments and disposals, dividends and discontinued operations, the net cash flow used in investing activities amounted to €566 million in 2014. In 2014, this flow was significantly lower thanks to the cash proceeds linked to the transactions in Amadeus shares and the reduction in short-term investments.

5.1.2 Financing

(In € million)	2014	2013
Capital increase	-	6
Issuance of new debt	1,583	1,887
Repayment on debt	(2,024)	(1,480)
Repayment of debt on finance lease liabilities	(565)	(588)
New loans	(10)	(98)
Repayment on loans	36	11
Dividends paid	(3)	(4)
Net cash flow from financing activities	**(983)**	**(158)**

Excluding commercial paper, the financing put in place during 2014 mostly related to:

- an issue of bonds with a seven-year maturity raising €600 million in June 2014;
- asset financing for seven aircraft and an industrial building under construction.

In parallel, the Group repaid €2,024 million of borrowings (€1,480 million in 2013) and €565 million of debt relating to finance lease liabilities (€588 million in 2013).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

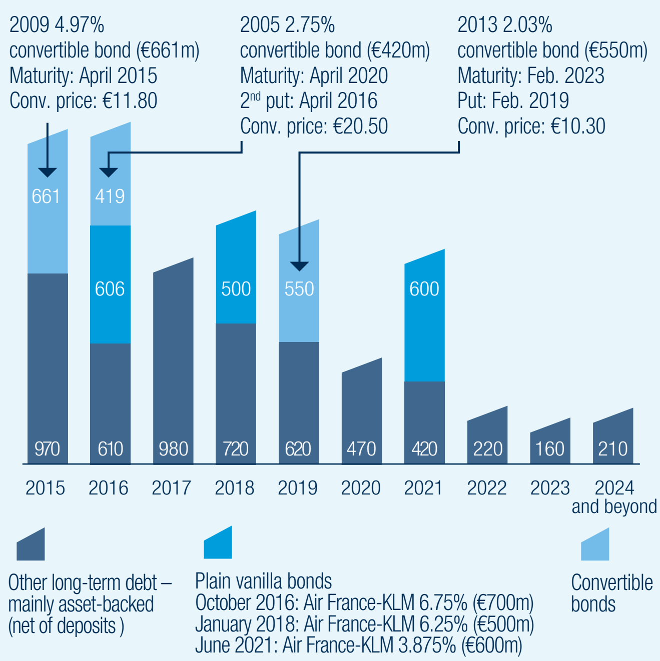
The Group's gross debt stood at €9.88 billion at December 31, 2014, of which €5.19 billion is guaranteed by pledged or mortgaged assets amounting to €7.8 billion, representing 58% of the net book value of the relevant assets (See also Note 37.1 to the consolidated financial statements, page **253**). After hedging, 69% of the gross debt is at fixed rates and 86% is denominated in euros. The average cost of the debt is 3.3%. (*See also Section 3.3 – Market risks and their management, page* **96**).

The structure of the debt is as follows:

- market financing (OCEANEs, bonds and perpetual subordinated loan stock): €3.8billion;
- capital lease commitments: €4.12 billion;
- other borrowings including bank debt and accrued interest: €1.9 billion.

Reimbursement profile

The debt reimbursement maturities are progressive over time; despite a contraction in bank balance sheets, the aircraft asset financing market remains open for the amounts envisaged over the coming years. The Group does, however, monitor developments in this area closely and continues to diversify the sources of its financing, notably with non-European banks and by re-financing assets other than aircraft.



In € millions, net of deposits on financial leases and excluding KLM perpetual debt (€564m)

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, 2014	December 31, 2013
Flight equipment	**8,728**	**9,391**
Other property, plant and equipment		
Land and buildings	1,082	1,160
Equipment and machinery	365	382
Assets in progress	135	95
Others	168	182
Total other property, plant and equipment	**1,750**	**1,819**

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in Note 36 to the consolidated financial statements. After the fleet, land and buildings is the second largest category of tangible assets for the Air France-KLM Group and is the only item to be described in detail below.

5.2.2 The Air France-KLM Group's land and buildings

➤ **Breakdown of surface area by business unit**

Approximate surface area in square meters at December 31	Air France Group		KLM Group		Air France-KLM Group	
	2014	2013	2014	2013	2014	2013
Passenger	436,555	458,016	150,675	150,893	587,230	608,909
Cargo	273,811	263,686	101,359	100,891	375,170	364,577
Maintenance	616,345	621,492	299,584	299,045	915,929	920,537
Support	430,224	435,606	100,622	100,000	530,846	535,606
Total	**1,756,934**	**1,778,800**	**652,240**	**650,830**	**2,409,174**	**2,429,630**

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 2014, the main developments were the demolition of building 5710, the restitution of the "Le Dôme" building at CDG, the restitution of H4 and A5 at Le Bourget with a view to full restitution by the end of 2015, and the restitution of premises in the French provinces.

➤ 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 €1.47 billion at December 31, 2014 (*See also Note 35.2 to the consolidated financial statements, page* **251**).

Most of the Air France Group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Only 8% of the fully-owned or finance-leased premises belong to the real estate portfolio controlled by Air France.

➤ Geographical breakdown of the principal sites

Sites	Approximate surface area in sq. mtrs	Type of financing
Air France Group		
Paris-CDG airport	696,769	Ownership, finance lease, rental
Orly airport	335,790	Ownership, finance lease, rental
Toulouse	70,471	Ownership, finance lease, rental
Le Bourget	30,091	Rental
Montreuil	20,195	Rental
Valbonne	17,963	Ownership
KLM Group		
Schiphol airport	39,833	Operating lease
Schiphol Centrum	136,648	Ownership, operating lease
Schiphol Oost	378,705	Ownership, operating lease
Schiphol Rijk	16,847	Ownership, operating lease
Schiphol Noord	22,025	Ownership
Amstelveen	29,602	Ownership

➤ **Main rental contracts**

Sites	Approximate surface area in sq. mtrs	Type of financing
Air France Group		
Commercial head office, Montreuil	20,195	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM Group		
Schiphol	39,833	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, 2014

Changes in scope during the 2014 financial year

On December 20, 2013, Air France received a firm offer from Intro Aviation GmbH to purchase CityJet and its VLM subsidiary. The planned disposal of these companies, which was realized on April 30, 2014, has been treated as a discontinued operation.

Restatement of the 2013 financial statements

Since January 1, 2014, the Group has opted for the early application of IFRIC 21 "Rights and Duties". The impact is essentially a different allocation of the charge between interim periods.

Scope at December 31, 2014

The consolidation scope comprised 152 fully consolidated companies and 42 companies consolidated by the equity method. The two main subsidiaries, Air France and KLM, represented 91% of revenues and 71% of the balance sheet. The other subsidiaries were 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 Air France pilots' strike and on a constant currency basis, and have been restated for one-offs recorded in the fourth quarter. The fourth quarter financial statements effectively included exceptional items amounting to a €48 million net positive: in its revenues, the Group recognized a particularly high level of revenues on tickets that had been issued but not used, some €100 million higher than in the 2013 fourth quarter. Since this non-recurring variation makes the underlying trends more difficult to read, it has been withdrawn from the variation calculations. €52 million of exceptional provisions were also booked, principally on the fleet.

(In € million)	2014	2013	Variation
Revenues	24,912	25,520	(608)
EBITDA*	1,589	1,855	(266)
EBITDAR**	2,462	2,768	(306)
Income/(loss) from current operations	(129)	130	(259)
Income/(loss) from operating activities	751	(227)	978
Net income/(loss) from continuing operations	(185)	(1,696)	1,511
Net income/(loss) from discontinued operations	(4)	(122)	118
Net income/(loss), Group share	(198)	(1,827)	1,629
Basic earnings/(loss) per share, Group *(in €)*	(0.67)	(6.17)	5.50

* *Result from current operations before amortization, depreciation and provisions. See Section 5.4.*
** *Result from current operations before amortization, depreciation, provisions and operating leases. See Section 5.4.*

Revenues

Consolidated revenues for the period amounted to €24.91 billion, a 2.4% decrease but stable (+0.3%) like-for-like. 2014 was characterized by the persistent economic slowdown in Europe. From a capacity perspective, Air France-KLM pursued its policy of strict discipline (passenger capacity up by only 1.0% like-for-like) and the industry as a whole remained relatively prudent. For its part, air cargo continued to be affected by the weakness in global trade and structural industry overcapacity. Revenues in the passenger business decreased by 2.7% and those of the maintenance business were 2.1% higher. Cargo business revenues declined by 4.8% while revenues from the other businesses were up by 3.2%.

Operating expenses

Operating expenses declined by 1.4% to €25.04 billion. On a constant currency basis, operating expenses were down by 0.9% despite inflation, the decline being greater than that of capacity. External expenses fell by 1.3% to €15.79 billion *versus* €16.00 billion over the previous twelve months. Excluding fuel, external expenses increased by 0.7% relative to the previous twelve months.

The breakdown of external expenses was as follows:

(In € million)	2014	2013	% Ch.
Aircraft fuel	6,629	6,897	(3.9)
Chartering costs	438	455	(3.7)
Aircraft operating lease costs	873	913	(4.4)
Landing fees and en route charges	1,840	1,839	0.1
Catering	591	589	0.3
Handling charges and other operating costs	1,476	1,405	5.1
Aircraft maintenance costs	1,356	1,303	4.1
Commercial and distribution costs	870	852	2.1
Other external expenses	1,718	1,744	(1.5)
Total	**15,791**	**15,997**	**(1.3)**

The main changes were as follows:

- **aircraft fuel:** fuel expense for the year declined by 3.9% on a constant currency basis and by 2.9% reported. This fall was the combined result of a -2.2% price effect and a volume effect of -0.8%;
- **chartering costs** incurred through leasing aircraft capacity from other airlines fell by €17 million relative to the previous year under the effect of a reduction in the capacity purchased and contract renegotiation;
- **aircraft operating lease costs** declined by 4.4% under the influence of the euro/dollar exchange rate and the renegotiation of contracts on expiry. On a constant currency basis, they fell by 3.7%;
- **landing fees and en route charges** relating to air navigation services and the use of airports rose by 0.7% on a constant currency basis, in line with activity;
- **catering costs** relating to services supplied on board aircraft were stable. These expenses comprise the expenses incurred for services provided on board the Air France-KLM Group's own aircraft and those incurred by its catering subsidiary for third-party customers;
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. They increased by 5.1% reported and by 5.9% on a constant currency basis;
- **aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. These costs increased by 4.1% due to the growth in third-party sales which rose by 2.1% over the period and also Barfield's inclusion in the scope starting June 30, 2014;
- **commercial and distribution costs** increased by 2.8% on a constant currency basis and by 2.1% reported, notably due to an increase in compensation for customers linked to the Air France-pilots' strike during September 2014;
- **other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. They decreased by 1.5% on a reported basis and by 1.3% on a constant currency basis.

Salaries and related costs amounted to €7.32 billion *versus* €7.48 billion in 2013, *i.e.* a fall of 2.2%. The average headcount declined (-1.8%) to 94,666 employees.

Taxes other than income taxes stood at €169 million *versus* €186 million at December 31, 2013, down by 9.1%.

Amortization, depreciation and provisions totalled €1.72 billion *versus* €1.73 billion at December 31, 2013.

The unit cost per EASK (equivalent available seat-kilometer) was reduced by 1.1% and was down by 2.2% excluding the strike. This change was the combined result of a 0.7% fall due to the decline in fuel price, a 0.4% decline on currency variation, a 0.2% increase due to one-offs recorded during the fourth quarter 2014 and a 1.3% reduction in the unit cost after taking these elements into account (for detail on the calculation, see Section 5.4 on pages 175 and 176).

Income/(loss) from current operations

The **result from current operations** was negative at €129 million (*versus* income of €130 million at December 31, 2013).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

	2014		2013	
(In € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger	19,570	(83)	20,112	174
Cargo	2,681	(212)	2,816	(202)
Maintenance	1,251	174	1,225	159
Others	1,410	(8)	1,367	(1)
Total	**24,912**	**(129)**	**25,520**	**130**

Income/(loss) from operating activities

The result from operating activities was a €751 million profit *versus* a loss of €227 million at December 31, 2013.

Over the financial year ended December 31, 2014, the result from operating activities included, notably:

- a €187 million gain on the sale of Amadeus shares. This transaction is described in the Note 11 to the financial statements;
- a positive impact of €824 million in respect of the pilot, cabin crew and ground staff pension schemes, following a change in legislation on pension schemes in the Netherlands. Details concerning these legal changes are given in Note 31.1.3 to the financial statements;
- an impairment provision amounting to €113 million on the cargo business (see Note 19).

Net cost of financial debt

The net cost of financial debt fell to €370 million *versus* €404 million during the previous financial year. The cost of net debt decreased by 43 basis points from 7.22% in the 2013 financial year to 6.79% in 2014.

Other financial income and expenses

Other net financial income amounted to a negative €318 million at December 31, 2014 *versus* a positive €103 million at December 31, 2013. The breakdown was as follows:

- a currency loss of €158 million (*versus* a €74 million gain at December 31, 2013). At December 31, 2014, the foreign exchange result mainly includes an adjustment in the value of the cash blocked in Venezuela to take into account the currency conversion risk (see Note 28), together with a latent foreign exchange variation due to the appreciation in the US dollar relative to the euro;
- a €92 million negative variation in the fair value of financial assets and liabilities (€57 million positive variation at December 31, 2013) mostly due to the €135 million negative impact of the fuel hedges and the €50 million positive impact from currency hedges;
- allocations to provisions of €44 million *versus* €30 million at December 31, 2013. As of December 31, 2014, the Group recognized, in particular, a €21 million depreciation charge on its Alitalia shares to reduce this shareholding to its fair value;
- a €24 million negative item mainly corresponding to the effect of the financial cost concerning long-term provisions.

Net income/(loss) – Group share

Income taxes amounted to €209 million *versus* €957 million at December 31, 2013.

Income taxes for the period include a €65 million provision on the deferred tax assets recognized on fiscal losses in the KLM 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. The Group's three-year target shows that a portion of the tax losses generated in 2009-10 is not expected to be recoverable within this nine-year window. To take this into account, a limit of €65 million was recorded at December 31, 2014.

Moreover, the Group decided, within the framework of its review of the full-freighter activity in Schiphol, to fully de-recognize the deferred tax asset on Martinair's pre-acquisition fiscal losses. This has a negative impact on the deferred tax charge amounting to €24 million.

Share of profits/(losses) from associates contributed a loss of €39 million at December 31, 2014 *versus* a negative contribution of €211 million in the previous year. This essentially comprised the Group's share of Kenya Airways' losses.

The **result from discontinued operations** was a negative €4 million at December 31, 2014 *versus* a negative €122 million during the previous financial year. This includes the result from the companies CityJet and VLM until their disposal date. At December 31, 2013, within the framework of the evaluation of these two companies, the result also includes an additional €77 million provision to write down the net asset value for the CityJet and VLM entity to its expected sale price and a €25 million provision to cover a breach of contract and disputes concerning the payment of social security charges in France.

The net income/(loss), Group share stood at a loss of €198 million at December 31, 2014 *versus* a loss of €1.83 billion at December 31, 2013. Adjusted for non-recurring items, the restated net loss amounted to €535 million, decreasing in comparison to 2013 (a loss of €463 million, see Section 5.4, Key financial indicators).

The contributions to the net result by quarter were, respectively, €(608) million at March 31, 2014, €(6) million at June 30, 2014, €103 million at September 30, 2014 and €322 million at December 31, 2014.

Basic earnings/(loss) per share, Group share, amounted to €(0.67) at December 31, 2014 *versus* €(6.17) at December 31, 2013.

5.3.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €1.43 billion over the financial year (€1.19 billion at December 31. 2013) of which €395 million of investment in the fleet, €342 million in maintenance, €128 million in components, €188 million in cabin refurbishment and €377 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €269 million *versus* €245 million at December 31, 2013.

During the financial year ended December 31, 2014, the Group signed a non-cash transaction on engines. The Group also concluded non-cash financial leases. The total amount of these transactions amounted to €36 million. Neither the acquisition nor the debt attached to these two items had any impact in the cash flow statement.

Operating cash flow was positive to the tune of €1.01 billion (€1.48 billion at December 31, 2013) given the €133 million positive change in working capital requirement.

At December 31, 2014, the Group had €3.55 billion of net cash, of which €3.16 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €5.41 billion at December 31, 2014 (€5.35 billion at December 31, 2013).

5.3.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2014.

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 services invoiced to Air France and KLM. 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, 2014, the operating result was thus positive to the tune of €4 million.

The net result was a €111 million loss, mainly due to the financial costs on the bond issues together with provisions on shares. The company received €7 million of dividends in respect of 2013.

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, 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.

At December 31, 2013, accounts payable stood at €11 million of which €5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.3.4 Equity as of December 31, 2014

Equity attributable to equity holders of Air France-KLM amounted to €(671) million against €2,245 million as of December 31, 2013 IFRIC 21 adjusted. The €(2.9) billion change was due to:

- €(1.7) billion from the change in fair value of the Group's defined benefits obligations (net of tax). The sharp fall in yields on high-quality corporate bonds in the euro zone has generated an increase in pension obligations. The counterpart of this increase has been recorded as an equity decrease amounting to €(2.9) billion, €1.2 billion of which is offset by the equity counterpart on the good performance of the plan assets;
- €(0.8) billion corresponding to the change in fair value of derivatives (net of tax).

5.4 Key financial indicators

EBITDA and EBITDAR

By extracting from the operating result the main lines of the income statement which do not involve cash disbursement, EBITDA provides a simple indicator of a company's cash generation. It is thus commonly used for the calculation of financial cover ratios (see below) and enterprise value.

EBITDAR is a similar indicator 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 operating leases from EBITDA. It is also used to calculate the financial cover ratios (see below) and enterprise value.

(In € million)	2014	2013
Income/(loss) from current operations	(129)	130
Amortization, depreciation and provisions	1,718	1,725
EBITDA	**1,589**	**1,855**
Operating leases	(873)	(913)
EBITDA before operating leases (EBITDAR)	**2,462**	**2,768**

Excluding the pilots' strike, EBITDA would have reached €2,014 million in 2014, up by €159 million.

Adjusted operating result and adjusted operating margin

In accordance with generally accepted practice for analyzing the air transport sector, operating leases are capitalized at seven times for the capital employed and level of debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with financial charges, *i.e.* 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

	2014	2013
Income/(loss) from current operations *(in €m)*	(129)	130
Portion of operating leases corresponding to financial charges (34%) *(in €m)*	297	310
Adjusted income/(loss) from current operations *(in €m)*	**168**	**440**
Revenues *(in €m)*	24,912	25,520
Adjusted operating margin	**0.7%**	**1.7%**

Restated net result

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

Starting from the 2014 financial year, the Group has restated unrealized foreign exchange gains and losses to establish the restated net result. The comparable figure for 2013 has been updated accordingly.

	2014	2013
Net income/(loss), Group share *(in €m)*	(198)	(1,827)
Net income/(loss) from discontinued operations *(in €m)*	4	122
Impairment of Alitalia shares *(in €m)*	30	119
Depreciation of deferred tax assets *(in €m)*	89	937
Change in fair value of financial assets and liabilities (derivatives) *(in €m)*	92	(57)
Unrealized foreign exchange gains and losses *(in €m)*	122	(114)
Non current income and expenses *(in €m)*	(880)	357
Income tax linked to law impacts on pension in the Netherlands *(in €m)*	206	-
Restated net income/(loss), Group share *(in €m)*	**(535)**	**(463)**
Restated net income/(loss) per share, Group share *(in €)*	**(1.81)**	**(1.56)**

Net debt

For the calculation of net debt, the Group carries out two types of adjustment. Firstly, the deposits constituted during the implementation of aircraft finance lease transactions and charged to the balance of the debt when the option is exercised are deducted from debt. Similarly, the cash pledges within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 are deducted from the corresponding debt.

Secondly, marketable securities (see Note 24 to the consolidated financial statements) and the cash pledges, principally constituted within the framework of the appeal against the amount of the cargo fine filed with the European Union Court of Justice, are added to cash.

At December 31, 2014, the cash blocked in bank accounts in Venezuela has been adjusted to take into account the foreign exchange risk.

Balance sheet at *(In € million)*	December 31, 2014	December 31, 2013
Current and non-current financial debt	9,879	10,733
Deposits on aircraft under finance lease	(584)	(626)
Financial assets pledged (OCEANE swap)	(196)	(393)
Currency hedge on financial debt	(21)	8
Accrued interest	(123)	(144)
Gross financial debt	**8,955**	**9,578**
Cash and cash equivalents	3,159	3,684
Marketable securities	73	126
Cash pledges	399	432
Deposits (bonds)	166	154
Bank overdrafts	(249)	(166)
Net cash	**3,548**	**4,230**
Net debt	**5,407**	**5,348**

Within the framework of the Perform 2020 plan, the Group has set itself a target of reducing net debt to around €4.6 billion by the end of 2015. For the medium term, the Group has prioritized a target based on the adjusted net debt/EBITDAR ratio (see below).

Financial cover ratios

Within the framework of Transform 2015, the financial cover ratios considerably improved with, for example, the net debt/EBITDA ratio falling from 4.8x at December 31, 2011 to 2.7x at December 31, 2014 adjusted for the strike (3.4x reported).

➤ Net debt/EBITDA ratio

	2014	2013
Net debt *(in €m)*	5,407	5,348
EBITDA *(in €m)*	1,589	1,855
Net debt/EBITDA	**3.4x**	**2.9x**

➤ EBITDA/net cost of financial debt ratio

	2014	2013
EBITDA *(in €m)*	1,589	1,855
Net cost of financial debt *(in €m)*	370	404
EBITDA/net cost of financial debt	**4.3x**	**4.6x**

➤ 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 new Perform 2020 plan, the Group has set itself an adjusted net debt/EBITDAR ratio target of around 2.5x at the end of 2017.

	2014	2013
Net debt *(in €m)*	5,407	5,348
Aircraft operating leases x 7 *(in €m)*	6,111	6,391
Total adjusted net debt *(in €m)*	**11,518**	**11,739**
EBITDAR *(in €m)*	**2,462**	**2,768**
Adjusted net debt/EBITDAR	**4.7x**	**4.2x**

➤ 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%).

	2014	2013
EBITDAR *(in €m)*	2,462	2,768
Net cost of financial debt *(in €m)*	370	404
Portion of operating leases corresponding to interest charges (34%) *(in €m)*	297	310
Adjusted net cost of financial debt *(in €m)*	667	714
EBITDAR/adjusted net cost of financial debt	**3.7x**	**3.9x**

Operating free cash flow

Operating free cash flow represents the cash available after investment in property, plant, equipment and intangible assets for solely operational purposes. It does not include the other cash flows linked to investment operations, particularly financial. In this financial indicator, the Group includes the amount of the acquisition contracts for property, plant, equipment and intangible assets which, on an exceptional basis, have not been recorded under investments in the consolidated statements of cash flows table.

(In € million)	2014	2013
Net cash flow from operating activities	998	1,471
Investment in property, plant, equipment and intangible assets	(1,431)	(1,186)
Proceeds on disposal of property, plant, equipment and intangible assets	269	245
Operating free cash flow	**(164)**	**530**

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 was amended in September 2014 to be more in line with market practices:

- the calculation of capital employed is currently based on an additive method by identifying the balance sheet items corresponding to capital employed. 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. To be able to compare figures on a comparable scope, the Alitalia shares have been excluded from the calculation.

For 2013, the impact of this change in methodology is very limited: the RoCE calculated with the new methodology amounts to 2.9% relative to 3.2% using the former method.

(In € million)	12/31/2014	12/31/2013*	12/31/2013*	12/31/2012**
Goodwill and intangible assets	1,252	1,133	1,133	1,094
Flight equipment	8,728	9,391	9,391	10,048
Other property, plant and equipment	1,750	1,819	1,819	1,932
Investments in equity associates, excluding Alitalia	139	177	177	174
Other financial assets excluding shares available for sale, marketable securities and financial deposits	152	128	128	132
Provisions excluding pension, cargo litigation and restructuring	(1,403)	(1,105)	(1,105)	(952)
WCR, excluding market value of derivatives	(4,928)	(4,905)	(4,905)	(4,535)
Capital employed on the balance sheet	**5,690**	**6,638**	**6,638**	**7,893**
Average capital employed on the balance sheet	6,164		7,265	
Capital employed corresponding to flight equipment under operating leases (operating leases x 7)	6,111		6,391	
Average capital employed (A)	**12,275**		**13,656**	
Operating result, adjusted for operating leases	168		440	
Dividends received	(17)		(9)	
Share of profits/(losses) of associates, excluding Alitalia	(39)		(10)	
Tax recognized in the adjusted net result	86		(20)	
Adjusted result after tax, excluding Alitalia (B)	**197**		**401**	
ROCE (B/A)	**1.6%**		**2.9%**	
Adjusted result after tax, excluding Alitalia and the strike (C)	**623**		**401**	
ROCE excluding strike (C/A)	**5.1%**		**2.9%**	

* *Restated for IFRIC 21, CityJet.*
** *Restated for IAS 19 Revised.*

Cost of capital

	2014	2013
Cost of stockholders' equity	15.4%	15.0%
Marginal cost of debt, post tax	3.5%	4.0%
Percentage of stockholders' equity/target debt		
♦ Stockholders' equity	30%	31%
♦ Debt	70%	69%
Weighted average cost of capital after taxation	**7.1%**	**7.4%**

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.

