AIRFRANCE KLM

Registration document 2011

including the annual financial report

Registration Document 2011

Air France-KLM

This Registration Document includes the annual financial report

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 Thursday April 19, 2012, pursuant to article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM for the information and convenience of English-speaking readers and has not been reviewed or registered with the AMF. No assurances are given as to the accuracy or completeness of this translation, nor any responsibility assumed for any misstatement or omission that may be contained therein. The French Document de Référence may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French Document de Référence, the French version shall prevail.

Selected financial information

Pursuant to article 28 of Regulation (EC) no.809/2004 of April 29, 2004, the review of the financial situation and results for the financial year ended March 31, 2011 figuring on pages 2 and 3 of the 2010-11 Registration Document, and the review of the financial situation and results of the financial year ended March 31, 2010 figuring on pages 2 and 3 of the 2009-10 Registration Document are incorporated by reference in this document (*see also Section 5 – Key financial indicators, page 143*). As a result of the change in financial year end from March 31 to December 31, the financial year spanned only nine months (April-December 2011). To facilitate understanding of the business, the Group opted to also present its results over the full calendar year 2011.

Revenues
(in € billion)

December 31, 2011 (12 months pro forma)	December 31, 2010 (12 months pro forma)	December 31, 2011 (9 months)	December 31, 2010 (9 months)	2010-11 Reported	2009-10 Reported
24.36	23.31	19.04	18.29	23.62	20.99

The uncertain economic environment together with the crises in Japan, the Middle East and Africa limited the increase in revenues over both the 12 months pro forma and nine months (+4.5% and +4.1% respectively).

Income/(loss) from operations
(in € billion)

December 31, 2011 (12 months pro forma)	December 31, 2010 (12 months pro forma)	December 31, 2011 (9 months)	December 31, 2010 (9 months)	2010-11 Reported	2009-10 Reported
(0.35)	0.03	0.05	0.53	0.12	(1.29)

The result from current operations was positive over the nine-month period but its level (€50 million) was insufficient to absorb the losses realised in the January-March 2011 quarter. The result from current operations over 12 months pro forma was consequently a €353 million loss.

Information by business

	2011 (12 months pro forma)		2010-11		2009-10	
	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	18.83	(375)	18.10	(44)	16.27	(918)
Cargo	3.14	(60)	3.16	69	2.44	(436)
Maintenance	1.04	110	1.03	143	0.96	81
Others	1.35	(28)	1.32	(46)	1.33	(12)

Over the 2011 financial year 12 months pro forma, in view of the economic environment, the air transport businesses were unable to increase their revenues sufficiently to absorb the steep rise in the fuel bill (+€904 million).

Net income/(loss), Group share

(in € billion)

December 31, 2011 (12 months pro forma)	December 31, 2010 (12 months pro forma)	December 31 2011 (9 months)	December 31, 2010 (9 months)	2010-11 Reported	2009-10 Reported
(0.81)	0.29	(0.44)	0.98	0.61	(1.56)

At December 31, 2010 (12 months pro forma), the net result, Group share had included a €1.03 billion gain realized on the IPO of Amadeus in the Madrid stock market.

Financial structure

(in € billion)

	December 31, 2011	December 31, 2010	2010-11 Reported	2009-10 Reported
Net debt	6.52	6.07	5.89	6.22
Consolidated stockholders' equity	6.09	7.03	6.91	5.42
Gearing ratio	1.07	0.86	0.85	1.15

Investments and financing

(in € billion)

	December 31, 2011 (12 months pro forma)	December 31, 2010 (12 months pro forma)	2010-11 Reported	2009-10 Reported
Gross investment in tangible and intangible assets	2.43	2.04	2.12	2.10
Financing	2.10	2.29	2.52	0.26
Free cash flow	(0.33)	0.25	0.40	(1.84)

Financing corresponded to operating cash flow, the proceeds on disposals of tangible and intangible assets and, for the year to December 31, 2010 (12 months pro forma), the €193 million of cash generated on the Amadeus transaction.

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Corporate governance

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1.1 The Board of Directors

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

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

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

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

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

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

1.1.1 Composition of the Board of Directors

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

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

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

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

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

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

Directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta

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

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

Other directorships and offices

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

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

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

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

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

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

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

Leo M. van Wijk

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

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

Other directorships and offices

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

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

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

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

* *Listed company.*

Maryse Aulagnon

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

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

Other directorships and offices

French companies

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

Non-French companies

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

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

French companies

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

Non-French company

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

Other

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

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

Patricia Barbizet

Chief Executive Officer and Director of Artémis

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

Other directorships and offices

French companies

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

Non-French companies

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

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

French companies

- Director of Fnac S.A. until May 2011;
- Director of Piasa until December 2008;
- Chairman of the Board of Directors of Piasa until May 2008;
- Chairman and Chief Executive Officer of Piasa until April 2007.

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

* *Listed company.*

Jean-François Dehecq

*Honorary Chairman of Sanofi-Aventis**

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

Other directorships and offices

French companies

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

Other

- Chairman of the Sanofi Espoir Corporate Foundation.

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

French companies

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

Other

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

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

* *Listed company.*

Jean-Marc Espalioux

Partner and Executive Chairman of Montefiore Investment

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

Other directorships and offices

French companies

- Member of the Supervisory Board of Foncière Inéa*;
- Member of the Supervisory Board of Homair Vacances*;
- Member of the Supervisory Board of Paprec SAS.

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

French companies

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

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

Peter Hartman

President and Chief Executive Officer of KLM

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

Other directorships and offices

Non-French companies

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

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

Non-French companies

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

Others

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

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

* *Listed company*

Jaap de Hoop Scheffer

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

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

Other directorships and offices

Non-French company

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

Others

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

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

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

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

Cornelis J.A. van Lede

Chairman of the Supervisory Board of Heineken (Netherlands)*

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

Other directorships and offices

French companies

- Director of L'Air Liquide*.

Non-French companies

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

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

Non-French companies

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

Others

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

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

* *Listed company*

Directors representing the French State

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

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

Jean-Dominique Comolli

Commissioner for State Holdings

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

Other directorships and offices representing the French State

French companies and public institutions

- Director of the SNCF;
- Director of EDF*;
- Member of the Areva* Supervisory Board;
- Director of France Telecom*;
- Director of the Fonds Stratégique d'Investissement;
- Director of the Établissement Public de l'Opéra Comique.

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

French companies and public institutions

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

Non-French companies

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

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

* *Listed company.*

Claude Gressier

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

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

Other directorships and offices representing the French State

Public institution
- Director of the SNCF.

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

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

Born July 2, 1943, Mr Gressier is a graduate of the École Polytechnique, attended the Institut des Sciences Politiques de Paris and is qualified as a general public works engineer.

Marie-Christine Saragosse

Chief Executive Officer of TV5Monde

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

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

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

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

Directors representing the employee shareholders

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

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

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

Bernard Pédamon

Representative of the flight deck crew

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

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

French company

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

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

Christian Magne

Representative of the ground staff and cabin crew

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

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

Directors whose mandates expired during the 2011 financial year

Pierre-Henri Gourgeon

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

Other directorships and offices

French company
- Member of the Supervisory Board of Steria*.

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

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

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

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

Frits Bolkestein

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

Other directorships and offices

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

Other
- Chairman of Telders Foundation (Netherlands).

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

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

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

* *Listed company.*

Philippe Josse

Member of the Council of State

First appointed as a Board director: May 16, 2006.

Expiration date of office: July 27, 2011.

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

French companies and public institutions

- Director of EDF* until June 2011;
- Director of the SNCF until May 2011.

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

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

Alexandre de Juniac

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

First appointed as a Board director: January 11, 2012. This appointment will be submitted to the General Shareholders' Meeting of May 31, 2012 for ratification.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2014 (subject to ratification by the General Shareholders' Meeting of May 31, 2012).

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

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

French companies and public institutions

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

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

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

* *Listed company.*

➤ Experience of members of the Board of Directors

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

* *Directors deemed to be independent.*

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

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

1.1.2 Missions of the Board of Directors

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

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

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

1.1.3 Organization of the Board of Directors

Change in the Group's governance

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

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

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

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

Reunification of the functions of Chairman and Chief Executive Officer

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

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

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

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

Internal regulations of the Board of Directors

On June 17, 2004, the Board of Directors adopted its internal regulations, inspired by the Bouton and Vienot reports. In addition to the limitations on the powers of the Chairman and Chief Executive Officer, these internal regulations specify the terms for the organization and functioning of the Board and establish the prerogatives and duties of the Board directors in terms of the rules on reporting, disclosure, confidentiality and conflicts of interest. They also determine the powers of each of the specialized committees established within the Board.

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

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

Corporate governance principles and independence of the directors

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

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

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

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

Compliance and ethics

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

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

Conflicts of interest

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. Note, however, that the French State, which held 15.8% of the Air France-KLM share capital as of December 31, 2011, also holds 52.1% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

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

There is no service level contract binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

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

1.1.4 Functioning of the Board of Directors

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

Board meetings are conducted in French; however each director may speak in French or in English with simultaneous interpretation.

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

Board activity during the 2011 financial year

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

During these meetings the following matters were notably addressed:

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

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

Evaluation of the functioning of the Board of Directors

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

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

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

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

Regulated agreements and commitments

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

This agreement together with the commitments and agreements approved during previous financial years which continued to apply during the 2011 financial year are outlined in the Statutory Auditors' report on the regulated agreements and commitments.

1.1.5 The Board of Directors Committees

The Audit Committee

Composition

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

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

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

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

Missions

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

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

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

The Audit Committee reviews the interim and annual consolidated financial statements prior to their submission to the Board of Directors and, more specifically, the:

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

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

Activity

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

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

Review of the financial statements

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

Internal control and internal audit

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

Risk assessment

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

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

The Remuneration Committee

Composition

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

Missions

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

Activity

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

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted, relating to the modalities for the payment of directors' fees, and the principles and amounts of the fixed and variable compensation for the executive directors (see *Compensation of the Company Officers* section below). A meeting was also held following the resignation of the Chief Executive Officer.

The Appointments Committee

Composition

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

Missions

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

Activity

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

1.1.6 Compensation of the company officers

Compensation for Board directors

Board directors' fee modalities

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

The modalities for the payment of Board directors' fees applied in respect of the 2011 financial year were those adopted by the Board of Directors during its meeting of June 27, 2007 following a recommendation from the Remuneration Committee and are as follows (for a twelve-month financial year):

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

Committee members receive additional fees:

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

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

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

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

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

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

Compensation of the executive directors

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

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

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

Chairman of the Board of Directors

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

Chief Executive Officer

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

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

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

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

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

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

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

Chairman and Chief Executive Officer

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

Deputy Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* *"Air France-KLM shares-for-salary exchange".*

(1) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

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

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

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

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

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

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

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

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

This amount corresponds to the application of the results of the criteria outlined on page 24 and is thus equal to around 60% of the fixed compensation established on a pro rata basis in respect of the time spent in office.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation paid to Mr van Wijk

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

At its meeting of January 11, 2012, the Board of Directors decided to set Mr van Wijk's annual compensation in his capacity as Deputy Chief Executive Officer at €150,000 for both the end of the 2011 financial year and the whole of the 2012 financial year.

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

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

(In €)	2011 Financial Year (9 months)(1)	2010-11 Financial Year(2)
Compensation due in respect of the financial year	62,719	47,000
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A
Total	**62,719**	**47,000**

(1) Corresponding to the directors' fees due for the period between April 1 and October 17, 2011 and the fixed compensation due for the period between October 17 and December 31, 2011.
(2) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received fees in his capacity as a Board director.

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

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

(1) Fixed compensation due for the period from October 17 to December 31, 2011, paid as of the Board of Directors' decision of January 11, 2012.
(2) Since October 17, 2011, the date on which he was appointed an executive director, Mr van Wijk has no longer received directors' fees.
(3) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received directors' fees in his capacity as a Board director.

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

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

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

(1) The fixed compensation due for the period from October 17 to December 31, 2011 was paid only as of the Board of Directors' decision of January 11, 2012 and thus does not appear in this table.
(2) Since October 17, 2011, the date on which he was appointed an executive director, Mr van Wijk has no longer received directors' fees.
(3) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received directors' fees in his capacity as a Board director.

Other commitments made in respect of the executive directors

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

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

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

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

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

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

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

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

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

Loans and guarantees granted to company officers

None.

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

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

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

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

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

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

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

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

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

None.

During the 2008-09 financial year, KLM introduced Share Appreciation Rights or SARs, which are share-based plans paid for in cash. This scheme has replaced the option plans since 2008 although those granted until 2007 remain in force (no options having been exercised during the 2011 financial year).

144,235 SARs, 145,450 SARs, 136,569 SARs and 153,080 SARs were, respectively, granted by KLM on July 1, 2011, July 1, 2010, July 1, 2009 and July 1, 2008 (see *Note 29.4 to the consolidated financial statements*).

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

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

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

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

1.2 The Group Executive Committee

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

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

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

1.3 Stock market and shareholders

1.3.1 Air France-KLM shares 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. The stock is a component of the CAC Next20, Euronext 100 and DJ Eurostoxx 300 and is also included in the FTSE cyclical services and FTSE airlines and transports sector indices. Air France-KLM is the only airline to figure in the two leading sustainable development indices, the FTSE4Good and the DJSI Stoxx 2006. Lastly, the stock is also included in the French IAS employee shareholders index.

The Reuters Code is AIRF.PA or AIRF.AS and the Bloomberg Code is AF PA.

Air France-KLM has a level 1 ADR (American Depositary Receipt) program, sponsored by CitiBank on the OTC Market (OTCQX) in New York under the ticker AFLYY.

	2011 12 months	2010 12 months	2010-11 Financial Year
Stock price high *(In €)*	15.300	14.600	15.300
Stock price low *(In €)*	3.414	8.610	8.610
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at December 30 except for the 2010-11 financial year to March 31 *(In € billion)*	1.2	4.1	3.5

Further information on trading in the stock can be found in Section 6 – Information on trading in the stock, page 276.

Dividend policy

During the recent financial years, Air France-KLM paid the following dividends:

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

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

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

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 in both French and English.

Relations with investors

The Investor Relations department maintains a dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled at the time of 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. The Investor Day is also an opportunity for the latter to meet the Group's operational management.

Relations with individual shareholders

The department dedicated to relations with Individual Shareholders has a pro-active approach towards engaging with private shareholders. Each quarter, a financial notice on the results is published in a wide range of press and on the internet in France. Every three months, the ACTION'air newsletter, containing information on the sector and the Group's activity, is sent by email or mail to the 7,000 members of the Shareholders' Club. This newsletter is also available in French and English on the website.

Air France-KLM also publishes an individual Shareholder's Guide covering all the practical information relating to the stock and the different forms of ownership in France and the Netherlands. This document is published in French and English with an interactive version available on the website or on request.

The Group regularly participates, in partnership with the business press, in information meetings exclusively for individual shareholders in the French regions. These are an opportunity for the Group to update them on its strategy, results and issues in the airline sector and to address shareholder concerns. During the last twelve months, the Group thus met with its shareholders based in Biarritz, Clermont-Ferrand, La Rochelle, Metz and Reims. Site visits are also organized for members of the Shareholders' Club.

The Shareholder Relations department can be reached on a dedicated number (+33 1 41 56 56 56) or by email.

Lastly, the Consultative Committee for Individual Shareholders (CCRAI), established in 2000, constitutes a forum for discussion and proposing ideas on Air France-KLM communication aimed at individual shareholders.

A dedicated website

Air France-KLM, whose www.airfranceklm-finance.com website has just been completely re-modelled, won second place in the Best Investor Relations Website Awards at the *Forum des Relations Investisseurs & Communication Financière* on November 24, 2011. This award represents a quality label for investor relations. During 2010, the Group had been recognized in the Most Innovative Investor Relations category.

This website offers access to all the information issued by the Group with documents such as the Registration Document, the annual report and the Shareholder's Guide all available in interactive versions, enabling a targeted search for information. The website benefits from the latest web technologies, making it compatible with most mobile solutions. Internauts can also visit an *Island in the Sky* in the Second Life universe (http://airfranceklm-sl.com/teleport). This island enables shareholders to learn more about Air France-KLM through dedicated spaces in which visitors can find the Group's latest documents and press releases, the Air France-KLM stock price in 3D, a sustainable development space, a virtual auditorium, corporate films and the Air France Museum.

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Activity

2

2.1 Highlights of the 2011 financial year

February 2011

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

March 2011

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

April 2011

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

May 2011

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

June 2011

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

July 2011

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

September 2011

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

October 2011

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

November 2011

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

December 2011

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

January 2012

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

2.2 Market and environment

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

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

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

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

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

2.2.1 The economic environment

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

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

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

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

Sources: 1, 2, 3, 4 and 7 page 41

which were particularly impacted by the crises unfolding in 2011, saw 7.1% growth in their passenger traffic in 2011 (+2.7% in 2010) for capacity up by 8.9% leading to a 0.6% fall in the load factor to 77.3% and a relative improvement in their profitability (€1.5 billion of operating income versus €0.5 billion in 2010) (*Source 5*).

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

Numerous uncertainties in 2012

The economic and geopolitical environment

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

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

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

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

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

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

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

2.2.2 The industry context

Capacity forecasts for 2012: prudence required

For 2012, the European majors are all adopting the same prudent approach: IAG plans to increase capacity by 2.5% (before the acquisition of bmi) (*Source 8*) and the Lufthansa Group by 3% (*Source 9*), a similar level to that of the Air France-KLM Group (+2%) On the long-haul routes departing from Europe, the capacity brought on line for the Summer 2012 Season is still being adjusted given the rapidly-evolving international context. Currently, the growth in long-haul capacity is modest at around +3% which is an encouraging sign for a better balance between capacity and demand and therefore improved profitability. There are, however, some regional differences (*Source 10*):

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

Sources: 2, 5, 6, 7, 8, 9, 10 and 11 page 41

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

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

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

Ever-stricter European and International regulations

Whether new or simply subject to stricter enforcement, the European and international regulations are increasingly onerous for the air transport industry. This is the case for the European Union Emission Trading Scheme which, from January 1, 2012, has applied to all European and non-European airlines operating in the European Economic Area, raising strong opposition from countries like the United States, China and India. These countries are asking the European Union not to tax their airlines and are threatening retaliation, which could lead to serious distortions in terms of competition (*See also Section 3 - Environmental risks, page 77*).

Similarly, we are witnessing an increasing trend towards reinforced regulation regarding consumer rights both in Europe and the United States *(See also Section 3 - Risks linked to the consumer compensation regulations, page 76).*

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

Customer behavior: customers increasingly well-informed and pragmatic

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

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

2.2.3 Competition

The European airlines

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

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

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

The Air France-KLM Group continues to improve its productivity and is launching Transform 2015*,* a plan to transform the company. A first phase of immediate measures is already underway while a second phase will be implemented in June 2012 (*See also Strategy, page 42*).

While they continue to post good financial results, the two European low cost airlines are changing their business models. Ryanair's business model appears to be encountering some limits with slower growth in the Winter 2011 Season (2% fall in traffic between October and December 2011 resulting from increased seasonality of the flight schedule) reflected in the 80 aircraft grounded this winter.

easyJet is concentrating on improving margins and repositioning itself firmly in the Business segment (18% of passengers in 2011). As of November 2010, a dedicated flexible fare was introduced and the low cost airline is focused on developing its proposition in the main European airports.

United States

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

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

Asia is experiencing a transformation

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

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

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

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

The Gulf State airlines and Turkish Airlines

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

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

Africa

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

Airline consolidation: mergers, alliances and joint-ventures

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

Sources: 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 and 22 page 41

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

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

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

2.2.4 Conclusion

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

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

2.3 Strategy

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

Despite the numerous measures introduced over the past three years and the multi-year cost-saving programs, the insufficient profitability combined with the persistent economic crisis and high oil price led the Air France-KLM Group to implement a three-year transformation plan (2012-14). While this plan aims to generate the financial resources required to return to a growth path, it does not call into question the Group's strategy of continuing to invest in products and customer services, reinforcing its presence in growth markets, deepening cooperation with its American and Chinese partners, signing agreements with new partners within the SkyTeam alliance and developing its fundamental strengths.

2.3.1 Fundamental strengths

A strong presence in all the major markets

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

Lastly, given its presence in all the major markets, the Group's network is balanced, with no single market representing more than a third of passenger revenues. These markets also behave differently, enabling the Group to partly mitigate the negative impact of any crises.

Two coordinated hubs at developing airports

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

The Group's network is organized around airport platforms whose development potential will further strengthen the role of the large intercontinental hubs. In July 2012, Air France will benefit from the opening of the S2 satellite which will complete Terminal 2E. The airline will eventually leave Terminals C and D, concentrating its medium-haul flights at Terminal 2F and long-haul flights at Terminal 2E where all the members of the SkyTeam alliance are regrouped, thereby gaining efficiency and increasing comfort for passengers.

A balanced customer base

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

SkyTeam, the number two global alliance

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

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

Strategic partnerships

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

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

A modern fleet

The Group has continuously invested in new aircraft and currently operates one of the most efficient and modern fleets in the sector. This enables it to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local residents and greenhouse gas emissions. The measures implemented within the framework of the Transform 2015 plan to limit investment in the fleet will have little impact on its age profile through to 2014. Furthermore, as of 2016, the Group will begin to take delivery of its first Boeing B787s and its first Airbus A350s in 2018.

A commitment to sustainable development

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

2.3.2 A permanent focus on reducing costs

The Air France-KLM Group regularly implements multi-year plans to reduce its unit costs measured in equivalent-available seat-kilometers (EASK) on a comparable fuel price and currency basis *(see also unit cost per EASK in section 6 Glossary, page 293).*

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

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

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

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

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

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

and

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

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

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

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

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

2.3.3 The Transform 2015 plan

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

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

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

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

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

Phase 1: immediate measures

Downward revision in capacity growth and investments

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

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

Cost-saving measures

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

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

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

Phase 2: transformation plan

Improving productivity

In the Air France Group, regaining a satisfactory level of profitability will require a very significant improvement in productivity in all parts of the Group, implying the renegotiation of the employment conditions in the existing collective labor agreements. Negotiations with the relevant union organizations representing the various employee categories started in mid-February, enabling the signature of a framework and methodology agreement on March 20, 2012. The negotiations will continue to finalize new collective labor agreements in June 2012 establishing new working methods and a remuneration and career framework adapted to the new air transport environment, and enabling a 20% improvement in economic efficiency by 2014. In the event of failure, the existing collective labor agreements will be reneged but will continue to apply for a fifteen-month period after which the industry's collective labor agreement will then apply if no agreement has been reached during the intervening period. For its part, in April 2012, KLM will commence the negotiations initially planned to redefine new labor agreements, one of whose objectives is wage moderation.

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

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

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

Improving the performance of the long-haul network and cargo

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

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

2.4 Passenger business

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

During the 2011 financial year (12 months pro forma), in addition to the progressive deterioration in the economic environment, the passenger business suffered from the steep rise in the fuel price, and the consequences of political crises (Ivory Coast, Arab Spring) and the earthquake in Japan. Despite continuing the measures implemented since the beginning of the economic crisis, the pro forma loss from current operations posted by the passenger business stood at €375 million (versus a loss of €58 million in 2010). While external crises had a negative impact of €200 million on the operating result, the poor performance of the passenger business was mostly due to the medium-haul network.

Pursuing existing strategic initiatives

The strategic initiatives implemented during previous financial years in both long- and medium-haul were continued. In the case of medium-haul, they were not sufficient to ensure a permanent recovery in profitability.

Long-haul

Over the financial year, the effort to adapt the long-haul network to the new competitive context was reflected in the optimization of the fleet and network: seeking the best-possible productive growth, targeted development of the network, leveraging partnerships, particularly within the framework of the joint-venture agreement with Delta, and ongoing investment in the on-board product.

Productive growth

Since it benefits from two of the largest European hubs, the Group can operate large aircraft like Airbus A380s and Boeing B777-300s meaning it can take advantage of economies of scale. In the summer of 2011, the Group operated six A380s and 39 Boeing B777-300s and will operate an additional two A380s and five B777s in 2012.

The size of the fleet also enables the multiplication of sub-fleets to cover the different typologies of network routes. For example, in the Summer 2011 season, Air France operated no fewer than five versions of the B777. The new leisure version of the B777-200s with a 309-seat cabin configuration including 250 in the Voyageur cabin is adapted to markets dominated by leisure traffic. In summer 2011, eleven aircraft of this type were thus operated, notably, on the Guangzhou, Bangkok, Phnom Penh, Osaka, Santiago de Chile and Lima routes.

Targeted reinforcement of the leading network

The Group plans to maintain its leadership position for the long-haul network on departure from Europe, in terms of both the number of destinations served and market share. The Group thus accounts for 60% of the destinations between Europe and the rest of the world, far ahead of its direct competitors and has a market share of 13.2% relative to 10.6% and 10.1% for Lufthansa and IAG *(Source: OAG).*

In addition to more traditional forms of growth like the bringing into service of larger aircraft and increasing the number of frequencies to ensure a daily service to a maximum number of destinations, the emphasis is on extending the network with the opening of new destinations and the multiplication of destinations served out of the Group's two hubs. To remain compatible with more limited growth in capacity, this development is targeted at a limited number of strategic markets in Africa, Latin America and China, whereas the North Atlantic offer is rationalized within the framework of the trans-Atlantic joint-venture *(see below).*

The African network has thus been expanded by four additional destinations since the summer of 2010: Kigali, Freetown, Monrovia and Lusaka. The multiplication of the destinations served from both the hubs is particularly visible in Latin America: Buenos Aires and Lima (Summer 2011), and Rio (Summer 2012) now benefit from a service out of the Group's two hubs. Lastly, the development of the Chinese network continues to see rapid growth: in Summer 2012, with the opening of Wuhan on departure from Paris, the Group will operate nine destinations in Greater China versus six in the summer of 2009. It will, particularly, be the only European group to serve Guangzhou, Hangzhou, Wuhan, Xiamen and Taipei.

Rationalization of the trans-Atlantic joint-venture network

The leading strategic market remains the North Atlantic, representing more than a quarter of global *premium* revenues *(source IATA).* Thanks to its joint-venture with Delta, the Air France-KLM Group has a major strategic position on these routes. Benefiting from more than a decade of experience acquired within the framework of the agreement between KLM and Northwest, the joint-venture was created in April 2009 and extended to Alitalia in April 2010. The functioning of the joint-venture is outlined in more detail on page 50.

The highly integrated organization, based on the principle of sharing revenues and costs, extends the area of cooperation to all aspects of the offer. Not only are the revenue management, pricing and sales forces merged and the network developed jointly, but the partners are also working on a seamless product experience with Delta, for example, having decided to adopt KLM's *Economy Comfort* product.

Since mid-2011, the joint-venture has put the emphasis on capacity rationalization and, in particular, adapting capacity to the most seasonal markets. In the Winter 2011-12 season the joint-venture partners thus collectively reduced their capacity by 7 to 9% on the Europe-United States/Canada routes. In Summer 2012, they are pursuing this rationalization policy by scheduling a 6% reduction in capacity.

Rapid growth for SkyTeam, particularly in Asia

Partnerships and joint-venture agreements help to feed end-of-the-line flights and reinforce the Group's competitiveness on the routes covered by these agreements. The functioning of the alliance and partnerships is outlined on page 49.

SkyTeam's development is a major asset for the Group. With the arrival of China Eastern and China Airlines in 2011, the alliance currently boasts 15 members, with no fewer than four new members expected to join in the coming months, all based in high-growth markets: Aerolineas Argentinas, Garuda Indonesia, Middle East Airlines and Saudi Arabian Airlines.

The alliance's positioning in China is exceptional since it numbers four airlines, China Southern, China Eastern, Shanghai Airlines and China Airlines, with 40% of the Chinese domestic market and strong positions not only in major Chinese cities but also those that are experiencing rapid growth.

By establishing joint-venture agreements with its Chinese partners, the Group is building a major advantage when it comes to benefiting from the exceptional growth forecast for the market between Europe and China. With China Southern, a joint-venture is already in place on the Guangzhou-Paris and Guangzhou-Amsterdam routes. Negotiations are also currently underway with China Eastern, which became a SkyTeam member in June 2011, aimed at establishing a joint-venture.

Furthermore, the development of cooperation within SkyTeam is key to competing with the Gulf State carriers (Emirates, Etihad and Qatar Airways) as such cooperation effectively supports the Group's efforts to differentiate itself relative to these carriers by enabling it to offer more frequent non-stop flights to more cities, facilitates connecting flights bound for multiple secondary destinations and ensures the optimal distribution of its products to local customers. This is why Air France-KLM is actively seeking a partnership in India, a market in which the Gulf State carriers are particularly well established.

Ongoing improvement in the product offering

Now that the intermediary products (*Premium Voyageur* at Air France, launched in October 2009 and *Economy Comfort*, launched by KLM in December 2009 and adopted by Delta) have found their markets, the Group has re-launched investment in Business class.

On board Air France's long-haul aircraft, a new Business class seat, introduced in 2010, has been very well received by customers. This new seat should be fitted on two-thirds of the fleet by the end of 2012 for an investment of above €110 million over three years. This change has been supplemented with action on the in-flight service focusing, in particular, on the relationship with customers and the quality of catering: in-flight meal creation has been entrusted to exceptional French chefs and showcased by new crockery and a service concept combining gestures, attitudes and attentiveness to create an exceptional on-board experience.

KLM is also pursuing initiatives around its in-flight service. In World Business Class, the meals created by the Dutch chef Jonnie Boer are now presented in crockery from the leading designer Marcel Wanders. The catering has also been improved in economy class with, notably, the option of *à la carte* menus ordered in advance.

Medium-haul

The medium-haul network contributes more than a third of Air France-KLM's passenger revenues. By consolidating the Group's commercial presence across Europe, it plays a fundamental role in ensuring the power of its three marketing tools: the *Flying Blue* frequent flyer program, corporate contracts and contracts with the major travel agency networks. Furthermore, this network is key to the company's hub strategy in that a large proportion of passengers departing from Roissy and Amsterdam on long-haul services are connecting passengers.

The profitability of this network has significantly deteriorated since the 2009 crisis. In addition to the growth in competition from so-called low cost carriers, this network has experienced a profound change in behavior with Business customers abandoning flexible fares to focus on the lowest-priced tickets. These structural difficulties (overcapacity in Europe, change in customer behavior and thus pressure on prices) have led the Group to launch a restructuring of this network within the framework of the Transform 2015 plan *(see also Strategy section on page 44).*

The New European Offer

Faced with the change in customer behavior, in 2009-10 the Group had launched a two-year transformation project known as the NEO (New European Offer). This project was based on three key pillars: an in-depth transformation of the commercial offering to produce a simpler product that was better adapted to customer needs while preserving a high level of unit revenues, a re-engineering of internal processes made possible by this new commercial offer and enabling a reduction in costs and, lastly, a reorganization of the flight schedule. Although this new commercial offer was partly in response to customer needs, the level of savings achieved and the increase in revenues was insufficient to absorb the steep rise in the oil price with which the industry has had to contend over the past few years.

Provincial bases: a new business model

In October 2011, Air France launched the Provincial Bases project aimed at regaining a substantial portion of business on departure from cities in the French regions. This new business model is based on more productive organization of work enabling the airline to target markets with a lower level of unit revenues.

The lever of this new business model is an increase in aircraft flying hours from 8h15 to 11h30 per day. It is also accompanied by a significant improvement in the productivity of flight crew and ground staff. Lastly, the fixed costs are amortized over a broader activity base. The expected reduction in unit costs is some 15%. The reduction in costs has enabled a revision in tariffs on the relevant routes offering competitive fares from €50 including taxes for a one-way trip.

This concept was deployed in Marseilles in October 2011, followed by Toulouse and Nice in March 2012.

Pursuing customer-centric initiatives

Being the number one in service recovery

The ability to handle unforeseen events is an important part of the relationship with customers, transforming the incident into an opportunity to secure their loyalty by offering effective alternatives.

In 2011, the Group successfully launched *Air France connect* and *KLM connect* which represent an automatic and personalized customer information system by SMS or email in the event of service disruption. Thanks to the mobile number and email address provided by customers when booking their travel, Air France and KLM are able to inform them, up to 14 days prior to departure, of any cancellation, delay or change of boarding gate and, on arrival, of any delay in baggage delivery.

This system will be upgraded in 2012 to enable alternatives to be offered and automatic compensation.

Customer autonomy and self-service

Technological innovation has already markedly transformed the air travel experience. In 2011, more than two-thirds of Air France-KLM customers checked in using the internet (36%), self-service check-in kiosks (30%) or mobile telephones (1%). Taking advantage of the growing intelligence of mobile telephones is the next logical step in this strategy.

In September 2011, a new step in customer autonomy was taken with the inauguration by KLM of six automated baggage drop-off units at Schiphol. In parallel, at Bordeaux and Orly, Air France has launched the self-tagging of baggage while the airline also plans to deploy self-service baggage drop-off units.

Air France-KLM, the leader in digital innovation

The new mobile websites launched in September 2010 enable the Group to offer its customers more autonomy in the planning and realization of their travel as well as more reliable and virtually real time information, particularly in the event of unforeseen circumstances. The websites enable trips to be managed from A to Z using a smart phone, from purchasing a ticket or subscribing to an additional option, checking in, choosing a seat, receiving a boarding card, managing reservations, obtaining real-time information on flight schedules and the answers to any questions, and checking *Flying Blue* accounts, etc. The traffic on the Air France mobile website thus exceeds two million connexions a month.

Air France-KLM aims to become the benchmark in this market and to gradually extend the operating scope of its mobile websites and applications to offer its customers a relevant service throughout their trips. Having started as an air carrier, the Group is becoming a mobility company offering personal assistance to individual clients during their journey whose scope extends to before and after the flight.

Flying Blue, a highly attractive frequent flyer program

This loyalty program, resulting from the 2005 merger of the Air France and KLM frequent flyer programs, now has 20 million members, *i.e.* a million more than in 2011. These new members are increasingly recruited outside the Group's domestic markets with 30% living in European countries other than France and the Netherlands and 40% in the rest of the world. Some 80% of new members sign up on line.

The importance of the frequent flyer program is also reflected in the fact that nearly 43% of the Group's passenger revenues are generated with *Flying Blue* members.

The success of *Flying Blue* depends on the strength of the Air France-KLM network, the tangible advantages offered by the program and its ease of use since most of the operations can be carried out over the internet.

Fundamental strengths

In addition to the strategic measures outlined above, the Group's strategy remains based on its fundamental strengths which maintain their full relevance in the current environment.

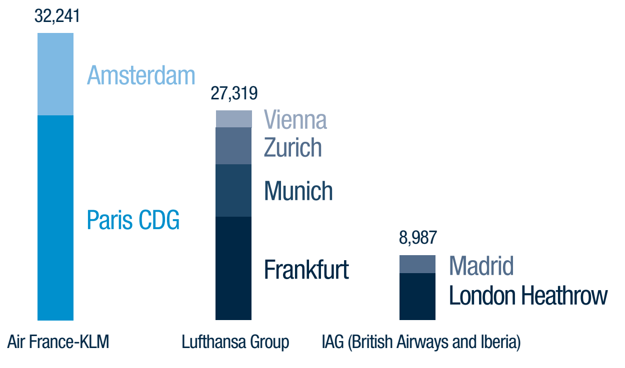
The hubs

The dual hub system retains its central function within the passenger activity. The powerful and coordinated hubs of Paris-CDG and Amsterdam-Schiphol, inter-linked by 11 daily flights, offer 32,000 weekly connecting opportunities between European medium-haul and international long-haul flights in under two hours. This is 18% more than the Lufthansa group at its four platforms (Frankfurt, Munich, Zurich and Vienna) and 3.6 times more than IAG at London and Madrid. The combination of the two hubs of CDG and Schiphol, which is unique in Europe, enables the Air France-KLM Group to offer a large number of frequencies per destination and an extensive range of flight times. Passengers can thus choose between eleven daily flights to New York, four flights for Shanghai, three flights for Sao Paulo and four to Montreal. The large size of the Group's hubs enables the operation of bigger aircraft such as the B777-300ER and A380, which are synonymous with the kind of economies of scale that cannot be tapped by airlines operating out of smaller hubs.

Furthermore, because the intercontinental hubs of Roissy and Schiphol function by pooling light traffic flows coming from and bound for all world regions, they limit the consequences of traffic declines linked to any external events (political instability, earthquake in Japan, etc.).

Lastly, this pooling mechanism enables the operation of larger aircraft with higher load factors, thereby reducing fuel consumption and CO_2 emissions, something which has become increasingly important since the implementation of the European Emissions Trading Scheme on January 1, 2012.

The most flight connection opportunities within Europe



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

The SkyTeam alliance and strategic partnerships

To meet the needs of all their customers, airlines supplement their offer with alliances and strategic partnerships. The three largest alliances, SkyTeam (whose principal member in Europe is Air France-KLM), Star Alliance (around Lufthansa) and oneworld (around British Airways and Iberia), represent more than 65% of world-wide traffic. Of the 50 largest airlines, only the low cost carriers, the Gulf State airlines and a few niche carriers do not belong to an alliance. Furthermore, membership of an alliance is a major commitment given the required partial integration of IT systems and frequent flyer programs. Only two airlines have thus switched alliance whereas the latter have existed for more than a decade.

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

Alliances and partnerships are effective tools when it comes to supporting airline growth without additional investment in fleets and, thus, without adding to CO_2 emissions. Such agreements enable the frequency effect to be reinforced on the principal routes, capacity to be pooled on low-volume routes and international offers to be supplemented with flights operated by partners in their domestic markets.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance that now comprises 15 members: Aéroflot, Aeromexico, Air Europa, Air France, Alitalia, China Southern, China Eastern, China Airlines, Czech Airlines, Delta, Kenya Airways, KLM, Korean Air, TAROM and Vietnam Airlines. While retaining their separate identities and brands, the airlines work together to offer their customers an extended network and global services.

Four new members are expected to join the alliance in the coming months: Garuda Indonesia, Aérolineas Argentinas, MEA Middle East Airlines (Lebanon) and Saudi Arabian Airlines.

Governance of the alliance

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

In April 2009, a centralized management entity was created, reporting to a Managing Director. This central entity 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. The alliance budget is financed by the airlines on an apportionment basis.

Major advantages for alliance members

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

Belonging to SkyTeam strengthens the reputation of the airlines by enabling them to extend their offer to all world regions, bolstering their commercial presence. As a member of the SkyTeam alliance, Air France-KLM thus has access to a global network offering some 14,500 daily flights to more than 900 destinations in 173 countries.

In sharing their expertise and know-how and by pooling best practices, airlines improve the quality of their services to customers. Lastly, the alliance also enables synergies to be generated within the framework of co-located facilities in airports or cities, the coordination of teams, the reduction of aircraft handling costs and better use of lounges. One important step has been the regrouping of the SkyTeam airlines in co-located facilities at London Heathrow's Terminal 4 where they share self-service check-in kiosks and a passenger lounge in the alliance livery.

Significant benefits for alliance customers

The SkyTeam network is organized around major hubs enabling the alliance to offer a very large number of connecting flights and guarantee its 487 million annual passengers a seamless travel experience on flights with one or several airline members.

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

The 151 million passengers who are members of the frequent flyer programs earn air miles on all SkyTeam flights that can be redeemed with several alliance airlines during the same journey. In 2012, the SkyTeam airlines are in the process of deploying *SkyPriority,* a new ground services offer for their most loyal customers.

Strategic partnerships

Alitalia

In January 2009, Air France-KLM stepped up its cooperation with Alitalia through an operational partnership agreement, cemented by a 25% stake in the Italian company. Air France-KLM thus has access to the Italian market, the fourth-largest in Europe, thanks to a restructured and financially-solid partner with a strong presence in its domestic market. For its part, Alitalia has access to the leading network linking Europe to the rest of the world thanks to the dual hub system whose reach into southern Europe is extended by this partnership. The main common objectives of the two companies are to strengthen Alitalia's positioning in the business customer segment and to share best practices.

The two partners estimated the potential synergies at €370 million as of the second or third year, of which €90 million at the operating level for Air France-KLM. Air France-KLM will also benefit, in proportion to its holding in the share capital, from the synergies generated by Alitalia. After three years of cooperation, these two objectives have been achieved.

The trans-Atlantic joint-venture with Delta

The joint-venture was launched on April 1, 2009 and extended to Alitalia in April 1, 2010. It does not reflect the creation of a common company but the signature of a contract for an initial duration of ten years, creating the equivalent of a virtual company. The agreement requires the sharing of costs and revenues and thus the implementation of a comprehensive series of measures contributing to an improvement in the operating result of the activity. The governance bodies comprise an Executive Committee, a Management Committee and working groups.

The scope of this joint-venture is very wide, covering all 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 €8.5 billion in 2011 and a market share of 27%, the joint-venture is the number one operator on the North Atlantic, the largest air transport market globally. More than 260 daily flights link the seven principal hubs: Paris, Amsterdam, Rome, Atlanta, Detroit, Minneapolis and New York. Furthermore, since October 2009, responsibility for pricing and revenue management has been centralized by a 60-strong team based in Amsterdam. More recently, the coordination of the network has been reflected in the strengthening in 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, 27 destinations served in North America and 33 in Europe. The sales forces have been combined in each region.

In 2011, the Air France-KLM Group achieved the objective that it had set itself at the time the joint-venture was launched, i.e. a €150 million improvement in the operating result of this network over three years.

Activity during the financial year

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

Financial year from April 1 to December 31, 2011

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

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

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

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

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

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

Key figures by network

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

The long-haul network

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

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

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

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

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

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

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

The medium-haul network

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

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

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

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

Key figures for the passenger business

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

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

2.5 Cargo business

The cargo business is the second of the Group's activities, representing some 13% of total revenues and regrouping the Air France-KLM Cargo and Martinair Cargo activities. Since April 2009, Air France-KLM has gradually taken responsibility 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.

A deterioration in market conditions

Having experienced a remarkable recovery in 2010 (+20.7% in 2010 relative to 2009), air freight activity contracted by 0.5% over 2011 as a whole relative to its level in 2010, whereas global trade increased by 5.5% (source CPB Netherlands) and global GDP growth stood at 3.5% (source ABN-AMRO Bank). Air freight is one of the sectors most affected when both business confidence in the leading economies and exports decline. When weaker economic activity is forecast, the economic players turn towards slower, cheaper means of transportation.

Global air traffic growth experienced a slowdown as of early 2011, even becoming negative from May 2011 onwards before stabilizing at the year end. After a dynamic first quarter (+4.6%), traffic declined over the summer (-2.3% in the third quarter) and autumn (-3.3% in the fourth quarter), to finish down by 0.8% in December 2011 relative to 2010 *(source: IATA)*.

The comparison with 2010 does, however, suffer from some distortions. In 2010, the bad December weather in Europe and North America with the closure of snow-bound airports, together with the crisis linked to the eruption of the Icelandic volcano in April 2010, led to a decline in demand.

For its part, 2011 was fragilized by the earthquake in Japan, the slowdown in Chinese exports and the uncertainties surrounding the euro zone.

A different situation depending on the region

In terms of **traffic**, the regional variations remained marked in 2011.

The Asia/Pacific carriers, whose market share is the highest (41.3%), posted the biggest decline in traffic (-4.7% versus +23.8% in the previous year). The sudden slowdown of the Asian economy was a significant contributor to the fragility in 2011.

The African carriers followed suit with a 1.5% decline versus +23.7% in the previous year but their market share is limited to 1.3%.

The North American carriers have a market share of 17.4% and the European carriers 23.8%. They recorded growth limited to 1.5% (versus +22.8% et +10.9% respectively in the previous year) reflecting the weakness of the American and European economies and Western consumption following the debt crisis.

The Middle Eastern carriers posted the strongest growth over the year (+8.3% versus +26.9% in the previous year) with a market share of 12.8%. They were followed by the Latin American airlines which saw their traffic increase by 5.5% versus +30.4% in the previous year although they represent only 3.4% of the market *(source: IATA)*.

The crisis was very focused on trade between eastern Asia and Europe as witnessed by the decline in traffic for airlines like China Airlines (-15.0%), Korean Air (-6.5%), Thai Airways (-6.2%), Nippon Cargo (-5.9%), EVA Air (-5.5%), Cargolux (-5.2%) and Cathay Pacific (-5.2%).

Capacity was increased by 5.2% relative to 2010: 29 full freighters were delivered (16 Boeing B777Fs, four Airbus A330Fs, nine Boeing 747-8Fs, while seven B747-400 were converted into full freighters). Belly capacity continued to see a steady increase in line with the expansion in the passenger fleet (104 aircraft), particularly with the introduction of 29 A380s, 55 Boeing B777s and 79 Airbus 330s with significant belly capacity.

The Middle East (+13.9%) with Emirates, North America (+6.8%), Europe (+6.4%) and Latin America (+5.6%) contributed to the growth in capacity relative to 2010 levels, unlike the Asia/Pacific region where capacity remained virtually unchanged (+0.6%).

The trend in demand (-0.5% versus 2010) did not follow the increase in capacity, however, leading to a decline in load factor from 53.7% in 2010 to 50.8% in 2011.

At the year end, carriers like China Airlines and Cathay Pacific reacted to the fall-off in demand by reducing their fleets of cargo aircraft.

Lastly, 2011 ended on a positive note with sequential growth of 0.2% in November and December, pointing to a possible stabilization in activity in the air freight sector.

The financial situation of cargo carriers has, however, seen a marked deterioration under the pressure of soaring fuel bills.

The cargo companies have been particularly badly affected and some, like Jade Cargo and Cargoitalia, have ceased trading while Korean Air Cargo, the number two cargo company globally by size after Cathay Pacific, announced massive losses in 2011 compared with a net profit for the previous year.

The strategic positioning decided in 2010 underpinned Air France-KLM Cargo's resilience to the downturn

Air France-KLM Cargo confirms its leadership position

Air France-KLM Cargo confirmed its position as the European and world-wide leader, excluding integrators. Its market share (including Martinair) amounted to 30.6% in 2011 (31.4% in 2010) amongst the AEA (Association of European Airlines) airlines and 7.0% at global level like in 2010. These trends in market share reflect the Group's commitment to prioritizing an improvement in unit revenues and refocusing on the healthiest markets.

During the financial year, the Group transported more than 1.4 million tons of cargo of which 66% in the bellies of passenger aircraft and 33% in the dedicated cargo fleet, to a network of 256 destinations in some 117 countries.

Backed by its two powerful European hubs, Paris Charles-de-Gaulle 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. Roissy-Charles de Gaulle is the number two European air cargo hub while Schiphol ranks number three.

The Group is reaping the full benefits of its integrated organization which has been in place for the past six years. The Joint Cargo Team covers sales, distribution, marketing, network management and communication as well as strategy and development. In 2009-10, the Group was strengthened by the gradual commercial integration of Martinair Cargo within Air France-KLM.

With this organization, Air France-KLM Cargo offers its customers a single contact point, a single contract and a unique network with the choice of two operational systems *via* Paris Charles-de-Gaulle or Amsterdam Schiphol, or a combination of both hubs.

Air France-KLM Cargo has a product range organized around four product families, Equation, Variation, Cohesion and Dimension, which is also offered by the members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo regroups Aeroflot Cargo, AeroMexico Cargo, CSA Cargo, Delta Cargo, Korean Air Cargo, Alitalia Cargo and China Southern Cargo around Air France-KLM Cargo, with a network of 786 destinations.

Ongoing deployment of the new belly-dominant business model

Against the backdrop of deteriorating market conditions, while Cargo posted weaker results, the new belly and combi-dominant business model adopted in 2010 and its deployment across all the air freight activities enabled this business to make a positive contribution to the Group.

Air France-KLM Cargo focused its efforts on the fundamentals: optimizing the network, reducing costs and increasing revenues.

Maintaining capacity discipline: capacity was increased by only 2.4% for the year as a whole with quasi stability during the last quarter of 2011 (-0.6%), reflecting an adjustment in capacity in line with demand. Priority was given to bellies and combis (+5.7%) whereas the full freighter offer was reduced by 4.1%. The growth in capacity is now driven by the bellies of passenger aircraft which account for 68% of the total offer versus 66% in 2010 and 54% in 2007-08. The full freighter fleet remained stable at 14 aircraft in revenue service.

Strict control over costs and cash: Air France-KLM Cargo reduced its unit costs (on a constant currency and fuel price basis) by 2.1% relative to 2010 and continued to adjust headcount to the level of production notably via internal mobility and voluntary departures. The number of employees in the cargo business was thus reduced by a further 2% over the course of the year.

Air France-KLM Cargo launched an **extensive transformation and adaptation program** focused on revenues, outstation expenses, hub productivity, quality standards, optimizing bellies and combis, and reducing headcount to improve levels of performance and the profitability of the various platforms. The results are already being seen with, notably, the *agility loop* launched last spring aimed at providing the flexibility and responsiveness required to optimize the adaptation of capacity to demand within an extremely volatile global context. Redeployment, increased frequencies and stopovers added to some rotations are just a few of the measures introduced with this program. Increased flexibility is a lever which is key to making full freighter operations more profitable.

Re-adjusting the commercial policy in line with the strategic repositioning

The volatility of global air freight traffic was confirmed as was the situation of overcapacity in the market. The consequences of this situation were apparent in financial terms but also in terms of customer behavior with the level of commitment declining. In response to these new challenges the cargo business re-adjusted its commercial approach with more effective contractual conditions, an adaptation of the customer segmentation, the implementation of a reinforced large-account team modelled on the organizational structure of customers and a rationalization and simplification of the product portfolio.

The main aim of the new commercial policy is to make the cargo sales force a benchmark at global level. This program was launched in 2011 with the first financial effects expected during 2012.

Consolidating partnerships with Alitalia, the trans-Atlantic joint venture and closer ties with Kenya Airways

The acquisition of a 25% equity interest in Alitalia enables the Group to step up its cooperation with the Italian airline and its presence in the Italian market, the fourth largest in Europe. The Group is now responsible for the marketing, revenue management and supervision of Alitalia's cargo operations.

Furthermore, the joint venture agreement signed between Air France-KLM and Delta in April 2009 now enables the three airlines to cover 27% of the total trans-Atlantic offer. It is reflected in closer coordination of their commercial policies, made possible by the granting of anti-trust immunity.

Lastly, the cooperation with Kenya Airways has been reinforced within the framework of the joint venture between Nairobi, Amsterdam and CDG and through the new Safari project.

Results reflecting the difficult environment

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

There was significant pressure on prices against the backdrop of a weaker environment. The Group was able to preserve its yield per revenue ton-kilometer (RRTK) ex-currency but, given the decline in traffic, its level was insufficient to absorb the steep rise in the fuel bill.

Financial year from April 1 to December 31

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

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

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

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

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

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

Key figures by network

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

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

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

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

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

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

Key figures for the cargo business

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

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

2.6 Maintenance business

Aircraft maintenance is the Air France-KLM Group's third business. In addition to the services provided to the Group fleets, one third of this activity is realized with third-party customers, generating revenues amounting to some 4% of the Group's total revenues.

