KLM Royal Dutch Airlines – Annual Report 2015

2015 Annual Report

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Letter from the President

In last year's annual report I stated that the changes around us call for a real transformation of KLM Royal Dutch Airlines. Inspired by our motto Change, Participate and Win, our 35,000 people have worked hard to reignite the company in 2015. Looking back on the year, I am proud that our plan to win again has come to life.

One of the main things we did in 2015 was to reconfirm our strategy of 1) decreasing costs, 2) investing in our future and 3) transforming our organisation. As part of the AIR FRANCE KLM Group strategy Perform 2020, we took action throughout the year on all three fronts and began to see the first tangible results. Our costs are down, our productivity is up and our investments in customer and products are bearing fruit. KLM has continued to grow and show positive financial results.

Last year, together with many colleagues from across KLM, we took a close look at our reason to exist. We wanted to make explicit what for almost a century has been the defining spirit of KLM. We found that what drives us is our desire to make customers feel recognised and acknowledged. We want our customers to feel it is easy to fly with us and to contact us. And we want them to feel at ease and be touched by the attention we give. In other words, our purpose is 'Moving your world, by creating memorable experiences'. These words serve as our inner compass for our strategy, our ambition and the implementation thereof.

In 2015 we achieved most of the targets we set ourselves and many initiatives have been put into practice and are bearing the first fruits. The Passenger Business made great progress on our products, Engineering & Maintenance grew its business and Cargo transformed itself. Furthermore Transavia celebrated its 50th anniversary and improved its results, new collective labour agreements lowered our costs and our already excellent safety record was improved. We also increased our customer satisfaction, improved our efficiency, laid the foundations for a more agile organisation and boosted our innovative power.

These and other results are highlighted in this annual report. It features an overall review of the Board of Managing Directors, a summary of our purpose and strategy and an assessment of our operational environment. The report also details the year's results according to the five pillars of our Flight Plan 2015: Customer and Product, Network and Fleet, Operations, People and Organisation and Finance.

In 2015 we laid the foundation for a rejuvenated KLM and I am grateful for the contributions of all our employees, in the air and on the ground, across all divisions and in every country. Much work remains to be done and in 2016 we will accelerate the pace of implementation. I realise that while such changes can be exciting, they can also make some people feel uncertain. However, I believe in the endurance and creativity of our people and feel confident that the journey ahead will bring us where we want to be: a leading airline in the areas of customer focus, innovation and efficiency.

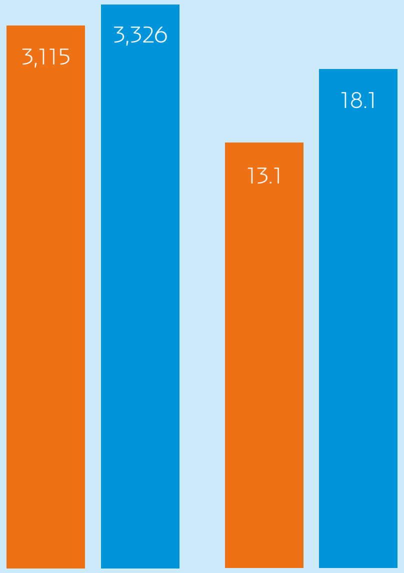
Pieter Elbers
President & Chief Executive Officer

Pieter Elbers
President and Chief Executive Officer

Key figures

	2015	2014
REVENUES	9,905	9,643
EBITDAR	1,265	1,014
EBITDA	911	731
INCOME FROM CURRENT OPERATIONS	384	175
AS A % OF OPERATING REVENUES	3.9	1.8

	2015	2014
ADJUSTED NET PROFIT/(LOSS) FOR THE PERIOD	54	-276
EARNINGS PER ORDINARY SHARE (EUR)	1.14	7.26
EQUITY	396	9
AS A % OF TOTAL LONG-TERM FUNDS	8	–
RETURN ON EQUITY (%)	26.8	42.1
ADJUSTED NET DEBT / EBITDAR RATIO	3.6	4.3
DIVIDEND PER ORDINARY SHARE (EUR)	–	–



Financial position

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES	748	503
CASH FLOW FROM INVESTING ACTIVITIES (excluding (increase) / decrease in short-term deposits and commercial paper)	-340	-420
FREE CASH FLOW	408	83

Passenger

	2015	2014
TRAFFIC (in millions of revenue passenger-kilometers, RPK)	93,228	91,477
CAPACITY (in millions of available seat-kilometers, ASK)	107,851	105,755
PASSENGER LOAD FACTOR (%)	86.4	86.5
NUMBER OF PASSENGERS (x 1,000)	28,562	27,740

Cargo

	2015	2014
TRAFFIC (in millions of revenue ton freight-kilometers, RTFK)	5,429	5,873
CAPACITY (in millions of available ton freight-kilometers, ATFK)	8,059	8,524
CARGO LOAD FACTOR (%)	67.4	68.9
WEIGHT OF CARGO CARRIED (in tons)	704,840	759,732

Headcount KLM Group staff

Average number FTEs of KLM Group staff

	2015	2014
PERMANENT	28,968	29,246
TEMPORARY	1,447	1,465
EMPLOYED BY KLM	30,415	30,711
AGENCY STAFF	1,928	1,983
TOTAL KLM	32,343	32,694
PER END FINANCIAL YEAR	35,488	35,685

● 2015 ● 2014
In millions of Euros, unless stated otherwise

Our purpose and strategy

KLM has been a pioneering and adventurous airline for almost 100 years. We were the first to deploy a hub-and-spoke model and the first with a North Atlantic joint venture. We are a frontrunner on social media and a corporate social responsibility leader. KLM connects people and trade across the globe, and is Dutch at heart: pragmatic, co-operative, hospitable and entrepreneurial.

Our genuine attention for our customers makes them feel recognised, at ease, comfortable and touched.

KLM is comprised of 35,000 people connected by a shared purpose: to move the world of our customers and create memorable experiences for them. We guide people to their destinations, catalyse trade, and connect partners into an effective global network. Our genuine attention for our customers makes them feel recognised, at ease, comfortable and touched. Our (frontline) staff is essential to our efforts to win customers' hearts and therewith also win from the competition.

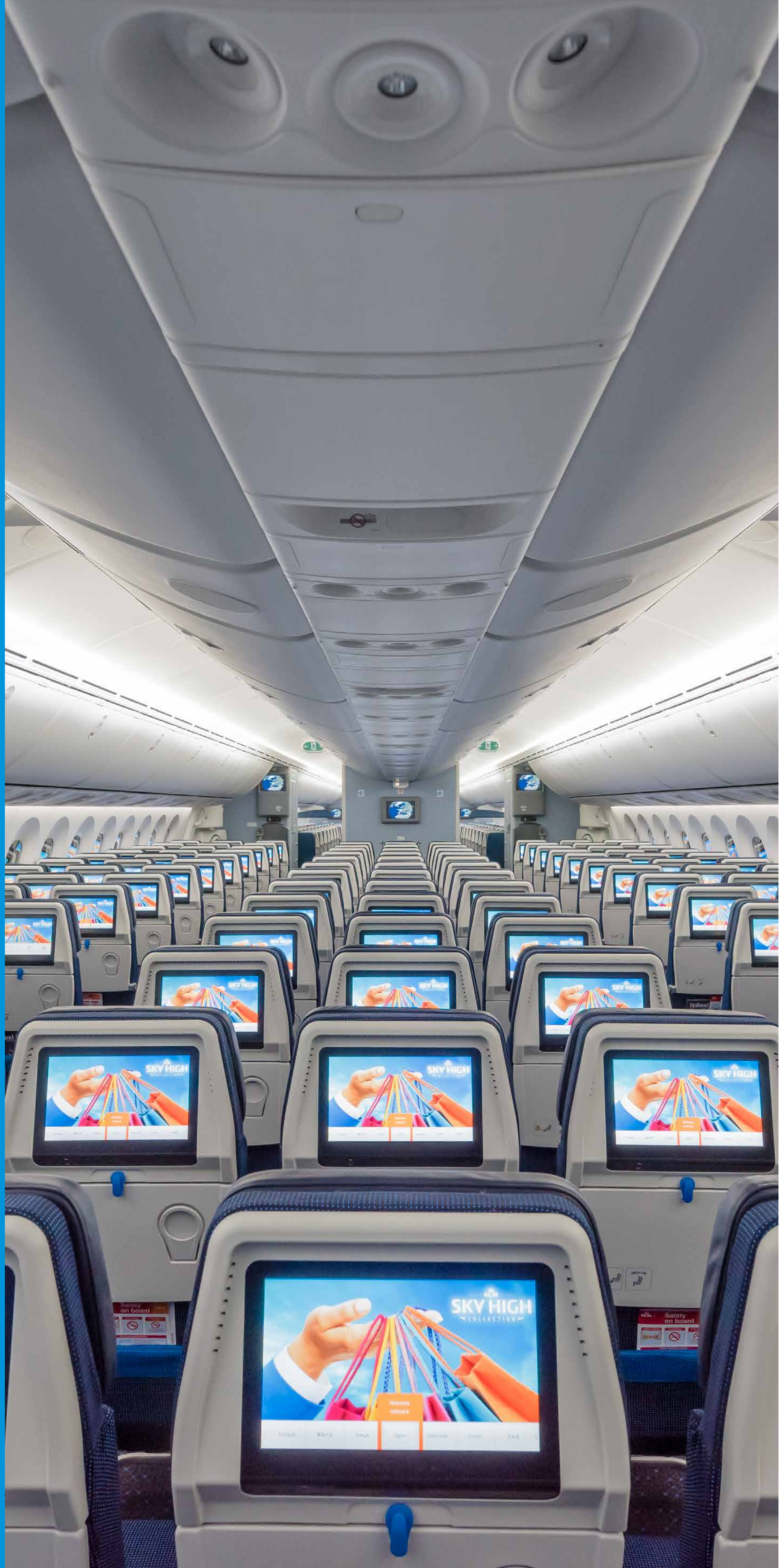
All of this is the fundament of our power. In 2015 we welcomed more than 28 million passengers on board our flights to 138 destinations and together with our partners we provide direct routes to more than 180 destinations. KLM is strong in the field of engineering and maintenance, innovative in cargo and is further developing point-to-point travel from the Netherlands and other European bases. Being part of the AIR FRANCE KLM Group, we leverage the combined scale that allows us to grow faster and work more efficiently.

Our ambition is to become Europe's most customer-centric, innovative and efficient network carrier.

While our base is strong, we need to respond to rapid changes in the airline industry. Whilst there is room for growth, there is fierce competition from low-cost carriers and airlines from the Gulf region. Fuel prices and exchange rates remain volatile. The pace of digital change is increasing and customers demand lower prices and customised services. These changes, combined with our relatively high fixed costs, make it important that KLM adapts.

Our ambition is to become Europe's most customer-centric, innovative and efficient network carrier. This means that we invest in innovations that increase customer intimacy and improve operational performance. It also means lower and more flexible costs, as well as higher productivity. In addition, we optimise our hub and spoke network by operating a competitive European network and profitable international destinations.

We will remain a growing global network carrier, with customers at the heart of everything we do. This will be complemented by ambitious plans in our two other businesses.



Our Engineering & Maintenance Business will focus on growth through work for third parties, particularly on General Electric next generation (GEnx) engines and components for third parties flying Boeing 787s.

Our Cargo Business, while reducing the number of full freighters, will still be a reliable partner in our passenger and combi aircraft, thereby focussing on high-value segments, e-freight and continued cost optimisation.

Finally, we are investing in Transavia in order to develop activities from the Netherlands and other European countries and to create new opportunities in the low-cost European market.

We believe that a strategy with two focus areas will help us grow. First, we seek to invest around EUR 800 million a year in the renewal and upgrade of our fleet, the experience of our customers and improvements to our working methods. Second, we will reduce our cost base and make it more flexible. We intend to do this by reducing costs by EUR 700 million by 2020, increasing productivity by 4% per year and reducing our cost per unit by at least 1.5% a year. These goals are part of the AIR FRANCE KLM Group strategic plan Perform 2020. This will increase our operating margin from 1.8% in 2014 to 7 or 8%.

In line with our purpose and ambition, we conducted a strategic review in eight distinct yet interconnected areas, efforts that are consistent with the AIR FRANCE KLM Group strategy:

CUSTOMER & PRODUCT
We are focusing on frequent travellers, both in Business Class and Economy Class. We invest in the customer journey where it benefits to our customers most.

NETWORK
We are growing and optimising our network, which derives its power and profitability from the close co-operation with partners and the integration between our European and intercontinental routes.

FLEET
We are renewing and simplifying our fleet in order to improve the customer's experience, deliver reliably on our promises, lower our environmental footprint and increase the efficiency of our operations.

OPERATIONS
We are striving to achieve operational excellence, and will achieve this by effectively and efficiently re-designing our product, our ways of working, information flows, management and organisation.

PEOPLE & ORGANISATION
We are working to develop an organisation that has a transparent culture, open communication and committed staff that are good at what they do. We are reducing our labour cost further to be more in line with that of our competitors.

DIGITISATION
We are expanding our digitisation efforts for customers, to our operation and our employees.

CSR
We are focusing our corporate social responsibility efforts on areas that are valued by our customers and employees and that reduce our environmental footprint.

PORTFOLIO
We will simplify our company by pulling out certain activities not considered core to our business.

As a final step, we translated the outcomes of our strategic review into detailed transformation projects that will be implemented. Their implementation is overseen by a newly established Transformation Office. With this purpose as the compass for our strategy, ambition and implementation, we have a coherent and consistent approach that allows us to continue to win.

Reigniting KLM

In 2015 KLM laid the foundations for future success with an enriched strategy and an ambitious transformation program. With the first results visible and renewed enthusiasm tangible throughout the organisation, KLM is proving it is on the right track. In this review, the Board of Managing Directors looks back on a remarkable year that featured improved results, major investments, and a revived desire to win.

The delivery of the new Boeing 787-9 Dreamliner in November of 2015 marked more than just the arrival of yet another plane. The Boeing 787 offers a significantly more comfortable experience for our customers and is more fuel efficient, environmentally friendlier and easier to maintain. "The Boeing 787-9 symbolises the future of KLM. It shows we feel a deep need to invest and to create a memorable experience for our customers. It also shows we are committed to being cost effective" says Chief Executive Officer (CEO) Pieter Elbers.

In total, KLM invested EUR 467 million in 2015. It added four new wide body aircraft to its fleet and kick-started the second phase of the KLM Cityhopper fleet's rejuvenation. It finished the upgrade of its Boeing 777-200 fleet by installing the new World Business Class seats, lighter Economy class seat with more personal space and a new entertainment system. KLM also invested in its own organisation with digitisation projects, social media innovations, as well as the start of the construction of a new World Class Business Lounge at Schiphol.