	2014	2013*
Revenues *(in €m)*	24,912	25,520
Income/(loss) from current operations *(in €m)*	(129)	130
Total operating expense *(in €m)*	(25,041)	(25,390)
Passenger business – other passenger revenues** *(in €m)*	875	912
Cargo business – other air freight revenues *(in €m)*	172	197
Third-party revenues in the maintenance business *(in €m)*	1,251	1,225
Other businesses – revenues other than Transavia transportation *(in €m)*	409	419
Net cost *(in €m)*	**22,334**	**22,637**
Capacity produced, reported in EASK	332,602	333,480
Net cost per EASK (in € cents per EASK)	**6.71**	**6.79**
Gross change	***-1.1%***	
Net cost, excluding strike *(in €m)*	**22,404**	
Capacity produced, reported in EASK, excluding strike	337,352	
Net cost per EASK, excluding strike (in € cents per EASK)	**6.64**	**6.79**
Change excluding strike	***(2.2%)***	
Currency effect on net costs *(in €m)*		(90)
Change at constant currencies		***(1.8%)***
Oil price effect *(in €m)*		(160)
Change on a constant currency and fuel price basis		***(1.1%)***
Defined pension benefit expense included in salaries and related costs *(in €m)*	388	379
Impact of Q4 exceptional items		(0.2%)
Net cost per EASK *on a constant currency, fuel price and defined benefit pension expense basis, excluding impact of Q4 one-offs (in € cents per EASK)*	**6.64**	**6.73**
Change on a constant currency, fuel price and defined benefit pension expense basis		***(1.3%)***

* Restated for IFRIC 21, CityJet reclassified as a discontinued operation.

** Restated for change in revenue allocation (€24 million transferred from "other passenger" to "scheduled passenger" revenues in FY 2013, none in Q4 2013.

Contents

5.5 Consolidated financial statements

5.5.1 Consolidated income statement

Period from January 1 to December 31 *(In € million)*	**Notes**	**2014**	**2013**
Sales	*6*	***24,912***	***25,520***
Other revenues		18	10
Revenues		***24,930***	***25,530***
External expenses	7	(15,791)	(15,997)
Salaries and related costs	8	(7,316)	(7,482)
Taxes other than income taxes		(169)	(186)
Amortization, depreciation and provisions	9	(1,718)	(1,725)
Other income and expenses	10	(65)	(10)
Income from current operations		***(129)***	***130***
Sales of aircraft equipment	11	-	(12)
Other non-current income and expenses	11	880	(345)
Income from operating activities		***751***	***(227)***
Cost of financial debt		(446)	(481)
Income from cash and cash equivalents		76	77
Net cost of financial debt	*12*	***(370)***	***(404)***
Other financial income and expenses	12	(318)	103
Income before tax		***63***	***(528)***
Income taxes	13	(209)	(957)
Net income of consolidated companies		***(146)***	***(1,485)***
Share of profits (losses) of associates	22	(39)	(211)
Net income from continuing operations		***(185)***	***(1,696)***
Net income from discontinued operations	14	(4)	(122)
Net income for the period		***(189)***	***(1,818)***
Equity holders of Air France-KLM		***(198)***	***(1,827)***
Non controlling interests		9	9
Earnings per share – Equity holders of Air France-KLM *(in €)*			
♦ basic and diluted	16.1	(0.67)	(6.17)
Net income from continuing operations – Equity holders of Air France-KLM *(in €)*			
♦ basic and diluted	16.1	(0.66)	(5.76)
Net income from discontinued operations – Equity holders of Air France-KLM *(in €)*			
♦ basic and diluted	16.1	(0.01)	(0.41)

The accompanying notes are an integral part of these consolidated financial statements.

5.5.2 Consolidated statement of recognized income and expenses

(In € million)	Notes	December 31, 2014	December 31, 2013
Net income for the period		***(189)***	***(1,818)***
Fair value adjustment on available-for-sale securities			
♦ Change in fair value recognized directly in other comprehensive income		7	420
♦ Change in fair value transferred to profit or loss		(250)	-
Fair value hedges			
♦ Effective portion of changes in fair value hedge recognized directly in other comprehensive income		27	(101)
♦ 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		(1,387)	213
♦ Change in fair value transferred to profit or loss		123	(120)
Currency translation adjustment		**10**	**(2)**
Deferred tax on items of comprehensive income that will be reclassified to profit or loss	**13.2**	**341**	**(10)**
Items of the recognized income and expenses of equity shares, net of tax		**-**	**(4)**
Total of other comprehensive income that will be reclassified to profit or loss		***(1,055)***	***396***
Remeasurements of defined benefit pension plans		**(2,260)**	**26**
Deferred tax on items of comprehensive income that will not be reclassified to profit or loss	**13.2**	**583**	**(18)**
Remeasurements of defined benefit pension plans of equity shares, net of tax		**-**	**(1)**
Total of other comprehensive income that will not be reclassified to profit or loss		***(1,677)***	***7***
Total of other comprehensive income, after tax		***(2,732)***	***403***
Recognized income and expenses		***(2,921)***	***(1,415)***
♦ ***Equity holders of Air France-KLM***		***(2,915)***	***(1,423)***
♦ Non-controlling interests		(6)	8

The accompanying notes are an integral part of these consolidated financial statements.

5.5.3 Consolidated balance sheet

Assets *(In € million)*	Notes	December 31, 2014	December 31, 2013 Restated*
Goodwill	17	243	237
Intangible assets	18	1,009	896
Flight equipment	20	8,728	9,391
Other property, plant and equipment	20	1,750	1,819
Investments in equity associates	22	139	177
Pension assets	23	1,409	2,454
Other financial assets	24	1,502	1,963
Deferred tax assets	13.4	1,031	434
Other non-current assets	27	243	113
Total non-current assets		***16,054***	***17,484***
Assets held for sale	15	3	91
Other short-term financial assets	24	787	1,031
Inventories	25	538	511
Trade accounts receivables	26	1,728	1,775
Other current assets	27	961	845
Cash and cash equivalents	28	3,159	3,684
Total current assets		***7,176***	***7,937***
Total assets		**23,230**	**25,421**

* *See Note 2 of notes to consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity *(In € million)*	**Notes**	**December 31, 2014**	**December 31, 2013 Restated***
Issued capital	**29.1**	300	300
Additional paid-in capital	**29.2**	2,971	2,971
Treasury shares	**29.3**	(86)	(85)
Reserves and retained earnings	**29.4**	(3,856)	(941)
Equity attributable to equity holders of Air France-KLM		***(671)***	***2,245***
Non-controlling interests		39	48
Total equity		***(632)***	***2,293***
Provisions and retirement benefits	**31**	3,491	3,102
Long-term debt	**32**	7,994	8,596
Deferred tax liabilities	**13.4**	14	178
Other non-current liabilities	**33**	536	397
Total non-current liabilities		***12,035***	***12,273***
Liabilities relating to assets held for sale	**15**	-	58
Provisions	**31**	731	670
Current portion of long-term debt	**32**	1,885	2,137
Trade payables		2,444	2,369
Deferred revenue on ticket sales		2,429	2,371
Frequent flyer programs		759	755
Other current liabilities	**33**	3,330	2,329
Bank overdrafts	**28**	249	166
Total current liabilities		***11,827***	***10,855***
Total liabilities		**23,862**	**23,128**
Total equity and liabilities		**23,230**	**25,421**

* *See Note 2 of notes to consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.4 Consolidated statement of changes in stockholders' equity

(In € million)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non controlling interests	Total equity
January 1, 2013	*300,219,278*	*300*	*2,971*	*(85)*	*403*	*3,589*	*48*	*3,637*
First application IFRIC 21 Levies*	-	-	-	-	3	**3**	-	**3**
January 1, 2013 (Restated*)	*300,219,278*	*300*	*2,971*	*(85)*	*406*	*3,592*	*48*	*3,640*
Fair value adjustment on available for sale securities	-	-	-	-	402	**402**	-	**402**
Gain/(loss) on cash flow hedges	-	-	-	-	62	**62**	-	**62**
Gain/(loss) on fair value hedges	-	-	-	-	(66)	**(66)**	-	**(66)**
Remeasurements of defined benefit pension plans	-	-	-	-	8	**8**	(1)	**7**
Currency translation adjustment	-	-	-	-	(2)	**(2)**	-	**(2)**
Other comprehensive income	*-*	*-*	*-*	*-*	*404*	*404*	*(1)*	*403*
Net income for the year	-	-	-	-	(1,827)	**(1,827)**	9	**(1,818)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**(1,423)**	**(1,423)**	**8**	**(1,415)**
Stock based compensation (ESA) and stock option	-	-	-	-	3	**3**	-	**3**
OCEANE	-	-	-	-	70	**70**	-	**70**
Treasury shares	-	-	-	-	(1)	**(1)**	-	**(1)**
Dividends paid	-	-	-	-	-	**-**	(4)	**(4)**
Change in consolidation scope	-	-	-	-	4	**4**	(4)	-
December 31, 2013 (Restated*)	*300,219,278*	*300*	*2,971*	*(85)*	*(941)*	*2,245*	*48*	*2,293*
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 income for the year	-	-	-	-	(198)	**(198)**	9	**(189)**
Total of income and expenses recognized	**-**	**-**	**-**	**-**	**(2,915)**	**(2,915)**	**(6)**	**(2,921)**
Treasury shares	-	-	-	(1)	-	**(1)**	-	**(1)**
Dividends paid	-	-	-	-	-	-	(3)	**(3)**
December 31, 2014	*300,219,278*	*300*	*2,971*	*(86)*	*(3,856)*	*(671)*	*39*	*(632)*

* *See Note 2 of notes to consolidated financial statements.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.5 Consolidated statements of cash flows

Period from January 1 to December 31 *(In € million)*	**Notes**	**2014**	**2013**
Net income from continuing operations		(185)	(1,696)
Net income from discontinued operations	**14**	(4)	(122)
Amortization, depreciation and operating provisions	**9**	1,725	1,735
Financial provisions	**12**	68	28
Gain on disposals of tangible and intangible assets		(19)	12
Loss/(gain) on disposals of subsidiaries and associates	**11**	(184)	(6)
Derivatives – non monetary result		73	(61)
Unrealized foreign exchange gains and losses, net		122	(114)
Share of (profits) losses of associates	**22**	39	211
Deferred taxes	**13**	172	916
Impairment	**39.1**	113	79
Other non-monetary items	**39.1**	(1,041)	127
Cash flow		***879***	***1,109***
Of which discontinued operations		***(6)***	***(19)***
(Increase)/decrease in inventories		(24)	1
(Increase)/decrease in trade receivables		**98**	59
Increase/(decrease) in trade payables		29	55
Change in other receivables and payables		10	228
Change in working capital from discontinued operations		20	27
Net cash flow from operating activities		***1,012***	***1,479***
Acquisition of subsidiaries, of shares in non-controlled entities	**39.2**	(43)	(27)
Purchase of property, plant, equipment and intangible assets	**21**	(1,431)	(1,186)
Loss of subsidiaries, of disposal of shares in non-controlled entities	**11**	354	27
Proceeds on disposal of property, plant and equipment and intangible assets		269	245
Dividends received		20	17
Decrease (increase) in net investments, more than 3 months		285	5
Net cash flow used in investing activities of discontinued operations		(20)	(5)
Net cash flow used in investing activities		***(566)***	***(924)***

Period from January 1 to December 31 (In € million)	Notes	2014	2013
Increase in capital		-	6
Issuance of debt		1,583	1,887
Repayment on debt		(2,024)	(1,480)
Payment of debt resulting from finance lease liabilities		(565)	(588)
New loans		(10)	(98)
Repayment on loans		36	119
Dividends paid		(3)	(4)
Net cash flow from financing activities		***(983)***	***(158)***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		(77)	(36)
Effect of exchange rate on cash and cash equivalent and bank overdrafts of discontinued operations		-	1
Change in cash and cash equivalents and bank overdrafts		***(614)***	***362***
Cash and cash equivalents and bank overdrafts at beginning of period	**28**	3,518	3,160
Cash and cash equivalents and bank overdrafts at end of period	**28**	2,910	3,518
Change in cash of discontinued operations		(6)	4
Income tax (paid)/reimbursed (flow included in operating activities)		(35)	(48)
Interest paid (flow included in operating activities)		(420)	(403)
Interest received (flow included in operating activities)		39	41

The accompanying notes are an integral part of these consolidated financial statements.

5.6 Notes to the consolidated financial statements

Note 1 Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM SA, a limited liability company organized under French law.

The term "Group" is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world. The Group's core business is passenger transportation. The Group's activities also include cargo, aeronautics maintenance and other air-transport-related activities including, principally, catering and low cost services.

The limited company Air France-KLM, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

The reporting currency used in the Group's financial statements is the euro, which is also Air France-KLM's functional currency.

Note 2 Restatements of the 2013 financial statements

2.1 Early application of IFRIC 21 "Levies"

On May 20, 2013 the IASB published a new interpretation on the treatment of collected taxes by a public authority, effective in the European Union as per fiscal year 2015.

The Group opted for the early application of this interpretation as from January 1, 2014. The impact is essentially a different allocation of the costs during the interim period (March 31, June 30 and September 30). The consolidated financial statements as of December 31, 2014 are consequently not significantly affected by the application of this interpretation. As with any new text, the application was made retrospectively.

In the consolidated balance sheet as of December 31, 2012, the reserves and retained earnings were consequently restated by €3 million.

Note 3 Significant events

3.1 Events that occurred in the financial year

Partnership with GOL

On February 19, 2014 the companies Air France-KLM and GOL Linhas Aéreas Inteligentes signed an exclusive strategic partnership to reinforce their commercial cooperation between Brazil and Europe. Within the framework of this agreement, Air France-KLM holds 1.5 per cent of the capital of GOL Linhas Aéreas Inteligentes as well as a long-term exclusivity right. This exclusivity right has been recognized as an intangible asset.

Disposal of CityJet Group

On April 30, 2014, the Group sold to Intro Aviation GmbH its subsidiaries CityJet and VLM, Irish and Belgium regional airlines that had been previously 100 per cent owned. The result of their disposal has nevertheless no significant impact on the Group's financial statements as of December 31, 2014, as described in the Notes 5 and 14.

Bond (loans)

On June 4, 2014, Air France-KLM issued bonds raising €600 million. At the same time, the Group redeemed a portion of the bonds issued in 2009, as described in Note 32.3.3 to the consolidated financial statements.

Cargo activity

During the period, the Group continued the strategic review of its full-freighter business, different scenarios being studied. After a reduction of its activity in Paris CDG in previous years, the Group decided to down-size its full-freighter fleet at Schiphol (The Netherlands). The impacts are described in the Note 19.

Shares in Amadeus

On September 9, 2014, the Group sold 14,821,019 shares in the Spanish company Amadeus IT Holding S.A. ("Amadeus"). On November 25, 2014 the Group purchased a collar to cover the value of 9.9 million shares hold. These operations are described in Notes 11, 24 and 34.

Shares in Alitalia

After the subscription by Etihad Airways to the Alitalia capital increase, Air France-KLM's shareholding was diluted from 7.08 per cent as at December 31, 2013 to 1.11 per cent as at December 31, 2014.

Strike by Air France pilots

Between September 15 and September 29, 2014, a strike by Air France pilots strongly disrupted the Group's operations.

Over the period of the strike, the Group furthermore noted a delay in fourth quarter booking trends, without being able precisely to apportion responsibility for this delay between the strike and the unfavorable demand trend seen since the early summer and subsequently confirmed. The Group estimates that part of this delay was progressively reduced over the course of the fourth quarter 2014, without being able to quantify this adjustment exactly given the exceptional nature of the event.

The total impact on income from current operations of the decrease in revenues due to passengers not transported and the additional related costs, net of the savings on direct costs, is estimated at €425 million as of December 31, 2014.

Pension commitments

The significant decrease in interest rates within the euro zone resulted in a 130 basis point adjustment of the long-term discount rate assumption, generating an increase in the valuation of the pension commitments, as detailed in Note 31.1. Despite the good performance of the plan assets, the Group booked a negative change in its other comprehensive income, amounting to €1.7 billion after tax, as of December 31, 2014. The changes in the Dutch fiscal pension rules as from January 1, 2015 results in a decrease of the defined benefit obligations and generates a non-current income of €824 million (see Notes 11 and 31.1.3).

3.2 Subsequent events

Shares in Amadeus

On January 15, 2015 the Group sold a block of 9,857,202 shares in the Spanish Amadeus IT Holding S.A. company ("Amadeus"), representing approximately 2.2% of the capital of the company.

The net proceeds from the sale amounted to €327 million.

After this operation, the Group continues to hold 9.9 million of Amadeus shares in the framework of the hedging transaction mentioned in Note 3.1.

Voluntary departure plans

During the meeting of the Corporate Works Council of January 22, 2015, the management of Air France gave an update on the position of the company, its competitive environment in 2015 and the schedule of work related to the new Perform 2020 strategic plan. Within this framework, the Air France management raised the need to implement additional cost saving measures. In particular, during a meeting of the Corporate Works Council which takes place during the first fortnight in February 2015, the management presents the proposed voluntary departure plans for ground staff and cabin crew, aimed at the departure of approximately 800 full time equivalents.

Note 4 Rules and accounting principles

4.1 Accounting principles

4.1.1 Accounting principles used for the consolidated financial statements

Pursuant to the European Regulation 1606/2002, July 19, 2002, the consolidated financial statements as of December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable on the date these consolidated financial statements were established.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on February 18, 2015.

4.1.2 Change in accounting principles

IFRS standards, amendments to IFRS standards and IFRIC interpretations (IFRS Interpretation Committee) applicable on a mandatory basis to the 2014 financial statements

The texts whose the application became mandatory during the accounting period ended December 31, 2014 are the following:

- standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint-Ventures" have been applied by the Group as from January 1, 2014. The consequences of this application, as described in Note 5, do not have a significant impact on the Group's 2014 consolidated financial statements;
- amendments to IAS 32 "Financial Instruments: Presentation – Compensation of financial instruments assets and liabilities" –, IAS 36 "Information on the impairment of non-financial assets" and IAS 39 "Financial Instruments: Recognition and Measurement" do not have a significant impact on the Group's 2014 consolidated financial statements.

The other texts whose the application became mandatory in 2014 had no impact on the Group's 2014 consolidated financial statements.

IFRS standards and IFRIC interpretations which are not applicable on a mandatory basis to the 2014 financial statements

The Group opted for the early adoption of IFRIC 21 "Levies" which was applied for the first time to the 2014 financial statements.

The impact of the application of this interpretation is described in Note 2.

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 will be effective as from February 1, 2015. The Group does not expect this amendment to have a significant impact.

Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union, are described below

- The amendment to IFRS 11 "Joint Arrangements", effective for the period beginning January 1, 2016.
- The amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", effective for the period beginning January 1, 2016.
- The amendment to IAS 28 "Investments in Associates and Joint-Ventures" and IFRS 10 "Consolidated Financial Statements", effective for the period beginning January 1, 2016.
- The standard IFRS 15 "Revenue Recognition from Contracts with Customers", effective for the period beginning January 1, 2017 and replacing the standards IAS 18 "Revenues", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes".
- The standard IFRS 9 "Financial Instruments", effective for the period beginning January 1, 2018.

The Group does not expect the application of the amendments mentioned above to have a significant impact. The application of the standards IFRS 15 and IFRS 9 is under review.

4.2 Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main estimates are described in the following notes:

- Note 4.6 – Revenue recognition related to deferred revenue on ticket sales;
- Notes 4.13 and 4.12 – Tangible and intangible assets;
- Note 4.10 – Financial instruments;
- Note 4.22 – Deferred taxes;
- Note 4.7 – *Flying Blue* frequent flyer program;
- Notes 4.17, 4.18 and 4.19 – Provisions (including employee benefits).

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the financial year have thus been established taking into account the economic and financial crisis unfolding since 2008 and on the basis of financial parameters available at the closing date. The immediate effects of the crisis have been taken into account, in particular the valuation of current assets and liabilities. Concerning the longer-term assets, *i.e.* the non-current assets, the assumptions are based on limited growth.

The future results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3 Consolidation principles

4.3.1 Subsidiaries

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.

4.3.2 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 joined when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties sharing the control.

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 per cent 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
- the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group’s share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are valued at their fair value on the date of loss of significant influence or joint control.

4.3.3 Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions are also eliminated.

Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group’s interest in the entity, providing there is no impairment.

4.4 Translation of foreign companies’ financial statements and transactions in foreign currencies

4.4.1 Translation of foreign companies’ financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- except for the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency exchange rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting foreign currency exchange adjustment is recorded in the “Translation adjustments” item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign exchange rate in effect at the closing date.

4.4.2 Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the closing date or at the rate of the related hedge, if any.

Non-monetary assets and liabilities denominated in foreign currencies assessed on an historical cost basis are translated using the rate in effect at the transaction date or using the hedged rate where necessary (see Note 4.13.2).

The corresponding exchange rate differences are recorded in the Group’s consolidated income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in Note 4.10. “Financial instruments, valuation of financial assets and liabilities”.

4.5 Business combinations

4.5.1 Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2008) “Business Combinations”. In accordance with this standard, all assets and liabilities assumed are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition, except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell.

Goodwill corresponding, at the acquisition date, to the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable assets acquired and the liabilities assumed at the acquisition date, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.

For each acquisition, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the consideration transferred, the resulting negative goodwill is recognized immediately in the income statement.

Contingent considerations or earn-outs are recorded in equity if contingent payment is settled by delivery of a fixed number of the acquirer's equity instruments (according to IAS 32). In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances that existed at that date. Such adjustments are made only during the 12-month measurement period that follows the acquisition date 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 in profit or loss as well as elements previously recognized in other comprehensive income.

4.5.2 Business combination carried out before April 1, 2010

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 (2004) "Business Combinations". In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Goodwill arising from the difference between the acquisition cost (which includes the potential equity instruments issued by the Group to gain control over the acquired entity and other costs potentially dedicated to the business combination), and the Group's interest in the fair value of the identifiable assets and liabilities acquired, is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

4.6 Sales

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Both passenger and cargo tickets are consequently recorded as "Deferred revenue upon ticket 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 two sub-groups Air France and KLM have a common frequent flyer program *"Flying Blue".* This program enables members to acquire "miles" as they fly with 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" by the sub-groups Air France and KLM to other partners are recorded immediately in the income statement.

4.8 Distinction between income from current operations and income from operating activities

The Group considers it is relevant to the understanding of its financial performance to present in the income statement a subtotal within the income from operating activities. This subtotal, entitled "Income from current operations", excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in 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 Earnings per share

Earnings per share are calculated by dividing net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.10 Financial instruments, valuation of financial assets and liabilities

4.10.1 Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value then, subsequently, using the amortized cost method less impairment losses, if any. Purchases and sales of financial assets are accounted for as of the transaction date.

4.10.2 Investments in equity securities

Investments in equity securities qualifying as assets available for sale are stated at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price at the closing date. For the 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 its acquisition cost is objective evidence of impairment.

Factors deemed 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 per cent relative to the cost price, at the closing date.

4.10.3 Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks incurred on shares, exchange rates, changes in interest rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to fuel risk is hedged by swaps or options on jet fuel, diesel or brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39 "Financial instruments: recognition and measurement".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value taken into account the market value of the credit risk of the Group (DVA) and the credit risk of the counterpart (CVA). The calculation of credit risk follows a common model based on default probabilities from CDS counterparts.

The method of accounting for changes in fair value depends on the classification of the derivative instruments. There are three classifications:

- *derivatives classified as fair value hedge:* changes in the derivative fair value are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as earnings;

- *derivatives classified as cash flow hedge:* the changes in fair value are recorded in other comprehensive income for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses;
- *derivatives classified as trading:* changes in the derivative fair value are recorded as financial income or losses.

4.10.4 Convertible bonds

Convertible bonds are 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 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.

4.10.5 Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

Financial assets include financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group opted not to designate any assets at fair value through the income statement.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.10.6 Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded:

- at 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.

4.10.7 Fair value hierarchy of the financial assets and liabilities

The table presenting a breakdown of financial assets and liabilities categorized by value (see Note 34.4) meets the amended requirements of IFRS 7 "Financial instruments: Disclosures". The fair values are classified using a scale which reflects the nature of the market data used to make the valuations.

This scale has three levels of fair value:

- **Level 1:** Fair value calculated from the exchange rate/price quoted on 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.

4.11 Goodwill

Goodwill corresponds, at the acquisition date, to the aggregation of the consideration transferred and the amount of any non-controlling interest in the acquiree minus the net amounts (usually at fair value) of the identifiable amounts acquired and the liabilities assumed at the acquisition date.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations 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 4.14, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the consideration transferred, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary or an equity affiliate, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.12 Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Software development costs are capitalized and amortized over their useful lives. The Group has the 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 4.14 is recorded.

Since January 1, 2012, airlines have been subject to the ETS (Emission Trading Scheme) market regulations as described in Note 4.20 and the "Risks on carbon credit" paragraph in Note 34.1. As such, the Group is required to purchase CO_2 quotas to offset its emissions. The Group records the CO_2 quotas as intangible assets. These assets are not depreciable.