In the aeronautics 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. AFI KLM E&M has a dual mission: to ensure competitive support for the Air France and KLM fleets by reducing net maintenance costs per flight hour, and to be a leading MRO market player.

An attractive market despite growing constraints

Made up of the spending on direct or sub-contracted aircraft maintenance and modification by aircraft operators, the global MRO market is estimated at US$51 billion for 2011, up 4% relative to 2010.

Trends in this market tend to mirror those of the airline fleets globally and their usage patterns. In the short term, this market is more sensitive to variations in older-generation fleets than to those comprising next-generation aircraft (technological advances and maturity effect).

In view of the economic crisis, the market was impacted by the adaptation measures adopted by most airlines: a reduction in flight schedules, route closures and the withdrawal of the oldest aircraft from operation.

The market is also characterized by increased pressure on prices resulting from the more intense competition between maintenance operators (MRO) and the expectations of airline customers. Additionally, more and more operators are seeking to transfer the financing of spare parts to their maintenance service providers within the framework of ever-larger contracts (in terms of revenues, duration, complexity, etc.). Lastly, the competition from Original Equipment Manufacturers (OEMs) and Original Aircraft Manufacturers (OAMs) has considerably increased in recent years.

AFI KLM E&M well positioned but facing tougher competition

The crisis has changed the relative positioning of the players in this market. The portfolios of some of Air France-KLM's competitors have seen a marked deterioration due to the reduction in older-generation fleets and they are making a concerted effort to re-position themselves in the next-generation products where AFI KLM E&M is particularly well positioned.

At the same time, airframe, engine and component manufacturers are substantially increasing their after-sales services on this market by offering customers increasingly-integrated maintenance solutions. This positioning nevertheless reflects a long-term strategy based on leveraging intellectual property through the marketing of licences for maintenance services providers wishing to exercise their activity in certain products. In time this orientation could put significant pressure on airline maintenance costs.

This trend has become more pronounced and the ability to maintain balanced competitive conditions constitutes a major challenge for both AFI KLM E&M's commercial activity and control over Air France and KLM's maintenance costs.

A difficult environment

Furthermore, the air transport industry also had to bear the full brunt of the political events and natural phenomena unfolding in 2011 (Arab Spring, the Fukushima catastrophe, etc.) in these regions and, by extension, aeronautics maintenance. Despite this difficult context, third-party revenues rose by 1% over the financial year after a negative exchange rate effect of 5%.

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

With its position as the global number two multi-product MRO by total revenue, AFI KLM E&M is pursuing a strategy of targeted growth, based on its specific strengths and the Group's strategic priorities.

This strategy is aimed at, firstly, reducing costs and maintaining high standards of quality and performance and, secondly, developing the customer portfolio in value-added products and services.

AFI KLM E&M has thus set itself six priorities:

- contributing to flight safety initiatives and participating in operational performance,
- launching cost savings initiatives,
- financing profitable growth,
- adapting its products and services,
- developing the global MRO network,
- capitalizing on skills and adapting resources to the growth in activity.

Contributing to flight safety and participating in operational performance

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

During the financial year, AFI KLM E&M implemented measures aimed at the deployment of its Safety Management System. It will enable the transverse and systematic application of the flight safety processes and is based on two pillars: building on the safety-first culture and anticipating risks. In 2011, a network of Flight Safety Officers and a procedure to encourage systematic feedback were deployed.

Financing profitable growth

Financing growth

An MRO's positioning on the new technologies developed by the aeronautics industry requires scale effects and an increased financing capability. During the financial year, AFI KLM E&M worked on constructing partnership solutions to finance its growth and on extending its commercial offer. For example, in June 2011, AFI KLM E&M joined forces with Avtrade, a world-wide specialist in the management and sale of aircraft spares, in a joint venture offering customers a rapid service close to their centers of activity, while reducing costs.

Reducing costs

AFI KLM E&M is developing its production capability and deploying Industrial Development Plans (IDP) for the Component and Engine repair activities. These industrial development plans aim to rationalize the Group's production capacity (AFI KLM E&M, with its subsidiaries and affiliates) by taking into account an equitable distribution of technologies, optimizing investment, and sharing workload increases across the different components.

Products and services tailored to individual customers: ADAPTIVENESS®

More than 150 customers call on AFI KLM E&M's services and value the flexible, customized solutions it can offer. Every customer has their own unique set of specificities and requirements which the Group does its utmost to satisfy. For example, in September 2011, the renewal of the AWACs support contract for the French Air Force testified to the continuing confidence its customers have in the Group.

The renewal of maintenance contracts strengthens AFI KLM E&M's ability to develop new products and services in its various activities. The expertise acquired in MRO operations for the Group's own fleet and those of third-party customers means that AFI KLM E&M can offer a comprehensive range of solutions, from support to line maintenance, component support, engine overhaul and cabin modification.

AFI KLM E&M's commitment to offering its customers a service tailored to their specific needs was reflected, during the financial year, in the launch of its Technical Training proposition. This service enables customers to obtain high value-added technical information that capitalizes on the Group's operational experience in this area.

The ADAPTIVENESS® concept, launched in 2011, also demonstrated AFI KLM E&M's readiness to be constantly adapting to customer needs. During the financial year, this positioning was reflected in a multi-channel communication campaign which was also deployed in-house as an integral part of the quest for permanent progress.

Airframe maintenance: at the service of carriers

Operations Support

The 2011 financial year was marked by a series of international crises (the earthquake in Japan and its consequences, revolutions in the Middle East, etc.) leading to a contraction in Air France-KLM's activity which was, in turn, reflected in a reduction in the workload for Operations Support. Furthermore, while financial and operational performance was affected by the industrial action at CDG and Orly during the summer of 2011, operational continuity was nonetheless ensured.

Major Airframe Overhaul

As a result of new technologies, the Heavy Maintenance market continues to undergo a profound transformation with next-generation aircraft (Boeing B777) requiring considerably less heavy maintenance labor input. AFI KLM E&M consequently continued the adaptation of its industrial base with, at the year end, the line destined for major Boeing B747 checks in Amsterdam being transformed into a facility for modification projects.

Modifications

From engineering to production, AFI KLM E&M provides round-the-clock support for the Group's companies in the design and deployment of new cabin products in short and medium-haul but also across the entire long-haul offering.

The services offered to third-party customers and the Air France and KLM fleets, the planning of their optimized realization and their competitive value proposition have all enabled AFI KLM E&M to consolidate its position in the aircraft modifications market.

A number of major projects were successfully completed during the period: the major cabin reconfiguration on Alitalia's 10 Boeing B777-200s, the upgrading of the C135 navigation systems for the French Air Force, the re-fitting of aircraft (Airbus 330, 340 and 320, etc.) for leasing company ILFC, the reconfiguration of Aeroflot's Boeing B767s and the cabin reconfiguration for Aercap's A321s.

AFI KLM E&M also undertook, with the other relevant teams, a large-scale and ambitious modification campaign on Air France's Boeing B777s and KLM's Boeing B747s, which will, in the coming years, set a new benchmark on the level of quality and comfort for these cabins.

Component Support: a service business par excellence

Component support covers repairs to a wide technology spectrum of aircraft components, the management of technical standards and reliability, but especially the management of physical flows to and from customers' operating bases. The development opportunities for this product are in geographically far-flung markets. AFI KLM E&M customers are increasingly moving towards service integration requiring access to a pool of spare parts and the Group is accordingly deploying a global support network based on local logistics.

For example, the component support contract for Malaysia Airlines' Boeing B737NGs led to the establishment of an advance inventory located in Kuala Lumpur, close to the Malaysia Airlines hub and other airline customers. The Malaysian national carrier wanted the support of a world class partner capable of supplying it with the best level of service and offering bespoke solutions, including financing. In December 2011, Malaysia Airlines again demonstrated its trust in AFI KLM E&M by extending the Boeing B737NG maintenance contract to 98 aircraft in its fleet, highlighting the rapidity and flexibility of the AFI KLM E&M teams.

These strengths also convinced Sunwing Airlines to extend its Boeing B737-800 component support contract. To guarantee Sunwing Airlines rapid access to components, AFI KLM E&M provides access to a spares pool, with a locally-placed Main Base kit of spare parts close to Sunwing's Toronto hub.

Furthermore, to coincide with the Paris Air Show in June 2011, AFI KLM E&M announced plans to position itself in Boeing B787 component support. This announcement was accompanied by the launch of internal preparations to offer the most competitive service in the market on this product. For its part, the E-jet component support offer has already attracted the attention of a number of airlines such as Alitalia, Saudi Airlines and the Group's regional airlines.

Engine support: the era of Very Big Engines

The Engine Support activity continues to grow. AFI KLM E&M customers benefit from one of the world's largest CFMI and General Electric engine overhaul facilities, divided between the Group's two ultra-modern engine shops located in Amsterdam and Paris.

CFM56

These engine shops currently support the largest fleet of CFM56 powerplants in the world, with nearly 400 engines operated by numerous airlines. In 2004, the construction of a new engine shop in Amsterdam enabled AFI KLM E&M to position itself for the growing demand for CFM56-7 support.

During the financial year, Air Mauritius and Vladivostok Air, for example, called on AFI KLM E&M's expertise for the overhaul on their CFM56-5Bs.

CF6

CF6-80E1: with its full-service maintenance offer, AFI KLM E&M is currently responsible for maintaining 20% of the world's CF6-80E1 engines. This engine, which is similar in design to the CF6-80C2, offers 60% component commonality. With the ramp up of a number of contracts, activity on this engine increased during the 2011 financial year.

AFI KLM E&M also deploys its offer on the **CF6-80 C2** and **CF6-50** engines, notably thanks to its facilities in Amsterdam. AFI KLM E&M's long experience of maintaining these engines enables it to offer the most relevant maintenance solutions proposition currently on the market.

GE90

For the overhaul of this engine, AFI KLM E&M offers the only alternative to the manufacturer with a proposition based on cutting-edge technological infrastructure. Following the inauguration of the new *Constellation* Very Big Engine shop in late 2010, AFI KLM E&M began work on the construction of a new engine test bench facility at Roissy-Charles de Gaulle. It will enable the testing of 300 engines annually while reducing the Turn Around Time (TAT) and offering customers a more cost-effective solution. This state-of-the art industrial tool, for delivery in June 2012, will enable the offer of a leading-edge capability for VBE overhaul and has already attracted the interest of a growing number of airlines (Air Canada, Philippines Airlines, Vietnam Airlines, etc.).

In addition to infrastructure, AFI KLM E&M is also developing its expertise and enabling customers to benefit from its experience on the GE90 with, for example, the GE90 Engine Monitoring solution enabling the early detection of new technical problems and the implementation of both preventive and remedial corrective measures.

In February 2011, CRMA, an AFI KLM E&M subsidiary, obtained approval from General Electric to repair combustion chambers on the GE90-94 engines. This new capability means that AFI KLM E&M can now offer an end-to-end range of maintenance solutions for this product type.

GP7200

CRMA is also well positioned on the GP7200 engine since it has been designated a Primary Repair Source by the manufacturer General Electric.

In 2011, AFI KLM E&M pursued the growth in its capacity on the GP7200 engines with, for example, fuel pump repair. The company is planning its first Air France GP7200 shop visit by 2013.

On Wing & On Site Support

A number of technical problems can be resolved *via* On Wing intervention without the engine needing to be in the hangar. AFI KLM E&M is one of the only MRO players with the tools, expertise and qualified staff to carry out such operations, particularly on the GE90 engines.

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

AFI KLM E&M is pursuing its growth strategy in profitable markets and segments by deploying its network of subsidiaries (EPCOR, CRMA, KLM UK Engineering, AMG) and partnerships (AMES, ATI, Spairliners, MAX MRO Services), backed by the strength of its global logistics network.

In 2011, the Group thus affirmed its presence in its growth markets (developing countries, the Americas) by signing a strategic partnership agreement involving the acquisition of a minority shareholding in the Indian company Max MRO Services (26%), dedicated to component support in the Indian market.

AMG, a 100%-owned US subsidiary specialized in component support and aerostructures, enables AFI KLM E&M's presence to be extended in the American market (North and South America).

Aerotechnic Industries (ATI), an AFI KLM E&M-Royal Air Maroc joint venture based at Casablanca airport, offers the market two heavy maintenance bays for medium-haul aircraft. Specialized in the Airbus A320 family, its activity intensified in 2011 with the realization of projects for Air Arabia, MCAP (aircraft leasing), Sénégal Airline, Air Méditerranée, etc. The company is pursuing its development and, in September, received a first Air France aircraft for a heavy check.

For the Boeing B737, AFI KLM E&M is also supported by the KLM UK Engineering facility based in Norwich (UK). Lastly, AMES, a joint venture with Aircelle based in Dubai and specialized in aerostructures, began operations and also served its first customers. These companies enable the Group to ensure a local market presence and contribute to consolidating the workload of the Group's European entities.

AFI KLM E&M is also supported by subsidiaries and partnerships specialized in specific market segments with these centers of excellence supplementing the Group's offer. EPCOR and CRMA are constantly developing their offering in, respectively, APUs (Auxiliary Power Unit) and pneumatic equipment, and engine components.

Lastly, the Spairliners joint venture has a leading-edge proposition with expertise in A380 component support.

Concrete, pragmatic and sustainable growth to meet our stakeholders' expectations

For the Air France-KLM Group, corporate social responsibility is a priority and AFI KLM E&M develops practical maintenance techniques based on sustainable development principles.

Whether at financial, social or environmental level, these actions generate productivity gains, improve working conditions and make a qualitative contribution. The various projects and activities thus enable a reduction in energy and water consumption, while improving levels of performance and service quality.

For the past few years, the *Green Maintenance* commitment has been enshrined within the strategy of the maintenance business, illustrating the drive for sustained and efficient innovation offered within the framework of the company's product and service proposition to the benefit of customers.

An efficient and sustainable innovation dynamic

The green procedures used by AFI KLM E&M are the embodiment of this efficient and sustainable innovation dynamic: sustainable in that they are an integral part of the maintenance processes and efficient since they generate savings. The *Engine Water Wash* technique, the installation of LED strip lighting in hangars and on board Fokker 70s, the recycling of waste metal, the dismantling of aircraft and the use of the innovative *ECOSHINE*® wet polishing process for cleaning aircraft which, after one year in use, has fulfilled all its promises (productivity gain and, particularly, a substantial reduction in the consumption of water, fuel and CO_2 emissions) are all examples of this innovation in action. The latter technique is currently being studied for use in the cleaning of landing gear, pointing to a potentially significant further reduction in consumption.

Infrastructure is the subject of the same approach which consists of capitalizing on ecological innovation. All the existing buildings, hangars and workshops take into account HQE (High Quality Environment) principles. Following an audit carried out in December 2011, the EQUINOXE building in Orly was awarded the HQE Operations label thanks to the thoroughness of a highly-motivated project team and the commitment of the "residents". Similarly, the future engine test bench facility at Roissy-Charles de Gaulle, whose delivery is expected in June 2012, will be equipped with a revolutionary new system for reducing noise disturbance. This test bench facility represents an investment of €43 million.

The sustainable development approach mobilizes all employees around a commitment to ongoing progress in this area. Their knowledge is both reinforced by training initiatives and transmitted via the apprenticeship dynamic. Their involvement and ingenuity are very genuine as testified by the 5,100 suggestions submitted in 2011, enabling savings and the avoidance of costs amounting to some €21 million. Many of the suggestions concern the environment, safety, productivity and the working environment.

Listening to stakeholders

As with its customers and employees, the Group listens to other stakeholders and is sensitive to their expectations. Within the spirit of a win-win approach based on mutual respect, the company capitalizes on constructive, long-term relationships. In terms of corporate citizenship, AFI KLM E&M is an economic and social player which prioritizes local roots. Dialogue is established via bilateral discussions or to coincide with specific events such as the Paris Air Show, enabling a better understanding of the issues for each of the parties. Within the framework of a continuous improvement, systematic feedback helps to enrich this dialogue.

An ongoing improvement in levels of performance

The operational processes approach consolidated by AFI KLM E&M is aimed at an ongoing improvement in levels of performance to the benefit of customers and other stakeholders.

Its effectiveness having been confirmed in June 2011, AFI's Single & Global Certification constitutes the formal recognition of the validity of this system which is based on nine international reference standards: ISO 9001 (Quality), 14001 (Environment), 15489 (Documentation Management), 22000 (Food Hygiene), EN-Aeronautics Maintenance 9100 (Design), 9110 (Realization), 9120 (Storage), OHSAS 18001 (Occupational Health and Safety).

The positive results of the ISO 26000/Corporate Social Responsibility (CSR) evaluation carried out in November 2010 are an integral part of the certification process and the evaluation momentum will continue at the same rate.

Air France Industries was the first aeronautics maintenance operator in the world to integrate ISO 26000 in its practices and is still able to leverage this distinctive advantage.

Results of the maintenance business

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

Financial year from April 1 to December 31, 2011

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

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

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

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

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

Key figures for the maintenance business

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

2.7 Other businesses

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

The main activities in this sector are the catering business and Transavia's leisure business. Over nine months to December 31, 2011, total revenues from these other businesses amounted to €1.09 billion (+2.1%) and income from current operations stood at €25 million (€7 million at December 31, 2010). Over twelve months to December 31, 2011, revenues amounted to €1.35 billion (+3.0%) with a loss from current operations of €28 million (versus a €47 million loss at December 31, 2010).

Servair

The catering business is regrouped around Servair, an Air France subsidiary which generates more than 97% of the revenues of this activity and KLM Catering Services, a KLM subsidiary working almost exclusively for KLM.

A more than 97%-owned subsidiary of Air France, Servair is the leader in the French catering market and ranks number three amongst the airline catering companies globally.

As the day-by-day partner of the airlines for in-flight services and passenger comfort, Servair exercises its activity in three main areas:

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

To date, some 22 of the Servair production sites are ISO 9001 certified while the Canton and Macau sites have HACCP and ISO 22000 certification. Since 2010 Servair has sought to perpetuate and extend the drive for ever-higher overall quality standards with the Safety and Environment label. Four sites currently benefit from this label. The Servair laboratory in Roissy, which carries out more than 40,000 microbiological analyses annually, has had COFRAC accreditation since 2005, testifying to its technical and organizational expertise.

Servair has operations at more than 54 airports in 19 countries and has 75 sites including 57 kitchens. During the last financial year, the company developed a logistics platform for the production units in the Paris region aimed at supply rationalization.

Servair pursued its international development strategy with local partners in Dakar, by investing in a food production facility and, in the Congo and Ghana, through catering and commercial units in airports.

Financial year from April 1 to December 31, 2011

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

The catering business generated total revenues of €725 million including €282 million of third-party revenues at December 31, 2011 (€667 million and €246 million, respectively, at December 31, 2010). Income from current operations stood at €18 million (€12 million in the previous year).

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

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

Over twelve months pro forma to December 31, 2011, the catering business generated revenues of €955 million (+8.8%) including €376 million of third-party revenues (+15%) and income from operations of €25 million versus €10 million at December 31, 2010.

Key figures for the catering business

12-month financial year to	December 31, 2011 (pro forma)	December 31, 2010 (pro forma)	March 31, 2011 reported
Total revenues *(In €m)*	955	878	897
Third-party revenues *(In €m)*	376	327	340
Income from current operations *(In €m)*	25	10	18

Leisure: a low cost offer

The Air France-KLM Group has a leisure offer through its Transavia subsidiary. The leisure business of its Martinair subsidiary had been considerably scaled back since 2010 and was closed at the end of 2011.

Transavia, the Group's low cost subsidiary, has operations in the Netherlands and France directed at medium-haul leisure customers as well as, via its charter flights, tour operators. It has a fleet of 38 Boeing B737-700 and 800 aircraft, of which 30 aircraft are operated out of Amsterdam and eight out of Paris Orly, with five additional aircraft being having been leased during peak periods. In the Netherlands, Transavia offers some 100 destinations around the Mediterranean rim out of Amsterdam, Eindhoven and Rotterdam. In France, Transavia offers around 18 tourist destinations out of Paris Orly.

2011 marked a key turning point with a substantial improvement in Transavia's profitability. While, in 2010, the airlines had been negatively impacted by the shutdown of the European air space, activity in 2011 suffered from the political crises in major tourist destinations like Tunisia and Egypt. Furthermore, the sluggish economic environment particularly in Europe and the high oil price weighed more on the charter flight segment than on that of scheduled flights which continues to grow. However, the refocusing of Transavia Netherlands on its domestic market with the closure of operations in Denmark during the first quarter of 2011 and those of Martinair leisure, the reduction in costs and the productivity improvement programs together with the increase in ancillary revenues all enabled a significant improvement in the results of the leisure business.

Financial year from April 1 to December 31, 2011

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

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

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

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

The leisure business generated revenues of €911 million (-0.3%) and a €33 million loss from operations including a €5 million loss for the Transavia Group, which represented a significant improvement on the previous year (a loss of €35 million at December 31, 2010).

Key figures for the leisure activity

12-month financial year to	December 31, 2011 (pro forma)	December 31, 2010 (pro forma)	March 31, 2011 reported
Number of passengers *(In million)*	6.8	6.5	6.5
Total revenues *(In €m)*	911	912	915
Income/(loss) from current operations *(In €m)*	(33)	(61)	(54)

2.8 Highlights of the beginning of the 2012 financial year

The highlights of the beginning of the 2012 financial year were the presentation and implementation of the Transform 2015 plan and the first quarter traffic figures for both the passenger and cargo businesses.

Transform 2015 plan

(see also Section 2 – Strategy)

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

- Capacity growth has been revised down. In 2011, capacity growth was 4.7% at a constant perimeter and will be limited to 1-2% in the next three years.
- In line with the limited increase in capacity, investments have been revised down, particularly investment in the fleet which will be, before sale and lease back operations, a maximum of €700 million in 2012, €600 million in 2013 and €300 million in 2014 compared with €1.2 billion in 2011. After sale and lease back operations and including other investments (investment in ground operations, capitalized maintenance costs, spare parts, product), net investments will amount to €1 billion in 2012, €1.6 billion in 2013 and €1.5 billion in 2014.
- The immediate cost-cutting measures have already largely been implemented, and notably the payroll measures, with a freeze on general salary increases at Air France in 2012 and 2013 and wage moderation at KLM, a reduction in overhead costs and network adaptations. These measures should generate more than €1 billion in savings over the next three years, of which €280 million in 2012, €390 million in 2013 and €400 million in 2014. At the same time the Group will pursue its ongoing cost measures.
- The first stage of the structural transformation plan was completed on March 20, 2012 with the signature of framework and methodology agreements between Air France and the unions representing flight deck crew, cabin crew and ground staff. These agreements relate to the objectives (notably the 20% improvement in economic efficiency in 2014 relative to 2011 over the entire scope of the Company's activities), the schedule and the key issues for negotiation. The second stage which is already under way is aimed at the signature of new collective agreements by the end of June 2012 at Air France. At KLM, negotiations have also commenced to renew the collective agreements and also result in wage moderation in June.

In parallel with these negotiations, a series of project groups have been set up to evaluate the situation, identify the key objectives necessary for recovery and propose the priority actions required to achieve them. A status report was made on April 2. In addition to restoring competitiveness which is the subject of the afore-mentioned negotiations, the following orientations were presented:

- Win back customers: an action plan will be launched to refocus the organization and its processes on the customer, improve products, develop digital and e-business communications to consolidate Air France's leadership in mobility and personalization and create new business models.
- Restore and reposition long haul: this network is suffering from the economic crisis, higher fuel costs, increased competitive pressure and higher costs than the competition. While the reduction in production costs is an absolute priority, a return to operational excellence, particularly for on-time performance, is required together with investment in the product conditional on the success of the savings plan. Air France must also find ways to respond to growing leisure travel demand.
- Restructure medium haul: the goal is to return to break-even for point-to-point service in 2013 and for the entire medium-haul business in 2014. The Group has already identified the first steps which include developing the Transavia subsidiary under its own or another brand and extending the Provincial Bases model to the rest of the point-to-point network, particularly Paris-Orly. All components of the offer will also be clarified and optimized. Lastly, the working relationship between Air France and its regional subsidiaries will also be improved.
- Accelerate the transformation of cargo: several improvement priorities have been identified in freight, particularly in the areas of purchasing, fleet and business development via enhanced integration between Air France, KLM and Martinair.
- Develop growth segments in the maintenance business: priority actions should significantly improve competitiveness in the Heavy Maintenance activity and accelerate the development of the promising engines and equipment segments.
- Simplify the organization: a new organization will be established to improve Air France's responsiveness and flexibility by streamlining procedures, reducing the number of hierarchical levels and deepening the integration with KLM.

Activity

During the first quarter (January-March 2012), passenger traffic increased by 5.5% for capacity up by 1.6% leading to a 3.1 point increase in load factor to 81.6%. The Group carried 17.5 million passengers (+5.6%). While passenger unit revenues were higher than in the same period of the previous year, their level was not sufficient to absorb the increase in the fuel bill. Cargo traffic declined by 6.1% for capacity down by 2%, the load factor falling by 2.9 points to 64.9%. Unit revenues were lower than their level of the 2011 first quarter when activity had still been dynamic.

For the 2012 financial year, the economic environment remains uncertain while the fuel price stands at a record level in euros. The fuel bill is likely to increase by €1.1 billion euros (based on a forward curve at March 2, 2012 and a euro/dollar exchange rate of 1.32 in 2012). As a result, the first half operating result is expected to be below that of the previous year. The second half should, however, benefit from the first effects of the three-year plan. Furthermore, the Board of Directors has fixed an objective of net debt of a maximum of €6.5 billion at the end of the 2012 financial year.

There has been no significant change in the Group's financial or trading position since the end of the last financial year for which the reviewed or audited financial statements have been published.

2.9 Fleet

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

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

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

There were firm orders outstanding for 61 aircraft at December 31, 2011 while options stood at 73 aircraft (53 at March 31, 2011).

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

A pro-active fleet policy

The Air France-KLM Group pursues a pro-active fleet policy whose objective is to ensure a fleet scaled in line with traffic growth and achieve technical consistency while reducing its environmental impact.

The fleet policy is established according to the following four key principles:

- meet the need for fleet renewal and expansion;
- 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.

In 2011, in line with previous commitments, the Group took delivery of 35 new aircraft and withdrew 35 aircraft from the fleet. The renewal of the Air France fleet thus continued despite a deterioration in the economic environment with the Air France-KLM Group pursuing the modernization of its fleet.

The Group also manages the flexibility of its fleet through its operating lease policy. Every year, for each type of sub-fleet, a certain number of contracts expire. Subject to notice periods, the Group can thus adapt its fleet by terminating the contracts or, inversely, renewing them. The Group also uses sale and lease back operations to accompany the end of operations for a sub-fleet and stagger the withdrawal of aircraft from the fleet and the potential entry of replacement aircraft.

An adjustment in the aircraft delivery schedule and investment, while protecting the future

Within the framework of the transformation plan, the Group decided to limit the total growth in its capacity over the next three years to 5%. As a result, the fleet plan has been revised down. The Group has cancelled three options on Boeing B777-300ERs, postponed the delivery of three medium-haul aircraft from 2012 to 2015, deferred three options on Boeing B777s for four years and, lastly, transferred one option between the two airlines.

A first joint order for long-haul aircraft at Air France and KLM

In November 2011 Air France-KLM announced a joint order for 110 Airbus A350 and Boeing 787 aircraft (50 firm orders and 60 options), subject to finalization of discussions with the manufacturers. This order is to replace, in the medium term, the aircraft with 200/300 seats currently in the fleet and to support the Group's growing operations.

In late December 2011, the Group signed a contract with Boeing placing firm orders on 25 B787-9 aircraft, with options on an additional 25. The selection of engines for the Boeing B787-9 will be made later. Discussions are also continuing with Airbus.

2.9.1 The Air France Group fleet

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

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

The changes in the fleet were as follows.

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

* *Deliveries, operating lease and finance lease.*

The Air France fleet

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

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

The fleet of the regional subsidiaries and Transavia

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

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

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

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

2.9.2 The KLM Group fleet

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

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

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

* *Deliveries, operating lease and finance lease.*

The KLM fleet

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

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

The subsidiaries' fleet

Other non-regional fleets

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

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

Regional fleet

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

Air France fleet

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

Regional fleet

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

Other fleet

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

KLM fleet

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

Regional fleet

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

Other fleet

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

Air France-KLM Group fleet

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

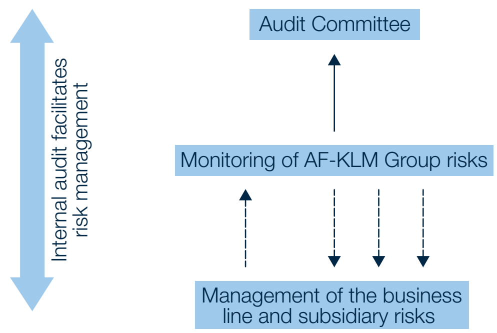
Risks and risk management

3

3.1 Risk management process

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

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



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

3.2 Risk factors and their management

3.2.1 Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

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

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis, such as the one being traversed currently with an unstable economic environment, are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions The Group also monitors demand closely so as to adjust capacity thanks to flexible management of the fleet (*see also Section 2, Fleet, page 66*).

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

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs notably due to the fall in demand and to higher insurance and security costs. Certain aircraft also saw a decline in their value. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated in Asia.

In 2011, the geopolitical situation resulting from natural disasters occurring in Japan and political events (Arabic and African countries) significantly impacted the company's operations to and from these regions.

In terms of safety, the airlines in the Group comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures deployed.

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

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

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

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

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

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

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

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

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

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

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

Risks linked to the consumer compensation regulations

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

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

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

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

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

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

The improved US airline passenger protection regulation came into effect on August 23, 2011 (the deadline for its application by the airlines being delayed until January 24, 2012). It mostly aims to strengthen the disclosure requirements, particularly in terms of advertised fares and baggage policy, but also cover the banning of any post-purchase price increases, the possibility of cancelling a reservation with no penalty for 24 hours after the reservation is made and the notification of any changes in flight status.

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

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

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that the Air France-KLM Group is concerned by these new US protections.

Generally speaking, the industry is seeing ever-stricter regulations and, with each country having its own requirements in terms of consumer rights, the accumulation of stricter and increasingly-detailed provisions can sometimes prove contradictory or inconsistent. This is increasing the obligations of airlines, together with their expenses and procedural risks (*see also Section 6, Passenger rights, page 285*).

Risks relating to the environment

The air transport industry is subject to numerous environmental regulations and laws relating, amongst other things, to aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste products and contaminated sites. Over the last few years, the European and US authorities have adopted various regulations, notably regarding noise pollution and the performance of aircraft, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

The aviation sector is now included in the European Union Emissions Trading Scheme (EU ETS) pursuant to European Directive no. 2008/101/EC of November 19, 2008, in force since January 1, 2012.

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

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

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

The Air France-KLM Group is constantly seeking ways to reduce its fuel consumption and carbon emissions:

- at its own initiative: modernization of the fleet and engines, improved fuel management, fuel savings plan, reduction in weight carried, improved operating procedures;
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), operating procedures. The Group supports and calls on research into the development and use of new more environmentally-friendly fuels (biofuels).

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

Risks linked to the oil price

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

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

The Air France-KLM Group has a policy in place to manage this risk *(See also Market risks)*. The Group also makes a consistent effort to reduce its fuel consumption and is developing a series of procedures and innovative solutions enabling fuel consumption to be optimized.

Operating risks

Natural phenomena leading to exceptional situations

Air transportation depends on meteorological conditions and can be affected by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which can lead to operational disruption such as flight cancellations, delays and diversions. Generally speaking, the duration of such adverse natural events tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace. They can, however, represent a significant economic cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). On the other hand, the closure of an airspace over several days, as was the case in April 2010 in Europe following the eruption of an Icelandic volcano, has very major commercial, human and financial consequences for the airlines and their passengers. Similarly, the bad weather in late 2010 at a number of European airports had significant operational and financial repercussions for the activity of the Air France-KLM Group given the regulations requiring the company to assist passengers in the European Union territory.

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

Risk of food poisoning

The in-flight service policy provides for food to be served to passengers during most long and medium-haul flights. These meals are prepared in catering facilities belonging either to the Group entities responsible for airline catering or to independent service providers.

As with all food preparation, there is a risk of food poisoning. To limit any potential damage to its reputation arising from the materialization of this risk, the Air France-KLM Group has taken preventive measures requiring suppliers, whether internal or external, to contractually guarantee the respect of regulatory obligations (granting of the relevant approvals, traceability, ISO 9001 Quality Management certification, etc.). Furthermore, bacteriological analyses based on random sampling carried out by approved laboratories and audits of compliance are regularly conducted at service provider premises.

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

Airline accident risk

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

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

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

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

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

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

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

The materialization of this risk could have an impact on the Group’s image and legal or financial consequences. This risk is covered by the aviation insurance policy *(see also Section 6, Passenger rights page 285)*.

3.2.2 Risks linked to the Group’s activity

Risk of failure of a critical IT system and IT risks

The IT and telecommunications systems are of primordial importance when it comes to the Air France-KLM Group’s day-to-day operations. They comprise the IT applications in the operating centers and used through the networking of tens of thousands of micro-computers.

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

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

The access controls to IT applications and to the computer files at each work station together with the control over the data exchanged outside the company all comply with rules in line with international standards. Campaigns to raise the awareness of all staff are regularly carried out. Specialized companies, external auditors and the IT specialists within internal audit regularly evaluate the effectiveness of the solutions in place.

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

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

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

Risks linked to non-respect of the competition rules

Following the inquiries conducted by the anti-trust authorities in a number of States concerning alleged anti-competitive agreements or concerted actions involving 25 companies in the air freight sector including the Air France-KLM Group, Air France-KLM has reinforced its procedures to prevent any breach of competition law. Since 2007, Air France-KLM has developed its policy to prevent anti-competitive practices by circulating the Air France and KLM *Manual Relating to the Application of the Competition Rules* which is available in three languages. This Manual was updated at the end of 2010 and is available to all employees.

A number of other prevention-based tools are available to the Group’s employees including a hotline dedicated to competition law. In late 2010, a second online training module on the application of the competition rules was introduced to supplement the first module created in 2008. Having followed this training and passed an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their function. Lastly, a manual reiterating the guidelines to be followed in the event of an inquiry by the competition authorities will shortly be posted online and made available to all employees.

Cases of non-respect of the competition rules can have an impact on the Group’s reputation, together with legal and financial repercussions *(see also Notes 30.2 and 30.3 to the consolidated financial statements).*

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalization of the European market on April 1, 1997 and the ensuing increased competition between carriers has led to a reduction in airfares. Furthermore, the Open Skies agreement between the European Union and the United States has been in force since end-March 2008 meaning that European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentially opens the way to increased competition for Roissy-Charles de Gaulle and Schiphol, it has also enabled Air France and KLM to extend their networks and strengthen cooperation within the SkyTeam alliance, particularly within the framework of the implementation of a trans-Atlantic joint-venture with their partners Delta and Alitalia.

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

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

Risks linked to the regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Alliance operations and commercial cooperation are subject to the competition legislation in force. The airlines are required, particularly in Europe, to ensure that their operations comply in full with the applicable competition rules. At any time, the European Commission also has the right to open inquiries into any suspected cases of cooperation it considers of interest to the European Community. In January 2012, the Directorate General for Competition announced the closure of the inquiry dating back nearly a decade concerning the SkyTeam alliance, together with the opening of a new procedure concerning only the members of the trans-Atlantic joint venture (Air France-KLM, Delta, Alitalia) and limited to a few services.

The European Commission departments are thus adopting a consistent approach by successively examining the effects on the European market of the three existing trans-Atlantic joint ventures. This new procedure does not call into question the continued implementation of cooperation between the partners on the trans-Atlantic routes. For their part, the US authorities have already published their conclusions, recognizing the benefits for competition of this joint venture. In this regard, the joint venture between Air France-KLM, Delta and Alitalia has benefited from antitrust immunity (ATI) out of the United States since 2008.

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

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

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

Risks linked to the implementation of the three-year Transform 2015 plan

(See also Strategy page 44)

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

Risk linked to pension plans

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

In December of each year, the Dutch Central Bank indicates the parameters to be used to calculate the solvency levels of the funds. As a function of the results of these regulatory calculations, the company is required to submit to the Central Bank a plan to return to the required level of solvency. Such a plan comprises commitments from the company and temporary or structural proposals from the Board of Directors of the fund. For example, the company may commit to increasing its contribution and the Board of Directors of the fund may recommend temporarily suspending the inflation-indexing of current and future benefits.

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

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

Risks linked to the use of third-party services

The Group's activities depend on services provided by third parties, particularly air traffic controllers and public security officers. Furthermore, the Group increasingly uses sub-contractors over which it does not have direct control. Any interruption in the activities of these third parties (as a result of a series of strikes), or any increase in taxes or the price of the services concerned could have a negative impact on the Group's activity and financial results or damage its reputation.

To secure supplies of goods and services, the contracts signed with third parties provide, whenever possible, for service quality and responsibility clauses. In some cases, sustainable development partnerships are signed with suppliers. Furthermore, business continuity plans are developed by the Group's different operating entities to ensure the long-term viability of the operations through alternative arrangements.

3.2.3 Insurance risks

Since December 1, 2004, Air France and KLM have pooled their airline risks on the insurance market in order to capitalize on the scale effect. There are no material risks within the Air France-KLM Group that are not insured.

Insurance policies taken out by Air France

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

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

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

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

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

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

Insurance policies taken out by KLM

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

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

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

3.3 Market risks and their management

3.3.1 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 market risks and their volatility. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chairman and Chief Executive Officer of Air France-KLM, the Chairman and Chief Executive Officer and Chief Financial Officer of Air France and the President and Chief Financial Officer of KLM.

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

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

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

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

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

3.3.2 Market risks and their management

Currency risk

(See also Note 33 to the consolidated financial statements)

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

The principal exposure relates to the US dollar. Since expenditure on items such as fuel or aircraft operating leases and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars, which means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, Air France-KLM is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar and the risks principally concern Sterling and the Yen. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results.

The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

Operational exposure

For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.

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

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

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

Investment exposure

Aircraft and spare parts are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment.

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The net investments figuring in the table below reflect the contractual commitments at December 31, 2011.

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

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2011, 85% of the Group's gross debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the yen (6%), the dollar (6%) and the Swiss franc (3%).

Interest rate risk

(See also Note 33 to the consolidated financial statements)

At both Air France and KLM, debt is generally contracted in floating-rate instruments. However, given the level of interest rates, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates in order to limit its volatility. After swaps, the Air France-KLM Group's debt contracted at fixed rates represents 73% of the overall total. The average cost of the Group's debt after swaps stood at 3.80% at December 31, 2011 (3.87% at March 31, 2011).

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

The Group's net interest rate exposure amounts to €1.59 billion. Given the nature of the hedging (swaps and tunnels), a 1% increase in interest rates over twelve months would have a negative impact of €21.3 million.

Fuel price risk

(See also Note 33 to the consolidated financial statements)

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM Group.

The hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60%. The underlyings used can be Brent, preferred due to the level of forward prices and liquidity, or middle distillates (fuel oil and jet fuel) enabling the core risk to be hedged but more expensively. Furthermore, the hedging is based on the use of simple instruments that are either un-capped (collars, swaps, calls, etc.) or capped (four ways, call spread, etc.). These hedging instruments must also be compatible with IAS 39.

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

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

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

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

Counterparty risk

(See also Note 33 to the consolidated financial statements)

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

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

Equity risk

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

Liquidity risks

(See also Note 31.8 to the consolidated financial statements)

At December 31, 2011, Air France had an undrawn, fully-available credit facility of €1.06 billion, negotiated with an expanded pool of 15 banks. This credit facility matures on April 4, 2016.

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

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

These ratios are calculated every six months and define certain conditions for the interest payments on the loan. They were respected at December 31, 2011.

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

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

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

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

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

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

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

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

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

Financing risks

Financing strategy

(See also Section 5.1.2 Financing page 133)

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

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

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

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

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

Air France Group

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

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

KLM Group

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

Air France-KLM holding company

(See also Note 31.2 to the consolidated financial statements and Section 6, Infomation relating to the share capital, page 271)

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

Investment risks

(See also Note 32 to the consolidated financial statements)

The cash resources of Air France, KLM and the holding company are invested so as to maximize the return for a very low level of risk. They are thus invested in money market mutual funds and in debt securities and term deposits with highly-rated banks.

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

3.4 Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management for the 2011 financial year (April 1–December 31)

(Article L. 225-37 of the Code of Commerce)

For the establishment of this report, the Chairman consulted the Director of Internal Control and Internal Audit and tasked the latter with obtaining all the information required for the aforementioned report from the different entities of the Air France-KLM group. This report was then commented on by the Audit Committee and the Statutory Auditors before being approved by the Board of Directors.

Following the change in the opening and closing dates for the financial year decided by the Combined Ordinary and Extraordinary General Shareholders' Meeting of July 7, 2011, the 2011 financial year exceptionally comprises a nine-month period (April 1-December 31).

I - Conditions for preparing and organizing the work of the Board of Directors

See Section 1 – Corporate governance – Board of Directors.

II - Modalities for shareholder participation in the Shareholders' Meeting

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

III - Internal control

3.4.1 Definition and goal of internal control

Air France-KLM uses the COSO (Committee of Sponsoring Organisation of the Treadway Commission) standards to implement internal control for the Group and the two sub-Groups, Air France and KLM.

According to this standard, internal control is a process defined and implemented by the Group's senior management, line management and employees, intended to provide a reasonable level of assurance that the following objectives are achieved:

- the performance and optimization of operations;
- the reliability of the accounting and financial information;
- the compliance with the laws and regulations in force.

The standards are based on the following principal components:

- the control environment;
- the assessment of risks;
- the control operations;
- the information and communication;
- the monitoring of internal control.

The standards correspond to a specific set of actions, tasks, practices and controls for each of the company's functions.

One of the objectives of the internal control system is to prevent and control the risks linked to the company's activity, as well as the risks of error or fraud, notably in the areas of accounting, finance and revenue management.

Internal control can only help the Group to achieve its objectives and provide a reasonable assurance on their realization. As such, it 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 since April 2005. Internal Control Coordinators have also been appointed in each Air France-KLM group entity considered to be significant by virtue of its impact on the Group's financial statements. There are six employees working within the Internal Control divisions and there are 40 Internal Control Coordinators.

Overall internal control structure

The structure described below is a summary of the organization in place in each of the two sub-Groups as outlined in the Chairman's reports on internal control prepared by Air France and KLM. At the request of the Air France-KLM holding company, the Dutch company KLM has established a report on internal control in accordance with the French Financial Security Law.

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

- **The Board of Directors** is the corporate body that directs and oversees the management of the Group; to this end, the Board works with the Group Executive Committee to ensure the successful operation of the Air France-KLM group, supported by advice from the specialist committees described in *Section I - Corporate governance*.
- **The Group Executive Committee** is tasked with defining the joint strategic decisions on commercial, financial, technical and operational issues for the two companies.
- **The Finance functions** are performed by each of the two companies within the framework of the organization that was in place at the time of the merger and they report to the Group Executive Committee.

  In April 2005, a Finance division was created within the holding company. This division is responsible for consolidation operations (accounting rules and principles and the consolidation of Air France-KLM's results), financial disclosure (management reporting, estimates, budgets, investment plans, medium-term plan), and financial communication (preparation of annual reports, quarterly announcements, press releases, relations with investors and the market authorities).

  Some operations relating to the Air France-KLM holding company are entrusted to Air France *via* a management mandate (notably cash management).
- **The Insurance functions** are responsible for identifying risk sectors of the Group that might impact the operations and financial results in order to reduce 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.

  An aviation insurance policy for the entire Air France-KLM group was contracted at the end of 2004 covering civil liability, damage to aircraft and risks of war, which are the major financial and legal risks of any airline.
- **The Legal departments** of both companies perform a consulting mission for their management and decentralized organizations in legal matters, transport law, contract law and insurance law.
  They systematically draw up an inventory of the disputes in process to assess the corresponding provisions booked as liabilities.
  In April 2005, a Legal Affairs division was created within the holding company.
- **Internal audit**
  The management of a group such as Air France-KLM is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies stronger internal control functions in order to provide the Group's management with the reasonable assurance that this autonomy is being used correctly by each entity. Internal control is vital for effective governance, both at the Board of Directors level and at the level of the Group's different businesses.
  In order to strengthen internal control, Air France-KLM has established an Internal Audit division which is characterized by its independence. The very presence of such a division is a strong impetus to effective risk management and internal control.
  Internal audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated goals by providing a systematic and formal approach with which to evaluate and strengthen the effectiveness of the following processes: decision-making, risk management, internal control and governance. 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 Internal Audit Director has overall responsibility and provides the coordination, reporting directly to the Chairman and Chief Executive 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 holding company, its subsidiaries (Air France and KLM) and its sub-subsidiaries. Audits are conducted in collaboration with the internal auditors of the two airlines.
  There are 33 auditors (excluding management structure).
  The Internal Audit division reports on its work to the Group Executive Committee and to the Audit Committee of Air France-KLM in a summary report presented quarterly.
  In order to carry out its mission, Internal Audit, which operates within the framework of the Internal Audit Charter established by the Audit Committee of the Air France-KLM holding company, 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 to the Group Executive Committee and to the Audit Committee of the holding company for approval.

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 with the corresponding recommendations.

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

The Internal Audit division of the Air France-KLM group has been awarded professional certification by the IFACI (*Institut Français de l'Audit et du Contrôle Interne*). This body certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2011 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented. This certification is valid until January 19, 2015.

Organization of responsibilities

The organization of each company 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 entities and subsidiaries concerned 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. This charter's corporate and ethical policy is based on 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 department.

Internal Audit Charter

The terms of the Air France-KLM group's internal audit charter were determined by the Audit Committee of the Air France-KLM holding company in November 2005, then revised within the framework of the work carried out for Internal Audit certification.

The internal audit charter defines the mission, objectives and responsibilities of the Audit division and guarantees its independence as well as the conditions under which the division functions.

In accordance with the national and international professional Code of Ethics, it formalizes the position of audit within the business and defines its sphere of operation.

It also specifies the operating methods and the different phases of the missions carried out together with the summary reports on their execution.

Procurement Quality Manual

The *Common Working Platform* document of January 2007 serves as the basis for the organization of the purchasing function common to Air France and KLM (*see 3.4.4 Procurement*) which is outlined in the Procurement Quality Manual.

The Procurement function regularly updates the Quality reference system. This system comprises, notably, the purchasing Code of Ethics for Employees, which stipulates the rules of conduct for all employees 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 and the environment: ISO series 9001, 14001, 22000, 26000 standards, and OHSAS 18001.

Internal standards

These represent the application of the external standards, adapted to the processes of each company.

Regulations: operating, maintenance and security manuals and the related general procedures, which are mostly subject to formal approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.).

Management systems: the QSE (Quality, Safety, Environment) manual of Air France and the quality manual of KLM and the related general procedures.

Passenger service: the seven services standards, the PAMs (Passenger Airport Manual), general sales and after-sales conditions and other procedures associated with customer service common to Air France and KLM.

3.4.3 Risk assessment

The Air France-KLM Group is exposed to the general risks linked to air transport and the running of any business:

- risks linked to the seasonal and cyclical nature of the air transport industry;
- risks linked to terrorist attacks, the threat of attacks, geopolitical instability, epidemics and threats of epidemics;
- risks linked to changes in international, national or regional regulations and laws;
- risks linked to the loss of flight slots and lack of access to flight slots;
- risks linked to the consumer compensation regulations;
- risks linked to the environment;
- risks linked to the oil price;
- operating risks (natural phenomena leading to exceptional situations, risk of food poisoning, airline accident risk);
- risks linked to the failure of a critical IT system and IT risks;
- risks linked to non-respect of the competition rules;
- risks linked to inquiry by the regulatory authorities into commercial cooperation agreements between carriers;
- risks linked to the commitments made by Air France and KLM to the European Commission;
- risks linked to competition from other air and rail transport operators;
- risks linked to financing;
- risks linked to the negotiation of collective agreements and labor disruptions;
- risks linked to pension plans;
- risks linked to the use of third-party services;
- insurance risks;
- legal risks and arbitration proceedings;
- market risks (currency exchange rates, interest rates, fuel, liquidity, financing and investment.

Risk analysis process

The risk management process aims to identify events that could potentially affect the Group and prevent it from achieving its objectives, implement measures enabling such events to be controlled and establish a reporting system. A process for the management and reporting of strategic and operational risks has been in place for the last six years, enabling the different divisions and principal subsidiaries on one hand and the Group Executive Committee and Audit Committee on the other to monitor the principal risks, their evolution over time and the measures in place to manage them.

More generally, the risk management process aims to establish and preserve the Group's value, assets and reputation. It mobilizes the Group's employees to ensure control over the principal risks.

The risk management process aims to ensure that all levels of the Group's management have a better knowledge of the risks incurred in their area, enabling them to take the appropriate decisions, make managers accountable for identifying and controlling risks and keep the Group Executive Committee and Board of Directors fully informed on the risks identified and the measures implemented for their control.

A risk mapping process has been established and is updated on a regular basis.

The operational risk management procedures are based on a bottom-up approach starting in the different Air France and KLM divisions and the five main sub-subsidiaries. Every quarter, the Internal Control Coordinators designated by the different businesses, entities and subsidiaries establish the risk sheets and send them to Internal Audit which is responsible for overseeing the consolidation process at company and Group level. The risk sheets detail the inherent material risks faced by each Group entity and the action plans implemented to mitigate or neutralize them, together with an evaluation of their probability and the 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 each Internal Control Coordinator.

The strategic risk sheet is established once a year after the Group Strategic Framework meeting.

The Group risk sheets (a summary of operational risks), together with the accompanying documentation detailing the new risks, the main developments and risks that have been removed, are, every quarter, the subject of a presentation to the Group Executive Committee which approves them prior to their presentation and review by the Audit Committee.

The overall risk management procedure also serves as a basis for the Registration Document and for establishing the annual audit program.

Group Internal Audit also conducts periodic reviews of the risk management and reporting processes whose conclusions are presented to the Group Executive Committee and the Audit Committee.

3.4.4 Control activities

Operational procedures and processes

Management of the quality system

Both the Air France (QSE management system manual) and KLM quality manuals outline all the general provisions of the quality system implemented 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 which enable 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) obtained in 2011 and valid through to 2013;
- ISO 9001 (2008 version) for management systems efficiency;
- ISO 14001 (2004 version) certification for the validation of environmental management systems.

Quality assurance

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

Internal monitoring is carried out by the quality assurance departments articulated around:

- an audit program (covering, in particular, the areas of organization and management, flight operations, flight planning, ground handling and freight, hazardous merchandise, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- pro-active prevention processes.