"The Boeing 787-9 symbolises the future of KLM. It shows we feel a deep need to invest and to create a memorable experience for our customers. It also shows we are committed to being cost effective.

- CEO Pieter Elbers

The complete list of new initiatives is long and ambitious. More importantly, many of these initiatives began to bear fruit in 2015. "Our plans are coming to life and people across KLM are eager to contribute. In the CEO mailbox we received some 2,000 emails this year with suggestions and ideas, which alone saved us a total of more than EUR 10 million. There is broad commitment to our strategy, inside and outside the organisation," Elbers adds.

First steps to recovery

The renewed spirit certainly contributed to KLM's results. Revenues increased 2.7% to reach EUR 9.9 billion and operating income was EUR 384 million, meaning KLM's margins increased from 1.8% in 2014 to 3.9% in 2015. KLM increased productivity by 1.4% and lowered the cost per unit by 0.9%, while debt was reduced from EUR 2.4 billion to EUR 2.1 billion.

At year-end 2015 KLM had EUR 1.2 billion in cash and a EUR 575 million credit facility available. "We are growing, we achieved most of our financial targets and we are financially healthier," Chief Financial Officer (CFO) Erik Swelheim reflects.

The Passenger Business increased its intercontinental capacity and optimised its network while KLM's other businesses each made important contributions of their own. Cargo slimmed down its full freighter fleet, invested in high-growth sectors, and increased operational efficiency. Engineering & Maintenance supported the renewal and upgrade of KLM's own fleet and increased the amount of work done for third parties. In addition, Transavia managed to reduce losses after making a loss in 2014, entered the business market, lowered costs, and implemented a new business model.

Saving costs in order to invest

According to Swelheim, one of the year's major challenges was to reduce costs, which are high compared to competitors. "We must reduce costs in order to create room for much-needed investments. One of the major achievements this year was that we negotiated new collective labour agreements with all nine unions, which made our cost base lower and more flexible."

Chief Operating Officer (COO) René de Groot says these investments have led to improvements in the customer experience both on the ground and in the air. "The Net Promoter Score, which indicates the willingness of customers to recommend KLM, increased from 35 at the beginning of 2015 to an average of 38 for 2015. This appreciation is important to us, because we can only win if our customers value us." And our staff, on the ground and in the air, is vital to achieve this. KLM received other awards as well: AIR FRANCE KLM came first in the Airlines category of the Dow Jones Sustainability Index for the 11th consecutive year and KLM Cityhopper became Regional Airline of the Year.

De Groot is also proud that KLM accelerated the pace of innovation, exemplified by iPads for frontline staff, the introduction of e-fast Delivery in Cargo and seat repairs using 3D printers in Engineering & Maintenance. "KLM also started an operational excellence program and created designs for a high performance organisation, which will see a reduction in management layers and support functions. This transformation will make KLM more agile and effective, increase people's engagement and give them room to innovate. Ultimately, it will help us deliver a greater customer experience at lower cost."

2016: Accelerating

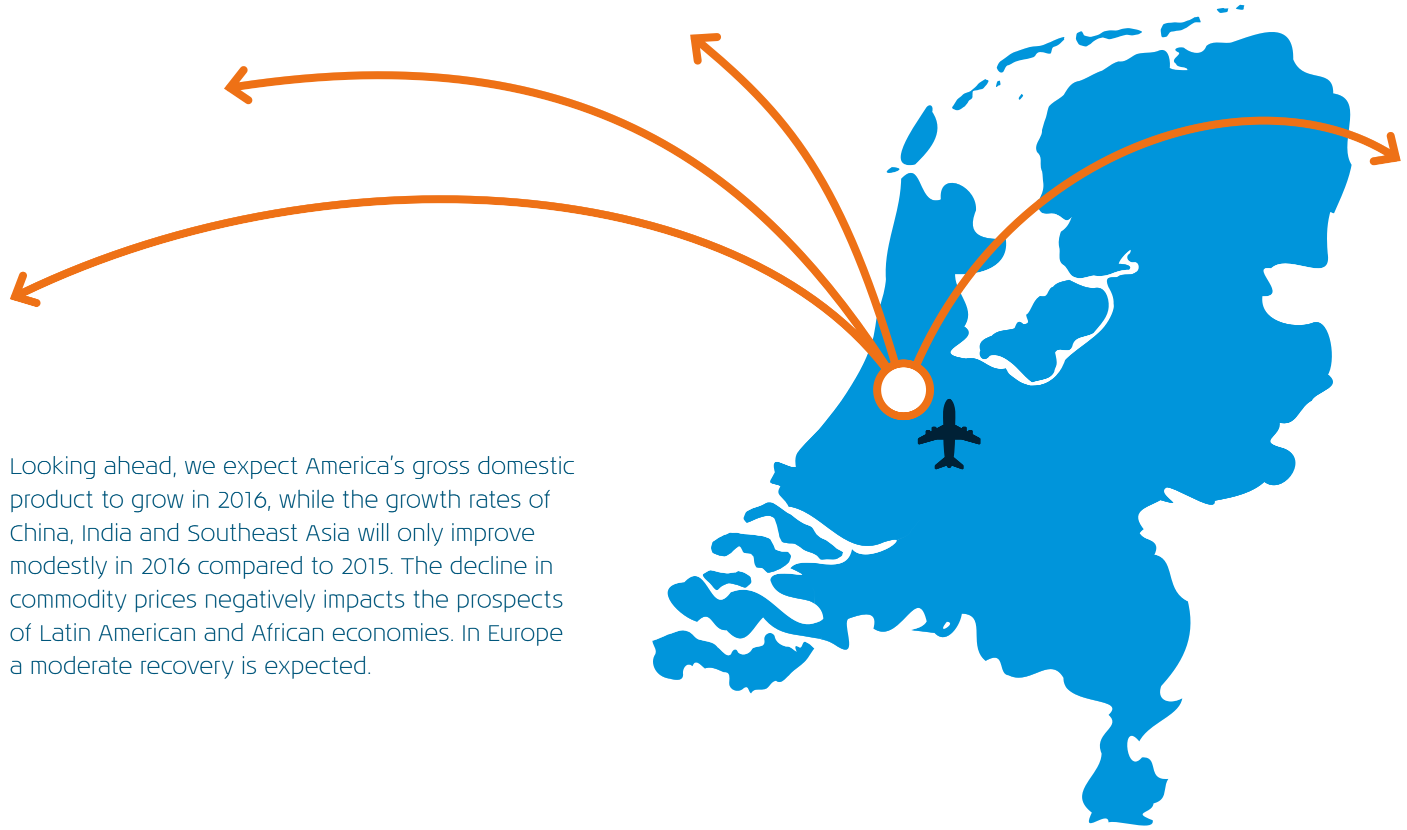
Looking at 2016, Elbers says that KLM will implement its plans at an accelerated pace. The new high performance organisation should largely be in place by the end of 2016, and further investments will be made in KLM's digital abilities. The fleet will continue to be renewed, leading to a challenging inflow and outflow of airplanes. The company will also increase operational excellence, improve the customer experience across the entire journey, and reduce costs, in part by new CLA's for cabin and ground staff, a slimmer organisation and by modernising the pensions system.

The Passenger Business will seek to make more effective use of its network, use the renewed fleet and implement a customer intimacy strategy. KLM's other businesses will continue to pursue their own strategy. Engineering & Maintenance will strengthen its business while improving its operations, and Cargo will focus on high-growth sectors and cost optimisation. Transavia will invest in new fleet and launch a Munich base in 2016. "The spark with which we reignited KLM in 2015 will continue to light the path ahead in 2016," Elbers concludes.

The world we operate in

Our operating environment

In 2015, our work was impacted by a number of global developments. The global economy was in a holding pattern, with technological opportunities offset by weak productivity and lack of consumer confidence. Throughout the year unrest and global security issues and other themes increased the level of uncertainty in the world. Europe was disturbed by the outrageous terrorist attacks in Paris as well as the influx of refugees. Large parts of Africa and the Middle East, meanwhile, struggled with devastating effects of war on its societies and economies.



Looking ahead, we expect America's gross domestic product to grow in 2016, while the growth rates of China, India and Southeast Asia will only improve modestly in 2016 compared to 2015. The decline in commodity prices negatively impacts the prospects of Latin American and African economies. In Europe a moderate recovery is expected.

The aviation industry will continue to grow on the back of consolidation, economic recovery and low fuel prices.

Industry trends

According to the International Air Transport Association, demand for air travel in 2015 rose 6.5% compared to 2014 in spite of the relatively weak global economy. We expect that the aviation industry will continue to grow on the back of consolidation, economic recovery and low fuel prices. Consistent and robust profitability, however, will need to come from cost control, digitisation, operational efficiency and strategic partnering. Competition from low-cost carriers such as EasyJet, Ryanair, Vueling and Norwegian Air is fierce and intensifying. We expect that their market share will grow as they focus more on business markets. Competition from airlines from the Gulf region is still increasingly growing.

Europe

In 2015 the European Commission presented its Aviation Strategy, which recognises that aviation has a major impact on economic growth, trade, jobs, social life, and mobility in the EU. The strategy aims for a stronger and more competitive European aviation industry. To achieve this we need concrete actions that enable European airlines to provide customers with more flights and competitive prices.

KLM supports existing regulations 261/2004 that protect passenger rights. Customers are at the heart of KLM's business and safety, punctuality and reliability are important to us. In case of unforeseen events KLM takes all measures necessary to minimise the inconvenience for the passengers. We are however concerned that existing regulations burden the airline industry with unreasonably high costs. Uniform enforcement and interpretation of the revised regulation is therefore essential across European countries.

Furthermore European airlines, including AIR FRANCE KLM, believe that there is a need to act on large-scale airport monopolies, high charges, taxation and inefficiencies in the aviation supply chain. We support the European Commission's efforts to promote a level playing field for aviation within and outside the EU. We also need Europe to quickly realise a Single European Sky, which could lower CO_2 emission by 10% and reduce costs by EUR 8 billion per year.

Schiphol and the local community

KLM is a significant economic and social force in the Netherlands. As the third-largest private employer, we employed some 35,000 people in 2015. In the year 2015 KLM Group and partners provided 71% of Schiphol's total number of passengers being close to 42 million passengers of which 19 million were local passengers. Furthermore KLM transported 650.000 ton of freight to and from Schiphol, which equals around 42% of Schiphol's total. KLM's worldwide network is the key reason that Schiphol is among Europe's four largest airports, contributing to the Netherlands' position as gateway to Europe for global trade and travel.

Last year, the Dutch airline industry contributed around EUR 30 billion to the Dutch economy and this industry was responsible for some 300,000 jobs. To underline the importance of the Dutch airline industry, KLM and Amsterdam Airport Schiphol jointly, upon request of the Ministry of Infrastructure and Environment, worked on input for the Government's Strategic Plan ("Actie agenda Nederlandse Luchtvaart"), which is expected to be presented to the Dutch Parliament. The Ministry of Infrastructure and Environment and the Ministry of Economic Affairs will also take the interests of other airlines at Schiphol as well as other Aviation Industry Related companies into account.

Schiphol continues to grow and aims to remain Europe's preferred airport. To realise this, it is crucial that KLM and partners retain their extensive European and Intercontinental network. Furthermore, the phased development of the platform area-A will enable Schiphol to deliver additional gate capacity before the year 2020. It is also important that the capacity and reliability of the Schiphol train station is quickly improved and that local, regional and national interests are aligned in the development of the Schiphol area.

Flight Plan 2015

in review

Customer & Product

Network & Fleet

Operations

People & Organisation

Finance

Customer & Product

For almost a century, KLM has been the airline that genuinely cares for its customers. We acknowledge and recognise them, make them feel comfortable and make it easy for them to do business with us. While performing on safety, reliability and cost, we make a difference by creating moments that truly touch our customers' hearts. To further support our growth, KLM in 2015 accelerated its investments in customers and products.

Our purpose

In 2015 we enriched our purpose: to move the world of our customers and create memorable experiences for them. The ability of all employees - on the ground and in the air - to realise this purpose is what distinguishes us from other airlines. Our goal is to bring our purpose to life across the entire organisation and to reorganise our processes and structure around it. Specifically, we will focus on the customer experience, working climate and staff and leadership behaviour.

In order for our customers to feel recognised and touched when flying with KLM, we will apply a customer intimacy strategy, whose implementation will be overseen by a newly appointed Chief Customer Experience. Key to this strategy is empowering staff with the right data and tools and aligning processes across KLM. This strategy will be supported by investments in IT, the rollout of digital devices for frontline staff. In 2015, for example, we fully digitised the cockpits of KLM's fleet and gave our outstations frontline staff training in delivering a great customer experience. We also researched customer needs in close co-operation with the AIR FRANCE KLM Group and will use our findings to fine-tune our offering to our target audience of frequent flyers.

The Net Promotor Score increased from 35 in January to 40 in December

Our product

We substantially developed our product in 2015. The introduction of a new generation of more comfortable aircraft and the upgrading of existing ones has significantly improved the customer experience. Also, our investment in the World Business Class has resulted in a significant increase of customer satisfaction. The introduction of paid seating has given our frequent travellers more choice.

In 2015 we increased the sales of ancillary products by 20% compared to last year. At Schiphol, meanwhile, we welcomed the introduction of Centralised Security for the Non-Schengen area, which gives passengers a more comfortable journey, and KLM began to completely redesign its flagship World Class Business Lounge.

Furthermore, we improved catering on board European KLM and KLM Cityhopper flights: we reintroduced snacks on all flights and the meals for European Business Class travellers are now designed by a two-star Dutch Michelin chef. At the same time we reviewed our on board working methods to deliver the same service with fewer cabin staff, thereby increasing our productivity.

Social media leadership

In 2015 KLM extended its lead in the field of social media by complementing one-to-many channels such as Facebook with a one-to-few strategy. WeChat was integrated into the Salesforce application and began using the Korean one-to-few platform Kakao Talk. In addition, in December 2015 we became the first non-Asian airline to open a shop on Alibaba, one of the world's largest online trade portals. This will allow Chinese customers to purchase KLM tickets directly, which we expect will boost online sales in China and increase brand awareness.

Efforts paying off

These and others efforts have been paying off. On July 19, a record 93,048 people flew KLM in a single 24 hours. The Net Promoter Score, with which we measure our customers' willingness to recommend KLM, increased from 35 in January 2015 to 40 in December with an average for 2015 of 38. Passenger appreciation targets for the coming years will be more ambitious.