Intangible assets with a definite useful life are amortized on a straight line basis over the following periods:

- Software 1 to 5 years;
- Customer relationships 5 to 12 years.

4.13 Property, plant and equipment

4.13.1 Principles applicable

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to 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 of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (*e.g.* maintenance on airframes and engines, excluding parts with limited useful lives).

4.13.2 Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value for most of the aircraft in the fleet. This useful life can, however, be extended to 25 years for some aircraft.

During the operating cycle, and when establishing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major 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 components which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

4.13.3 Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful lives as follows:

- Buildings 20 to 50 years;
- Fixtures and fittings 8 to 15 years;
- Flight simulators 10 to 20 years;
- Equipment and tooling 5 to 15 years.

4.13.4 Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related 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.

4.14 Impairment test

In accordance with the standard IAS 36 "Impairment of Assets", tangible fixed assets, intangible assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on September 30.

For this test, the Group deems the recoverable value of the asset to be the higher of the market value less cost of disposal and its value in use. The latter is determined according to the discounted future cash flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of the Group's capital and a growth rate which reflects the market hypotheses for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGU's correspond to the Group's business segments: passenger business, cargo, maintenance, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is 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.

4.15 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.

4.16 Treasury shares

Air France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

4.17 Employee benefits

The Group's obligations in respect of defined benefit pension plans, including 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 booked in the income statement.

The Group books all the costs linked to pensions (defined benefit plans and net periodic pension costs) in the income from current operations (salaries and related costs).

Specific information related to the recognition of some pension plan assets:

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses.

These pension surpluses constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation (IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction").

4.18 Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft with a defined level of potential.

The Group provides for restitution costs related to aircraft under operating leases.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess under “Flight equipment”. Such amounts are subsequently amortized on a straight-line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

4.19 Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material. The effect of the time value of money is presented as a component of “Other financial income and expenses”.

Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties concerned.

4.20 Emission Trading Scheme

Since January 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; and
- 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.

4.21 Equity and debt issuance costs

Debt issuance costs are mainly amortized as financial expenses over the term of the loans using the actuarial method.

Capital increase costs are deducted from paid-in capital.

4.22 Deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for exceptions described in IAS 12 “Income taxes”.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity’s tax position.

Deferred tax assets related to temporary differences and tax losses carried forward are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

Deferred tax assets corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from 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 4.14).

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly in other comprehensive income. In such a case, they are recorded directly in other comprehensive income.

Impact of the Territorial Economic Contribution

The 2010 Finance Law voted on December 30, 2009, removed the business tax liability for French fiscal entities from January 1, 2010 and replaced it with the new TEC (Territorial Economic Contribution/*Contribution 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”.

4.23 Non-current assets held for sale and discontinued operations

Assets or groups of assets held for sale meet the criteria of such a classification if their carrying amount is recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets were classified as assets held for sale.

The Group determines on each closing date whether any assets or groups of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

4.24 Share-based compensation

Stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option schemes is determined using the Black-Scholes model. This model takes into account the features of the plans (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is the fair value of the services rendered by the employees in consideration for the options received. It is recognized over the vesting period as salary cost with a corresponding increase to equity for transactions paid with shares and with a corresponding increase of liabilities for transactions paid in cash. During the vesting period, this salary cost is adjusted, if applicable, to take into account the number of options effectively vested.

Note 5 Change in the consolidation scope

Year ended December 31, 2014

First application of the standards IFRS 10, IFRS 11, IFRS 12 and IAS 28

The first application of the standards IFRS 10, IFRS 11, IFRS 12 and IAS 28 had no impact on the consolidation method previously used.

The information required for the application of IFRS 12 on non-controlling interests and interests in equity affiliates are presented in the Notes 22 and 41.

Scope in

On June 30, 2014, Air France Industrie US and Sabena Technics signed an agreement in which the Group's maintenance business acquired 100 per cent of the capital of Barfield, an US specialist in equipment support.

Pursuant to standards 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 per cent held subsidiaries CityJet and VLM, an Irish and a Belgium regional airline, to Intro Aviation GmbH.

Since these two entities had been valued at their disposal value within the framework of their reclassification under discontinued operations in 2013 (see Notes 3 and 14), the result on their disposal has no significant impact on the Group's consolidated financial statements as of December 31, 2014.

Year ended December 31, 2013

Scope in

Within the framework of the establishment of HOP!, the Group acquired Airlinair. This operation took place as follows:

- the sale, on February 28, 2013, of the shareholding in Financière LMP (39.86%), the parent company which owned Airlinair (see Note 11);
- the acquisition, on February 28, 2013, of 100 per cent of the Airlinair share capital for €17 million. The goodwill relating to this operation amounted to €3 million.

Scope out

On May 15, 2013, the Group sold its Italian subsidiary Servair Airchef, specialized in airline catering.

As of December 31, 2013, following the Air France-KLM Group's decision not to subscribe to the capital increase requested in October 2013, the Alitalia entity was no longer consolidated by the equity method. Since that date, the Group's remaining equity interest in Alitalia (7.08%) was recorded under other financial assets (see Notes 11, 22 and 24).

Note 6 Segment information

Business segments

The segment information by activity and geographical area presented below is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organized around the following segments:

- **Passenger:** Passenger operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code, including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage, airport services supplied by the Group to third-party airlines and services linked to IT systems;
- **Cargo:** Cargo operating revenues come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties;
- **Maintenance:** Maintenance operating revenues are generated through maintenance services provided to other airlines and customers worldwide;
- **Other:** The revenues of this segment come primarily from the transportation of passengers in the low cost segment by Transavia and from the catering activities supplied by the Group (mainly Servair) 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 account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits. Other elements of the income statement and balance sheet are presented in the "non-allocated" column.

Inter-segment transactions are realized and evaluated based on normal market conditions.

Geographical segments

Activity by origin of sales area

Following a decision of the Executive Board to reorganize the Group's sales areas, the presentation of the activities by origin of sale has been divided into eight geographical areas since January 1, 2014 (against six areas previously):

- Metropolitan France;
- Benelux;
- Europe (excluding France and Benelux) and North Africa;
- Africa (except 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.

The information as of December 31, 2013 has been restated for the purposes of comparison.

Activity by destination

The Group activities by destination are divided into six geographic areas:

- Metropolitan France;
- Europe (excluding France) and North Africa;
- Caribbean, West Indies, French Guyana and Indian Ocean;
- Africa (except North Africa), Middle East;
- Americas and Polynesia;
- Asia and New Caledonia.

6.1 Information by business segment

➤ **Year ended December 31, 2014**

(In € million)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	21,007	2,701	3,392	2,018	-	29,118
Inter-segment sales	(1,437)	(20)	(2,141)	(608)	-	(4,206)
External sales	***19,570***	***2,681***	***1,251***	***1,410***	***-***	***24,912***
Income from current operations	(83)	(212)	174	(8)	-	(129)
Income from operating activities	775	(253)	166	63	-	751
Share of profits (losses) of associates	(46)	-	1	6	-	(39)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(688)	(688)
Income taxes	-	-	-	-	(209)	(209)
Net income from continuing operations	***729***	***(253)***	***167***	***69***	***(897)***	***(185)***
Depreciation and amortization for the period	(1,198)	(53)	(279)	(59)	-	(1,589)
Other non monetary items	138	45	45	(242)	(56)	(70)
Total assets	**10,397**	**928**	**2,863**	**870**	**8,172**	**23,230**
Segment liabilities	6,663	673	753	434	5,211	13,734
Financial debt, bank overdraft and equity	-	-	-	-	9,496	9,496
Total liabilities	**6,663**	**673**	**753**	**434**	**14,707**	**23,230**
Purchase of property, plant and equipment and intangible assets (continuing operations)	***1,076***	***48***	***139***	***168***	***-***	***1,431***

The non-allocated assets, amounting to €8.2 billion, mainly concerns 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 a portion of provisions and retirement benefits amounting to €2.5 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.

➤ **Year ended December 31, 2013 (restated)**

(In € million)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	21,578	2,849	3,280	1,980	-	29,687
Inter-segment sales	(1,466)	(33)	(2,055)	(613)	-	(4,167)
External sales	***20,112***	***2,816***	***1,225***	***1,367***	***-***	***25,520***
Income from current operations	174	(202)	159	(1)	-	130
Income from operating activities	(39)	(343)	146	9	-	(227)
Share of profits (losses) of associates	(215)	-	2	2	-	(211)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(301)	(301)
Income taxes	-	-	-	-	(957)	(957)
Net income from continuing operations	***(254)***	***(343)***	***148***	***11***	***(1,258)***	***(1,696)***
Depreciation and amortization for the period	(1,062)	(71)	(277)	(156)	-	(1,566)
Other non monetary items	(385)	(78)	(43)	(200)	(835)	(1,541)
Total assets	**11,089**	**1,052**	**2,671**	**862**	**9,747**	**25,421**
Segment liabilities	6,341	281	713	367	4,527	12,229
Financial debt, bank overdraft and equity	-	-	-	-	13,192	13,192
Total liabilities	**6,341**	**281**	**713**	**367**	**17,719**	**25,421**
Purchase of property, plant and equipment and intangible assets (continuing operations)	***829***	***44***	***188***	***125***	***-***	***1,186***

The non-allocated assets, amounting to €9.7 billion, mainly concerns the financial assets held by the Group. They notably comprise cash and cash equivalents of €3.7 billion, pension assets of €2.5 billion, financial assets of €2.7 billion, deferred tax of €0.4 billion and derivatives of €0.4 billion.

The non-allocated liabilities, amounting to €4.5 billion, mainly comprise a portion of provisions and retirement benefits amounting to €2.3 billion, tax and employee-related liabilities of €1.2 billion, deferred tax of €0.2 billion and derivatives of €0.4 billion.

Financial debts, bank overdrafts and equity are not allocated.

6.2 Information by geographical area

Sales by geographical area

➤ Year ended December 31, 2014

(In € million)	Metropolitan France	Benelux	Europe (except France and Benelux) North Africa	Africa (except North Africa)	Middle-Eastern Gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean 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
Others	542	764	2	67	-	1	-	34	1,410
Total	**7,758**	**3,382**	**5,419**	**1,161**	**487**	**2,442**	**2,871**	**1,392**	**24,912**

➤ Year ended December 31, 2013 (restated)

(In € million)	Metropolitan France	Benelux	Europe (except France and Benelux) North Africa	Africa (except North Africa)	Middle-Eastern Gulf India (MEGI)	Asia Pacific	North America	West Indies Caribbean Guyana Indian Ocean South America (CILA)	Total
Scheduled passenger	5,910	1,647	4,466	912	424	1,877	2,578	1,362	19,176
Other passenger sales	399	134	159	48	7	105	60	24	936
Total passenger	***6,309***	***1,781***	***4,625***	***960***	***431***	***1,982***	***2,638***	***1,386***	***20,112***
Scheduled cargo	388	262	766	152	51	529	347	124	2,619
Other cargo sales	55	-	34	15	3	39	41	10	197
Total cargo	***443***	***262***	***800***	***167***	***54***	***568***	***388***	***134***	***2,816***
Maintenance	749	417	25	-	-	34	34	-	1,225
Others	466	749	54	65	-	-	-	33	1,367
Total	**7,967**	**3,209**	**5,504**	**1,192**	**485**	**2,550**	**3,060**	**1,553**	**25,520**

Traffic sales by geographical area of destination

➤ Year ended December 31, 2014

(In € million)	Metropolitan France	Europe (except France) North Africa	West Indies Caribbean, French Guyana, Indian Ocean	Africa (except North Africa), Middle East	Americas, Polynesia	Asia, 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**

➤ Year ended December 31, 2013

(In € million)	Metropolitan France	Europe (except France) North Africa	West Indies Caribbean, French Guyana, Indian Ocean	Africa (except North Africa), Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,932	4,466	1,421	2,538	5,397	3,422	19,176
Scheduled cargo	5	46	142	524	1,053	849	2,619
Total	**1,937**	**4,512**	**1,563**	**3,062**	**6,450**	**4,271**	**21,795**

Note 7 External expenses

Period from January 1 to December 31 *(In € million)*	2014	2013
Aircraft fuel	6,629	6,897
Chartering costs	438	455
Aircraft operating lease costs	873	913
Landing fees and en route charges	1,840	1,839
Catering	591	589
Handling charges and other operating costs	1,476	1,405
Aircraft maintenance costs	1,356	1,303
Commercial and distribution costs	870	852
Other external expenses	1,718	1,744
Total	**15,791**	**15,997**
Excluding aircraft fuel	*9,162*	*9,100*

Note 8 Salaries and number of employees

Salaries and related costs

Period from January 1 to December 31 *(In € million)*	2014	2013
Wages and salaries	5,315	5,424
Costs linked to defined contribution plans	595	603
Net periodic pension cost of defined benefit plans	388	379
Social contributions	1,157	1,171
Expenses related to share-based compensation	1	3
Other expenses	(140)	(98)
Total	**7,316**	**7,482**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). Since this multi-employer plan is assimilated with a French State plan, it is accounted for as a defined contribution plan in "social contributions".

The "other expenses" mainly comprise:

- the CICE tax credit amounting to €66 million as of December 31, 2014 *versus* €43 million in 2013;
- the capitalization of salary costs on aircraft and engine overhaul.

Average number of employees in continuing operations

Year ended December 31	2014	2013
Flight deck crew	8,027	8,103
Cabin crew	21,552	21,779
Ground staff	65,087	66,535
Total	**94,666**	**96,417**

Note 9 Amortization, depreciation and provisions

Period from January 1 to December 31 *(In € million)*	2014	2013
Intangible assets	98	80
Flight equipment	1,253	1,227
Other property, plant and equipment	238	259
Amortization	***1,589***	***1,566***
Inventories	2	(1)
Trade receivables	8	5
Risks and contingencies	119	155
Depreciation and provisions	***129***	***159***
Total	**1,718**	**1,725**

The amortization changes for intangible and tangible assets are presented in Notes 18 and 20.

As at December 31, 2014 the increase of depreciation on aeronautical assets includes an amount of €35 million relating to the Boeing B747-400 aircraft further to the review of the depreciation 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.

The movements in provisions for risks and charges are detailed in Note 31.

Note 10 Other income and expenses

Period from January 1 to December 31 *(In € million)*	2014	2013
Joint operation of routes	(87)	(84)
Operations-related currency hedges	42	65
Other	(20)	9
Total	**(65)**	**(10)**

Note 11 Other non-current income and expenses

Period from January 1 to December 31 *(In € million)*	2014	2013
Sales of aircraft equipment	**-**	***(12)***
Legal modification on pension plans	824	-
Impairment on Cargo CGU	(113)	-
Restructuring costs	2	(209)
Depreciation of assets held for sale	(11)	(102)
Disposal of shares available for sale	187	-
Disposals of subsidiaries and affiliates	(3)	7
Other	(6)	(41)
Other non-current income and expenses	***880***	***(345)***

Period from January 1 to December 31, 2014

Legal modification on pension plans

Following a change in the legislation governing pension plans in the Netherlands, the Group recorded a non-current income of €824 million as of December 31, 2014, under the pilot, cabin crew and ground staff plans. This item is described in Note 31.1.3 "Amendments and curtailment of pension plans".

Impairment on Cargo CGU

This operation is outlined in Note 19.

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.

Depreciation of assets held for sale

As part of the review of its fleet plan, the Air France Group has decided to sell a number of aircraft of its French regional fleet. The impact of the revaluation of these non-operated aircraft on their sale value amounts to €7 million (see Note 15). The Group also booked an additional impairment loss of €4 million on engines of one of the Boeing B747 classified in assets held for sale.

Disposal of shares available for sale

On September 9, 2014, as part of its active balance sheet management policy, the Group sold 4,475,819 shares in the Spanish company Amadeus IT Holding S.A. ("Amadeus") by a private placement, representing 1.0 per cent of the company's share capital. The Group simultaneously sold in addition 10,345,200 shares, representing 2.31 per cent of the company's share capital, in the framework of the settlement of the hedging transaction implemented in 2012 and covering 12,000,000 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 a loss of €4 million in the part "Other financial income and expenses" of the income statement;
- cash proceeds of €339 million.

After these transactions, the Group owns circa 4.4 per cent of Amadeus IT Holding S.A.'s share capital.

Gain on disposals of subsidiaries and affiliates

This line includes the proceed on the disposal of shares held by the Servair Group in Newrest (25%).

Other

This line mainly includes:

- the result on the sale of several tangible assets, amounting to € 15 million;
- a book loss of €17 million on engines that are not in use anymore.

Period from January 1 to December 31, 2013

Restructuring costs

During the third quarter of 2013, the Group had announced the implementation of additional measures to reduce Air France's salary costs. The overstaffing was estimated at 2,880 employees, including 1,826 ground staff.

In this context, a voluntary departure plan was proposed to ground staff and cabin crew, whose application period opened in 2014.

During the financial year, the Group had also adjusted the amount of the net provision booked as of December 31, 2012 concerning the initial voluntary departure plan and the resizing of the fleet.

The Group had consequently made its best estimate of the costs incurred by the measures mentioned above and had recorded a restructuring provision for a total amount of €200 million as of December 31, 2013.

A provision for an onerous lease contract on a Martinair Boeing B747 had also been recorded for an amount of €9 million.

Depreciation of assets held for sale

As part of the review of its fleet plan, the Air France Group had decided to sell two Boeing B747s freighters. The impact of the revaluation of these non-operated aircraft on their sale value amounted to €82 million (see Note 15).

For its part, the KLM Group had revalued seven Fokker F70s, two MD11s, one Fokker F100 and a number of engines at their sale value, representing a total amount of €20 million.

Disposal of subsidiaries and affiliates

This line included:

- the sale of the shareholding in Financière LMP (39.86%) (see Note 5);
- the sale of the shareholding in Servair Airchef (50%) (see Note 5);
- the impact of dilution on the Alitalia shareholding (see Notes 5, 22 and 24).

Other

This line mainly included:

- a provision of €18 million relating to crew disputes;
- an additional provision related to anti-competitive cargo practices amounting to €14 million (see Note 31.3);
- an exceptional tax on salaries in The Netherlands linked to the economic crisis in Europe, amounting to €7 million.

Note 12 Net cost of financial debt and other financial income and expenses

Period from January 1 to December 31 *(In € million)*	**2014**	**2013**
Income from marketable securities	25	26
Other financial income	51	51
Financial income	***76***	***77***
Loan interests	(268)	(290)
Lease interests	(72)	(75)
Capitalized interests	10	9
Other financial expenses	(116)	(125)
Gross cost of financial debt	***(446)***	***(481)***
Net cost of financial debt	***(370)***	***(404)***
Foreign exchange gains (losses), net	(158)	74
Change in fair value of financial assets and liabilities	(92)	57
♦ *Including fuel derivatives*	*(135)*	*84*
♦ *Including currency derivatives*	*50*	*(30)*
♦ *Including interest rates derivatives*	*(1)*	*4*
♦ *Including other derivatives*	*(6)*	*(1)*
Net (charge)/release to provisions	(44)	(30)
Other	(24)	2
Other financial income and expenses	***(318)***	***103***
Total	**(688)**	**(301)**

The interest rate used in the calculation of capitalized interest is 3.3 per cent for the financial year ended December 31, 2014 *versus* 3.8 per cent for the year ended December 31, 2013.

Financial income mainly comprises interest income and gains on the sale of financial assets at fair value through profit and loss.

As of December 31, 2014, the cost of financial debt includes an amount of €51 million corresponding to the difference between the nominal and effective interest rate (after split accounting of the OCEANEs bonds issued), *versus* €41 million as of December 31, 2013.

At December 31, 2014, the foreign exchange result mainly includes an adjustment in the value of the cash blocked 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.

At December 31, 2014, the net (charge)/release to provisions mainly includes a €21 million impairment on Alitalia shares – resulting from the conversation of the bonds subscribed in December 2013 within the framework of Alitalia's financial restructuring – to reduce this shareholding to its fair value.

At December 31, 2014, the other financial income and expenses includes an amount of €24 million relating to the reversal of discounting on provisions.

Note 13 Income taxes

13.1 Income tax expense

Current income tax expenses and deferred income tax are detailed as follows:

Period from January 1 to December 31 *(In € million)*	**2014**	**2013**
(Expense)/income for the year	(37)	(41)
Current tax (expense)/income	***(37)***	***(41)***
Change in temporary differences	(155)	20
CAVE impact	3	3
Tax loss carry-forwards	(20)	(939)
Deferred tax income/(expense) from continuing operations	***(172)***	***(916)***
Total	**(209)**	**(957)**

The current tax expense relates to the amounts paid or payable in the short term to the tax authorities in respect of the financial year, in accordance with the regulations prevailing in the different countries and any applicable treaties.

French fiscal group

In France, tax losses can be carried forward for an unlimited period. However, the 2011 and 2012 Finance Acts introduced a limitation on the amount of fiscal loss recoverable each year to 50 per cent of the profit for the period beyond the first million euros. The period for recovering these losses against future profits having also been extended within the context of prevailing economic crisis and a highly competitive global market, the Group limits its recoverability horizon relating to the French fiscal group to a period of seven years, in consistency with its 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. The 3 years target for the Group shows that for part of the tax losses generated in 2009-10 (yearly closing March 31, 2010) is not expected to be recovered in this 9-year window. To take this into account, a tax limitation of €65 million was recorded as of December 31, 2014. The horizon of recoverability of deferred tax assets is seven years in the Dutch fiscal group.

Martinair

Within the framework of its considerations on the full-freighter activity at Schiphol, the KLM Group decided to fully de-recognize the deferred tax asset on Martinair’s pre-acquisition fiscal losses. This creates a deferred tax expense of €24 million.

Both for the French and the Dutch fiscal group, the calculation of the recoverability of the deferred tax losses are based on the results in the 3 years target, approved by the management and used, as described in Note 19, for the impairment test of tax assets.

If the assumptions in the 3 years plan are not met, this could have an impact on the horizon of recoverability of the deferred tax assets.

13.2 Deferred tax recorded in equity – Group

Period from January 1 to December 31 *(In € million)*	**2014**	**2013**
OCEANE	-	(37)
Other comprehensive income that will be reclassified to profit or loss	341	(10)
♦ *Assets available for sale*	*15*	*(18)*
♦ *Derivatives*	*326*	*8*
Other comprehensive income that will not be reclassified to profit or loss	583	(18)
♦ *Pensions*	*583*	*(18)*
Total	**924**	**(65)**

13.3 Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

Period from January 1 to December 31 *(In € million)*	**2014**	**2013**
Income before tax	63	(528)
Standard tax rate in France	34.43%	34.43%
Theoretical tax calculated based on the standard tax rate in France	(22)	182
Differences in French/foreign tax rates	58	16
Non deductible expenses or non-taxable income	11	(20)
Variation in unrecognized deferred tax assets	(249)	(1,135)
CVAE impact	(20)	(24)
Other	13	24
Income tax expenses	**(209)**	**(957)**
Effective tax rate	NS	NS

For 2014, the tax rate applicable in France is 38 per cent including additional contributions. Since the French fiscal group realized a fiscal deficit as of December 31, 2014, the tax proof has been established using the rate excluding additional contributions, *i.e.* 34.43 per cent. Deferred tax has been calculated on the same basis.

The current tax rate applicable in The Netherlands is 25 per cent.

13.4 Variation in deferred tax recorded during the period

(In € million)	January 1, 2014 (restated)	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2014
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
Others	(81)	(66)	112	-	-	9	(26)
Deferred tax corresponding to fiscal losses	1,229	(20)	-	-	-	1	1,210
Deferred tax asset/(liability) net	**256**	**(172)**	**924**	**-**	**-**	**9**	**1,017**

(In € million)	January 1, 2013 (restated)	Amounts recorded in income statement	Amounts recorded in OCI	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2013 (restated)
Flight equipment	(1,257)	(15)	-	-	-	(5)	(1,277)
Pension assets	(566)	(47)	14	-	-	(9)	(608)
Financial debt	758	60	-	(37)	-	(1)	780
Deferred revenue on ticket sales	166	11	-	-	-	-	177
Debtors and creditors	30	(1)	7	-	-	-	36
Others	(46)	15	(49)	-	-	(1)	(81)
Deferred tax corresponding to fiscal losses	2,156	(939)	-	-	-	12	1,229
Deferred tax asset/(liability) net	**1,241**	**(916)**	**(28)**	**(37)**	**-**	**(4)**	**256**

The deferred taxes recognized on fiscal losses for the French fiscal group amounts to €710 million as of December 31, 2014 versus €708 as of December 31, 2013 with the respective basis of €2,062 million and €2,056 million.

The deferred taxes recognized on fiscal losses for the Dutch fiscal group amounts to €479 million as of December 31, 2014 *versus* €470 million as of December 31, 2013 with the respective basis of €1,916 million and €1,880 million.

13.5 Unrecognized deferred tax assets

	December 31, 2014		December 31, 2013	
(In € million)	Basis	Tax	Basis	Tax
Temporary differences	337	115	476	164
Tax losses	4,931	1,664	4,025	1,386
Total	**5,268**	**1,779**	**4,501**	**1,550**

French fiscal group

As of December 31, 2014, the cumulative effect of the limitation on the French fiscal group's deferred tax assets results in the non-recognition of a deferred tax asset amounting 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).