External monitoring is carried out by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, which takes the form of audits of the operating principles and of the Group's proprietary internal monitoring system. Air France and KLM are also regularly audited by their customers and partners.

Monitoring of partners

The monitoring of sub-contractors and suppliers is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities.

Code share partnerships are subject to additional IOSA certification performance requirements, the recognition by the profession of having achieved a certain level of flight safety standards. 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 and were reviewed within the framework of the Sarbanes-Oxley Act for the 2006-07 financial year. For the financial year ended December 31, 2011, 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/Stemband* (KLM) methods.

The work carried out in connection with internal control projects and the ongoing project to gradually establish a coordinated and optimized organization lead 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

Launched in December 2007, the common Air France-KLM Procurement organization has been officially 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 is structured around ten procurement teams. The procurement teams act in a transverse and coordinated manner for each of the Air France and KLM companies as well as, when required, for 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, 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, manages 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

The Internal Audit division includes a Fraud Prevention unit that acts to prevent risks relating to the fraudulent use of stolen, falsified or illegally paid tickets and improperly acquired *Flying Blue* miles.

Financial procedures and processes and the year end

Finance process

- Investments are managed at the level of each company based on their specific processes. Major investments, particularly in aircraft, are submitted for approval to the Group Executive Committee (fleet, acquisitions, disposals, etc.).
- Risk management:

The management of Air France–KLM's market risks is overseen by the Risk Management Committee (RMC), which comprises the Chairman and Chief Executive Officer and Chief Financial Officer for Air France and the Chief Executive Officer and Chief Financial Officer for KLM.

This committee meets every quarter and, after examining the Group reporting, determines the hedges to be set up during the forthcoming 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 Cash 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 Cash 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 executive management.

The Air France and KLM cash positions are monitored daily and are the subject of a monthly report to the finance departments of the two sub-groups. These reports include 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. Since 2008, the Risk Management Committee has set minimum thresholds in terms of the financial quality of counterparties, determined the maximum amount to be allocated to a single counterparty and been responsible for monitoring the quarterly positions.

The fuel hedges are covered in a weekly report forwarded to the executive managements of 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 presentation to the Audit Committee; this was the case during the autumn of 2009 with the Air France-KLM group's new fuel hedging strategy.

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 departments of the company and subsidiaries must comply with the Group's accounting rules, methods and standards defined by the parent company, and the presentation of the financial statements must comply with the format circulated by the Group.

All companies within the Group refer to the Accounting Procedures Manual which is based on the international financial reporting standards governing the establishment of the financial statements of European listed companies.

The consolidated financial statements are submitted to the General Management then presented to the Audit Committee every quarter. Furthermore, the half-year and annual financial statements are also reviewed by the Statutory Auditors prior to their formal closure.

The parent company's financial statements are closed annually, reviewed by the Statutory Auditors and presented to the Management and the Audit Committee.

Process for reporting passenger and cargo revenues

This process is performed in each of the companies and enables weekly revenue figures to be communicated to management. Air France has also established a procedure known as the progressive revenue process that makes it possible to know the estimated amount of passenger revenues with only a two-day time lag for its own operations and those of franchisee subsidiary airlines.

In addition, departments in each company analyze the results by market and by route (unit revenues per passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer etc.) for the passenger and cargo businesses.

Management control reporting process

The management control departments coordinate the reporting process for the past month and, at the beginning of the following month, establish a management estimate based on the available information.

In liaison with the Group's principal divisions and subsidiaries, they 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, they produce a monthly document (management report) that summarizes the monthly key business and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year.

This monthly Group management report is presented to the Group Executive Committee.

3.4.5 Information and communication

The Group's information and telecommunication systems are based on the proprietary systems of the two companies, Air France and KLM, which permanently seek to optimize resources and maximize synergies. A single Group manager oversees the two IT and Telecoms departments, facilitating their convergence.

Communication within the Group is organized to ensure the effective circulation of information in all directions, whether from the bottom up, top down or transverse.

Internal communication supports the implementation of internal control and risk management by providing objectives, instructions 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 internet 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's companies.

The following activities are common to the two Air France and KLM sub-Groups:

- the passenger activity, covering all the operations involved in the transportation of passengers, including the network, marketing, sales and production departments that provide the services required for flight and ground operations;
- the cargo activity that conducts cargo marketing and operations;
- the engineering and maintenance activity responsible for maintenance and engineering operations for the airframes, components and engines;
- the leisure activity comprising the charter and low cost businesses of Transavia.

Lastly, the central support functions of Human Resources, Finance in the broad sense and Information Systems are proprietary to each of the companies.

Strategic decisions in the commercial, financial, technical and operational areas are coordinated by the Group Executive Committee, which is the principal governance body described in Section III above. This governance body is supported by divisions at the holding company level in the areas of finance, legal/secretarial services for the Board of Directors, internal control/internal audit, relations with the European bodies and coordination of the SkyTeam alliance.

The Air France-KLM consolidation scope includes 197 companies, of which 164 are fully consolidated due to the level of control exercised. Air France, KLM and Air France-KLM respectively control 94, 65 and two subsidiaries and sub-subsidiaries. Only five of the Air France group subsidiaries and three KLM group subsidiaries generate third-party revenues in excess of €100 million.

The Air France and KLM operational companies represent more than 87% of the Group's revenues and 72% of the Group's total balance sheet.

The forward-looking management of the Air France-KLM Group is organized on the basis of the following three key procedures:

- the broad strategic orientations of the Air France-KLM Group are defined and prioritized within the context of a Group Strategic Framework (GSF), bringing the senior executives of Air France and KLM together at an annual seminar;
- the Medium Term Targets (MTT) represent the expression of this vision, covering a three-year time horizon for each of the two companies and their respective principal subsidiaries in terms of growth, investment and the related human resources. The Medium Term Target must enable each business to prepare and submit their financial performance objectives within the framework of the orientations defined by the Group Strategic Framework in terms of the development of the business (growth, strategic priorities), operational targets (unit revenues, action plan for revenues and costs), investment and the related human resources.
  The action plans together with comprehensive financial figures are presented to and discussed by the Group Executive Committee in November and December of each year with the definition of plans on revenues, costs, staff, investments and cash flows;
- the budgets for the year, which include the first year of the Medium Term Target, are established by cost center and consolidated at the level of each business (Passenger, Cargo, Maintenance, Other) at the level of the company then the Air France group (by adding leisure business) and, lastly, the Air France-KLM Group.

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 evaluated on the basis 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.

At the time of the delisting from the New York Stock Exchange, Air France-KLM's Group 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, 2011.

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.

Jean-Cyril Spinetta
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.

9-month period ended December 31, 2011

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 law (*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 9-month ended December 31, 2011.

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 disclosures 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 procedures 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 the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Paris La Défense and Neuilly-sur-Seine, March 26, 2012
The Statutory Auditors

KPMG Audit *Division of KPMG S.A.*		Deloitte & Associés
Valérie Besson *Partner*	Michel Piette *Partner*	Dominique Jumaucourt *Partner*

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.

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Social and environmental data

4

4.1 Social data

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

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

* *New accounting year end of December 31.*

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

Sixty-nine per cent of staff are employed by the Air France Group and 31% by the KLM Group.

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

Sixty-six per cent of the Group's employees are between 30 and 50 years old.

The "NRE social" reporting to comply with the requirements of the French New Economic Regulations legislation of May 31, 2001 (NRE) and the European Prospectus Directive (EC 809/2004) is shown in the three tables of indicators (see page 110) and covers 96% of the Group's employees. Virtually all the reported indicators are the subject of verification by one of the Group's Statutory Auditors. The indicators marked with a √ are the subject of verification with a limited level of assurance, based on the ISAE 3000 audit standard.

4.1.1 Adapting the social model to the economic challenges

In a globalized and extremely competitive air transport sector, and faced with the accelerating deterioration in its results, Air France-KLM has launched a transformation plan aimed at restoring the Group's competitiveness over the next three years. This plan has been adapted within each company to ensure the most appropriate response to achieving the priority objectives (see 2.3 Strategy).

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

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

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

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

4.1.3 Air France

Employment

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

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

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

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

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

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

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

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

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

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

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

Organization of working time

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

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

Compensation and sharing the value creation

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

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

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

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

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

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

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

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

Workplace dialogue

The Air France-KLM Group recognizes the constraints and risks to which it is exposed and the need to adapt to a more sustained pace of change. At the same time it needs to maintain cohesion by fostering a high-quality workplace dialogue and pursuing a policy based on treating people with respect.

Within this framework, eight meetings of the European Works Council (bringing together representatives of staff in subsidiaries whose operations or head offices are based in the European Community) were held during 2011 for information or consultation on subjects such as the plan to transform the Air France-KLM Finance function and the creation of a Mileshouse subsidiary (frequent flyer program). A framework agreement on the development of the European outstations was signed in December 2011.

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

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

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

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

In total, 18 agreements were signed during 2011.

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

Health and safety

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

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

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

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

Managing a reduction in workplace accidents

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

Identifying potential problems and sharing experience to ensure more effective prevention

Prevention is at the heart of the process to achieve high standards of health and safety in the workplace at Air France.

The development of ergonomic approaches to the design of infrastructure and processes or to the deployment of new tools enables the potential risks to be anticipated and promotes collective appropriation by organizations. In addition to a Central Ergonomics Unit, the company also has ergonomics experts based in the operational divisions.

The commitment of in-field management and employees, supported by a network of Health and Safety point people, enables the identification of at-risk areas and encourages a safety-first culture.

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

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

The organization of forums and seminars on health and safety in the workplace enables the gradual deployment of a safety-first culture and a focus on safety issues across the company. In-field forums are thus organised for the operating and functional entities in both continental France and the French overseas territories. The organization of benchmarking forums on specific themes such as psychosocial risks, the danger of falling and musculoskeletal disorders also testifies to openness to ideas from outside the company.

Training and coordination to promote the safety-first culture

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

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

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

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

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

Training

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

In 2011:

- Air France achieved nearly 90% of its targets in terms of training;
- in 2011, nearly 95% of ground staff and 100% of flight crew benefited from at least one training initiative.The rate was higher than in 2010 despite the economic and operational context having a significant impact on staff availability for training during periods of peak activity and the availability of training personnel.
- The development of training courses incorporating classroom-based and e-learning modules contributed to maintaining this high rate of access to training in all employee categories and sectors but also met the need for increasingly personalized apprenticeships.

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

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

Fostering equal opportunities and combating discrimination

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

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

Recruitment: equal opportunity and a commitment to internship

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

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

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

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

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

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

Professional gender equality

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

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

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

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

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

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

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

Policy on disability

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

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

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

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

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

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

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

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

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

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

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

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

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

In the same spirit, through its Sodesi subsidiary, Air France has also been committed since 2005 to the Second Chance Foundation for which it coordinates the airport catchment area site located in Roissy. This Foundation contributes to the realization of professional projects by people with serious difficulties. This year, 17 applications were reviewed and 14 individuals were given support with their projects by a volunteer sponsor.

4.1.4 KLM

Workforce and employment

KLM pursues a sustainable employment policy for all employees, based on developing skills and qualifications, encouraging professional mobility and promoting healthy lifestyles. KLM is constantly adapting to the new constraints and challenges of the air transport sector and this policy of change management implies a culture with a strong accent on mobility. Professional mobility and access to vocational training are all ways for employees to acquire new skills and develop their employability.

Employment and mobility

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

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

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

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

Organization of working time

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

Compensation policy

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

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

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

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

Workplace dialogue

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

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

Health and safety in the workplace

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

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

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

Training

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

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

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

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

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

Professional equality

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

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

Vocational integration of disabled persons

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

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

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

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

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

Corporate social responsibility at local level

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

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

4.2 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM Group's social performance indicators were defined to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

In 2011, work to optimize these indicators was undertaken to align, as of this year, the NRE social reporting with the requirements of article 225 of the application decree for the Grenelle II legislation. This update to the social performance indicators was submitted to the statutory auditors, KPMG Audit, for approval before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √ in the tables on pages 110 to 113. They are the subject of verification with a limited(1) level of assurance.

Within the framework of planning for the Grenelle II law, the preparatory work was undertaken on *the Employees by age and geographical region* indicator, the nature of the work carried out and its conclusions being presented in the review report pages 128 and 129.

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 300 employees are included in this NRE social reporting scope.

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

- For the 2011 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Bluelink, Brit Air, CityJet, VLM, CRMA, Regional, Servair Group (ACNA, Bruno Pegorier, CPA, Jet Chef, Orly Air Traiteur, Servair S.A., Passerelle and Base Handling), Sodexi and Transavia France, representing 76% of the employees of the subsidiaries in the Air France Group.
  In 2011, this scope was extended to two new subsidiaries: Aero Maintenance Group (309 employees acquired in early 2011 for which the data was available) and Jet Chef, a subsidiary of Servair Group, with more than 300 employees in 2011.
- For the 2011 financial year, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering Limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 93% of the employees in the subsidiaries of the KLM Group.
  In 2011, the reporting scope of the KLM subsidiaries remains unchanged.

The reference number of employees for calculating the coverage rate of the NRE social reporting is the average number of employees in full time equivalent during 2011 obtained from the Management Control BCF tool.

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

4.2.2 Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYstem for ReportIng on Sustainability) reporting software deployed for contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors to the Osyris tool are available in both French and English.

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

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

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

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

4.2.3 Details and methodology/Commentary on changes in the indicators

"Consolidated NRE social data for the Air France-KLM Group" table

This table presents the indicators relating to employees, recruitment, departures, the proportion of women employees and the percentage working part time. These indicators are consolidated at the level of the Air France-KLM Group.

The following notes refer to the references in the tables on pages 110 to 113.

Employees

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

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

Recruitment on permanent contracts

Note 3: The indicator concerns employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on fixed-term contracts (CDD) transferring to permanent contracts (CDI) during the year.

For KLM, only employees recruited directly on permanent contracts are taken into account.

Recruitment on fixed-term contracts

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

Departures

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

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

Percentage of women - Organization of working time

Note 6: These indicators enable the percentage of women to be evaluated relative to the overall workforce and the proportion of part-time employees on both permanent and fixed-term contracts at December 31 of the reference year.

Employees by geographical zone at December 31

Note 7: The few KLM employees in the Caribbean and Indian Ocean geographical zone are included in the number of employees in the North and South American zone.

The Air France Group employees in the French Overseas Territories, i.e. 684 employees, are included in the Caribbean and Indian Ocean geographical zone.

"Other social data" tables

The indicators reported in the *other social data* tables are subject **to different qualification and legal reporting obligations in France and the Netherlands,** which means they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the reporting scope section.

Absenteeism - Health and safety in the workplace

A significant proportion of the work-related accidents reported by Air France in 2011 were due to **cases of barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France** whereas they are recorded as **sick leave by KLM** in accordance with Dutch law.

Air France

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

KLM and KLM subsidiaries

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

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

Health and safety – Accidents in the workplace

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

Air France

Note 2: Air France's definition of work-related accidents requiring time off work is in line with the definition under French law (at least one day of absence from work). Travel-related accidents are not included in the indicator but are the subject of separate monitoring and action plans.

KLM subsidiaries

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

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

For Air France

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

For KLM and KLM subsidiaries

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

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

Training

Air France and Air France subsidiaries

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

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

KLM and KLM subsidiaries

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

Number of disabled employees

Air France and Air France subsidiaries

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

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

Note that the rate of employment of disabled employees for 2011 was not yet known on the date the figures for the reporting of the NRE social indicators were produced within the framework of the management report and Registration Document.

KLM and KLM subsidiaries

Note 5: For KLM, an individual is considered to be disabled if unable to carry out their work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

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

Collective agreements signed

KLM

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

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

4.3 Social indicators for the Group

4.3.1 Consolidated social data for the Air France-KLM Group

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

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

* ***Air France Group:*** *Air France and Air France subsidiaries.*

Air France subsidiaries: *Aero Maintenance Group, Blue Link, Brit Air, City Jet, VLM, CRMA, Regional, Sodexi, Transavia France and Servair group: ACNA, Bruno Pegorier, Jet Chef, OAT, Servair S.A., CPA, Passerelle, Base Handling.*

The scope was extended to two new subsidiaries in 2011: Aero Maintenance Group and Jet Chef (in the Servair group).

** ***KLM group:*** *KLM and KLM subsidiaries.*

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

N.A: Not available

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

4.3.2 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)*

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

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

Air France subsidiaries

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

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

4.3.3 Other data for KLM (according to local legislation)

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

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

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

KLM Subsidiaries

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

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

4.4 Environmental data

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

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

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

KLM has subscribed to the *Dutch Knowledge and Innovation Agenda,* defining the environmental and sustainable development visions and targets for airlines in the Netherlands. The company is also committed to the *Dutch National Agreement on Sustainability* (sector agreement on Transport, Logistics and Infrastructure for 2008-20).

4.4.1 Overall environmental policy

Organization and responsibilities

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

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

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

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

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

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

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

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

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

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

Environmental management/ISO 14001 certification

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

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

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

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

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

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

Environmental reporting/Verification of extra-financial data

The Air France Group produces environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application, enabling the population, verification and consolidation of the data for all the ground operations to be centralized. For the flight operations, a calculation tool similar to OSYRIS enables emissions to be calculated based on actual flight data (consumption, speed, altitude, etc.).

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

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

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

Training and information for employees on environmental protection

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

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

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

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

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

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

Environmental expenditure and investment

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

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

Environmental risk provisions and guarantees

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

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

KLM's aviation insurance covers environmental damage due to an aircraft crash, fire, explosion or collision. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable. The only exception is the provision made within the framework of the agreement between KLM and the WWF-NL on CO_2-neutral growth between 2007 and 2011.

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

In 2011, a monitoring and regulatory compliance tool was deployed across the company covering all the applicable environmental requirements. This tool also enables the monitoring of any new regulations and the level of their adoption by each division within the company.

Any cases of non-compliance arising from the evaluation questionnaires are formalized and dealt with by an action plan. The CRMA, Régional and Brit Air subsidiaries also have similar tools.

In the maintenance sites listed as ICPE environmental protection facilities (*Installations classées pour la protection de l'environnement*), Air France produces a solvent management plan which is sent every year to the French administration, detailing the quantities of solvents consumed and the related emissions of volatile organic compounds, together with the measures in place to reduce these emissions.

In order to ensure compliance with the legal and regulatory requirements relating to KLM's ground operations outside the Netherlands, KLM has established an environmental code of best practice in its outstations (GEP = Good Environmental Practices).

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities during the financial year.

4.4.2 Pollution and waste management

Prevention, reduction and reparation of air, water and ground emissions with a serious environmental impact

Flight operations

The Air France-KLM Group monitors its atmospheric emissions and particularly low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO_2, SO_2, NO_x and HC.

Ground operations

The effluents released from the Air France-KLM Group's maintenance operations are the subject of regular checks in order to ensure that the thresholds defined by the prefectural decrees are fully respected for each of their sites. The main effluents monitored are pH, nitrogen, phosphorus, metals, COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand).

Prevention, recycling and evacuation of waste

The recycling of onboard waste is an ongoing priority for the Air France Group and is one of numerous initiatives such as the recycling of some 80% of equipment used (meal trays, drawers, covers, trolleys) and the development of eco-design to acquire the means to improve the environmental evaluation of products and reduce their overall impact.

The recycling of NEO packs on European flights is a perfect example of a successful environmental approach since it involves the whole chain from Air France purchasing advisor to cabin crew, suppliers and catering. Environmental considerations are factored into product design in order to choose recyclable materials. A portion of these packs is set aside by the cabin crew at the end of the flight and collected by Servair (the Air France Group's catering subsidiary) before being returned to the supplier for recycling.

A sorting system has been established at Air France's principal tertiary sites, enabling the recycling of hundreds of tons of paper every year. As part of the initiative to reduce paper consumption, a system of shared printers has been deployed across the company by the IT division.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing system and its management harmonized in the different maintenance sites. This approach is also reflected in the optimized management of suppliers and costs, and the contribution of more relevant solutions with reference to regulatory changes.

Since 2009, Air France and KLM have had a common program aimed at recovering metal from used aircraft parts to make new parts or re-use those that are still in good condition.

Measures taken to limit noise pollution

The entire Air France fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm in terms of the acoustic quality of civil aircraft.

In addition to renewing its fleet, Air France implements the following measures to reduce the noise impact of its operations:

- application of *less noise* procedures, such as continuous descent approaches in collaboration with the DGAC, the French civil aviation authority. The continuous descent approach has already been deployed at Marseilles and Orly and, in 2011, Air France participated in the implementation of CDA approaches and the steepening of trajectories at Roissy-CDG airport in fulfilment of a commitment made at the French National Conference on the Environment. These new procedures which were very much welcomed by local residents are published and usable by all the operators;
- reduction of night traffic: at CDG, Air France has given up 725 of the 818 annual slots abandoned by the airlines as a whole since 2003.

Air France continued its investment effort by taking delivery of a sixth A380 aircraft in the fleet. The A380 is currently the most advanced aircraft in terms of acoustic quality and it already meets the noise standards that will become mandatory as of 2020/25.

KLM uses the higher-altitude operational approach procedure at night. Furthermore, KLM has implemented a number of route optimizations which have led to a reduction in noise pollution for 18,000 people. After a trial lasting two years, an innovative fixed radius turn was successfully introduced on a Standard Instrument Departure (SID) to reduce the noise around the departure routes.

KLM's Boeing B737 aircraft are the first to use this navigation technique to reduce noise. The extension of this procedure to other aircraft types and airlines is currently being studied.

Indemnities paid and actions carried out to neutralize environmental impacts

In 2011, Air France paid €17.6 million in Airport Noise Tax (TNSA) to the French State for every takeoff. The proceeds are dedicated to financing the sound-proofing for homes situated near airports and exposed to aircraft noise.

In 2010, KLM paid €25 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

4.4.3 Sustainable use of resources

Measures taken to reduce water consumption

The Air France Group has considerably reduced its water consumption through better control over its processes, making its teams more accountable and by the integration of environmental criteria in the design and realization of its tools and work stations.

The maintenance division, for example, has established an aircraft washing process which uses much less water using cloths and biodegradable products.

For its part, Servair continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

KLM has reduced its water consumption in recent years thanks to a series of similar measures.

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

Consumption of resources and the measures taken to optimize their use

For the Air France-KLM Group, the main drivers to reduce fuel consumption and thereby improve energy efficiency in flight operations are the:

- renewal of its fleet of aircraft (to maintain a modern fleet with some of the best performance standards in the market) with new more energy-efficient aircraft. For example, the CO_2 emissions of the A380, the latest arrival in the Air France fleet, are 15% lower than other four-engine aircraft. Across the entire Air France network, for all fleets, the average consumption is 3.7 liters per passenger over 100km, a 14% reduction in 10 years;
- continuous improvement in operating procedures to reduce fuel consumption. Air France organizes daily optimised trans-Atlantic flights in the A380 between New York and Paris. On each of these flights, Air France reduces its CO_2 emissions by three to five tons by optimizing each phase in coordination with air traffic control;
- lightening the mass loaded on board is also a non-negligible factor: each kilogram of reduction represents a CO_2 saving of some 80 tons every year.

In 2011, Air France achieved a world first in operating the lowest CO_2 emissions flight (Toulouse–Orly) by doing everything possible to reduce noise hindrance and greenhouse gas emissions:

- optimisation of flight procedures and trajectories;

- reduced on-board mass;
- use of a 50% mix of sustainable biofuel.

For a number of years, Air France has been actively involved in the development of sustainable biofuels with a low carbon footprint and no harmful environmental or social impact. Sustainable biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon footprint. On September 25, 2008 the company signed a sustainable biofuels charter drawn up in conjunction with NGOs such as the WWF and the Natural Resources Defense Council. Air France is also a stakeholder in research carried out by the Roundtable on Sustainable Biofuels (RSB), whose sustainability criteria were recognized by the European Commission in July 2011.

Energy consumption and, when required, measures taken to improve energy efficiency and the use of renewables

For its ground operations, Air France is renewing its vehicle fleet and runway equipment to increase the share of electrical propulsion, the aim being to increase the percentage of electrically-powered engines to 34% in 2007 and 60% by 2020. An IT system has also been deployed to monitor the fuel consumption of registered vehicles across the company. The participation alongside other major French companies in a common call to tender for the acquisition of registered electric vehicles will enable Air France to replace its light vehicles in the Île-de-France with 600 electric vehicles by 2014.

The commitment to the HQE approach/certification with the inclusion of energy saving at the design stage for new buildings and facilities also testifies to a focus on energy saving. Air France also implements an HQE approach/certification for the operation of all these new buildings.

Furthermore, in 2011, Air France made a commitment to the WBCSD (World Business Council for Sustainable Development) to reduce its energy consumption and signed the Manifesto for Energy Efficiency in Buildings.

Air France has deployed a company travel plan in the Ile de France, which proposes solutions aimed at contributing to the reduction in pollutant emissions arising from the journeys employees make between their homes and workplaces. This year the plan took on a new dimension with the signature of an Inter-Company Travel Plan at Roissy.

For its part, KLM has equipped its Amstelveen headquarters with a sustainable energy facility, using 90% less gas and 30% less power.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average annual reduction of around 2% in its energy consumption. In 2008, KLM signed a third multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020.

KLM participated in the Dutch Mobility Task Force and consequently signed the regional multi-party Mobility Convention, aimed at a 10% reduction in employee-car-kilometers between 2008 and 2012.

Both KLM and Air France encourage their employees to support initiatives to reduce energy consumption.

Soil use conditions

Consistent with the rules and regulations, Air France collects or commissions sub-soil samples prior to any new construction at a site in order to check their compliance with safety standards.

4.4.4 Contribution to adapting to and combating global warming

Greenhouse gas emissions and taking into account the impact of climate change

The Air France-KLM Group's contribution to combating climate change is based on its Climate Action Plan.

The Air France-KLM Group actively supports international efforts to reach a global climate agreement in which the aviation sector would make an ambitious, just and equitable contribution to the collective effort. The company continues to modernize its fleet, support aeronautics research and promote energy efficiency and the reduction in CO_2 emissions across the entire supply chain. It encourages employees to propose sustainable solutions to, for example, save fuel and mitigate the emissions of the ground operations while supporting renewable energy research programs, such as biofuels for use in aviation. It also supports environmental protection research programs developed by NGOs. The company also gives its customers access to transparent, reliable information on the CO_2 emissions linked to their journeys using a calculator based on actual operating data and offers them the opportunity to offset this.

Applicable to fixed industrial sources as of 2005, the European Emissions Trading Scheme (EU-ETS) was revised in 2008 in order to extend it to the aviation sector as of 2012. 2010 was the year for which the first mandatory declaration of activity and emissions was made and the data verified. The activity (expressed in revenue ton-kilometers) reported by each operator in 2010 acted as the calculation base for their aviation quota allocations and, on the basis of this declaration, the Air France Group obtained 12.6 million free quotas for 2012.

The European system is, however, the subject of a legal challenge by the airlines in most third party countries.

This regulation provides for an exemption for the use of sustainable biofuels. Biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon footprint while guaranteeing supply security. They will be key to achieving Air France-KLM's reduction targets and those of the airline sector as a whole, which has no alternative to liquid fuel. Air France is thus partnering the demonstration project to produce biofuels from forestry waste being conducted by the CEA (French Atomic and Alternative Energies Commission). As of 2015, part of its production (2,000 tons/year) could be used to power aircraft engines. Air France will also participate in Syndiese, the company responsible for the industrialization of this production.

On October 8, 2010 in Montreal, 190 member countries of the International Civil Aviation Organization (ICAO) adopted a resolution on the reduction in the sector's emissions, constituting a first at global level. This agreement includes a target to improve the energy efficiency of international aviation by an annual 2% through to 2050 and commits the sector to stabilizing its net emissions and establishing a regulatory offsetting framework based on the market. The Air France-KLM Group welcomes the adoption of this resolution which finally recognizes the need for a overall sector commitment to combating global warming.

Air France-KLM has actively contributed to the establishment of initiatives to demonstrate the feasibility of a just and equitable involvement of international aviation in mitigating greenhouse gas emissions, either through the AEA (Association of European Airlines) or a specially-convened group of other deeply-committed partners (Aviation Global Deal Group). These initiatives aim to propose an overall sector approach for international aviation, reconciling the principle of common but differentiated responsibilities of the Rio Summit with that of the equality of treatment between operators in the Chicago Convention.

Air France-KLM activity participates in the work of the International Air Transport Association aimed at proposing operational solutions enabling the environmental targets adopted by the general assembly in 2009:

- by 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures);
- from 2020, stabilization and neutral growth in CO_2 emissions;
- by 2050, a 50% reduction in CO_2 emissions relative to the 2005 level.

4.4.5 Protecting biodiversity

Measures to protect biodiversity by reducing deleterious impact on the biological equilibrium, natural habitats and protected plant species

Air France is currently examining ways in which to reduce the impact of its activities on biodiversity. Furthermore, since 2008, Air France has been involved in a vast project to combat deforestation run by GoodPlanet and WWF in Madagascar.

This program, for which the company is the sole financial partner, covers more than 500,000 hectares of forestry, the aim being to reduce the current level of deforestation, thereby preserving the potential storage of some 50 million tons of carbon.

With more than €5 million invested in the program and more than 60 people employed by partners, the aims include:

- developing new protected areas and preserving biodiversity;
- replanting and restoring depleted forestry;
- training local communities in the development of new farming methods and encouraging them to manage their land.

Three years into this forestry conservation program, Air France asked ONF International, a world-renowned environmental consultancy firm, to produce an initial report on the actions taken in the field. All the objectives have been achieved, making this project a real success:

- 350,000 hectares of new protected areas have been created;
- 25,000 hectares have been restored or reforested;
- 6,000 families have benefited from the transfer of responsibility for managing over 200,000 hectares.

Furthermore, the project has helped to advance the scientific methods and measurement of forest carbon stocks in Madagascar.

4.5 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

As of the 2007-08 financial year, the Group chose to have a selection of environmental indicators (indicated by the symbols √ and √√) verified by one of the Statutory Auditors, KPMG Audit, with the highest level of assurance, reasonable assurance[1], for fuel consumption and the related CO_2 emissions for air operations (√√) and a limited level of assurance[1] for the other verified indicators (√).

4.5.1 Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- all the Air France commercial flights operated by Air France and its subsidiaries Brit Air, Régional and CityJet. The flights operated by Transavia France are also included in 2011. The subsidiaries are excluded for the total HC and NO_x emissions;
- all the KLM commercial flights operated by KLM and its subsidiary KLM Cityhopper (KLC). The flights operated by KLM's Transavia and Martinair subsidiaries were included as part of the KLM Group as of 2010. They are not included in the indicators for low altitude emissions of HC, NO_x and SO_2.

For the ground operations, the consolidation scope for the environmental reporting is unchanged on that of last year and covers 100% of the sites in France and the Netherlands. The international outstations are not taken into account.

- Air France consolidated subsidiaries are: Brit Air, Régional, CRMA, Sodexi and Servair and its subsidiaries (only for the activities in France). VLM, BlueLink, Transavia France and CityJet are not included in the reporting scope.
  Furthermore, for Air France, the indicators in the domestic outstations are not reported when there is no detail available on the fixed charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data.
  Concerning the Air France Group, the reporting scope is based on worldwide premises representing around 88% of the Group.
- KLM consolidated subsidiaries are KLC (KLM CityHopper), KES (KLM Equipment Services), KCS (KLM Catering Services) and KHS (KLM Health Services), and Transavia NL and Martinair (for a portion of the indicators).

In 2011, three buildings belonging to Transavia and Martinair were included in the ground operations reporting scope.

The 2011 reporting period for the Group's environmental data has been changed and is now based on a rolling twelve months from October 1, 2010 until September 30, of the 2011 reporting year. This results from the change in the reporting period for the financial statements from the IATA year (April 1 to March 31) to the calendar year.

The national figures for greenhouse gas emissions will be published at a later stage and remain based on the calendar year.

4.5.2 Reporting tools

The environmental indicators are assembled at local level via two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, which are available, respectively, at each Air France and KLM subsidiary.

The reliability of the reporting process is supported by definitions of each indicator and user guides for contributors available in both French and English. Consistency tests have also been implemented.

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

4.5.3 Details and methodology, comments on variations

At Air France-KLM Group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document entitled the Instruction Memo Environment, which is updated annually. The assembly of data, calculation methodologies and operational consolidation are defined in procedures which are specific to Air France and KLM, but which are harmonized, insofar as local regulations permit.

(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.

Within the framework of an approach based on continuous improvement, the methodologies used for certain performance indicators have been more precisely defined. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year is estimated based on the value reported for the previous year. In 2011, this estimation method was used for the Air France Group for the amount of waste produced and the consumption of electricity and natural gas in certain buildings at the administrative head office and in a number of subsidiaries.

Flight operations

CO_2 emissions

The increase in the Group's CO_2 emissions between 2010 and 2011 is proportional to the increase in jet fuel consumption due to the pick-up in activity.

Note that, for the KLM Group, the increased emissions as of 2010 are linked to the inclusion of the Transavia and Martinair subsidiaries.

Note that there are differences between the scope of the CO_2 emissions reported and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), which do not enable a comparison.

SO_2 emissions

The calculation of the SO_2 emissions from flight operations is based on the average sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM, Air France and the Air France subsidiaries.

The rise in SO_2 emissions from flight operations for the Group between 2010 and 2011 is mainly due to the higher average sulphur content in the fuel, together with the recovery in activity.

For the KLM Group, the reduction is due to the lower average sulphur content in the fuel used.

NO_x and HC emissions

Total Emissions

Air France

For Air France, a specific tool was deployed in 2009 to calculate the total emissions of NO_x and HC more precisely.

Only emissions for Air France are reported, the subsidiaries not being included in the calculation module.

The calculation methodology is based on the by Boeing[1] fuel flow 2 methodology. For more than 75% of the flights, recorded data has been used to calculate emissions specific to each flight. The emissions for other flights were estimated from the calculated average flight emissions. For these flights, a less precise estimation method than in 2009 was used. However, the impact on the published data is not significant.

KLM

Only the emissions relating to KLM and KLM Cityhopper are reported, the other subsidiaries not being included in the calculation for the indicators. Two distinct methodologies are applied to calculate overall NO_x and HC emissions depending on the aircraft type: the fuel flow methodology and the P3T3 methodology developed by General Electric.

Low altitude emissions

The methodology used for the calculation of low altitude emissions is common to Air France and KLM. It is based on the LTO (Landing-Takeoff) cycle and on engine data communicated by the ICAO[2]. The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note, however, that the actual taxiing time not being available for Transavia France, the standard ICAO values have been used for this subsidiary.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 in 2011) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded plane on landing whenever a flight is aborted. Each operation is effected in close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 2,000 meters).

Total noise energy

This indicator was established by the Air France-KLM Group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[3]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

For this year, the noise energy calculation for the KLM Group excludes the B747-400 ER aircraft operated by Martinair.

The trends in noise energy and traffic are determined by comparing total noise energy calculated for the calendar year with that of 2000.

(1) Baughcum, S. L., et al. "Scheduled Civil Aircraft Emissions Inventories for 1992: Database Development and Analaysis, Appendix D: Boeing Method 2 Fuel Flow Methodology Description". Report NASA CR 4700, The Boeing Company, April 1996.

(2) International Civil Aviation Organization.

(3) French Civil Aviation Authority (Direction Générale de l'Aviation Civile).

4.5.4 Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included. Prior to 2010, KLM had included the water taken on board.

This year's decline is explained by savings made at Servair and the ending of construction work on maintenance buildings.

Consumption of other energies

Prior to 2010, only the energy consumption for heating and cooling was published for the Air France Group and prior to 2011 for the KLM Group. To be as exhaustive as possible, a new indicator was reported in 2010, including the different sources of energy consumed:

- natural gas for heating buildings, aircraft painting workshops in Maintenance and cooking (the catering activity in particular). The conversion factor of the quantity of gas used as energy is calculated by taking into account the quality of gas specific to France and the Netherlands;
- superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- Jet fuel A1 for testing engines;
- Domestic Fuel Oil (DFO) for power generators and ground support equipment;
- petrol and diesel fuel for vehicles and ground support equipment. The portion relating to coaches is no longer included in the Air France Group reporting scope since this activity is outsourced.

The decline between 2010 and 2011 for the Air France Group is partly explained by weather variations and partly by gas consumption being overestimated at one Air France site in 2010.

Emissions from ground operations (CO_2, SO_2 and NO_x)

In 2011, CO_2, SO_2 and NO_x emissions and their trends are linked to the energy consumption listed above.

For Air France, the sharp rise in SO_2 emissions is due to more comprehensive accounting of the SO_2 emissions of some sites and a rise in the fuel consumption of some occasional activities.

NO_X emissions related to engine testing are calculated based on a methodology similar to the one used for flight operations which reflects the actual testing conditions.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used; VOCs contained in evacuated waste are excluded.

For Air France, the reporting scope was extended, as of 2010, to include third-party orders as well as paint kits. For the Air France Group, the decline between 2010 and 2011 is mainly due to an increase in the quantity of industrial waste containing VOCs (product withdrawals).

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fuelling.

Hazardous industrial waste

The quantity of hazardous waste which has not been communicated by service providers at the end of the reporting campaign is not taken into account. This is, however, estimated to be marginal.

The nature of recovered hazardous waste is determined based on European regulation.

For Air France, the rate of hazardous waste recovered in 2009 has been updated to include a modification concerning a subsidiary.

For KLM, the percentage mentioned corresponds to hazardous waste that has been recycled with a view to reuse. The significant increase in the quantity of hazardous waste between 2010 and 2011 is due to the evacuation, as hazardous waste, of water infiltrating into one of the KLM Cityhopper subsidiary's buildings in 2011.

Effluents

Both Air France and KLM entities are required to comply with the French and Dutch legislation on effluents. Each relevant site has regulatory limits on effluents and the frequency of measurement.

The reported data reflects the number of times a regulatory threshold is exceeded relative to the number of measurements for each type of effluent.

For 2011, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements were, respectively:

- for Air France, 0/4 for Nitrogen compounds, 0/97 for Phosphorus compounds and 3/648 for metals;
- for KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 4/280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.6 Environmental indicators for the Group

4.6.1 Air France-KLM air operations

Environmental indicators		Unit	Air France-KLM Group 2009	2010	2011	11/10
Consumption						
Consumption of raw materials: fuel √√		000 tonnes	8,021	8,534	8,950	4.9%
Emissions						
Greenhouse gas emissions	CO_2 √√	000 tonnes	25,269	26,879	28,193	4.9%
Emissions of substances contributing to acidification and eutrophication	NO_x √	000 tonnes	130.8	130.5	140.4	7.6%
	NO_x low altitude (< 3 000 ft) √	000 tonnes	8.9	8.7	9.0	3.4%
	SO_2 √	000 tonnes	12.9	10.2	10.4	2.4%
	SO_2 low altitude (< 3 000 ft) √	000 tonnes	1.1	0.7	0.8	12.4%
In-flight fuel jettison	Occurences of fuel jettison √	number	51	39	29	-25.6%
	Fuel jettisoned √	tonnes	1,979	1,671	1,152	-31.1%
Other emissions	HC √	000 tonnes	3.6	3.3	3.3	0.0%
	HC low altitude (< 3 000 ft) √	000 tonnes	1.0	0.8	0.8	0.0%
Noise impact						
Global noise energy indicator √		10^{12} kJ	1.74	1.65	1.65	0.0%

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

√√: Figures verified by KPMG for 2011 (reasonable level of assurance).

(1) Air France Group scope: all flights under AF code operated by Air France, Brit Air, Régional and CityJet, and flights operated by Transavia France from 2011. Subsidiaries are excluded for HC and NO_x global emissions.

(2) KLM Group scope: all flights operated by KLM and KLM Cityhopper. Transavia and Martinair are excluded for HC and NO_x emissions, but they are included for fuel consumption, CO_2 and SO_2 emissions (exception of low altitude emissions of HC, NO_x and SO_2).

Air France Group [(1)]				KLM Group [(2)]			
2009	2010	2011	11/10	2009	2010	2011	11/10
5,036	4,860	5,047	3.8%	2,985	3,674	3,903	6.2%
15,865	15,308	15,899	3.9%	9,404	11,571	12,294	6.2%
82.3	82.0	89.7	9.4%	48.5	48.5	50.7	4.5%
6.2	6.1	6.2	1.6%	2.7	2.6	2.8	7.7%
7.7	6.6	7.2	9.9%	5.2	3.6	3.2	-11.3%
0.7	0.5	0.6	15.2%	0.3	0.2	0.2	0.0%
33	27	23	-14.8%	18	12	6	-50.0%
1,381	1,180	945	-19.9%	595	491	207	-57.8%
2.6	2.4	2.3	-4.2%	1.0	0.9	1.0	11.1%
0.7	0.6	0.6	0.0%	0.3	0.2	0.2	0.0%
1.18	1.10	1.11	0.9%	0.56	0.55	0.54	-1.8%

4.6.2 Air France-KLM ground operations

		Unit	Air France - KLM Group 2009	2010	2011	11/10
Consumption						
Water consumption √		000 m^3	979	951	886	-6.8%
Electricity consumption √		MWh	421,581	416,149	408,408	-1.9%
Other energies consumption (4) √		MWh	327,150	470,552	543,749	nc
Emissions						
Greenhouse gas emissions	CO_2 √	tonnes	84,290	92,569	89,841	-2.9%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC √	tonnes	127	167	129	-22.8%
	Emissions of HC	tonnes	166	161	167	3.7%
Emissions of substances contributing to acidification and eutrophication	NO_x √	tonnes	917	879	810	-7.8%
	SO_2 √	tonnes	18.7	13.2	19.6	48.5%
Waste						
Waste production	Quantity of non-hazardous industrial waste √	tonnes	61,067	58,756	58,964	0.4%
	Quantity of hazardous industrial waste √	tonnes	5,961	5,914	7,000	18.4%
	% of hazardous industrial waste recovered √	%	45% (5)	47%	45%	-2 pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds √	%	93%	100%	100%	0 pt
	Phosphorus compounds √	%	100%	100%	100%	0 pt
	Metals (6) √	%	99%	100%	99%	-1 pt

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

nc: not comparable.

(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi and CRMA. CityJet, Blue Link, VLM and Transavia France are not included.

(2) KLM and its subsidiaries: KLM CityHopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS) and KLM Health Services (KHS). Transavia and Martinair are partially included.

(3) Water consumption of KLM included onboard drinking water until 2009. This has now been excluded.

(4) In 2009, energy consumption for cooling and heating was included: natural gas, fuel oil, iced water and superheated water (respectively for the cooling and heating of buildings).

From 2010, the Air France Group also reports natural gas and fuel oil other than for heating and cooling, gasoline and diesel for vehicles and ground support equipments, and jet A1 for testing engines.

From 2011, the KLM Group reports on diesel for vehicles and ground support equipment, and jet A1 for engine testing.

(5) The data was updated as a result of adjustments made to a subsidiary.

(6) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

Air France Group [1]				KLM Group [2]			
2009	2010	2011	11/10	2009	2010	2011	11/10
742	749	694	-7.3%	237 [3]	202	192	-5.0%
327,094	321,818	309,655	-3.8%	94,487	94,331	98,753	4.7%
232,172	367,748	316,650	-13.9%	94,978	102,804	227,099	nc
37,396	47,850	38,975	-18.5%	46,894	44,719	50,866	13.7%
85	132	90	-31.8%	42	35	39	11.4%
112	106	108	1.9%	54	55	59	7.3%
639	605	541	-10.6%	278	274	269	-1.8%
13.2	9.8	16.6	69.4%	5.5	3.3	3	-9.1%
42,664	42,309	42,155	-0.4%	18,403	16,447	16,809	2.2%
4,839	4,569	4,748	3.9%	1,122	1,345	2,252	67.4%
36% [5]	36%	28%	-8pts	84%	84%	81%	-3 pts
90%	100%	100%	0pt	96%	100%	100%	0 pt
100%	100%	100%	0pt	100%	100%	100%	0 pt
99%	100%	99.5%	-0.5pt	100%	100%	98.5%	-1.5 pt

4.7 Statutory Auditor's Assurance Report on a selection of environmental and social indicators of Air France-KLM Group for calendar year 2011

This is a free translation into English of the original report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with professional guidelines applicable in France.

As requested and in our capacity as Statutory Auditors of Air France-KLM S.A., we performed a review in the aim of providing:

- limited assurance on a selection of environmental and social indicators for the year ended December 31, 2011 selected by Air France - KLM Group and identified by the symbol √,
- reasonable assurance on the indicators "fuel consumption" and "CO_2 emissions" related to air operations for the year ended December 31, 2011, identified by the symbol √√.

This selection of indicators ("the Data") is presented in the tables "environmental indicators" and "social indicators" of the "2011 Registration Document" and the "2011 Corporate Social Responsibility Report" of Air France-KLM Group.

These Data were prepared under the responsibility of the Air France's Environment and Sustainable Development division, in accordance with the internal performance reporting procedures, which may be consulted at the Group's head office ("the Protocol"). The notes on the methodology for the reporting of the social and environmental indicators, provided with the tables "environmental indicators" and "social indicators", specifies data collection and calculation methodologies used to determine the published indicators.

Our responsibility is to provide a conclusion on the Data based on the work performed. The conclusions expressed below relate solely to these Data and not to the whole Air France-KLM Group's "2011 Registration Document" and the "2011 Corporate Social Responsibility Report".

4.7.1 Nature and scope of the work

We conducted our procedures in accordance with ISAE 3000 standard, in compliance with applicable professional guidelines in France.

Limited assurance

We conducted the following procedures in order to obtain limited assurance about whether the selected Data identified by the symbol √ are free from material missstatement. A higher level of assurance would have required a more extensive work.

- We assessed the reporting Protocol relating to environmental and social performance indicators with regard to its relevance, reliability, objectivity, clarity and and completeness.
- We conducted interviews with Air France's Environment and Sustainable Development division in order to verify our understanding of the reporting process and the organization in place, and the application of the reporting Protocol.
- We performed detailed tests on the implementation of the Protocol on a sample of entities [1] ("the selected Entities"). For the selected Entities, we verified the understanding and application of the Protocol, and we verified the calculations on a test basis, and reconciled data with the supporting documentation.
- We performed consistency tests on the consolidation of the Data at Group level.

The contribution of the selected Entities to the Data represents an average of 84% for consolidated environmental Data published and 80% for consolidated social Data published.

Reasonable assurance

We conducted the above mentioned procedures in order to obtain evidence over the indicators "fuel consumption" and "CO_2 emissions" related to air operations, identified by the symbol √√ sufficient to give reasonable assurance that those indicators are free from material misstatement.

We were assisted in our work by the Environment and Sustainable Development professionals of our firm.

(1) ***Environment:*** *Direction Générale Industrielle Air France (Roissy, Orly and Villeneuve Le Roi), Direction Générale de l'Exploitation Air France (Roissy and Orly), Direction du Cargo Roissy, Régional, Servair group and its subsidiaries (Servair 1, Acna Roissy), CRMA, KLM Schiphol* ***for ground operations****.*
Air France and its subsidiaries CityJet, BritAir, Régional and Transavia France, KLM, KLM CityHopper, Transavia and Martinair ***for air operations****.*
Social: *Air France in France, Régional, KLM in the Netherlands, Transavia, KLM Catering Services.*

4.7.2 Comments on the Group's reporting Protocol and implementation

Based on the work performed, the following comments were made on the reporting Protocol and its implementation:

- Due to differences between legislative frameworks, the definitions of some social indicators are different between Air France and KLM. The figures are disclosed separately and cannot be compared.
- Due to specific technical features, the calculation methodologies used for the indicators related to the NOx and HC total emissions of air operations are different between Air France and KLM.
- The Group continued the extension of the reporting scope to its subsidiaries, for instance by integrating the Air France subsidiary Transavia France and KLM subsidiaries Transavia and Martinair to the scope of some environmental indicators. However, the integration of the significant subsidiaries to the environmental and social reporting scope should be pursued in 2012, in order to ensure that all the Data are reported based on a Group scope.
- The estimation methodologies of the environmental indicators could be specified in the definition sheets.
- The internal control system has been improved at Air France Data collection level, in particular regarding the indicators "Volatile Organic Compounds – VOC emissions" and "Industrial Waste", but needs to be strengthened at the level of:
  - environmental data collection and validation for KLM ground operations,
  - data import in the Group's reporting tool OSYRIS for the environmental indicators.

4.7.3 Conclusion

Limited assurance

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Data presented in the tables «environmental indicators» and «social indicators» of the 2011 Registration Document and the 2011 Corporate Social Responsibility Report of Air France-KLM group, identified by the symbol √ , are not prepared, in all material respects, in accordance with the above-mentioned Protocol.

Reasonable assurance

In our opinion, the indicators "fuel consumption" and "CO2 emissions" related to air operations, identified by the symbol √√ in the '2011 Registration Document' and the '2011 Corporate Social Responsibility Report' are prepared, in all material respects, in accordance with the above-mentioned Protocol.

Paris La Défense, March 26, 2012

KPMG Audit

Department of KPMG S.A.

Valérie Besson	Michel Piette
Partner	Partner

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Financial report

5

5.1 Investments and financing

As a result of the change in financial year end from March 31 to December 31, the financial year spanned a period of only nine months (April-December 2011). To facilitate understanding of the financial operations, the Group opted to also present them over the full 2011 calendar year (12 months pro forma) with a comparison over the same period in 2010 (12 months pro forma).

During the 2011 financial year, the Air France-KLM Group's capital expenditure on tangible and intangible assets together with the acquisition of controlling interests in subsidiaries and equity interests amounted to €2.46 billion versus €2.05 billion in 2010. Operating cash flow of €0.93 billion and proceeds of €1.2 billion on the sale of property, plant and equipment were insufficient to finance the totality of investments. As a result, free cash flow was negative to the tune of €333 million for 2011 versus a positive of €253 million at December 31, 2010 after €193 million of proceeds from the sale of Amadeus shares in its stock market flotation (*see also Section 5.3 - Comments on the financial statements, page 142*).

The Group's net cash position amounted to €2.9 billion, including €359 million of investments over three months to one year, €235 million of available cash pledges and €165 million of bond deposits. In addition, the Group had credit facilities of €1.85 billion subscribed by Air France, KLM and Air France-KLM, fully available at December 31, 2011 (*see also Section 3 - Liquidity risks, page 84 and Section 5.4 – Key financial indicators, page 144*).

Stockholders' equity amounted to €6.09 billion (€7.03 billion at December 31, 2010) and net debt to €6.52 billion (€6.07 billion at December 31, 2010). The gearing ratio stood at 1.07 and 1.08 excluding the valuation of hedging instruments versus 0.86 before and after the valuation of hedging instruments at December 31, 2010 (*see also Section 5.4 – Key financial indicators*, *page 144*).