Network & Fleet

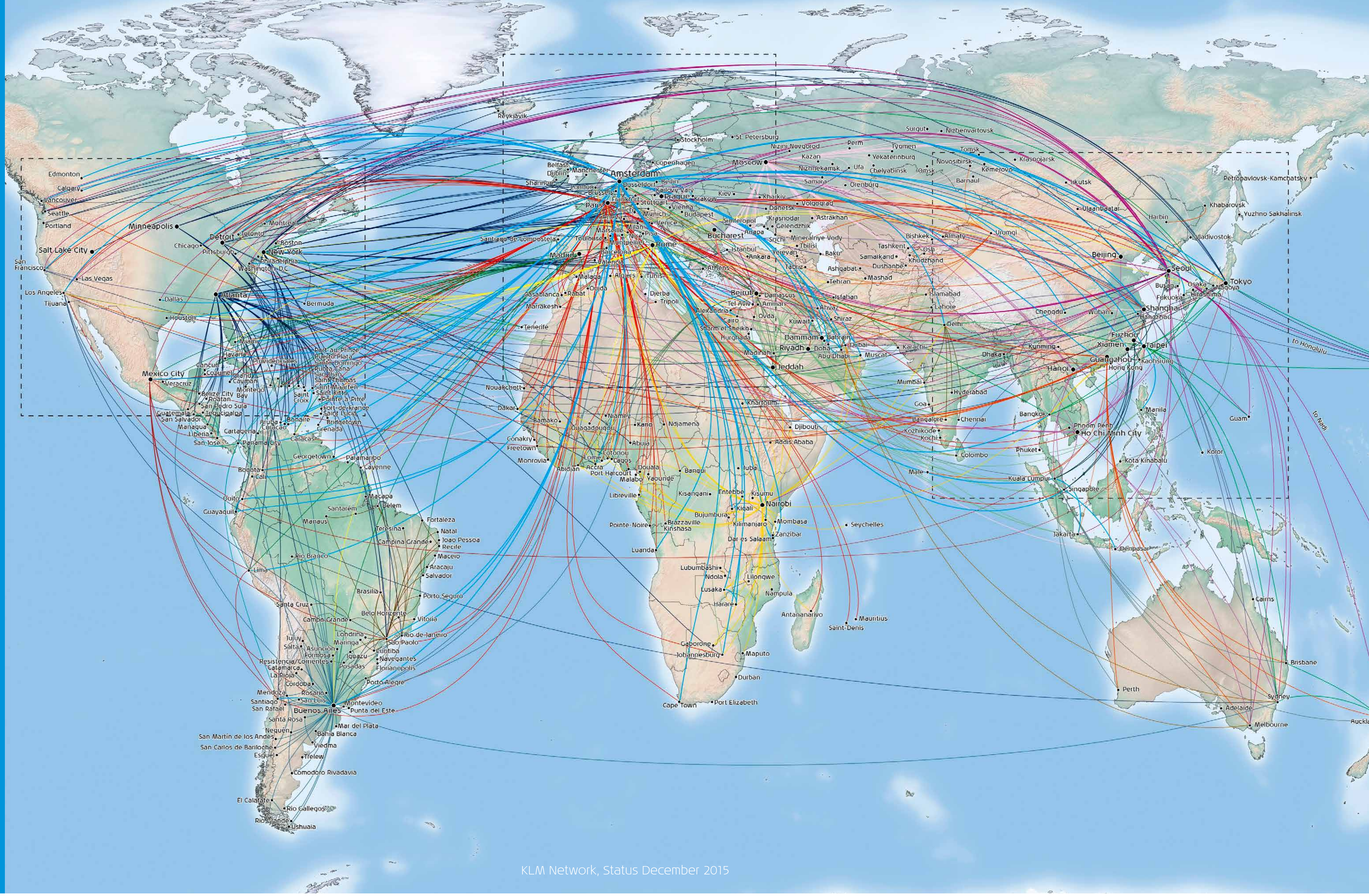
KLM aims to deliver an excellent customer experience to frequent travellers across the world. To this end, we further strengthened our European and intercontinental network and invested our cost savings in the renewal, upgrade and densification of our fleet.

The introduction of the Boeing 787 is part of KLM's fleet renewal program aiming at lower cost per seat.

Network

From Schiphol, we operate direct flights to 71 European and 67 intercontinental destinations. Together with our partners we provide direct routes to more than 180 destinations. In 2015, we added Edmonton to our network, as well as Bogota and Cali, bringing the total number of destinations in South America to 11. We decided to discontinue Fukuoka as of January 2016. In Europe, we opened the destinations Montpellier, Belfast and Krakow. In 2016, we will add European destinations Southampton, Inverness, Genova, Dresden, Valencia, Ibiza and US destination Salt Lake City to our network.

Capacity on both our intercontinental and European routes increased by 2% which is lower than the growth we originally envisioned. This is due to our decision to reduce frequencies during the winter months on ten European destinations and weaker performing destinations in Africa, Japan and Brazil. We have adjusted our Europe strategy: where previously we would open a limited number of European destinations at three flights per day, we now open a higher number of European destinations at one flight per day. This approach allows KLM to focus more on local and intra-European traffic and will increase the agility of KLM's European network.



KLM Network, Status December 2015

China, in the meantime, has become our second-largest market outside of Europe after the US. Together with our partners China Southern Airlines and Xiamen Airlines we fly 1.3 million passengers a year to eight direct destinations, making Amsterdam one of China's main gateways to Europe. In summer, we intensified our co-operation with Xiamen Airlines, which started to operate flights from Amsterdam. As a result of this, the number of flights between the Netherlands and China has increased from 57 to 60 a week.

Alliances

Co-operation with new and existing partners allows us to strengthen and expand our extensive network. KLM's participation in the Trans-Atlantic joint venture with Air France, Delta Air Lines and Alitalia and our joint ventures with Kenya Airways, Alitalia, Ukraine International Airlines and China Southern Airlines remain one the building blocks of our partner strategy. Particularly due to the hub-to-hub and US West Coast operations, the Trans-Atlantic joint venture achieved industry leading financial results in 2015, in spite of continuous fierce competition.

In 2015 KLM and Delta entered into an extensive co-operation agreement with Jet Airways, which will move its hub from Brussels to Amsterdam. This will allow us to secure important India-related traffic streams. In addition, KLM further strengthened its partnership with China Southern Airlines, now also including Xiamen Airlines, enabling us to strengthen our leadership position on routes to China. Schiphol offers one of the highest numbers of non-stop flights to and from China, and cooperation increasingly extends to Engineering & Maintenance activities, handling, and catering.

The partnership with Etihad, based on geographical complementarity, has been further enhanced and extended with numerous codeshares on partners' respective networks.

Our partnership with GOL showed good results. This is part of AIR FRANCE KLM's strategy of strengthening our leading position in Brazil and Latin-America by increasing the number of connecting opportunities between Europe and Brazil. Kenya Airways experienced a challenging year, and in our role as shareholder, board member and joint venture partner, KLM is offering its full support. Alitalia, meanwhile, announced that it refrains from renewing the

Fleet composition

Boeing 777-300/200ER

Number of aircraft	10/15	Maximum passengers	425/316
Cruising speed (km/h)	920/900	Total length (m)	73.86/63.80
Range (km)	12,000/11,800	Wingspan (m)	64.80/60.90
Max. take-off weight (kg)	351,543/297,500	Personal inflight entertainment	

Boeing 747-400 Passenger/Combi

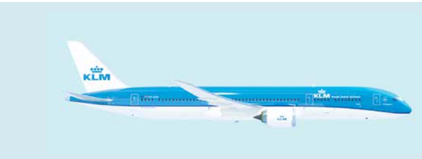
Number of aircraft	7/15	Maximum passengers	408/268
Cruising speed (km/h)	920	Total length (m)	70.67
Range (km)	11,500	Wingspan (m)	64.44
Max. take-off weight (kg)	390,100/396,900	Personal inflight entertainment	
Max. freight (kg)	35,000		

Boeing 747-400ER Freighter

Number of aircraft	3	Maximum freight (kg)	112,000
Cruising speed (km/h)	920	Total length (m)	70.67
Range (km)	11,500	Wingspan (m)	64.44
Max. take-off weight (kg)	412,800		

Airbus A330-300/200

Number of aircraft	5/10	Maximum passengers	292/243
Cruising speed (km/h)	880/880	Total length (m)	63.69/58.37
Range (km)	8,200/8,800	Wingspan (m)	60.30/60.30
Max. take-off weight (kg)	233,000/230,000	Personal inflight entertainment	



Boeing 787-9 Dreamliner

Number of aircraft	2	Maximum passengers	294
Cruising speed (km/h)	920	Total length (m)	62.80
Range (km)	15,100	Wingspan (m)	60.10
Max. take-off weight (kg)	252,650		

Boeing 737-900

Number of aircraft	5	Maximum passengers	188
Cruising speed (km/h)	850	Total length (m)	42,12
Range (km)	4,300	Wingspan (m)	35.80
Max. take-off weight (kg)	76,900		

Boeing 737-800/700

Number of aircraft KLM	25/18	Maximum passengers	180/142
Number of aircraft Transavia	22/8	Total length (m)	39.47/33.62
Cruising speed (km/h)	850/850	Wingspan (m)	35.80/35.80
Range (km)	4,200/3,500		
Max. take-off weight (kg)	73,700/65,317		

Embraer 190

Number of aircraft	30	Maximum passengers	100
Cruising speed (km/h)	850	Total length (m)	36.25
Range (km)	3,300	Wingspan (m)	28.72
Max. take-off weight (kg)	45,000/47,790		

Fokker 70

Number of aircraft	16	Maximum passengers	80
Cruising speed (km/h)	743	Total length (m)	30.91
Range (km)	2,400	Wingspan (m)	28.08
Max. take-off weight (kg)	38,000		

existing partnership agreement, the cargo joint venture and the two European joint ventures with AIR FRANCE KLM when the term expires in January 2017. Until that time, the existing agreements between AIR FRANCE KLM and Alitalia will remain in force. The Trans-Atlantic joint venture between AIR FRANCE KLM-Alitalia and Delta, which runs until March 2022, remains in place.

FLEET

Passengers reacted positively to the many changes in our fleet, which included the delivery of four new wide-body airplanes. We welcomed two new Boeing 777-300ER, which feature full flat World Business Class seats, new Economy class seats, new inflight entertainment system and the new KLM livery. In addition, we added the first two of 21 Boeing 787-9/10s, which offer greater comfort to our passengers through a full flat seat in the World Business Class with direct aisle access, larger windows, Wi-Fi, modern LED lighting and higher air pressure for greater comfort. In addition these aircraft are more fuel and noise efficient. The introduction of the Boeing 787 is part of KLM's fleet renewal program aiming at lower cost per seat.

KLM Cityhopper started to replace its 19 Fokker 70s with two Embraer 190 aircraft and 17 Embraer 175 aircraft. The Embraers are more flexible, comfortable and fuel efficient and will allow KLM Cityhopper to deliver a good and competitive European product. KLM Cityhopper is the largest Embraer operator in Europe. Delivery of the last two Embraer 190 aircraft took place in December 2015 and the Embraer 175 will start in March 2016 and will be completed by April 2018. Transavia took delivery of two Boeing 737-800 aircraft.

In addition, KLM upgraded its 15 Boeing 777-200s with new fully flat World Business Class seats, new Economy class seats offering the passengers more space and comfort and a state-of-the-art entertainment system. Lastly, the configuration of the Boeing 737-700s was modified, allowing for more seats.

		Included in balance sheet				
		Average age in years *	Owned **	Finance leases	Operating leases ***	Total
Consolidated fleet as at December 31, 2015						
Boeing 787-9	wide body	-	-	-	2	2
Boeing 747-400 PAX	wide body	23.2	5	-	2	7
Boeing 747-400 Combi	wide body	22.2	15	-	-	15
Boeing 747-400 ER Freighter	wide body	12.4	2	1	-	3
Boeing 747-400 BC Freighter	wide body	-	-	-	1	1
Boeing 777-300 ER	wide body	4.9	-	9	1	10
Boeing 777-200 ER	wide body	11.2	1	5	9	15
MD-11 Freighter	wide body	19.1	1	2	-	3
Airbus A330-300	wide body	-	-	-	5	5
Airbus A330-200	wide body	9.8	-	6	4	10
Boeing 737-900	narrow body	12.9	1	1	3	5
Boeing 737-800	narrow body	11.3	8	9	30	47
Boeing 737-700	narrow body	7.8	3	8	15	26
Embraer 190	regional	5.3	-	15	15	30
Fokker 70	regional	19.9	16	-	-	16
Training aircraft		-	4	-	-	4
Total consolidated fleet		13.1	56	56	87	199

* Excluding operating leases and training aircraft. The average age including operating leases is 10.9 years
** Excluding 2 Fokker 70 and 2 MD-11 Freighter not in operation as per December 31, 2015
*** Excluding 2 Boeing 747-400BCF, 1 Airbus 330-200 and 3 Boeing 737-800 (1 subleased) not in operation as per December 31, 2015

Operations

As part of our efforts to become more innovative and efficient, KLM dedicated significant attention to its operations in 2015. We embraced operational excellence as a guiding philosophy, improved efficiency across the organisation and took safety to an even higher level.

Both at Schiphol and outstations the implementation of Altéa Departure Control was finalised. This new passenger and baggage handling system, used across AIR FRANCE KLM, allows Ground Services to better interact with customers.

Operational efficiency

KLM's operational performance saw a number of good results in 2015. We increased our productivity, to a large extent by adopting new Collective Labour Agreements and by enabling cockpit crew mixed fleet flying on the Boeing 777 and Boeing 787. We improved our arrival punctuality, increased the utilisation of our European fleet and further improved our seasonality pattern: by adapting staff and maintenance planning, we are able to maximize utilization of fleet during peak demand periods.

Ground Services implemented all measures needed to prepare for Schiphol's switch to Central Security. Operational processes were aligned with and adapted to the new infrastructure at Schiphol.

Both at Schiphol and outstations the implementation of Altéa Departure Control was finalised. This new passenger and baggage handling system, used across AIR FRANCE KLM, allows Ground Services to better interact with customers. KLM Cityhopper, meanwhile, was voted Regional Airline of the Year. It shortened turnarounds on European flights to 30 minutes, opened three new European stations simultaneously and moved to a completely paperless cockpit and cabin.