As of December 31, 2013, the cumulative effect of the limitation of the French fiscal group's deferred tax assets resulted in the non-recognition of a deferred tax asset amounted to €1,525 million (corresponding to a basis of €4,429 million), including €1,362 million relating to tax losses and €163 million relating to temporary differences (non-recognition of deferred tax assets relating to restructuration provisions). The amount of deferred tax on tax losses non-recognized during the period included €937 million relating to the limitation of the recoverability horizon (see Note 13.1).

Dutch fiscal group

As of December 31, 2014, the cumulative effect of the limitation on the Dutch fiscal group's deferred tax assets results in the non-recognition of a deferred tax asset amounting to €65 million (corresponding to a basis of €260 million), which fully relates to tax losses.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry-forwards of the Air France and KLM Group as well as tax losses carry forward in some subsidiaries in the United Kingdom.

Note 14 Net income from discontinued operations

The line “Net income from discontinued operations” corresponds to the contribution from CityJet and VLM:

Period from January 1 to December 31 *(In € million)*	**2014**	**2013**
Sales	***38***	***150***
Income from current operations	***(5)***	***(19)***
Impairment	-	(77)
Other non-current items	1	(25)
Income from operating activities	***(4)***	***(121)***
Financial income	-	(1)
Income before taxes	(4)	(122)
Income taxes	-	-
Net income from discontinued operations	**(4)**	**(122)**

Period from January 1 to December 31, 2014

As of December 31, 2014, the “Net income from discontinued operations” comprises the result realized by CityJet and VLM prior to their disposal on April 30, 2014 (see Notes 3 and 5). It also includes the gain of the disposal of these two companies which amounted to €1 million, recorded under “non-current items” in the net income from discontinued operations.

Period from January 1 to December 31, 2013

Impairment

As of December 31, 2013, within the framework of the valuation of the Irish and Belgian “regional” companies, the Group recorded an additional provision of €77 million, to align the net assets of the CityJet and VLM Group with its expected sale value.

Other non-current items

The other non-current items includes provisions regarding a breach of contract and disputes relating to the payment of social contributions in France.

Note 15 Assets held for sale and liabilities related to assets held for sale

Year ended December 31, 2014

As of December 31, 2014, the “Assets held for sale” includes the fair value of 4 aircraft, amounting to €3 million.

Year ended December 31, 2013

As of December 31, 2013, the “Assets held for sale” and “Liabilities related to assets held for sale” corresponded, for a respective €34 million and €58 million, to the assets and liabilities of the CityJet Group held for sale (see Notes 2 and 14).

The line “Assets held for sale” also included the fair value of six aircraft held for sale amounting to €57 million, including two Boeing B747 freighters in the Air France Group for €51 million (see Note 11).

Note 16 Earnings per share

16.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

The result used to calculate earnings per share are as follows:

As of January 1 to December 31 *(In € million)*	2014	2013
Net income – Equity holders of Air France-KLM	(198)	(1,827)
Net income from continuing operations – Equity holders of Air France-KLM	(194)	(1,705)
Net income from discontinued operations – Equity holders of Air France-KLM	(4)	(122)

Since the Group does not pay dividends to preferred stockholders, there is no difference with the results appearing in the financial statements. The results being losses for the periods presented and the results used to calculate diluted earnings per share are the same as the results used to calculate basic earnings per share.

Reconciliation of the number of shares used to calculate earnings per share

Year ended December 31	2014	2013
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	(3,063,384)	(3,067,607)
Number of shares used to calculate basic earnings per share	***296,039,474***	***296,035,251***
OCEANE conversion	-	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	***296,039,474***	***296,035,251***

16.2 Non-dilutive instruments

The Air France-KLM Group did not hold any non-dilutive instrument as of December 31, 2014.

16.3 Instruments issued after the closing date

No instrument was issued after the closing date.

Note 17 Goodwill

17.1 Detail of consolidated goodwill

As of December 31 *(In € million)*	2014			2013		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
Passenger	195	-	195	194	-	194
Cargo	1	-	1	1	-	1
Maintenance	23	(4)	19	20	(3)	17
Other	29	(1)	28	26	(1)	25
Total	**248**	**(5)**	**243**	**241**	**(4)**	**237**

17.2 Movement in net book value of goodwill

As of December 31 *(In € million)*	2014	2013
Opening balance	**237**	**252**
Acquisitions	2	3
Disposals	-	(6)
Impairment	-	(11)
Currency translation adjustment	4	(1)
Closing balance	**243**	**237**

As of December 31, 2013, the impairment recorded concerned CityJet, following the writing down of its net asset value for reclassification under assets held for sale (see Note 2.2).

Note 18 Intangible assets

(In € million)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of December 31, 2012	***297***	***107***	***942***	***1,346***
Additions	-	-	166	**166**
Change in scope	-	-	(6)	**(6)**
Disposals	-	-	(32)	**(32)**
Transfer	(4)	-	(4)	**(8)**
Amount as of December 31, 2013	***293***	***107***	***1,066***	***1,466***
Additions	-	-	210	**210**
Change in scope	4	2	-	**6**
Disposals	-	-	(11)	**(11)**
Transfer	-	-	5	**5**
Amount as of December 31, 2014	***297***	***109***	***1,270***	***1,676***
Depreciation				
Amount as of December 31, 2012	***(2)***	***(102)***	***(400)***	***(504)***
Charge to depreciation	(1)	(2)	(73)	**(76)**
Releases on disposals	-	-	5	**5**
Transfer	-	-	5	**5**
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)***
Net value				
As of December 31, 2013	290	3	603	**896**
As of December 31, 2014	293	3	713	**1,009**
Including:				
Passenger	*280*			
Other	*8*			
Maintenance	*4*			
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

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”).

The recoverable value of the CGU assets has been determined by reference to their value in use as of September 30, 2014. The tests were realized for all the CGUs on the basis of a three-year Group plan, approved by the management, including a recovery hypothesis after the economic slowdown, enabling the achievement of the medium-term forecasts made by the Group before the emergence of the crisis.

The discount rate used for the test corresponds to the Group’s weighted average cost of capital (WACC). This stood at 7.1 per cent at December 31, 2014 *versus* 7.4 per cent at December 31, 2013.

During 2014 the Group continued the strategic review of its full freighter business, several scenarios having been examined. After a reduction in its activities at Paris CDG during the previous years, the Group decided to decrease its full freighter fleet at Schiphol (The Netherlands). An impairment amounted to €113 million has been recognized in non-current expenses (see Note 11) to decrease of the cargo CGU’s carrying value into line with its market value, based on appraiser’s valuations, as for aeronautical assets as for other tangible assets.

After the recognition of this book loss, the net carrying amount of the CGU amounts to €647 million of which €370 million relates to aeronautical assets and €140 million to other tangible assets.

After this test, no impairment was observed on the other Group’s CGUs.

A 50-basis point increase in the discount rate would have no impact on the CGUs evaluated as of December 31, 2014. A 50-basis point decrease in the long-term growth rate would neither have impact on the value of the CGUs at this date. The same for a 50-basis point decrease in the current operations margin target.

Note 20 Tangible assets

(In € million)	Flight equipment					Other tangible assets					
	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, 2012	*9,821*	*6,183*	*347*	*2,135*	*18,486*	*2,742*	*1,326*	*55*	*925*	*5,048*	*23,534*
Acquisitions	133	4	705	109	951	48	22	70	20	160	**1,111**
Disposals	(732)	(79)	-	(188)	(999)	(16)	(16)	-	(15)	(47)	**(1,046)**
Change in scope	20	36	-	-	56	-	-	-	(6)	(6)	**50**
Fair value	-	-	54	-	54	-	-	-	-	-	**54**
Transfer	(380)	588	(706)	107	(391)	54	-	(30)	(41)	(17)	**(408)**
Currency translation adjustment	-	-	-	-	-	-	(1)	-	(1)	(2)	**(2)**
As of December 31, 2013	*8,862*	*6,732*	*400*	*2,163*	*18,157*	*2,828*	*1,331*	*95*	*882*	*5,136*	*23,293*
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)**
Transfer	155	270	(559)	190	56	(41)	10	(57)	11	(77)	**(21)**
Currency translation adjustment	-	-	-	-	-	-	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*
Depreciation											
As of December 31, 2012	*(5,488)*	*(2,047)*	*-*	*(903)*	*(8,438)*	*(1,523)*	*(896)*	*-*	*(697)*	*(3,116)*	*(11,554)*
Charge to depreciation	(788)	(405)	-	(144)	(1,337)	(132)	(80)	-	(48)	(260)	**(1,597)**
Releases on disposal	518	76	-	162	756	15	13	-	8	36	**792**
Change in scope	-	-	-	-	-	-	-	-	3	3	**3**
Transfer	423	(113)	-	(57)	253	(28)	13	-	34	19	**272**
Currency translation adjustment	-	-	-	-	-	-	1	-	-	1	**1**
As of December 31, 2013	*(5,335)*	*(2,489)*	*-*	*(942)*	*(8,766)*	*(1,668)*	*(949)*	*-*	*(700)*	*(3,317)*	*(12,083)*
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**
Transfer	110	(99)	-	(81)	(70)	69	8	-	(2)	75	**5**
Currency translation adjustment	-	-	-	-	-	-	(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)*
Net value											
As of December 31, 2013	3,527	4,243	400	1,221	**9,391**	1,160	382	95	182	**1,819**	**11,210**
As of December 31, 2014	2,979	3,947	543	1,259	**8,728**	1,082	365	135	168	**1,750**	**10,478**

Aeronautical assets under construction mainly comprise advance payments, engine maintenance work in progress and aircraft modifications.

Note 37 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in Notes 37 and 38.

The net book value of tangible assets financed under capital lease amounts to €4,438 million as of December 31, 2014 *versus* €4,762 million as of December 31, 2013.

The charge to depreciation as of December 31, 2013 included €102 million of depreciation booked in non-current charges (see Note 11).

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 € million)*	**2014**	**2013**
Acquisition of tangible assets	1,217	1,046
Acquisition of intangible assets	210	166
Accounts payable on acquisitions and capitalized interest	4	(26)
Total	**1,431**	**1,186**

Note 22 Equity affiliates

Movements over the period

The table below presents the movement in investments in associates and joint-ventures:

(In € million)	Passenger	Maintenance	Other	Total
Carrying value of share in investment as of December 31, 2012	***295***	***21***	***65***	***381***
Share in net income of equity affiliates	(215)	2	2	(211)
Distributions	-	-	(2)	(2)
Change in consolidation scope	(14)	4	(1)	(11)
Other variations	8	(1)	4	11
Fair value adjustment	(5)	-	-	(5)
Capital increase	-	12	4	16
Currency translation adjustment	(2)	-	-	(2)
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***

Passenger business

As of December 31, 2014 and 2013 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 market value of the shares in this listed company amounts to €31 million as at December 31, 2014. The financial statements of Kenya Airways as of March 31, 2014 include revenues of €918 million, a net result for €(29) million, equity for €236 million and total balance sheet for €1,243 million.

Following the dilution in its shareholding during the last quarter of 2013, the Group no longer accounts for Alitalia as an equity affiliate, but now recognizes its equity interest under other financial assets (see Notes 3, 5, 11 and 24).

Given the uncertainties overhanging Alitalia's situation prior to this dilution in shareholding, the Group had decided, during the third quarter 2013, to fully depreciate its shareholding in Alitalia. The share of losses and a provision for impairment totaling €202 million were consequently booked as at December 31, 2013.

Maintenance

As of December 31, 2014 and 2013, 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 41.2, have been concluded either with airlines or with independent players in the maintenance market.

Other

As of December 31, 2014 and 2013 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 41.2.

Note 23 Pension assets

(In € million)	December 31, 2014	December 31, 2013
Opening balance	**2,454**	**2,477**
Net periodic pension (cost)/income for the period	515	(227)
Contributions paid to the funds	390	342
Fair value revaluation	(1,950)	(138)
Closing balance	**1,409**	**2,454**

The detail of these pension assets is presented in Note 31.1.

Following a change in the legislation governing pension plans in the Netherlands, the Group recorded a non-current income of €824 million as of December 31, 2014. This item is described in Notes 11 and 31.1.3.

Note 24 Other financial assets

As of December 31 *(In € million)*	2014		2013	
	Current	Non-current	Current	Non-current
Financial assets available for sale				
Available shares	-	85	-	762
Shares secured	-	634	-	373
Assets at fair value through profit and loss				
Marketable securities	13	60	106	20
Cash secured	595	-	825	-
Loans and receivables				
Financial lease deposit (bonds)	25	141	12	142
Financial lease deposit (others)	132	452	65	560
Loans and receivables	22	151	23	125
Gross value	***787***	***1,523***	***1,031***	***1,982***
Impairment at opening date	***-***	***(19)***	***-***	***(12)***
New impairment charge	-	(2)	-	(7)
Impairment at closing date	***-***	***(21)***	***-***	***(19)***
Total	**787**	**1,502**	**1,031**	**1,963**

Financial assets available for sale are as follows:

(In € million)	Fair value	% interest	Stockholder's equity	Net income	Stock price *(in €)*	Closing date
As of December 31, 2014						
Amadeus*	654	4.41%	NA**	NA**	33.09	December 2014
Alitalia	-	1.11%	NA**	NA**	NA***	December 2014
Other	65	-	-	-	-	-
Total	**719**					
As of December 31, 2013						
Amadeus*	1,076	7.73%	1,840	563	31.10	December 2013
Alitalia	22	7.08%	(27)	(397)	NA***	December 2013
Other	37	-	-	-	-	-
Total	**1,135**					

* *Listed company.*
** *Non-available.*
*** *Non-applicable.*

- ***Financial assets available for sale***

As described in Note 11, the variation in the percentage of the capital share in Amadeus is linked to the sale of 14,821,019 shares as at September 9, 2014.

Furthermore, following the acquisition by Etihad of an equity interest in Alitalia, Air France-KLM's shareholding in Alitalia was diluted from 7.08 per cent as of December 31, 2013 to 1.11 per cent as of December 31, 2014. After this operation, the Group is not represented anymore 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 32) and the guarantee given to the European Union on the anti-trust litigation (see Note 31).

- ***Loans and receivables***

Loans and receivables mainly include deposits on flight equipment made within the framework of operating and capital leases.

Transfer of financial assets that are not derecognized in their entirety

- ***Transfer of receivables agreement***

The Group entered into a loan agreement secured by Air France's 1 per cent 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, 2014, the amount of transferred receivables stood at €109 million (*versus* €111 million as of December 31, 2013). The associated loan stood at €80 million as of December 31, 2014 (*versus* €81 million as of December 31, 2013).

- ***Loan of shares agreement***

The loan of shares agreement Amadeus, signed on November 13, 2012, was closed on September 9, 2014.

On November 25, 2014, the Group signed a new loan of shares agreement on Amadeus shares, within the framework of the hedging transaction to protect the value of Amadeus shares.

As a consequence as, of December 31, 2014, the amount of the loan, excluding hedge effect, amounted to €328 million at fair value (*versus* €373 million as of December 31, 2013). The loan of shares amounts to 2.21 per cent of the 4.41 per cent shares hold (see Note 34.1).

Furthermore among the 4.41 per cent of Amadeus shares hold, 2.068 per cent were pledged with a bank to secure the swap on OCEANE 2005. The value of these pledged shares amounts to €306 million as of December 31, 2014.

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 €247 million as of December 31, 2014, against €211 million as of December 31, 2013.

The Group retains the risk of dilution regarding these transferred assets for which guarantees have been secured for €16 million as of December 31, 2014, against €10 million as of December 31, 2013.

At the end of December 2014, 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) 2014 with a notional amount of €64 million *versus* €42 million as of December 31, 2013. 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 € million)*	2014	2013
Aeronautical spare parts	520	510
Other supplies	171	158
Production work in progress	12	7
Gross value	***703***	***675***
Opening valuation allowance	***(164)***	***(170)***
Charge to allowance	(15)	(11)
Use of allowance	13	11
Reclassification	1	6
Closing valuation allowance	***(165)***	***(164)***
Net value of inventory	***538***	***511***

Note 26 Trade accounts receivables

As of December 31 *(In € million)*	2014	2013
Airlines	347	399
Other clients:		
♦ Passenger	642	681
♦ Cargo	348	353
♦ Maintenance	429	377
♦ Other	60	52
Gross value	***1,826***	***1,862***
Opening valuation allowance	***(87)***	***(85)***
Charge to allowance	(19)	(21)
Use of allowance	11	16
Change of scope	-	2
Reclassification	(3)	1
Closing valuation allowance	***(98)***	***(87)***
Net value	***1,728***	***1,775***

Note 27 Other assets

As of December 31 *(In € million)*	2014		2013 (restated)	
	Current	Non-current	Current	Non-current
Suppliers with debit balances	104	-	140	-
State receivable (including income tax)	109	-	95	-
Derivative instruments	248	239	267	97
Prepaid expenses	170	1	164	16
Other debtors	336	3	181	-
Gross value	***967***	***243***	***847***	***113***
Opening valuation allowance	***(2)***	***-***	***(2)***	***-***
Charge to allowance	(5)	-	(1)	-
Use of allowance	1	-	1	-
Closing valuation allowance	***(6)***	***-***	***(2)***	***-***
Net realizable value of other assets	***961***	***243***	***845***	***113***

As of December 31, 2014, non-current derivatives include €19 million relating to currency hedges on financial debt.

Note 28 Cash, cash equivalents and bank overdrafts

As of December 31 *(In € million)*	2014	2013
Liquidity funds (SICAV) (assets at fair value through profit and loss)	754	1,563
Bank deposits and term accounts (assets at fair value through profit and loss)	1,475	1,141
Cash in hand	930	980
Total cash and cash equivalents	***3,159***	***3,684***
Bank overdrafts	(249)	(166)
Cash, cash equivalents and bank overdrafts	***2,910***	***3,518***

The Group holds €3,159 million in cash as of December 31, 2014, including €89 million on Venezuelan bank accounts, valued at the rate applicable to airlines. This amount comes from the sale of airline tickets locally during the period from February 2013 to December 2013. Under the exchange control, monthly requests for money transfers have been made to the Commission of Currency Administration (*Comisión de Administración de-Divisas* – CADIVI). Given the Venezuelan economic and political context, some currency transfers are still pending.

Note 29 Equity Attributable to Equity Holders of Air France-KLM SA

29.1 Issued capital

As of December 31, 2014, 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)*	**2014**	**2013**
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 restrictions or priority concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2013 authorized the Board of Directors, for a period of 26 months from the date of the meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital limited to a total maximum nominal amount of €120 million.

Breakdown of the share capital and voting rights

The breakdown of the share capital and voting rights is as follows:

	% of capital		**% of voting rights**	
As of December 31	**2014**	**2013**	**2014**	**2013**
French State	16	16	16	16
Employees and former employees	7	7	7	7
Treasury shares	1	1	-	-
Other	76	76	77	77
Total	**100**	**100**	**100**	**100**

The line "Employees and former employees" includes 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 32.2.

29.2 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

29.3 Treasury shares

	Treasury shares	
	(In number)	(In € million)
December 31, 2012	*4,189,405*	*(85)*
Change in the period	(9,601)	-
December 31, 2013	*4,179,804*	*(85)*
Change in the period	-	-
December 31, 2014	*4,179,804*	*(86)*

As of December 31, 2014, Air France-KLM holds 3,063,384 of its own shares acquired pursuant to the annual authorizations granted by the Shareholders' Meeting. As of December 31, 2014, the Group also holds 1,116,420 of its own shares in respect of KLM's stock option programs. All these treasury shares are classified as a reduction of equity.

29.4 Reserves and retained earnings

(In € million)	December 31, 2014	December 31, 2013 (restated)
Legal reserve	70	70
Distributable reserves	412	734
Pension defined benefit reserves	(2,846)	(1,193)
Derivatives reserves	(881)	(47)
Available for sale securities reserves	428	655
Other reserves	(841)	667
Net income (loss) – Group share	(198)	(1,827)
Total	**(3,856)**	**(941)**

As of December 31, 2014, the legal reserve of €70 million represents 23 per cent of Air France-KLM's issued capital. French company law requires that a limited company *(société anonyme)* allocates 5 per cent of its unconsolidated statutory net income each year to this legal reserve until it reaches 10 per cent of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Note 30 Share-based compensation

30.1 Outstanding share-based compensation plans and other plans as of December 31, 2014

As of December 31, 2014 there is no outstanding share-based compensation plans in the Air France-KLM Group.

30.2 KLM PPSs plan

During the periods ending December 31, 2014 and December 31, 2013 cash-settled share-based compensation plans index-linked to the change in the Air France-KLM share price were granted by KLM. They correspond to share-based plans with settlement in cash (PPS).

Plans	Grant date	Number of PPSs granted	Start date for PPSs exercise	Date of expiry	Number of PPSs exercised as of 12/31/2014
KLM	01/07/2009	136,569	01/07/2009	01/07/2014	53,900
KLM	01/07/2010	145,450	01/07/2010	01/07/2015	37,966
KLM	01/07/2011	144,235	01/07/2011	01/07/2016	15,260
KLM	01/04/2012	146,004	01/04/2012	01/04/2017	-
KLM	01/04/2013	150,031	01/04/2013	01/04/2018	-
KLM	01/04/2014	143,721	01/04/2014	01/04/2019	-

The changes in PPSs were as follows:

	Number of PPSs
PPSs outstanding as of December 31, 2012	***573,646***
Of which:PPSs exercisable at December 31, 2012	***357,687***
PPSs granted during the period	150,031
PPSs exercised during the period	(104,255)
PPSs forfeited during the period	(99,064)
PPSs outstanding as of December 31, 2013	***520,358***
Of which:PPSs exercisable at December 31, 2013	***330,807***
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***

The vesting conditions of the PPSs plans granted by KLM are such that one third of the options vest at grant date, with a further one third after one and two years, respectively. Vesting is conditional on KLM achieving predetermined non-market-dependent performance criteria.

The fair value of the services provided under the PPSs plan has been determined according to the market value of the Air France-KLM share at the closing date *i.e.* €7.96 and amounts to €4 million.

Note 31 Provisions and retirement benefits

(In € million)	Retirement benefits Note 31.1	Maintenance and restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of December 31, 2012	***1,965***	***641***	***428***	***439***	***240***	***3,713***
Of which:						
♦ *Non-current*	*1,965*	*545*	*4*	*429*	*215*	*3,158*
♦ *Current*	*-*	*96*	*424*	*10*	*25*	*555*
New provision	99	272	282	76	97	826
Use of provision	(39)	(123)	(233)	(43)	(79)	(517)
Reversal of unnecessary provisions	-	(18)	(34)	-	(6)	(58)
Fair value revaluation	(162)	-	-	-	-	(162)
Currency translation adjustment	(9)	(1)	-	-	(1)	(11)
Change in scope	2	-	-	-	(2)	-
Accretion impact	-	(2)	-	-	-	(2)
Reclassification	(3)	(15)	(1)	2	-	(17)
Amount as of December 31, 2013	***1,853***	***754***	***442***	***474***	***249***	***3,772***
Of which:						
♦ *Non-current*	*1,853*	*606*	*-*	*439*	*204*	*3,102*
♦ *Current*	*-*	*148*	*442*	*35*	*45*	*670*
New provision	40	282	72	41	94	529
Use of provision	(90)	(136)	(192)	(31)	(101)	(550)
Reversal of unnecessary provisions	-	(2)	(2)	(4)	(7)	(15)
Fair value revaluation	311	-	-	-	-	311
Currency translation adjustment	7	1	-	-	2	10
Accretion impact	-	20	-	-	6	26
Reclassification	(2)	139	3	(1)	-	139
Amount as of December 31, 2014	***2,119***	***1,058***	***323***	***479***	***243***	***4,222***
Of which:						
♦ *Non-current*	*2,119*	*742*	*-*	*447*	*183*	*3,491*
♦ *Current*	*-*	*316*	*323*	*32*	*60*	*731*

As of December 31, 2014, the impact on the net periodic pension cost linked to the restructuring plans of Air France and its regional subsidiaries amounting to €36 million is recorded in “Other non-current income and expenses” (see Note 11). As of December 31, 2013, this impact was €54 million.

Movements in provisions for restructuring which have an impact on the income statement are recorded in “Other non-current income and expenses” when the plans concerned have a material impact (see Note 11).

Movements in provisions for restitution of aircraft which have an impact on the income statement are recorded in “provisions”, except for the accretion impact which is recorded in “Other financial income and expenses” (see Note 12).

Movements in provisions for litigation and in provisions for other risks and charges which have an impact on the income statement are recorded, depending on their nature, in the different lines of the income statement.

As of December 31, 2014, the amount of reclassification on provisions for maintenance and restitution of aircraft (€139 million) is linked to the finalization of some harmonization purposes inside the Group, for which the counterpart was mainly booked in other current and non-current liabilities.

31.1 Retirement benefits

The Group has a large number of retirement and other long-term benefits plans for its employees, several of which are defined benefit plans. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located.

31.1.1 Characteristics of the main defined benefit plans

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.

The retirement age defined in the plan is 56 years.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of the Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105 per cent of the projected short-term obligation, and approximately 115 per cent to 120 per cent of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules. A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This 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. 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 126.3 per cent as at December 31, 2014 *versus* 132.8 per cent as at December 31, 2013.