5.1.1 Investments

(In € million)	**2011 (12 months pro forma)**	**2010 (12 months pro forma)**	**2010-11 reported**	**2009-10 reported**
Acquisition of intangible assets	(179)	(135)	(153)	(113)
Investment in flight equipment	(2,025)	(1,729)	(1,788)	(1,738)
Other property, plant and equipment	(229)	(173)	(181)	(246)
Acquisitions of controlling interests in subsidiaries and equity interests	(30)	(10)	(33)	(2)
Loss of control over subsidiaries and equity interests	-	193	193	0
Proceeds on disposals of property, plant and equipment and intangible assets	1,168	1,054	977	1,053
Dividends received	28	8	8	5
Net decrease (increase) in investments over three months to one year	(562)	(44)	(229)	87
Net cash used in investing activities	**(1,829)**	**(836)**	**(1,206)**	**(954)**

Investment in tangible and intangible assets amounted to €2.43 billion during 2011 (€2.04 billion in 2010), of which €2.02 billion in flight equipment. The acquisition of aircraft (*see also Section 2 – Activity – Fleet*) and advance payments stood at €1.35 billion while the capitalization of overhaul costs amounted to €556 million and spare parts to €118 million. Ground investment stood at €229 million and included various industrial facilities and equipment. Investment in intangible assets amounted to €179 million and related to the purchase of software and capitalized IT development.

Acquisitions of controlling interests in subsidiaries and equity interests amounted to €30 million. The Group did not dispose of any equity interests during 2011.

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €1.17 billion (€1.05 billion at December 31, 2010) including €160 million principally on the sale of aircraft and €995 million on the sale and lease back of aircraft.

Investment in tangible and intangible assets net of disposals stood at a total of €1.27 billion over the 2011 calendar year (€0.98 billion at December 31, 2010).

The dividends received from unconsolidated subsidiaries over the twelve months in 2011 amounted to €28 million compared with €8 million in 2010. Lastly, the proceeds on investments over three months to one year increased by €562 million during the 2011 calendar year versus an increase of €44 million in 2010.

In total, cash flows used in investing activities showed a net disbursement of €1.8 billion over the 2011 calendar year versus €836 million in 2010.

5.1.2 Financing

(In € million)	2011 (12 months pro forma)	2010 (12 months pro forma)	2010-11 reported	2009-10 reported
Capital increase	6	-	6	-
Acquisition/sale of equity interests without a change of control	(19)	16	1	(13)
Issuance of new debt	1,414	532	900	2,704
Reimbursement of debt	(990)	(640)	(646)	(326)
Reimbursement of debt on finance lease liabilities	(838)	(618)	(550)	(522)

The Group's debt principally serves to finance investments in flight equipment. Air France financed three long-haul aircraft, two cargo aircraft and four medium-haul aircraft for a total of €474 million together with regional aircraft for a total of €154 million, largely through bank debt contracted with European and Asian credit institutions. For its part, KLM notably financed three long-haul, three medium-haul and three regional aircraft for a total of €325 million. Debt refinancing and reclassification transactions amounted to an additional €51 million. Other financing was also put in place including €207 million of property financing at Air France. In parallel, the Group repaid €990 million of borrowings (€640 million in 2010) and €838 million of debt relating to finance lease liabilities (€618 million in 2010).

5.1.3 Structure of the debt and reimbursement profile

Structure of the debt

The Group's debt stood at €10.4 billion at December 31, 2011, of which €6.26 billion is guaranteed by pledged or mortgaged assets amounting to €8.75 billion, representing 53.7% of the net book value of the relevant assets. After hedging, 73% of the gross debt is at fixed rates and 85% is denominated in euros. The average cost of the debt is 3.8%. (*See also Note 35.1 to the consolidated financial statements, and Market risks and their management, page 83*).

The structure of the debt is as follows:

- convertible bonds (OCEANEs), bonds and perpetual subordinated loan stock: €3.07 billion;
- capital lease commitments: €4.06 billion;
- other borrowings including bank debt: €3.14 billion

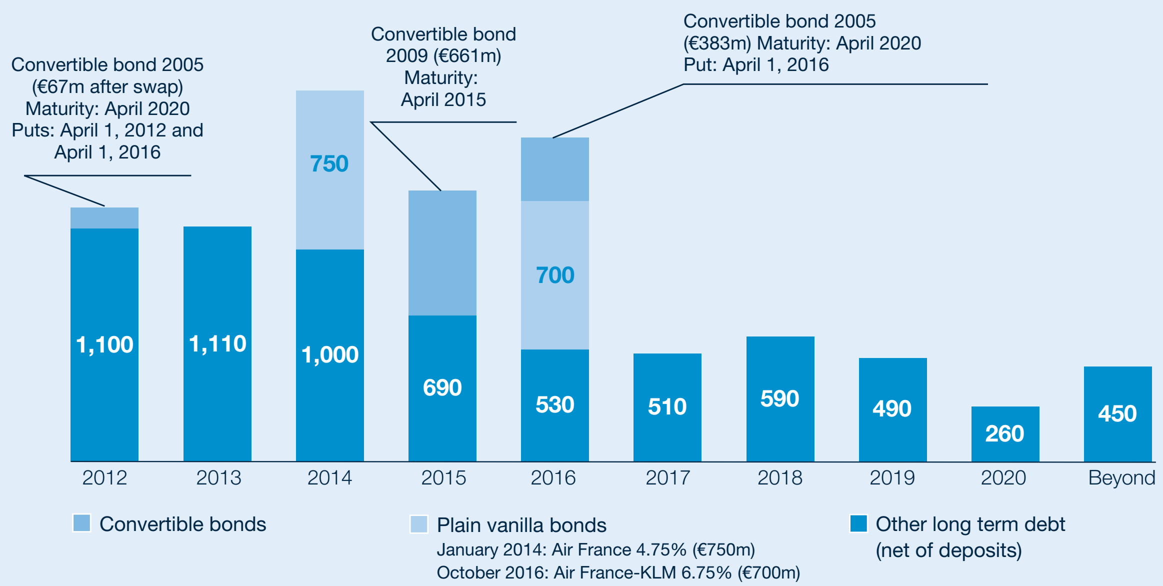
Reimbursement profile

The debt reimbursement maturities are progressive over time. Furthermore, despite a contraction in bank balance sheets, the asset financing market remains open for the amounts envisaged over the period. The Group does, however, monitor developments in this area closely and continues to diversify the sources of its financing with non-European banks and by re-financing assets other than aircraft.

The Group's debt reimbursement profile did not change significantly from one year to the next with the exception of the postponement of the repayment of a portion of the Air France 2005-20 convertible bond (OCEANE) via a swap contract signed with Natixis in December 2011. To cover this agreement, the bank purchased some 18.7 million OCEANEs, enabling Air France to delay from April 2012 until April 2016 at the earliest the €383 million repayment. Natixis benefits from the guarantees outlined in Note 31.2 to the consolidated financial statements.

Debt reimbursement profile at January 1, 2012

In € million, net of deposits on financial leases and excluding KLM perpetual debt (€625 million)



5.1.4 Three-year investment plan and subsequent transaction

Three-year investment plan

In terms of investments, capital expenditure on tangible and intangible assets net of disposals for the next three years is estimated to be €1.6 billion in 2012, €1.7 billion in 2013 and €1.5 billion in 2014 with the breakdown as follows:

Investments *(In € million)*	**2012**	**2013**	**2014**
Investment in the fleet	700	600	300
Investment in the product	100	200	300
Investment in ground operations	200	300	300
Fleet maintenance (capitalized costs) and spare parts	500	600	600
Investments net of disposals	**1,600**	**1,700**	**1,500**
Sale and lease back transactions	(600)	(100)	-
Net investments	**1,000**	**1,600**	**1,500**

The Group does not plan any sale and lease backs in 2014.

Subsequent transactions

On February 29, 2012, within the framework of a private placement, Air France sold a block of 33.6 million shares in Amadeus IT Holding, representing 7.5% of the company's share capital. The net proceeds from the transaction amounted to €467 million. Following this placement, Air France retains 7.72% of Amadeus IT Holding.

At April 1, 2012, 1.5 million convertible bonds which had not been sold to the bank were reimbursed by Air France for a total of €31.6 million.

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, 2011**	**March 31, 2011** *reported*
Flight equipment	**10,689**	**11,040**
Other property, plant and equipment		
Land and buildings	1,251	1,314
Equipment and machinery	454	467
Assets in progress	100	67
Others	250	263
Total other property, plant and equipment	**2,055**	**2,111**

Information on flight equipment is provided in the Activity-Fleet section of this document and flight equipment orders are covered in Note 35 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 m²	**Air France Group**		**KLM Group**		**Air France-KLM Group**	
	December 31, 2011	**March 31, 2011**	**December 31, 2011**	**March 31, 2011**	**December 31, 2011**	**March 31, 2011**
Passenger	442,278	435,295	133,747	118,930	576,025	554,225
Cargo	319,670	315,606	97,779	97,755	417,449	413,361
Maintenance	651,175	633,130	297,911	255,232	949,086	888,362
Support	394,954	393,889	110,134	109,321	505,088	503,210
Total	**1,808,077**	**1,777,920**	**639,571**	**581,238**	**2,447,648**	**2,359,158**

Air France Group

The Air France buildings represent 83% of the Air France Group's property, plant and equipment, of which 87% is situated in continental France.

There were no significant changes for the Group during 2011, the variation being due to the accounting omission as of March 31, 2011, of the 21,437 m² of Aeromaintenance Group, the maintenance subsidiary located in the United States.

KLM Group

The main changes for KLM come from the inclusion of Martinair (33,201 m²) and Transavia (23,239 m²) premises.

Financing

	Air France group	KLM group	Total
Fully owned	32%	86%	49%
Finance lease	17%	-	11%
Operating lease	51%	14%	40%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.76 billion at December 31, 2011 (*see also Note 34.2 to the consolidated financial statements*).

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 9% 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 m²	Type of financing
Air France Group		
Roissy-CDG airport	678,000	Ownership, finance lease, rental
Orly airport	375,000	Ownership, finance lease, rental
Toulouse	78,000	Ownership, finance lease, rental
Le Bourget	37,000	Rental
Montreuil	23,000	Rental
Valbonne	17,000	Ownership
KLM Group		
Schiphol airport	40,648	Operating lease
Schiphol Centrum	136,692	Ownership
Schiphol Oost	378,773	Ownership, operating lease
Schiphol Rijk	22,872	Ownership, operating lease
Schiphol Noord	22,050	Ownership
Amstelveen	29,569	Ownership
Others	8,967	Operating lease

Main rental contracts

Sites	Approximate surface area in m^2	Type of financing
Air France Group		
Commercial head office, Montreuil	23,000	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM Group		
Schiphol	40,648	Commercial lease

5.2.3 Assets in progress

The main construction projects in progress for the Air France group are a 5,000m2 building for the new engine test bench facility for very large engines like the GE90 at Roissy-CDG costing €23 million and the refitting of the Air France facilities within the new S4 satellite at Roissy-CDG airport (13,000m2) for €21 million.

The KLM group currently has no outstanding commitments to large-scale construction projects.

5.3 Comments on the financial statements

5.3.1 Consolidated results for the financial year to December 31, 2011

There were no significant changes in the consolidation scope in the financial year to December 31, 2011.

The Group has changed the date of its accounting year end to December 31 (previously March 31). This change in accounting year end is effective as of this financial year, meaning that the latter comprises a period of nine months to December 31, 2011. Pro forma financial statements have also been established over 12 months.

The consolidation scope comprised 164 fully consolidated companies and 33 equity affiliates. The two main subsidiaries, Air France and KLM, represented 87% of revenues and 72% of the balance sheet. The other subsidiaries are principally involved in air transport (Brit Air, Régional, CityJet, VLM, KLM Cityhopper and Martinair), maintenance, catering (Servair group and KLM Catering Services) and aircraft financing.

In view of the loss for the financial year, Air France's stockholders' equity amounted to less than 50% of its issued capital at December 31, 2011. The Air France-KLM Group will comply with the legal requirements to reconstitute stockholders' equity via a reduction/ increase in Air France's issued capital. The impact of this operation will not be significant for the Group's financial situation.

	December 31 (12 months pro forma)			December 31 (9 months)		
(In € million)	**2011**	**2010**	**% Ch.**	**2011**	**2010**	**% Ch.**
Revenues	24,363	23,310	4.5	19,037	18,289	4.1
EBITDA*	1,344	1,695	(20.7)	1,346	1,800	(25.2)
EBITDAR**	2,192	2,501	(12.4)	1,987	2,424	(18.0)
Income/(loss) from current operations	(353)	28	n/a	50	525	(90.5)
Income/(loss) from operating activities	(480)	634	n/a	26	1,392	(98.1)
Net income/(loss) from continuing operations	(805)	286	n/a	(438)	979	n/a
Net income/(loss), Group share	(809)	289	n/a	(442)	980	n/a
Basic earnings/(loss) per share, Group *(In €)*	(2.73)	0.98	n/a	(1.50)	3.32	n/a

n/a: non applicable.

* *Operating result before amortization, depreciation and provisions.*

** *Operating result before amortization, depreciation, provisions and operating leases.*

Revenues

For the period between January 1 and December 31, 2011 (12 months), consolidated revenues amounted to €24.36 billion, up by 4.5% on the previous financial year. The different political crises in Africa and the Middle East, together with the earthquake and tsunami in Japan, had a negative impact on traffic to and from these regions. Furthermore, the weakness in global growth and the euro crisis weighed on the level of unit revenues. Measured in EASK (equivalent available-seat kilometers), unit revenues were down by 0.5% and were stable excluding currency (+0.1%). In the passenger business, revenues increased by 5.2% while cargo revenues rose by 2.6%. Revenues for the maintenance business saw modest growth of 1.1% and those of the other activities increased by 3.0%.

For the period between April 1 and December 31, 2011 (9 months), consolidated revenues amounted to €19.04 billion, up by 4.1% relative to the previous period. The impact of the different crises was also felt over this period. Measured in EASK, unit revenues declined by 1.6% and by 0.2% excluding currency. Revenues in the passenger business rose by 5.2% and those of the cargo business were slightly lower (-0.7%). Maintenance revenues saw modest growth of 1.4% while revenues in the other businesses were up by 2.1%.

Operating expenses

Over twelve months, operating expenses rose by 6.2% to €24.72 billion. Excluding fuel, the increase was limited to 3% thanks to the Challenge 12 plan which enabled the generation of €546 million of cost-savings. Unit cost per EASK (equivalent available seat-kilometer) was up by 1.2% but declined by 2.2% on a constant currency and fuel price basis for a 5.1% rise in production measured in EASK.

Over nine months, operating expenses increased by 6.9% to €18.99 billion. Excluding fuel, the increase was limited to 3.75%. The cost-savings plan delivered €387 million over the period. Unit cost per EASK (equivalent available seat-kilometer) was slightly higher (+1.4%) but declined by 2.1% on a constant currency and fuel price basis for a 5.7% rise in production measured in EASK.

Over twelve months, external expenses increased by 8.5% to €15.52 billion versus €14.31 billion over the previous twelve months. Excluding fuel, this increase was reduced to 3.5%.

Over nine months, external expenses increased by 8.8% to €11.95 billion versus €10.99 billion over the previous period. Excluding fuel, this increase was reduced to 3.6%.

The breakdown of external expenses was as follows:

	December 31 (12 months pro forma)			December 31 (9 months)		
(In € million)	2011	2010	% Ch.	2011	2010	% Ch.
Aircraft fuel	6,438	5,534	16.3	5,012	4,294	16.7
Chartering costs	571	499	14.4	441	383	15.1
Aircraft operating lease costs	848	806	5.2	641	624	2.7
Landing fees and en route charges	1,818	1,722	5.6	1,399	1,328	5.3
Catering	577	550	4.9	446	423	5.4
Handling charges and other operating costs	1,342	1,300	3.2	1,028	989	3.9
Aircraft maintenance costs	1,172	1,155	1.5	907	874	3.8
Commercial and distribution costs	847	922	(8.1)	670	719	(6.8)
Other external expenses	1,904	1,818	4.7	1,407	1,355	3.8
Total	**15,517**	**14,306**	**8.5**	**11,951**	**10,989**	**8.8**

The main changes over twelve months were as follows:

- **aircraft fuel**: fuel expense for the year increased by €904 million due to the rise in the oil price. This increase was the combined result of a volume effect limited to 4%, a negative currency impact of 4% and a 17% rise in the fuel price after hedging;
- **chartering costs** incurred through leasing aircraft capacity from other airlines increased by €72 million given the recourse to chartering during the in-line maintenance strike over the summer of 2011 and the industrial action by cabin crew in November 2011;
- **operating lease** costs increased by €42 million under the influence of the fall in the euro and the leasing of 13 medium- and long-haul aircraft while nine regional aircraft under operating lease were returned;
- **landing fees and en route charges** relating to air navigation services and the use of airports rose by 5.6%, in line with activity;
- **catering** costs relating to in-flight services rose by 4.9%. These expenses comprise the expenses incurred for services provided on board the Air France KLM Group's own aircraft and those incurred by its catering subsidiary for third-party customers;
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. They increased in line with activity;
- **aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. They rose by just 1.5% over the period;
- **commercial and distribution costs** declined by €75 million under the effect, notably, of the fall in interline commissions paid between partners in the SkyTeam alliance;

- **other external charges**, principally comprising rental charges, telecommunications costs, insurance and fees, increased by €86 million.

Over twelve months, **salaries and related costs** amounted to €7.46 billion versus €7.39 billion at December 31, 2010, i.e. a rise of 1%. The average headcount slightly declined (-0.2%) to 102,012 employees notably due to the implementation of the voluntary departure plan at Air France in 2010.

Over nine months, **salaries and related costs** stood at €5.66 billion versus €5.53 billion at December 31, 2010, i.e. a rise of 2.3%. The average headcount remained virtually stable with a modest 0.3% increase to 102,277 employees. On a constant scope, the number of employees declined by 0.7% to 101,198.

Over twelve months, **taxes other than income taxes** stood at €191 million versus €175 million at December 31, 2010, an increase of 9.1%. Over nine months, they amounted to €149 million versus €137 million for the previous period.

Over twelve months, **amortization, depreciation and provisions** totaled €1.70 billion versus €1.67 billion at December 31, 2010. Over nine months, they stood at €1.30 billion versus €1.28 billion for the previous period.

Income/(loss) from current operations

Over twelve months, **the result from current operations** was a negative €353 million (versus income of €28 million at December 31, 2010).

Over nine months, **the result from current operations** was a €50 million positive (income of €525 million for the same period in 2010).

The contribution to revenues and income/(loss) from current operations by sector of activity was as follows:

	December 31, 2011 (12 months pro forma)		December 31, 2010 (12 months pro forma)	
(In € million)	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Passenger	18,834	(375)	17,910	(58)
Cargo	3,143	(60)	3,064	15
Maintenance	1,040	110	1,029	118
Others	1,346	(28)	1,307	(47)
Total	**24,363**	**(353)**	**23,310**	**28**

	December 31, 2011 (9 months)		December 31, 2010 (9 months)	
(In € million)	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Passenger	14,762	(8)	14,031	323
Cargo	2,374	(51)	2,390	78
Maintenance	807	84	796	117
Others	1,094	25	1,072	7
Total	**19,037**	**50**	**18,289**	**525**

Income/(loss) from operating activities

Over twelve months, the result from operating activities was a €480 million loss versus income of €634 million at December 31, 2010.

The result for the previous year had included, notably, a €1.03 billion capital gain on the sale by the Group of a third of its shareholding in Amadeus which was the subject of an IPO in the Madrid stock market in April 2010 and the revaluation of the remaining 15.2% stake. It also included an additional €127 million provision relating to the fines imposed by the European Commission on the companies Air France, KLM and Martinair for anti-competitive practices in the air freight sector.

Over nine months, the result from operating activities was broadly at break-even (€26 million) versus income of €1.39 billion during the previous period which had included the Amadeus transaction and the additional provision for the cargo fine.

Net cost of financial debt

Over twelve months, the net cost of financial debt remained stable at €371 million. The ratio of EBITDAR to net interest costs adjusted for the portion of operating leases corresponding to financial costs (34%) was 3.3 at December 31, 2011 (3.9 at December 31, 2010).

Over nine months, the net cost of financial debt also remained stable at €280 million.

Other financial income and expenses

Over twelve months, as of December 31, 2011, other net financial expenses amounted to €180 million compared with a net expense of €239 million at December 31, 2010. The breakdown was as follows:

- a foreign exchange loss of €116 million (loss of €191 million at December 31, 2010);
- a €66 million negative change in the fair value of financial assets and liabilities (€53 million at December 31, 2010), mostly due to the €51 million impact of the OCEANE 2020 swap;
- provision write-backs of €2 million versus a €5 million net allocation to provisions at December 31, 2010.

Over nine months, other net financial expenses amounted to €247 million compared with a net expense of €145 million at December 31, 2010 (nine months). The breakdown was as follows:

- a foreign exchange loss of €186 million (loss of €103 million at December 31, 2010);
- a €64 million negative change in the fair value of financial assets and liabilities (€46 million at December 31, 2010), mostly due to the €51 million impact of the OCEANE 2020 swap;
- provision write-backs of €3 million versus a €4 million net allocation to provisions at December 31, 2010.

Net income/(loss) – Group share

Over twelve months, **income taxes** amounted to a €245 million positive versus €275 million at December 31, 2010.

In France, tax losses can be carried forward for an unlimited period. The amended 2011 finance law did, however, introduce a change in the amount of fiscal loss recoverable each year (limited to 60% of the amount of income for the period above the first €1 million), effectively extending the recovery period. In view of the above and the income projections taken into account, the recoverability period of the deferred tax asset on fiscal losses carried forward amounts to some ten years. As a safety precaution, the Group consequently opted to limit the recognition of the deferred tax asset on fiscal losses carried forward starting from the third quarter of the financial year ended December 31, 2011. The effective rate of tax was thus 24%.

The effective tax rate for the period from January 1 to December 31, 2010 is not significant in that both the result before taxes and income taxes had been positive figures. This is notably explained by the virtual-exoneration from tax of the capital gain on the Amadeus transaction.

Over nine months, **income taxes** amounted to a €75 million positive versus €26 million at December 31, 2010.

Over twelve months, **associates** contributed a loss of €19 million at December 31, 2011 versus a negative contribution of €13 million in the previous year. This essentially comprised the negative contribution from the Alitalia Group amounting to €30 million (€21 million at December 31, 2010).

Over nine months, **associates** contributed a loss of €12 million at December 31, 2011 versus a negative contribution of €14 million in the previous year.

Over twelve months, **net income/(loss), Group share** stood at a loss of €809 million at December 31, 2011 versus income of €289 million at December 31, 2010.

Over nine months, **net income/(loss), Group share** stood at a loss €442 million at December 31, 2011 versus income of €980 million at December 31, 2010.

The contributions to the net result by quarter were, respectively, €(367) million at March 31, 2011, €(197) million at June 30, 2011, €14 million at September 30, 2011 and €(270) million at December 31, 2011.

Over twelve months, basic earnings/(loss) per share, Group share, amounted to €(2.73) at December 31, 2011 versus earnings of €0.98 at December 31, 2010. Over nine months, basic earnings/(loss) per share, Group share, amounted to €(1.50) at December 31, 2011 versus earnings of €3.32 at December 31, 2010.

5.3.2 Investments and financing of the Group

Over twelve months, capital expenditure on tangible and intangible assets amounted to €2.43 billion versus (€2.04 billion at December 31, 2010) of which €1.35 billion of investment in the fleet, €556 million in maintenance, €118 million in components and €408 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and lease back transactions amounted to €1.17 billion versus €1.05 billion at December 31, 2010.

Over nine months, capital expenditure on tangible and intangible assets amounted to €1.87 billion (€1.56 billion at December 31, 2010). Proceeds on disposals of tangible and intangible assets including sale and lease back transactions amounted to €862 million versus €671 million at December 31, 2010.

Over twelve months, operating cash flow was positive to the tune of €934 million (€1.04 billion at December 31, 2010) given the €581 million positive change in working capital requirement. This change was mainly attributable to the €690 million increase in trade payables due, in part, to a calendar effect and, partly, to the measures taken to improve the management of working capital.

At December 31, 2011, the Group had €2.89 billion of net cash, of which €2.28 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.85 billion.

Net debt amounted to €6.52 billion at December 31, 2011 (€6.07 billion at December 31, 2010). Stockholders' equity stood at €6.09 billion versus €7.03 billion at December 31, 2010, the difference being mainly due to the €809 million net loss.

The Group's gearing ratio stood at 1.07 versus 0.85 at March 31, 2011. Excluding the impact of derivatives (€55 million), gearing stood at 1.08 versus 0.90 at March 31, 2011.

Over twelve months, net debt adjusted for the capitalization of operating leases (7x the annual charge) amounted to 5.7 times the EBITDAR at December 31, 2011 (4.7x at December 31, 2010).

5.3.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2011 with the financial year lasting nine months.

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and its expenses mostly comprise financial communication expenses, Statutory Auditors' fees and expenses linked to the compensation of company officers. At December 31, 2011, the operating result was thus positive to the tune of €1.6 million.

The net result was a €112 million loss, mainly due to the financial costs on the bond issues during the 2009-10 financial year and provisions on shares. No dividend was paid in respect of 2010-11.

Pursuant to the provisions of article 39.5 and article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, note that no amount was recognized during the financial year.

Pursuant to the provisions of article 39.4 and article 223 quater of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

At December 31, 2011, accounts payable stood at €1 million of which €0.5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At March 31, 2011, accounts payable stood at €0.6 million of which €0.3 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.4 Key financial indicators

Restated net income

The Group presents a restated net income figure when:

- non-recurrent operations are significant relative to the net result;
- oil price volatility has an impact on the value of the fuel hedging portfolio, particularly on the non-cash portion of the change in the fair value of hedging instruments.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Net income/(loss), Group share	(809)	289	613
Income taxes	(245)	(275)	(196)
Net income/(loss), Group share before income tax	(1,054)	14	417
Non-recurrent items*	127	(606)	(764)
Non-cash portion of the change in fair value of hedging instruments**	(8)	(24)	(25)
Restated net income/(loss), Group share before income tax	(935)	(616)	(372)
Tax impact	226	211	138
Restated net income/(loss)	(709)	(405)	(234)

* *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities. (See also Note 11 to the consolidated financial statements).*

** *See consolidated statements of cash flow.*

Adjusted operating margin

In accordance with generally accepted practice for analysing the Air Transport sector, operating leases are capitalized at seven times for the capital employed and gearing ratio calculations. Consequently, income from current operations is adjusted by the portion of operating leases considered to be financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, in stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Income/(loss) from current operations	(353)	28	122
Portion of operating leases considered to be financial charges	288	274	283
Adjusted income/(loss) from current operations	(65)	302	405
Revenues	24,363	23,310	23,615
Adjusted operating margin	(0.3)%	1.3%	1.7%

Gearing ratio

The gearing ratio expresses net debt as a percentage of stockholders' equity. Net debt is the result of deducting cash (cash and cash equivalents and investments, minus bank overdrafts) from short and long-term debt. The cash guarantee within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 is deducted from the corresponding debt. Within the framework of the appeal filed with the European Court of Justice regarding the amount of the cargo fine, the Group chose to set up bank guarantees pending the final ruling. These guarantees are held as available cash pledges, the Group having the option to rapidly substitute other assets *(see also Note 23 to the consolidated financial statements)*.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Current and non-current financial debt	10,402	10,647	10,788
Accrued interest	(122)	(146)	(119)
Deposits on leased aircraft	(491)	(492)	(455)
Financial assets pledged within the framework of the swap with Natixis (OCEANE)	(393)	-	-
Currency hedge on financial debt	4	38	36
Financial debt	**9,400**	**10,047**	**10,250**
Cash and cash equivalents	2,283	3,496	3,717
Marketable securities	359	424	271
Available cash pledges	235	-	303
Deposits (bonds)	165	207	197
Bank overdrafts	(157)	(145)	(129)
Net cash	**2,885**	**3,982**	**4,359**
Net debt	**6,515**	**6,065**	**5,891**
Consolidated stockholders' equity	6,094	7,032	6,906
Net debt/consolidated stockholders' equity	**1.07**	**0.86**	**0.85**
Net debt/consolidated stockholders' equity excluding derivatives	**1.08**	**0.86**	**0.90**

Financial ratio

Within the framework of the Transform 2015 plan, the Group has set a target of reducing debt to €4.5 billion and the net debt/EBITDA ratio to below 2 at the end of 2014.

This ratio is calculated based on the following metrics from the consolidated financial statements:

- net debt: see above table;
- EBITDA: operating result before amortization, depreciation and provisions.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Net debt	6,515	6,065	5,891
EBITDA	1,344	1,695	1,798
Net debt/EBITDA	**4.8**	**3.6**	**3.3**

Return on Capital Employed (ROCE)

Return on capital employed measures the return on invested capital by expressing adjusted income from current operations (after the application of a normative tax rate of 31%) as a percentage of capital employed.

It is calculated from the following aggregates in the consolidated financial statements:

- capital employed: consolidated stockholders' equity net of the valuation of derivatives (-€56 million at December 31, 2011 and + €25 million at December 31, 2010) and the badwill linked to the KLM pension fund surplus (€928 million) recognized on the adoption of IFRS. Net debt and annual operating leases, capitalized at seven times in accordance with the rule used by analysts following the Air Transport sector and the rating agencies, are then added to this figure;
- adjusted income from current operations after income taxes.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Stockholders' equity excluding the pension fund surplus and derivatives	5,110	6,129	5,604
Net debt	6,515	6,065	5,891
Operating leases x7	5,936	5,642	5,817
Capital employed	**17,561**	**17,836**	**17,312**
Adjusted income/(loss) from current operations after taxation	**(45)**	**208**	**279**
ROCE	**(0.3)%**	**1.2%**	**1.6%**

Cost of capital

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Cost of stockholders' equity	13.3%	13%	13%
Marginal cost of debt, after tax	4.5%	3.7%	3.7%
Percentage of stockholders' equity/target debt			
♦ Stockholders' equity	33%	35%	35%
♦ Debt	67%	65%	65%
Weighted average cost of capital	**7.4%**	**7%**	**7%**

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Contents

5.5 Consolidated financial statements

Nine-month financial year ended December 31, 2011

5.5.1 Consolidated income statement

(In € millions)	**Notes**	**04/01/2011 12/31/2011** *(9 months)*	**04/01/2010 12/31/2010** *(9 months)**	**04/01/2010 03/31/2011** *(12 months)*	**01/01/2011 12/31/2011** *(12 months) Proforma*	**01/01/2010 12/31/2010** *(12 months) Proforma*
Sales	***6***	***19,037***	***18,289***	***23,615***	***24,363***	***23,310***
Other revenues		38	6	7	39	7
Revenues		***19,075***	***18,295***	***23,622***	***24,402***	***23,317***
External expenses	7	(11,951)	(10,989)	(14,555)	(15,517)	(14,306)
Salaries and related costs	8	(5,658)	(5,531)	(7,333)	(7,460)	(7,385)
Taxes other than income taxes		(149)	(137)	(179)	(191)	(175)
Amortization	9	(1,233)	(1,215)	(1,624)	(1,642)	(1,614)
Depreciation and provisions	9	(63)	(60)	(52)	(55)	(53)
Other income and expenses	10	29	162	243	110	244
Income from current operations		***50***	***525***	***122***	***(353)***	***28***
Sales of aircraft equipment	11	19	11	8	16	(10)
Other non-current income and expenses	11	(43)	856	756	(143)	616
Income from operating activities		***26***	***1,392***	***886***	***(480)***	***634***
Cost of financial debt		(351)	(343)	(455)	(463)	(455)
Income from cash and cash equivalents		71	63	84	92	84
Net cost of financial debt	***12***	***(280)***	***(280)***	***(371)***	***(371)***	***(371)***
Other financial income and expenses	12	(247)	(145)	(78)	(180)	(239)
Income before tax		***(501)***	***967***	***437***	***(1,031)***	***24***
Income taxes	13	75	26	196	245	275
Net income of consolidated companies		***(426)***	***993***	***633***	***(786)***	***299***
Share of profits (losses) of associates	21	(12)	(14)	(21)	(19)	(13)
Net income from continuing operations		***(438)***	***979***	***612***	***(805)***	***286***
Net income for the period		***(438)***	***979***	***612***	***(805)***	***286***
♦ ***Equity holders of Air France-KLM***		*(442)*	*980*	*613*	*(809)*	*289*
♦ Non controlling interests		4	(1)	(1)	4	(3)
Earnings per share – Equity holders of Air France-KLM *(in €)*	15.1					
♦ basic		(1.50)	3.32	2.08	(2.73)	0.98
♦ diluted		(1.50)	2.71	1.76	(2.73)	0.89

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.2 Consolidated statement of recognized income and expenses

(In € millions)	**04/01/2011 12/31/2011** *(9 months)*	**04/01/2010 12/31/2010** *(9 months)**	**04/01/2010 03/31/2011** *(12 months)*	**01/01/2011 12/31/2011** *(12 months) Proforma*	**01/01/2010 12/31/2010** *(12 months) Proforma*
Net income for the period	***(438)***	***979***	***612***	***(805)***	***286***
Fair value adjustment on available-for-sale securities					
Change in fair value recognized directly in equity	(74)	323	165	(232)	326
Change in fair value transferred to profit or loss	-	-	4	4	-
Cash flow hedges					
Effective portion of changes in fair value hedge recognized directly in equity	(104)	325	952	523	357
Change in fair value transferred to profit or loss	(363)	134	68	(429)	275
Items of the recognized income and expenses of equity shares	***(1)***	***(13)***	***(7)***	***5***	***(3)***
Currency translation adjustment	***11***	***(12)***	***(25)***	***(2)***	***(6)***
Tax on items related to other comprehensive income					
Income/(expense) included in other comprehensive income	146	(150)	(316)	(20)	(204)
Total of other comprehensive income included in the recognized income and expenses	***(385)***	***607***	***841***	***(151)***	***745***
Recognized income and expenses	***(823)***	***1,586***	***1,453***	***(956)***	***1,031***
♦ ***Equity holders of Air France-KLM***	***(825)***	***1,586***	***1,452***	***(959)***	***1,033***
♦ Non-controlling interests	2	-	1	3	(2)

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.3 Consolidated balance sheet

Assets *(In € millions)*	**Notes**	**December 31, 2011**	**March 31, 2011**	**December 31, 2010***
Goodwill	16	426	422	401
Intangible assets	17	774	695	662
Flight equipment	19	10,689	11,040	11,163
Other property, plant and equipment	19	2,055	2,111	2,131
Investments in equity associates	21	422	422	431
Pension assets	22	3,217	2,995	2,944
Other financial assets**	23	2,015	1,654	1,836
Deferred tax assets	13.5	1,143	933	886
Other non-current assets	26	168	156	127
Total non-current assets		***20,909***	***20,428***	***20,581***
Assets held for sale	14	10	21	2
Other short-term financial assets**	23	751	751	628
Inventories	24	585	558	579
Trade accounts receivables	25	1,774	1,938	1,779
Income tax receivables		10	6	1
Other current assets	26	995	1,550	1,113
Cash and cash equivalents	27	2,283	3,717	3,496
Total current assets		***6,408***	***8,541***	***7,598***
Total assets		**27,317**	**28,969**	**28,179**

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*
** *Including:*

(In € millions)	**December 31, 2011**	**March 31, 2011**	**December 31, 2010***
Deposits related to financial leases	656	652	699
Marketable securities	987	574	424

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and equity *(In € millions)*	**Notes**	**December 31, 2011**	**March 31, 2011**	**December 31, 2010***
Issued capital	28.1	300	300	300
Additional paid-in capital	28.2	2,971	2,971	2,971
Treasury shares	28.3	(89)	(94)	(93)
Reserves and retained earnings	28.4	2,858	3,675	3,802
Equity attributable to equity holders of Air France-KLM		***6,040***	***6,852***	***6,980***
Non-controlling interests		54	54	52
Total equity		***6,094***	***6,906***	***7,032***
Provisions and retirement benefits	30	2,061	1,930	1,566
Long-term debt	31	9,228	8,980	8,836
Deferred tax liabilities	13.5	466	511	468
Other non-current liabilities	32	321	272	430
Total non-current liabilities		***12,076***	***11,693***	***11,300***
Provisions	30	156	287	679
Current portion of long-term debt	31	1,174	1,808	1,811
Trade accounts payables		2,599	2,211	1,928
Deferred revenue on ticket sales		1,885	2,440	1,857
Frequent flyer programs		784	806	820
Current tax liabilities		6	3	12
Other current liabilities	32	2,386	2,686	2,595
Bank overdrafts	27	157	129	145
Total current liabilities		***9,147***	***10,370***	***9,847***
Total liabilities		**21,223**	**22,063**	**21,147**
Total liabilities and equity		**27,317**	**28,969**	**28,179**

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*

The accompanying notes are an integral part of these consolidated financial statements.

5.5.4 Consolidated statement of changes in stockholders' equity

(In € millions)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Non controlling interests	Total equity
March 31, 2010	***300,219,278***	***2,552***	***719***	***(106)***	***2,198***	***5,363***	***55***	***5,418***
Fair value adjustment on available for sale securities	-	-	-	-	166	166	-	166
Gain/(loss) on cash flow hedges	-	-	-	-	697	697	3	700
Currency translation adjustment	-	-	-	-	(24)	(24)	(1)	(25)
Net income for the year	-	-	-	-	613	613	(1)	612
Total of income and expenses recognized	***-***	***-***	***-***	***-***	***1,452***	***1,452***	***1***	***1,453***
Stock based compensation (ESA) and stock option	-	-	-	-	25	25	-	25
Dividends paid	-	-	-	-	-	-	(3)	(3)
Capital decrease	-	(2,252)	2,252	-	-	-	-	-
Treasury shares	-	-	-	12	-	12	-	12
Change in consolidation scope	-	-	-	-	-	-	1	1
March 31, 2011	***300,219,278***	***300***	***2,971***	***(94)***	***3,675***	***6,852***	***54***	***6,906***
Fair value adjustment on available for sale securities	-	-	-	-	(87)	(87)	-	(87)
Gain/(loss) on cash flow hedges	-	-	-	-	(307)	(307)	(2)	(309)
Currency translation adjustment	-	-	-	-	11	11	-	11
Net income for the year	-	-	-	-	(442)	(442)	4	(438)
Total of income and expenses recognized	***-***	***-***	***-***	***-***	***(825)***	***(825)***	***2***	***(823)***
Stock based compensation (ESA) and stock option	-	-	-	-	5	5	-	5
Dividends paid	-	-	-	-	-	-	(3)	(3)
OCEANE	-	-	-	-	6	6	-	6
Treasury shares	-	-	-	5	-	5	-	5
Change in consolidation scope	-	-	-	-	(3)	(3)	1	(2)
December, 31 2011	***300,219,278***	***300***	***2,971***	***(89)***	***2,858***	***6,040***	***54***	***6,094***

(In € millions)	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
March 31, 2010	***300,219,278***	***2,552***	***719***	***(106)***	***2,198***	***5,363***	***55***	***5,418***
Fair value adjustment on available for sale securities	-	-	-	-	318	318	-	318
Gain/(loss) on cash flow hedges	-	-	-	-	300	300	1	301
Currency translation adjustment	-	-	-	-	(12)	(12)	-	(12)
Net income for the year	-	-	-	-	980	980	(1)	979
Total of income and expenses recognized	***-***	***-***	***-***	***-***	***1,586***	***1,586***	***-***	***1,586***
Stock based compensation (ESA) and stock option	-	-	-	-	18	18	-	18
Dividends paid	-	-	-	-	-	-	(3)	(3)
Capital decrease	-	(2,252)	2,252	-	-	-	-	-
Treasury shares	-	-	-	13	-	13	-	13
December, 31 2010	***300,219,278***	***300***	***2,971***	***(93)***	***3,802***	***6,980***	***52***	***7,032***

The accompanying notes are an integral part of these consolidated financial statements.

5.5.5 Consolidated statements of cash flows

(In € millions)	Notes	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)**	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Net income for the period – Equity holders of Air France-KLM		(442)	980	613	(809)	289
Non-controlling interests		4	(1)	(1)	4	(3)
Amortization, depreciation and operating provisions	9	1,296	1,275	1,676	1,697	1,667
Financial provisions	12	(3)	(4)	(3)	(2)	(5)
Gain on disposals of tangible and intangible assets		(7)	(12)	(11)	(6)	46
Loss/(gain) on disposals of subsidiaries and associates		-	(11)	(13)	(2)	(10)
Gain on Amadeus operation	11	-	(1,030)	(1,030)	-	(1,030)
Derivatives – non monetary result	12	12	(5)	(25)	(8)	(24)
Unrealized foreign exchange gains and losses, net		169	107	33	95	159
Share of (profits) losses of associates	21	12	14	21	19	13
Deferred taxes	13	(100)	(49)	(215)	(266)	(305)
Other non-monetary items	38.1	(296)	(136)	(209)	(369)	46
Subtotal		**645**	**1,128**	**836**	**353**	**843**
(Increase)/decrease in inventories		(13)	(38)	(10)	15	25
(Increase)/decrease in trade receivables		142	362	171	(49)	121
Increase/(decrease) in trade payables		343	(102)	245	690	(41)
Change in other receivables and payables		(559)	(376)	108	(75)	95
Net cash flow from operating activities		***558***	***974***	***1,350***	***934***	***1,043***
Acquisition of subsidiaries and investments in associates, net of cash acquired	38.2	(7)	(10)	(33)	(30)	(10)
Purchase of property, plant and equipment and intangible assets	20	(1,872)	(1,561)	(2,122)	(2,433)	(2,037)
Proceeds on Amadeus transaction	11	-	193	193	-	193
Proceeds on disposal of subsidiaries and investments in associates	38.3	-	-	-	-	-
Proceeds on disposal of property, plant and equipment and intangible assets		862	671	977	1,168	1,054
Dividends received		28	8	8	28	8
Decrease (increase) in investments, net between 3 months and 1 year		(412)	(79)	(229)	(562)	(44)
Net cash flow used in investing activities		***(1,401)***	***(778)***	***(1,206)***	***(1,829)***	***(836)***

(In € millions)	Notes	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)**	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Increase in capital		-	-	6	6	-
Purchase of non-controlling interests, of shares in non-controlled entities	38.2	(6)	(3)	(13)	(21)	(4)
Disposal of subsidiaries without loss of control, of shares in non-controlled entities	38.3	2	19	14	2	20
Issuance of long-term debt		868	354	900	1,414	532
Repayment on long-term debt		(874)	(530)	(646)	(990)	(640)
Payment of debt resulting from finance lease liabilities		(689)	(401)	(550)	(838)	(618)
New loans		(102)	(67)	(110)	(145)	(78)
Repayment on loans		185	151	231	265	224
Dividends paid		(3)	(2)	(3)	(4)	(3)
Net cash flow from financing activities		***(619)***	***(479)***	***(171)***	***(311)***	***(567)***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		***-***	***(1)***	***(20)***	***(19)***	***5***
Change in cash and cash equivalents and bank overdrafts		***(1,462)***	***(284)***	***(47)***	***(1,225)***	***(355)***
Cash and cash equivalents and bank overdrafts at beginning of period	27	3,588	3,635	3,635	3,351	3,706
Cash and cash equivalents and bank overdrafts at end of period	27	2,126	3,351	3,588	2,126	3,351
Income tax (paid)/reimbursed (flow included in operating activities)		(27)	(22)	(32)	(37)	(30)
Interest paid (flow included in operating activities)		(335)	(302)	(435)	(468)	(427)
Interest received (flow included in operating activities)		49	34	49	64	48

* *Amounts indicated in this column concern information published as of December 31, 2010 for a 9-month period.*

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 excluding its consolidated subsidiaries.

The term "Group" is represented by the economic definition of Air France-KLM and its subsidiaries. The Group is headquartered in France and is one of the largest airlines in the world. The Group's core business is passenger transportation. The Group's activities also include cargo, aeronautics maintenance and other air-transport-related activities including, principally, catering and charter services.

The limited company Air France-KLM SA, domiciled at 2, rue Robert Esnault-Pelterie 75007 Paris, France, is the parent company of the Air France-KLM group. Air France-KLM is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

The presentation currency used in these financial statements is the euro, which is also the Group's functional currency.

Note 2 Change of closing date

The Extraordinary Shareholders' Meeting of July 7, 2011 approved the change of closing date for Air France-KLM S.A.'s financial statements from March 31 to December 31, proposed by the Board of Directors on May 18, 2011. This decision was taken to facilitate analysis and comparison with most other airline companies which close their accounting periods on December 31. The subsidiaries have also changed their closing dates to come into line with the new closing date of the parent company.

This change in accounts closing date becomes effective this financial year with a 9-month financial year ended on December 31, 2011. Due to this change, the accounts for the 9-month period ended December 31, 2011 are not comparable with the last published accounts for the Group for the period ended March 31, 2011.

To facilitate comparison, proforma financial information is presented in addition to historical information related to the years ended December 31, 2010 (9 months) and March 31, 2011 (12 months).

This proforma financial information has been established based on the Group's quarterly published financial information. As such, some assumptions and options have been identified including:

- the addition of the first quarter of the calendar year for the periods ended December 31, 2011 and 2010;
- pension costs are consistent with previous publications. They have not been recalculated on the basis of the calendar year;
- the current and deferred taxes recognized in profit proforma have not been recalculated on the basis of the calendar year but satisfy (i) for the first quarter of proforma closing December 31, 2011 and December 31, 2010, to taxes as calculated for the last quarter of the financial years ended March 31, 2011 and March 31, 2010 and (ii) for the last nine months of proforma closing, to the taxes calculated for the corresponding period of closing ended December 31, 2011 and March 31, 2011.

The income and cash flow statements include the following comparative financial information:

- financial information for the 9-month period ended December 31, 2010 (from April 1, 2010 to December 31, 2010) corresponding to the information published in respect of the third quarter of the year ended March 31, 2011;
- proforma financial information for the 12-month period ended December 31, 2011 (from January 1, 2011 to December 31, 2011) based on the financial information published for the fourth quarter of the year ended March 31, 2011 and the 9-month 2011 fiscal year ended December 31, 2011;
- proforma financial information over 12 months as of December 31, 2010 (from January 1, 2010 to December 31, 2010) based on the financial information published for the fourth quarter of the year ended March 31, 2010 and the first three quarters of the year ended March 31, 2011.

The balance sheet includes financial information as of December 31, 2010. This information corresponds to the third quarter balance sheet published for the year ended March 31, 2011.

Proforma financial information is also presented for some of the notes to the consolidated financial statements.

Note 3 Significant events

3.1 Arising during the accounting period

To optimize its debt repayment schedule, the Air France-KLM group signed on December 6, 2011 a total return swap with Natixis. This operation, aiming at deferring until April 1, 2016 the possible exercice of the repayment option initially scheduled for April 1, 2012, is detailled in Note 31.2.1.

The Board of Directors of the Air France-KLM group approved a significant aircraft order on September 15, 2011.

A purchase contract was signed with Boeing for 25 firm order and 25 options of Boeing 787 aircraft. Discussions are ongoing with Airbus and Rolls Royce to finalize the contract for the Airbus A350 order.

The commitments related to this order are detailed in Note 35.

3.2 Subsequent events

On March 1, 2012, Air France, subsidiary of Air France-KLM, has made a private placement of 33.6 millions of Amadeus IT Holding SA shares, which correspond to 7.5% of the capital.

After this operation, the Group's holding decreased from 15.2% to 7.7%.

The net proceeds from the transaction amounts to €467 millions which generates, in the income statement, a gain on disposal of €98 millions.

Air France, as well as Iberia and Lufthansa, which hold respectively 7.5% and 7.6% of the share capital of Amadeus IT Holding SA, have each agreed to a lock-up of a 90-days period.

Note 4 Accounting policies

4.1 Accounting principles

4.1.1 Accounting principles used for consolidated financial statements

Pursuant to the European Regulation 1606/2002, July 19, 2002, the consolidated financial statements as of December 31, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission ("EU") and applicable on the date these consolidated financial statements were established.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially if the Group had applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on March 7, 2012.

4.1.2 Change in accounting principles

IFRS standards, amendments and IFRIC interpretations applicable to the 2011 financial statements

The main texts whose application became mandatory during the accounting period ended December 31 are the following:

- the revised standard IAS 24 "Related party disclosures", applicable for annual periods beginning on or after January 1, 2011;
- IFRIC 19 "Financial debts paid by equity instruments", applicable for annual periods beginning on or after July 1, 2010;
- the amendment to interpretation IFRIC 14 "Limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction", applicable for annual periods beginning on or after January 1, 2011;
- the IFRS annual improvement published in May 2010, applicable for accounting periods starting January 1, 2011 (except for amendments to IFRS 3 and IAS 27, applicable for accounting periods starting July 1, 2010).

These standards and amendments had no significant impact on the consolidated financial statements at December 31, 2011.

Other texts whose application became mandatory during the year ended December 31, 2011 have no impact on the consolidated financial statements of the Group.

IFRS standards, amendments and IFRIC interpretations which are not mandatory effective on 2011 financial statements

The amendment to IFRS 7 "Disclosure in the transfer of financial assets" approved by the European Union is applicable for fiscal year beginning on or after July 1, 2011.

Other standards potentially applicable to the Group, published by the IASB but not yet adopted by the European Union are described below. They will have to be applied, subject to their approval by the European Union, for the accounting periods starting:

- July 1, 2012:
  - amendment to IAS 1 on presentation of other comprehensive income;
- January 1, 2013:
  - standard IFRS 10 "Consolidated Financial Statements" which will replace IAS 27 "Consolidated and Separate Financial Statements" for the part concerning the consolidated financial statements and also SIC 12 "Consolidation – Special Purpose Entities",
  - standard IFRS 11 "Joint Arrangements" which will replace IAS 31 "Interests in Joint Ventures" and also the interpretation SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers",
  - standard IFRS 12 "Disclosure on Interests in Other Entities",

  - the revised standards IAS 27 “Consolidated and Separate Financial Statements” and IAS 28 “Investments in Associates”,
  - standard IFRS 13 “Fair Value Measurement”,
  - the revised standard IAS 19 “Employee Benefits”;
- January 1, 2015:
  - standard IFRS 9 “Financial instruments – Classification and measurement of financial assets and liabilities”.

The main consequence of the revision to IAS 19 has been the removal of the option allowing, when a scheme was out of a 10% corridor, the amortization of actuarial differences. From now on they will have to be accounted directly in equity. According to the standard, the application as of January 1, 2013, will result in a negative adjustment in the opening equity of the first comparative published year, *i.e.* as of January 1, 2012, amounting to about €1.5 billion gross reduced by the tax effect to €1.3 billion net of tax.

Other new standards, interpretations and amendments to existing standards are not applicable to the Group.