Safety and security

Safety is one of the prime concerns of the airline industry. In 2015 KLM continued to improve in this area, also in response to a number of tragedies. In March, we were saddened by the crash of the German Wings flight, which led to KLM implementing a policy that two people need to be in the cockpit at all times.

The financial year 2015 was a good year in respect of operational safety; no serious incidents or accidents occurred and the number of high-risk occurrences decreased. We further improved our Integrated Safety Management System (ISMS).

This is an industry-leading, performance-based safety management system that covers all aspects of operational, occupational and environmental safety and operational security. This allows us to manage safety and security risk at an operational level and to continuously strengthen our already high level of safety for our customers, employees and contracted partners.

Operational excellence

In spite of the fact that KLM's operational performance is still relatively good compared to industry benchmarks, we did not achieve all of our targets on some parameters. To save costs and deliver the excellent customer experience we envision, we felt the need to substantially and structurally improve our operational performance.

In 2015 we began to make more data-driven analyses, reduced the number of meetings and connected people and decision-making processes across silos.

To this end we embraced the philosophy of operational excellence, as part of the overall transformation process. This means we continuously increase service delivery to the customer while lowering costs. It's an integral approach across products and processes so that our operational departments can safely and reliably deliver the right customer promise at the lowest integral cost.

In 2015 we began to make more data-driven analyses, reduced the number of meetings and connected people and decision-making processes across silos. We also initiated a project called X-Gates to test new processes at three Schiphol gates used for intercontinental departures. Using the lean start-up methodology, ground and flight staff work together to quickly identify and test ways to improve the departure process for both customers and crew, leading to increased passenger comfort and time savings. Our intention is to fine-tune this approach and roll it out more broadly in 2016.

Traffic and capacity

Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2015	2014	% Change	2015	2014	% Change	2015 %	2014 %
Route areas								
Europe & North Africa	15,897	15,321	3.8	19,343	18,965	2.0	82.2	80.8
North America	19,691	19,427	1.4	22,145	21,740	1.9	88.9	89.4
Central and South America	12,985	11,893	9.2	14,902	13,514	10.3	87.1	88.0
Asia	25,955	26,191	(0.9)	29,540	29,714	(0.6)	87.9	88.1
Africa	10,202	10,153	0.5	12,092	12,067	0.2	84.4	84.1
Middle East	3,473	3,631	(4.4)	4,331	4,451	(2.7)	80.2	81.6
Caribbean and Indian Ocean	5,025	4,861	3.4	5,498	5,304	3.7	91.4	91.6
Total	93,228	91,477	1.9	107,851	105,755	2.0	86.4	86.5

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2015	2014	% Change	2015	2014	% Change	2015 %	2014 %
Routeareas								
Europe & North Africa	24	24	-	337	334	0.9	7.1	7.2
North America	1,109	1,060	4.6	1,759	1,623	8.4	63.0	65.3
Central and South America	1,206	1,340	(10.0)	1,773	1,923	(7.8)	68.0	69.7
Asia	1,998	2,335	(14.4)	2,480	2,939	(15.6)	80.6	79.4
Africa	876	893	(1.9)	1,245	1,255	(0.8)	70.4	71.2
Middle East	149	154	(3.2)	251	242	3.8	59.4	63.7
Caribbean and Indian Ocean	67	67	-	214	207	3.4	31.3	32.4
Total	5,429	5,873	(7.6)	8,059	8,524	(5.4)	67.4	68.9

Other businesses

KLM's core Passenger Business is complemented by activities in Engineering & Maintenance, Cargo and point-to-point leisure travel. In all these areas we strengthened our activities in 2015.

Engineering & maintenance

KLM's Engineering & Maintenance Business in 2015 was key to the rejuvenation of our fleet. It enabled the introduction of the new Boeing 787 and realised the seat densification on the Boeing 737-700. It also finalised the upgrade of the World Business Class of Boeing 777-200 as well as the introduction of the new, more comfortable seat in the Economy class and the new entertainment system. Engineering and Maintenance also added several innovations to its unique portfolio of engineering capabilities. This included using drones for airplane inspections, robot-guided laser cladding and using special substances to repair rather than replace backrests.

Furthermore, it made an important contribution to KLM's financial result, particularly through work for third parties on engines and components. This included the first quick turns on the Boeing 787 (GEnx)engines for Ethiopian Airlines and Qatar Airlines. Vietnam Airlines became the 10th airline to entrust its Boeing 787 component support to Engineering & Maintenance. We also signed a long-term maintenance contract with fast growing leisure airline Jet2.com for its Boeing 737-800s. The agreement covers engine repairs, on-site and on-wing assistance, as well as an engine leasing option.

Cargo

The cargo market was characterised by fierce competition from Middle Eastern carriers and structural overcapacity, which put further pressure on load factors and prices. In response to this KLM Cargo continued to reduce its full freighter fleet by 3 aircraft, with another 3 scheduled for 2016. By 2017 we intend to have 4 full freighters, supplemented by the main deck capacity of 15 Boeing 747 Combi aircraft and the bellies of the other long-haul aircraft. Our full freighter network at Schiphol will concentrate on Africa and North, Central and South America.

At the same time, we improved the quality of our cargo services and the efficiency of our operations. We invested in growing cargo sectors like Pharma and Express and began to implement a new IT system that enables integrated customer service across the Cargo Business. We also continued the rollout of digital alternatives to paper documentation for more speed and efficiency. In 2015, we became the world's first airline to implement e-Fast Delivery, which enables truck drivers to deliver air cargo at Schiphol much faster. In addition, we launched the hub performance program, which improved the quality and lowered the costs of our cargo operations, for example through a new Cargo Control Centre.

Transavia

Transavia aims to have a solid position in the European point-to-point market, which requires it to grow both inside and outside the Dutch home market, realise a 15% cost reduction between 2015 and 2017, enhance the customer experience for both leisure and business travelers and achieve digital leadership.

In 2015 Transavia took a number of steps on this journey. Transavia is shifting its focus from chartered flights to more scheduled flights and negotiated new contracts and pricing models with most tour operators. It concluded new collective labour agreements that lowered its costs, entered the business market, achieved higher conversions with a new website, revamped its corporate identity and cabin uniforms and joined the AIR FRANCE KLM Flying Blue loyalty program. As a result of the new CLA, the pension plan for pilots is changed from a defined benefit to a defined contribution pension plan, effective from January 1, 2016. In November, Transavia announced that it will open a base in Munich in the summer of 2016 starting with four Boeing 737-800 aircraft.

Overview of significant KLM participating interests

As at December 31, 2015

Subsidiaries	KLM interest in %
Transavia Airlines C.V.	100
Martinair Holland N.V.	100
KLM Cityhopper B.V.	100
KLM Cityhopper UK Ltd.	100
KLM UK Engineering Ltd.	100
European Pneumatic Component Overhaul & Repair B.V.	100
KLM Catering Services Schiphol B.V.	100
KLM Flight Academy B.V.	100
KLM Health Services B.V.	100
KLM Equipment Services B.V.	100
Cygnific B.V.	100
Cobalt Ground Solutions Ltd.	60
Jointly controlled entity	
Schiphol Logistics Park C.V.	53 (45% voting right)
Associate	
Kenya Airways Ltd.	27
Transavia France S.A.S.	40

People & Organisation

As part of its strategy to reduce costs and invest in its products and fleet, KLM is transforming the organisation. To become Europe's most customer-centric, innovative and efficient network carrier, actually requires to become lean, more agile, and more cost-efficient. In 2015, KLM made important steps towards reducing costs and increasing productivity through new collective labour agreements and the design of a high performance organisation.

KLM spirit

The transformation that started in 2015 is a proud testimony to KLM's spirit of aviation pioneering. When it became clear the company had to change in order to be fit and relevant once more, people throughout KLM felt called upon to contribute. People from all across the organisation got involved in the process of determining the company's purpose. Some 2,000 suggestions and ideas were submitted to the CEO's mailbox, which led to over EUR 10 million in annual cost savings. Others contributed by delivering and executing bottom-up innovative ideas.

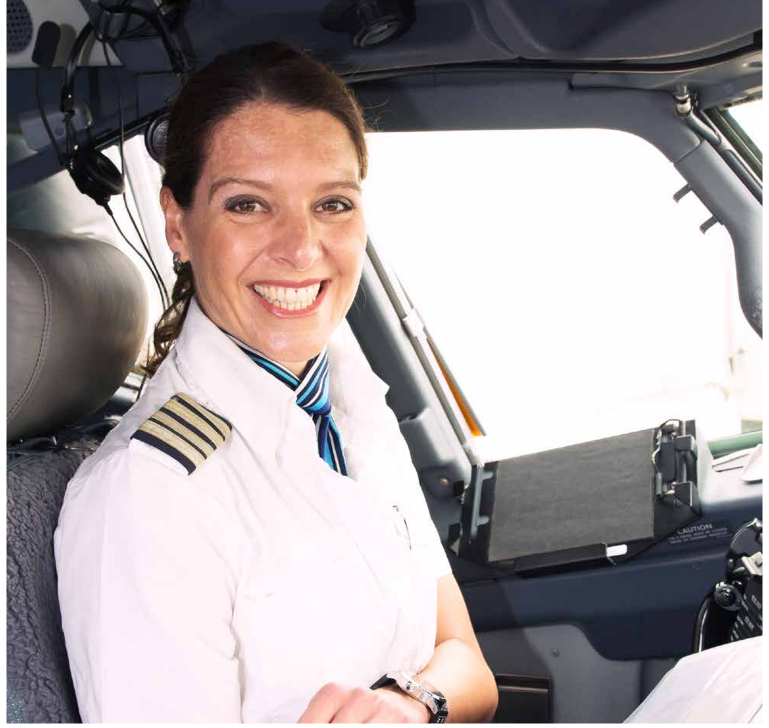
Some 2,000 suggestions and ideas were submitted to the CEO's mailbox.

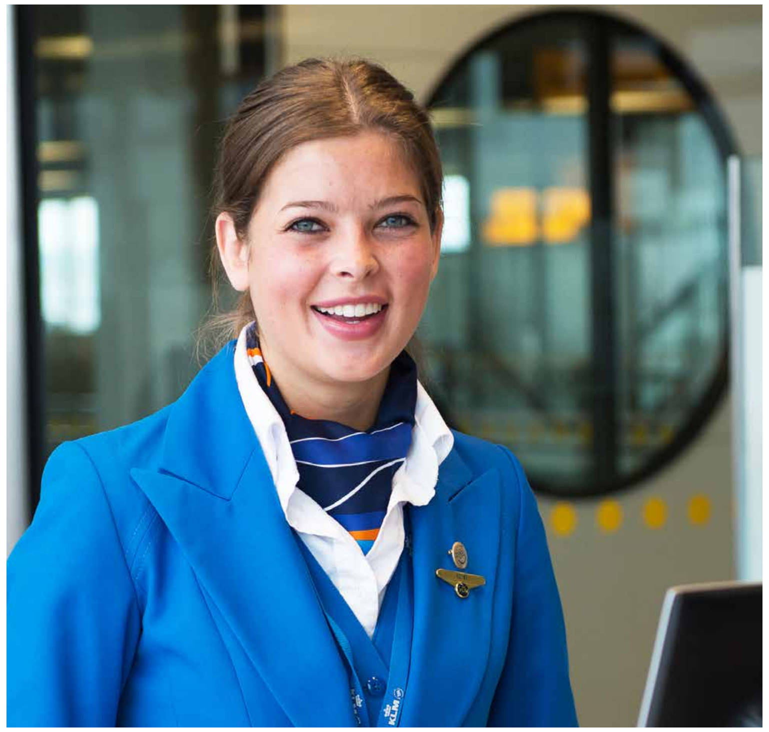
While salaries have remained unchanged since 2012, the nine unions that represent KLM's 35,000 staff endorsed, the need to reduce costs. In 2015, KLM concluded historic collective labour agreements (CLA's) with all nine unions, which are valid till March 2016 in the case of cabin crew, for ground staff till June 2016 and for cockpit crew till December 2017. Key changes include an increase in pension age for pilots from 56 to 58, new work and rest times for intercontinental cabin crew and a reduction of leave days. In addition, the new CLA's include KLM's strategic goal of increasing productivity by 4% a year over the next five years. Combined, these changes were an important step towards more competitive labour cost.

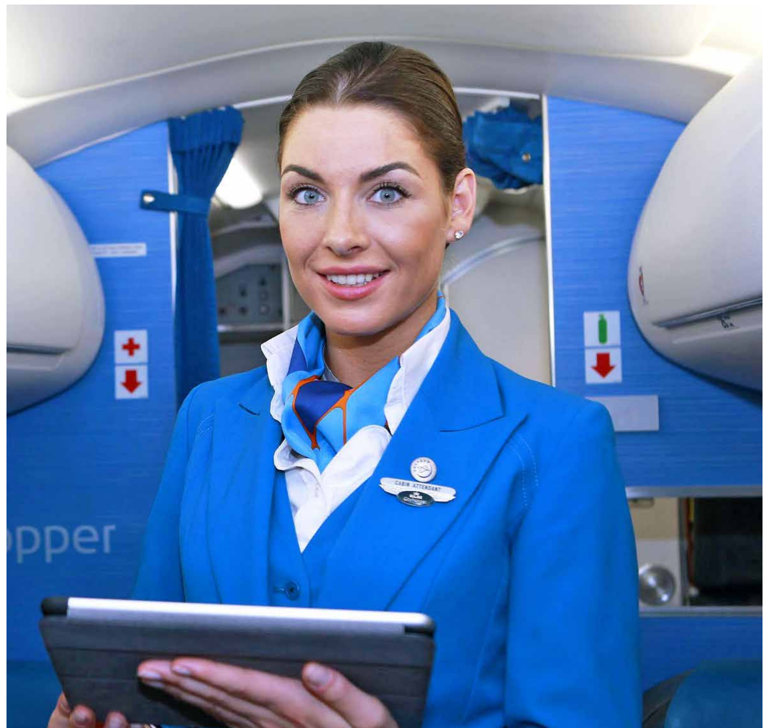
Implementing the high performance organisation

IIn addition, KLM began to design the high performance organisation, a blueprint for a lean, more agile and more engaged company able to realise its ambition. KLM will have fewer management layers, centralise support functions, increase mobility, foster innovation, optimise its workforce planning and translate the company's purpose into leadership development and recruitment processes.

The new organisation will also feature state-of-the-art HR tools. HR support will be centralised in Centres of Expertise, which will create space for leaders and managers to interact more directly with staff. These and other changes will be supported by a number of digitisation projects that will increase efficiency. In 2015, KLM finalised the digitisation of the HR files of all its 35,000 employees, all internal communication was digitised and the move was made to a fully digital salary slip.