If the coverage ratio is under the funding agreement detailed above, the company is required to make additional contributions: within the current year for non-compliance with the 105 per cent threshold or within 10 years for non-compliance with the 115 per cent to 120 per cent threshold. The amount of normal and additional employer contributions is not limited. The employee contributions cannot be increased in the event of non-compliance with these minimum funding rules.

A reduction in the employer contribution is possible if the indexation of pensions is fully funded. This reduction is not capped and can be realized either *via* 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 liable to influence the coverage ratio and lead to a risk of additional contributions for KLM.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate.

The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks.

For example, about 90 per cent of the currency risk is hedged. Put options are in place, which cover a decrease of about 25 per cent of the value of the equity portfolio.

Pension plan related to KLM ground staff – The Netherlands

The pension plan related to the ground staff in the KLM entity is a defined benefit plan based on average salary with a reversion to the spouse on the beneficiary's death.

The retirement age defined in the plan was 65 years until December 31, 2013 and 67 years after this date.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105 per cent of the projected short-term obligation, and approximately 115 per cent to 120 per cent of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules. A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This 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. As a consequence the existing recovery plan for the Ground Staff plan will need to be updated before 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 116.3 per cent as at December 31, 2014 *versus* 122.1 per cent as at December 31, 2013.

If the coverage ratio is under the funding agreement detailed above, the company and the employee are required to make additional contributions: within the current year for non-compliance with the 105 per cent threshold or within 15 years for non-compliance with the 115 per cent to 120 per cent threshold. The amount of basic and additional employer contributions is not limited. Any additional employee contributions are limited to 2 per cent of the pension basis. A reduction in contributions is possible if the indexation of pensions is fully funded. This reduction is not capped and can be realized either *via* 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 liable to both influence the coverage ratio and the level of the normal contribution for future pension accrual. The normal contributions are limited to 24 per cent of the pension base.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks.

For example, an interest hedge is foreseen to halve the potential impact of the sensitivity to an interest rate decrease. Similarly, about 90 per cent of the currency risk is hedged. Put options are in place, which cover a decrease of about 25 per cent of the value of the equity portfolio.

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 a reversion to the spouse on the beneficiary's death. The pension is based on final salary.

For a closed group the pension is based on average salary.

The retirement age defined in the plan is 60 years.

The Board of the pension fund comprises members appointed by the employer and employees and has full responsibility for the administration and management of the plan. KLM can only control the financing agreement between KLM and the pension fund. The financing agreement is part of the Collective Labor Agreement between KLM and the Unions/Works Council.

To satisfy the requirements of Dutch regulations and the agreements defined between the employer and the pension fund Board, the plan has a minimum mandatory funding ratio of 105 per cent of the projected short-term obligation, and approximately 115 per cent to 120 per cent of the projected long-term obligation. The projection of these commitments is calculated based on the local funding rules. A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This 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. As a consequence the existing recovery plan for the Cabin Crew plan will need to be updated before 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 115.1 per cent as at December 31, 2014 *versus* 123.0 per cent as at December 31, 2013. If the coverage ratio is under the funding agreement detailed above, the company and the employee have to pay additional contributions: within three years for non-compliance with the 105 per cent threshold or within 15 years for non-compliance with the 115 per cent to 120 per cent threshold. The amount of normal and additional employer contributions is capped at 48 per cent of the pension basis. Any additional employee contributions are limited to 0.7 per cent of the pension basis. A reduction in contributions is possible if the indexation of pensions is fully funded. This reduction is limited to twice the normal annual contribution. 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 liable to both influence the coverage ratio and the level of the normal contribution for future pension accrual. The regular contributions are limited to 24 per cent of the pensionable base.

The funds, which are fully dedicated to the KLM Group companies, are mainly invested in bonds, equities and real estate. The management of most assets is outsourced to a private institution, under a service contract.

The required funding of this pension plan also includes a buffer against the following risks: interest rate risks, equity risks, currency risks, credit risks, actuarial risks and real estate risks.

For example, an interest hedge is foreseen to halve the potential impact of the sensitivity to an interest rate decrease. Similarly, about 90 per cent of the currency risk is hedged. Put options are in place, which cover a decrease of about 25 per cent of the value of the equity portfolio.

Air France pension plan (CRAF) – France

The employees covered by this plan are the Air France ground staff affiliated to the CRAF until December 31, 1992. The participants receive, or will receive on retirement, an additional pension paid monthly and permanently calculated based on the data known as of December 31, 1992 and expressed in the form of points. The value of each point is reevaluated every year based on the weighted increases seen in the CNAV and ARRCO schemes over the last twelve months.

Until 2009, the CRAF had the legal form of a supplementary pension institution (pursuant to the *Sécurité sociale* Code). With this status, the CRAF was responsible, on behalf of the Air France ground staff employed in France, for managing the pension plan resulting from the merging of the Air France ground staff plan with the mandatory pension plan for the private sector.

Following the 2003 law on pension reform, foreseeing the disappearance of supplementary pension institutions as of December 31, 2008, the CRAF's Board of Directors opted to transform it into an institution managing supplementary pensions. The CRAF is now responsible for the administrative functions linked to the plan. The pension rights were not amended by this reform. Air France is directly responsible for the pension obligations.

As of December 31, 2008, all the funds managed by the CRAF had been transferred to two insurance companies. On December 31, 2012, one of the insurance contracts was terminated and its funds were transferred to the other, which thus became the only insurer.

This guarantees a capital of 10 per cent 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 per cent of the total obligations calculated for funding purposes, Air France is required to make an additional payment to achieve a minimum 50 per cent 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, 2014, the three Dutch plans and the two French plans presented above represented a respective 81 per cent and 11 per cent of the Group's pension liabilities and 91 per cent and 4 per cent of the Group's pension assets.

31.1.2 Description of the actuarial assumptions and related sensitivities

Actuarial valuations of the Group's benefit obligation were made as of December 31, 2014 and December 31, 2013. 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;
- a long-term inflation rate reflecting the evolution of the market:

As of December 31	2014	2013
Zone euro – Duration 10 to 15 years	1.70%	2.00%
Zone euro – Duration 15 years and more	1.70%	1.90%

- 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	2014	2013
Euro zone – Duration 10 to 15 years	1.65%	3.00%
Euro zone – Duration 15 years and more	2.35%	3.65%

The duration between 10 and 15 years mainly concerns the plans located in France while the duration of 15 years and beyond mainly concerns plans located in the Netherlands.

On an average basis, the main assumptions used to value the liabilities are summarized below:

- the rate of salary increase (excluding inflation) is 1.65 per cent for the Group as of December 31, 2014 against 1.75 per cent as of December 31, 2013;
- the rate of pension increase (excluding inflation) is 1.29 per cent for the Group as of December 31, 2014 against 1.36 per cent as of December 31, 2013.

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 € million)	Sensitivity of the assumptions for the year ended December 31, 2014	Sensitivity of the assumptions for the year ended December 31, 2013
0.25% increase in the inflation rate	743	618
0.25% decrease in the inflation rate	(668)	(483)

➤ Sensitivity to changes in the discount rate

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2014	Sensitivity of the assumptions for the year ended December 31, 2013
0.25% increase in the discount rate	(911)	(688)
0.25% decrease in the discount rate	1,040	792

➤ Sensitivity to changes in salary increase (excluded inflation)

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2014	Sensitivity of the assumptions for the year ended December 31, 2013
0.25% increase in the salary increase rate	118	142
0.25% decrease in the salary increase rate	(105)	(127)

➤ Sensitivity to changes in pension increase (excluded inflation)

(In € million)	Sensitivity of the assumptions for the year ended December 31, 2014	Sensitivity of the assumptions for the year ended December 31, 2013
0.25% increase in the pension increase rate	889	629
0.25% decrease in the pension increase rate	(733)	(538)

31.1.3 Evolution of commitments

The following table details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended December 31, 2014 and December 31, 2013.

	As of December 31, 2014			As of December 31, 2013		
(In € million)	Netherlands	France	Others	Netherlands	France	Others
Benefit obligation at beginning of year	***13,669***	***2,116***	***797***	***13,258***	***2,191***	***870***
Service cost	355	60	12	386	65	13
Interest cost	490	60	36	478	64	31
Employees' contribution	57	-	1	45	-	1
Plan amendments and curtailment	(824)	-	1	(41)	(56)	(5)
Change in consolidation scope	-	-	-	-	2	-
Settlement	(47)	(37)	-	-	-	-
Benefits paid	(381)	(106)	(32)	(383)	(101)	(28)
Transfers of assets/liability through balance sheet	5	(1)	(4)	2	(5)	-
Actuarial loss/(gain) demographic assumptions	(279)	(4)	(2)	(16)	(3)	(1)
Actuarial loss/(gain) financial assumptions	3,928	308	24	(203)	(25)	(43)
Actuarial loss/(gain) experience gap	(100)	(23)	(9)	133	(16)	(6)
Currency translation adjustment and other	(11)	-	54	10	-	(35)
Benefit obligation at end of year	***16,862***	***2,373***	***878***	***13,669***	***2,116***	***797***
Including benefit obligation resulting from schemes totally or partly funded	*16,752*	*2,305*	*764*	*13,575*	*2,055*	*690*
Including unfunded benefit obligation	*110*	*68*	*114*	*94*	*61*	*107*
Fair value of plan assets at beginning of year	***15,903***	***748***	***532***	***15,528***	***787***	***515***
Actual return on plan assets	2,084	72	42	346	71	38
Employers' contributions	398	23	29	361	(11)	14
Employees' contributions	57	-	1	45	-	1
Change in consolidation scope	-	-	-	(1)	-	1
Settlements	(32)	-	-	-	-	(1)
Benefits paid	(368)	(92)	(29)	(375)	(99)	(21)
Currency translation adjustment and other	(3)	(1)	39	(1)	-	(15)
Fair value of plan assets at end of year	***18,039***	***750***	***614***	***15,903***	***748***	***532***
Amounts recorded in the balance sheet*:						
Pension asset (Note 23)	1,407	-	2	2,452	-	2
Provision for retirement benefits	(233)	(1,624)	(262)	(220)	(1,368)	(265)
Net amount recognized	***1,174***	***(1,624)***	***(260)***	***2,232***	***(1,368)***	***(263)***
Net periodic cost:						
Service cost	355	60	12	386	65	13
Interest cost	(89)	40	11	(90)	41	12
Plan amendments, curtailment and settlement	(839)	(36)	-	(40)	(57)	(4)
Actuarial losses/(gain) recognized in income statement	10	-	-	-	-	-
Net periodic cost	(563)	64	23	256	49	21

* *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, 2014

KLM follows 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 have been agreed with the respective Dutch Collective Labor Parties in December 2014. This lower the defined benefit obligations of the KLM pension plans €824 million. Given the significant impact of these amendments, the result of €824 million has been recorded in other non-current income as of December 31, 2014 (see Note 11).

In addition the KLM Catering Services defined benefit plan has 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 is made, amounting to €36 million, within the framework of the voluntary departure plan.

As of December 31, 2013

As of December 31, 2013, a curtailment was booked by Air France and its subsidiaries amounting to €54 million, within the framework of the voluntary departure plan (see Note 11).

At KLM, amendments to pension plans led to a €40 million decrease of the defined benefit obligation: €25 million further to the modification of the retirement age from 65 to 67 years concerning the ground staff pension plan and €15 million further to the reduction of the annual accrual rates on the cabin crew and ground staff pension plans.

31.1.4 Asset allocation

The weighted average allocation of the funds invested in the Group's pension and other long-term benefit plans is as follows:

	As of December 31, 2014		As of December 31, 2013	
Funds invested	**France**	**The Netherlands**	**France**	**The Netherlands**
Equities	39%	36%	41%	38%
Bonds	48%	52%	46%	50%
Real estate	-	4%	-	10%
Others	13%	8%	13%	2%
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.

31.1.5 Expected cash flows and risks linked to the pension obligations

The expected cash flows relative to the defined benefit pension plans will amount to €192 million for the year ending December 31, 2015. The weighted average duration of the obligation is 19 years.

The funding, capitalization and matching strategies implemented by the Group are presented in paragraph 31.1.1.

According to this description. both the fiscal rules for accruing pensions as well as the Financial Assessment Framework, part of the Dutch pension law, in The Netherlands change as per January 2015. Amongst other this results 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.

The risk for the Group, although depending of the outcome of the collective labour negotiations in the first half year of 2015, could remain that in case of a shortage, based on existing or future financing agreements, KLM could be required to make additional cash payments (actual funding ratios are presented in Note 31.1.1).

For 2015, this additional payment risk is mitigated by the solvency levels noted since December 31, 2014.

31.2 Provisions for restructuring

As of December 31, 2014 and December 31, 2013, the provision for restructuring mainly includes the voluntary departure plans at Air France, its regional affiliates and Martinair.

31.3 Provisions for litigation

31.3.1 Provision for litigation with third parties

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions have been recorded whenever circumstances 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 as described below.

31.3.2 Provision 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, Air France, KLM and Martinair have filed an appeal before the EU General Court against the 2010 European Commission decision. Provisions amounting to €340 million have been consituted in respect of the fine imposed by the European Commission.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court.

In South Korea, the procedure is definitely closed: in December 2014, the Supreme Court confirmed the fines against Air France and KLM for a total of approximately €7 million but dismissed the action against Air France-KLM and accordingly decided the annulment of the fine against Air France-KLM.

As of December 31, 2014, the total amount of provisions in connection with the anti-trust cases amounts to €377 million.

31.3.3 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.

31.4 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.

31.4.1 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.

31.4.2 Third-party claims for damages in connection with alleged anti-competitive behaviors 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 to such conspiracy.

31.4.3 Other litigations cases

a) *KLM minority shareholders*

In December 2012, a KLM minority shareholder filed a request with the Enterprise Chamber of the Amsterdam Court of Appeal to order an enquiry into KLM's dividend policy from 2004-05 to 2010-11. The Enterprise Chamber upheld such order and an inquiry is now being performed although KLM has filed an appeal against such decision.

b) *Rio-Paris AF447 flight*

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight, 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 31.3 and 31.4, 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 32 Financial debt

As of December 31 *(In € million)*	**2014**	**2013**
Non-current financial debt		
Perpetual subordinated loan stock in Yen	216	211
Perpetual subordinated loan stock in Swiss francs	348	341
OCEANE (convertible bonds)	873	1,478
Bonds	1,706	1,200
Capital lease obligations	3,469	3,808
Other debt	1,382	1,558
Total	**7,994**	**8,596**
Current financial debt		
OCEANE (convertible bond)	655	-
Bonds	-	741
Capital lease obligations	654	599
Other debt	453	653
Accrued interest	123	144
Total	**1,885**	**2,137**

32.1 Perpetual subordinated bond

32.1.1 Perpetual subordinated bond in Japanese Yen

The perpetual subordinated bond in Japanese Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, *i.e.* €216 million as of December 31, 2014.

Until 2019, this perpetual subordinated bond is subject to the payment of a 5.28 per cent coupon on a notional of US$248 million.

The debt is perpetual. It is nevertheless reimbursable at its nominal value at the Group's discretion as of August 28, 2019. This reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the Yen.

This debt is subordinated to all other existing and future KLM debts.

32.1.2 Perpetual subordinated bond in Swiss francs

The perpetual subordinated bond in Swiss francs was issued by KLM in two installments in 1985 and 1986 for a total original amount of CHF 500 million. Following the purchases made by KLM, the outstanding subordinated bond amounts to CHF 419 million, *i.e.* €348 million as of December 31, 2014.

The bonds are reimbursable on certain dates at the Group's discretion at a price between nominal value and 101.25 per cent (depending on the bond and date of early repayment).

This loan is subject to the payment of a coupon considered to be fixed-rate (5.75 per cent on a CHF 270 million portion and 2.125 per cent on a CHF 149 million portion).

This debt is subordinated to all other existing and future KLM debts.

32.2 OCEANE

32.2.1 OCEANE issued in 2005

In April 2005, the company Air France, a subsidiary of the Air France-KLM Group, issued convertible bonds maturing in 15 years. The conversion option allows for conversion and/or exchange at any time into new or existing Air France-KLM shares (OCEANE). 21,951,219 bonds were issued for a total amount of €450 million. Each bond has a nominal value of €20.50. As of December 31, 2014, 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 per cent payable in arrears at the end of each period ended April 1.

The conversion period of these bonds runs from June 1, 2005 to March 23, 2020, except in the event of early reimbursement.

On December 6, 2011, to optimize its debt repayment schedule by neutralizing the exercise of the OCEANE repayment option on April 1, 2012, Air France signed a swap agreement relating to these OCEANEs (total return swap) with Natixis expiring on April 1, 2016 at the latest. In order to hedge this contract, Natixis launched a contractual acquisition procedure to purchase the aforementioned OCEANEs.

This contract was thus reflected in the following operations:

- the purchase by Natixis of 18,692,474 OCEANEs (*i.e.* 85.16 per cent of the amount initially issued) at a fixed price of €21 following a contractual acquisition procedure open between December 7 and December 13, 2011. Natixis is the owner of the acquired OCEANEs and did not exercise its early repayment option on April 1, 2012;
- a swap contract, effective as from December 14, 2011 and expiring on April 1, 2016 has a notional amount of €392.5 million (number of OCEANEs acquired by Natixis multiplied by the purchase price of €21). Regarding this swap, Air France receives the coupon on the OCEANEs *i.e.* 2.75 per cent and pays variable interest indexed to Euribor 6 months. At the swap termination, Air France and Natixis will also exchange the difference between the OCEANE price at that date and the initial price of €21;
- Air France has a termination option on the swap starting December 19, 2012 and expiring on February 1, 2016;
- since January 2014 the contract is the subject to a guarantee with cash collateral for half of the notional of the swap, and to a pledge of Amadeus shares for the other half (see Note 24).

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, 2014, the debt value amounts to €402 million.

32.2.2 OCEANE issued in 2009

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million. Each bond has a nominal value of €11.80. The annual coupon amounts to 4.97 per cent.

The conversion period of these bonds runs from August 6, 2009 to the seventh working day preceding the normal or early reimbursement date.

Since April 1, 2013 Air France-KLM has had the option to impose the cash reimbursement of these bonds by exercising a call if the share price exceeds 130 per cent of the nominal, *i.e.* €15.34, encouraging OCEANE owners to convert their bonds into Air France-KLM shares.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €556 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of December 31, 2014, the debt value amounts to €655 million.

The option value was evaluated by deducting this debt value from the total nominal amount (*i.e.* €661 million) and was recorded in equity.

32.2.3 OCEANE issued in 2013

On March 28, 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at February 15, 2023 for a total nominal amount of €550 million. Each bond has a nominal value of €10.30. The annual coupon amounts to 2.03 per cent.

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 per cent 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, 2014, the debt value amounts to €471 million.

The option value was evaluated by deducting this debt value from the total nominal amount (*i.e.* €550 million) and was recorded in equity.

32.3 Bonds

32.3.1 Bonds issued in 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 per cent.

As of June 18, 2014, a nominal amount of €93.8 million of these bonds were repurchased and cancelled by Air France-KLM following an intermediated exchange offer and the issue of new bonds. After this transaction, the outstanding nominal amount of the bonds issued in 2009 is €606.2 million.

32.3.2 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 per cent.

32.3.3 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 per cent.

32.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of December 31 *(In € million)*	2014	2013
Aircraft		
Future minimum lease payments – due dates		
Y+1	655	637
Y+2	539	612
Y+3	548	549
Y+4	513	526
Y+5	508	469
Over 5 years	1,200	1,560
Total	**3,963**	**4,353**
Including		
♦ Principal	3,655	3,893
♦ Interest	308	460
Buildings		
Future minimum lease payments – due dates		
Y+1	66	65
Y+2	52	67
Y+3	58	51
Y+4	61	55
Y+5	37	58
Over 5 years	247	288
Total	**521**	**584**
Including		
♦ Principal	385	426
♦ Interest	136	158
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	13	13
Y+2	11	12
Y+3	10	10
Y+4	10	10
Y+5	10	10
Over 5 years	68	78
Total	**122**	**133**
Including		
♦ Principal	83	88
♦ Interest	39	45

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in Note 24.

32.5 Other debt

Other debt breaks down as follows:

As of December 31 *(In € million)*	2014	2013
Reservation of ownership clause and mortgage debt	1,049	1,321
Other debt	786	890
Total	**1,835**	**2,211**

Other debt corresponds mainly to bank borrowings.

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

32.6 Maturity analysis

The financial debt maturities break down as follows:

As of December 31 *(In € million)*	2014	2013
Maturities in		
Y+1	2,414	2,500
Y+2	2,020	1,871
Y+3	1,160	2,095
Y+4	1,410	1,034
Y+5	1,323	1,291
Over 5 years	3,172	3,491
Total	**11,499**	**12,282**
Including		
♦ Principal	9,879	10,733
♦ Interest	1,620	1,549

As of December 31, 2014, the expected financial costs amounts to €537 million for the 2015 financial year, €732 million for the financial years 2016 to 2019, and €351 million thereafter.

As of December 31, 2014, it has been considered that the perpetual subordinated loan stocks and the OCEANEs would be reimbursed according to their most probable maturity:

- 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 32.2.1);
- probable exercise date of the investor put, *i.e.* February 15, 2019, for the majority of the OCEANEs issued in 2013 (see Note 32.2.3);
- contractual maturity date for the OCEANE issued in 2009.

Repayable bonds issued in 2009, 2012 and 2014 will be reimbursed at their contractual maturity date (see Notes 32.3).

32.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

As of December 31 *(In € million)*	2014	2013
Euro	8,235	9,131
US dollar	595	587
Swiss franc	359	351
Yen	690	664
Total	**9,879**	**10,733**

32.8 Credit lines

As of December 31, 2014, the Group holds undrawn credit lines amounting to €1,770 million. The three main credit lines amounts, respectively, to €1,060 million for Air France, €540 million for KLM and €150 million for the holding company Air France-KLM.

On April 4, 2011, Air France renewed its credit facility maturing on April 7, 2013 with a €1,060 million revolving credit facility maturing on April 4, 2016, subject to the following financial covenants based on the Air France Group's consolidated financial statements:

- EBITDAR must not be lower than two and a half times the net interest charges increased by one third of operating lease payments;
- tangible and financial assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured financial net debts.

These ratios are calculated every six months based on Air France Group's consolidated financial statements and are respected at December 31, 2014.

KLM's credit facility, which amounts to €540 million with a maturity on July 12, 2016, is subject to the company respecting the following financial covenants:

- EBITDAR must not be lower than two and a half times the sum of net interest charges and one third of operating lease payments;
- tangible and financial assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months based on KLM Group's consolidated financial statements and are respected at December 31, 2014.

Air France-KLM's credit facility, with a maturity as of October 4, 2017, amounts to €150 million as of December 31, 2014. It will be reduced by €50 million every year on its October 4 anniversary, and, is subject to respect of the following financial covenants calculated based on the Air France-KLM consolidated financial statements:

- EBITDAR must be at least equal to one and a half times net interest charges added to one third of operating lease payments;
- tangible and financial assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured. financial net debt.

These ratios are calculated every six months and are respected at December 31, 2014.

Note 33 Other liabilities

As of December 31 *(In € million)*	2014		2013 (Restated)	
	Current	Non-current	Current	Non-current
Tax liabilities	688	-	704	-
Employee-related liabilities	810	-	832	-
Non current assets' payables	46	-	87	-
Derivative instruments	1,153	433	118	319
Deferred income	231	67	120	6
Other	402	36	468	72
Total	**3,330**	**536**	**2,329**	**397**

The derivative instruments comprise €1 million of currency hedges on financial debts as of December 31, 2014, as non-current liability (against €88 million as of December 31, 2013, of which €86 million non-current liability and €2 million current liability).

Note 34 Financial instruments

34.1 Risk management

Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officers of Air France and of KLM, the Chief Financial Officer of Air France-KLM, and the Chief Financial Officers of Air France and of KLM. The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates, interest rates and carbon quota prices, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument. The aim is to reduce the exposure of Air France-KLM to the market fluctuations. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the Treasury and Fuel Purchasing departments within each company. In-house procedures governing risk management prohibit speculation.

The instruments used are swaps, futures and options.

Regular meetings are held between the Fuel Purchasing and Treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The Treasury Management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements.

The implementation of the policy on fuel hedging is the responsibility of the Fuel Purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current fiscal year and the two following years, is sent to the executive management. This mainly covers the transactions carried out during the week, the valuation of all the positions, the hedge percentages as well as the breakdown of instruments and the underlying used, average hedge levels, the resulting net prices and stress scenarii, as well as market commentary. Furthermore, the Fuel Purchasing department issues a weekly Air France-KLM Group report (known as the GEC report) which consolidates the figures from the two companies relating to fuel hedging and physical cost.

Lastly, a monthly report, which is submitted to the executive management by the Fuel Purchasing department, indicates the level of advancement on carbon quota purchases and the forecast related expenditure.

Currency risk

Most of the Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The principal exposure is to the US dollar. With regard to the US dollar, since expenditure on items such as fuel, operating leases and component costs exceed the level of revenues, the Group is a net buyer. This means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, 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, 2014, 86% of the Group's gross debt, after taking into account derivative instruments, was issued in or converted into euros, thereby markedly reducing the risk of currency fluctuation on the debt. The exposure of the debt to other currencies mainly concerns the yen, US dollar and Swiss Franc.