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 et 4.12 – Tangible and intangible assets;
- Note 4.10 – Financial instruments, valuation of financial assets and liabilities;
- Note 4.21 – Deferred taxes;
- Note 4.7 – *Flying Blue* frequent flyer program;
- Notes 4.17, 4.18 et 4.19 – Provisions.

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 current economic and financial crisis which has developed 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 assumption was that the crisis would be of limited duration.

The future results could differ from these estimates depending on changes in the assumptions used or different conditions.

4.3 Consolidation principles

4.3.1 Subsidiaries

Companies over which the Group exercises control are fully consolidated. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the 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 items initially recognized in comprehensive income and reclassified to profit and loss.

4.3.2 Interest in associates and joint ventures

Companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are accounted for using the equity method; the ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

In addition, companies in which the Group exercises joint control according to a contractual agreement are accounted for using the equity method.

The consolidated financial statements include the Group’s share of the total recognized gains and losses 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. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investee arising from changes in the investee’s equity that have not been recognized in the investee’s profit or loss. The investor’s share of those changes is recognized directly in the Group’s equity.

The Group’s share of losses of an associate that exceed the value of the Group’s interest and net investment (long term receivables) 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 consolidated and are valued at their fair value on the date of withdrawal from the consolidation scope.

4.3.3 Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions that are recognized in assets are also eliminated.

Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

4.3.4 Closing date

With the exception of a few non-significant subsidiaries and equity affiliates with a September 30 or October 31 closing date, all Group companies are consolidated based on financial statements for the year ended December 31.

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 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 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 currency 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.

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.

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 revised standard "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, except for non-current assets classified as assets held for sale which are measured at fair value less costs to sell.

Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control on 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.

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 cost of acquisition, 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 instrument. 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 adjustment is made only during the 12 months measurement period that follows the acquisition date. Any other subsequent adjustments which do not meet these criteria are recorded as receivables or payables through the income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

4.5.2 *Business combination carried out before April 1, 2010*

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 "Business combinations". In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Assets meeting the criteria of IFRS 5 "Non-current assets held for sale and discontinued operations", as described in Note 4.22, are recorded at the lower of their net book value and their fair value less costs to sell.

Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control on the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

4.6 Sales

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Both passenger and cargo tickets are consequently recorded as "Deferred revenue on ticket sales".

Sales relating to the value of tickets that have been issued, but which will never be used, are recognized as revenues at issuance. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales on third-party maintenance contracts are recorded based on the stage of completion method.

4.7 Loyalty programs

The two sub-groups Air France and KLM have a common frequent flyer program *Flying Blue*. This program enables members to acquire "miles" as they fly with Air France, KLM or other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies or other free services with non flying partners.

In accordance with IFRIC 13 "Loyalty programs", these "miles" are considered as distinct elements from a sale with multiple elements and one part of the price of the initial sale of the airfare is allocated to these "miles" and deferred until the Group's commitments relating to these "miles" have been met. The deferred amount due in relation to the acquisition of miles by members is estimated:

- according to the fair value of the "miles", defined as the amount at which the benefits can be sold separately;
- after taking into account the redemption rate, corresponding to the probability that the miles will be used by members, using a statistical method.

With regards to the invoicing of other partners in the program, the margins realized on sales of "miles" by the sub-groups Air France and KLM to other partners are recorded immediately in the income statement.

4.8 Distinction between income from current operations and income from operating activities

The Group considers it is relevant to the understanding of its financial performance to present in the income statement a subtotal within the income from operating activities. This subtotal, entitled "Income from current operations", excludes unusual elements that do not have predictive value due to their nature, frequency and/or materiality, as defined in the recommendation n° 2009-R.03 from the National Accounting Council.

Such elements can be divided into three categories:

- elements that are both very infrequent and significant, such as the recognition in the income statement of negative goodwill;
- elements that impact the understanding of the Group's financial performance and do not contribute to the establishment of reliable future projections, such as sales of aircraft equipment and disposals of other assets;
- elements that are by nature unpredictable and non-recurring, if they are significant such as restructuring costs or gains/(losses) resulting from specific transactions. The Group considers that materiality must be assessed not only by comparing the amount concerned with the income/(loss) from operating activities of the period, but also in terms of changes in the item from one period to the other.

4.9 Earnings per share

Earnings per share are calculated by dividing net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

4.10 Financial instruments, valuation of financial assets and liabilities

4.10.1 Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value then, subsequently, using the amortized cost method less impairment losses, if any. The purchases and sales of financial assets are accounted for as of the transaction date.

4.10.2 Investments in debt and equity securities

Investments in debt and 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. For other securities, if the fair value cannot be reliably estimated, it equals the acquisition cost less impairment, if any.

Potential gains and losses, except for impairment charges, are recorded in a specific component of equity "Derivatives and available for sale securities reserves". If there is an indication of impairment of the financial asset, the amount of the loss is recorded in the income statement for the period.

4.10.3 Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks of exchange rates, changes in interest rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39 "Financial instruments: recognition and measurement".

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value. 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 equity for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or losses;
- *derivatives classified as trading:* changes in the derivative fair value are recorded as financial income or losses.

4.10.4 Convertible bonds

Convertible bonds are financial instruments comprising two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between such value and the bond's nominal value at issue. The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing, 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 SICAV and FCP, 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 asset at fair value through the income statement.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

4.10.6 Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial measurement, long-term debt is recorded at amortized cost calculated using the effective interest rate. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, *i.e.* the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

4.10.7 Fair value hierarchy

The table presenting a breakdown of financial assets and liabilities categorized by value (see Note 33.4) meets the amended requirements of IFRS 7 "Financial instruments: Disclosures". The fair values are classified using a scale which reflects the nature of the market data used to make the valuations.

This scale has three levels of fair value.

Level 1: Fair value calculated from the exchange rate/price quoted on the active market for identical instruments;

Level 2: Fair value calculated from valuation methods based on observable data such as active prices or similar liabilities or scopes quoted on the active market;

Level 3: Fair value calculated from valuation methods which rely completely or in part on non-observable data such as prices on an inactive market or the valuation on a multiples basis for non-quoted securities.

4.11 Goodwill

Goodwill represents the excess of the cost of a business combination over the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 was not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1 "First-time adoption of international financial reporting standards".

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in Note 4.14, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the acquisition cost, 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, an equity affiliate or a jointly-controlled entity, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

4.12 Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Software development costs are capitalized and amortized over their useful lives. The Group has the necessary tools to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful lives from the date they are available for use.

Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in Note 4.14 is recorded.

Intangible assets with a finite useful life are amortized on a straight line basis over the following periods:

- Software 1 to 5 years;
- Customer relationships 5 to 12 years.

4.13 Property, plant and equipment

4.13.1 Principles applicable

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. As prepayments on investment are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

4.13.2 Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value.

During the operating cycle, in developing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframes and engines (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components which enable the use of the fleet are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual lifetime of the aircraft/engine type on the world market. The useful life is limited to a maximum of 30 years.

4.13.3 Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

- Buildings 20 to 50 years;
- Fixtures and fittings 8 to 15 years;
- Flight simulators 10 to 20 years;
- Equipment and tooling 5 to 15 years.

4.13.4 Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating lease back transactions, the related profit or losses are accounted for as follows:

- they are recognized immediately when it is clear that the transaction has been realized at fair value;
- if the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used;
- if the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance lease back transactions, any gain on the sale is deferred and recognized as financial income over the lease term. No loss is recognized unless the asset is impaired.

4.14 Impairment test

In accordance with the standard IAS 36 "Impairment of Assets", 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 Group capital and a growth rate which reflects the market hypothesis for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGU relates to different activity sectors of the Group: passenger business, cargo, maintenance, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is realized. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

4.15 Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

4.16 Treasury shares

Air France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

4.17 Employee benefits

The Group's obligations in respect of defined benefit pension plans and termination indemnities are calculated, in accordance with IAS 19 "Employee benefits", using the projected units of credit method, 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.

Actuarial gains or losses are recognized in the Group's income statement only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the greater of the present value of the defined benefit obligation at that date and the fair value of any plan assets at that date. The exceeding amount is then recognized over the expected average remaining working lives of the employees participating in the plan.

Specific information related to the recognition of some pension plan assets

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR") that can involve the recognition of pension surpluses.

These pension surpluses constituted by the KLM sub-group are recognized in the balance sheet according to the IFRIC 14 interpretation IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

4.18 Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft to a defined level of potential.

The Group accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess under "Flight equipment". Such amounts are subsequently amortized on a straight-line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

4.19 Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.

The effect of the time value of money is presented as a component of financial income.

Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties concerned.

4.20 Equity and debt issuance costs

Debt issuance costs are amortized as financial expenses over the term of the loans using the actuarial method.

The cost of increase in capital is deducted from paid-in capital.

4.21 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 carry forwards 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 corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from budgets and medium term plans prepared by the Group. The assumptions used are similar to those used for testing the value of assets (these are described in 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 as equity. In such a case, they are recorded directly in equity.

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".

4.22 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 will be 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 was 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.

4.23 Share-based compensation

Pursuant to the transitional provisions of IFRS 2 "Share-based payment", only the share-based plans awarded after November 7, 2002, for which the rights did not vest by April 1, 2004, were valued and recorded as salaries and related costs.

Stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option schemes is determined using the Black-Scholes model. This model takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is the fair value of the services rendered by the employees in consideration for the options received. It is recognized as salary cost with a corresponding increase to equity over the period for which the rights vest. This compensation cost is adjusted, if applicable, to take into account the number of options effectively vested.

Note 5 Changes in the scope of consolidation

5.1 Acquisitions

No significant acquisitions of subsidiaries occurred during the financial years presented.

5.2 Disposals

Year ended December 31, 2011 (9 months and 12 months proforma)

No significant disposal of subsidiaries occurred during the financial year ended December 31, 2011 (9 months and 12 months proforma).

Previous years

On April 29, 2010, the company Amadeus was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation is detailed in Note 11 and had had an impact on the following years:

- year ended December 31, 2010 (9 months);
- year ended December 2010 (12 months proforma);
- year ended March 31, 2011 (12 months).

Note 6 Information by activity and geographical area

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 and airport services supplied by the Group to third-party airlines and services linked to IT systems.

Cargo: Cargo operating revenues come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally.

Other: The revenues from this segment come primarily from catering supplied by the Group to third-party airlines and to charter flights operated primarily by Transavia.

The results, assets and liabilities of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond:

- as far as the income statement is concerned, to the current operating income;
- as far as the balance sheet is concerned, to goodwill, intangible assets, flight equipment and other property, plant and equipment, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits.

Other elements of the income statement and balance sheet are presented in the "non-allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

The Group's activities are broken down into six geographical regions:

- Metropolitan France;
- Europe except France and North Africa;
- Caribbean, French Guiana and Indian Ocean;
- Africa, Middle East;
- Americas, Polynesia;
- Asia and New Caledonia.

Only segment revenue is allocated by geographical sales area.

The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the Group's assets (flight equipment) cannot be allocated to a geographical area.

6.1 Information by business segment

➤ **Year ended December 31, 2011 (9 months)**

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	15,611	2,391	2,360	1,561	-	21,923
Inter-segment sales	(849)	(17)	(1,553)	(467)	-	(2,886)
External sales	***14,762***	***2,374***	***807***	***1,094***	***-***	***19,037***
Income from current operations	(8)	(51)	84	25	-	50
Income from operating activities	(8)	(51)	84	25	(24)	26
Share of profits (losses) of associates	-	-	-	-	(12)	(12)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(527)	(527)
Income taxes	-	-	-	-	75	75
Net income from continuing operations	***(8)***	***(51)***	***84***	***25***	***(488)***	***(438)***
Depreciation and amortization for the period	(826)	(68)	(222)	(117)	-	(1,233)
Other non monetary items	(102)	(12)	(1)	(190)	(443)	(748)
Total assets	**12,440**	**1,278**	**2,555**	**4,996**	**6,048**	**27,317**
Segment liabilities	5,788	294	664	596	3,322	10,664
Financial debt, bank overdraft and equity	-	-	-	-	16,653	16,653
Total liabilities and equity	**5,788**	**294**	**664**	**596**	**19,975**	**27,317**
Purchase of property, plant and equipment and intangible assets	***1,387***	***113***	***230***	***142***	***-***	***1,872***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 11.

Non-allocated assets amounting to €6 billion are mainly financial assets held by the Group. They comprise financial assets for €1.8 billion, marketable securities of €1.9 billion, deferred tax of €1.2 billion, cash of €0.4 billion and derivatives of €0.7 billion.

Non-allocated liabilities amounting to €3.3 billion mainly comprise a portion of provisions and retirement benefits of €1.1 billion, deferred tax of €0.5 billion and employee-related liabilities of €1.3 billion and derivatives of €0.4 billion.

Financial debts, bank overdrafts and equity are not allocated.

➤ Year ended December 31, 2010 (9 months)

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	14,820	2,402	2,331	1,529	-	21,082
Inter-segment sales	(789)	(12)	(1,535)	(457)	-	(2,793)
External sales	***14,031***	***2,390***	***796***	***1,072***	***-***	***18,289***
Income from current operations	323	78	117	7	-	525
Income from operating activities	323	78	117	7	867	1,392
Share of profits (losses) of associates	-	-	-	-	(14)	(14)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(425)	(425)
Income taxes	-	-	-	-	26	26
Net income from continuing operations	***323***	***78***	***117***	***7***	***454***	***979***
Depreciation and amortization for the period	(795)	(77)	(224)	(119)	-	(1,215)
Other non monetary items	(111)	(3)	(14)	(122)	397	147
Total assets	**12,725**	**1,402**	**2,634**	**4,820**	**6,598**	**28,179**
Segment liabilities	4,643	166	558	1,166	3,822	10,355
Financial debt, bank overdraft and equity	-	-	-	-	17,824	17,824
Total liabilities and equity	**4,643**	**166**	**558**	**1,166**	**21,646**	**28,179**
Purchase of property, plant and equipment and intangible assets	***1,150***	***102***	***193***	***116***	***-***	***1,561***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 11.

Non-allocated assets amounting to €6.6 billion are mainly financial assets held by the Group. They comprise financial assets for €1.4 billion, marketable securities of €3 billion, deferred tax of €0.9 billion, cash of €0.5 billion and derivatives of €0.6 billion.

Non-allocated liabilities amounting to €4 billion, mainly comprise a portion of provisions and retirement benefits of €1.2 billion, deferred tax of €0.5 billion and employee-related liabilities of €1.3 billion and derivatives of €0.8 billion.

Financial debts, bank overdrafts and equity are not allocated.

➤ Year ended March 31, 2011 (12 months)

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	19,154	3,176	3,083	1,928	-	27,341
Inter-segment sales	(1,051)	(17)	(2,054)	(604)	-	(3,726)
External sales	***18,103***	***3,159***	***1,029***	***1,324***	***-***	***23,615***
Income from current operations	(44)	69	143	(46)	-	122
Income from operating activities	(44)	69	143	(46)	764	886
Share of profits (losses) of associates	-	-	-	-	(21)	(21)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(449)	(449)
Income taxes	-	-	-	-	196	196
Net income from continuing operations	***(44)***	***69***	***143***	***(46)***	***490***	***612***
Depreciation and amortization for the period	(1,057)	(103)	(304)	(160)	-	(1,624)
Other non monetary items	(71)	(4)	7	(64)	273	141
Total assets	**12,888**	**1,386**	**2,577**	**4,831**	**7,287**	**28,969**
Segment liabilities	6,153	239	577	633	3,544	11,146
Financial debt, bank overdraft and equity	-	-	-	-	17,823	17,823
Total liabilities and equity	**6,153**	**239**	**577**	**633**	**21,367**	**28,969**
Purchase of property, plant and equipment and intangible assets	***1,552***	***139***	***269***	***162***	***-***	***2,122***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 11.

Non-allocated assets amounting to €7.3 billion are mainly financial assets held by the Group. They comprise financial assets for €1.5 billion, marketable securities of €3.3 billion, deferred tax of €0.9 billion, cash of €0.4 billion and derivatives of €0.9 billion.

Non-allocated liabilities amounting to €3.5 billion mainly comprise a portion of provisions and retirement benefits of €1.1 billion, deferred tax of €0.5 billion and employee-related liabilities of €1.3 billion and derivatives of €0.6 billion.

Financial debts, bank overdrafts and equity are not allocated.

➤ Year ended December 31, 2011 (12 months proforma)

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	19,945	3,165	3,112	1,960	-	28,182
Inter-segment sales	(1,111)	(22)	(2,072)	(614)	-	(3,819)
External sales	***18,834***	***3,143***	***1,040***	***1,346***	***-***	***24,363***
Income from current operations	(375)	(60)	110	(28)	-	(353)
Income from operating activities	(375)	(60)	110	(28)	(127)	(480)
Share of profits (losses) of associates	-	-	-	-	(19)	(19)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(551)	(551)
Income taxes	-	-	-	-	245	245
Net income from continuing operations	***(375)***	***(60)***	***110***	***(28)***	***(452)***	***(805)***
Depreciation and amortization for the period	(1,088)	(94)	(302)	(158)	-	(1,642)
Other non monetary items	(62)	(13)	20	(132)	(567)	(754)
Total assets	**12,440**	**1,278**	**2,555**	**4,996**	**6,048**	**27,317**
Segment liabilities	5,788	294	664	596	3,322	10,664
Financial debt, bank overdraft and equity	-	-	-	-	16,653	16,653
Total liabilities and equity	**5,788**	**294**	**664**	**596**	**19,975**	**27,317**
Purchase of property, plant and equipment and intangible assets	***1,789***	***150***	***306***	***188***	***-***	***2,433***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 11.

Non-allocated assets and liabilities are detailed in the comments for the year ended December 31, 2011 (9 months).

➤ Year ended December 31, 2010 (12 months proforma)

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	18,928	3,080	3,076	1,907	-	26,991
Inter-segment sales	(1,018)	(16)	(2,047)	(600)	-	(3,681)
External sales	***17,910***	***3,064***	***1,029***	***1,307***	***-***	***23,310***
Income from current operations	(58)	15	118	(47)	-	28
Income from operating activities	(58)	15	118	(47)	606	634
Share of profits (losses) of associates	-	-	-	-	(13)	(13)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(610)	(610)
Income taxes	-	-	-	-	275	275
Net income from continuing operations	***(58)***	***15***	***118***	***(47)***	***258***	***286***
Depreciation and amortization for the period	(1,049)	(104)	(300)	(161)	-	(1,614)
Other non monetary items	(106)	1	(2)	(199)	(4)	(310)
Total assets	**12,725**	**1,402**	**2,634**	**4,820**	**6,598**	**28,179**
Segment liabilities	4,643	166	558	1,166	3,822	10,355
Financial debt, bank overdraft and equity	-	-	-	-	17,824	17,824
Total liabilities and equity	**4,643**	**166**	**558**	**1,166**	**21,646**	**28,179**
Purchase of property, plant and equipment and intangible assets	***1,525***	***109***	***261***	***142***	***-***	***2,037***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 11.

Non-allocated assets and liabilities are detailed in the comments for the year ended December 31, 2010 (9 months).

6.2 Information by geographical area

Sales by geographical area

➤ Year ended December 31, 2011 (9 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	4,451	4,579	284	921	2,444	1,423	14,102
Other passenger sales	270	214	9	43	42	82	660
Total passenger	***4,721***	***4,793***	***293***	***964***	***2,486***	***1,505***	***14,762***
Scheduled cargo	278	883	23	153	391	518	2,246
Other cargo sales	38	27	3	8	30	22	128
Total cargo	***316***	***910***	***26***	***161***	***421***	***540***	***2,374***
Maintenance	462	308	-	-	37	-	807
Others	333	702	12	47	-	-	1,094
Total	**5,832**	**6,713**	**331**	**1,172**	**2,944**	**2,045**	**19,037**

➤ Year ended December 31, 2010 (9 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	4,173	4,342	273	940	2,375	1,291	13,394
Other passenger sales	254	216	8	47	49	63	637
Total passenger	***4,427***	***4,558***	***281***	***987***	***2,424***	***1,354***	***14,031***
Scheduled cargo	247	769	23	186	388	652	2,265
Other cargo sales	38	24	3	7	28	25	125
Total cargo	***285***	***793***	***26***	***193***	***416***	***677***	***2,390***
Maintenance	461	304	-	-	31	-	796
Others	299	740	15	18	-	-	1,072
Total	**5,472**	**6,395**	**322**	**1,198**	**2,871**	**2,031**	**18,289**

➤ Year ended March 31, 2011 (12 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,492	5,720	337	1,163	2,941	1,637	17,290
Other passenger sales	333	272	10	58	54	86	813
Total passenger	***5,825***	***5,992***	***347***	***1,221***	***2,995***	***1,723***	***18,103***
Scheduled cargo	338	1,048	34	236	516	824	2,996
Other cargo sales	49	27	4	12	38	33	163
Total cargo	***387***	***1,075***	***38***	***248***	***554***	***857***	***3,159***
Maintenance	610	381	-	-	38	-	1,029
Others	374	891	19	40	-	-	1,324
Total	**7,196**	**8,339**	**404**	**1,509**	**3,587**	**2,580**	**23,615**

➤ Year ended December 31, 2011 (12 months proforma)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,770	5,957	348	1,144	3,010	1,769	17,998
Other passenger sales	349	270	11	54	47	105	836
Total passenger	***6,119***	***6,227***	***359***	***1,198***	***3,057***	***1,874***	***18,834***
Scheduled cargo	369	1,162	34	203	519	690	2,977
Other cargo sales	49	30	4	13	40	30	166
Total cargo	***418***	***1,192***	***38***	***216***	***559***	***720***	***3,143***
Maintenance	611	385	-	-	44	-	1,040
Others	408	853	16	69	-	-	1,346
Total	**7,556**	**8,657**	**413**	**1,483**	**3,660**	**2,594**	**24,363**

➤ Year ended December 31, 2010 (12 months proforma)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,473	5,655	337	1,160	2,891	1,574	17,090
Other passenger sales	343	271	11	56	61	78	820
Total passenger	***5,816***	***5,926***	***348***	***1,216***	***2,952***	***1,652***	***17,910***
Scheduled cargo	382	925	29	244	502	822	2,904
Other cargo sales	47	30	5	10	37	31	160
Total cargo	***429***	***955***	***34***	***254***	***539***	***853***	***3,064***
Maintenance	584	405	-	-	40	-	1,029
Others	369	892	22	24	-	-	1,307
Total	**7,198**	**8,178**	**404**	**1,494**	**3,531**	**2,505**	**23,310**

Traffic sales by geographical area of destination

➤ Year ended December 31, 2011 (9 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,536	3,486	978	1,860	3,781	2,461	14,102
Scheduled cargo	4	39	120	457	889	737	2,246
Total	**1,540**	**3,525**	**1,098**	**2,317**	**4,670**	**3,198**	**16,348**

➤ Year ended December 31, 2010 (9 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,430	3,243	888	1,978	3,484	2,371	13,394
Scheduled cargo	5	36	126	454	831	813	2,265
Total	**1,435**	**3,279**	**1,014**	**2,432**	**4,315**	**3,184**	**15,659**

➤ Year ended March 31, 2011 (12 months)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,885	4,160	1,234	2,541	4,400	3,070	17,290
Scheduled cargo	6	48	158	600	1,133	1,051	2,996
Total	**1,891**	**4,208**	**1,392**	**3,141**	**5,533**	**4,121**	**20,286**

➤ Year ended December 31, 2011 (12 months proforma)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,991	4,403	1,324	2,423	4,697	3,160	17,998
Scheduled cargo	5	51	152	603	1,191	975	2,977
Total	**1,996**	**4,454**	**1,476**	**3,026**	**5,888**	**4,135**	**20,975**

➤ Year ended December 31, 2010 (12 months proforma)

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,956	4,067	1,211	2,548	4,334	2,974	17,090
Scheduled cargo	5	49	171	588	1,055	1,036	2,904
Total	**1,961**	**4,116**	**1,382**	**3,136**	**5,389**	**4,010**	**19,994**

Note 7 External expenses

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Aircraft fuel	5,012	4,294	5,720	6,438	5,534
Chartering costs	441	383	513	571	499
Aircraft operating lease costs	641	624	831	848	806
Landing fees and en route charges	1,399	1,328	1,747	1,818	1,722
Catering	446	423	554	577	550
Handling charges and other operating costs	1,028	989	1,303	1,342	1,300
Aircraft maintenance costs	907	874	1,139	1,172	1,155
Commercial and distribution costs	670	719	896	847	922
Other external expenses	1,407	1,355	1,852	1,904	1,818
Total	**11,951**	**10,989**	**14,555**	**15,517**	**14,306**
Excluding aircraft fuel	*6,939*	*6,695*	*8,835*	*9,079*	*8,772*

Note 8 Salaries and number of employees

Salaries and related costs

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Wages and salaries	4,160	4,069	5,430	5,521	5,414
Social contributions	1,381	1,336	1,761	1,806	1,780
Net periodic pension costs	170	149	185	206	217
Expenses related to share-based compensation	4	19	26	11	25
Other expenses	(57)	(42)	(69)	(84)	(51)
Total	**5,658**	**5,531**	**7,333**	**7,460**	**7,385**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in “social contributions”.

The “other expenses” notably comprise the capitalization of salary costs on aircraft and engine overhaul.

Average number of employees

	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Flight deck crew	8,550	8,687	8,662	8,560	8,706
Cabin crew	22,869	22,534	22,498	22,749	22,454
Ground staff	70,858	70,725	70,852	70,703	71,022
Total	**102,277**	**101,946**	**102,012**	**102,012**	**102,182**

The Group has consolidated started March 31, 2011 retroactively to October 1, 2010, a Kenyan catering company, NAS Airport Services Limited. With this change in scope, number of employees in the Group includes NAS Airport employees for 1,078 FTE as of December 31, 2011 (9 months), 1,055 FTE as of December 31, 2011 (12 months) and 495 FTE as of March 31, 2011 (12 months).

Note 9 Amortization, depreciation and provisions

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Intangible assets	52	42	58	68	56
Flight equipment	971	961	1,281	1,291	1,273
Other property, plant and equipment	210	212	285	283	285
Amortization	***1,233***	***1,215***	***1,624***	***1,642***	***1,614***
Inventories	(3)	15	14	(4)	16
Trade receivables	8	2	(2)	4	2
Risks and contingencies	58	43	40	55	35
Depreciation and provisions	***63***	***60***	***52***	***55***	***53***
Total	**1,296**	**1,275**	**1,676**	**1,697**	**1,667**

The amortization changes of intangible and tangible assets are presented in Notes 17 and 19.

The changes in inventories and trade receivables impairment are presented in Notes 24, 25 and 26.

The movements in provisions for risks and charges are detailed in Note 30.

Note 10 Other income and expenses

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* Proforma	01/01/2010 12/31/2010 *(12 months)* Proforma
Joint operation of routes	28	(6)	15	49	28
Operations-related currency hedges	5	149	175	31	180
Other	(4)	19	53	30	36
Total	**29**	**162**	**243**	**110**	**244**

Note 11 Other non-current income and expenses

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* Proforma	01/01/2010 12/31/2010 *(12 months)* Proforma
Sales of aircraft equipment	***19***	***11***	***8***	***16***	***(10)***
Amadeus operation	-	1,030	1,030	-	1,030
Disposals of subsidiaries and affiliates	-	12	13	1	12
Restructuring costs	3	(15)	(18)	-	(167)
Loss on aircraft held for sale	-	-	(6)	-	(48)
Other	(46)	(171)	(263)	(144)	(211)
Total	**(43)**	**856**	**756**	**(143)**	**616**

Amadeus operation

On April 29, 2010, the company Amadeus was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange.

This operation was executed in two stages:

1. a capital increase reserved to the market, to which the Group did not subscribe;
2. the concomitant sale of a portion of the shares held by the Group.

After the operation, the Group's holding decreased from 22% to 15%. At the same time, the governance of Amadeus was changed. These two items involved the loss of significant influence for the Group as well as a change in the valuation method of the remaining shareholding.

As a consequence, consistent with IFRS, since the April 29, 2010 IPO, the shares held by the Group have been valued at their market value (market price).

The overall profit recorded in the income statement at the operation date, amounted to €1,030 million, broke down as follows:

- gain on disposal of shares: €280 million, including €193 million of cash received;
- valuation at the market price of the remaining shares held by the Group: €750 million.

After this operation, the Amadeus shares held by the Group were reclassified as "assets available for sale" (in "other financial assets non current"). The value of the shares is updated at each closing period as a function of the share price. The counterpart of this revaluation is recorded in the other comprehensive income.

Disposals of subsidiaries and affiliates

No other significant disposals of subsidiaries or affiliates occurred during these financial years.

Restructuring costs

The Group recorded a provision to cover a voluntary redundancy plan concerning about 1,800 posts for its subsidiary Air France. The departures mainly took place in 2010. The impact of this plan on the different periods is detailed below:

(In € millions)	**04/01/2011 12/31/2011** *(9 months)*	**04/01/2010 12/31/2010** *(9 months)*	**04/01/2010 03/31/2011** *(12 months)*	**01/01/2011 12/31/2011** *(12 months) Proforma*	**01/01/2010 12/31/2010** *(12 months) Proforma*
Voluntary redundancy plan	9	(12)	(12)	9	(160)

Loss on aircraft held for sale

Year ended December 31, 2010 (12 months proforma)

This line included the impact of a €35 million provision corresponding to the indemnities due on two cargo aircraft having been withdrawn from operation.

Other

In Europe, the European Commission announced on November 9, 2010 its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competitive practices – mainly concerning fuel. The Commission imposed an overall fine of €340 million on the companies of the Air France-KLM group.

As of December 31, 2010 and March 31, 2011, this fine was €127 million higher than the provisions already made by the Group in its accounts and consequently an additional “non current expense” was recorded.

During the year ended March 31, 2011 (12 months), a pension plan was closed in the United States. The impact of this closure amounted to €(26) million.

The impact on several financial years is detailed below:

(In € millions)	**04/01/2011 12/31/2011** *(9 months)*	**04/01/2010 12/31/2010** *(9 months)*	**04/01/2010 03/31/2011** *(12 months)*	**01/01/2011 12/31/2011** *(12 months) Proforma*	**01/01/2010 12/31/2010** *(12 months) Proforma*
Freight fine, Europe	(1)	(127)	(127)	-	(127)
Pension plan	-	-	(26)	(26)	-

Note 12 Net cost of financial debt and other financial income and expenses

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Income from marketable securities	25	16	23	32	21
Other financial income	46	47	61	60	63
Financial income	***71***	***63***	***84***	***92***	***84***
Loan interests	(223)	(220)	(291)	(294)	(293)
Lease interests	(73)	(72)	(95)	(96)	(101)
Capitalized interests	19	21	27	25	26
Other financial expenses	(74)	(72)	(96)	(98)	(87)
Cost of financial debt	***(351)***	***(343)***	***(455)***	***(463)***	***(455)***
Net cost of financial debt	***(280)***	***(280)***	***(371)***	***(371)***	***(371)***
Foreign exchange gains (losses), net	(186)	(103)	(33)	(116)	(191)
Change in fair value of financial assets and liabilities	(64)	(46)	(48)	(66)	(53)
Net (charge) release to provisions	3	4	3	2	5
Other	-	-	-	-	-
Other financial income and expenses	***(247)***	***(145)***	***(78)***	***(180)***	***(239)***
Total	**(527)**	**(425)**	**(449)**	**(551)**	**(610)**

The interest rate used in the calculation of capitalized interest is 4.33% for the year ended December 31, 2011 (9 months), 3.73% for the year ended December 31, 2010 (9 months) and 3.75% for the year ended March 31, 2011 (12 months).

The 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, 2011 (9 months and 12 months proforma), the Group recorded a financial expense amounting to €51 million under change in fair value of financial assets and liabilities, linked to the swap on the OCEANE 2005 (see Note 31.2.1).

As of December 31, 2011 (9 months), the change in fair value of financial assets and liabilities also arose from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(21) million, together with the change in value of derivative instruments no longer qualified as hedging amounting to €15 million.

As of December 31, 2010 (9 months), the change in fair value of financial assets and liabilities arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(33) million.

As of March 31, 2011 (12 months), the change in fair value of financial assets and liabilities arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(34) million, together with the change in value of derivative instruments no longer qualified as hedging amounting to €(11) million.

As of December 31, 2011 (12 months proforma), the change in fair value of financial assets and liabilities also arose from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(12) million.

As of December 2010 (12 months proforma), the change in fair value of financial assets and liabilities arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(48) million.

Note 13 Income taxes

13.1 Income tax charge

Current and deferred income taxes are detailed as follows:

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Current tax (expense)/income	***(25)***	***(23)***	***(19)***	***(21)***	***(30)***
(Charge)/income for the year	(25)	(23)	(19)	(21)	(30)
Deferred tax income/(expense) from continuing operations	***100***	***49***	***215***	***266***	***305***
Change in temporary differences	(163)	(151)	(176)	(188)	(133)
Change in tax rates	-	8	8	-	8
CAVE impact	3	3	4	4	(28)
(Use)/recognition of tax loss carryforwards	260	189	379	450	458
Total	**75**	**26**	**196**	**245**	**275**

The current tax charge 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 various countries and any applicable treaties.

During the years ended December 31, 2011 (9 months) and March 31, 2011 (12 months), the Group recognized deferred tax assets on fiscal losses amounting to €260 million (€218 million concerning the French fiscal group and €40 million concerning the Dutch fiscal group) and €379 million (€307 million concerning the French fiscal group and €64 million concerning the Dutch fiscal group) respectively, given the gains previously realized and the prospects of recoverability of these losses on the future profits.

In France, tax losses can be carried forward for an unlimited period. However, the 2011 finance law has limited the amount of the fiscal loss recoverable each year (amount limited to 60% of the amount of profit for the period over the first million euros). This measure has the effect of extending the recovery period.

This new measure has driven the Group to limit the recognition of the deferred tax asset on fiscal losses starting the third quarter of the year ended December 31, 2011.

In the Netherlands, tax losses can be carried forward until their ninth birthday, with no limit on the amount that can be recovered in any one year.

13.2 Deferred tax recorded directly in equity – Group

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Treasury shares	7	(4)	-	11	(4)
Cash flow hedge and available for sale	146	(150)	(316)	(20)	(204)
Total	**153**	**(154)**	**(316)**	**(9)**	**(208)**

13.3 Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Income before tax	***(501)***	***967***	***437***	***(1,031)***	***24***
Standard tax rate in France	34.43%	34.43%	34.43%	34.43%	34.43%
Theoretical tax calculated with the standard tax rate in France	172	(333)	(151)	354	(8)
Differences in French/foreign tax rates	(3)	10	(5)	(18)	(22)
Non deductible expenses or non taxable income	3	321	316	(2)	317
Variation of unrecognized deferred tax assets	(92)	26	27	(91)	26
CAVE impact	(13)	(11)	(15)	(17)	(48)
Other	8	13	24	19	10
Income tax expenses	**75**	**26**	**196**	**245**	**275**
Effective tax rate	15%	(3)%	(45)%	24%	Not significant

The tax rates applicable in France and the Netherlands were set at, respectively, 34.43% and 25%. The Dutch tax rate was reduced by 0.5 percentage points starting January 1, 2011.

13.4 Deferred tax recorded on the balance sheet

(In € millions)	April 1, 2011	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2011
Flight equipment	(1,091)	(28)	-	-	(28)	(1,147)
Pension assets	(732)	(54)	-	-	-	(786)
Financial debt	486	128	-	-	-	614
Other liabilities	11	(20)	92	-	1	84
Deferred revenue on ticket sales	205	(35)	-	-	-	170
Others	(283)	(146)	56	-	30	(343)
Deferred tax corresponding to fiscal losses	1,826	255	5	-	(1)	2,085
Deferred tax asset/(liability)	**422**	**100**	**153**	**-**	**2**	**677**

(In € millions)	April 1, 2010	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	March 31, 2011
Flight equipment	(1,039)	(78)	-	-	26	(1,091)
Pension assets	(683)	(50)	-	-	1	(732)
Financial debt	453	36	-	-	(3)	486
Other liabilities	387	(31)	(236)	-	(109)	11
Deferred revenue on ticket sales	206	-	-	-	(1)	205
Others	(252)	(41)	(80)	-	90	(283)
Deferred tax corresponding to fiscal losses	1,452	379	-	-	(5)	1,826
Deferred tax asset/(liability)	**524**	**215**	**(316)**	**-**	**(1)**	**422**

(In € millions)	April 1, 2010	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassification and other	December 31, 2010
Flight equipment	(1,039)	(45)	-	-	-	(1,084)
Pension assets	(683)	(38)	-	-	1	(720)
Financial debt	453	8	-	-	9	470
Other liabilities	387	(28)	(118)	-	(107)	134
Deferred revenue on ticket sales	206	(4)	-	-	-	202
Others	(252)	(37)	(33)	-	98	(224)
Deferred tax corresponding to fiscal losses	1,452	193	(4)	-	(1)	1,640
Deferred tax asset/(liability)	**524**	**49**	**(154)**	**-**	**-**	**418**

Deferred taxes recognized on fiscal losses for the French and Dutch fiscal perimeters amount to €2,019 million as of December 31, 2011 (€1,645 million for the French fiscal group and €374 million for the Dutch fiscal group).

The recognition of this asset of each perimeter is based on the perspective of taxable incomes established according to the Group three-years plan and to the same assumptions that these described in the Note 18 “Impairment” of this consolidated financial statements.

Based on the perspectives of taxable incomes, the recoverability horizon is 10 years for the French perimeter and 7 years for the Dutch perimeter. The non realization assumptions taken into accounts could have a significant impact on the recoverability horizon of this deferred tax asset.

13.5 Unrecognized deferred tax assets

(In € millions)	As of December 31, 2011		As of March 31, 2011	
	Basis	Tax	Basis	Tax
Temporary differences	32	8	31	8
Tax losses	410	107	196	38
Total	**442**	**115**	**227**	**46**

As of December 31, 2011, the limitation effect of the French fiscal group during the third quarter results in the non-recognition of a deferred tax assets amounting to €68 million, corresponding to a basis of €198 million.

Other unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forwards of Air France group subsidiaries, as well as tax loss carry forwards in some subsidiairies in the United Kingdom.

Note 14 Assets held for sale and liabilities related to assets held for sale

Year ended December 31, 2011

As of December 31, 2011, the line "assets held for sale" included the fair value of three aircraft held for sale for an amount of €10 million.

Year ended March 31, 2011

As of March 31, 2011, the line "assets held for sale" included the fair value of five aircraft held for sale for an amount of €21 million.

Year ended December 31, 2010

As of December 31, 2010, the line "assets held for sale" included the fair value of one aircraft held for sale for an amount of €2 million.

Note 15 Earnings per share

15.1 Income for the period – Equity holders of Air France-KLM per share

Reconciliation of income used to calculate earnings per share

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Net income for the period – Equity holders of Air France-KLM	**(442)**	**980**	**613**	**(809)**	**289**
Dividends to be paid to priority shares	-	-	-	-	-
Net income for the period – Equity holders of Air France-KLM (used to calculate basic earnings per share)	**(442)**	**980**	**613**	**(809)**	**289**
Impact of potential ordinary shares:					
♦ interest paid on convertible bonds (net of tax)	-	33	44	-	44
Net income for the period – Equity holders of Air France-KLM (used to calculate diluted earnings per share)	***(442)***	***1,013***	***657***	***(809)***	***333***

Reconciliation of the number of shares used to calculate earnings per share

	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Weighted average number of:					
♦ Ordinary shares issued	300,219,278	300,219,278	300,219,278	300,219,278	300,219,278
♦ Treasury stock held regarding stock option plan	(1,229,714)	(1,368,543)	(1,334,312)	(1,229,714)	(1,403,025)
♦ Treasury stock held in stock buyback plan	(537,424)	(820,560)	(661,716)	(133,675)	(924,181)
♦ Other treasury stock	(2,959,877)	(2,961,484)	(2,961,300)	(2,960,869)	(2,961,656)
Number of shares used to calculate basic earnings per share	***295,492,263***	***295,068,691***	***295,261,950***	***295,895,020***	***294,930,416***
OCEANE conversion	-	78,618,524	78,617,611	-	78,618,524
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**295,492,263**	**373,687,215**	**373,879,561**	**295,895,020**	**373,548,940**

15.2 Non dilutive instruments

Given the trend in the average Air France-KLM stock price during the period presented, non-dilutive instruments related to all the stock option plans described in Note 29.

15.3 Instruments issued after the closing date

No instruments were issued after the closing date.

Note 16 Goodwill

Detail of consolidated goodwill

	December 31, 2011			March 31, 2011			December 31, 2010		
(In € millions)	Gross value	Impairment	Net value	Gross value	Impairment	Net value	Gross value	Impairment	Net value
VLM	168	-	168	168	-	168	168	-	168
UTA	112	-	112	112	-	112	112	-	112
Régional	60	-	60	60	-	60	60	-	60
Aeromaintenance Group	21	-	21	20	-	20	21	-	21
Brit Air	20	-	20	20	-	20	20	-	20
CityJet	11	-	11	11	-	11	11	-	11
SIA Kenya	24	-	24	22	-	22	-	-	-
Other	10	-	10	9	-	9	9	-	9
Total	**426**	**-**	**426**	**422**	**-**	**422**	**401**	**-**	**401**

The goodwill concerns mainly the passenger business.

Movement in net book value of goodwill

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
Opening balance	**422**	**401**	**401**
Acquisitions	-	22	-
Currency translation adjustment	4	(1)	-
Closing balance	**426**	**422**	**401**

As of the year ended March 31, 2011, goodwill was recorded on the acquisition of 60% of SIA Kenya, a subsidiary of Servair Group.

Note 17 Intangible assets

(In € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of March 31, 2010	***315***	***107***	***574***	***996***
Additions	-	-	98	98
Change in scope	-	-	-	-
Disposals	-	-	(18)	(18)
Transfer	-	-	(1)	(1)
Amount as of December 31, 2010	***315***	***107***	***653***	***1,075***
Amount as of March 31, 2010	***315***	***107***	***574***	***996***
Additions	-	-	153	153
Change in scope	-	-	-	-
Disposals	-	-	(20)	(20)
Transfer	-	-	(6)	(6)
Amount as of March 31, 2011	***315***	***107***	***701***	***1,123***
Additions	-	-	124	124
Change in scope	-	-	-	-
Disposals	-	-	(30)	(30)
Transfer	-	-	12	12
Amount as of December 31, 2011	***315***	***107***	***807***	***1,229***
Depreciation				
Amount as of March 31, 2010	***-***	***(93)***	***(291)***	***(384)***
Charge to depreciation	-	(6)	(38)	(44)
Releases on disposal	-	-	13	13
Transfer	-	-	2	2
Amount as of December 31, 2010	***-***	***(99)***	***(314)***	***(413)***
Amount as of March 31, 2010	***-***	***(93)***	***(291)***	***(384)***
Charge to depreciation	-	(7)	(53)	(60)
Releases on disposal	-	-	13	13
Transfer	-	-	3	3
Amount as of March 31, 2011	***-***	***(100)***	***(328)***	***(428)***
Charge to depreciation	-	(2)	(50)	(52)
Releases on disposal	-	-	25	25
Transfer	-	-	-	-
Amount as of December 31, 2011	***-***	***(102)***	***(353)***	***(455)***

Intangible assets (cont.)

(In € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Amount as of December 31, 2011	**-**	***(102)***	***(353)***	***(455)***
Net value				
As of December 31, 2010	315	8	339	662
As of March 31, 2011	315	7	373	695
As of December 31, 2011	315	5	454	774

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. The 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 18 Impairment

With regards to the methodology followed to test impairment, the Group has allocated each goodwill and intangible fixed asset with an indefinite useful life to Cash Generating Units (CGU), which correspond to their business segments (see “Accounting Policies”).

As of December 31, 2011, goodwill and intangible fixed assets with an indefinite useful life are attached principally to the “Passenger” CGU for €369 million and €699 million respectively.

The recoverable value of the assets of CGUs has been determined by reference to the value used at September 30, 2011 (no change with regard to December 31, 2010). The tests have been 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.

An annual growth rate of 3.5% has been applied from the 4th to the 10th year of the test followed by a growth rate of 1.5% as of the 11th year (rate used to determine the terminal value).

The discount rate of 7.4% at December 31, 2011 and of 7% at March 31, 2011 corresponds to the Group’s weighted average cost of capital.

A discount rate higher than 13% would involve the recognition of an impairment.

If the annual growth applied as of the 11th year were to be reduced from 1.5% to 1%, no impairment would be accounted.

Note 19 Tangible assets

(In € millions)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	
Gross value											
Amounts as of March 31, 2010	***10,348***	***4,653***	***913***	***1,936***	***17,850***	***2,576***	***1,206***	***122***	***915***	***4,819***	***22,669***
Additions	343	4	895	119	1,361	25	28	46	20	119	1,480
Disposals	(741)	(7)	-	(112)	(860)	(4)	(6)	(1)	(32)	(43)	(903)
Changes in consolidation scope	(2)	-	-	-	(2)	-	-	-	-	-	(2)
Fair value hedge	-	-	(10)	-	(10)	-	-	-	-	-	(10)
Transfer	657	103	(824)	112	48	25	48	(112)	14	(25)	23
Currency translation adjustment	-	-	-	-	-	-	-	-	1	1	1
Amounts as of December 31, 2010	***10,605***	***4,753***	***974***	***2,055***	***18,387***	***2,622***	***1,276***	***55***	***918***	***4,871***	***23,258***
Amounts as of March 31, 2010	***10,348***	***4,653***	***913***	***1,936***	***17,850***	***2,576***	***1,206***	***122***	***915***	***4,819***	***22,669***
Additions	493	7	1,172	142	1,814	34	52	78	34	198	2,012
Disposals	(1,127)	(7)	-	(144)	(1,278)	(10)	(47)	-	(66)	(123)	(1,401)
Changes in consolidation scope	(2)	-	-	-	(2)	2	5	-	5	12	10
Fair value hedge	-	-	59	-	59	-	-	-	-	-	59
Transfer	910	135	(1,175)	173	43	40	56	(133)	13	(24)	19
Currency translation adjustment	-	-	-	-	-	-	(2)	-	-	(2)	(2)
Amounts as of March 31, 2011	***10,622***	***4,788***	***969***	***2,107***	***18,486***	***2,642***	***1,270***	***67***	***901***	***4,880***	***23,366***
Additions	495	113	912	80	1,600	20	35	77	29	161	1,761
Disposals	(824)	(14)	(113)	(113)	(1,064)	(8)	(15)	(2)	(29)	(54)	(1,118)
Fair value hedge	-	-	(107)	-	(107)	-	-	-	-	-	(107)
Transfer	579	329	(933)	69	44	19	(5)	(42)	6	(22)	22
Currency translation adjustment	-	-	-	-	-	-	3	-	1	4	4
Amounts as of December 31, 2011	***10,872***	***5,216***	***728***	***2,143***	***18,959***	***2,673***	***1,288***	***100***	***908***	***4,969***	***23,928***
Depreciation											
Amounts as of March 31, 2010	***(4,510)***	***(1,176)***	***-***	***(815)***	***(6,501)***	***(1,201)***	***(730)***	***-***	***(636)***	***(2,567)***	***(9,068)***

Tangible assets (cont.)

(In € millions)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	
Charge to depreciation	(641)	(224)	-	(105)	(970)	(100)	(64)	-	(48)	(212)	(1,182)
Releases on disposal	213	7	-	94	314	3	6	-	31	40	354
Transfer	(51)	41	-	(57)	(67)	-	-	-	(1)	(1)	(68)
Amounts as of December 31, 2010	***(4,989)***	***(1,352)***	***-***	***(883)***	***(7,224)***	***(1,298)***	***(788)***	***-***	***(654)***	***(2,740)***	***(9,964)***
Amounts as of March 31, 2010	***(4,510)***	***(1,176)***	***-***	***(815)***	***(6,501)***	***(1,201)***	***(730)***	***-***	***(636)***	***(2,567)***	***(9,068)***
Charge to depreciation	(851)	(299)	-	(142)	(1,292)	(133)	(87)	-	(65)	(285)	(1,577)
Releases on disposal	307	7	-	126	440	7	17	-	65	89	529
Changes in consolidation scope	-	-	-	-	-	(1)	(4)	-	(4)	(9)	(9)
Transfer	(149)	127	-	(71)	(93)	-	-	-	2	2	(91)
Currency translation adjustment	-	-	-	-	-	-	1	-	-	1	1
Amounts as of March 31, 2011	***(5,203)***	***(1,341)***	***-***	***(902)***	***(7,446)***	***(1,328)***	***(803)***	***-***	***(638)***	***(2,769)***	***(10,215)***
Charge to depreciation	(606)	(258)	-	(110)	(974)	(100)	(62)	-	(48)	(210)	(1,184)
Releases on disposal	123	14	-	109	246	6	13	-	29	48	294
Transfer	(9)	(60)	-	(27)	(96)	-	19	-	-	19	(77)
Currency translation adjustment	-	-	-	-	-	-	(1)	-	(1)	(2)	(2)
Amounts as of December 31, 2011	***(5,695)***	***(1,645)***	***-***	***(930)***	***(8,270)***	***(1,422)***	***(834)***	***-***	***(658)***	***(2,914)***	***(11,184)***
Net value											
Amounts as of December 31, 2010	5,616	3,401	974	1,172	11,163	1,324	488	55	264	2,131	13,294
Amounts as of March 31, 2011	5,419	3,447	969	1,205	11,040	1,314	467	67	263	2,111	13,151
Amounts as of December 31, 2011	5,177	3,571	728	1,213	10,689	1,251	454	100	250	2,055	12,744

Aeronautical assets under construction mainly include advance payments and maintenance work in progess concerning engines and modifications of aircraft.

Note 36 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in Notes 35 and 36.

The net book value of tangible assets financed under capital lease amounted to €3,765 million as of December 31, 2010 versus €3,826 million as of March 31, 2011 and €4,025 million as of December 31, 2011.

Note 20 Capital expenditure

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash flow statements is as follows:

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* *Proforma*	01/01/2010 12/31/2010 *(12 months)* *Proforma*
Acquisition of tangible assets	1,761	1,485	2,012	2,288	1,921
Acquisition of intangible assets	124	98	153	179	135
Accounts payable on acquisitions and capitalized interest	(13)	(22)	(43)	(34)	(19)
Total	**1,872**	**1,561**	**2,122**	**2,433**	**2,037**

Note 21 Equity affiliates

Movements over the period

The table below presents the movement in equity affiliates:

(In € millions)	WAM Acquisition (Amadeus GTD)	Alitalia	Kenya Airways	Other	Total
Value of share in investment as of March 31, 2010	**-**	***338***	***47***	***61***	***446***
Share in net income of equity affiliates		(23)	6	3	(14)
Distributions		-	(1)	(1)	(2)
Change in consolidation scope		-	-	12	12
Fair value adjustment		(15)	2	-	(13)
Other variations		-	-	2	2
Currency translation adjustment		-	-	-	-
Carrying value of share in investment as of December 31, 2010	***N/A***	***300***	***54***	***77***	***431***
Carrying value of share in investment as of March 31, 2010	***N/A***	***338***	***47***	***61***	***446***
Share in net income of equity affiliates		(31)	7	3	(21)
Distributions		-	(1)	(2)	(3)
Change in consolidation scope		-	-	12	12
Fair value adjustment		(9)	3	-	(6)
Other variations		-	-	2	2
Currency translation adjustment		-	(8)	-	(8)
Carrying value of share in investment as of March 31, 2011	***N/A***	***298***	***48***	***76***	***422***
Share in net income of equity affiliates		(22)	5	5	(12)
Distributions		-	(1)	(1)	(2)
Change in consolidation scope		-	-	6	6
Fair value adjustment		(2)	-	-	(2)
Other variations		-	-	2	2
Currency translation adjustment		-	5	3	8
Carrying value of share in investment as of December 31, 2011	***N/A***	***274***	***57***	***91***	***422***
Market value for listed companies			***23***		

As of December 31, 2010

Air France-KLM holds 25% of the capital of Alitalia.