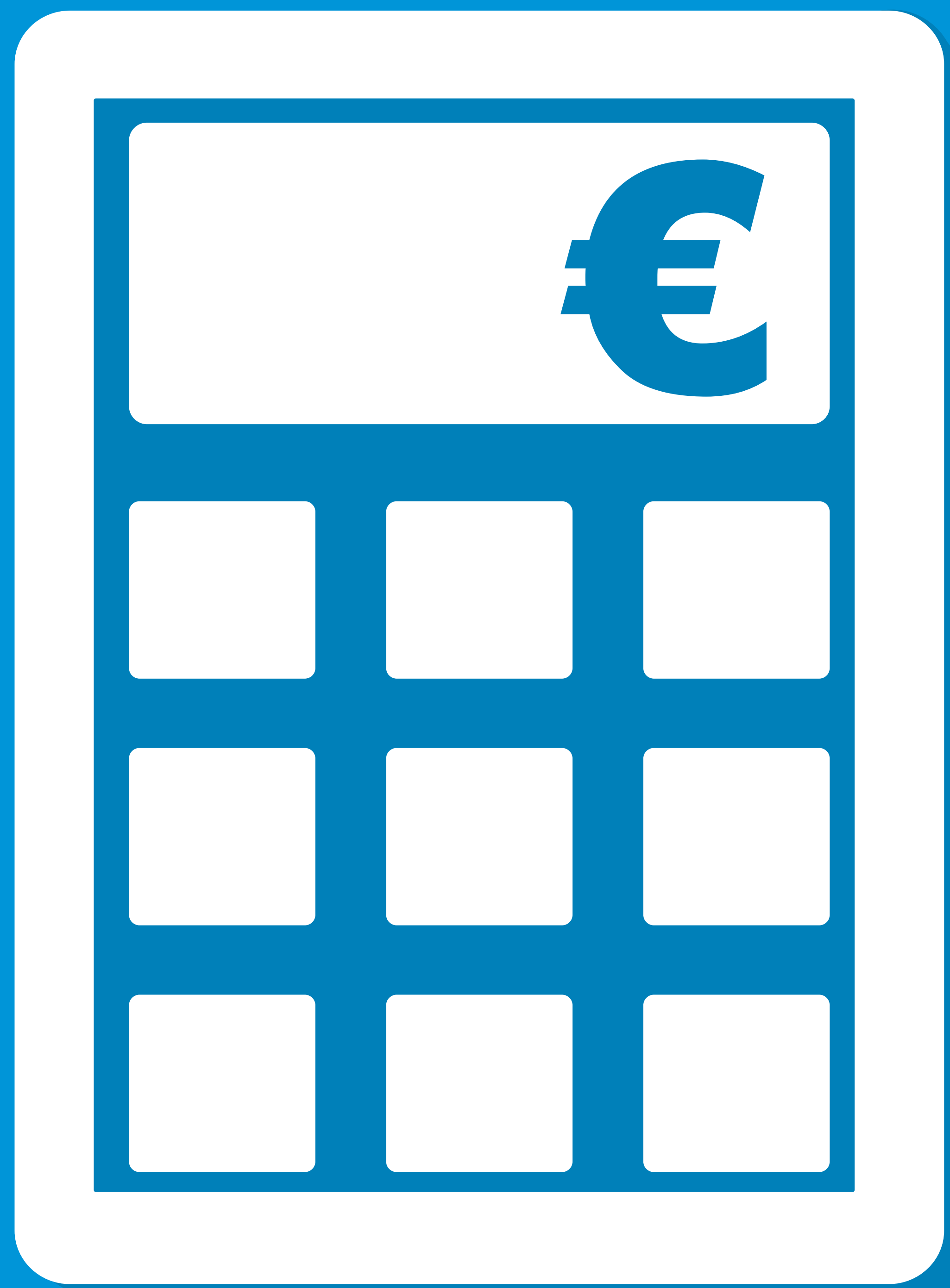
The high performance organisation will result in a KLM with fewer managers and support staff. To help those people transition to a new job, KLM has created a clear and careful process in close co-operation with the unions and Works Council. A physical and virtual Transition Centre will provide staff with a broad range of services designed to help them find new work inside or outside KLM. The Transition Center will be operational early 2016.

In 2015, designs for four parts of the high performance organisation were submitted to the Works Council and implementation is expected to start in the first half of 2016. The remaining 10 parts of the organisation will follow in 2016 and KLM intends to have most plans implemented by the end of the year. The number of FTEs started to reduce as of the second half of 2015 and further reduction is expected in 2016.

During 2016, KLM will also focus on improving occupational safety, increasing diversity and further digitization. Pensions, meanwhile, remain on the agenda of the negotiation table. Currently, the pension funds for cabin, ground and cockpit crew – with a combined EUR 18 billion in assets – are defined benefit schemes. This is particularly untenable in light of fiscal regime and risk, and KLM will aim for a collective defined contribution scheme instead. This will see pension outcome risks more equally divided between KLM and employees.

Finance

2015 marked the first year of the Group Strategic Plan Perform 2020 program aiming at growth. KLM managed to achieve most of its financial targets, which included major cost reductions, margin improvement, a reduction in the unit cost and heavy investments to support the company's ability to grow. Crucially, KLM continued to grow in a competitive environment.



In the financial year 2015 KLM achieved a positive income from current operations of EUR 384 million, compared to EUR 175 million for 2014. Revenues increased by 2.7% to EUR 9.9 billion, in part because of advantageous foreign exchange rates and in spite of constant capacity and a strong reduction of our Cargo Business. Our operating margin increased from 1.8% in 2014 to 3.9% in 2015.

Overall cost consciousness increased.

KLM's goal is to achieve an operating margin of around 7-8% by 2018, which requires, amongst others, an increase of productivity by 4% and decrease of the unit cost by at least 1.5% per year. In 2015, productivity increased by 1.4% and unit cost decreased by 0.9%. Overall cost consciousness increased throughout the organisation. We invested around EUR 514 million in mainly two new wide-body aircraft, new Boeing 737-800's, Embraers 190 for the European network and down payments to secure future deliveries, fleet related investments, such as cabin upgrade, and new IT capabilities. Our intention is to increase our investment level to EUR 800 million per year as from 2017.

Consolidated income statement

In millions of Euros	2015	2014	Variance %
Revenues	9,905	9,643	3
External expenses	(6,164)	(6,042)	2
Employee compensation and benefit expenses	(2,774)	(2,645)	5
Other income and expenses	298	58	-
Total expenses	(8,640)	(8,629)	-
EBITDAR	1,265	1,014	25
Aircraft operating lease costs	(354)	(283)	25
EBITDA	911	731	25
Amortisation, depreciation and movement in provisions	(527)	(556)	(5)
Income from current operations	384	175	119

KLM's three businesses showed varying results. Our Passenger Business did well, profiting from cost reductions, good yield management during the summer and lower fuel costs. The densification of the Boeing 737 contributed to a strong improvement of the European network results. Engineering & Maintenance maintained its profitability. Cargo had another tough year in the wake of a market still dominated by sluggish demand and overcapacity, but managed to complete a reorganisation and reduce its unit cost while decreasing the number of full freighters. Transavia managed in a highly competitive market to decrease operating losses in 2015, to come close to breakeven.

Revenues

Revenues were 2.7% higher, mainly resulting from a 20% stronger USD. Capacity (in equivalent available seat kilometers) was 0.3% higher than last year. Unit revenue increased with 1.4% (-4.6% at constant exchange rates). Yield increased with 1.5% (-4.5% at constant exchange rates), while load factor practically remained stable at 83.9% (-0.1% compared to 2014).

Expenses

Total expenses (excluding aircraft operating lease cost and amortization, depreciation and the movement in provisions) of EUR 8,640 million, an increase of only EUR 11 million compared to 2014. Unit cost were -0.9% below 2014 (-7.3% at constant exchange rates).

Fuel prices

In 2015 fuel prices further decreased to a price per barrel of USD 38 end December. KLM is gradually benefiting from the drop in fuel prices, as a result of the current structure of its fuel hedges.

Fuel volume was 0.6% lower and the USD was 20% stronger.

Overall Fuel cost decreased with EUR 200 million compared to 2014, with a 22% lower jet fuel price after hedge and including a negative pay out of the hedge portfolio. Fuel volume was 0.6% lower and the USD was 20% stronger.

Foreign exchange rates

The income from current operations for 2015 was affected by a loss of EUR 34 million on foreign exchange movements. This is mainly due to an almost 20% weaker EUR compared to USD.

Income from current operations

In millions of Euros	2015	2014
Income from current operations	384	175
Other non-current income and expenses	71	676
Net cost of financial debt	(114)	(116)
Other financial income and expenses	(208)	(92)
Pre-tax income	133	643
Income tax (expenses)/benefit	(42)	(253)
Share of results of equity shareholdings	(37)	(49)
Profit for the period	54	341

The net profit in financial year 2015 amounted to EUR 54 million. Excluding the 2014 one-off, non-cash, release of pension liabilities of EUR 617 million after tax (EUR 823 million before tax as elucidated in the next paragraph), the net result would have been a net loss of EUR 276 million in 2014.

Other non-current income and expenses

Other non-current income and expenses show a positive amount of EUR 71 million. This includes the sale of slots at Heathrow Airport (EUR 125 million), positive pension plan settlement from defined benefit to defined contribution for Transavia flight deck crew (EUR 45 million), negative pension plan change related to a pension age increase from 56 to 58 years offset by an increased yearly accrual rate at KLM flight deck crew (EUR 25 million), provisions for severance payments at Martinair (EUR 40 million) and a voluntary leave plan at KLM (EUR 31 million).

The 2014 other non-current income and expenses mainly related to a non-cash release of pension liabilities of EUR 823 million. This release relates to plan changes following the new Dutch fiscal rules for pensions as per January 1, 2015, which consist of lower future yearly accrual rates and a maximum pensionable salary of EUR 100,000.

Other financial income and expenses

The loss of EUR 208 million in other financial income and expenses in 2015, mainly relates to negative revaluation of KLM's debt in foreign currencies, negative USD impact on maintenance and phase out provisions and negative time value on fuel derivatives.

Income tax

The income tax mainly relates to the 25% corporate income tax on pre-tax income and a write off of tax losses in the United Kingdom amounting to EUR 4 million. The 2014 income tax expense included a provision on deferred tax assets relating to tax losses of EUR 89 million in The Netherlands.

Equity shareholdings

The result from equity shareholdings reflects the KLM share of the results in Kenya Airways Ltd. and Transavia France. Both equity shareholdings have a negative equity per December 31, 2015. KLM is not responsible for losses below a net equity value of nil and therefore no additional losses have been recorded.

Cash flow statement

In millions of Euros	2015	2014
Cash flow from operating activities	748	503
Cash flow from investment activities	(340)	(420)
Free cash flow	**408**	**83**
(Increase) / Decrease in short-term deposits and commercial paper	(7)	45
Cash flow from financing activities	(413)	(275)
Other	14	9
Changes in cash and cash equivalents	**2**	**(138)**

Operational cash flow reached EUR 748 million, composed of a cash flow from operating activities before working capital of EUR 716 million, and a positive working capital movement of EUR 32 million. The continuous focus on cash resulted in a positive free cash flow of EUR 408 million (2014: EUR 83 million), and included the sale of KLM slots at Heathrow Airport to Delta Air Lines for an amount of EUR 125 million.

The investing cash flow includes EUR 118 million for fleet renewal and modifications (2014: EUR 144 million) and fleet related investments amounted to EUR 260 million, including EUR 178 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 116 million (including EUR 73 million for capitalized software). Disposal of aircraft led to an income of EUR 29 million and mainly relates to sales of MD-11 and Fokker 70 aircraft, engines and stock.

The financing positioning of the cash flow was EUR 413 million negative. New financings include new external loans of EUR 270 million, an AIR FRANCE KLM loan of EUR 220 million and near cash of EUR 41 million. Redemption of finance lease liabilities amounted to EUR 354 million, redemption on existing loans to EUR 241 million, and redemption on an AIR FRANCE KLM loans of EUR 348 million. Dividend was paid to a minority interest shareholder of a KLM subsidiary to EUR 1 million.

Debt, which was EUR 3 billion in 2011, was reduced to EUR 2.1 billion in 2015, while KLM ended the year with a cash position of EUR 1.2 billion. Including available credit lines, KLM's liquidity position is EUR 1.8 billion. KLM intends to continue reducing its debt and improving its cash position in order to remain resilient in a changing environment. The adjusted net debt/ EBITDAR ratio improved from 4.3 to 3.6.

Equity

Equity increased to EUR 396 million at December 31, 2015, and includes the positive net result for the financial year 2015 amounting to EUR 54 million. It also includes the positive net movements in the remeasurement of defined benefit pension plans amounting to EUR 240 million and the net variance of the value of fuel derivatives amounting to EUR 96 million, both reported in "Other Comprehensive Income" in equity.

Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 1,012 million at December 31, 2015 (EUR 605 million at December 31, 2014).

The equity level increased in 2015 but remains volatile for movements of the remeasurement of the defined benefit pension plans. The non-cash changes in pension obligations together with the level of plan assets linked to the changes in actuarial assumptions (such as the current low discount rate) need to be recognized in the Company's equity and will never be taken in the statement of profit or loss.

Despite the increase compared to 2014 the equity is still low per end 2015. Going forward the balance sheet and thus the equity need to be strengthened and also an improvement of the net debt/EBITDAR ratio is needed.

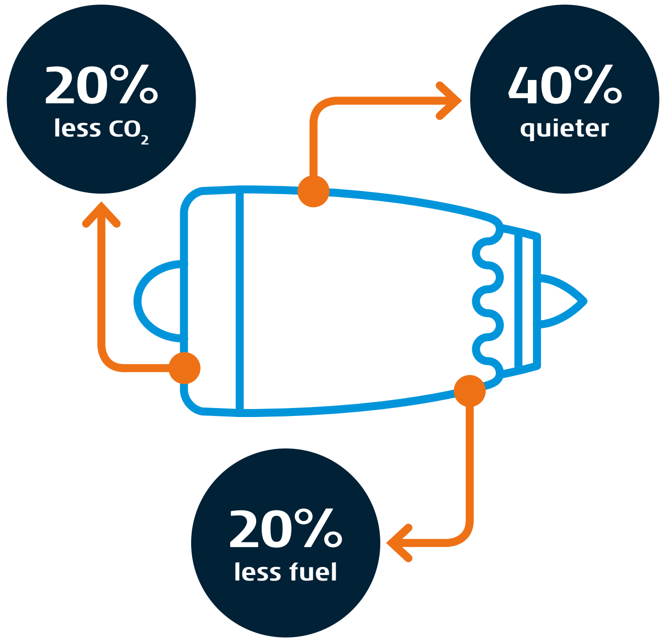
Corporate social responsibility

KLM has been a corporate social responsibility (CSR) leader for more than a decade, with pioneering efforts in areas like biofuels. KLM and Air France's commitment towards sustainability is laid out in its Corporate Social Responsibility Statement, Social Rights and Ethics Charter and Climate Action Plan.