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

The financing of assets are mainly contracted at floating rates, in line with market practice. Given the historically low interest rates, a portion of this debt has been converted to fixed rate through swaps and options. Market financing is contracted at fixed rates. After hedging, the Air France-KLM Group's gross debt contracted at fixed rates represents 69% of the overall total.

Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of the Air France-KLM Group and approved by the executive management. The RMC reconsider the hedging strategy quarterly and can change the hedge percentage or underlyings.

Main characteristics of the hedge strategy

- *Hedge horizon:* 2 years
- *Minimum hedge percentage:*
  - quarter underway: 60% of the volumes consumed;
  - quarter 1 to quarter 3: 60% of the volumes consumed;
  - quarter 4: 50% of the volumes consumed;
  - quarter 5: 40% of the volumes consumed;
  - quarter 6: 30% of the volumes consumed;
  - quarter 7: 20% of the volumes consumed;
  - quarter 8: 10% of the volumes consumed.
- *Increment of coverage ratios:* 10% by quarter
- *Underlyings:* Brent, Diesel and Jet Fuel

  The strategy of the Group recommends the use of three underlying instruments which are Brent, Diesel and Jet Fuel. Currently, the volumes are mainly hedged in Brent given the few relatively unattractive market prices for Diesel and Jet Fuel.
- *Instruments:*

  Swap, call, call spread, three ways, four ways and collar.

  IAS 39 rule:

  The instruments and underlyings used within the framework of the strategy must be compliant with IAS 39.
- *Implementation of monitoring indicators on positions:*

  To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the 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 (2014) and to anticipate the needs of the following year (2015) by hedging a portion of the latter based on an applicable scope similar to the 2013's one.

- *Underlyings:* EUA quotas.
- *Instruments:* Forwards, delivery and payment during the quarter preceding the compliance application date.

Investment risks

The cash resources of Air France, KLM and Air France-KLM are currently invested in short term, primarily 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 September 9, 2014, as part of its active balance sheet management policy, the Group sold 4,475,819 shares of the Spanish company Amadeus IT Holding S.A. ("Amadeus") by a private placement, representing 1.0 per cent of the company's share capital.

The Group simultaneously sold in addition 10,345,200 shares, representing 2.31 per cent of the company's share capital, in the framework of the settlement of the hedging transaction implemented in 2012 and covering 12,000,000 shares in Amadeus.

These transactions generated cash received of €339 million for Air France-KLM (see Notes 3, 11 and 24).

On November 25, 2014, the Group entered into a hedge agreement with Deutsche Bank covering 9,900,000 Amadeus shares, representing around a half of its stake. This hedging transaction (collar) enables the Group to protect the value of these shares (see Notes 3 and 24).

Furthermore the portion of shared that were not covered by the hedge transaction as of December 31, 2014 were sold in January 2015 (see Note 3.2). The Group consequently had a minor risk exposure of an important and unexpected change in the market value of these Amadeus 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.

The Group has identified the following exposure to counterparty risk:

Counterparty risk management

The transactions involving potential counterparty risk are as follows:

- financial investments;
- derivative instruments;
- trade receivables.

Counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be significant. The Group's counterparty-risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of the various instruments. Any exceeding of a limit immediately results in the implementation of corrective measures.

The counterparty risk linked to derivative instruments is taken into account in the valuation of their market value as described in the Note 4.10.3. Derivative instruments are governed the ISDA and FBF compensation master agreements. In 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.

	Total exposure *(in € millions)*	
LT Rating (Standard & Poors)	**As of December 31, 2014**	**As of December 31, 2013**
AAA	168	145
AA	100	196
A	1,674	1,880
BBB	100	96
Total	**2,042**	**2,317**

Liquidity risk

The liquidity risk relates to the credit lines held by the Group, as described in Note 32.8.

34.2 Derivative instruments

As of December 31, 2014 the fair value of the Group's derivative instruments and their expected maturities are as follows:

(In € million)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	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* 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)**

* *See Note 32.2*

As of December 31, 2013 the fair value of the Group's derivative instruments and their expected maturities are as follows:

(In € million)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	255	205	50	-	-	-	-
	Liability	(10)	(9)	(1)	-	-	-	-
Interest rate derivative instruments	Asset	14	1	-	1	-	-	12
	Liability	(129)	(4)	(11)	(19)	(14)	(18)	(63)
Currency exchange derivative instruments	Asset	95	61	26	-	2	3	3
	Liability	(182)	(105)	(48)	(8)	(7)	(5)	(9)
OCEANE swap* instrument	Assets	-	-	-	-	-	-	-
	Liability	(8)	-	-	(8)	-	-	-
Amadeus shares derivative instrument	Asset	-	-	-	-	-	-	-
	Liability	(108)	-	(72)	(36)	-	-	-
Total	**Asset**	**364**	**267**	**76**	**1**	**2**	**3**	**15**
	Liability	**(437)**	**(118)**	**(132)**	**(71)**	**(21)**	**(23)**	**(72)**

* *See Note 32.2*

34.2.1 Commodity risk linked to fuel prices

The Group's commitments on Brent, Diesel and Jet CIF are presented below, at their nominal value:

➤ **Year ended December 31, 2014**

(In € million)	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)**

The fair value is highly negative since the option portfolio mainly comprises collars, strongly impacted by the decrease of the Brent price.

➤ **Year ended December 31, 2013**

(In € million)	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	617	617	-	-	-	-	-	38
Options	4,931	3,377	1,554	-	-	-	-	207
Total	**5,548**	**3,994**	**1,554**	**-**	**-**	**-**	**-**	**245**

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 +/- US$10 variation in the price of a barrel of Brent is as follows:

(In € million)	2014		2013	
As of December 31	**Increase of US$ 10 per barrel of Brent**	**Decrease of US$ 10 per barrel of Brent**	**Increase of US$ 10 per barrel of Brent**	**Decrease of US$ 10 per barrel of Brent**
Income before tax	32	(25)	(66)	(187)
Gains/(losses) taken to equity	396	(389)	477	(181)

34.2.2 Exposure to interest rate risk

To manage the interest rate risk on its short and long-term borrowings, the Group uses instruments with the following nominal values:

➤ Year ended December 31, 2014

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Operations qualified as cash flow hedging	***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)
Others	-	-	-	-	-	-	-	-
Total	**2,045**	**180**	**239**	**427**	**252**	**190**	**757**	**(83)**

➤ Year ended December 31, 2013

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Operations qualified as cash flow hedging	***2,272***	***294***	***184***	***461***	***251***	***316***	***766***	***(112)***
Interest rate swaps	1,983	201	154	319	251	292	766	(107)
Options	289	93	30	142	-	24	-	(5)
Operations qualified as fair value hedging	***261***	***28***	***17***	***35***	***-***	***-***	***181***	***1***
Interest rate swaps	261	28	17	35	-	-	181	1
Operations qualified as fair value through profit and loss	***117***	***-***	***-***	***48***	***-***	***-***	***69***	***(4)***
Interest rate swaps	83	-	-	14	-	-	69	(10)
Others	34	-	-	34	-	-	-	6
Total	**2,650**	**322**	**201**	**544**	**251**	**316**	**1,016**	**(115)**

Taking into account the hedging operations, the Group's exposure to interest rate risks breaks down as follows:

As of December 31 *(In € million)*	2014				2013			
	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	2,337	2.2%	2,337	2.2%	2,052	2.8%	2,052	2.8%
Fixed-rate financial liabilities	5,655	4.5%	6,861	4.2%	5,965	4.4%	7,486	4.1%
Floating-rate financial assets and liabilities								
Floating-rate financial assets	1,485	0.7%	1,485	0.7%	2,400	0.5%	2,400	0.5%
Floating-rate financial liabilities	4,533	1.6%	3,597	1.9%	4,934	1.7%	3,413	2.1%
Without-rate financial assets	**1,624**	**-**	**1,624**	**-**	**2,226**	**-**	**2,226**	**-**

As of December 31, 2014 and December 31, 2013, 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 €6 million on the financial income for the year ended December 31, 2014 *versus* €12 million for the year ended December 31, 2013.

34.2.3 Exposure to exchange rate risk

The nominal amounts of futures and swaps linked to exchange rates are detailed below given the nature of the hedging operations:

➤ Year ended December 31, 2014

(In € million)	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)
Other	27	-	27	-	-	-	-	3
Total	**6,703**	**3,336**	**2,056**	**390**	**264**	**161**	**496**	**368**

➤ Year ended December 31, 2013

(In € million)	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)	***4,143***	***2,785***	***1,347***	***11***	***-***	***-***	***-***	***(33)***
Exchange rate options	2,222	1,511	711	-	-	-	-	(15)
Forward purchases	1,509	1,003	495	11	-	-	-	(57)
Forward sales	412	271	141	-	-	-	-	39
Exchange risk (Fair value hedging of flight equipment acquisition)	***1,338***	***429***	***408***	***251***	***120***	***81***	***49***	***(54)***
Forward purchases	1,338	429	408	251	120	81	49	(54)
Exchange risk (trading)	***438***	***72***	***62***	***-***	***98***	***110***	***96***	***-***
Forward purchases	219	36	31	-	49	55	48	3
Forward sales	219	36	31	-	49	55	48	(3)
Total	**5,919**	**3,286**	**1,817**	**262**	**218**	**191**	**145**	**(87)**

Currency hedge sensitivity

The value in euros of the monetary assets and liabilities is presented below:

As of December 31 *(In € million)*	Monetary assets		Monetary liabilities	
	2014	2013	2014	2013
US dollar	159	143	502	519
Pound sterling	26	23	1	-
Yen	5	8	745	727
Swiss franc	6	11	348	341

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 per cent appreciation in foreign currencies relative to the euro is presented below:

As of December 31 *(In € million)*	US Dollar		Pound Sterling		Yen	
	2014	2013	2014	2013	2014	2013
Income before tax	(14)	37	(8)	(8)	(75)	(70)
Gains/(losses) taken to equity	299	312	(23)	(24)	(25)	(37)

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 per cent depreciation in foreign currencies relative to the euro is presented below:

As of December 31 *(In € million)*	US Dollar		Pound Sterling		Yen	
	2014	2013	2014	2013	2014	2013
Income before tax	(5)	(108)	3	-	64	62
Gains/(losses) taken to equity	(215)	(220)	18	23	31	34

34.2.4 Carbon credit risk

As of December 31, 2014, the Group has hedged its future purchases of CO_2 quotas *via* forward purchase for a nominal of €25 million with a fair value of €9 million, *versus* a nominal of €15 million with a nil fair value as of December 31, 2013.

These contracts mostly expire within less than 2 years.

34.3 Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods. 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, 2014 and December 31, 2013 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, 2014 and December 31, 2013 calculated using the year-end market rate.

Only the financial assets and liabilities whose fair value differs from their net book value are presented in the following table:

As of December 31 *(In € million)*	**2014**		**2013**	
	Net book value	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Loans	175	181	164	167
Financial liabilities				
Bonds	3,234	3,551	3,419	3,788
OCEANE 2005	*402*	*447*	*390*	*428*
OCEANE 2009	*655*	*690*	*633*	*717*
OCEANE 2013	*471*	*613*	*455*	*588*
Bond 2006/2007	-	-	*741*	*743*
Bond 2009	*606*	*652*	*700*	*765*
Bond 2012	*500*	*547*	*500*	*547*
Bond 2014	*600*	*602*	-	-
Perpetual subordinated loans	564	264	552	248
Other borrowings and financial debt	1,770	1,663	1,857	1,770

34.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group's financial assets and liabilities is as follows based on the three classification levels (see Note 4.10.7):

As of December 31 *(In € million)*	Level 1		Level 2		Level 3		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Financial assets available for sale								
Shares	702	1,100	17	35	-	-	**719**	**1,135**
Assets at fair value through profit and loss								
Marketable securities and cash secured	38	31	630	920	-	-	**668**	**951**
Cash equivalents	729	1,552	1,500	1,152	-	-	**2,229**	**2,704**
Derivative instruments assets								
Interest rate derivatives	-	-	26	14	-	-	**26**	14
Currency exchange derivatives	-	-	450	95	-	-	**450**	**95**
Commodity derivatives	-	-	1	255	-	-	**1**	**255**
ETS derivatives	-	-	5	-	-	-	**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 35 Lease commitments

35.1 Capital leases

The debt related to capital leases is presented in Note 32.4.

35.2 Operating leases

The minimum future payments on operating leases are as follows:

As of December 31 *(In € million)*	Minimum lease payments 2014	2013
Flight equipment		
Due dates		
Y+1	1,041	912
Y+2	1,009	814
Y+3	960	743
Y+4	818	694
Y+5	704	573
Over 5 years	1,727	1,695
Total	**6,259**	**5,431**
Buildings		
Due dates		
Y+1	210	221
Y+2	159	152
Y+3	132	136
Y+4	111	108
Y+5	94	94
Over 5 years	768	878
Total	**1,474**	**1,589**

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

Note 36 Flight equipment orders

Due dates for commitments in respect of flight equipment orders are as follows:

As of December 31 *(In € million)*	**2014**	**2013**
Y+1	566	381
Y+2	797	436
Y+3	811	616
Y+4	1,064	536
Y+5	1,001	931
Over 5 years	3,792	3,828
Total	**8,031**	**6,728**

These commitments relate to US dollars amounts, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

The number of aircraft under firm order as of December 31, 2014 increase by 16 units compared with December 31, 2013 and stood at 80 aircraft.

The changes are explained by the order for 17 aircraft, the delivery of three aircraft and the conversion of two options into a firm order over the period.

Long-haul fleet

Passenger

The Group took delivery of one Airbus A380, which was later sold into a sale and leaseback transaction.

Also, two Boeing B777 aircraft were converted into a firm order.

Medium-haul fleet

The Group took delivery of two Boeing B737s, one of which was then sold into a sale and leaseback transaction.

The Group signed a firm order for 17 Boeing B737.

The Group's commitments concern the following aircraft:

Aircraft type	To be delivered in year	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger								
A380	***As of December 31, 2014***	***-***	***-***	***-***	***2***	***-***	***-***	***2***
	As of December 31, 2013	1	-	-	-	2	-	3
A350	***As of December 31, 2014***	***-***	***-***	***-***	***2***	***6***	***17***	***25***
	As of December 31, 2013	-	-	-	-	2	23	25
B787	***As of December 31, 2014***	***-***	***1***	***4***	***4***	***3***	***13***	***25***
	As of December 31, 2013	-	-	3	5	3	14	25
B777	***As of December 31, 2014***	***3***	***3***	***1***	***-***	***-***	***-***	***7***
	As of December 31, 2013	-	3	2	-	-	-	5
Medium-haul fleet								
A320	***As of December 31, 2014***	***-***	***3***	***-***	***-***	***-***	***-***	***3***
	As of December 31, 2013	-	-	3	-	-	-	3
B737	***As of December 31, 2014***	***5***	***7***	***5***	***-***	***-***	***-***	***17***
	As of December 31, 2013	2	-	-	-	-	-	2
Regional fleet								
CRJ 1000	***As of December 31, 2014***	***1***	***-***	***-***	***-***	***-***	***-***	***1***
	As of December 31, 2013	-	1	-	-	-	-	1

Note 37 Other commitments

37.1 Commitments made

As of December 31 *(In € million)*	2014	2013
Call on investment securities	4	3
Warranties, sureties and guarantees	348	288
Secured debts	5,194	5,756
Other purchase commitments	149	155

The restrictions and pledges as of December 31, 2014 are as follows:

(In € million)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	1,009	-
Tangible assets	March 1999	September 2027	6,185	10,478	59.0%
Other financial assets	November 1999	May 2027	1,812	2,289	79.2%
Total			**7,997**	**13,776**	

37.2 Commitments received

As of December 31 *(In € million)*	2014	2013
Warranties, sureties and guarantees	178	135

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

Note 38 Related parties

38.1 Transactions with the principal executives

As of December 31, 2014, directors and their relatives held less than 0.02 per cent 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, 2014 and for December 31, 2013.

During these two financial years, there were no payments of post-employment benefits.

38.2 Transactions with other related parties

The total amounts of transactions with related parties are as follows:

As of December 31 *(In € million)*	**2014**	**2013**
Assets		
Net trade accounts receivable	108	126
Other current assets	17	25
Other non-current assets	8	7
Total	**133**	**158**
Liabilities		
Trade accounts payable	95	114
Other current liabilities	56	56
Other long-term liabilities	72	72
Total	**223**	**242**

As of December 31 *(In € million)*	**2014**	**2013**
Net sales	227	244
Landing fees and other rents	(407)	(394)
Other selling expenses	(156)	(153)
Passenger service	(41)	(53)
Other	(30)	(49)
Total	**(407)**	**(405)**

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 €361 million and €372 million for the periods ended December 31, 2014 and December 31, 2013.

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 €31 million for the year ended December 31, 2014 *versus* €42 million as of December 31, 2013.

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 €106 million as of December 31, 2014 *versus* €105 million for the year ended December 31, 2013.

Amadeus

For the year ended December 31, 2014, total transactions with Amadeus amounts to an expense of €130 million for the Group, compared with €132 million for the year ended December 31, 2013.

Alitalia

For the year ended December 31, 2014, the amount of transactions realized with Alitalia represents revenues of €64 million for the Group (compared with €81 million for the year ended December 31, 2013) and a cost of €7 million (compared with €12 million for the year ended December 31, 2013).

Note 39 Consolidated statement of cash flow

39.1 Other non-monetary items and impairment

Other non-monetary items and impairment can be analyzed as follows:

As of December 31 *(In € million)*	Notes	2014	2013
Variation of provisions relating to restructuring plan		(154)	17
Variation of provisions relating to pension		(88)	(51)
Variation of provisions relating to goodwill	**17**	-	11
Impairment of CityJet VLM Group	**14**	-	66
Impairment of cargo CGU	**19**	113	-
Changes of pension plan KLM	**31.1.3**	(824)	-
Depreciation of assets held for sale	**11**	11	102
Other		14	61
Total		**(928)**	**206**

39.2 Acquisitions of subsidiaries, of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

As of December 31 *(In € million)*	2014	2013
Cash disbursement for acquisitions	(45)	(33)
Cash from acquired subsidiaries	2	6
Net cash disbursement	***(43)***	***(27)***

During 2014, the Group acquired the Barfield company, based in the United States, and whose activity is maintenance (see Note 5).

39.3 Disposal of subsidiaries without loss of control, of owned shares

As of December 31, 2014, this line essentially consists of the sale of Amadeus shares, as described in Note 11.

As of December 31, 2013, no cash proceeds was recorded.

39.4 Non cash transactions

During the financial year ended December 31, 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 is €36 million.

During the financial year ended December 31, 2013, the Group had renewed a lease contract for a car park with Aéroports de Paris. This contract was classified as a financial lease.

A lease contract on one A340 aircraft, classified as a financial lease in 2012, was also reclassified as an operational lease.

These operations have no impact on the cash flow statement.

Note 40 Fees of Statutory Auditors

As of December 31 *(In € million)*	KPMG			
	2014		2013	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.8	91%	3.7	88%
♦ *Air France-KLM SA*	*0.7*	-	*0.7*	-
♦ *Consolidated subsidiaries*	*3.1*	-	*3.0*	-
Other ancillary services and audit services	0.3	7%	0.2	5%
♦ *Air France-KLM SA*	*0.1*	-	*0.1*	-
♦ *Consolidated subsidiaries*	*0.2*	-	*0.1*	-
Sub-total	**4.1**	**98%**	**3.9**	**93%**
Other services				
Legal, tax and corporate	0.1	2%	0.3	7%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**4.2**	**100%**	**4.2**	**100%**

As of December 31 *(In € million)*	Deloitte & Associés			
	2014		2013	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.7	94%	3.7	90%
♦ *Air France-KLM SA*	*0.7*	-	*0.7*	-
♦ *Consolidated subsidiaries*	*3.0*	-	*3.0*	-
Other ancillary services and audit services	0.1	3%	0.3	8%
♦ *Air France-KLM SA*	*0.1*	-	*0.1*	-
♦ *Consolidated subsidiaries*	-	-	*0.2*	-
Sub-total	**3.8**	**97%**	**4.0**	**98%**
Other services				
Legal, tax and corporate	0.1	3%	0.1	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**3.9**	**100%**	**4.1**	**100%**

Note 41 Consolidation scope as of December 31, 2014

The scope includes 152 fully-consolidated entities and 42 equity affiliates.

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM Group's financial and operational strategies and controls KLM. As a result, KLM is fully consolidated in Air France-KLM's consolidated financial statements.

41.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.	Netherlands	Multisegment	99	49
MARTINAIR HOLLAND N.V.	Netherlands	Multisegment	99	49
AIR FRANCE GROUND HANDLING INDIA PVT LTD	India	Passenger	51	51
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	99	49
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
INTERNATIONAL AIRLINE SERVICES AMERICAS L.P	United States	Passenger	99	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	99	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	99	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Passenger	99	49
KLM LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	99	49
LYON MAINTENANCE	France	Passenger	100	100
HOP! RÉGIONAL	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
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
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
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
ASP BEHEER B.V.	Netherlands	Other	59	49
AMSTERDAM SCHIPOL PIJPLEIDING C.V.	Netherlands	Other	75	49
BLUE YONDER IX B.V.	Netherlands	Other	99	49
BLUE YONDER X B.V.	Netherlands	Other	99	49
BLUE YONDER XIV B.V.	Netherlands	Other	99	49
B.V. KANTOORGEBOUW MARTINAIR	Netherlands	Other	99	49
CATERING FDF	France	Other	98	100
CATERING PTP	France	Other	98	100
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0
DAKAR CATERING	Senegal	Other	64	65
EUROPEAN CATERING SERVICES	United States	Other	98	100
FONDEG CATERING CONGO	Congo	Other	50	51
GIE JEAN BART	France	Other	10	10
GIE SERVCENTER	France	Other	98	100
GIE SURCOUF	France	Other	100	100
GUINEENNE DE SERVICES AEROPORTUAIRES S.A.	Guinea	Other	30	60

Entity	Country	Segment	% interest	% control
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 FINANCIAL SERVICES B.V.	Netherlands	Other	99	49
KLM HEALTH SERVICES B.V.	Netherlands	Other	99	49
KLM INTERNATIONAL CHARTER B.V.	Netherlands	Other	99	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM UNTERSTUTZUNGSKASSEN GMBH	Germany	Other	99	49
KROONDUIF B.V.	Netherlands	Other	99	49
LYON AIR TRAITEUR	France	Other	98	100
MALI CATERING	Mali	Other	70	99
MARTINAIR VESTIGING VLIEGVELD LELYSTAD B.V.	Netherlands	Other	99	49
MARTINIQUE CATERING	France	Other	91	93
MAURITANIA CATERING	Mauritania	Other	25	51
NAS AIRPORT SERVICES LIMITED	Kenya	Other	58	100
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49
ORLY AIR TRAITEUR	France	Other	98	100
SERVAIR BURKINA FASO	Burkina Faso	Other	84	86
PARIS AIR CATERING	France	Other	98	100
PASSERELLE CDG	France	Other	64	66
PELICAN	Luxembourg	Other	100	100
PMAIR	France	Other	50	51
PRESTAIR	France	Other	98	100
PYRHELIO-STAETE B.V.	Netherlands	Other	99	49
QUASAR-STAETE B.V.	Netherlands	Other	99	49
RIGEL-STAETE B.V.	Netherlands	Other	99	49
SENCA	Senegal	Other	32	51
SEREP	Senegal	Other	57	59
SERVAIR (Cie d'exploitation des services auxiliaires aériens)	France	Other	98	98
SERVAIR ABIDJAN	Ivory Coast	Other	84	86
SERVAIR BRASIL REFEICOES AEREAS E SERVICOS LTDA	Brasil	Other	50	100
SERVAIR CARAIBES	France	Other	98	98
SERVAIR GHANA	Ghana	Other	56	57
SERVAIR RETAIL FORT DE FRANCE	France	Other	50	51
SERVAIR SATS	Singapore	Other	50	51
SERVAIR SOLUTION ITALIA S.R.L.	Italy	Other	98	100
SERVANTAGE	France	Other	98	100

Entity	Country	Segment	% interest	% control
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 AFRIQUE	France	Other	98	98
SIA NWK HOLDING	France	Other	98	98
FFSI	France	Other	50	51
SIA KENYA HOLDING LIMITED	Kenya	Other	58	59
SISALOGISTIC NETHERLANDS B.V.	Netherlands	Other	99	49
SKYCHEF	Seychelles	Other	54	55
SKYLOGISTIQUE AFRIQUE	France	Other	64	66
SERVAIR INVESTISSEMENTS AEROPORTUAIRES	France	Other	98	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 REUNION	France	Other	49	50
TAKEOFF 1 LIMITED	Ireland	Other	100	100
TAKEOFF 2 LIMITED	Ireland	Other	100	100
TAKEOFF 3 LIMITED	Ireland	Other	100	100
TAKEOFF 4 LIMITED	Ireland	Other	100	100
TAKEOFF 5 LIMITED	Ireland	Other	100	100
TAKEOFF 6 LIMITED	Ireland	Other	100	100
TAKEOFF 7 LIMITED	Ireland	Other	100	100
TAKEOFF 8 LIMITED	Ireland	Other	100	100
TAKEOFF 9 LIMITED	Ireland	Other	100	100
TAKEOFF 10 LIMITED	Ireland	Other	100	100
TAKEOFF 11 LIMITED	Ireland	Other	100	100
TAKEOFF 12 LIMITED	Ireland	Other	100	100
TAKEOFF 13 LIMITED	Ireland	Other	100	100
TAKEOFF 14 LIMITED	Ireland	Other	100	100
TAKEOFF 15 LIMITED	Ireland	Other	100	100
TAKEOFF 16 LIMITED	Ireland	Other	100	100
TRANSAVIA AIRLINES B.V.	Netherlands	Other	99	49
TRANSAVIA AIRLINES C.V.	Netherlands	Other	99	49
TRANSAVIA AIRLINES LTD.	Bermuda	Other	99	49
TRANSAVIA COMPANY	France	Other	100	100
TRANSAVIA FRANCE S.A.S.	France	Other	100	100

Entity	Country	Segment	% interest	% control
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

41.2 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
SPAIRLINERS	Germany	Maintenance	50	50
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab Emirates	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
MAX MRO SERVICE	India	Maintenance	26	26
NEW TSI	United States	Maintenance	50	50
ATLAS AIR CATERING AIRLINES SERVICES	Morocco	Other	39	40
AIRCRAFT CAPITAL LTD	United Kingdom	Other	40	40
CITY LOUNGE SERVICES	France	Other	17	35
COTONOU CATERING	Benin	Other	24	49
DOUAL'AIR	Cameroun	Other	25	25
FLYING FOOD CATERING	United States	Other	48	49
FLYNG FOOD JFK	United States	Other	48	49
FLYING FOOD MIAMI	United States	Other	48	49
FLYING FOOD SAN FRANCISCO	United States	Other	48	49
FLYING FOOD SERVICES	United States	Other	48	49
FLYING FOOD SERVICES USA	United States	Other	49	49
GUANGZHOU NANLAND AIR CATERING	China	Other	24	25
GUEST LOUNGE SERVICES	France	Other	17	35
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	25	25
DUTYFLY SOLUTIONS	France	Other	49	50
DUTYFLY SOLUTIONS SPAIN	Spain	Other	49	50
DUTYFLY SOLUTIONS ITALY	Italy	Other	49	50
LOME CATERING SA	Togo	Other	17	35
MACAU CATERING SERVICES	Macao	Other	17	34
MAINPORT INNOVATION FUND B.V.	Netherlands	Other	25	25

Entity	Country	Segment	% interest	% control
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	32	33
PRIORIS	France	Other	33	34
SCHIPHOL LOGISTICS PARK B.V.	Netherlands	Other	45	45
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	52	45
SERVAIR CONGO	Congo	Other	49	50
SERVICHEF	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, 2014

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, 2014, 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, 2014 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.