KLM holds 26% of the capital of Kenya Airways.

On April 29, 2010, the company Amadeus was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation is detailed in Note 11.

The "share of profits (losses) of associates" includes mainly the €(23) million share of the Alitalia group loss. This corresponds to Alitalia's activity from January 1 to September 30, 2010, its annual closing date being December 31.

As of March 31, 2011

Air France-KLM holds 25% of the capital of Alitalia.

KLM holds 26% of the capital of Kenya Airways.

On April 29, 2010, the company Amadeus was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation is detailed in Note 11.

The "share of profits (losses) of associates" includes mainly the €(31) million share of the Alitalia group loss. This corresponds to Alitalia's activity from January 1 to December 31, 2010, its annual closing date being December 31.

As of December 31, 2011

Air France-KLM holds 25% of the capital of Alitalia.

KLM holds 26% of the capital of Kenya Airways.

The "share of profits (losses) of associates" includes mainly the €(22) million share of the Alitalia group loss. This corresponds to Alitalia's activity from January 1 to December 31, 2011.

Simplified financial statements of the main equity affiliates

The equity affiliates as of December 31, 2011 mainly concern the following companies, in which the Group has a significant influence:

- **Alitalia**
  Alitalia Compagnia Aero Italiana Spa comprises the passenger business of the former Alitalia and the assets acquired with the acquisition of Air One. This company started trading on January 12, 2009 and serves 92 destinations in Italy and around the world with more than 2,200 flights a week.
- **Kenya Airways**
  Kenya Airways is a Kenyan airline based in Nairobi.

The financial information for the principal equity affiliates for the years 2011 and 2010 (excluding consolidation adjustments) is presented below:

(In € millions)	Alitalia 12/31/2010	Kenya Airways 03/31/2010
% holding as of March 31, 2011	25%	26%
Operating revenues	3,225	653
Operating income	(107)	17
Net income/loss	(168)	19
Stockholders' equity	548	192
Total assets	**2,856**	**706**
Total liabilities and stockholders' equity	**2,856**	**706**
	12/31/2011	**03/31/2011**
% holding as of December 31, 2011	25%	26%
Operating revenues	3,478	785
Operating income	(6)	53
Net income/loss	(69)	32
Stockholders' equity	479	212
Total assets	**2,798**	**721**
Total liabilities and stockholders' equity	**2,798**	**721**

Note 22 Pension assets

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
Opening balance	***2,995***	***2,733***	***2,733***
Net periodic pension (cost)/income for the period	(36)	(71)	(38)
Contributions paid to the funds	258	331	249
Reclassification	-	2	-
Currency translation adjustment	-	-	-
Closing balance	**3,217**	**2,995**	**2,944**

The detail of these pension assets is presented in Note 30.1.

Note 23 Other financial assets

	December 31, 2011		March 31, 2011		December 31, 2010	
(In € millions)	Current	Non current	Current	Non current	Current	Non current
Financial assets available for sale						
Shares	-	901	-	977	-	1,130
Assets at fair value through profit and loss						
Marketable securities	149	210	271	-	424	-
Cash secured	533	95	303	-	-	-
Loans and receivables						
Financial lease deposit (bonds)	40	125	103	94	95	112
Financial lease deposit (others)	4	487	46	409	77	415
Loans and receivables	15	256	15	235	17	237
Miscellaneous financial assets	10	-	13	-	15	-
Gross value	***751***	***2,074***	***751***	***1,715***	***628***	***1,894***
Impairment at opening	***-***	***(61)***	***-***	***(56)***	***-***	***(56)***
New impairment charge	-	-	-	(5)	-	(2)
Use of provision	-	2	-	-	-	-
Impairment at closing	***-***	***(59)***	***-***	***(61)***	***-***	***(58)***
Total	**751**	**2,015**	**751**	**1,654**	**628**	**1,836**

Financial assets available for sale are as follows:

(In € millions)	Fair Value	% interest	Stockholder's equity	Net income	Stock price *(in €)*	Closing date
As of December 31, 2011						
Amadeus*	854	15.23%	ND	ND	12.54	December 2011
Club Med*	8	2.00%	ND	ND	15.20	October 2011
Voyages Fram	9	8.71%	ND	ND	NA	December 2011
Others	30	-	-	-	-	-
Total	**901**					
As of March 31, 2011						
Amadeus*	920	15.23%	767	384	13.50	December 2010
Club Med*	10	2.00%	516	(14)	15.20	October 2010
Voyages Fram	9	8.71%	108	(6)	NA	December 2010
Others	38	-	-	-	-	-
Total	**977**					

* *Listed company.*

Assets at fair value through profit and loss mainly comprise shares in mutual funds that do not meet the "cash equivalents" definition and cash account secured mainly within the framework of the swap contract with Natixis on the OCEANE 2005 (see Note 31) and within this of guarantee given to the European Union concerning the anti-trust litigation (see Notes 30.2).

Loans and receivables mainly include deposits on flight equipment made within the framework of operating and capital leases.

Note 24 Inventories

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
Aeronautical spare parts	559	582	588
Other supplies	191	144	158
Production work in progress	8	6	8
Gross value	***758***	***732***	***754***
Opening valuation allowance	***(174)***	***(163)***	***(163)***
Charge to allowance	(15)	(21)	(19)
Use of allowance	14	7	5
Releases of allowance no longer required	-	-	-
Reclassification	2	3	2
Closing valuation allowance	***(173)***	***(174)***	***(175)***
Net value of inventory	**585**	**558**	**579**

Note 25 Trade accounts receivables

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
Airlines	525	459	369
Other clients:			
♦ Passenger	604	873	712
♦ Cargo	400	409	401
♦ Maintenance	249	186	266
♦ Other	84	94	122
Gross value	***1,862***	***2,021***	***1,870***
Opening valuation allowance	***(83)***	***(89)***	***(89)***
Charge to allowance	(16)	(14)	(7)
Use of allowance	8	15	4
Currency translation adjustment	-	1	1
Reclassification	3	4	-
Closing valuation allowance	***(88)***	***(83)***	***(91)***
Net value	**1,774**	**1,938**	**1,779**

Note 26 Other assets

	December 31, 2011		March 31, 2011		December 31, 2010 *(9 months)*	
(In € millions)	Current	Non current	Current	Non current	Current	Non current
Suppliers with debit balances	118	-	119	-	115	-
State receivable	74	-	86	-	80	-
Derivative instruments	315	149	808	138	473	113
Prepaid expenses	209	19	259	18	209	14
Other debtors	281	-	280	-	240	-
Gross value	***997***	***168***	***1,552***	***156***	***1,117***	***127***
Opening valuation allowance	***(2)***	***-***	***(4)***	***-***	***(4)***	***-***
Charge to allowance	-	-	-	-	-	-
Use of allowance	-	-	1	-	-	-
Reclassification	-	-	1	-	-	-
Closing valuation allowance	***(2)***	***-***	***(2)***	***-***	***(4)***	***-***
Net realizable value of other assets	**995**	**168**	**1,550**	**156**	**1,113**	**127**

The derivative instruments did not comprise any currency hedges on financial debt as of December 31, 2011 and March 31, 2011.

Note 27 Cash, cash equivalents and bank overdrafts

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010
Mutual funds (SICAV) (assets at fair value through profit and loss)	1,552	3,219	2,835
Bank deposits and term accounts (assets at fair value through profit and loss)	293	124	185
Cash in hand	438	374	476
Total cash and cash equivalents	***2,283***	***3,717***	***3,496***
Bank overdrafts	(157)	(129)	(145)
Cash, cash equivalents and bank overdrafts	***2,126***	***3,588***	***3,351***

Note 28 Equity attribuable to equity holders of Air France-KLM SA

28.1 Issued capital

As of December 31, 2011, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares. Each share is entitled to one vote.

On August 5, 2010, a capital reduction operation amounting to €2,252 million took place. Since that date, the nominal value of each share has been €1 compared with €8.50 previously.

The change in the number of issued shares is as follows:

In number of shares	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
At the beginning of the period	***300,219,278***	***300,219,278***	***300,219,278***
Issuance of shares for OCEANE conversion	-	-	-
At the end of the period	***300,219,278***	***300,219,278***	***300,219,278***
Of which:			
♦ number of shares issued and paid up	300,219,278	300,219,278	300,219,278
♦ number of shares issued and not paid up	-	-	-

The shares comprising the issued capital of Air France-KLM are subject to no restriction nor priority concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Extraordinary Shareholders' Meeting of July 7, 2011, authorized the Board of Directors, for a period of 26 months from the date of the meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM capital limited to a total maximum nominal amount of €120 million.

Breakdown of share capital and voting rights

The breakdown of share capital and voting rights is as follows:

	% of capital		% of voting rights	
	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
French State	16%	16%	16%	16%
Employees and former employees	10%	10%	10%	10%
Treasury shares	2%	2%	-	-
Other	72%	72%	74%	74%
Total	**100%**	**100%**	**100%**	**100%**

The item "Employees and former employees" includes shares held by employees and former employees identified in funds or by a Sicovam Code.

Other securities giving access to common stock

OCEANE

Please refer to Note 31.2.

28.2 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.

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010
Other paid-in capital	2,971	2,971	2,971
Total	**2,971**	**2,971**	**2,971**

28.3 Treasury shares

	Treasury shares	
	(number)	*(In € millions)*
March 31, 2010	***5,730,474***	***(106)***
Change in the period	(1,539,649)	13
December 31, 2010	***4,190,825***	***(93)***
March 31, 2010	***5,730,474***	***(106)***
Change in the period	(1,180,562)	12
March 31, 2011	***4,549,912***	***(94)***
Change in the period	1,089,565	5
December 31, 2011	***5,639,477***	***(89)***

As of December 31, 2011, Air France-KLM held 4,523,057 of its own shares (including 1,450,000 within the framework of the liquidity agreement), acquired pursuant to the annual authorizations granted by the Shareholders' Meeting. As of December 31, 2011, the Group also held 1,116,420 of its own shares for KLM stock option programs. All these treasury shares are classified as a reduction of equity.

28.4 Reserves and retained earnings

(In € millions)	December 31, 2011	March 31, 2011	December 31, 2010 *(9 months)*
Legal reserve	70	70	70
Distributable reserves	962	1,032	1,032
Derivatives reserves	55	363	(25)
Available for sale securities reserves	86	173	325
Other reserves	2,127	1,424	1,420
Net income (loss) – Group share	(442)	613	980
Total	**2,858**	**3,675**	**3,802**

As of December 31, 2011, the legal reserve of €70 million represented 23% of Air France-KLM's issued capital. French company law requires that a limited company *(société anonyme)* allocates 5% of its unconsolidated statutory net income each year to this legal reserve until it reaches 10% of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year. The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Note 29 Share-based compensation

29.1 Outstanding share-based compensation plans and other plans as of December 31, 2011

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price *(in €)*	Number of options exercised as of 12/31/2011
Stock-option plans						
KLM	07/26/2006	411,105	07/31/2006	07/26/2011	17.83	-
KLM	07/27/2007	428,850	07/31/2007	07/25/2012	34.21	-

Other plans

Plans	Grant date	Number of shares granted	Date of expiry	Exercise price *(in €)*	Number of shares exercised as of 12/31/2011
Air France-KLM – ESA* 2005	02/01/2005	12,612,671	02/21/2005	14.00	12,612,671

* *ESA: Shares-for-salary exchange.*

29.2 Changes in options

	Average exercise price *(in €)*	Number of options
Options outstanding as of March 31, 2010	***22.00***	***1,143,182***
Of which: options exercisable at March 31, 2010	*22.00*	*1,143,182*
Options forfeited during the period	13.42	(372,966)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of December 31, 2010	***26.16***	***770,216***
Of which: options exercisable at December 31, 2010	*26.16*	*770,216*
Options outstanding as of March 31, 2010	***22.00***	***1,143,182***
Of which: options exercisable at March 31, 2010	*22.00*	*1,143,182*
Options forfeited during the period	13.49	(374,966)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of March 31, 2011	***26.16***	***768,216***
Of which: options exercisable at March 31, 2011	*26.16*	*768,216*
Options forfeited during the period	17.83	(377,699)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of December 31, 2011	***34.21***	***390,517***
Of which: options exercisable at December 31, 2011	*34.21*	*390,517*

29.3 Price range of available options as of December 31, 2011

Range of exercise prices per share	Number of options	Weighted average remaining life *(years)*	Weighted average exercise price per share *(in €)*
From 20 to 35 euros per share	390,517	0.58	34.21
Total	**390,517**	**0.58**	**34.21**

29.4 Description of the plans

KLM stock-option plans

Prior to the combination with Air France, members of the Management Board and the key executives of KLM had been granted KLM stock options. Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004 so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares. The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

The vesting conditions of the options granted by KLM on July 2007 and 2006 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.

Air France-KLM 2005 shares-for-salary exchange

On February 1, 2005, the Group launched a shares-for-salary exchange scheme, in which all Air France employees residing in France were offered the opportunity to purchase Air France-KLM shares at a price of €14 per share in exchange for wage concessions over a 6-year period. The offer was limited to a maximum of 13,186,853 ordinary shares.

At the date the offer was closed, *i.e.* February 21, 2005, Air France employees had acquired 12,612,671 Air France-KLM shares.

These shares were granted by the French State, the largest Air France-KLM shareholder, subject to a €110 million payment made by the Group in April 2007.

The wage concessions cover the period from May 2005 to May 2011.

In the event an employee leaves the Group prior to the end of the 6-year period, the unvested and irredeemable shares are returned to Air France which, in turn, returns them to the French State. The fair value of the services provided under the shares-for-salary exchange scheme was calculated on the basis of the market price of the Air France-KLM share on the date the offer was closed, namely €14.30 and amounts to €180 million. The corresponding salary expense covers the acquisition period of voting rights from May 2005 to May 2011. Each installment, corresponding to the annual decrease of salary, is treated as a separate award. The shares-for-salary exchange 2005 plan share-based payment is therefore recognized on a straight-line basis over the requisite service period for each separately-vested portion.

KLM SARs plan

During the periods ending December 31, 2011, March 31, 2011, March 31, 2010 and March 31, 2009, Share Appreciation Rights (SARs) were granted by KLM, corresponding to share-based plans and paid in cash.

Plans	Grant date	Number of SARs granted	Start date for SARs exercise	Date of expiry	Number of SARs exercised as of 12/31/2011
KLM	07/01/2008	153,080	07/01/2008	07/01/2013	11,088
KLM	07/01/2009	136,569	07/01/2009	07/01/2014	-
KLM	07/01/2010	145,450	07/01/2010	07/01/2015	-
KLM	07/01/2011	144,235	07/01/2011	07/01/2016	-

The changes in SARs were as follows:

	Number de SARs
SARs outstanding as of March 31, 2010	***243,060***
Of which: SARs exercisable at March 31, 2010	*104,638*
SARs forfeited during the period	(54,333)
SARs exercised during the period	-
SARs granted during the period	145,450
SARs outstanding as of December 31, 2010	***334,177***
Of which: SARs exercisable at December 31, 2010	*193,688*
SARs outstanding as of March 31, 2010	***243,060***
Of which: SARs exercisable at March 31, 2010	*104,638*
SARs forfeited during the period	(54,745)
SARs exercised during the period	-
SARs granted during the period	145,450
SARs outstanding as of March 31, 2011	***333,765***
Of which: SARs exercisable at March 31, 2011	*193,276*
SARs forfeited during the period	(1,415)
SARs exercised during the period	(11,088)
SARs granted during the period	144,235
SARs outstanding as of December 31, 2011	***465,497***
Of which: SARs exercisable at December 31, 2011	*270,908*

The vesting conditions of the SARs granted by KLM on July 1, 2011, 2010, 2009 and 2008 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 SARs plan has been determined according to the market value of the Air France-KLM share at the closing date concerned:

- for the July 2008 plan: a market value of €3.97 and a fair market value of €0.4 million;
- for the July 2009 plan: a market value of €3.97 and a fair market value of €0.4 million;
- for the July 2010 plan: a market value of €3.97 and a fair market value of €0.5 million;
- for the July 2011 plan: a market value of €3.97 and a fair market value of €0.6 million.

29.5 Salary expenses related to share-based compensation

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months)* Proforma	01/01/2010 12/31/2010 *(12 months)* Proforma
Shares-for-salary exchange 2005	5	18	25	11	24
Stock option plan	(1)	1	1	-	1
Salary expenses (Note 8)	**4**	**19**	**26**	**11**	**25**

Note 30 Provisions and retirement benefits

(In € millions)	Retirement benefits Note 30.1	Restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of March 31, 2010	***919***	***516***	***195***	***359***	***139***	***2,128***
Of which:						
♦ *Non-current*	*919*	*345*	*1*	*38*	*129*	*1,432*
♦ *Current*	*-*	*171*	*194*	*321*	*10*	*696*
New provision	114	163	12	135	35	459
Use of provision	(59)	(117)	(43)	(81)	(28)	(328)
Reversal of unnecessary provisions	-	(4)	-	-	-	(4)
Currency translation adjustment	4	-	-	-	-	4
Discount/Accretion impact	-	(6)	-	-	-	(6)
Reclassification	(1)	(7)	-	(1)	1	(8)
Amount as of December 31, 2010	***977***	***545***	***164***	***412***	***147***	***2,245***
Of which:						
♦ *Non-current*	*977*	*408*	*-*	*39*	*142*	*1,566*
♦ *Current*	*-*	*137*	*164*	*373*	*5*	*679*
Amount as of March 31, 2010	***919***	***516***	***195***	***359***	***139***	***2,128***
Of which:						
♦ *Non-current*	*919*	*345*	*1*	*38*	*129*	*1,432*
♦ *Current*	*-*	*171*	*194*	*321*	*10*	*696*
New provision	148	250	15	147	44	604
Use of provision	(86)	(166)	(86)	(103)	(38)	(479)
Reversal of unnecessary provisions	-	(15)	(2)	(2)	-	(19)
Currency translation adjustment	-	(3)	-	-	-	(3)
Change in scope	3	-	-	-	-	3
Discount/Accretion impact	-	(9)	-	-	-	(9)
Reclassification	2	(17)	-	-	7	(8)
Amount as of March 31, 2011	***986***	***556***	***122***	***401***	***152***	***2,217***

Provisions and retirement benefits (cont.)

(In € millions)	Retirement benefits Note 30.1	Restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of March 31, 2011	***986***	***556***	***122***	***401***	***152***	***2,217***
Of which:						
♦ *Non-current*	*986*	*414*	*-*	*382*	*148*	*1,930*
♦ *Current*	*-*	*142*	*122*	*19*	*4*	*287*
New provision	136	173	4	26	45	384
Use of provision	(72)	(115)	(114)	(23)	(30)	(354)
Reversal of unnecessary provisions	-	(3)	-	-	-	(3)
Currency translation adjustment	6	3	-	-	3	12
Discount/Accretion impact	-	(10)	-	-	-	(10)
Reclassification	-	(29)	-	-	-	(29)
Amount as of December 31, 2011	***1,056***	***575***	***12***	***404***	***170***	***2,217***
Of which:						
♦ *Non-current*	*1,056*	*459*	*-*	*390*	*156*	*2,061*
♦ *Current*	*-*	*116*	*12-*	*14*	*14*	*156*

Movements in provisions for retirement benefits which have an impact on the income statement are recorded in “salaries and related costs”.

As of March 31, 2011, the impact of the closure of a pension plan in the United States was recorded in “Other non-current income and expenses” (see Note 11).

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.

Movements in provisions for restitution of aircraft which have an impact on the income statement are recorded in “provisions” except for the discount/accretion impact which is recorded in “other financial income and expenses”.

Movements in provisions for litigation and in provisions for other risks and charges which have an impact on the income statement are recorded, depending on their nature, in the different lines of the income statement.

30.1 Retirement benefits

The Group holds a large number of retirement and other long-term benefits plans for its employees. 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. Several of the plans are defined benefit plans.

Pension fund surplus

For a certain number of pension obligations, the Group funds pension funds.

The obligations of KLM group are, for the most part, funded in accordance with Dutch regulation and the Group’s collective agreement. With regard to the level of coverage of the commitments, particularly for the pilots and crews’ program as well as that for the ground staff, significant “funding requirements” constraints require the Group to be always in a position of “over-funding”.

Actuarial assumptions used

Actuarial valuations of the Group’s benefit obligation were computed as of December 31, 2011 and March 31, 2011. These calculations include:

- assumptions on staff turnover, life expectancy and salary increases;
- assumptions of retirement age varying from 55 to 67 depending on the localization and the applicable laws;
- discount rates used to determine the actuarial present value of the projected benefit obligations. The discount rates for each geographical area are determined according to the duration of each plan, taking into account the trend in average interest rates on AA-rated bonds in the market, observed on the main index available. In some countries, where the market regarding this type of bond is not large enough, the discount rate is determined with reference to government bonds. Most of the Group’s obligations are located in the Euro zone.

	As of December 31, 2011	As of March 31, 2011
Euro zone – Duration 4 to 5 years	4.25%	4.25%
Euro zone – Duration 10 to 15 years	4.75%	4.75%
Euro zone – Duration 15 years and more	5.00%	5.20%

The sensitivity of the annual cost and the obligation to variations in the discount rate is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended December 31, 2011 *(9 months)*	Sensitivity of the assumptions for the year ended March 31, 2011 *(12 months)*
0.25% increase in the discount rate		
♦ Impact on the cost	(22)	(18)
♦ Impact on the obligation	(533)	(481)
0.25% decrease in the discount rate		
♦ Impact on the cost	47	19
♦ Impact on the obligation	697	481

✦ The expected long-term rates of return on funded pension plans assets are as follows:

	As of December 31, 2011	As of March 31, 2011
Euro Zone	Between 3.0% and 6.8%	Between 3.0% and 6.8%

The expected average long-term rates of return on plan assets have been determined based on the expected long-term rates of return of the different asset classes: equities, bonds, real estate or other, weighted according to the asset allocation strategy in these schemes.

The sensitivity of the annual cost to variations in the expected return for plan assets is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended December 31, 2011 *(9 months)*	Sensitivity of the assumptions for the year ended March 31, 2011 *(12 months)*
0.25% increase in the expected return for plan assets		
♦ Impact on the cost	36	35
0.25% decrease in the expected return for plan assets		
♦ Impact on the cost	(36)	(35)

✦ Assumption on increase in healthcare costs:

	As of December 31, 2011	As of March 31, 2011
USA-Canada	Between 9.5% and 10.0%	Between 9.5% and 10.0%

The sensitivity of the annual cost and the obligation to variations in the healthcare costs of the schemes is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended December 31, 2011 *(9 months)*	Sensitivity of the assumptions for the year ended March 31, 2011 *(12 months)*
1% increase in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	7	5
1% decrease in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	(5)	(5)

✦ On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

	Pension benefits		Other benefits	
	As of December 31, 2011	As of March 31, 2011	As of December 31, 2011	As of March 31, 2011
Discount rate	4.94%	5.14%	4.48%	5.42%
Salary inflation rate	2.45%	2.53%	-	-
Expected long-term rate of return on plan assets	5.64%	6.09%	-	-

Changes in benefit obligations

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, 2011 and March 31, 2011.

(In € millions)	Pension benefits		Other benefits	
	As of December 2011 *(9 months)*	As of March 31, 2011 *(12 months)*	As of December 2011 *(9 months)*	As of March 31, 2011 *(12 months)*
Benefit obligation at beginning of year	***13,270***	***13,082***	***40***	***40***
Service cost	285	367	-	-
Interest cost	504	634	2	2
Employees' contribution	39	52	-	-
Plan amendments	4	-	-	-
Change of scope	-	3	-	-
Settlements/curtailments	-	(124)	-	-
Benefits paid	(385)	(503)	(2)	(2)
Transfers of assets/liability through Balance Sheet	2	(3)	-	-
Actuarial loss/(gain)	333	(245)	4	2
Currency translation adjustment	33	7	4	(2)
Benefit obligation at end of year	***14,085***	***13,270***	***48***	***40***
Including benefit obligation resulting from schemes totally or partly funded	*13,879*	*13,077*	*-*	*-*
Including unfunded benefit obligation	*206*	*193*	*48*	*40*
Fair value of plan assets at beginning of year	***14,174***	***13,487***	***-***	***-***
Actual return on plan assets	602	832	-	-
Employers' contributions	309	394	-	-
Employees' contributions	39	52	-	-
Change of scope	-	-	-	-
Settlements/curtailments	-	(111)	-	-
Transfers of assets/liability through Balance Sheet	2	(3)	-	-
Benefits paid	(367)	(482)	-	-
Currency translation adjustment	22	5	-	-
Fair value of plan assets at end of year	***14,781***	***14,174***	***-***	***-***

(In € millions)	Pension benefits		Other benefits	
	As of December 2011 *(9 months)*	As of March 31, 2011 *(12 months)*	As of December 2011 *(9 months)*	As of March 31, 2011 *(12 months)*
Amounts recorded in the balance sheet:				
Funded status	696	904	(48)	(40)
Unrecognized prior service cost	151	164	-	-
Unrecognized actuarial (gains)/losses	1,353	977	9	4
Prepaid (accrued) pension cost	***2,200***	***2,045***	***(39)***	***(36)***
Amounts recorded in the balance sheet*:				
Pension asset (Note 22)	3,217	2,995	-	-
Provision for retirement benefits	(1,017)	(950)	(39)	(36)
Net amount recognized	***2,200***	***2,045***	***(39)***	***(36)***
Net periodic cost:				
Service cost	286	367	-	-
Interest cost	505	634	1	2
Expected return on plan assets	(647)	(836)	-	-
Settlement/curtailment	-	21	-	-
Amortization of prior service cost	17	18	-	-
Amortization of unrecognized actuarial (gain) loss	10	13	-	-
Other	-	-	-	-
Net periodic cost	***171***	***217***	***1***	***2***

* *Except for those pension plans for which the balance is a net asset fully recorded as a non-current asset, all the obligations are recorded as non-current liabilities.*

The benefit obligations, fair value of plan assets and experience adjustments are as follows:

(In € millions)	Benefit obligation	Fair value of plan assets	Funded status	Experience adjustments on Benefit obligation	Experience adjustments on Plan assets
As of March 31, 2008	10,909	13,176	2,267	(95)	(989)
As of March 31, 2009	11,095	11,031	(64)	(133)	(2,788)
As of March 31, 2010	13,122	13,487	365	95	1,854
As of March 31, 2011	13,310	14,174	864	47	(4)
As of December 31, 2011	14,133	14,781	648	73	(44)

Asset allocation

The weighted average allocation of the funds invested in Group pension plans is as follows:

	Funds invested	
	As of December 31, 2011	As of March 31, 2011
Equities	36%	40%
Bonds	52%	50%
Real estate	12%	10%
Total	**100%**	**100%**

Expected cash outflows

The table below shows the expected cash outflows on pensions and other post-employment benefits, as of December 31, 2011, over the next ten years:

(In € millions)	**Pensions and similar benefits**
Estimated contribution to be paid for the year ended December 31, 2012	***415***
Estimated benefit payments as of December 31:	
2012	496
2013	496
2014	523
2015	553
2016	580
2017-2021	3,327

Risks on pension obligation

Some of the Group's commitments are subject to "over-hedging" which is determined both by the local regulations and the collective agreements. Any change in regulations could have a favorable or unfavorable impact on the commitments and/or level of coverage of these commitments.

30.2 Other provisions

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 rendered it necessary.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, the Air France-KLM group and its subsidiaries Air France and KLM (and their subsidiaries) are involved in litigation, some of which may be significant.

Provision for restructuring

As of March 31, 2011, the provision for restructuring mainly included the provision for the Air France voluntary redundancy plan (see Note 11).

Litigation concerning anti-trust laws

In the air-freight industy

a) Investigation of the anti-trust authorities

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 action in the air-freight industry.

The proceedings initiated in the United States, Australia and Canada resulted, during financial year 2008-09, in Plea Agreements made by Air France, KLM and Martinair with the appropriate agencies, and the payment of fines putting an end to those proceedings. As of December 31, 2011 discussions are underway with the Competition Commission of South Africa to conclude a settlement agreement which would result in the payment by the Group of a penalty of €1.8 million.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices – mainly concerning fuel surcharges. The Commission imposed an overall fine of €340 million on the Air France-KLM group companies.

As the Group's parent company, Air France-KLM was considered by the European Commission to be jointly and severally liable for the anti-competitive practices of which the Group companies were found guilty.

On January 24 and 25, 2011, the Group companies filed an appeal against the decision before the General Court of the European Union.

Since the appeal does not suspend the payment of the fines, the Group companies chose not to pay the fine immediately, but to provide bank guarantees until a definitive ruling by the European Courts.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM, Air France and KLM a total fine of €8.8 million for anti-competitive practices prior to September 2004. This fine will not impact the Group's financial statements given that provisions have already been booked. The Group companies have filed an appeal before the competent Court.

b) Civil actions

On September 19, 2011 the Group companies entered into a Settlement agreement with the Canadian plaintiffs achieving a final resolution of all claims in Canada. Under the settlement agreement the Group companies have paid an amount of CAD6.5 million (€4.6 million). This agreement is subject to the approval of the Ontario court.

The total amount of provisions as of December 31, 2011 amounts to €351 million for the whole proceedings.

Other provisions

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group) and provisions for dismantling buildings.

30.3 Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not been recorded in the financial statements.

Litigations concerning anti-trust laws

These litigations have not been provisioned given that the Group is unable, given the current status of proceedings, to evaluate its exposure.

a) In the air-freight industry

a.1) Investigation of the anti-trust authorities

The proceedings in Switzerland and Brazil are still ongoing as of December 31, 2011.

With regard to the revenues involved, these risks are not individually significant.

a.2) Civil Suits

Pursuant to the initiation in February 2006 of the various competition authority investigations, class actions were brought by forwarding agents and air-freight shippers in the United States and Canada against Air France, KLM and Martinair, and the other freight carriers. In addition, civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010.

United States

In the United States, the Group concluded a Settlement Agreement with the representatives of the class action in July 2010. The Settlement Agreement, under which the Group accepted to pay US$87 million, brings to a close all claims, lawsuits and legal proceedings in the past, present or future by plaintiffs seeking to obtain financial compensation from the Air France-KLM group for unlawful practices in freight transportation to, from or within the United States.

On March 14, 2011, the Court issued an order granting final approval of the Air France-KLM settlement with the class action plaintiffs. Prior to that date, pursuant to procedures established by the Court, 36 entities elected to be excluded from the settlement, which permits them to separately pursue claims, although only four of those were customers of Air France, KLM or Martinair.

With respect to those Air France and KLM customers who have chosen to be excluded, a portion of the settlement proportional to the revenue Air France and KLM received from those parties for a specified period as compared with Air France and KLM's overall revenue for that period will be segregated in a separate escrow. If claims by those parties, including written demands, are made against Air France and KLM, then the portion of the separate escrow attributable to the claiming parties will be transferred to Air France and KLM.

In 2011, written demands were made to Air France and KLM by two customers. Consequently a portion of the escrow amount attributable to those customers, was transferred to Air France and KLM.

Netherlands

In the Netherlands, KLM, Martinair and Air France were summoned on September 30, 2010, to appear before the District Court of Amsterdam in a civil suit brought by a company named Equilib which states that it has purchased claims from 145 purchasers of airfreight services who allegedly suffered losses as a result of an anti-trust infringement in the European market between 2000 and 2006.

Equilib is seeking to obtain a declaratory judgment confirming that the Group companies have been guilty of unlawful conduct and are jointly and severally liable, along with other carriers, for the losses suffered by the airfreight purchasers. Equilib initially estimates its claims at €400 million. Sofar it has not substantiated its claim.

The Group companies served a contribution writ of summons on the other airlines fined by the European Commission on November 9, 2010 and simultaneously a claim to make these airlines join the proceedings. The latter claim was however denied by the court. Meanwhile some airlines have voluntarily joined the proceedings.

In addition, the Group asked to the Tribunal of Amsterdam to stay the proceedings until a final decision will be made by the courts of the European Union concerning the recourse on annulment brought against the penalty decision of the European Commission.

In April 2011, the Group companies filed a claim against Equilib with the Commercial Court of Paris requesting that Equilib be declared a fictitious company and, as such, be deemed invalid.

Under a ruling made on January 31, 2012, the Commercial Court declared inadmissible the claim made by the Group companies. This decision can be appealed.

United Kingdom

In the United Kingdom, a civil suit has been filed with the competent court in the UK against British Airways by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group.

Australia

Within the context of ongoing class action proceedings instituted in 2007 against seven airlines (excluding the Air France-KLM group) in the Australian Federal Court, cross claims have been filed against Air France, KLM and Martinair by Singapore Airlines (August 15, 2011), Cathay Pacific (August 15, 2011), Lufthansa (November 4, 2011), Air New Zealand (December 5, 2011) and British Airways (December 19, 2011). In the cross claims, the respondent airlines claim that if, despite their denial of the claims of wrongdoing in the class action, they are ordered to pay damages, they will seek contribution from the cross respondents including Air France. Air France has filed defences to these cross claims in which it denies that the respondent airlines are entitled to any contribution from Air France, particularly since Air France did not operate direct flights to or from Australia during the relevant period. It is unlikely that any trial in the class action proceeding will occur during 2012.

The Group companies intend to vigorously oppose all such civil actions.

b) In the air transport industry (passengers)

b.1) Investigation of the European Commission into the air transport industry (passengers) between Europe and Japan

Air France and KLM, like other air carriers, were subject on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission into possible anti-competitive agreements or concerted practices in the area of air transport services (passengers) between the States parties to the agreement on the European Economic Area and Japan.

On November 10, 2011, the European Commission informed Air France and KLM that this file had been closed.

b.2) Civil actions

During 2009, Air France and KLM were subpoenaed in a class action involving all the airlines operating transpacific routes between the United States and Asia/Oceania, on the basis of allegations of price-fixing on such routes.

Air France, which has only one transpacific route between the United States and Tahiti, and KLM, which is not involved on these routes, strongly deny these allegations.

Other litigations

a) Pretory

Company Air France, as a legal entity, was placed under investigation on July 20, 2006 on charges of concealed employment and as an accessory to misuse of corporate assets in connection with a judicial investigation initiated against the officers of Pretory, a company with which Air France, pursuant to the September 2011 attacks, had entered into an agreement for the provision of safety officers on certain flights.

Company Air France challenges its implication in this case.

Financial risks related to this litigation are not material.

b) KLM minority shareholders

On January 2008, the association Vereniging vzn Effectenbezitters (VEB) served KLM and Air France-KLM before the Amsterdam Civil Court claiming that KLM and Air France-KLM be ordered to pay to minority shareholders a higher dividend than the €0.58 per ordinary share paid for fiscal year 2007-08.

On September 1, 2010 the Court dismissed the case on the grounds that the dividend resolution met the test of reasonableness and fairness. VEB have appealed the Amsterdam Court decision.

On November 15, 2011 the Amsterdam Court of appeals upheld the decision. Claimants have filed for cassation with the Netherlands Supreme Court on February 15, 2012.

c) Rio-Paris AF447 flight

Following to the crash of the Rio-Paris AF447 flight in the South Atlantic, a number of legal actions have been brought in the United States and Brazil and, more recently, in France by the victims' heirs.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash.

In the United States, all the proceedings have been consolidated in California before the Northern District Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and suggested that they pursue their claim in France.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalties of fines prescribed by law. Air France intends to challenge its implication in this case.

These penalties should not have a material effect on the financial situation of Air France.

The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

Except for the matters specified under the paragraphs 30.2 and 30.3, the Group is not aware of any dispute or governmental, judicial and arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, during a period including at least the past twelve months.

Note 31 Financial debt

(In € millions)	As of December 31, 2011	As of March 31, 2011	As of December 31, 2010
Non current financial debt			
Perpetual subordinated loan stock in Yen	270	241	260
Perpetual subordinated loan stock in Swiss francs	355	325	335
OCEANE (convertible bonds)	929	984	979
Bonds	1,450	1,450	1,450
Capital lease obligations	3,618	3,059	3,029
Other debt	2,606	2,921	2,783
Total	**9,228**	**8,980**	**8,836**
Current financial debt			
OCEANE (convertible bonds)	67	-	-
Capital lease obligations	446	695	805
Other debt	539	994	860
Accrued interest	122	119	146
Total	**1,174**	**1,808**	**1,811**

31.1 Perpetual subordinated bond

31.1.1 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.* €270 million as of December 31, 2011.

The perpetual subordinated bond in Japanese Yen is until 2019 subject to the payment of a coupon of 5.28% on a US$ notional of US$248 million.

The debt is perpetual. It is nevertheless reimbursable at nominal value at the Group's discretion on August 28, 2019. The 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.

31.1.2 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 CHF500 million. Following the purchases made by KLM, the outstanding subordinated bond amounts to CHF419 million, *i.e.* €355 million as of December 31, 2011.

The bonds are reimbursable on certain dates at the Group's discretion at a price between nominal value and 101.25% (depending on the bond and date of early repayment).

This loan is subject to the payment of a coupon considered to be fixed-rate (5¾% on a CHF270 million portion and 2 $^{1/8}$% on a CHF149 million portion) for the years ended December 31, 2011 and March 31, 2011.

This debt is subordinated to all other existing and future KLM debts.

31.2 OCEANE (Convertible bonds)

31.2.1 OCEANE issued in 2005

On 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 March 31, 2011, 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 may request reimbursement as of April 1, 2012 and April 1, 2016. Air France holds a call option triggering early cash reimbursement which can be exercised starting April 1, 2010 under certain conditions prompting OCEANE holders to convert into Air France-KLM shares. The annual coupon is 2.75% payable in arrears at the end of each period ended April 1.

The conversion period of these bonds runs from June 1, 2005 to March 23, 2020, except in the event of early reimbursement.

On December 6, 2011, to optimize its debt repayment schedule by neutralizing the exercise of the OCEANE repayment option on April 1, 2012, Air France signed a swap agreement relating to these OCEANEs (total return swap) with Natixis expiring on April 1, 2016 at the latest.

In order to hedge this contract, Natixis launched a contractual acquisition procedure to purchase the said OCEANEs.

This contract was thus reflected in the following operations:

The purchase by Natixis of 18,692,474 OCEANEs (*i.e.* 85.16% of the amount initially issued) at a fixed price of €21 following a contractual acquisition procedure open between December 7 and December 13, 2011. Natixis is the owner of the acquired OCEANEs and benefits from all the attached rights. Natixis will not exercise its early repayment option of April 1, 2012.

The entry into force effective December 14 of a swap contract expiring on April 1, 2016 whose notional amounts to €392.5 million (number of OCEANEs acquired by Natixis multiplied by the purchase price of €21). Regarding this swap, Air France receives the coupon of the OCEANE *i.e.* 2.75% and pays variable interest indexed on Euribor 6 months. At the swap termination, Air France and Natixis will also exchange the difference between the price of OCEANE at that date and the initial price of €21.

Air France has a termination option on the swap starting December 19, 2012 and expiring on February 1, 2016.

The contract is the subject of a remunerated cash guarantee for 100% of the notional of the swap (see Note 23). Starting from April 1, 2012, the guarantee may partially comprise securities provided this portion does not exceed 50% of the notional amount of the swap.

Impact on the financial statements:

The operation mainly involves the replacement of a portion of the OCEANEs with an “April 1, 2012 investor put” with OCEANEs without an “April 1, 2012 investor put”.

Consistent with IAS 39, the debt of €345 million figuring under liabilities as of December 14, 2011 and corresponding to the 18,692,474 OCEANEs purchased by Natixis has been derecognized in the financial statements.

In counterparty, Air France has entered a debt of €333 million in the financial statements and recognized the value of the attached option in equity for an amount of €6 million. The €339 million sum corresponds to the fair value, at December 14, 2011, of the OCEANEs “without April 1, 2012 investor put”.

The fair value without put was determined based on a model using observable market data (price and volatility of the Air France-KLM stock, dividend forecast, interest rate, Air France credit spread).

The earnings impact reflects a profit of €3 million, net of the costs relating to this operation.

The swap contract has been recognized in the financial statements as a derivative instrument under “other non-current liabilities” at its fair value on December 14, 2011, *i.e.* €53 million. In that this swap cannot be documented within the framework of a hedging relationship, future changes in fair value are recorded in the financial result under the heading “other financial income and expenses”.

The change in fair value thus represents a financial income of €2 million for the period. This fair value amounts to €51 million as of December 31, 2011.

The collateral is recognized in the accounts under “other short-term financial assets”, the related interest income being recorded under “net cost of financial debt”.

The 3,258,150 OCEANEs not purchased by Natixis within the framework of the contractual acquisition procedure remain subject to the repayment option potentially exercisable at the discretion of the holders on April 1, 2012. The effective interest rate on the related debt has been increased in order to take into account the highly probable exercise of the put in April 1, 2012 and is reflected by the accounting of a financial expense amounting to €7 million.

31.2.2 OCEANE issued in 2009

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million. Each bond has a nominal value of €11.80. The annual coupon amounts to 4.97%.

The conversion period of these bonds runs from August 6, 2009 to the seventh working day preceding the normal or early reimbursement date.

Air France-KLM can impose the cash reimbursement of these bonds by exercising a call as of April 1, 2013 and under certain conditions 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 for interest discounted at the rate of a similar bond without a conversion option. As of March 31, 2011, the debt value amounts to €596 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.

31.3 Bonds

31.3.1 Bonds issued in 2006 and 2007

On September 2006 and April 2007, the company Air France, a subsidiary of the Air France-KLM group, issued bonds for a total amount of €750 million, maturing on January 22, 2014 and bearing an annual interest rate of 4.75%.

31.3.2 Bonds issued in 2009

As of October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and bearing an annual interest rate of 6.75%.

31.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Aircraft		
Future minimum lease payments – due dates		
Y+1	529	786
Y+2	549	443
Y+3	511	506
Y+4	504	480
Y+5	407	374
Over 5 years	1,634	1,337
Total	**4,134**	**3,926**
Including:		
♦ Principal	3,596	3,427
♦ Interest	538	499
Buildings		
Future minimum lease payments – due dates		
Y+1	57	41
Y+2	56	39
Y+3	55	37
Y+4	55	37
Y+5	39	37
Over 5 years	223	109
Total	**485**	**300**
Including:		
♦ Principal	389	246
♦ Interest	96	54

(In € millions)	As of December 31, 2011	As of March 31, 2011
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	9	9
Y+2	9	9
Y+3	9	9
Y+4	9	9
Y+5	8	8
Over 5 years	90	96
Total	**134**	**140**
Including:		
♦ Principal	79	81
♦ Interest	55	59

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in Note 23.

31.5 Other debt

Other debt breaks down as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Reservation of ownership clause and mortgage debt	2,191	2,449
Other debt	954	1,466
Total	**3,145**	**3,915**

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.

31.6 Maturity analysis

The financial debt maturities break down as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Maturities in		
Y+1	1,568	2,165
Y+2	1,463	1,669
Y+3	2,122	2,069
Y+4	1,621	1,264
Y+5	1,887	1,383
Over 5 years	3,524	3,904
Total	**12,185**	**12,454**
Including:		
♦ Principal	10,402	10,788
♦ Interest	1,783	1,666

As of December 31, 2011, the expected financial costs amount to €394 million for the 2012 financial year, €989 million for the financial years 2013 to 2016, and €400 million thereafter.

As of December 31, 2011, it has been considered that the perpetual subordinated loan stocks, the OCEANEs and the bonds would be reimbursed according to their most probable maturity:

- date of probable call on unlimited loan stock;
- second date of the period of the investor put being April 1, 2016 for the majority of OCEANEs first issued in 2005 (see Note 31.2.1);
- maturity date for the OCEANE contract issued in 2009 and the repayable bond issued in 2006, 2007 and 2009.

31.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Euro	8,802	9,285
US dollar	610	745
Swiss franc	355	325
Yen	626	422
Kenyan Shilling	9	11
Total	**10,402**	**10,788**

31.8 Credit lines

On December 31, 2011, the Group had credit lines amounting to €1,859 million, of which only €7 million have been drawn down. The three main credit lines amounted respectively, to €1,060 million for Air France, €540 million for KLM and €250 million for the holding company Air France-KLM.

On April 4, 2011, Air France renewed this credit facility maturing on April 7, 2012 with a €1,060 million revolving credit facility maturing on April 4, 2016, subject to the following financial covenants based on the Air France 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;
- non-current 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 and were respected at December 31, 2011.

KLM's credit facility, which amounts to €540 million with a maturity in 2016, is subject to the company respecting the following financial covenants:

- EBITDAR must not be lower than two and a half times the sum of net interest charges and one third of operating lease payments;
- 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 based on KLM's consolidated financial statements and were respected at December 31, 2011.

Air France-KLM's credit facility, which amounts to €250 million, with a maturity as of October 4, 2017 and reduced by €50 million per year starting 2013, 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;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured financial net debt.

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

Note 32 Other liabilities

	As of December 31, 2011		As of March 31, 2011		As of December 31, 2010	
(In € millions)	Current	Non current	Current	Non current	Current	Non current
Tax liabilities	504	-	463	-	410	-
Employee-related liabilities	821	-	867	-	848	-
Non current assets' payables	42	-	43	-	27	-
Derivative instruments	178	231	396	194	412	346
Deferred income	80	19	120	1	106	1
Other	761	71	797	77	792	83
Total	**2,386**	**321**	**2,686**	**272**	**2,595**	**430**

Derivative instruments comprise €4 million of currency hedges on financial debts as of December 31, 2011, all as non current liability (€36 million as of March 31, 2011).

Note 33 Financial instruments

33.1 Risk management

Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of Air France, the Chief Executive Officer and the Chief Financial Officer of KLM. The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, 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 fluctuations of the market. 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 compliance with the procedures governing the delegation of powers. 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 Cash 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 positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels, the resulting net prices and stress scenarii, as well as market commentary. Furthermore, the Fuel Purchasing department issues a weekly Air France-KLM group report (known as the GEC Report) which consolidates the figures from the two companies relating to fuel hedging and physical cost.

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 revenue, the Group is a net buyer. This means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, Air France-KLM is a net seller of other currencies, the level of revenues exceeding expenditure. The main exposure 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 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, 2011, 85% 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 on other currencies mainly concern yen, US dollar and Swiss Franc.

Despite this active hedging policy, all exchange rate risks are not covered, especially in case of high variation of currencies in which debts are denominated. The Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the Group's business and financial results.

Interest rate risk

At both Air France and KLM, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, Air France and KLM have used swap strategies and options to convert a significant proportion of their debt. After hedging, the Air France-KLM group's gross debt contracted at fixed rates represents 73% of the overall total. Given this policy, the Group shows an amount of floating-rate debt close to the amount of cash invested at floating rates. An interest rate increase will consequently have no significant effect on the Group's financial results.

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. This strategy was restructured in September 2009 and presented to the Audit Committee and the Board of the Air France-KLM group, who approved it. The main changes were to reduce the time span of the hedges from four to two years and the overall hedged volume from two years to one year of consumption.

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, Gasoil and Jet CIF.

  At least 30% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (Jet Fuel and Gasoil).
- *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 “Financial instruments: recognition and measurement”.
- *Implementation of monitoring indicators on positions:*

  To ensure more effective monitoring of the marked-to-market positions and a dynamic management of its exposure, the Air France-KLM group uses the VAR (value at risk) metric to help measure the risk for its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which can limit the scale of variation of this same portfolio and enable the appropriate reaction.

Investment risks

The cash resources of Air France, KLM and Air France-KLM are currently invested in short term, primarily money market mutual funds and certificates mainly rated A1/P1, the other lines being rated A2/P2. A small portion of the surplus has, however, been invested in debt securities with maturities of up to three years from high-grade issuers in order to increase the overall returns on the cash.

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

Counterparty risk management

Transactions which can lead to counterparty risk for the Group 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 each instrument. The exceeding of any limit immediately results in the implementation of corrective measures,
  - counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure *(In € millions)* As of December 31, 2011	As of March 31, 2011
AAA	117	449
AA+	48	54
AA	257	84
AA-	46	243
A+	1,366	1,052
A	309	354
A-	14	-
NR	15	-
Total	**2,172**	**2,236**

33.2 Derivative instruments

➤ Year ended December 31, 2011

Book value *(In € millions)*	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Currency exchange risk (operating and financial operations)				
Fair value hedge	57	47	1	17
Cash flow hedge	47	122	16	35
Fair value through profit and loss	1	8	1	3
Interest rate risk (financial operations)				
Cash flow hedge	-	2	104	1
Fair value hedge	20	1	12	-
Fair value through profit and loss	2	-	17	-
Commodities risk				
Cash flow hedge	22	135	29	122
OCEANE – Total Return Swap (see Note 31.2.1)	-	-	51	-
Fair value through profit and loss				
Total	**149**	**315**	**231**	**178**

The expected maturity of the fair market value of derivative instruments is as follows:

(In € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	157	135	22	-	-	-	-
	Liability	(151)	(122)	(29)	-	-	-	-
Interest rate derivative instruments	Asset	25	3	-	1	-	2	19
	Liability	(134)	-	(7)	(20)	(14)	(17)	(76)
Currency exchange derivative instruments	Asset	282	177	72	12	5	6	10
	Liability	(73)	(56)	(17)	-	-	-	-
OCEANE swap instruments	Asset	-	-	-	-	-	-	-
	Liability	(51)	-	-	-	-	(51)	-
Total	**Asset**	**464**	**315**	**94**	**13**	**5**	**8**	**29**
	Liability	**(409)**	**(178)**	**(53)**	**(20)**	**(14)**	**(68)**	**(76)**

➤ Year ended March 31, 2011

Book value *(In € millions)*	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Currency exchange risk (operating and financial operations)				
Fair value hedge	23	12	37	28
Cash flow hedge	(5)	7	25	67
Fair value through profit and loss	4	1	2	4
Interest rate risk (financial operations)				
Cash flow hedge	7	2	38	1
Fair value hedge	4	2	24	-
Fair value through profit and loss	-	-	13	-
Commodity risk				
Fair value hedge	-	-	-	-
Cash flow hedge	105	784	55	296
Fair value through profit and loss	-	-	-	-
Total	**138**	**808**	**194**	**396**

Exposure to interest rate risk

In order to manage interest rate risk on short-term and long-term borrowings, the Group uses instruments with the following nominal values as of the balance sheet date:

➤ Year ended December 31, 2011

(In € millions)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash flow hedging								
Interest rate swaps	2,254	380	344	381	291	247	611	(98)
Other	507	-	88	66	104	150	99	(5)
Operations qualified as fair value hedging								
Interest rate swaps	347	87	46	49	27	21	117	9
Operations qualified as fair value through profit and loss	195	6	-	-	-	89	100	(15)
Total	**3,303**	**473**	**478**	**496**	**422**	**507**	**927**	**(109)**

➤ Year ended March 31, 2011

(In € millions)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years 1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Operations qualified as cash flow hedging								
Interest rate swaps	2,392	360	355	335	384	264	694	(32)
Other	389	75	-	96	115	103	-	2
Operations qualified as fair value hedging								
Interest rate swaps	395	132	67	41	42	15	98	(18)
Operations qualified as fair value through profit and loss	120	-	14	-	-	1	105	(13)
Total	**3,296**	**567**	**436**	**472**	**541**	**383**	**897**	**(61)**

These instruments have different purposes:

- hedging of fair value risk relating to fixed-rate financial debt:
  In contracting a fixed-rate debt, the Group is exposed to an opportunity risk if the rate decreases. Given the current level of market rates compared with the fixed contractual interest rates on part of its debt, the Group has entered into a number of fixed to floating-rate swaps, recorded in the financial statements within fair value hedge;
- hedging of cash-flow risk relating to floating-rate financial debt:
  The Group has sought to fix or cap the rate of certain floating-rate loans and has thus entered into a number of floating to fixed-rate swaps or options, recorded in the financial statements within cash flow hedge.
  Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at the realization date of hedged items.