Sustained efforts

We are proud that AIR FRANCE KLM ranked first in the 2015 Dow Jones Sustainability Index in the Airlines category and in the broader Transport sector. This happened for the 11th and 7th time respectively. This is the result of sustained efforts in four areas: focus on reducing the environmental footprint, integrating sustainability in the entire value chain, a responsible HR policy and sustainable societal contributions. Our ambition for 2016 is to retain our number one position, but we will fully focus on the integration of sustainability into our business processes in such a way that improvements will attribute to our operational processes, reduce our environmental footprint and add to our customer expectations.

Our objective towards 2020 is to reduce our CO_2 emission by 20% compared to 2011. The delivery of the first Boeing 787-9 Dreamliner fits well into that approach. The aircraft's new engines allow it to emit 20% less CO_2, be 40% quieter and use 20% less fuel with a bigger range than comparable aircraft. Less waste and toxic materials are generated during its production process and the aircraft will be recycled when it is decommissioned. Combined with KLM's efforts to reduce weight and use sustainable biofuels, this plane makes an important contribution to KLM's sustainability goals.



Innovation

KLM is the first to involve its corporate customers in its sustainability efforts. The KLM Corporate Bio Fuel Program enables businesses to reduce the impact of their corporate travel. Participants pay a surcharge that covers the difference in cost between biofuel and traditional kerosene. This surcharge is fully used for the purchase of sustainable biofuel. In addition, KLM is investing in technical and market developments of biofuel, in cooperation with SkyNRG, a joint venture that KLM and partners launched to stimulate the market for sustainable biofuel.

Our objective towards 2020 is to reduce our CO_2 emission by 20% compared to 2011.

Our efforts in the field of sustainability also focus on re-use and recycling of materials. To show discarded material still has a value the 'Plane to Product' project was initiated. Students from Design Academy Eindhoven were given the assignment to design products that are useful while traveling and at whereof at least 70 percent of the prototype needed to be of recycled KLM materials. Our Engineering & Maintenance Business, for example, set up Scrap Plaza where discarded material is gathered and either re-used or recycled. This includes a Plastic Repair Shop where plastic aircraft components are repaired rather than discarded.

More about KLM's sustainable initiatives can be found on the KLM takes care platform (www.klmtakescare.com) or in the AIR FRANCE KLM CSR report.

Risks and risk management

General

The airline industry can be characterised as being a cyclical, capital and labour intensive business, facing a high level of fixed cost and operating with relatively small margins. In addition, the airline industry has to deal with strong fluctuating oil prices and currencies and also with increasing laws and regulations, for instance in the areas of compliance, environment, (flight) security and passenger rights.

This chapter focuses on the risks, which KLM is facing, including the management and monitoring of these risks. A distinction is made between strategic, operational and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are directly related to operational activities and financial risks are related to the financial and market developments. The financial risks are elaborated in the section "Financial risk management" in the notes included in the consolidated financial statements.

Overall risks of AIR FRANCE KLM are explained in the relevant parts of the AIR FRANCE KLM financial disclosure reporting. These parts have a strong connection with this section, in which basically, the most important KLM risks are discussed. These risks can have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

Risk management process

KLM has implemented a system to identify, monitor and control/manage risks, which is in line with international risk management standards (COSO Enterprise Risk Management) and complies with the risk management part of the 8th EU company law directive. Strategic and operational risk mapping processes have been established by all the relevant entities, facilitated by Internal Audit & Internal Control, where also consolidation of the risks at KLM level takes place.

Every three months, KLM entities update their own operational risks sheet which contains the risk itself, the probability it will occur, its potential financial impact and actions taken or proposed. Risks are discussed within the management teams owning the risks. Both specific risks to each entity and transverse risks affecting the whole Group, are the subject of reporting. For each reported risk, members of the Board of Managing Directors and the KLM Executive Committee are responsible for reviewing measures implemented to control the risks. On a quarterly basis, the most significant operational and financial risks are presented to the Board of Managing Directors, the KLM Executive Committee and, twice a year, to the KLM Audit Committee of the Supervisory Board.

The AIR FRANCE KLM Group Strategic Framework determines the strategic risks (competition, economic growth, etc.) as well as the related action plans within the context of its work to establish the AIR FRANCE KLM Group's strategy. These risks and action plans are discussed by the AIR FRANCE KLM Group Executive Committee.

Monitoring

AIR FRANCE KLM continuously pays additional attention to financial reporting, based on the Internal Control Framework for financial reporting. The existing risk management system supports this additional attention and contributes to compliance with Dutch Corporate Governance principles.

An annual internal process of issuing a Document of Representation ("DoR") is used to facilitate in the internal accountability process. In its DoR, business management confirms to the Board of Managing Directors the reliability of the financial and other figures they have submitted and if control procedures have been applied. At the same time, business management acknowledges and certifies that it is responsible to:

- » report transparently the outcomes of its risk management process;
- » maintain a reliable internal control framework in general (including KLM-wide controls) and for financial reporting in particular;
- » report open control issues and the measures to monitor and mitigate the risks and related consequences of these control issues;
- » report that there is no knowledge of any undisclosed material fraud or suspected fraud.

KLM fraud policy

By means of the KLM fraud policy, KLM mitigates the risk of intentional acts designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM. By facilitating workshops and compliance roadshows awareness is created for identification and prevention of fraud risks. As part of reporting on compliance to the Board of Managing Directors and Supervisory Board, fraud-related cases and their potential financial impact are included in a more comprehensive reporting.

Risks relating to the air transport activity

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive with increasing volumes and reduced airfares.

On its short and medium-haul flights to and from the Netherlands, KLM competes with alternative means of transportation, e.g. the high-speed rail network in Europe. In addition, KLM faces competition from low-cost airlines for European point-to-point traffic. With leisure travel reaching saturation, these airlines are shifting their focus to the business travel market. KLM expects this will maintain downward pressure on airfares in Europe.

On its long-haul flights KLM competes, within the boundaries of governmental air transport agreements, with a multitude of airlines. Some low-cost airlines are establishing longer haul point-to-point operations, US carriers have consolidated and are bigger and stronger than ever and non-Western world carriers are rapidly expanding. Non-EU airlines operate under very different regulatory and state aid regimes that allow them to compete successfully in the global market and with lower cost bases. These carriers are actively building positions in the European airline market.

The accelerating capacity growth of Middle East carriers in combination with the capacity growth of Asian carriers will further increase the imbalance between supply and demand to and from the Far East, resulting in a further increased risk of lower airfares.

To respond to the competition from other airlines or railway networks, KLM constantly adapts its network strategy, capacity and commercial offers. Furthermore, KLM seeks opportunities in mutually reinforcing airline partnerships (codeshares, joint ventures, alliances), and other partnerships. KLM regularly discusses with the Dutch and European authorities the need to establish and maintain a fair competitive landscape.

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months, leading to a too high cost base in the winter, mitigated by using temporary personnel in peaks and projects to reduce seasonality costs.

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the KLM's activities and financial results. Periods of crisis are liable to affect demand for transportation, both for leisure and business travel. Furthermore, during such periods, KLM may have to take delivery of new aircraft or be unable to sell aircraft not in use under acceptable financial conditions. KLM monitors demand closely so as to adjust capacity while reinforcing the flexibility of the fleet.

Risks linked to the air cargo market

The air cargo market faces structural excess capacity on a relevant number of routes. This is the result of moderate demand growth, given moderate world trade developments and alternative transportation modes (trains between China and Europe, improved sea transport scenarios) in a market with ongoing capacity supply, mostly driven by Passenger Business growth. The new generation of passenger aircraft also have higher cargo capacities than older types being replaced. Given this context, unit revenues are under pressure, which is countered by also lowering unit costs and reducing the freighter footprint of KLM and Air France.

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

Any terrorist attack or threat, or a military action has a negative effect on our business. This is notable by a decrease in demand and an increase of insurance and security costs. An epidemic, or the perception of an epidemic, can also have negative impact on the passenger traffic. Geopolitical situations resulting in political volatility also has a significant impact on air transport activity.

KLM has a security management system, contingency plans and procedures that enable it to adapt quickly to changing environments and anticipate and respond effectively to the above mentioned events.

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 KLM's businesses. These plans are regularly evaluated.
KLM complies with national, European and international safety and security regulations and submits regular reports to the national authorities of the measures and procedures deployed.

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

Air transport activities remain highly regulated, particularly with regard to the allocation of traffic rights, time slots and conditions relating to operations like safety standards, aircraft noise, CO_2 emissions and airport access. Institutions like the European Commission or the US authorities decide on the regulations which may be restrictive for airlines and are liable to have a significant organisational and/or financial impact.

Implementation of a Single European Sky will remain one of the European Commission's key priorities. The airline industry also closely follows the revision of the EU package travel directive including the passenger rights regulation. KLM, in close coordination with Air France, actively defends its position towards the Dutch government and European institutions, both directly and through industry bodies such as IATA, AEA, the recently created trade body Airlines for Europe (A4E) and BARIN, regarding both changes in European and national regulations and a reasonable and balanced allocation of traffic rights to non-European airlines.

For KLM it is important to monitor that the implementation of these laws and regulations does not lead to a distortion of the level playing field in the airline industry and does not disproportionately burden our industry.

On a national level, the Dutch government has continued the implementation of the air transport policy ("Luchtvaartnota"), which aims to strengthen the mainport function of Amsterdam Airport Schiphol and which recognises the essential role of the network of KLM and partners. The government asserted that Amsterdam Airport Schiphol is of major importance to the Dutch economy and will therefore be allowed to continue to grow.

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

Due to congestion at major European airports, all air carriers must obtain airport 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 percent of airport slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by the relevant carrier and transferred into a pool. Any loss of flight slots or lack of access to flight slots due to airport saturation could have an impact in terms of market share, results or even development.

Given the 80/20 utilisation rule applying to each pair of airport slots for the duration of the season concerned, KLM manages this risk at a preventive and operational level.

Risks linked to the consumer compensation regulations

Passenger rights in the European Union are defined by European regulations. One of them (EU 261/2004) applies to all flights, departing from an airport located in a Member State of the European Union or flying to the EU if it concerns an EU carrier.

Regulation 261/2004 establishes common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or class downgrading. However, the interpretation of this regulation differs per jurisdiction.
The European Commission therefore published a proposal (March 2013) to amend it. The proposal is currently under review of the Council of the European Union. The timetable for this regulation to become effective is unclear and depends on the degree of agreement that can be reached at European Parliament and Council level.

Also outside the Europe Union, Air Passenger Rights apply, which are sometimes conflicting with other Passenger Rights. This can lead to regulatory conflicts. KLM supports a global standardisation of passenger rights, also in light of the competitive position of EU carriers.

Risks relating to the environment

The air transport industry is subject to numerous environmental laws and regulations to manage environmental risks, such as laws on aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste and contaminated sites. Over the last few years, the Dutch, European authorities have adopted various measures, notably regarding noise pollution and the performance of aircraft, introducing taxes on air transport companies and obligations for them to ensure compliance of their operations.
The Dutch "Aviation Act" has a separate chapter relating to Amsterdam Airport Schiphol including environmental regulations covering local emissions, noise and security.

In 2010 the global aviation industry agreed on stabilizing emissions from 2020 and all governments under ICAO signed a resolution in 2013 to design a global market based measure to be decided in 2016.

The European Commission implemented the Emissions Trading Scheme (EU ETS[1]) also for international aviation from 2012, covering global emissions from flights within, to and from Europe. Following strong international objectives the EU institutions in March 2013 decided to temporarily limit ETS. This European directive applies now to all European and non-European airlines flying within Europe. In 2017 the unilateral EU approach should be aligned with the planned global ICAO based measure if a decision in 2016 will be taken.

KLM is best in class in fuel efficiency and saving CO_2 emissions. In the aim to further reduce the CO_2 emission with 20 percent in 2020 the KLM Group is acting constantly to reduce its fuel consumption and carbon emissions by:

- Fleet renewal, improved fuel management, and continuous reductions in weight carried and improved operating procedures;
- Active engagements in sustainable biofuels for international aviation. Together with partners such as the WWF-NL, SkyNRG and corporate customers KLM supports research, development and creation of a market for sustainable biofuels;
- Cooperation with the relevant national, European and international authorities: e.g. on optimization of traffic control and by creating effective marked based solutions to manage climate impact in the aviation sector.

For KLM and Martinair flight operations and all relevant ground activities in the Netherlands, compliance to environmental rules and regulations and improving environmental performance is ensured by the externally verified Environmental Management system according to ISO 14001.

Risks linked to the oil price

The fuel bill is one of the largest cost items for airlines. The volatility of oil prices thus represents a risk. Both an increase and decrease of the oil price may have an impact on the profitability. Furthermore, any appreciation in the US dollar relative to the euro also results in an increased fuel bill.

AIR FRANCE KLM has a policy in place to manage these risks that are set out in the section "Financial risk management" in the notes attached to the consolidated financial statements.

[1] The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of each year, companies must return an amount of emission allowance 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 to certain markets in the EU. Furthermore, they can earn a limited amount of credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs).

Operating risks

Safety and security

Safety and Security are fundamental elements of KLM operations and prerequisite for customer satisfaction. KLM is committed to continuously improving the safety of its operations. This is achieved by building upon the best safety and security practices through an Integrated Safety Management System, a working environment of continuous learning and improvement and an orchestrated managerial approach of the four safety domains: operational, occupational and environmental safety, plus operational security.

Airline accident risk

Air transport is heavily structured by a range of regulatory procedures issued by both national and international civil aviation authorities. The required compliance with these regulations is governed through an Air Operator Certificate (AOC), awarded to KLM for an unlimited period.

Accident risk is inherent to air transport, each AOC holder is required to adopt a predictive and pro-active approach which forms an integral part of KLM's integrated safety management system ISMS. The civil aviation authority carries out a series of checks and audits on a continuous basis covering these requirements and associated quality system.