2. Justification of assessments

The accounting estimates used in the preparation of the consolidated financial statements were made in a context of an economic downturn raising certain difficulties to apprehend future economic perspectives. These conditions are described in Note 4.2 to the consolidated financial statements. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French Commercial Code *(Code de commerce)*:

- the company recognized deferred tax assets based on the future taxable income determined based on medium and long term business plans as described in Notes 4.2, 4.22 and 13 to the consolidated financial statements. Our procedures consisted in analyzing the data and assumptions used by Air France-KLM's management in order to verify the recoverability of these deferred tax assets;
- Notes 4.2, 4.17 and 31.1 to the consolidated financial statements specify the accounting policies for employee benefits. These benefits and obligations were evaluated by external actuaries. Our procedures consisted in examining the data used, assessing the assumptions made and verifying that the information included in Note 31.1 to the consolidated financial statements was appropriate. In addition, we verified that the accounting policy used for the recognition of the pension fund surplus as outlined in Note 4.17 to the consolidated financial statements was appropriate;
- 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 31.2, 31.3 and 31.4 to the consolidated financial statements. We have examined particularly the estimates and the assumptions used regarding the restructuring 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, 4.14 and 19 to the consolidated financial statements describe the estimates and assumptions that Air France-KLM's management was required to make regarding the impairment tests of tangible and intangible assets. We have examined the data and assumptions on which these impairment tests were based as well as the procedures for implementing impairment tests, as described in the notes. 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 19, 2015

The Statutory Auditors

KPMG Audit		Deloitte et Associés	
A division of KPMG S.A.			
Jean-Paul Vellutini	Eric Jacquet	Pascal Pincemin	Guillaume Troussicot
Partner	*Partner*	*Partner*	*Partner*

This is a free translation into English of the Statutory Auditors' reports on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers.

The Statutory Auditors' report includes information specifically required by French law in such report, whether qualified or not. This information is presented below the audit opinion on consolidated financial statements and includes explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

5.8 Statutory financial statements

Year ending December 31, 2014

5.8.1 Income statement and balance sheet

Income statement

Period from January 1 to December 31 *(In € million)*	**Notes**	**2014**	**2013**
Operating income	2	38	19
External expenses	3	(30)	(25)
Salaries and related costs		(2)	(1)
Other expenses		(1)	-
Total operating expenses		(33)	(26)
Income from current operations		***5***	***(7)***
Financial income		62	50
Financial expenses		(190)	(377)
Net financial income	***4***	***(128)***	***(327)***
Earnings before tax and non-recurring items		***(123)***	***(334)***
Non-recurring income		-	8
Non-recurring expenses		-	-
Non-recurring income/(loss)		***-***	***8***
Income tax	5	12	4
Net income/(loss)		**(111)**	**(322)**

Balance sheet

Assets *(In € million)*	**Notes**	**December 31, 2014**	**December 31, 2013**
Long-term investments	6	4,668	3,927
Loans & receivables related to long-term investment	6-10	764	774
Fixed assets		***5,432***	***4,701***
Trade receivables	10	22	29
Other receivables	10	32	31
Marketable securities	7	988	1,350
Cash		178	148
Prepaid expenses		1	1
Current assets		***1,221***	***1,559***
Amortisation of capital expenses		16	8
Bond redemption premium		7	4
Total Assets		**6,676**	**6,272**

Liabilities & equity *(In € million)*	**Notes**	**December 31, 2014**	**December 31, 2013**
Capital	8.2	300	300
Additional paid-in capital		2,971	2,971
Legal reserve		70	70
Reserves		413	735
Income for the year		(111)	(322)
Shareholders' equity	***8.2***	***3,643***	***3,754***
Financial debt	9	3,001	2,485
Trade payable:	10	10	11
including trade payables and related accounts		*9*	*10*
including tax security and social debts		*1*	*1*
Other liabilities		22	22
Liabilities	***10***	***3,033***	***2,518***
Total Liabilities & equity		**6,676**	**6,272**

5.8.2 Notes

The following information constitutes the notes to the financial statements for the year ended December 31, 2014. 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, 2014.

Unrealized losses and gains are recognized as assets and liabilities on the balance sheet. Provisions are established for unrealized losses, except for the following cases:

- transactions where the currency and the term contribute to an overall positive currency position and;
- currency hedging contracts concerning the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount.

Dividends received

Dividends are recognized – when they are approved by the competent bodies in the companies (*i.e.:* the Board of Directors or the General Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2 Other income

This primarily involves royalties of €17 million paid by Air France and KLM at December 31, 2014 to use the "Air France-KLM" brand (€18 million as of December 31, 2013). It also includes the provision of services paid by Air France and KLM for €20 million.

3 External expenses

Period *(In € million)*	**2014**	**2013**
Fees and surveys	6	9
Insurance	2	2
Sub-contracting and rents re-invoiced by Air France and KLM	20	10
Financial communication	2	3
Other	1	1
Total	**31**	**25**

During the financial year, the teams assigned to Air France-KLM holding company were still reinforced with additional staff. They represent 47 full time equivalent seconded from Air France and 25 full-time equivalent seconded from KLM. As a result the amount of sub-contracting re-invoiced by Air France and KLM increased.

4 Financial income

This section regroups interest paid or received, currency losses and gains, and allocations and write-backs of financial provisions. The break-down is as follows.

Period *(In € million)*	**2014**	**2013**
Interests on loans and other financial expenses(1)	(167)	(156)
of which related companies	*(26)*	*(29)*
Financial income from equity investment	8	1
of which related companies	*8*	*1*
Interests received on loans	36	32
of which related companies	*36*	*30*
Other financial income(2)	16	16
of which related companies	*6*	*6*
Allocation to provisions(3)	(23)	(221)
Reversal of provisions on treasury shares	2	1
Total	**(128)**	**(327)**

(1) Of which interest on OCEANEs amounting to €(44) million at December 31, 2014 and €(41) million at December 31, 2013 , on bonds amounting to €(87) million at December 31, 2014 and €(79) million at December 31, 2013, commission on the guarantees granted by Air France and KLM amounting to €(26) million at December 31, 2014 and €(29) at December 31, 2013, cost of the sale to a bank of the tax receivable of the tax group for the CICE 2013 and 2014 amounting to €(4) million.

(2) Of which €10 million of income in respect of investment in mutual funds and certificates of deposit certificates at December 31, 2014 and €10 million at December 31, 2013 (see Note 7).

(3) Of which €(21) million on Compagnia Aerea Italiana SpA shares at December 31, 2014 and €(221) million in shares in this company at December 31, 2013.

5 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 in the tax consolidation scope paid a tax consolidation bonus of €12 million to Air France-KLM for this financial year (€4 million on the previous financial year).

6 Long-term investments

6.1 Net book value

(In € million)	Beginning of year	Acquisitions Capital increases	Transfer	Provision Variation	End of year
Equity investments	4,238	-	760[2]	-	4,998
Loans & receivables related to long term investment	774	750[1]	(760)[2]	-	764[3]
Other long-term investments	75	-	-	-	75
Gross amount	**5,087**	**750**	**-**	**-**	**5,837**
Depreciation	***(386)***	***-***	***-***	***(19)***	***(405)***
Net amount	**4,701**	**750**	**-**	**(19)**	**5,432**

(1) Net increases of loans & receivables related to long term investment granted to Air France, KLM, Air France-KLM Finance, and Transavia company.
(2) On July 24th, 2014, increase of Air France share capital compensated by loans and receivables related to long term investment owned from this entity.
(3) See Note 9.

6.2 Equity investments

Companies *(In € million)*	Gross value at beginning of year	Transfers or Acquisitions	Sales	Gross value at end of year
Air France	3,060	760	-	3,821
KLM	817	-	-	817
Compagnia Aerea Italiana SpA[1]	356	-	-	356
Air France-KLM Finance	5	-	-	5
Transavia Company	-	-	-	-
Total	**4,238**	**760**	**-**	**4,998**

Companies *(In € million)*	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Compagnia Aerea Italiana SpA[1]	(334)	(22)	-	(356)
Impairment	***(334)***	***(22)***	***-***	***(356)***
Net Value	**3,904**	**738**	**-**	**4,642**

(1) Compagnia Aerea italiana SpA shares are fully impaired.

6.3 Other financial investments

(In € million)	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	75	-	-	75
	Provision at beginning of year	**Allocation**	**Reversal**	**Provision at end of year**
Impairment on treasury shares	(52)	-	2	(50)
Net Value	**23**	**-**	**2**	**25**

7 Marketable securities

(In € million)	December 31, 2014 Net carrying amount	December 31, 2013 Net carrying amount
Mutual funds, certificates of deposit & marketable term notes	988	1,349
Money market fund[(1)]	-	1
Total	**988**	**1,350**

(1) Cash invested as part of a liquidity agreement, subscribed with a bank.

The net carrying amount for the mutual funds and certificates of deposit is the market value.

8 Shareholders' equity

8.1 Distribution of share capital and voting rights

The issued capital comprises 300,219,278 fully paid-up shares with a nominal value of one euro. Each share confers one voting right.

It is as follows:

	% of capital		% of voting rights	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
French State	16%	16%	16%	16%
Employees and former employees[(1)]	7%	7%	7%	7%
Treasury stock	1%	1%	-	-
Public	76%	76%	77%	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 have been converted, of which 510 into 525 new shares during 2007-08 financial year. Between January 1, 2014 and December 31, 2014, 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 9 for comments on other OCEANE.

8.2 Statement of changes in shareholders' equity

(In € million)	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2012	***300***	***2,971***	***921***	***(116)***	***4,076***
Allocation of earnings	-	-	(116)	116	-
Earnings for the period	-	-		(322)	(322)
At December 31, 2013	***300***	***2,971***	***805***	***(322)***	***3,754***
Allocation of earnings	-	-	(322)	322	-
Earnings for the period	-	-	-	(111)	(111)
At December 31, 2014	***300***	***2,971***	***483***	***(111)***	***3,643***

9 Financial debt

(In € million)	December 31, 2014	December 31, 2013
Non-current financial debt		
OCEANE (convertible bonds)	550	1,211
Bonds	1,706	1,200
Total non-current debt	**2,256**	**2,411**
Current Financial debt		
OCEANE (convertible bond)	661	-
Accrued interest	84	74
Total current debt	**745**	**74**
Total	**3,001**	**2,485**

On June 26, 2009, Air France-KLM issued 56,016,949 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on April 1, 2015 for a total amount of €661 million (see Note 10). As of December 31, 2014, no OCEANE has been converted during the 2014 financial year. The conversion ratio is one Air France-KLM share for one bond.

Each bond has a nominal value of €11.80 and the annual coupon is 4.97%.

This OCEANE will be reimbursed to investors on April 1st, 2015.

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 canceled by Air France-KLM, as part of a bid intermediate and the issuance of new bonds (see below). After this operation, the par value of the bond issued in 2009 is about €606.2 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%. The conversion ratio is one Air France-KLM share for one bond. As of December 31, 2014, no OCEANE has been converted during the 2014 financial year.

On June 18, 2014, Air France-KLM issued €600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%.

Some of the proceeds were used to issue loans to Air France, to KLM, to Air France-KLM Finance and Transavia company. As of December 31, 2014 these loans amount to €123 million with Air France, €521 million with KLM, €89 million with Air France-KLM Finance and €31 million with Transavia company (See Note 6.1).

10 Maturity of trade receivables and trade payables

As of December 31, 2014 *(In € million)*	**Gross amount**	**Up to one year**	**More than one year**	**Related companies**
Trade receivables				
Non-current assets				
Loans and receivables related to long-term investment	764	308	456	764
Current assets				
Trade receivables and related accounts	22	22	-	21
Other receivables (including tax receivables)(1)(2)	32	32	-	15
Total	**818**	**362**	**456**	**800**

(1) Of which €6 million as accrued income with related companies and €7 million on December 31, 2013.
(2) The €64 million CICE 2014 tax receivable of the tax group was sold to a bank, thus this receivable has been withdrawn from assets.

(In € million)	**Gross amount**	**Up to one year**	**More than one year**	**Related companies**
Trade payables				
Financial debt(1)	3,001	745	2,256	-
Trade payables and related accounts	10	10	-	5
Other payables	22	22	-	22
Total	**3,033**	**777**	**2,256**	**27**

(1) See Note 9.

This amount includes € 84 million of accrued interests (€74 million at December 31, 2013).

11 List of subsidiaries and equity investments

Companies or Groups of companies *(In € million)*	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held Gross	Net	Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for last financial year	Net profit or loss for last financial year	Dividends booked during financial year
Detailed information about individual investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France)[1]	127	(287)	100%	3,820	3,820	123	21	14 337	(156)	
KLM (Netherlands)[1]	94	(85)	99.1%	817	817	561	-	9 643	341	8
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA[2]	358	N/A	1,11%	356	0					-

(1) Statutory financial statements at December 31, 2014

(2) After the participation by Etihad Airways in the capital increment of Alitalia, the share participation of Air France-KLM has been diluted from 7.08 per cent as at December 31, 2013 to 1.11 per cent as at December 31, 2014. After this operation, the Group is not a member anymore of the Board of the new Alitalia SAI.

12 Estimated value of the portfolio

(In € million)	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	3,060	3,060	3,820	3,820
KLM	817	817	817	817
Compagnia Aerea Italiana SpA	356	22	356	0

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.

13 Items concerning related companies

(In € million)		**Amount**
Trade receivables & related accounts		
of which	*Air France*	*2*
	KLM	*19*
Other receivables		
of which	*Air France*	*5*
	KLM	*1*
	Air France Finance	*6*
	Air France-KLM Finance	*1*
	Others	*2*
Trade payables and related accounts		
of which	*Air France*	*3*
	KLM	*2*
Other payables		
of which	*Servair*	*8*
	Acna	*3*
	CPA	*3*
	Régional	*3*
	Brit Air	*1*
	OAT	*1*
	Other	*2*

14 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 occured 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-KLM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (*i.e.* a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

Other

Since January 2009, Air France-KLM has acted as a guarantor for Société Air France within the framework of its commitments to Aéroport de Paris in respect of civil leases. This guarantee has been renewed in July 2014.

The guarantee is now expressly limited to €21 million.

15 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 and the Swiss anti-trust authority, which are still pending.

In Europe, Air France, KLM and Martinair have filed an appeal before the EU General Court against the 2010 EU Commission decision.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court.

In South Korea, the procedure is definitely closed: in December 2014, the Supreme Court confirmed the fines against Air France and KLM for a total of approximately €7 million but dismissed the action against Air France-KLM and accordingly decided the annulment of the fine against Air France-KLM.

16 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, Korea and United States) 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 maximum potential loss that would be incurred if the outcome of these proceedings were to be 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.

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

a) KLM minority shareholders

On December 31, 2012, one KLM minority shareholder filed a request with the Enterprise Chamber of the Amsterdam Court of Appeal to order an enquiry into KLM’s dividend policy from 2004-05 to 2010-11. The Enterprise Chamber upheld such order and an inquiry is now being performed although KLM has filed an appeal against such decision.

b) Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight, 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 15, the Group is not aware of any governmental, judicial and arbitration dispute or proceedings 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.

17 Subsequent events

None.

5.9 Five-year results summary

Year ended 31	December 2014 *12 months*	December 2013 *12 months*	December 2012 *12 months*	December 2011 *9 months*	March 2011 *12 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	130,459,042	130,459,042	77,070,585	78,617,176	78,617,611
♦ 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	(103,207)	(104,303)	(67,637)	(41,836)	(116,649)
Income tax	(12,273)	(3,779)	(4,947)	(3,938)	(3,712)
Employee profit-sharing for the year	-	-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(111,263)	(322,275)	(116,429)	(111,893)	(69,343)
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	(0.30)	(0.33)	(0.23)	(0.13)	(0.39)
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(0.37)	(1.07)	(0.39)	(0.37)	(0.23)
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, 2014

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, 2014, 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, 2014 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2 Justification of our assessments

The accounting estimates used in the preparation of the financial statements were made in a context of an economic downturn raising certain difficulties to apprehend future economic perspectives. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French commercial Code *(Code de commerce):*

- Note 1 to the financial statements outlines the accounting rules and methods relating to the recognition and measurement of long-term investments. As part of our assessment of the company's accounting policies, we verified the appropriateness of the aforementioned accounting methods and the information provided in Notes 6, 11 and 12 to the financial statements and satisfied ourselves as to their correct application;
- Notes 15 and 16 to the financial statements describes the nature of the anti-trust litigations to which Air France-KLM is exposed. Our work consisted in verifying that the information disclosed in these notes was appropriate.

These assessments were made as part of our audit of the financial statements, taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 Specific verifications and information

We have also performed the specific verifications required by French law, in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code *(Code de commerce)* relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, when applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, February 19, 2015
The Statutory Auditors

KPMG Audit		**Deloitte et Associés**	
A division of KPMG S.A.			
Jean-Paul Vellutini	Eric Jacquet	Pascal Pincemin	Guillaume Troussicot
Partner	*Partner*	*Partner*	*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

Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2014.

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby present to you our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code *(Code de commerce),* to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors *(Compagnie nationale des Commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

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, February 19, 2015

The Statutory Auditors

KPMG Audit		Deloitte et Associés	
A division of KPMG S.A.			
Jean-Paul Vellutini	Eric Jacquet	Pascal Pincemin	Guillaume Troussicot
Partner	*Partner*	*Partner*	*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.

6

Other information

6.1 History

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM trans-Atlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

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.

1959-60

Arrival of the jet era: Air France brings the first Caravelles and Boeing 707s into service, reducing the duration of the Paris-New York flight to eight hours. KLM brings its first Douglas DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-71

The Boeing B747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-82

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 Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001

Open Sky agreement signed between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

2002

SkyTeam is the only alliance in the world to benefit from antitrust immunity on its trans-Atlantic and trans-Pacific routes.

Creation of Air France-KLM, the leading European air transport group

2003

September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004

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.

2005-06

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.

2006-07

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2007-08

Air France-KLM is delisted from the New York Stock Exchange and trading in its ADR program transfers to the OTCQX market.

2008-09

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.

2009-10

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 12 crew members on board.

In April, Air France, KLM and Delta implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.

2010-11

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.

6.2 General information

Corporate name

Air France-KLM

Registered office

2, rue Robert-Esnault-Pelterie, 75007 Paris

Mailing address

BP 90112

75326 Paris Cedex 07

Legal status

French public company *(société anonyme)* with a Board of Directors

Legislation

French law.

Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003, relating to air transport companies and notably Air France. The law of April 9, 2003 introduced a provision in the Civil Aviation Code designed to safeguard the nationality of air transport companies whose shares are listed for trading on a regulated market.

Incorporation and expiry dates

Incorporated on: April 23, 1947.

Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the Articles of Incorporation)

The primary purpose of Air France-KLM is to hold direct or indirect interests in the capital of air transport companies and, more generally, in any companies in France or elsewhere whose purpose is related to the air transport business.

Trade register

Paris Trade and Company Register: 552,043,002

APE code: 6420Z

Consultation of legal documents

The legal and corporate documents relating to Air France-KLM may be consulted at the company's head office situated at 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 Shareholders' Meetings *(See also Section 1 – Corporate governance, page 7 and Section 5.11 – Statutory Auditors' special report on regulated agreements and commitments, page 280).*

6.3 Information relating to the share capital

6.3.1 Share capital

At December 31, 2014, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares with a nominal value of one euro, held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

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

Financial year ended	Total capital *(In €)*	Number of shares
December 31, 2012	300,219,278	300,219,278
December 31, 2013	300,219,278	300,219,278
December 31, 2014	300,219,278	300,219,278

Autorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2013 authorized the Board of Directors, for a period of 26 months from the date of the meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital. At December 31, 2014, the company had not used these authorizations.

Nature of the operation	Maximum amount of issuance	Balance available at December 31, 2014
1. Capital increase *via* the issue of shares or other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
2. Capital increase *via* the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an obligatory priority subscription right	€60 million	€60 million
3. Capital increase *via* the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an optional priority subscription right (authorization limited to issuance by the company or one of its subsidiaries of securities conferring rights to the share capital and issuance of shares within the framework of public exchange offers)	€45 million	€45 million
4. Increase in the amount of the initial issue in the event of a capital increase without preferential subscription rights	15% of the initial issue	
5. Capital increase by capitalization of reserves and premiums	€120 million	€120 million

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

New authorizations will be submitted to the Combined Ordinary and Extraordinary Shareholders' Meeting of May 21, 2015.

6.3.2 Securities conferring entitlement to shares

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

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

Further to the payment of dividends from the *other reserves* account in respect of the financial year ended March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-20 issue contract. The 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, 2014 stood at 20,449,146 with no bond conversions having taken place in 2014.

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

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At December 31, 2014, 9,072 bonds had been converted into existing shares, reducing the number of bonds in circulation to 56,007,877.

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, 2014, 9,513 bonds had been converted into existing shares, reducing the number of bonds in circulation to 53,388,545.

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

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

Since the ending of the liquidity agreement in 2014 (having been suspended since March 2012), the aims of the buyback program have been the remittance of shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees and senior executives and, lastly, the retention and future allocation of these shares in an exchange or in payment for an acquisition.

During the 2014 financial year, the Group neither purchased nor sold Air France-KLM shares within the framework of these authorizations.

As of December 31, 2014, Air France-KLM held 4,179,804 of its own shares, *i.e.* 1.4% of the share capital, including 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €33.3 million at December 31, 2014.

Transactions realized between January 1 and December 31, 2014 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at December 31, 2013	**-**	**2,949,203**	**2,949,203**
Shares purchased			
Number of shares	-	-	-
Average purchase price *(in €)*	-	-	-
Use			
Number of shares	-	-	-
Average sale price *(in €)*	-	-	-
Number of shares at December 31, 2014	**-**	**2,949,203**	**2,949,203**

6.3.4 Air France-KLM shareholder structure

Changes in the shareholder structure

	% of share capital			% of voting rights		
Financial year ended	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**	**December 31, 2014**	**December 31, 2013**	**December 31, 2012**
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	296,039,574	296,039,574	296,029,873
French State	15.9	15.9	15.9	16.1	16.1	16.1
Employees (FCPE)	6.8	7.2	7.6	7.0	7.3	7.7
Treasury stock	1.4	1.4	1.4	-	-	-
Others	75.9	75.5	75.1	76.9	76.6	76.2

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

Shareholder analysis

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

The TPI (identifiable bearer shares) analysis as at December 31, 2014, was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 500 shares. Including the registered shares, the holders of 98.1% of the capital were identified. Based on the TPI analysis of December 31, 2014, restated pursuant to Article 14 of the Articles of Incorporation which defines French nationality, Air France-KLM is more than 50% held by French shareholders.