Based on the hedging arrangements, the Group's exposure to interest rate risks breaks down as follows:

	As of December 31, 2011				As of March 31, 2011			
	Before hedging		After hedging		Before hedging		After hedging	
(In € millions)	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	***2,249***	***2.4%***	***2,249***	***2.4%***	***1,879***	***1.8%***	***1,879***	***1.8%***
Perpetual subordinated loans	625	4.0%	733	4.2%	566	4.2%	594	4.3%
OCEANE (convertible bond)	996	4.2%	613	2.6%	984	4.1%	984	4.7%
Bonds	1,450	5.8%	1,450	5.8%	1,450	5.7%	1,450	5.7%
Other financial debts	1,878	4.1%	3,982	3.6%	2,164	5.2%	4,488	4.3%
Fixed-rate financial liabilities	***4,949***	***4.6%***	***6,778***	***4.0%***	***5,164***	***5.0%***	***7,516***	***4.7%***
Floating-rate financial assets and liabilities								
Floating-rate financial assets	***1,899***	***1.5%***	***1,899***	***1.5%***	***3,266***	***2.6%***	***3,266***	***2.6%***
Bonds	-	-	383	1.8%	-	-	-	-
Other financial debts	5,453	2.4%	3,241	3.0%	5,624	2.1%	3,272	2.4%
Bank overdraft	157	0.6%	157	0.6%	129	0.3%	129	0.4%
Floating-rate financial liabilities	***5,610***	***2.4%***	***3,781***	***2.8%***	***5,753***	***2.0%***	***3,401***	***2.3%***
Without-rate financial assets	***901***	***-***	***901***	***-***	***977***	***-***	***977***	***-***

On December 31, 2011 and March 31, 2011, without-rate financial assets mainly include the revaluation of Amadeus at the fair value.

Exposure to exchange rate risk

Current operations

Although the Group's reporting currency is the euro, some of its revenues and costs are denominated in other currencies, such as the US dollar, the yen and the pound sterling.

The Group's policy is to reduce the exchange rate risks by hedging. Hedging is achieved through forward sales or purchase contracts and/or option-based strategies.

Acquisition of flight equipment

Capital expenditure on flight equipment is denominated in US dollars. The Group hedges this exchange risk via forward purchases and/or option-based strategies.

Long-term debt

A small portion of the debt is denominated in foreign currencies to diversify the sources of funding and take into account cash surpluses generated in various currencies. In order to hedge against the risk of exchange rate fluctuations on debt, currency rate swaps are used. This is a micro-hedging mechanism matched specifically to the borrowing to which it relates.

Nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging transaction.

➤ Year ended December 31, 2011

			Maturities between 1 and 5 years					
(In € millions)	Nominal	Maturity below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+5 years	Fair value
Exchange risk (cash flow hedging of operating flows)	***4,783***	***3,542***	***1,217***	***18***	***6***	***-***	***-***	***118***
Exchange rate options								
US dollar	2,193	1,654	539	-	-	-	-	84
Yen	296	157	139	-	-	-	-	(19)
Other currencies	143	108	35	-	-	-	-	(3)
Forward purchases								
US dollar	1,469	1,065	380	18	6	-	-	81
Forward sales								
Yen	260	173	87	-	-	-	-	(16)
Pound sterling	187	150	37	-	-	-	-	(2)
Norwegian Krone	116	116	-	-	-	-	-	(1)
Swiss franc	35	35	-	-	-	-	-	-
Other currencies	67	67	-	-	-	-	-	(6)
Others								
US dollar	17	17	-	-	-	-	-	-
Exchange risk (Fair value hedging of flight equipment acquisition)	***1,404***	***597***	***322***	***176***	***68***	***2***	***239***	***86***
Forward purchases US dollar	1,404	597	322	176	68	2	239	86
Exchange risk (trading)	***217***	***146***	***23***	***-***	***-***	***48***	***-***	***5***
Forward purchases US dollar	169	146	23	-	-	-	-	5
Other US dollar	48	-	-	-	-	48	-	-
Total	**6,404**	**4,285**	**1,562**	**194**	**74**	**50**	**239**	**209**

➤ Year ended March 31, 2011

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Exchange risk (cash flow hedging of operating flows)	***4,114***	***2,880***	***1,184***	***32***	***15***	***3***	***-***	***(90)***
Exchange rate options								
US dollar	1,992	1,408	584	-	-	-	-	(65)
Yen	213	125	88	-	-	-	-	5
Other currencies	139	107	32	-	-	-	-	2
Forward purchases								
US dollar	1,045	664	336	27	15	3	-	(33)
Forward sales								
Yen	203	132	71	-	-	-	-	2
Pound sterling	205	144	61	-	-	-	-	4
Norwegian Krone	121	121	-	-	-	-	-	(1)
Swiss franc	38	38	-	-	-	-	-	(1)
Other currencies	110	110	-	-	-	-	-	(2)
Others								
US dollar	48	31	12	5	-	-	-	(1)
Exchange risk (Fair value hedging of flight equipment acquisition)	***1,596***	***757***	***446***	***108***	***59***	***14***	***212***	***(30)***
Forward purchases US dollar	1,571	732	446	108	59	14	212	(30)
Exchange rate options US dollar	25	25	-	-	-	-	-	-
Exchange risk (trading)	***326***	***204***	***71***	***-***	***-***	***-***	***51***	***(1)***
Forward purchases US dollar	98	27	71	-	-	-	-	5
Exchange rate options US dollar	177	177	-	-	-	-	-	(4)
Other US dollar	51	-	-	-	-	-	51	(2)
Total	**6,036**	**3,841**	**1,701**	**140**	**74**	**17**	**263**	**(121)**

Within the framework of cash flow hedges, maturities relate to the realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at the realization dates of the hedged items.

Commodity risk linked to fuel prices

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the risks related to the purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

➤ Year ended December 31, 2011

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	122	122	-	-	-	-	-	(3)
Options	5,976	4,120	1,856	-	-	-	-	9
Total	**6,098**	**4,242**	**1,856**	**-**	**-**	**-**	**-**	**6**

➤ Year ended March 31, 2011

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Commodity risk (cash flow hedging operating flows)								
Swap	124	124	-	-	-	-	-	29
Options	5,671	3,832	1,839	-	-	-	-	509
Total	**5,795**	**3,956**	**1,839**	**-**	**-**	**-**	**-**	**538**

Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

33.3 Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They bear the following inherent limitations:

- estimated market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates;
- estimated amounts as of December 31, 2011 and March 31, 2011 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. 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;
- *derivatives instruments:*
  The market value of derivatives instruments corresponds to the amounts payable or receivable were the positions to be closed out as of December 31, 2011 and March 31, 2011 calculated using the year-end market rate.

Market values calculated in this way are shown in the table below:

(In € millions)	December 31, 2011 Net book value	December 31, 2011 Estimated market value	March 31, 2011 Net book value	March 31, 2011 Estimated market value
Financial assets				
Financial assets available for sale				
Shares	901	901	977	977
Assets at fair value through profit and loss				
Marketable securities	987	987	574	574
Loans and receivables				
Loans				
Fixed-rate	168	150	216	229
Floating-rate	136	136	117	117
Trade accounts receivables	1,774	1,774	1,938	1,938
Other assets (except derivatives instruments)	699	699	760	760
Derivatives				
Interest rate derivative instruments				
Interest rate swaps	25	25	15	15
Exchange rate derivative instruments				
Exchange rate options	86	86	(16)	(16)
Forward currency contracts	196	196	58	58
Currency swaps	-	-	-	-
Commodity derivative instruments				
Petroleum swaps and options	157	157	889	889
Cash and cash equivalents				
Cash equivalents	1,845	1,845	3,343	3,343
Cash in hand	438	438	374	374

(In € millions)	December 31, 2011 Net book value	December 31, 2011 Estimated market value	March 31, 2011 Net book value	March 31, 2011 Estimated market value
Financial liabilities				
Debt measured at amortized cost				
Bonds*				
Fixed-rate	2,446	2,490	2,434	2,822
Perpetual subordinated loans	625	733	566	594
Other borrowings and financial debt				
Fixed-rate	1,878	2,000	2,164	2,176
Variable-rate	5,453	5,320	5,624	5,531
Derivatives				
Interest rate derivative instruments				
Interest rate swaps	134	134	76	76
Exchange derivative instruments				
Exchange rate options	24	24	46	46
Forward currency contracts	49	49	114	114
Currency swaps	-	-	3	3
Commodity derivative instruments				
Petroleum swaps and options	151	151	351	351
Fair value through profit and loss				
OCEANE – Total Return Swap (see Note 31.2.1)	51	51	-	-
Other debt				
Trade accounts payable	2,599	2,599	2,211	2,211
Deferred revenue on ticket sales	1,885	1,885	2,440	2,440
Frequent flyer programs	784	784	806	806
Other liabilities (except derivatives instruments)	2,298	2,298	2,368	2,368

* *The fixed rate bonds comprise the OCEANE (convertible bonds) issued in April 2005 and June 2009, as well as €750 million of bonds issued in September 2006 and April 2007 by Air France and €700 million of bonds issued in October 2009 by Air France-KLM.*

OCEANE issued in April 2005: The market value of €460 million was determined based on the bond's market price as of December 31, 2011. This market value includes the fair value of the debt component (amount of €400 million in the financial statements as of December 31, 2011) as well as the fair value of the conversion option recorded in equity for €50 million.

OCEANE issued in June 2009: The market value of €602 million was determined based on the bond's market price as of December 31, 2011. This market value includes the fair value of the debt component (amount of €596 million in the financial statements as of December 31, 2011) as well as the fair value of the conversion option recorded in equity for €65 million.

Bond issued in September 2006 and April 2007: the characteristics of this bond are described in Note 31.3. The market value is €726 million.

Bond issued in October 2009: the characteristics of this bond are described in Note 31.3. The market value is €702 million.

33.4 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):

	Level 1		Level 2		Level 3		Total	
(In € millions)	As of December 31, 2011	As of March 31, 2011	As of December 31, 2011	As of March 31, 2011	As of December 31, 2011	As of March 31, 2011	As of December 31, 2011	As of March 31, 2011
Financial assets available for sale								
Shares	890	941	11	36	-	-	901	977
Assets at fair value through profit and loss								
Marketable securities and cash secured	33	7	954	567	-	-	987	574
Cash equivalents	1,525	3,343	320	-	-	-	1,845	3,343
Derivative instruments asset								
Interest rate derivatives	-	-	25	15	-	-	25	15
Currency exchange derivatives	-	-	282	43	-	-	282	43
Commodity derivatives	-	-	157	888	-	-	157	888

Financial liabilities at fair value comprise latent capital losses on interest rate, foreign exchange and commodity derivative instruments as well as on debt revalued in accordance with fair value hedges, the valuations classified as level 2.

33.5 Sensitivity

The sensitivity is calculated solely on the valuation of derivatives at the closing date of each period presented. The range of shocks has been judged reasonable and realistic by the Group's management. The shock assumptions used are coherent with those applied in the prior period.

The impact on equity corresponds to the sensitivity of effective fair value variations on instruments documented in the cash flow hedge (intrinsic value of the options, fair value of closed instruments). The impact on the income statement corresponds to the sensitivity of fair value variations on ineffective hedging instruments (principally time value of options) and fair value variations on transaction instruments.

For fuel and currency, the downward and upward sensitivities are not symmetrical given the use, within the framework of the policy on optional hedging instruments whose risk profile is not linear.

Fuel hedge sensitivity

The impact on "income before tax" and on "gains/(losses) taken to equity" of a +/- US$10 variation in the price of a barrel of Brent is presented below:

(In € millions)	December 31, 2011		March 31, 2011	
	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	234	(195)	50	(78)
Gains/(losses) taken to equity	134	(190)	321	(309)

Currency hedge sensitivity

The value in euros of all monetary assets and liabilities is presented below:

(In € millions)	Monetary assets		Monetary liabilities	
	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
US dollar	609	348	878	1,204
Pound sterling	-	33	20	-
Yen	352	8	344	453
Swiss franc	-	6	351	322
Canadian dollar	3	4	3	3

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedged.

The impact on "income before tax" and on "gains/(losses) taken to equity" of a 10% appreciation in foreign currencies relative to the euro is presented below:

(In € millions)	US dollar		Pound Sterling		Yen	
	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
Income before tax	(44)	47	(2)	(5)	(81)	(55)
Gains/(losses) taken to equity	457	289	(23)	(15)	(51)	(34)

The impact of the change in fair value of currency derivatives on "income before tax" and on "gains/(losses) taken to equity" of a 10% depreciation in foreign currencies relative to the euro is presented below:

(In € millions)	US dollar		Pound Sterling		Yen	
	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
Income before tax	(44)	(40)	2	(3)	76	42
Gains/(losses) taken to equity	(276)	(250)	14	25	24	27

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100 basis point variation in interest rates would have an impact of €21 million on the financial charges for the year ended December 31, 2011 versus €4 million for the year ended March 31, 2011.

Note 34 Lease commitments

34.1 Capital leases

The debt related to capital leases is detailed in Note 31.

34.2 Operating leases

The minimum future payments on operating leases are as follows:

	Minimum lease payments	
(In € millions)	As of December 31, 2011	As of March 31, 2011
Flight equipment		
Due dates		
Y+1	961	821
Y+2	854	801
Y+3	663	670
Y+4	549	528
Y+5	496	449
Over 5 years	1,747	1,381
Total	**5,270**	**4,650**
Buildings		
Due dates		
Y+1	221	223
Y+2	165	184
Y+3	149	160
Y+4	129	149
Y+5	117	125
Over 5 years	979	983
Total	**1,760**	**1,824**

The expense relating to operating leases for flight equipment amounted to €848 million as of December 31, 2011 (12 months proforma), versus €806 million as of December 31, 2010 (12 months proforma), €831 million as of March 31, 2011 (12 months), €641 million as of December 31, 2011 (9 months) and €624 million as of December 31, 2010 (9 months).

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

Note 35 Flight equipment orders

Due dates for commitments in respect of flight equipment orders are as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Y+1	867	1,050
Y+2	566	742
Y+3	495	334
Y+4	224	328
Y+5	324	90
> Y+5	2,508	-
Total	**4,984**	**2,544**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

The number of aircraft under firm order as of December 31, 2011 increased by 5 units compared with March 31, 2011 to 61 units.

The changes are explained by:

- the delivery of 25 aircraft over the period;
- 26 new firm orders;
- the conversion of 4 options into firm orders.

Discussions are ongoing with Airbus and Rolls Royce to finalize the contract for the Airbus A350 order.

Long-haul fleet

Passenger

The Group took delivery of 2 Airbus A380s and 3 Boeing B777s. The Group ordered one Boeing B777 and 25 Boeing B787s.

Cargo

The Group took delivery of a Boeing B777F. On delivery, this aircraft was immediately sold.

Medium-haul fleet

The Group took delivery of 7 Boeing B737s and converted 4 options for this aircraft type into firm orders.

It also took delivery of 6 Airbus A320s and one Airbus A321.

Regional fleet

The Group took delivery of 5 CRJ1000s.

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, 2011***	***2***	***2***	***2***	***-***	***-***	***-***	***6***
	As of March 31, 2011	2	2	2	2	-	-	8
A330	***As of December 31, 2011***	***-***	***1***	***-***	***-***	***-***	***-***	***1***
	As of March 31, 2011	-	1	-	-	-	-	1
B787	***As of December 31, 2011***	***-***	***-***	***-***	***-***	***3***	***22***	***25***
	As of March 31, 2011	-	-	-	-	-	-	-
B777	***As of December 31, 2011***	***5***	***1***	***1***	***3***	***-***	***-***	***10***
	As of March 31, 2011	3	5	-	1	3	-	12
Long-haul fleet – cargo								
B777F	***As of December 31, 2011***	***-***	***-***	***-***	***-***	***-***	***-***	***-***
	As of March 31, 2011	1	-	-	-	-	-	1
Medium-haul fleet								
A320	***As of December 31, 2011***	***5***	***-***	***-***	***-***	***-***	***-***	***5***
	As of March 31, 2011	6	5	-	-	-	-	11
A321	***As of December 31, 2011***	***-***	***-***	***-***	***-***	***-***	***-***	***-***
	As of March 31, 2011	1	-	-	-	-	-	1
B737	***As of December 31, 2011***	***2***	***4***	***-***	***-***	***-***	***-***	***6***
	As of March 31, 2011	7	2	-	-	-	-	9
Regional fleet								
Emb190	***As of December 31, 2011***	***5***	***-***	***-***	***-***	***-***	***-***	***5***
	As of March 31, 2011	2	3	-	-	-	-	5
CRJ 1000	***As of December 31, 2011***	***2***	***1***	***-***	***-***	***-***	***-***	***3***
	As of March 31, 2011	7	1	-	-	-	-	8

* *The due dates for deliveries correspond to the calendar year starting from December 2011. The comparables for deliveries remain based on the IATA year ended March 31, 2011.*

Note 36 Other commitments

36.1 Commitments made

(In € millions)	As of December 31, 2011	As of March 31, 2011
Call on investment securities	4	9
Put on investment securities	-	-
Warranties, sureties and guarantees	277	80
Secured debts	6,255	6,203
Other purchase commitments	87	132

The restrictions and pledges as of December 31, 2011 were as follows:

(In € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	774	-
Tangible assets	May 1995	June 2026	7,626	12,744	59.8%
Other financial assets	October 1998	June 2026	1,119	2,766	40.5%
Total			**8,745**	**16,284**	

36.2 Commitments received

(In € millions)	As of December 31, 2011	As of March 31, 2011
Warranties, sureties and guarantees	224	278

Warranties, sureties and guarantees principally comprise letters of credit from financial institutions.

Note 37 Related parties

37.1 Transactions with the principal executives

Directors and their relatives hold less than 0.05% of the voting rights.

Benefits granted to the two principal executives and booked in expenses are detailed as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Short term benefits	2.9	0.8
Post-employment benefits (amortization of actuarial gains or losses)	(0.7)	0.3
Total	**2.2**	**1.1**

Directors' fees paid during the year ended December 31, 2011 in respect of attendance at Board meetings during the year ended March 31, 2011 amounted to €0.6 million.

37.2 Transactions with other related parties

The total amounts of transactions with related parties for the financial years ended December 31, 2011 (9 months) and March 31, 2011 (12 months) are as follows:

(In € millions)	As of December 31, 2011	As of March 31, 2011
Assets		
Net trade accounts receivable	126	98
Other current assets	8	3
Other non-current assets	23	23
Total	**157**	**124**
Liabilities		
Trade accounts payable	207	142
Other current liabilities	67	52
Other long-term liabilities	38	41
Total	**312**	**235**

(In € millions)	As of December 31, 2011 *(9 months)*	As of March 31, 2011 *(12 months)*
Net sales	157	214
Landing fees and other rents	(374)	(452)
Other selling expenses	(117)	(138)
Passenger service	(35)	(64)
Other	(32)	(56)
Total	**(401)**	**(496)**

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 €348 million and €454 million for the periods ended December 31, 2011 (9 months) and March 31, 2011(12 months).

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry to maintain certain aircraft in the French Air Force. The net revenue derived from such arrangements amounted to €43 million as of December 31, 2011 (9 months) versus €54 million for the year ended March 31 (12 months).

DGAC

The civil aviation regulator is under Ministry of Transport authority, which manages security and safety in French air space. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services amounting to €86 million as of December 31, 2011 (9 months) €108 million for the year ended March 31, 2011 (12 months).

Amadeus

The company Amadeus was consolidated by the equity method in the Group's financial statements until March 31, 2010. Following the Initial Public Offering (IPO) on the Madrid stock exchange (see Note 11), the Amadeus shares were reclassified under "assets available for sale".

For the year ended December 31, 2011 (9 months), total transactions with Amadeus amounted to a cost of €97 million compared with €102 million for the year ended March 31, 2011 (12 months).

Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned Alitalia.

For the year ended December 31, 2011 (9 months), the amount of transactions made with Alitalia represents for the Group revenues of €41 million (compared with €64 million for the year ended March 31, 2011 (12 months)) and a cost of €10 million (compared with €13 million for the year ended March 31, 2011 (12 months)).

Note 38 Consolidated statement of cash flow

38.1 Other non-monetary items

As of December 31, 2011 (9 months and 12 months proforma) and December 31, 2010 (12 months proforma), other non-monetary items mainly include the variations of provisions relating to the Air France voluntary redundancy plan and provisions on pension and pension assets.

During the years ended December 31, 2010 (9 months) and March 31, 2011 (12 months), other non-monetary items mainly included the variations of provisions relating to pension and pension assets.

38.2 Acquisitions of subsidiaries and investments in associates, net of cash acquired, purchase of non-controlling interest of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 **(12 months)**	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Cash disbursement for acquisitions	(13)	(13)	(47)	(52)	(14)
Cash from acquired subsidiaries	-	-	1	1	-
Net cash disbursement	**(13)**	**(13)**	**(46)**	**(51)**	**(14)**

There were no significant acquisitions of subsidiaries and investments for the periods presented.

38.3 Disposal of subsidiaries and investments in associates, disposal of subsidiaries without loss of control and disposal of shares in non-controlled entities

Net proceeds from the disposal of subsidiaries can be analyzed as follows:

(In € millions)	04/01/2011 12/31/2011 *(9 months)*	04/01/2010 12/31/2010 *(9 months)*	04/01/2010 03/31/2011 *(12 months)*	01/01/2011 12/31/2011 *(12 months) Proforma*	01/01/2010 12/31/2010 *(12 months) Proforma*
Proceeds from sales of own shares	-	19	14	-	20
Proceeds from disposals	2	-	-	2	-
Cash of disposed subsidiaries	-	-	-	-	-
Net proceeds from disposals	**2**	**19**	**14**	**2**	**20**

38.4 Non cash transactions

During the years ended December 31, 2011 (9 months), December 31, 2010 (9 months), March 31, 2011 (12 months), December 31, 2011 (12 months proforma) and December 31, 2010 (12 months proforma), there were no significant non-cash transactions.

Note 39 Fees of Statutory Auditors

	KPMG			
	As of December 31, 2011 *(9 months)*		As of March 31, 2011 *(12 months)*	
(In € millions)	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	4.3	98%	3.8	97%
♦ *Air France-KLM SA*	*0.8*		*0.7*	
♦ *Consolidated subsidiaries*	*3.5*		*3.1*	
Other ancillary services and audit services	0.1	2%	-	-
♦ *Air France-KLM SA*	*0.1*	-	-	-
♦ *Consolidated subsidiaries*	-	-	-	-
Sub-total	**4.4**	**100%**	**3.8**	**97%**
Other services				
Legal, tax and corporate	-	-	0.1	3%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**4.4**	**100%**	**3.9**	**100%**

(In € millions)	Deloitte & Associés			
	As of December 31, 2011 *(9 months)*		**As of March 31, 2011** *(12 months)*	
	Amount	**%**	**Amount**	**%**
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	4.5	98%	3.6	97%
♦ Air France-KLM S.A.	*0.9*		*0.7*	
♦ Consolidated subsidiaries	*3.6*		*2.9*	
Other ancillary services and audit services	-	-	-	-
♦ Air France-KLM S.A.	-	-	-	-
♦ Consolidated subsidiaries	-	-	-	-
Sub-total	**4.5**	**98%**	**3.6**	**97%**
Other services				
Legal, tax and corporate	0.1	2%	0.1	3%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**4.6**	**100%**	**3.7**	**100%**

Note 40 Consolidation scope as of December 31, 2011

The scope includes 164 fully-consolidated entities and 33 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. KLM is thus fully consolidated in the Air France-KLM's consolidated financial statements.

40.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE S.A.	France	Multisegment	100	100
KLM 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
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
BRIT AIR	France	Passenger	100	100
CITYJET	Ireland	Passenger	100	100
COBALT GROUND SERVICES LIMITED	United Kingdom	Passenger	99	49
CONSTELLATION FINANCE LIMITED	Ireland	Passenger	100	100
CYGNIFIC B.V.	Netherlands	Passenger	99	49
HEATHROW AIRPORT HANDLING LTD	United Kingdom	Passenger	99	49
IAS ASIA INCORPORATED	Philippines	Passenger	99	49
IASA INCORPORATED	Philippines	Passenger	99	49
ICARE	France	Passenger	100	100
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES AMERICAS L.P	United States	Passenger	99	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	99	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	99	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Passenger	99	49
KLM LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	99	49
LYON MAINTENANCE	France	Passenger	100	100
RÉGIONAL COMPAGNIE AÉRIENNE EUROPÉENNE	France	Passenger	100	100
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Netherlands	Passenger	99	49
VLM AIRLINES NV	Belgium	Passenger	100	100
BLUE CROWN B.V.	Netherlands	Cargo	99	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	75	75
AEROMAINTENANCE GROUP	United States	Maintenance	100	100

Entity	Country	Segment	% interest	% control
AIR FRANCE INDUSTRIE US	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
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	100	100
ACNA	France	Other	98	100
ACSAIR	France	Other	50	51
SERVAIR FORMATION	France	Other	98	100
AFRIQUE CATERING	France	Other	50	51
AIDA	Mauritius	Other	77	77
AIR BLEU SERVICES	France	Other	100	100
SERVAIR AIR CHEF	Italy	Other	49	50
AIR FRANCE FINANCE	France	Other	100	100
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE KLM FINANCE	France	Other	100	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	79	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	79	39
ALL AFRICA AIRWAYS	Mauritius	Other	80	80
AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	59	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	72	49
BASE HANDLING	France	Other	98	100
BLUE YONDER IX B.V.	Netherlands	Other	99	49
BLUE YONDER X B.V.	Netherlands	Other	99	49
BLUE YONDER XII B.V.	Netherlands	Other	99	49
BLUE YONDER XIII B.V.	Netherlands	Other	99	49
BLUE YONDER XIV B.V.	Netherlands	Other	99	49
BLUE YONDER XV B.V.	Netherlands	Other	99	49
BRUNEAU PEGORIER	France	Other	98	100
B.V. KANTOORGEBOUW MARTINAIR	Netherlands	Other	99	49
CARI	France	Other	98	100
CATERING FDF	France	Other	98	100
CATERING PTP	France	Other	98	100
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0
CENTRE DE PRODUCTION ALIMENTAIRE	France	Other	98	100
CULIN'AIR PARIS	France	Other	98	100

Entity	Country	Segment	% interest	% control
DAKAR CATERING	Senegal	Other	64	65
ETS SCHIPHOL B.V	Netherlands	Other	99	49
EUROPEAN CATERING SERVICES	United States	Other	98	100
GIE JEAN BART	France	Other	10	10
GIE SERVCENTER	France	Other	98	100
GIE SURCOUF	France	Other	100	100
GUINÉENNE DE SERVICES AEROPORTUAIRES SA	Guinea	Other	30	60
HEESWIJK HOLDING B.V.	Netherlands	Other	99	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	99	49
JET CHEF	France	Other	98	100
KES AIRPORT EQUIPMENT FUELLING B.V.	Netherlands	Other	99	49
KES AIRPORT EQUIPMENT LEASING 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 INTERNATIONAL FINANCE COMPANY B.V.	Netherlands	Other	99	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM UNTERSTUTZUNGSKASSEN GMBH	Germany	Other	99	49
KROONDUIF B.V.	Netherlands	Other	99	49
LYON AIR TRAITEUR	France	Other	98	100
MALI CATERING	Mali	Other	70	99
MARTINIQUE CATERING	France	Other	91	93
MARTINAIR AFRICA LTD.	Kenya	Other	99	49
MARTINAIR FAR EAST LTD.	Hong Kong	Other	99	49
MARTINAIR HK LTD.	Hong Kong	Other	99	49
MARTINAIR VESTIGING VLIEGVELD LELYSTAD B.V.	Netherlands	Other	99	49
MAURITANIE CATERING	Mauritania	Other	25	51
NAS AIRPORT SERVICES LIMITED	Kenya	Other	58	100
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49
ORLY AIR TRAITEUR	France	Other	98	100
SERVAIR BURKINA FASO	Burkina Faso	Other	84	86
PASSERELLE	France	Other	98	100
PASSERELLE CDG	France	Other	64	66

Entity	Country	Segment	% interest	% control
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	74	76
SERVAIR CONGO	Congo	Other	50	51
SERVAIR GHANA	Ghana	Other	56	57
SERVAIR SATS	Singapore	Other	50	51
SERVAIR SOLUTION ITALIA S.R.L.	Italy	Other	98	100
SERVANTAGE	France	Other	98	100
SERVASCO	Macao	Other	59	60
SERVAIR SOLUTIONS	France	Other	98	100
SERVAIR GABON	Gabon	Other	54	55
SERVLOGISTIC	France	Other	98	100
SIA KENYA HOLDING LIMITED	Kenya	Other	58	59
SIEGA LOGISTICS (PROPRIETARY) PTY	South Africa	Other	99	49
SISALOGISTIC NETHERLANDS B.V.	Netherlands	Other	99	49
SISALOGISTIC U.S. LTD.	United states	Other	99	49
SKYCHEF	Seychelles	Other	54	55
SKYLOGISTIC	France	Other	98	100
SKYLOGISTIQUE AFRIQUE	France	Other	64	66
SOCIETE IMMOBILIERE AEROPORTUAIRE	France	Other	98	100
SOGRI	France	Other	95	97
SORI	France	Other	49	50
SPECIAL MEALS CATERING	France	Other	98	100
SPICA-STAETE B.V.	Netherlands	Other	99	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	99	49
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

Entity	Country	Segment	% interest	% control
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 L.	Bermuda	Other	99	49
TRANSAVIA DENMARK APS	Denmark	Other	99	49
TRANSAVIA FINANCE B.V.	Netherlands	Other	99	49
TRANSAVIA FRANCE	France	Other	100	100
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	99	49
UILEAG HOLDING COMPANY LIMITED	Ireland	Other	100	100
WEBLOK B.V.	Netherlands	Other	99	49

40.2 Equity affiliates

Entity	Country	Segment	% interest	% control
AEROLIS	France	Passenger	50	50
ALITALIA	Italy	Passenger	25	25
FINANCIÈRE LMP	France	Passenger	40	40
CSC INDIA	India	Cargo	49	49
HEATHROW CARGO HANDLING	United Kingdom	Cargo	50	50
SPAIRLINERS	Germany	Maintenance	50	50
AAF SPARES	Ireland	Maintenance	50	50
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab Emirates	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
MAX MRO SERVICE	India	Maintenance	26	26
AIRCRAFT CAPITAL LTD.	United Kingdom	Other	40	40
COTONOU CATERING	Benin	Other	24	49
DOUAL'AIR	Cameroon	Other	25	25
FLYING FOOD CATERING	United States	Other	48	49
FLYING FOOD JFK	United States	Other	48	49
FLYING FOOD MIAMI	United States	Other	48	49
FLYING FOOD SAN FRANCISCO	United States	Other	43	44
FLYING FOOD SERVICES	United States	Other	48	49
FLYING FOOD SERVICES USA	United States	Other	49	49
GUANGHOU NANLAND CATERING COMPANY	China	Other	24	25
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	20	20
KENYA AIRWAYS LIMITED	Kenya	Other	26	26
LOGAIR	France	Other	49	50
LOME CATERING S.A.	Togo	Other	17	35
MACAU CATERING SERVICES	Macao	Other	17	34
MAINPORT INNOVATION FUND	Netherlands	Other	25	25
NEWREST SERVAIR UK LTD.	United Kingdom	Other	39	40
NOSOPAL	Senegal	Other	34	35
PRIORIS	France	Other	33	34
SCHIPHOL LOGISTICS PARK C.V.	Netherlands	Other	52	49
SERVAIR EUREST	Spain	Other	34	35
SKYENERGY B.V.	Netherlands	Other	30	30
TERMINAL ONE GROUP ASSOCIATION	United States	Other	25	25

5.7 Statutory Auditors' report on the consolidated financial statements

9-month period ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted by your Annual General Meetings, we hereby report to you, for the 9-month period ended December 31, 2011, on:

- the audit of the accompanying consolidated financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2011 and of the results of its operations for the 9-month period then ended in accordance with IFRSs as adopted by the EU.

2 Justification of assessments

The accounting estimates used in the preparation of the consolidated financial statement were made in a context of an economic downturn and a liquidity crisis 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, 4.21 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, 4.14 and 18 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 assets. We examined the data and assumptions on which these impairment tests were based as well as the procedures for implementing impairment tests, as described in the notes.
- Air France-KLM's management is required to make estimates and assumptions relating to the recognition of revenue arising from issued but unused tickets and its Frequent Flyer Program, in accordance with the terms and conditions described in Notes 4.2, 4.6 and 4.7 to the consolidated financial statements. Our procedures consisted in analyzing the data used, assessing the assumptions made and reviewing the calculations performed.
- Notes 4.17 and 30.1 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 30.1 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.
- Note 30.2 and 30.3 to the consolidated financial statements describes the anti-trust litigations to which the company is exposed and the amount of the related provision accounted for. Our procedures consisted in analyzing the method used to determine these provisions, examining the data used and the assumptions made, based on information available to date, and verifying that the information as disclosed in Notes 30.2 and 30.3 to the consolidated financial statements was appropriate.

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, March 26, 2012

The Statutory Auditors

KPMG Audit		**Deloitte & Associés**
Division of KPMG S.A.		
Valérie Besson	Michel Piette	Dominique Jumaucourt
Partner	*Partner*	*Partner*

This is a free translation into English of the Statutory Auditors' reports on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers.

The Statutory Auditors' report includes information specifically required by French law in such report, whether qualified or not. This information is presented below the audit opinion on consolidated financial statements and includes explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.

This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

5.8 Statutory financial statements

Nine-month financial year ended December 31, 2011

5.8.1 Income statement and balance sheet

Income statement

(In € millions)	Notes	From April 1, 2011 to December 31, 2011 *(9 months)*	From April 1, 2010 to March 31, 2011 *(12 months)*
Other income	3	14	17
Total operating income		**14**	**17**
External expenses	4	(10)	(12)
Salaries and related costs		(1)	(1)
Other expenses		(1)	(1)
Total operating expenses		**(12)**	**(14)**
Income from current operations		***2***	***3***
Financial income		36	34
Financial expenses		(153)	(109)
Net financial income	***5***	***(117)***	***(75)***
Earnings before tax and non recuring items		***(115)***	***(72)***
Non-recurring income		-	42
Non-recurring expenses		(1)	(43)
Non recuring income (loss)	***6***	***(1)***	***(1)***
Income tax	7	4	4
Net earnings		**(112)**	**(69)**

Balance sheet

Assets *(In € millions)*	**Notes**	**December 31, 2011**	**March 31, 2011**
Long-term investments	8	4,165	4,236
Loan & receivable related to long term investment	8-11-12	787	386
Fixed assets		***4,952***	***4,622***
Trade receivables	12	5	11
Other receivables	12	8	1
Marketable securities	9	622	1,025
Cash		1	51
Prepaid expenses		1	1
Current assets		***637***	***1,089***
Amortisation of capital expenses		8	9
Bond redemption premium		3	4
Total Assets		**5,600**	**5,724**

Liabilities & equity *(In € millions)*	**Notes**	**December 31, 2011**	**March 31, 2011**
Capital	10.1	300	300
Additional paid-in capital		2,971	2,971
Legal reserve		70	70
Reserves		963	1,032
Income for the year		(112)	(69)
Shareholders' equity	***10.2***	***4,192***	***4,304***
Financial debt	11	1,394	1,414
Trade payable:		12	3
including trade payables and related accounts		11	2
other trade payable		1	1
Other liabilities		2	3
Liabilities	***12***	***1,408***	***1,420***
Total Liabilities & equity		**5,600**	**5,724**

5.8.2 Notes

The information hereafter constitutes the notes to the financial statements for the year ended December 31, 2011. It is an integral part of the financial statements.

Air France-KLM SA, Public Limited Company with head office at 2 Rue Robert Esnault Pelterie 75007 Paris, is the parent company of Air France-KLM group. It is listed in Paris (Euronext) and Amsterdam (Euronext).

1. Period event

The Extraordinary Shareholders' Meeting of July 7, 2011 approved the change of closing date for Air France-KLM SA's financial statements from March 31 to December 31, proposed by the Board of Directors on May 18, 2011. This decision was taken to facilitate analysis and comparison with most other airline companies which close their accounting periods on December 31.

This change in accounts closing date becomes effective this financial year with a 9 month financial year ended on December 31, 2011.

Due to this change, the accounts for the 9 month period ended December 31, 2011 are not strictly comparable with the last published accounts for the 12 months period ended March 31, 2011.

2. Accounting policies and procedures

Generally accepted accounting policies were applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and the basic assumptions in order 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.

Main methods used are the following:

Long-term investments

Companies' equity investments 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 is below the acquisition value. The fair value of securities corresponds to the value in use for the company. It 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 are not allocated to employees or to a capital decrease and 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 last month average market price at the end of the financial year.

Trade receivable

Trade receivable are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares invested as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Negociable debt securities (deposits, and financial companies notes) are booked at acquisition price. Interests are booked – *prorata temporis* – in financial income.

Foreign currency transactions

Operating expense and income transactions in foreign currencies are recognised at the average exchange rate for each month concerned.

Trade payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2011.

Unrealised losses and gains are recognised as assets and liabilities on the balance sheet. Provisions are established for unrealised losses, except for the following cases:

- transactions where the currency and the term contribute to a global positive exchange position; and
- exchange hedging contracts involving the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount.

Dividends received

Dividends are recognised when they are approved by the companies' competent bodies (*i.e.*: the Board of Directors or the General Shareholders' Meeting depending on the local regulations).

3. Other income

This primarily involves royalties of €13 million paid by Air France and KLM at December 31, 2011 to use the "Air France-KLM" brand (€15 million at March 31, 2011).

4. External expenses

Period *(In € millions)*	**From April 1, 2011 to December 31, 2011** *(9 months)*	**From April 1, 2010 to March 31, 2011** *(12 months)*
Lawyers & advisors fees	1	-
Statutory Auditor fees	1	2
Insurance	1	2
Subcontracting re-invoiced by Air France and KLM	3	4
Financial communication expenses	3	3
Other	1	1
Total	**10**	**12**

5. Financial income

This section groups interest paid or received, exchange losses and gains, and allocations and write-backs of financial provisions. It breaks down as follows below:

Period *(In € millions)*	**From April 1, 2011 to December 31, 2011** *(9 months)*	**From April 1, 2010 to March 31, 2011** *(12 months)*
Interests on loans and other financial expenses [(1)]	(79)	(107)
of which related companies	*(15)*	*(21)*
Financial income from equity investment	9	-
of which related companies	*9*	*-*
Interests received on loans	11	13
of which related companies	*11*	*13*
Other financial income [(2)]	16	17
of which related companies	*5*	*6*
Allocation to provisions [(3)]	(74)	
Reversal of provisions	-	4
Loss on treasury shares sale		(2)
Total	**(117)**	**(75)**

(1) Of which interests on OCEANE €(25) million on December 31, 2011 and €(33) million on March 31, 2011, on bond €(35) million on December 31, 2011 and €(46) million on March 31, 2011, commission on guaranty delivered by Air France and KLM €(15) million on December 31, 2011 and €(21) million on March 31, 2011.
(2) Of which €12 million generated from the investment in mutual funds and deposit certificates on December 31, 2011 and €10 million on March 31, 2011 (see Note 9).
(3) Of which €(48) million on Compagnia Aerea Italiana SpA shares and €(26) million on treasury shares.

6. Non recurring income

March 31, 2011: loss on transfer of shares of former Alitalia company previously fully depreciated.

7. Income tax

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002. The consolidation scope, where Air France-KLM is the parent company, primarily includes Air France-KLM, Air France, regional French companies and, since January 1, 2005, 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 that it would have been in without consolidation.

The tax consolidation group benefits from tax losses that can be infinitely carried forward.

The subsidiaries that are beneficiaries of the tax consolidation scope paid Air France-KLM a tax consolidation bonus of €4 million for this financial year (€4 million on former financial year).

8. Long-term investments

8.1. Net book value

(In € millions)	Beginning of year	Acquisitions Capital increases	Provision Variation	End of year
Equity investments	4,200	-	-	4,200
Loan & receivable related to long term investment	386	401	-	787
Other long term investments	75	-	-	75
Gross amount	**4,661**	**401**	-	**5,062**
Depreciation	***39***	-	***71***	***110***
Net amount	**4,622**	**401**	**71**	**4,952**

Increase of loan & receivable related to long term investment concerns short term loans granted to Air France for €250 million, and KLM for €150 million.

8.2. Equity investments

Companies *(In € millions)*	Gross value at beginning of year	Acquisitions	Transfers or Sales	Gross value at end of year
Air France	3,060	-	-	3,060
KLM	817	-	-	817
Compagnia Aerea Italiana SpA	323	-	-	323
Total	**4,200**	-	-	**4,200**

Companies *(In € millions)*	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Compagnia Aerea Italiana SpA	-	48	-	48
Impairment	-	***48***	-	***48***
Net Value	**4,200**	-	-	**4,152**

8.3. Other financial investments

(In € millions)	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	39	23	-	62
Net Value	**36**	**23**	-	**13**

9. Marketable securities

(In € millions)	December 31, 2011 Net carrying amount	March 31, 2011 Net carrying amount
Treasury shares invested as part of the liquidity agreement subscribed with a bank	6	4
Mutual funds & deposit certificates	605	1,006
Money market fund (1)	11	15
Total	**622**	**1,025**

(1) Cash invested as part of a liquidity agreement, subscribed with a bank.

Net carrying amount of mutual funds and deposit certificates is market value.

10. Shareholders' equity

10.1. Distribution of share capital and voting rights

Fully paid capital comprises 300,219,278 shares with a €1 nominal value. Each share confers one voting right.

	% of capital		% of voting rights	
	December 31, 2011	March 31, 2011	December 31, 2011	March 31, 2011
French government	16%	16%	16%	16%
Employees and former employees (1)	10%	10%	10%	12%
Shares held by the Group	2%	2%	-	-
Public	72%	72%	74%	74%
Total	**100%**	**100%**	**100%**	**100%**

(1) Personnel and former employees identified in the fund or by a Sicovam Code

In April 2005, Air France issued a 15 years – €450 million *"Bond with an option of conversion and/or exchange for new or existing Air France - KLM shares"* (OCEANE).

Between April 2007 and March 2008 only 595 OCEANE were converted, including 510 converted into 525 new shares. As of December 31, 2011, 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. This transaction postpones until April 2016 the repayment option potentially exercisable on April 1, 2012.

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 (see Note 11). As of December 31, 2011, 8,916 OCEANE were converted into 8,916 existing shares, including 435 regarding fiscal year April 2011 – December 2011. The conversion ratio is one Air France-KLM share for one bond.

10.2. Statement of changes in shareholders' equity

Source of movements *(In € millions)*	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At March 31, 2010	***2,552***	***719***	***1,135***	***(33)***	***4,373***
Decrease of share nominal value	(2,252)	2,252	-	-	-
Allocation of earnings	-	-	(33)	33	-
Earnings for the period	-	-	-	(69)	(69)
At March 31, 2011	***300***	***2,971***	***1,102***	***(69)***	***4,304***
Allocation of earnings	-	-	(69)	69	-
Earnings for the period	-	-	-	(112)	(112)
At December 31, 2011	***300***	***2,971***	***1,033***	***(112)***	***4,192***

11. Financial debt

(In € millions)	December 31, 2011	March 31, 2011
Non current financial debt		
OCEANE (convertible bond)	661	661
Bond	700	700
Total non current debt	**1,361**	**1,361**
Current Financial debt		
OCEANE (convertible bond)	-	-
Bond	-	-
Accrued interest	33	53
Total current debt	**33**	**53**
Total	**1,394**	**1,414**

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%.

As of October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an interest rate of 6.75%.

A part of the bonds was lent, at the end of March 2010 at market interest rate, to KLM for €386 million and in December 2011 to Air France for €250 million and to KLM for €150 million.

12. Maturity of trade receivable and trade payable

At December 31, 2011 *(In € millions)*	Gross amount	Up to one year	More than one year	Related companies
Trade receivable				
Non current assets				
Loans and receivable related to long term investment	787	401	386	787
Current assets				
Trade receivables and related accounts	5	5	-	5
Other receivables (including tax receivables) (1)	8	8	-	7
Total	**800**	**414**	**386**	**799**

(1) Of which €5 million as accrued income with related companies.

At December 31, 2011 *(In € millions)*	Gross amount	Up to one year	More than one year	Related companies
Trade payable				
Financial debt (1)	1,394	33	1,361	-
Trade payables and related accounts	11	11	-	9
Taxes and social contributions due	1	1	-	-
Other payables	2	2	-	1
Total	**1,408**	**47**	**1,361**	**10**

(1) See Note 11. This amount includes €33 million of accrued interests (€53 million at March 31, 2011).

13. List of subsidiaries and equity investments

Companies or groups of companies *(In € millions)*	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held Gross	Carrying amount of shares held 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 cashed during the past financial year
Detailed information about each investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France) (1)	1,901	(1,490)	100%	3,060	3,060	250	18	11,016	(820)	-
KLM (Netherlands) (1)	94	2,464	99.1%	817	817	536	-	6,984	47	9
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA (1)	668	(189)	25%	323	275	-	-	3,478	(69)	-

(1) Statutory financial statements at December 31, 2011.
(2) Consolidated financial statements in Italian Gaap at December 31, 2011.

14. Estimated value of the portfolio

(In € millions)	Amount at beginning of year			Amount at end of year		
	gross carrying amount	net carrying amount	estimated value (1)	gross carrying amount	net carrying amount	estimated value (2)
Portfolio fractions valued						
Air France	3,060	3,060	3,460	3,060	3,060	2,827
KLM	817	817	2,657	817	817	2,556
Compagnia Aerea Italiana SpA	323	323	148	323	275	124

(1) Based for Air France and for KLM on IFRS net equity share at March 31, 2011 and for Compagnia Aerea Italiana SpA on IFRS net equity share at December 31, 2010.
(2) Based on IFRS net equity shares at December 31, 2011.

15. Items concerning related companies

(In € millions)		Amount	
Trade receivables & related accounts			5
of which	*Air France*	*4*	
	KLM	*1*	
Other receivables			7
of which	*Air France*	*5*	
	Other	*2*	
Trade payables and related accounts			9
of which	*Air France*	*1*	
	KLM	*8*	
Other payables			1

16. Commitments

KLM shares

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government will sell its cumulative A preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer occurs during the first three years following the business combination.

In the latter case, the foundation will issue, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates will confer to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (for 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 guaranties Société Air France commitments towards Aéroport de Paris regarding civil leases.

The guaranty has an absolute limitation of €18 million.

17. Litigation

Litigation concerning anti-trust laws

In the air-freight industy

a) Investigation of the anti-trust authorities

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 action in the air-freight industry.

The proceedings initiated in the United States, Australia and Canada resulted, during financial year 2008-09, in Plea Agreements made by Air France, KLM and Martinair with the appropriate agencies, and the payment of fines putting an end to those proceedings. As of December 31, 2011 discussions are underway with the Competition Commission of South Africa to conclude a settlement agreement which would result in the payment by the Group of a penalty of €1.8 million.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices – mainly concerning fuel surcharges. The Commission imposed an overall fine of €340 million on the Air France-KLM group companies.

As the Group's parent company, Air France-KLM was considered by the European Commission to be jointly and severally liable for the anti-competitive practices of which the Group companies were found guilty.

On January 24 and 25, 2011, the Group companies have filed an appeal against the decision before the General Court of European Union.

Since the appeal does not suspend the payment of the fines, the Group companies have chosen not to pay fine immediately, but to provide bank guarantees until a definitive ruling by the European Courts.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM, Air France and KLM a total fine of €8.8 million for anti-competitive practices previous from September 2004. This fine will not impact the financial statements of the Group given that provisions have already been booked. The Group companies have filed an appeal before the competent Court.

b) Civil actions

On September 19, 2011 the Group companies entered into a Settlement agreement with the Canadian plaintiffs achieving a final resolution of all claims in Canada. Under the settlement agreement the Group companies have paid an amount of CAD6.5 million (€4.6 million). This agreement is subject to the approval of the Ontario court.

The total amount of provisions as of December 31, 2011 amounts to €351 million for the whole proceedings.

18. Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not been recorded in the financial statements.

Litigations concerning anti-trust laws

These litigations have not been provisioned given that the Group is unable, given the current status of proceedings, to evaluate its exposure.

a) In the air-freight industry

a.1) Investigation of the anti-trust authorities

The proceedings in Switzerland and Brazil, are still ongoing as of December 31, 2011.

With regard to the revenues involved, these risks are not individually significant.

a.2) Civil Suits

Pursuant to the initiation in February 2006 of the various competition authority investigations, class actions were brought by forwarding agents and air-freight shippers in the United States and Canada against Air France, KLM and Martinair, and the other freight carriers. In addition, civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010.