In addition to this regulatory framework, the IATA member airlines have defined and comply with the IATA Operational Safety Audit certification (IOSA) whose renewal audit took place in 2015 for KLM without any findings. Martinair passed the renewal audit in 2015, Transavia in 2013 and KLM Cityhopper in 2014.

KLM, as a leader in aviation safety, aims to continuously improve its industry-leading, risk and performance-based safety management system in which risk based decisions can be taken at all levels of KLM. KLM's ultimate ambition is to be a global leader in aviation safety.

Operational integrity

Operational integrity is one of the essential conditions for success in the aviation industry. Airline operations are sensitive to disruptions. Delays lead to loss of quality and are costly. KLM has taken a number of initiatives to safeguard its operational integrity, in order to deliver a high-quality service to its customers. The Operations Control Centre, where all network-related decisions on the day of operations are taken, plays a central role.

Natural phenomena leading to exceptional situations

Air transport depends on meteorological conditions, which can lead to flight cancellations, delays and diversions. Adverse weather conditions such as heavy fog and heavy (winter) storms may require the temporary closure of an airport or airspace and thus can represent a significant cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.).

IT risks

Airlines depend on IT and telecommunications systems. These are operated in data centres or cloud solutions and are used across a network of workstations and an increasing number of mobile devices. The information and the systems are vulnerable to (cyber) threats from inside and outside the company, while IT changes occur ever faster and become increasingly pervasive. More information is exchanged with customers and third parties. Aircraft, data and mobile devices become connected and the number of (inter)national laws and regulations to comply with increases. This context demands a high level of security, security knowledge and a likewise mandate for the Chief Information Officer and its security staff.

Control measures are in place to safeguard data and IT processing; dedicated support centres and redundant networks, IT disaster recovery and access controls to the systems and data. These are checked regularly by specialised companies and external and internal auditors.

Cybercrime
Cybercrime refers to a broad range of activities to misuse data and systems for economic, personal or psychological gain. The AIR FRANCE KLM IT committees and the Cybercrime program govern preventive and detective actions such as cyber threat watch, security assessments and intrusion protection. Awareness campaigns for staff are regularly organised.

Risks linked to KLM's activities

Risks linked to non-compliance with antitrust legislation and compliance in general
KLM and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and subsequent civil claims.

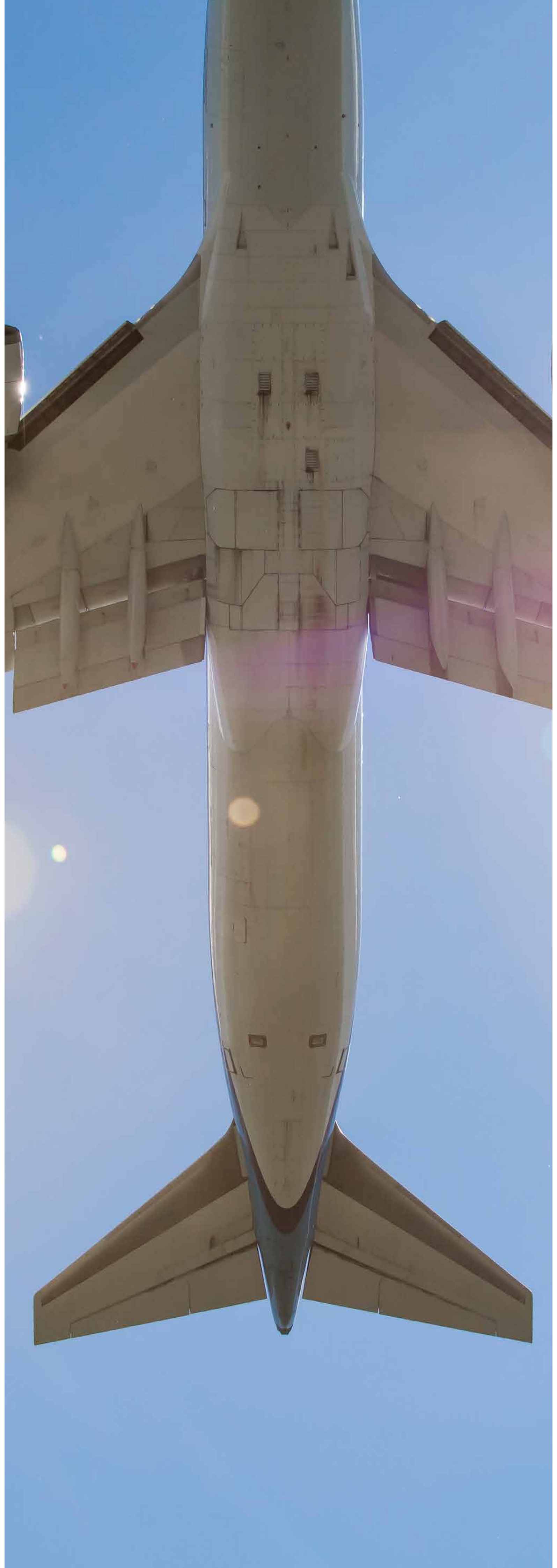
In 2010, the European Commission imposed fined totalling EUR 799 million on 11 air cargo carriers, including KLM, Air France and Martinair. All three airlines have filed an appeal against the decision with the General Court of the European Union in Luxemburg in January 2011. On December 16, 2015, the General Court annulled the European Commission's decision in its entirety. The European Commission has the option to appeal the judgement or to readopt the decision. The appeal term expired on February 29, 2016 without the Commission having filed an appeal. The Commission's intention therefore is to redraft the decision and issue a new one. Reference is made to note 21 "Contingent assets and liabilities" of the consolidated financial statements.

KLM, together with Air France, has reinforced its procedures to supplement its already extensive actions, aimed at preventing a breach of antitrust legislation, such as online training modules and on-site and tailor-made training sessions. Furthermore, KLM, considering compliance in general a top priority, has further expanded its procedures to secure and monitor compliance.

Risks linked to the regulatory authorities' inquiry into commercial cooperation agreements between carriers (alliances)
In 2012, the European Commission started an investigation whether or not the Trans-Atlantic joint venture between KLM, Air France, Alitalia and Delta Air Lines is compatible with EU antitrust legislation. Commitments have been offered by the parties on certain routes to which the European Commission has agreed in May 2015. This means that the commitments are now final and the joint venture is fully approved for 10 years. The joint venture has also been granted antitrust immunity from the US Department of Transport already in 2008.

Risks linked to commitments made by klm and air france to the european commission
For the European Commission to clear the merger between KLM and Air France, KLM and Air France had to make a certain number of commitments, notably with regard to the possibility of making landing and take-off slots available to competitors at certain airports. The fulfilment of these commitments should not have a material impact on the activities of KLM and Air France.

Financing risks
KLM and Air France finance their capital requirements via bank loans using aircraft as collateral which constitutes an attractive guarantee for lenders, via bilateral unsecured loans, and by issuing bonds at the holding AIR FRANCE KLM. Any long-term obstacle to its ability to raise capital would reduce the borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the AIR FRANCE KLM, KLM and Air France activities and financial results.



Risks linked to labour disruptions
Labour cost account for around a quarter of the operating expenses of KLM. As such, the level of salaries has an impact on operating results. Any strike or cause for work to be stopped could have a negative impact on KLM's activity and financial results. KLM fosters social dialogue and employee agreements amongst others in order to prevent the emergence of a conflict.

Risks linked to the reduction of labour costs
After three years of wage freeze and productivity increase in all domains, new CLA's were concluded (early 2015 as part of a five-year Perform plan). The new CLA's include productivity increase and wage freeze and are valid till March 2016 for cabin staff, till June 2016 for Ground staff and till December 2017 for pilots. The risk lays in the measure of willingness of our social partners to achieve further productivity improvement in the negotiations with cabin and ground staff that will commence early 2016.

Risks linked to tax losses carry forward
KLM has tax losses carry forward for which deferred tax assets have been recorded. These tax losses mainly relate to the Dutch KLM fiscal unity and originate from fiscal losses over the past years.

Deferred tax assets are recognised only to the extent it is probable that future taxable profits, based on budget and medium term plan, will be available against which the asset can be utilised in the Dutch KLM fiscal unity. If these future taxable profits will not materialise, it could have a significant impact on the recoverability of these deferred tax assets. Reference is made to the paragraph "Accounting policies for the balance sheet – Deferred income taxes", note 16 Deferred income tax and note 29 Income tax expense/benefit.

Transfer pricing

The combination of KLM and Air France requires measures to ensure compliance with tax legislation including well documented cross-border intercompany transactions. Strong monitoring and mitigating controls have been introduced, such as an AIR FRANCE KLM guideline and an active monitoring of the arms-length character of the transactions.

Risks linked to pension plans

KLM'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.

Both the fiscal rules for accruing pensions as well as the financial assessment framework (part of the Pension law) in the Netherlands changed as per January 2015. Amongst others this has resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling ten year recovery plan. This also mitigates the short-term risk that in case of shortages, based on existing or future financing agreements, KLM could be required to make additional cash payments. For 2016, this additional payment risk is mitigated as a result of the new pension law and new financing agreements with the funds concluded in 2015.

Under IAS 19 the KLM Group is exposed to changes in external financial parameters (e.g. discount rate, future inflation rate) which could lead to annual fluctuations in the income statement and KLM's equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognised in KLM's equity and will never be taken against profit and loss. The current calculations lead to the three KLM pension funds figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the defined benefit obligations. In the consolidated financial statements, the potential volatility is explained in the "Accounting policies for the balance sheet - Provisions for employee benefits" and in note 17 Provisions for employee benefits of the consolidated financial statements.

The sensitivity of the defined benefit cost recognised in profit and loss and the defined benefit obligation to variation to the change in discount rate, salary increase and pension rate are presented in note 17 of the consolidated financial statements.

Risks linked to the impact of external economic factors on equity

KLM's equity has become volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Not only results for the year and dividend distributions can have an impact on equity, but the non-cash impact of "Other Comprehensive Income" coming from the defined pension plans or the changes in the fair value of cash flow hedges (predominantly related to fuel hedges) can have a significant impact on equity. Please refer to note 9 Share Capital and note 10 Other reserves in the consolidated financial statements for more information.

KLM needs to strengthen its balance sheet and equity. Perform 2020 has been launched to improve results and further lower net debt. The non-cash changes in remeasurements of defined benefit plans and changes in fair value of cash flow hedges will however remain volatile going forward.

For an elucidation on the volatility of defined pension plans, please refer to the paragraph Risks linked to pension plans in this Risk and risk management section.

Risks linked to the use of third-party services

KLM's activities depend to a certain extent on services provided by third parties, such as air traffic controllers, airport authorities and public security officers. KLM also uses suppliers which it does not directly control, like aircraft handling companies, aircraft maintenance companies and fuel supply companies. Any interruption in the activities of these third parties or any increase in taxes or prices of the services concerned could have a negative impact on KLM Group's activity and financial results.

In order to secure supplies of goods and services, the contracts signed with third parties include, whenever possible, clauses for service, continuity and responsibility. A Supplier Relation Management program has been developed with an increasing number of strategic suppliers. Also business continuity plans are developed by KLM Group's different operating entities to ensure the long-term viability of all commercial and operational activities.

Legal risks and arbitration procedures

In relation to the normal exercise of activities, KLM and its subsidiaries are involved in disputes or subject to monitoring actions or investigations by authorities such as the Dutch Competition Authority, ACM, which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities. Please refer to note 21 Contingent assets and liabilities of the consolidated financial statements for more information.

Insurance coverage

KLM and Air France have pooled their airline risks in the insurance market in order to capitalise on their combined scale.

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy for its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd. which is to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activities.
It covers KLM's legal liability up to USD 2.25 billion per event and also includes liability for damage to third parties caused by acts of terrorism up to an amount of USD 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 USD 8 million annually.
Lastly, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, KLM has taken out a number of policies to protect its industrial sites in the event of material damage and, consequently, loss of income, property portfolio and activities ancillary to air transportation, with different levels of cover depending on the capacity available in the market and on the quantification of risks that can reasonably be anticipated.

Board and governance

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a 'non-listed' limited liability company incorporated under Dutch law. The company is managed by a Board of Managing Directors and supervised by a Supervisory Board. KLM has been subject to the mitigated structure regime (as per Dutch company law, Book 2 Dutch Civil Code) for large companies since May 2007.

KLM's corporate governance is based on the applicable statutory requirements and on the Company's Articles of Association. The company has brought its corporate governance as far as possible in line with generally accepted principles of good governance, as laid down in the Dutch Corporate Governance Code (De Nederlandse Corporate Governance Code, Code Frijns).

This section outlines KLM's corporate governance policy, which has not materially changed in comparison to financial year 2014.

Shareholder structure

KLM's shareholder structure is outlined below. Depositary receipts of shares carry beneficial (economic) ownership, but no voting rights on the underlying KLM shares.

AIR FRANCE KLM holds:

» All KLM priority shares;
» A proportion of the common shares, together with the priority shares representing 49% of the voting rights in KLM;
» The depositary receipts issued by Stichting Administratiekantoor KLM ("SAK I") on common KLM shares and on the cumulative preference shares A;
» The depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C ("SAK II") on the cumulative preference shares C.

On December 31, 2015, "SAK I" held 33.38% % of the voting rights in KLM on the basis of common shares and cumulative preference shares A. "SAK II" holds 11.25% of the voting rights in KLM. The Dutch State directly holds cumulative preference shares A, which represents 5.92% of the voting rights.

AIR FRANCE KLM

Air France and KLM share the same holding Company, AIR FRANCE KLM S.A. The holding Company's Board of Directors (Conseil d'Administration) has 15 members. The Board has four Dutch members, of which one is nominated by the State of the Netherlands and two are nominated by the KLM Supervisory Board. The fourth Dutch member will be the Chairman of the KLM Supervisory Board, a position currently filled in by a former CEO of KLM. In 2015 the present KLM CEO as well as the present Chairman of the KLM Supervisory Board attended the Board meetings as permanent guests/ observers. The AIR FRANCE KLM Group Executive Committee decides on strategic issues within the framework of the strategy approved by the Board of Directors.

Supervisory Board

The nine-member Supervisory Board supervises the management by the Board of Managing Directors and the general performance of KLM. It also provides the Board of Managing Directors with advice. The Supervisory Directors fulfil their duties in the interests of the Company, its stakeholders and its affiliates. Supervisory Directors are appointed and reappointed by the General Meeting of Shareholders. The KLM Works Council has a legal right of recommendation for one third of the Supervisory Directors.

Three committees are active within the Supervisory Board: an Audit Committee, a Remuneration Committee, and a Nomination Committee. All these committees have their own regulations, which lay down, amongst other things, the committees' tasks.