Financial year ended	Number of shares December 31, 2014	December 31, 2013	December 31, 2012	% of the share capital December 31, 2014	December 31, 2013	December 31, 2012
French State	47,663,693	47,663,693	47,665,899	15.9	15.9	15.9
Employees	20,454,150	21,621,222	22,856,906	6.8	7.2	7.6
French individual shareholders	44,235,517	55,778,590	59,220,392	14.7	18.6	19.7
Resident institutions	57,978,825	47,589,014	55,182,528	19.3	15.8	18.4
Non-resident institutions	129,884,887	127,566,759	115,293,553	43.3	42.5	38.4

At December 31, 2014, Air France-KLM was 57.7% owned by French interests (57.5% at December 31, 2013) and 73.3% by European institutions (75.2% at December 31, 2013). The principal European countries are the United Kingdom (9.8%), the Netherlands (0.4%), Switzerland (1.1%) and Germany (1.0%). North American institutions hold 19.8% of the share capital (19.6% at December 31, 2013) of which 21.7 million shares in ADR form (21.8 million at December 31, 2013).

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 €)*
2011 (12 months to December 31)	(2.73)	-
2012 restated for IAS 19R	(4.14)	-
2013	(6.17)	-

Given the difficult economic environment in recent years, the Board of Directors decided not to propose a dividend payment in respect of recent financial years. For the 2014 financial year, the Board of Directors again opted not to propose a dividend payment.

6.3.5 A regular dialogue with individual shareholders and investors

The Air France-KLM Group keeps the market informed on its activity through monthly traffic figures and quarterly updates on the trend in its results and strategic orientations. While the Group adapts its communication to the profile of its shareholders and investors, all the information is available on the financial website www.airfranceklm.com in both French and English.

Relations with investors

The Investor Relations Department maintains a regular dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled to coincide with results announcements, the Group's management remains in regular contact with financial analysts and institutional investors through road-shows and transport conferences in Europe and the United States. Investor Days are regularly organized to enable the latter to meet the Group's operational management.

On the occasion of the seventh Investor Relations Forum, the annual event for French professionals in the field of investor relations and financial communications, the Group won the Silver Award for the "Best Investor Relations, All Categories".

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 email or mail to the 6,000 members of the Shareholders' Club. This newsletter is also available in French and English on the website.

The Group regularly participates, in partnership with the business press, in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to update them on its strategy, results and issues in the airline 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 12 members, the committee meets five times a year including one meeting devoted to planning the Shareholders' Meeting.

In December 2014, the weekly magazine Le Revenue awarded the Group a number of prizes for its relations with individual shareholders. In the "SBF120 outside the CAC40" category Air France-KLM won the Super Silver Award for shareholder relations, the Gold Award for the best Shareholders' Meeting and the Silver Award for the best website.

In July 2014, Air France-KLM had already won accolades for the quality of its AGM organization, winning second prize in the Annual General Meeting Grand Prix in the SBF120 outside the CAC40 category. The jury for this Capitalcom-managed event notably highlighted the educational approach to communication on the Group's businesses and the attention paid to individual and employee shareholders.

6.3.6 Legal and statutory investment thresholds

Pursuant to the option provided in Article L. 233-7 of the French Commercial Code, Article 13 of the Air France-KLM Articles of Incorporation stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof, must notify Air France-KLM by registered mail with acknowledgement of receipt within 15 days of the date on which the threshold is exceeded.

Notice must be given under the same conditions each time a further 0.5% of the capital or voting rights is acquired or disposed up to 50%.

In the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder (whether acting alone or in concert) acquiring more than 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 and the French securities regulator, the *Autorité des marchés financiers* (AMF), no later than four trading days after the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 5%, 10%, 15%, 20% and 25% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF within five stock market trading days of its intentions for the next six months. This notification is subject to the conditions and sanctions set forth in Article L. 233-14 of the French Commercial Code.

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

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
The Capital Group Companies	December 31, 2014	20,573,795	6.85	I
Donald Smith & Co	July 3, 2013	17,420,607	5.80	I
Rothschild & Cie Gestion	March 6, 2015	15,041,742	5.01	I
DNCA Finance	January 12, 2015	12,256,420	4.08	I
Marathon Asset Management	January 30, 2014	10,240,811	3.41	R
Amundi Asset Management	January 22, 2015	5,025,225	1.67	I
Edmond de Rothschild AM	July 9, 2014	4,757,764	1.59	I
OCH-ZIFF Capital Management	February 23, 2015	4,750,000	1.58	I
Dimensional Fund Advisors	September 24, 2014	4,469,425	1.49	R
Fintecna	March 31, 2008	4,395,618	1.46	I
S.W. Mitchell Capital	May 24, 2013	3,462,601	1.15	I
UBS London	April 4, 2013	3,137,830	1.05	I
Majedie Asset Management	December 16, 2014	3,105,514	1.03	-
Norges Bank Investment Management	September 5, 2011	3,055,759	1.02	I
Crédit Suisse	February 11, 2014	2,102,334	0.70	R
Groupama Asset Management	May 21, 2014	1,780,837	0.59	I
Axa Investment Managers	March 11, 2015	1,511,730	0.50	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 of April 9, 2003, listed French air transport companies are authorized to include a provision in their Articles of Incorporation allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM Articles of Incorporation set the conditions under which the Board of Directors can or must decide either to reduce the 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 Association 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 15 of the Air France-KLM Articles of Incorporation stipulates the information that Air France-KLM must publish and circulate to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality. Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to safeguard its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the Civil Aviation Code. The terms for setting the sale price (market price) are foreseen by this same Code.

6.4 Information on trading in the stock

6.4.1 Air France-KLM in the stock market

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. It is a 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 PA.

The OCEANE 2.75% 2020 is listed for trading under the ISIN code FR0010185975, the OCEANE 4.97% 2015 under the ISIN code FR0010771766 and the OCEANE 2.03% 2023 under the ISIN code FR0011453463, all on Euronext Paris.

6.4.2 Stock market performance

As a cyclical stock positioned in a volatile market under the influence of the economic crisis affecting, in particular, the euro zone, the Air France-KLM share price rose by 21% during the first half of 2014 before falling by 13% during the second half, resulting in an overall increase of 5% for 2014 compared with a 1% decline in the CAC 40. During the first three months of 2015, the Air France-KLM stock gained 2% (+17% for the CAC 40).

	2014	2013	2012
Share price high *(in €)*	11.945	8.950	7.596
Share price low *(in €)*	5.932	5.464	3.011
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at December 31 *(in €bn)*	2.4	2.3	2.1

6.4.3 Transactions in Air France-KLM shares in the past 18 months

Air France-KLM share

Euronext Paris Shares	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume	Amount *(In €m)*
2013						
September	21	6.696	7.390	5.464	128,902,810	859.0
October	23	7.546	7.900	7.205	79,032,611	595.8
November	21	7.342	7.747	7.030	57,022,312	419.3
December	20	7.327	7.667	7.124	32,612,765	239.2
2014						
January	22	8.669	9.440	7.490	96,298,677	840.6
February	20	9.001	10.100	8.190	73,254,632	659.8
March	21	10.399	10.945	9.519	73,733,157	763.4
April	20	11.244	11.945	10.286	54,212,148	607.1
May	21	10.624	11.240	9.954	39,272,322	414.9
June	21	10.519	11.915	9.133	80,623,157	835.0
July	23	8.763	10.035	8.060	83,847,782	738.6
August	21	7.755	8.359	6.889	73,653,796	566.6
September	22	8.104	8.790	7.360	85,098,233	681.7
October	23	6.598	7.367	5.680	146,591,685	955.9
November	20	7.333	8.730	6.760	74,489,452	554.7
December	21	8.078	8.890	7.300	74,377,829	600.6
2015						
January	21	7.775	8.500	7.310	76,386,730	596.1
February	20	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 days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2013					
September	21	-	-	-	-
October	23	19.475	19.530	19.420	600
November	21	-	-	-	-
December	20	19.420	19.420	19.420	500
2014					
January	22	21.450	21.450	21.450	110
February	20	20.173	21.000	19.260	2,081
March	21	20.780	20.990	20.570	581
April	20	-	-	-	-
May	21	-	-	-	-
June	21	21.500	21.500	21.500	2.500
July	23	-	-	-	-
August	21	-	-	-	-
September	22	-	-	-	-
October	23	-	-	-	-
November	20	-	-	-	-
December	21	20.500	20.500	20.500	100
2015					
January	21	-	-	-	-
February	20	-	-	-	-

Source: Market Map.

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

	Trading days	Average price (In €)	Trading range (In €) High	Trading range (In €) Low	Volume
2013					
September	21	12.362	12.550	12.200	59,534
October	23	12.644	12.850	12.360	56,173
November	21	12.545	12.710	12.410	19,701
December	20	12.604	12.810	12.150	13,306
2014					
January	22	12.913	13.280	12.450	18,129
February	20	12.829	13.390	12.470	11,053
March	21	13.267	13.550	12.290	141,089
April	20	13.046	13.550	12.460	15,997
May	21	12.706	12.990	12.400	17,769
June	21	12.507	13.500	12.320	29,169
July	23	12.249	12.470	12.070	4,216
August	21	12.134	12.470	12.000	4,571
September	22	12.232	12.320	12.200	4,054
October	23	12.150	12.250	12.020	17,475
November	20	12.321	12.800	12.080	23,652
December	21	12.291	12.350	12.260	11,031
2015					
January	21	12.242	12.350	12.210	4,879
February	20	12.339	12.500	12.240	12,238

Source: Market Map.

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

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2013					
September	21	9.878	10.500	9.300	4,466
October	23	10.347	10.770	9.710	18,004
November	21	10.506	10.700	10.210	13,950
December	20	10.396	10.740	10.190	2,998
2014					
January	22	11.143	12.240	10.340	17,819
February	20	11.976	13.020	11.270	6,116
March	21	12.853	13.240	12.220	2,735
April	20	13.130	13.890	12.370	13,976
May	21	12.880	13.240	12.360	267
June	21	13.443	14.000	12.560	5,326
July	23	12.240	12.640	11.850	2,590
August	21	11.560	11.820	11.050	370
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

Source: Market Map.

6.5 Information on the agreements concluded in connection with the business combination between Air France and KLM

In connection with the agreements signed in 2004 between Air France and KLM for the creation of the Air France-KLM holding company, agreements were concluded with various stakeholders, some of whose provisions continue to apply.

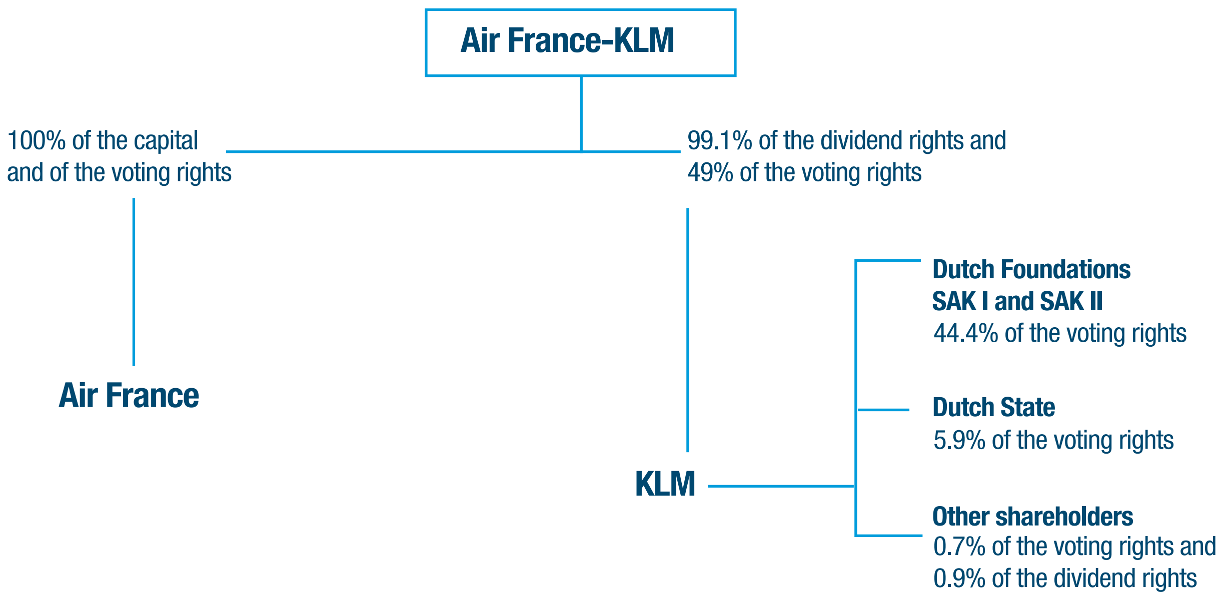
6.5.1 Agreements relating to the KLM shareholding structure

Holding of shareholder voting rights by two Dutch foundations

To continue to fulfill certain regulatory conditions relating to KLM flight operations, a provision to separate the economic rights on KLM shares from their voting rights, and the exercise of the voting rights attached to these shares by two Dutch foundations (SAK I and SAK II) was implemented in 2004.

At December 31, 2014, within the framework of this provision which continues to apply, Air France-KLM held 93.4% of the economic rights, 99.1% of the dividend rights and 49% of the voting rights in KLM, the Dutch foundations holding a combined 44.4% of the voting rights.

Furthermore, at December 31, 2014, the Dutch State held 5.9% of KLM's voting rights while the remaining minority shareholders held 0.7% of the KLM voting rights and 0.9% of the dividend rights.



In General Shareholders' Meetings, the two Dutch foundations, SAK I and SAK II, exercise the voting rights they hold subsequent to decisions taken unanimously by the three Board directors constituting their Boards of Directors, it being stipulated that these Board directors must act in accordance with the corporate governance principles defined in the agreements for the business combination between KLM and Air France, and in the best interests of KLM, Air France-KLM and its shareholders.

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 as Chairman, is appointed by the first two, it being stipulated that the majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be Dutch nationals and reside in the Netherlands.

Unilateral termination option for Air France-KLM at any time

Initially established in 2004 for a three-year period, the two SAK I and SAK II foundations were maintained for an unspecified period with the same purpose by a 2007 agreement. However, this agreement stipulates that Air France-KLM may, at any time after May 6, 2007 and at its sole discretion, terminate this administered shareholding structure through SAK I and SAK II for KLM shares and proceed to consolidate the economic rights and voting rights on the shares, thereby holding 93.4% of KLM's voting rights.

6.5.2 Agreements with the Dutch State

To enable the business combination to proceed and safeguard KLM's traffic rights, airline status and the scale of its network and operations at Schiphol, Air France and KLM concluded the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under whose terms the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France-KLM. As such, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I in the name and for the account of Air France-KLM as long as this foundation is maintained. In the second case, SAK I will issue share certificates for Air France-KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France-KLM the economic right attached to these shares, *i.e.* a right to a dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France-KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were sold by the Dutch State to SAK I for the account of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period (2004 to 2007), Air France-KLM had the right to exchange the share certificates for the cumulative preferential A shares, and to hold the shares directly. 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 within the framework of the abolition of the foundations, something that Air France-KLM is free to decide at any time and at its sole discretion.

The Dutch State also benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France-KLM at any time.

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 gave the Dutch State, for an initial eight-year period starting from the realization of the business combination (*i.e.* 2012), a number of different assurances as to KLM's airline status, its 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.

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 concluded on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to prolong 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 indeterminate period, subject to Air France-KLM's right to terminate this, at its sole discretion, with nine months' notice.

Mechanism to ensure the respect of the assurances

Air France and KLM set up a Dutch foundation, known as the "Fondation des Assurances" (duration extended in 2010) to facilitate the formation of binding advices on the interpretation of the assurances given to the Dutch State. These binding advices are issued by a Fondation des Assurances KLM Committee in the event that any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France-KLM Board of Directors appear to contravene the assurances given to the Dutch State.

When giving its advice, the Fondation des Assurances KLM must act in the best interests of KLM, the Air France-KLM Group and its shareholders.

The Committee is composed of three members

- one appointed by Air France-KLM;
- one appointed by the Dutch State; and
- one appointed by the two first members and a Board member of the Fondation des Assurances KLM appointed by KLM who is not a Committee member, it being stipulated that the member appointed by Air France-KLM has a double voting right for the appointment of the third Committee member.

The submission of a case to the Foundation's Committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors may only be made by the Dutch State with regard to the assurances given to it.

If the Committee of the Fondation des Assurances KLM issues a mandatory notice indicating that the decision submitted to it contravenes the assurances given, the KLM Supervisory Board, the KLM Management Board or the Air France-KLM Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The Committee takes decisions based on a majority vote.

At December 31, 2014, no cases had been submitted to the Foundation's 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 the mandates issued by the Council of Ministers, the European Union and its Member States have signed air transport agreements with the following third-party countries:

- United States. The agreement signed in April 2007 was amended by a protocol of June 2010 enabling, notably, European airlines to operate an unlimited number of flights, aircraft and routes to the United States from any European airport with the freedom to set prices, and to operate their services within the framework of cooperation agreements with partners of their choice. This agreement does not change the US rules on ownership and control and, similarly, cabotage remains forbidden;
- Canada. The agreement signed in December 2009 offers EC carriers similar opportunities to those figuring in the agreement with the United States and also includes the same restrictions;
- 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.

Passenger rights

Passenger rights in the European Union relating to flight delays, cancellation and refused boarding are defined by EC Regulation no. 261/2004 which came into force in 2005 and applies to all flights, whether scheduled or unscheduled, departing from an airport located in a Member State of the European Union. The regulation establishes common European rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading. A new version of the regulation which is currently in the revision phase is expected during 2015 aimed at enabling a uniform application of the legislation within the European Union, clarifying a number of grey areas – particularly so-called "extraordinary" circumstances – and including different precedent cases of the Court of Justice of the European Union.

If a flight is overbooked, air carriers are encouraged to develop policies based on calling for volunteers to take a different flight. If this policy does not prevent boarding refusals, the passengers affected receive compensation. If a flight is cancelled, the air carrier's obligations are based on their ability to adequately inform their passengers. The earlier the passenger is informed, the fewer the constraints for the carrier.

If these obligations are not met (and in the absence of extraordinary circumstances), the passenger may claim compensation which currently varies between €250 and €600, based on the final destination mileage zone and the time period in which he or she was rescheduled. A passenger who is seated in a class lower than the reservation class benefits from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone.

If a flight is delayed for at least five hours, passengers may request the reimbursement of their tickets (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

In March 2013, the European Commission published a proposed revision to regulation 261/2004, aimed at balancing the text of the regulation in force and clarifying a number of provisions.

The principles of jurisprudence issued by the European Court of Justice since the entry into force of the regulation, and particularly the so-called "Sturgeon" ruling granting compensation for delays of more than three hours, were adopted in this draft. While it proposes to mitigate the consequences by adopting different thresholds triggering compensation (at least five hours) based on the distance of the flight, the Commission has introduced new obligations potentially leading to additional costs for air carriers (e.g. compensation for delays on connecting flights, limitation of the sequential usage rule on flight coupons, partial ban on the policy applied in the event of no-shows, etc.)

Furthermore, the application scope for this text covers all the EC carriers' flights (whereas only the flights of airlines in third-party countries on departure from the European Union are subject to the regulation). Some compensation provisions for delay, comprising an extra-territorial nature as proposed, may not even be applicable to non-European airlines, potentially compounding the distortion to competition already imposed by the original text. As a consequence, it seems vital to the European airlines that they should be taken into account in the revision of the regulation.

During the past seven years, thirty national regulations governing passenger rights have been implemented globally and others are expected to emerge in the coming months.

Limiting the proliferation of uncoordinated laws, whose extra-territorial influence and incompatibility with the existing international conventions could rapidly make them mutually contradictory and difficult to manage for carriers operating global networks, currently constitutes a challenge for the whole industry.

6.6.3 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 are exclusively a result of the acts of a third party.

Furthermore, with regard to compensation, the rule relating to the regional authority of courts has been extended.

The Chicago Convention (1944)

The Convention relating to international civil aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic airspace and their relations with one another.

Signed in December 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 191 signatory States in all areas of civil aviation.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification by making a distinction between everyday risk and terrorist risk.

The Tokyo Convention (1963)

The Tokyo Convention, in force since December 4, 1969, sets out the principles and establishes the procedures for handling offences against penal law (except those of a political nature and based on racial or religious discrimination) and acts endangering the safety of the aircraft or that of the persons and property on board.

One of the specific characteristics of this Tokyo Convention is that it recognizes certain powers and immunities of aircraft commanders, exonerating them, under certain conditions, from responsibility for any harm potentially caused to individuals committing such unlawful acts.

This Tokyo Convention (ratified by France in 1970) is currently the subject of a revision process within the ICAO.

6.6.4 Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. A European Regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). In Asia, the allocation of slots is generally done on the basis of recommendations made by IATA (Bangkok, Tokyo, Hong Kong, Singapore, etc.). In the United States, with the exception of New York and O'Hare Airport (Chicago) this procedure is replaced with a system based on the assignment of boarding gates.

For airports within the European Union, each Member State with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organisations and the airport authorities, designates a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

6.7 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 and 5, on pages 8 to 36, on pages 38 to 53, on pages 61 to 63, on pages 66 and 67, on pages 74 to 77, on pages 78 to 85, on pages 88 to 100, on pages 112 to 160, on pages 167 to 176, on page 277 and on pages 286 to 290, 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, 2014 are 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 this Registration Document filed with the AMF on April 8, 2014 under registration number D14-0311 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.

The consolidated financial statements for the financial year ended December 31, 2012 included in the Registration Document filed with the AMF on April 9, 2013 under registration number D.13-0314 were the subject of a Statutory Auditors' report figuring on pages 245 and 246.

Alexandre de Juniac,
Chairman and Chief Executive Officer

6.7.3 Statutory Auditors

Incumbent Statutory Auditors

Deloitte et Associés

185, avenue Charles-de-Gaulle – 92200 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 Shareholders' Meeting of July 8, 2010.

KPMG Audit

A division of KPMG S.A.
1, cours Valmy – 92923 Paris-La Défense 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 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 Shareholders' Meeting of July 8, 2010.

KPMG ID Audit

A division of KPMG S.A.
1, cours Valmy – 92923 Paris-La Défense Cedex
Starting date of first mandate: May 20, 2014
First appointed for a six-year period by the Shareholders' Meeting of May 20, 2014.

6.7.4 Person responsible for financial information

Bertrand Delcaire
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 (wwwairfranceklm.com) figure, notably:

- the 2014, 2013, 2012, 2011, and 2010-11 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 **176**.

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 171.

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 173.

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. The calculation method is detailed in Section 5.4, page 171.

EBITDAR

Earnings before interest, taxation, depreciation, amortization and operating leases. This metric facilitates comparison between companies with different aircraft financing policies. The calculation method is detailed in Section 5.4, page 171.

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 96.

Gearing ratio

The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the company's financial independence: the lower it is, the greater the company's room for manoeuvre.

IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN

International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

Net adjusted interest costs

Net interest costs are adjusted for the portion (34%) of operating leases deemed to be financial costs.

Net income, Group share

Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

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 **174**.

Revenues

Revenues corresponds to the total sales generated by the Air France-KLM Group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales (see note 4.6, page **189**.

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.

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17.	***Employees***	
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17.2.	Shareholdings and stock options	p. 9 to 22, p. 34, p. 223, p. 288 and 291
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18.	***Major shareholders***	
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19.	***Related party transactions***	***p. 254 and 255***
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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. 24, and p. 304*
25.	*Information on holdings*	*p. 217 and p. 262, p. 263, p. 270 and p. 274*

Information included by reference

Pursuant to Article 28 (EC) no. 809/2004, the following information is included by reference in this Registration Document:

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 and 72, 73 to 80, 82 to 94, 106 to 147, 155 to 158, 159 to 163,page 164 and pages 274 to 278.

2012 Financial Year

The Registration Document for the 2012 financial year was filed with the *Autorité des Marchés Financiers* on April 9, 2013 under the registration number D.13-0314. The consolidated financial statements are presented on pages 156 to 162 and the related Statutory Auditors' report on pages 245 and 246. The full statutory financial statements can be found on pages 247 and 258 and the related Statutory Auditors' certification on page 260. The selected financial information is presented on pages 2 and 3 of the Registration Document. The management report figures on page 4, pages 6 to 32, 34 to 44, 50 to 52, 55 and 56, 61, 62 to 63, 64 to 71, 74 to 95, 99 to 135, 146 to 149, 150 to 153, and 270 to 274.

Table of concordance for the annual financial report

This Registration Document contains all the elements of the financial report as referred to in 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.

Elements required	Page of the Registration Document
The annual statutory financial statements	p. 266 to 276
The Group's consolidated financial statements	p. 177 to 263
Management report	p. 4 and 5, p. 8 to 36, p. 38 to 53, p. 61 to 63, p. 66 to 67, p.74 to 77, p. 78 to 85, p. 88 to 100, p. 112 to 160, p. 167 to 176, p.277 and p.286 to 290
Certification by the person responsible for the annual financial report	p. 304
Statutory Auditors' report on the statutory financial statements	p. 278 to 279
Statutory Auditors' report on the consolidated financial statements	p. 264 and 266
Statutory Auditors' fees	p. 257
Report of the Chairman of the Board of Directors on internal control	p. 101 to 109
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. 110

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