United States

In the United States, the Group concluded a Settlement Agreement with the representatives of the class action in July 2010. The Settlement Agreement, under which the Group accepted to pay US$87 million, brings to a close all claims, lawsuits and legal proceedings in the past, present or future by plaintiffs seeking to obtain financial compensation from the Air France-KLM group for unlawful practices in freight transportation to, from or within the United States.

On March 14, 2011, The Court issued an order granting final approval of the Air France-KLM settlement with the class action plaintiffs. Prior to that date, pursuant to procedures established by the Court, 36 entities elected to be excluded from the settlement, which permits them to separately pursue claims, although only four of those were customers of Air France, KLM or Martinair.

With respect to those Air France and KLM customers who have chosen to be excluded, a portion of the settlement proportional to the revenue Air France and KLM received from those parties for a specified period as compared with Air France and KLM's overall revenue for that period will be segregated in a separate escrow. If claims by those parties, including written demands, are made against Air France and KLM, then the portion of the separate escrow attributable to the claiming parties will be transferred to Air France and KLM.

In 2011, written demands have been made to Air France and KLM by two customers. Consequently a portion of the escrow amount attributable to those customers, have been transferred to Air France and KLM.

Netherlands

In the Netherlands, KLM, Martinair and Air France have been summoned on September 30, 2010, to appear before the District Court of Amsterdam in a civil suit brought by a company named Equilib which states that it has purchased claims from 145 purchasers of airfreight services who allegedly suffered losses as a result of an anti-trust infringement in the European market between 2000 and 2006.

Equilib is seeking to obtain a declaratory judgment confirming that the Group companies have been guilty of unlawful conduct and are jointly and severally liable, along with other carriers, for the losses suffered by the airfreight purchasers. Equilib initially estimates its claims at €400 million. Sofar it has not substantiated its claim.

The Group companies served a contribution writ of summons on the other airlines fined by the European Commission on November 9, 2010 and simultaneously a claim to make these airlines join the proceedings. Latter claim was however denied by the court. Meanwhile some airlines have voluntarily joined the proceedings.

In addition, the Group asked to the tribunal of Amsterdam to stay the proceedings until a final decision will be made by the courts of the European Union concerning the recourse on annulment brought against the penalty decision of the European Commission.

In April 2011, the Group companies have filed a claim against Equilib with the Commercial Court of Paris requesting that Equilib be declared a fictitious company and, as such, be deemed as invalid.

Under a ruling made on January 31, 2012, the Commercial Court declared inadmissible the claim made by the Group companies. This decision can be appealed.

United Kingdom

In the United Kingdom, a civil suit has been filed with the competent court in the UK against British Airways by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group.

Australia

In the context of an ongoing class action proceedings instituted in 2007 against seven airlines (excluding the Air France-KLM group) in the Federal Court in Australia, cross claims have been filed against Air France, KLM and Martinair by Singapore Airlines (August 15, 2011), Cathay Pacific (August 15, 2011), Lufthansa (November 4, 2011), Air New Zealand (December 5, 2011) and British Airways (December 19, 2011). In the cross claims, the respondent airlines claim that if, despite their denial of the claims of wrongdoing in the class action, they are ordered to pay damages, they will seek contribution from the cross respondents including Air France. Air France has filed defences to these cross claims in which it denies that the respondent airlines are entitled to any contribution from Air France, in particular since Air France did not operate direct flights to or from Australia during the relevant period. It is unlikely that any trial in the class action proceeding will occur during 2012.

The Group companies intend to vigorously oppose all such civil actions.

b) In the air transport industry (passengers)

b.1) Investigation of the European Commission into the air transport industry (passengers) between Europe and Japan

Air France and KLM, like other air carriers, were subject on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission into possible anti-competitive agreements or concerted practices in the area of air transport services (passengers) between the States parties to the agreement on the European Economic Area and Japan.

On November 10, 2011, the European Commission informed Air France and KLM that this file had been closed.

b.2) Civil actions

During 2009, Air France and KLM were subpoenaed in a class action involving all the airlines operating transpacific routes between the United States and Asia/Oceania, on the basis of allegations of price-fixing on such routes.

Air France, which has only one transpacific route between the United States and Tahiti, and KLM, which is not involved on these routes, strongly deny these allegations.

Other litigations

a) KLM minority shareholders

On January 2008, the association Vereniging vzn Effectenbezitters (VEB) served KLM and Air France-KLM before the Amsterdam Civil Court claiming that KLM and Air France-KLM be ordered to pay to minority shareholders a higher dividend than the €0.58 per ordinary share paid for fiscal year 2007-08.

On September 1, 2010 the Court dismissed the case on the grounds that the dividend resolution met the test of reasonableness and fairness. VEB have appealed the Amsterdam Court decision.

On November 15, 2011 the Amsterdam Court of appeals upheld the decision.

Claimants have filled for cassation with the Netherlands Supreme Court on February 15, 2012.

b) Rio-Paris AF447 flight

Following to the crash of the Rio-Paris AF447 flight in the South Atlantic, a number of legal actions have been brought in the United States and Brazil and more recently in France by the victims' heirs.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash.

In the United States, all the proceedings have been consolidated in California before the Northern district Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and suggested that they pursue their claim in France.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalties of fines prescribed by law. Air France intends to challenge its implication in this case.

These penalties can not have a material effect on the financial situation of Air France.

The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

Except for the matters specified in the above paragraphs, the company is not aware of any dispute or governmental, judicial and arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the Group's financial position, earnings, assets, liabilities or profitability, during a period including at least the past twelve months.

19. Subsequent events

None.

5.9 Five-year financial summary

Year ended 31	December 2011 (9 months)	March 2011 (12 months)	March 2010 (12 months)	March 2009 (12 months)	March 2008 (12 months)
1. Share capital at year end					
Share capital ***(In €)***	300,219,278	300,219,278	2,551,863,863	2,551,863,863	2,551,863,863
Number of ordinary shares outstanding	300,219,278	300,219,278	300,219,278	300,219,278	300,219,278
Number of shares with a priority dividend	-	-	-	-	-
Maximum number of shares that may be created:					
♦ By bond conversion	78,617,176	78,617,611	78,619,501	22,609,143	22,609,143
♦ 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	(41,836)	(116,649)	(56,167)	105,885	228,076
Income tax	(3,938)	(3,712)	(5,601)	(6,767)	(5,496)
Employee profit-sharing for the year	-	-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(111,893)	(69,343)	(32,671)	62,639	198,183
Distributed net income	-	-	-	-	171,835
3. Per share data ***(In €)***					
Net income/(loss) after income tax and employee profit-sharing but before net depreciation, amortization and provisions	(0.13)	(0.39)	(0.17)	0.37	0.78
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(0.37)	(0.23)	(0.11)	0.21	0.66
Dividend per share	-	-	-	-	0.58
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

9-month ended December 31, 2011

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the 9-month period ended 31 December 2011, on:

- the audit of the accompanying financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the company as at December 31, 2011 and of the results of its operations for the 9-month period 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 consolidated financial statement were made in a context of an economic downturn and a liquidity crisis 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 2 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 8, 13 and 14 to the financial statements and satisfied ourselves as to their correct application.
- Notes 17 and 18 to the financial statements describes the nature of the anti-trust litigations to which Air France-KLM is exposed. Our work consisted in verifying that the information disclosed in these notes was appropriate.

These assessments were made as part of our audit of the financial statements, taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by French law, in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, when applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, March 26, 2012
The Statutory Auditors

KPMG Audit
Division of KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in the French language and is provided solely for the convenience of English speaking user. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.
This report also includes information relating to the specific verifications of information given in the management report and in the document addressed to the shareholders. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

5.11 Statutory Auditors' special report on regulated agreements and commitments

Shareholders' Meeting held to approve the financial statements for the 9-month period ended December 31, 2011

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 9-month period 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 period

Pursuant to Article L. 225-40 of the French Commercial Code, we have been informed that the following agreements and commitments were previously authorized by your Board of Directors.

Non-compete compensation

Director concerned:

Mr. Pierre-Henri Gourgeon, Chief Executive Officer of Air France-KLM until October 17, 2011.

Nature, purpose and terms and conditions:

In connection with the unforeseeable and early termination of the mandate of Mr. Pierre-Henri Gourgeon, on October 17, 2011, your Board of Directors decided to impose, based on the proposal of the Remunerations Committee, a non-compete obligation on the latter for a period of three years. In consideration for this obligation, the Board of Directors decided to allocate a €400,000 compensation to Mr. Pierre-Henri Gourgeon, subject to the law governing regulated agreements. He was subsequently paid this amount in October 2011.

A portion of this compensation was billed by Air France-KLM to Société Air France under the agreement provided for in section g. below.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments approved in prior years which remained in force during the period

Pursuant to Article R. 225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by Shareholders' Meetings of prior years, have remained in force during the period.

a) Agreement relating to the issuance by Air France-KLM of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

Pursuant to the authorization granted by your Board of Directors, in its meeting on June 17, 2009, Air France-KLM launched on June 18, 2009, an issuance of bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANEs) for a nominal amount of €661 million, maturing on April 1, 2015. To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Société Air France and KLM jointly, unconditionally and irrevocably guarantee the payment of all monetary amounts due by Air France-KLM in respect of these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Société Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Société Air France and KLM;

- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

At the end of December 2011, Société Air France invoiced your Company a €4,745,041 guarantee commission.

Pursuant to the secondary agreement organizing the terms and conditions of the credit facility, on December 6, 2011, Société Air France had drawn down €250 million. In respect of this transaction, your Company invoiced Société Air France interest in the amount of €578,680.56.

b) Agreement relating to the issuance by Air France-KLM of bonds

Pursuant to the authorization granted by your Board of Directors in its meeting on September 24, 2009, Air France-KLM launched, on October 14, 2009, a seven-year €700 million bond issue.

To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Société Air France and KLM severally, unconditionally and irrevocably guarantee the payment of half of all monetary amounts due by Air France-KLM in respect of these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Société Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Société Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

At the end of December 2011, Société Air France invoiced your company a €2,917,715 guarantee commission.

c) Commitment relating to the pension plan of the Chief Executive Officer of Air France-KLM

In its deliberation of January 15, 2004, your Board of Directors approved a separate collective pension scheme for Air France principal executives, including executive officers.

This pension scheme aims to guarantee these executives, once they fulfill the particular conditions for eligibility (notably 7 years' service with Société Air France), an annual pension benefit of between 35% and 40% of their average annual remuneration during the last three years of employment, with the amount capped, on any assumption, at 40% of average remuneration during the last three years.

On November 19, 2008, in an express decision taken in application of the "Breton" law of July 26, 2005, your Board of Directors confirmed that Mr. Pierre-Henri Gourgeon, in his new capacity as Chief Executive Officer as of January 1, 2009, would benefit from this defined benefit pension scheme under the same terms and conditions as the other beneficiary executives.

Following the termination of his mandate, Mr. Pierre-Henri Gourgeon decided to claim his pension entitlements during the 9-month period ended December 31, 2011.

d) Agreement between Air France-KLM and Société Air France (Aéroports de Paris guarantee)

On November 21, 2007, your Board of Directors authorized an agreement under which Société Air France agreed to compensate Air France-KLM for guaranteeing rental payments granted by the latter to Aéroport de Paris for the benefit of Société Air France.

On November 19, 2008, your Board of Directors renewed the authorization of this agreement which was agreed on March 30, 2009.

During the 9-month period ended December 31, 2011 and pursuant to this agreement, your Company recorded accrued income of €51,039 with Société Air France, which should be invoiced in February 2012.

e) Agreement entered into by Air France-KLM and Société Air France with respect to the issuance by Air France of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

Air France-KLM and its subsidiary Société Air France entered into an agreement in 2005 for the purpose of organizing the financial and legal relations between the two companies with respect to the issuance by Société Air France of bonds convertible and/or exchangeable for new or existing Air France-KLM shares.

The terms of this agreement stipulate:

- the remuneration paid by Société Air France to Air France-KLM in consideration for the option granted to bondholders to request the conversion of their bonds into Air France-KLM shares;
- should this option be exercised by a bondholder, the conditions in which Air France-KLM shall hand over new or existing shares (or a combination of both), and deliver to the centralizing agent the corresponding number of shares;
- the terms and conditions covering the payment by Société Air France to Air France-KLM of the amount corresponding to the value of the bonds that are to be converted or exchanged.

This agreement was authorized by your Board of Directors on April 13, 2005.

During the 9-month period ended December 31, 2011 and pursuant to this agreement, your Company recorded accrued income of €4,893,168 with Société Air France under this agreement, which should be invoiced in March 2012.

f) Trademark licensing agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into a licensing agreement for the "Air France-KLM" trademark.

This agreement was authorized by your Board of Directors on September 1, 2005.

During the 9-month period ended December 31, 2011, your Company invoiced Société Air France €8,438,228 with respect to this agreement.

g) Agreement relating to a portion of the remuneration paid to executive directors invoiced to Société Air France by Air France-KLM

The remuneration of Air France-KLM executive directors is invoiced to Société Air France based on the percentage of activity devoted to Société Air France.

This agreement was authorized by your Board of Directors on November 23, 2004.

On November 19, 2008, your Board of Directors renewed the authorization to invoice Société Air France for the remuneration paid to executive directors with a view to the separation of the Chairman and Chief Executive Officer functions as of January 1, 2009.

During the 9-month period ended December 31, 2011, your Company invoiced Société Air France €1,116,947.61 with respect to this agreement.

This agreement, and specifically the provisions applicable to Mr. Jean-Cyril Spinetta and Mr. Pierre-Henri Gourgeon, became null and void as from the termination of their respective mandates within Société Air France[1].

h) Service agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement in 2004 for the purpose of defining the conditions under which Société Air France will provide, at the request of Air France-KLM, technical and administrative support services to Air France-KLM. These accounting, administrative, legal and IT related services are invoiced at cost. They include a portion of the obligation relating to the supplementary collective pension scheme for the Chief Executive Officer based on the percentage of activity devoted to Air France-KLM, in accordance with your Board of Directors' decision on November 19, 2008.

This agreement was authorized by your Board of Directors on September 15, 2004.

During the 9-month period ended December 31, 2011, Société Air France invoiced your Company €1,704,087 with respect to this agreement.

i) Cash agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement in order to provide Air France-KLM with a credit line. This cash agreement bears interest at EONIA + 60 basis points.

This agreement was authorized by your Board of Directors on September 15, 2004.

As at December 31, 2011, the amount payable by your Company to Société Air France under this cash agreement was €0.

During the 9-month period ended December 31, 2011, your Company did not record any interest expense with respect to this agreement.

During the 9-month period ended December 31, 2011, in connection with cash investments, your Company collected income of €4,183.17 from Société Air France with respect to this agreement.

j) Domiciliation agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement for the domiciliation and use of the premises of the Air France-KLM registered office.

This agreement was authorized by your Board of Directors on September 15, 2004.

During fiscal period 2011, Société Air France invoiced your Company €195,550.32 with respect to this agreement.

Paris La Défense and Neuilly-sur-Seine, March 26, 2012

The Statutory Auditors

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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.

(1) Mr. Jean-Cyril Spinetta has not been an executive officer of Société Air France since November 16, 2011 and Mr. Pierre-Henri Gourgeon has not been an executive officer of Air France-KLM and Société Air France since October 17, 2011.

Other information

6

6.1 History

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM trans-Atlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

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.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Roissy-Charles de Gaulle, then to CDG 2 in 1982.

1976

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 increases 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 interest 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 by a joint-venture.

1996

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul/long-haul transfer platform at Roissy-Charles de Gaulle.

1997

Air France Europe is merged with Air France.

1999

Air France is listed for trading on the Monthly Settlement Market of the Paris Stock Exchange for the first time on February 22, 1999.

2000

Air France, Aeromexico, Delta Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001

Open Sky agreement signed between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

2002

SkyTeam is the only alliance in the world to benefit from antitrust immunity on its trans-Atlantic and trans-Pacific routes.

Creation of Air France-KLM, the leading European air transport group

2003

September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004

April 5: Air France launches its public exchange offer for KLM shares.

May 5: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange.

May 6: Privatization of Air France with the transfer of the majority of its shares to the private sector involving the dilution of the French State's shareholding.

September 15: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries, Air France and KLM.

KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December 9: The French State reduces its shareholding from 44% to 23% by selling shares in the market.

2005-06

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 reserved to Air France employees.

First-time adoption of IFRS.

Air France issues 21,951,219 convertible bonds (OCEANEs), convertible at any time into Air France-KLM shares, raising €450 million.

2006-07

Creation of the solidarity tax paid on departure from French airports.

An attempted terrorist attack at Heathrow airport leads to the introduction of new security measures for flights departing from European hubs.

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 OTC Market (OTCQX).

Air France-KLM enters the CAC 40.

Successful launch of the leisure subsidiary, Transavia France, operating out of Paris Orly.

Emergence of the sub-prime crisis in the United States. The increasing severity of the crisis leads to a crisis of confidence in the banking sector and turbulence in the financial markets.

The warrants for new or existing shares (BASAs) issued at the time of the share exchange offer for KLM and arriving at maturity are converted, leading to the creation of 19.6 million new shares. In total, 99.3% of the warrants are converted, raising a total of €597 million.

Having unveiled its offer for Alitalia in December 2007, Air France-KLM notes the breakdown of negotiations in April 2008.

2008-09

The US Department of Transportation grants Air France, KLM, Delta and Northwest anti-trust immunity with the obligation to establish a sole trans-Atlantic joint venture between these four airlines before the end of 2009.

The Air France-KLM Board of Directors decides to separate the functions of Chairman of the Board of Directors and Chief Executive Officer effective January 1, 2009.

The oil price reaches a record high of $146.08 a barrel.

The collapse of the US bank Lehman Brothers unleashes the financial crisis in September 2008.

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.

Air France-KLM launches a €661 million issue of bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) maturing on April 1, 2015 and €700 million of plain vanilla bonds with a seven-year maturity.

Air France-KLM shares are transferred from the CAC 40 to the CAC Next 20.

Air France operates its inaugural flight to New York on board the Airbus A380.

The Group redefines its medium-haul product and implements the restructuring of the cargo business and a voluntary departure plan at Air France.

2010-11

In April 2010, the eruption of the Icelandic volcano leads to the shut-down of the European air space, grounding most European airlines for a period averaging six days.

SkyTeam is strengthened by the announcement that the Taiwanese carrier China Airlines, Aerolinas Argentinas, Garuda Indonesia, Saudi Arabian Airlines and Middle-East Airlines all plan to join the alliance.

The political crises in the Middle East and Africa, together with the earthquake followed by a tsunami in Japan weigh significantly on the Group's activity to and from these regions where it has a strong commercial presence.

6.2 General information

Corporate name

Air France-KLM

Registered office

2, rue Robert-Esnault-Pelterie, 75007 Paris

Mailing address

45, rue de Paris, 95747 Roissy-CDG Cedex

Tel: +33 1 41 56 78 00

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 bylaws)

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

Air France-KLM legal and corporate documents may be consulted at 45, rue de Paris, 95747 Roissy-CDG Cedex, or on request by calling +33 1 41 56 88 85.

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 and IT services are invoiced at cost price. These agreements were approved by previous Shareholders' Meetings (*See also Section 5 – Statutory Auditors' special report on regulated agreements and commitments*).

6.3 Information relating to the share capital

6.3.1 Share capital

At December 31, 2011, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

The General Shareholders' Meeting of July 8, 2010 voted to reduce the nominal value from €8.5 to one euro. The share capital was thus reduced from €2,551,863,863 to €300,219,278 and the amount of the capital reduction allocated to additional paid-in capital.

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

Authorizations to increase the capital

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

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

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.

A total of 595 bonds have been converted since June 1, 2005, reducing the number of outstanding convertible bonds to 21,950,624 at December 31, 2011. On December 6, 2011, Air France signed a swap agreement with Natixis for a four-year period. To cover this agreement, Natixis purchased in the market between December 7 and December 13, 2011, inclusive, 18,692,474 OCEANEs, i.e. around 85.16% of the amount originally issued. This operation has enabled Air France to defer until April 2016 at the earliest the €383.2 million repayment. Following this procedure, the 3,258,150 OCEANEs not having been purchased by Natixis remain subject to the repayment option potentially exercisable at the discretion of the holders on April 1, 2012. (*see also Section 5 — Investments and financing, page 132)*.

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

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

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

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

The aims of the buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the sale of the shares to the Group's employees or senior executives and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition. Pursuant to this authorization, at December 31, 2011, Air France-KLM held 4,408,876 shares, of which 1,450,000 within the framework of the liquidity agreement and 114,181 for the balance of the 1998 Shares-for-Salary Exchange.

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

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

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

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

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

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

6.3.4 Shareholder structure

Breakdown of the share capital and voting rights

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

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

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM carries out a shareholder identification procedure on a quarterly basis.

The TPI (identifiable bearer shares) analysis as at December 31, 2011 was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 96.9% of the capital were identified and 118,372 shareholders listed including 102,223 individual shareholders. Based on the TPI analysis of December 31, 2011, restated pursuant to article 14 of the bylaws which defines French residence, Air France-KLM is more than 50% held by French shareholders and, consequently, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met, the majority of the company's voting rights being held by shareholders and foundations subject to Dutch law.

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

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

No declaration of shareholding by a member of an administrative or management body in respect of the applicable national legislation has been received by the company.

The members of the Board of Directors hold less than 0.5% of the share capital.

Shareholders' pacts

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

Dividend policy

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

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

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

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

6.3.5 Legal and statutory investment thresholds

Pursuant to Article L. 233-7 of the French Commercial Code, article 13 of the Air France-KLM bylaws 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 and voting rights is acquired or disposed up to 50%.

In the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder (whether acting alone or in concert) acquiring more than 2% of Air France-KLM's share capital or voting rights is required to transfer these securities to registered form within 15 days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

The aforementioned obligations under the bylaws 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 being exceeded.

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

6.3.6 Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

The Shareholders' Meeting of September 25, 1998 authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at Shareholders' Meetings. Pursuant to articles L. 6411-2 to 5 and L. 6411-8 of the Code of Transport, as amended by the French law of April 9, 2003, listed French air transport companies are authorized to include a provision in their bylaws 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 bylaws set the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. Thus, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors can decide to reduce this 2% threshold to 10,000 shares.

Air France-KLM publishes a notice informing the shareholders and the public that non-French shareholders as defined by article 14 of the bylaws 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 bylaws represent, directly or indirectly, more than 45% of Air France-KLM's capital or voting rights on a long-term basis, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form.

Article 10 of the Air France-KLM bylaws specifies the information that must be provided to Air France-KLM by shareholders, whether they be 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 bylaws 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 bylaws 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

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 Next20 component.

Since February 2008, Air France-KLM's ADR program (American Depositary Receipt) has been traded on the OTC Market (OTCQX) under the ticker AFLYY.

The Reuters Code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF PA.

The OCEANE 2.75% 2020 is listed for trading under the ISIN code FR0010185975 and the OCEANE 4.97% 2015 is listed for trading under the ISIN code FR0010771766 on Euronext Paris.

6.4.1 Transactions in Air France-KLM shares over the last 18 months

Air France-KLM shares

Euronext Paris Shares	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume	Amount *(In €m)*
2010						
September	22	11.222	11.830	10.225	32,055,563	360.5
October	21	12.385	13.670	10.880	46,401,993	578.9
November	22	13.540	14.330	12.755	50,643,188	689.4
December	23	13.953	14.600	13.515	41,631,937	583.9
2011						
January	21	14.194	15.300	12.930	55,342,720	780.5
February	20	12.635	13.890	11.400	84,031,684	1,041.9
March	23	11.627	12.190	10.910	78,293,893	908.7
April	19	11.566	11.970	11.160	36,951,356	427.4
May	22	11.857	12.350	11.265	59,538,124	708.0
June	22	10.626	11.700	9.967	58,435,766	619.5
July	21	9.736	10.960	8.390	67,089,718	644.4
August	23	6.802	8.690	5.926	107,550,060	745.4
September	22	5.878	6.940	5.017	104,092,592	616.8
October	21	5.457	6.098	4.707	96,505,602	523.3
November	22	4.409	5.490	3.414	107,598,289	465.1
December	21	4.077	4.577	3.800	63,767,366	273.8
2012						
January	22	4.466	5.189	3.791	92,703,474	413.9
February	21	4.801	5.358	4.250	83,030,131	396.7

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
2010					
September	22	20.667	21.000	20.500	1,837
October	21	21.000	21.000	21.000	5,867
November	22	21.317	21.500	21.200	365
December	23	21.650	21.750	21.500	133
2011					
January	21	-	-	-	-
February	20	-	-	-	-
March	23	21.500	21.500	21.500	300
April	19	19.523	20.950	18.810	5,289
May	22	-	-	-	-
June	22	18.840	19.000	18.820	125
July	21	20.500	20.500	20.500	1,000
August	23	20.500	20.500	20.500	19,210
September	22	20.500	20.500	20.500	99
October	21	20.500	20.600	20.400	1,080
November	22	20.470	20.470	20.470	50
December	21	20.791	21.000	19.800	460,572
2012					
January	22	19.800	19.800	19.800	820
February	21	-	-	-	-

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	Low	Volume
2010					
September	22	14.857	15.250	14.030	36,725
October	21	15.348	16.500	14.200	23,820
November	22	16.390	16.940	15.640	24,809
December	23	16.250	16.700	15.650	9,501
2011					
January	21	16.995	18.450	16.000	4,144
February	20	15.641	16.250	14.010	2,355
March	23	15.208	15.750	14.800	6,796
April	19	14.708	15.100	14.510	1,898
May	22	14.431	15.200	14.030	2,821
June	22	13.653	14.000	13.250	1,650
July	21	13.535	14.950	13.290	2,475
August	23	12.169	12.750	11.800	34,054
September	22	11.701	12.400	11.420	38,220
October	21	11.419	11.790	11.000	65,072
November	22	11.098	11.890	10.000	42,261
December	21	10.858	11.490	10.450	69,798
2012					
January	22	10.794	11.290	10.420	170,827
February	21	11.447	11.900	11.060	128,942

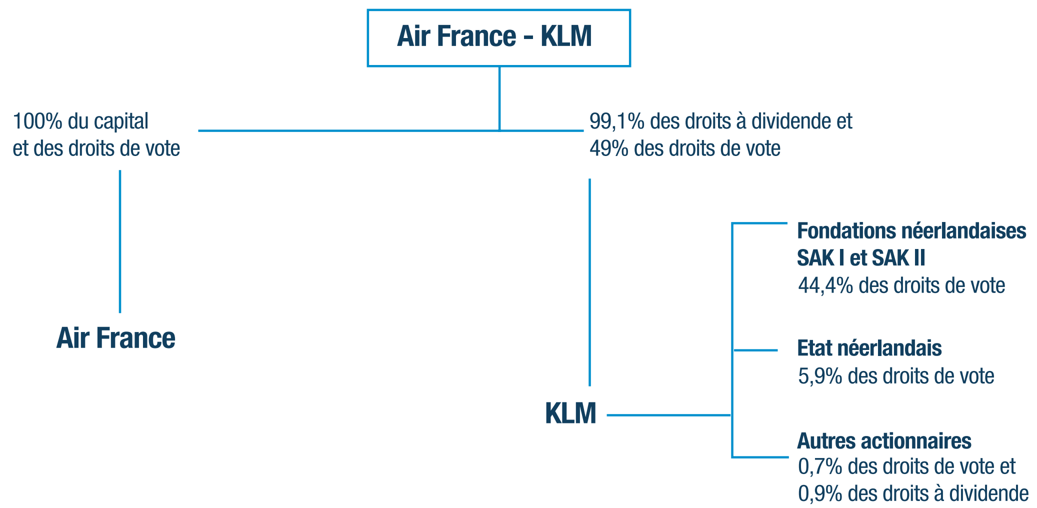
Source: Market Map.

6.5 Information on the agreements concluded in connection with the business combination between Air France and KLM

In connection with the agreements concluded between Air France(1) and KLM for the creation of the Air France-KLM group(1), various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.

6.5.1 Agreements relating to the KLM shareholding structure

At December 31, 2011, Air France-KLM holds 93.4% of the economic rights and 49% of the voting rights, the Dutch foundations 44.4% of the voting rights and the minorities 0.7% of the voting rights and 0.9% of the dividend rights of KLM. Air France-KLM is entitled to 99.1% of any dividend paid on KLM's ordinary shares.



KLM set up two Dutch foundations, SAK I and SAK II, to handle the administration of KLM shares transferred as part of the business combination operations together with the KLM shares acquired by Air France-KLM. SAK I and SAK II are each managed by Boards of Directors comprised of three members. One member is appointed by Air France, one by KLM and the third, acting as Chairman, is appointed by the first two. The majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be Dutch nationals and reside in the Netherlands. Board decisions are taken unanimously. In return for the shares transferred to SAK I and SAK II, Air France-KLM received share certificates enabling it to benefit from all the economic rights associated with the underlying shares. SAK I and SAK II, however, retain the voting rights attached to these shares.

These voting rights are exercised by the members of the SAK I and SAK II Boards of Directors in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France, in the best interests of KLM, Air France-KLM and its shareholders.

Initially established for a three-year period, further to an agreement of April 2, 2007 between Air France-KLM and KLM, the two foundations SAK I and SAK II were maintained for an unspecified period with the same purpose. However, this agreement stipulates that Air France-KLM may, at any time after May 6, 2007, end this administered shareholding structure for the KLM shares held by SAK I and SAK II and proceed to consolidate the economic rights and voting rights on the shares.

(1) Air France-KLM when it concerns the holding company and Air France when it concerns the company.

6.5.2 Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France and KLM concluded the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France-KLM. As such, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I in the name and for the account of Air France-KLM as long as this foundation is maintained. In the second case, SAK I will issue share certificates for Air France-KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France-KLM the sole economic right attached to these shares, i.e. a right to a reduced dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France-KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were sold by the Dutch State to SAK I for the account of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period, Air France-KLM had the right to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with such an exchange.

The Dutch State also benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France-KLM at any time.

Option for the Dutch State to subscribe for preferential KLM B shares and the related agreements

This option granted to the Dutch State lapsed in May 2010.

6.5.3 Assurances given to KLM and the Dutch State

Assurances given to the Dutch State

On October 16, 2003, Air France and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

According to the terms of the assurances given to the Dutch State, Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licenses, and will continue to fulfil all of the conditions required for the maintenance of these licenses.

In cooperation with the competent Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are required to operate international lines.

To this end, if an economic decision to shut a service down were likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision.

Air France and KLM confirmed that passenger traffic on flights departing from Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Group and that Air France-KLM will operate a multi-hub system in Europe based on these two airports.

Air France and KLM agreed that the cargo activities at the Roissy-CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group. Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

Pursuant to an agreement concluded on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to extend the assurances given to the Dutch State beyond May 5, 2012 and for an indefinite period, subject to Air France-KLM's right to terminate this with nine months' notice.

Assurances given to KLM

The assurances given to KLM have been null and void since May 6, 2009.

6.5.4 Mechanism to ensure compliance with the assurances given

Air France and KLM set up a Dutch foundation, the Fondation des Assurances KLM, in order to facilitate the formation of binding advices on the interpretation of the assurances given to the Dutch State and KLM. The Fondation des Assurances KLM comprises two committees, which issue binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France Board of Directors appear to contravene the assurances given to the Dutch State or KLM. The Fondation des Assurances KLM was established for a period of eight years through to May 6, 2012, subject to a possible contravention of the assurances not having been referred to one of the committees on this date. In this case, the Fondation des Assurances KLM will only be liquidated after having given its opinion on the alleged contravention.

When giving its opinions, the Fondation des Assurances KLM must act in the best interests of KLM, the Air France-KLM group and its shareholders. The Foundation is managed by a Board of four independent directors:

- one appointed by Air France;
- one appointed by KLM;
- one appointed by the Dutch State; and
- one appointed by the other three directors.

The director appointed by Air France has double voting rights with regard to the appointment of the fourth director.

Since May 6, 2009, the date on which the assurances given to KLM became null and void, there has been only one committee within the foundation which is responsible for the respect of the assurances given to the Dutch State.

Notices relating to a possible contravention of the assurances given to the Dutch State will be issued by a committee comprising the director appointed by Air France, the director appointed by the Dutch State and the director appointed by the other directors.

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 Board of Directors may be made by the Dutch State with regard to the assurances given to it.

If the committee of the Fondation des Assurances KLM issues a mandatory notice indicating that the decision submitted to it contravenes the assurances given, the KLM Supervisory Board, the KLM Management Board or the Air France 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, 2011, no cases had been submitted to the Foundation's Committee.

6.6 Information relating to the agreements concluded with Alitalia Compagnia Aerea Italiana (Alitalia-CAI)

Alitalia-Compagnia Aerea Italiana (Alitalia-CAI) is a new legal entity incorporated under Italian law established by some twenty Italian corporate bodies and individual shareholders, to acquire part of the aviation activities of Alitalia Linee Aeree Italiane (Alitalia-LAI), a company in legal liquidation since September 2008.

In December 2008, Alitalia-CAI acquired, from the liquidator, a portion of Alitalia-LAI's airline and non-airline assets and recruited some of this company's workforce. In addition, at the end of December 2008, Alitalia-CAI acquired the airline Air One, the number two operator in the Italian domestic market.

Pursuant to a series of agreements concluded on January 12, 2009, within the framework of a reserved capital increase at Alitalia-CAI, Air France-KLM acquired a 25% shareholding in this company in return for an investment of €323 million, a sum which was paid in full on March 25, 2009 after the fulfilment of the conditions precedent.

In addition to the investment agreement, four additional agreements were concluded between Air France-KLM and Alitalia-CAI:

- an industrial and commercial agreement known as the Partnership Agreement;
- an agreement relating to Alitalia-CAI's membership of the SkyTeam alliance;
- an agreement relating to the change in Alitalia-CAI's bylaws notably in terms of governance and shareholders' rights;
- a call option agreement in addition to the aforementioned changes in the bylaws.

Partnership agreement

Under the terms of this eight-year agreement, Air France-KLM and Alitalia-CAI agreed to maximize the synergies that they have identified in the different areas, particularly in terms of cooperation on the routes between France and Italy, the feeding of their respective hubs, intercontinental routes, frequent flyer programs and sales and distribution.

In order to ensure the full effectiveness of the agreement, the companies have established governance bodies and appointed a Partnership Manager to be responsible for preparing the annual or multi-year actions plans, establishing the monthly reports and, more generally, for monitoring the implementation of the decisions taken by the governance bodies.

The first Partnership Manager, who is a senior executive of Air France-KLM, was appointed in January 2009 for a three-year period, renewable once, and is based in Italy.

Agreement covering the change in the Alitalia-CAI bylaws

Governance

Since March 26, 2012, Air France-KLM's representation has been proportional to its shareholding in Alitalia-CAI with four of the company's Board directors (three previously) out of a total of 19 members of the Board.

In addition, Air France-KLM is represented by two out of a total of nine members of the Alitalia-CAI Executive Committee, the body to which the Board of Directors has delegated part of its powers in line with Italian law.

Ordinary shares and B shares

Only the company Air France-KLM holds B shares which carry the same economic and voting rights as the ordinary shares held by the Italian shareholders. Furthermore, the B shares give their holders a number of specific rights, notably in terms of representation on the Board of Directors and a right to withdraw from the company.

Pre-emption right

The bylaws provide for a four-year lock-up period for the shares. Until January 12, 2013, holders of the ordinary shares may not sell their shares to third-parties or to Air France-KLM.

Between January 13, 2013 and October 28, 2013, the sale of the ordinary shares and the B shares is authorized between shareholders or to a third-party, but only on condition that the other shareholders have not exercised their pre-emption rights and, in the event of a sale to a third party, prior approval has been given by the Board of Directors. After October 28, 2013, the shares may be sold with a pre-emption right for all shareholders.

Withdrawal right and redemption of the B shares

Air France-KLM benefits from a withdrawal right from Alitalia-CAI particularly if, on its own initiative, Alitalia-CAI terminates the partnership agreement. Symmetrically, Alitalia-CAI is entitled to redeem the B shares held by Air France-KLM, particularly were the level of synergies anticipated within the framework of the partnership agreement not to be achieved at the end of three years.

Mandatory tender offer

If a shareholder reaches more than 50% of the Alitalia-CAI share capital, the other shareholders have a put option at a market price to be established by an expert appraiser and payable in cash.

However, this put option is not exercisable in the event that one shareholder, holding less than 50% of the share capital, were to launch a purchase offer (in shares or in cash) open to all shareholders. In this case, the offer must be accepted by at least 51% of the Alitalia-CAI shareholders each owning more than two million shares and holding, in aggregate, at least 51% of the company's shares, excluding the initiator of the offer.

The initiator of the offer may decide not to proceed with the offer if the percentage of the shares tendered does not amount to at least 67% of the total number of shares, including the shares already held by the initiator.

Voting in the Shareholders' Meeting

It is stipulated in the bylaws that, for the adoption of the most important resolutions, an 80% majority is required.

6.7 Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after ratification.

6.7.1 Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the “transit right”;
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;
- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

6.7.2 European legislation

Single European air space

Within the European Union, these eight freedoms have been supplemented, since April 1, 1997, by common legislation that creates a homogeneous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European air space. Furthermore, any resident of an EU Member State may hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework eliminates the need for bilateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Open Skies agreement between Europe and the United States

On March 22, 2007, the European Union Council of Ministers unanimously approved the air transport agreement established on March 2 between the European and US negotiators. This agreement, which introduces a broad degree of liberalization in air services between the European Union and the United States, offering numerous commercial opportunities to US and EU carriers, was signed on April 30, 2007 at the summit between the European Union and the United States. It came into force on March 30, 2008. The agreement replaces the so-called Open Skies bilateral agreements, signed by the majority of EU Member States with the United States, certain provisions of which the European Court of Justice had deemed contrary to Community law. The authorized agreement thus constitutes the recognition by the EU’s major aviation partner of the concept of an EU airline.

A second phase of negotiations opened in May 2008 to cover, notably, a new liberalization of access to the market, the definition of a new policy in terms of ownership and control of the US carriers, issues relating to the environment as well as limitations which could exist in terms of access to airport infrastructure.

At the end of eight rounds of negotiations between the representatives of the European Commission and the United States a so-called second stage agreement was reached between the European and US negotiators on March 25, 2010 that was signed on June 24, 2010 in Luxembourg. With this new agreement, European Union airlines can now:

- operate flights to the United States from any European airport, irrespective of their nationality (the United States recognizes their European nature);
- operate an unrestricted number of flights, aircraft and routes;
- set prices as a function of the market;
- sign cooperation agreements.

At the level of investment in third-party countries by Europeans, the airlines of some third-party countries (European countries outside the European Union and 18 African countries) can also be the subject of European Community investment with no risk to their traffic rights towards the United States. Similarly, the United States will not call into question the flights of European Community airlines if European countries outside the European Union invest in their share capital.

The agreement also enables closer US-EU cooperation on aviation safety, security, competition policy, State aid, consumer protection and the environment.

In terms of airline ownership, the new agreement enables Europeans to hold more than 50% of the total share capital of US airlines but does not, however, allow them to take control. Pursuant to US law, the voting rights on the shares of a foreign investor in a US airline are capped at 25% and control over the latter is not permitted. The European carriers thus reserved the right to cap US investment in European airlines at the same level.

Passenger rights

Passenger rights in the European Union relating to flight delays, cancellation and refused boarding are defined by EC Regulation no.261/2004 which came into force in 2005 and applies to all flights, whether scheduled or unscheduled, departing from an airport located in a Member State of the European Union. The regulation establishes common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading.

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 of between €250 and €600, calculated based on the final destination mileage zone and the delay in terms of the initial arrival time. In addition, if a flight is delayed for at least five hours, passengers may request the reimbursement of their ticket (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. On November 19, 2009, the European Court of Justice ruled (Sturgeon ruling) that passengers on delayed flights could be assimilated with those on cancelled flights for the purposes of the application of the right to financial compensation. They could thus invoke the right to financial compensation provided in article 7 of this Regulation when arrival at their final destination was subject to a delay of at least three hours relative to the arrival time initially foreseen.

French jurisprudence is, however, very clear in this regard: EC Regulation no.261/2004 provides for no financial compensation in the event of a flight delay. This means that only a legislative redrafting of the overall framework of the Regulation could make such financial compensation mandatory in the event of delay.

At the request of IATA and three airlines (British Airways, easyJet and TUI) who are challenging the application of this ruling by the UK Civil Aviation Authority, the UK High Court of Justice has asked that a series of questions be referred back to the European Court of Justice aimed at clarifying the application of the compensation in the event of substantial delay.

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 exceptional circumstances), the passenger may claim compensation varying from €250 to €600, on the basis of 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. Note that the US authorities have adopted a Regulation reinforcing passenger rights in this area. This Regulation came into force on May 19, 2008, doubling the compensation to between US$400 and US$800.

In the United States, a new airline passenger protections Regulation came into force on August 23, 2011 (the application date for airlines having been delayed until January 24, 2012). This Regulation provides 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. This Regulation also aims to strengthen the disclosure requirements from carriers, particularly in terms of advertised fares and baggage policy, but also covers the banning of any post-purchase price increases, the option to cancel a reservation with no penalty for 24 hours after the reservation is made and passenger notification of any changes in flight status.

Within the European Union, the rights of air passengers with reduced mobility are defined by EC Regulation no. 1107/2006 “concerning the rights of disabled persons and persons with reduced mobility when travelling by air”, which has been fully applicable since July 2008.

This Regulation establishes the rules aimed at protecting disabled persons and persons with reduced mobility from discrimination and providing them with the appropriate assistance. Its provisions require the entity managing an airport to ensure that assistance is provided on the ground either by itself or by a third-party service provider. Pursuant to this regulation, air carriers are also required to provide assistance on board aircraft.

Lastly, passenger rights relating to the identity of the effective carrier are set forth in EC Regulation no. 2111/2005 of December 14, 2005. This Regulation foresees the establishment of a list within each Member State indicating the identity of air carriers that are banned from operating flights in this State or whose traffic rights are subject to restrictions (so-called black list). It also makes it mandatory for carriers to inform passengers of the identity of the effective air carrier for the relevant flight.

6.7.3 International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transportation: the Montreal Convention, the Chicago Convention and the Rome Convention.

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.

6.7.4 Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. A European regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). In Asia, the allocation of slots is generally done on the basis of recommendations made by IATA (Bangkok, Tokyo, Hong Kong, Singapore, etc.). In the United States, with the exception of New York and O'Hare Airport (Chicago) this procedure is replaced with a system based on the assignment of boarding gates.

For airports within the European Union, each Member State with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organisations and the airport authorities, designates a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

6.8 Information and control

6.8.1 Person responsible for the Registration Document and for the annual financial report

Jean-Cyril Spinetta, Chairman and Chief Executive Officer.

6.8.2 Certification by the person responsible for the Registration Document

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions to this effect, the information contained in this Registration Document reflects reality and that nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the company and all the companies within the consolidation scope, and that the information contained in the management report figuring on pages 6 to 34, 36 to 41, 51 to 53, 56 to 57, 62, 63 to 64, 66 to 72, 74 to 94, 98 to 127, 138 to 147 and 270 to 274 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 nine-month financial year ended December 31, 2011 included in this Registration Document were the subject of a Statutory Auditors' report figuring on pages 245 to 246.

The consolidated financial statements for the year ended March 31, 2011 included in the Registration Document filed with the AMF on June 15, 2011 under registration number D.11-0579 were the subject of a Statutory Auditors' report figuring on pages 224 to 225 which contains an observation relating to the existence of new IFRS standards and interpretations applied by the company Air France-KLM S.A. since April 1, 2010.

The consolidated financial statements for the year ended March 31, 2010 included in the Registration Document filed with the AMF on June 10, 2010 under registration number D.10-0520 were the subject of a Statutory Auditors' report figuring on pages 217 and 218 which contains an observation relating to the existence of new IFRS standards and interpretations applied by the company Air France-KLM S.A. since April 1, 2009.

Jean-Cyril Spinetta
Chairman and Chief Executive Officer

6.8.3 Statutory auditors

Incumbent Statutory Auditors

Deloitte et Associés

185, avenue Charles-de-Gaulle – 92200 Neuilly-sur-Seine
represented by Dominique Jumaucourt

Starting date of first mandate: September 25, 1998

Renewed for a six-year period by the Shareholders' Meeting of July 8, 2010.

KPMG Audit

A division of KPMG SA
1, cours Valmy – 92923 Paris-La Défense

represented by Valérie Besson and Michel Piette

Starting date of first mandate: September 25, 2002

Renewed for a six-year period at the Shareholders' Meeting of July 10, 2008.

Deputy Statutory Auditors

B.E.A.S.

7/9, Villa Houssaye – 92200 Neuilly-sur-Seine
represented by William Di Cicco

Starting date of first mandate: September 25, 1998

Renewed for a six-year period by the Shareholders' Meeting of July 8, 2010.

Denis Marangé

1, cours Valmy – 92923 Paris-La Défense
Starting date of first mandate: July 10, 2008

Appointed for a six-year period at the Shareholders' Meeting of July 10, 2008.

6.8.4 Person responsible for financial information

Dominique Barbarin

Financial communication department

Tel: +33 1 41 56 88 60

6.8.5 Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably:

- the 2011, 2010-11, 2009-10, 2008-09 and 2007-08 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 bylaws.

Glossaries

Air transport glossary

AEA
Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)
Total number of seats available for the transportation of passengers multiplied by the number of kilometres traveled.

Available ton-kilometers (ATK)
Total number of tons available for the transportation of cargo, multiplied by the number of kilometres traveled.

Biometry
Technique enabling the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Coordinated airport
Airport where a coordinator has been appointed to allocate landing and take off slots according to rules established in advance. All large European Union airports are coordinated.

Cabotage
Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity
Capacity is measured in available seat-kilometers.

Catering
In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Code share
In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Code sharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as free flow, the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi
Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Connecting traffic
Traffic between two destinations which are not linked by a direct flight.

DGAC
Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL
Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services
Range of ground services offered by Air France and KLM to their passengers, based on the new information technologies. E-services notably enable passengers to check in using self-service kiosks or *via* the airlines' websites as well as the use of electronic tickets.

EASA
European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticket
All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces a traditional paper ticket.

Equivalent available seat-kilometer (EASK)
Overall measure of production for the Air France-KLM group after conversion of cargo tons into equivalent available seats.

Equivalent revenue passenger-kilometers (ERPK)

Overall measure of the Air France-KLM group's traffic after conversion of cargo tons into equivalent revenue passenger-kilometers.

Fare combinability

System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's Schiphol hub and a journey with an onward flight connection at Air France's Roissy-Charles de Gaulle hub. With fare combinability, customers benefit from a choice of more frequencies *via* one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

FAA

Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

High contribution

Fare classes corresponding to business or first class.

Hub

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with various commercial and financial support services.

IATA year

Financial year which runs from April 1 to March 31 of the following year.

ICAO

The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation world-wide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from world-wide destinations.

Over-reservation or over-booking

Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, this allows many passengers per year to find a seat on board aircraft by freeing up additional seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic

Traffic between two airports, excluding passengers prolonging their trip with a connecting flight.

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operation and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening, and the screening and questioning of passengers.

Summer season
Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Self-service check-in kiosk
Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment
Section of a flight between two destinations. The number of passengers is calculated by segment carried.

Slot
A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet
All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.).

Ton-kilometers transported
Total number of tons transported multiplied by the number of kilometer covered.

Traffic
Traffic is measured in revenue passenger-kilometers.

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.

Adjusted net debt
Adjusted net debt comprises net debt and the amount resulting from the capitalization of operating leases (7x the annual charge).

ADR
American Depositary Receipt. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. The Air France-KLM level 1 ADR program is traded on the OTCQX Market.

Earnings per share
Net income divided by the average number of shares for the period.

EASK (revenue and expense)
The EASK or equivalent available seat-kilometer is an overall indicator of the Group's air transport activity. Given the weight of the passenger business (including the leisure business), the metrics for the cargo business (ATK and RTK) are converted into the ASK and RPK metrics used in the passenger business. Unit revenue per EASK corresponds to the revenues generated by the passenger and cargo businesses divided by the number of EASK. Unit cost per EASK corresponds to the net costs divided by the number of EASK. The net costs correspond to the difference between the revenues from transportation and the adjusted operating result.

EBITDA
Earnings before interest, taxation, depreciation and amortization.

EBITDAR
Earnings before interest, taxation, depreciation, amortization and operating leases. This metric facilitates comparison between companies with different aircraft financing policies.

Fuel hedging
Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price. Two types of financial products, options and swaps, are used in this type of mechanism.

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
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 its capital employed and thus of its profitability.

Revenues

Revenues corresponds to the total sales generated by the Air France-KLM group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales.

Share capital

Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

SSE

Shares-for-Salary Exchange. In connection with the French State's sale of Air France-KLM shares, employees were offered shares in exchange for a salary reduction over a six-year period.

Stockholders' equity

Stockholders' equity represents the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

TPI

Titre au Porteur Identifiable or identifiable bearer shares. TPI analysis enables a company to identify its shareholders holding stock in bearer form.

Tables of concordance

This concordance table uses the sections required by European Commission Regulation (EC) no. 809/2004 ("the Regulation") of April 29, 2004 and provides the page numbers in this document for the information relating to each of these sections.

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No.	Information based on Annex 1 of the Regulation	Page
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Information included by reference

Pursuant to article 28 (EC) no. 809/2004, the following information is included by reference in this Registration Document:

2010-11 financial year

The Registration Document for the 2010-11 financial year was filed with the *Autorité des marchés financiers* on June 15, 2011 under the registration number D.11-0579. The consolidated financial statements are presented on pages 138 to 223 and the related Statutory Auditors' report on pages 224 and 225. The full statutory financial statements can be found on pages 226 to 238 and the related Statutory Auditors' certification on page 240. The key figures are presented on pages 2 and 3 of the Registration Document. The Management Report figures on pages 6 to 29, 32 to 38, 44 to 46, 48 to 50, 55 to 57, 59 to 65, 68 to 79, 90 to 119, 129 to 132, 133 to 135 and 249 to 253.

2009-10 financial year

The Registration Document for the 2009-10 financial year was filed with the *Autorité des marchés financiers* on June 10, 2010 under the registration number D.10-0520. The consolidated financial statements are presented on pages 130 to 216 and the related Statutory Auditors' report on pages 217 and 218. The full statutory financial statements can be found on pages 219 to 230 and the related Statutory Auditors' certification on page 232. The key figures are presented on pages 2 and 3. The management report figures on pages 6 to 25, 28 to 35, 41 to 43, 45 to 47, 51 to 53, 54 to 61, 64 to 70, 74 to 83, 88 to 91, 97 to 106, 118 to 119, 123 to 129 and 241 to 245.

Table of concordance for the annual financial report

This Registration Document contains all the elements of the financial report as referred to in articles L. 451-1-2 of the Monetary and Financial Code and required by article 222-3 of the AMF's General Regulation. The table below resumes the elements of the financial report.

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