Board of Managing Directors

On December 31, 2015, the Board of Managing Directors consisted of three members. The Managing Directors are appointed and dismissed by the General Meeting of Shareholders. The members of the Board of Managing Directors are appointed for a fixed term of four years. Further information on the members' service agreements is presented in the section remuneration policy and report. Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single entity with joint responsibility. The Supervisory Board appoints one of the members of the Board of Managing Directors as President & Chief Executive Officer and may appoint one or more Managing Directors as Deputy CEO. The Board of Managing Directors shares its operational management tasks with an Executive Committee, consisting of KLM's divisional managers.

General meeting of shareholders

In addition to the Annual General Meeting of Shareholders, a General Meeting of Shareholders may be convened by the Board of Managing Directors, the President & Chief Executive Officer, the Supervisory Board, three Supervisory Directors, or the Meeting of Priority Shareholders, each of which has equal power to do so. KLM's next Annual General Meeting of Shareholders will be held on April 26, 2016.

Staff participation

The Board of Managing Directors, represented by the 'Bestuurder', meets with the Company's Works Council on a regular basis. During these meetings, a number of topics is discussed such as the developments within AIR FRANCE KLM, KLM's strategy and KLM's financial results. The KLM Works Council, which has 25 members, met with management on eleven occasions during financial year 2015.

The Supervisory Board supervises the management by the Board of Managing Directors

Within AIR FRANCE KLM, a European Works Council jointly represents KLM and Air France. This Council focuses on subjects concerning the cooperation between KLM and Air France. The European Works Council met on five occasions in financial year 2015.

Dutch act on management and supervision

The Dutch Act on Management and Supervision (as laid down in article 2:276 section 2 of the Dutch Civil Code) contains a guideline for balanced gender diversity in the management board and supervisory board of a (large) company. At least 30 percent of the positions are to be held by women and at least 30 percent by men.

At December 31, 2015, the Supervisory Board of the Company is composed in accordance with this guideline as one third of the directors of the Supervisory Board is female. KLM's Diversity Policy aims to increase the number of women in executive positions within KLM through promotion. When new candidates for the Board of Managing Directors are to be selected, the Supervisory Board will duly consider diversity requirements, when searching, selecting and evaluating the candidates.

Corporate governance code

KLM's corporate governance is, insofar as possible, in line with generally accepted principles of good governance, such as laid down in the Dutch Corporate Governance Code. Although as a non-listed company KLM is not formally obliged to comply with the Code, it has committed itself to follow it voluntarily where possible.

KLM deviates from the best practices described in the Code in a limited number of areas. These deviations are:

» Regulations and other documents are not made available on the Internet. Regulations and other documents are available upon written request;
» Best practice provision II.2.8 is only implemented in contracts of new external members of the Board of Managing Directors;
» In deviation of best practice provision III.5.13, a limited number of consultants that can provide advice to the Remuneration Committee of the Supervisory Board, also provide advice to the Board of Managing Directors. However, in these cases separate agreements are made in order to create a so-called Chinese wall;
» In deviation from best practice provision III.6.5, KLM has not drawn up regulations governing ownership of and transactions in securities by Board of Managing Directors or Supervisory Board members, other than regarding securities issued by AIR FRANCE KLM.

Internal regulations

KLM has adopted regulations in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Board of Managing Directors. The Rules of Supervision, the Profile with Code of Conduct for the members of the Supervisory Board, the Board of Managing Directors Regulations, the Terms of Reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, and the rotation schedule, insofar not published in this annual report, may all be viewed at KLM's head office. Copies shall be made available to shareholders if requested in writing from the Company Secretary.

Report of the supervisory board

Duties and powers

The Supervisory Board, which is a separate body and fully independent of the Board of Managing Directors in KLM's two-tier corporate structure under Dutch law, consists of nine members. The Supervisory Board is entrusted with supervising and advising the Board of Managing Directors of KLM, and overseeing KLM's strategy and the general course of its businesses.

Supervisory Board meetings

During financial year 2015 the Supervisory Board met on ten occasions, either in person or via conference call. Six meetings were planned in line with the regular schedule. Four of these six meetings were held shortly after the quarterly close. Deliberations during these meetings concentrated on KLM's (quarterly, semi-annual and annual) financial results. One meeting focused on the general course of KLM's businesses. Like previous years one meeting was dedicated for discussion of KLM's three-year plan (budget, investment plan and financial plan) and the Internal Audit plan.

All regular Board meetings were followed by an Executive Session - meetings of the Supervisory Board without the presence of members of the Board of Managing Directors. The meetings were well attended by the members, with an attendance score of 93 percent for all meetings combined. As of April 2015, Pierre François Riolacci, Chief Financial Officer AIR FRANCE KLM, joined the Board as 'permanent guest/observer'.

Highlights 2015

2015 was the year that KLM took on the challenge of making itself fit for the future. The airline industry has changed significantly over the past few years. Apart from consolidation, there is a fierce competition from low-cost carriers and Middle-Eastern airlines. Overcapacity in the market, fluctuating fuel prices and exchange rates put constant pressure on revenues. Realising that the financial results were insufficiently strong to ensure a healthy future for KLM, the Board of Managing Directors in 2014 announced a company-wide transformation program that was pursued in 2015. This is designed to make KLM Europe's most customer-centric, innovative and efficient network carrier by cutting costs, increasing productivity and reducing net debt in order to invest in KLM's customers. This is consistent with the AIR FRANCE KLM Perform 2020 program.

One of the focus areas of the Supervisory Board in 2015 was the review of KLM's strategy in line with the purpose and ambition. During the annual strategy meeting the Supervisory Board discussed with the Board of Managing Directors KLM's vision and strategic choices against the background of industry trends and competitor's benchmark information. The results of this strategy meeting, including the strategic choices that were made, were again discussed during an extra strategy meeting in the fall. During the 2015 financial year the Supervisory Board was frequently updated on the status of the AIR FRANCE KLM Perform 2020 program and its translation into KLM's transformation agenda. The Supervisory Board closely followed negotiations with the unions with respect to new collective labor agreements. The Supervisory Board was very pleased that in July 2015 KLM announced new collective labor agreements as they structurally improve KLM's competitiveness. Furthermore, the Supervisory Board was kept informed on the designs of the high performance organisation, which will lead to a lean, more agile and more engaged organisation able to realise its ambition.

On several occasions the Supervisory Board discussed KLM's customer centricity with the Board of Managing Directors and representatives from the Executive Committee. The Supervisory Board monitored the process of defining KLM's purpose that has enriched KLM's ambition and strategic plan.

The financial structure of the AIR FRANCE KLM Group and KLM's economic and social importance for the Netherlands has drawn a lot of attention and generated much discussion at the start of 2015. Within this context, the Supervisory Board discussed the topic of Group Finance.

Financial topics

The Supervisory Board continuously discussed progress on the budget and annual plan. It held intensive discussions with the Board of Managing Directors on developments in the markets and the best way to respond to them, in particular margin improvement and risk mitigation. With respect to financing, the Supervisory Board discussed and approved the conclusion of a new Revolving Credit Facility. KLM's cash position was reviewed on several occasions. Particular attention has been paid to the fuel hedging policy in light of the fuel price development. On multiple occasions the Supervisory Board discussed KLM's pension schemes, given new legislation and the objective to de-risk pension schemes by introducing a collective defined contribution system. Furthermore, the Board discussed and approved KLM's financing plan, including the financing of new aircraft.

During the year the Supervisory Board discussed in depth the future positioning of Transavia, whereby the topics of governance, ownership and the development of activities in the low-cost and point-to-point market segments were reviewed.

Other activities Supervisory Board

As is customary during the year, the Supervisory Board was informed about the performance of KLM's intercontinental and European network, as well as future network and partner developments. The same applies to the annual update of the operational safety and quality assurance program.

With respect to its responsibility towards corporate governance and compliance, the Supervisory Board discussed KLM's compliance framework and the ongoing improvements initiated after the external assessment in 2014.

Other topics discussed during the financial year, of which some are recurring:

» KLM's fleet development planning;
» Developments at partner airlines;
» Management Development;
» Discussions with the unions and Works Council;
» Performance of KLM's pension funds;
» Performance and remuneration of the Board of Managing Directors.

In keeping with previous years, members of the Supervisory Board took turns to attend meetings of the Works Council. There was also informal consultation between the Chairman of the Supervisory Board and the Chairman of the Works Council, as well as between other Supervisory Board members and respective Works Council members. In its supporting role, the Supervisory Board contributed to the improvement of the Works Council processes.

Board review

In 2015, the Supervisory Board assessed its own collective performance and that of its Committees, the contribution of individual Board members, as well as the Chairman and listed topics for improvement. The Supervisory Board discussed the results of the self-assessment during an Executive Session and concluded it functioned well and fulfilled its duties and responsibilities in a satisfactory way.

Furthermore, the Board performed a review of the regulations from the Board in order to align these with actual legislation as well as the latest developments in the field of corporate governance. As a result, regulations from the Board were updated and endorsed by the Supervisory Board.

Composition of the Supervisory Board

As per the closing of the Annual General Meeting of 2015, Annemieke Roobeek was reappointed as Supervisory Director for a second term of four years. The KLM Works Council has recommended the reappointment of Annemieke Roobeek. Jean Peyrelevade was reappointed as Supervisory Director for a third term of four years after nomination of AIR FRANCE KLM.

As announced in last year's annual report, Hans Smits, Irene Asscher-Vonk, Philippe Calavia, Henri Guillaume and Remmert Laan are due to retire by rotation as per the closure of the Annual General Meeting of Shareholders in 2016. Remmert Laan and Henri Guillaume will step down as Supervisory Board members. The Supervisory Board aims to propose a rotation plan which enables a more gradual rotation that secures continuity in the Board. In view of that the Supervisory Board is of the opinion that the reappointment of Hans Smits and Irene Asscher-Vonk for a fourth term, which is in deviation with general accepted principles of good governance as laid down in the corporate governance code, is justified. Philippe Calavia is eligible for re-appointment.

KLM's Works Council has recommended the reappointment of Hans Smits for a fourth and final term of three years and the reappointment of Irene Asscher-Vonk for a fourth and final term of one year. AIR FRANCE KLM has advised the Company it wishes to reappoint Philippe Calavia for a second term of four years. In the vacancy due to the retirement of Remmert Laan AIR FRANCE KLM wishes to appoint Pierre-François Riolacci as per the Annual General Meeting of Shareholders in April 2016.
With respect to the vacancy due to the retirement of Henri Guillaume, AIR FRANCE KLM proposes François Enaud for appointment as per the Annual General Meeting of Shareholders.

The Supervisory Board hereby announces that Irene Asscher-Vonk is due to retire by rotation as per the closure of the Annual General Meeting of Shareholders 2017.

Shareholders are entitled to make recommendations for the vacancy. It should however be noted that for the position of Irene Asscher-Vonk, KLM's Works Council has the right to propose a candidate.

Independence

The Supervisory Board considers all but one of its members to be independent pursuant to the Dutch Corporate Governance Code. Philippe Calavia, in his capacity of former Chief Financial Officer of AIR FRANCE KLM, is not considered to be independent. Philippe Calavia resigned as Chief Financial Officer of AIR FRANCE KLM as per the end of January 2014.

Composition of the Board of Managing Directors

The Board of Managing Directors consists of three members, Pieter Elbers, Chief Executive Officer, Erik Swelheim, Chief Financial Officer, and René de Groot, Chief Operating Officer. During the Annual General Meeting of Shareholders of 2015, René de Groot was appointed Chief Operating Officer for a term of four years. Furthermore Pieter Elbers was reappointed for a new term of four years. No changes in the composition of the Board of Managing Directors are foreseen for 2016.

Committees

The Supervisory Board has three committees: an Audit Committee, a Remuneration Committee, and a Nomination Committee. These committees prepare policy and decision making and report on their activities to the full Supervisory Board.

No changes in the composition of the committees occurred during the financial year and the composition of the committees was therefore as follows per year end:

Audit committee:

Jean Peyrelevade (Chairman), Henri Guillaume, Cees 't Hart, Annemieke Roobeek

Remuneration committee:

Remmert Laan (Chairman), Irene Asscher-Vonk, Hans Smits

Nomination committee:

Remmert Laan (Chairman), Irene Asscher-Vonk, Hans Smits

Committee meetings are open to all members of the Board, regardless of membership of the Committees.

The Audit Committee met on three occasions during the financial year. Two meetings were scheduled in line with the regular schedule. An additional meeting was planned to discuss the topics of Group Finance, KLM pension schemes, KLM risk management as well as the business case for the replacement of the Fokker 70.

The 2015 financial statements have been discussed with the external auditors. Apart from the financial results, the Audit Committee discussed the main (financial and non-financial) risks based on KLM Group's risk assessments and the results of the different internal audits, performed under the authority of the Company's internal auditor. The Chairman of the Audit Committee reported on the main topics during the meetings of the full Supervisory Board.

The Audit Committee's meetings were attended by the Supervisory Board's Chairman (as an observer) and the President & Chief Executive Officer, the Chief Financial Officer, the external auditors, the internal auditor, and the corporate controller. In keeping with previous years, the Audit Committee met with the external auditors without the members of the Board of Managing Directors present, to discuss the closing process and course of affairs during the financial year.

The Remuneration Committee met on two occasions during the financial year. At its February meeting, the Committee evaluated the performance of the members of the Board of Managing Directors against the collective and individual targets set for financial year 2014. The Supervisory Board subsequently established the variable remuneration based on the recommendations of the Remuneration Committee.

The Committee furthermore developed a proposal for the 2015 targets, which have been endorsed by the Supervisory Board. The Remuneration Committee prepared an amendment of the KLM's remuneration policy which was adopted by the Annual General Meeting of Shareholders in 2015 after being proposed by the Supervisory Board. For further information, please refer to the remuneration policy and report section of this annual report.

The Nomination Committee met on two occasions during the financial year. During the meetings, the composition of both the Supervisory Board and the Board of Managing Directors, including succession planning, was discussed.

The meetings of both the Remuneration Committee and the Nomination Committee were partly attended by the President & Chief Executive Officer and the Company Secretary & General Counsel.

Distribution to shareholders

Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (AIR FRANCE KLM) the right to set aside an amount of the disclosed profit to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consulting the Board of Managing Directors and the Supervisory Board.

After having consulted both Boards and under the condition that the financial statements 2015 will be adopted by the General Meeting of Shareholders in April 2016, the Meeting of Priority Shareholders, after due consideration of KLM's 2015 financial results, the financial situation of the Company, its balance sheet and adjusted net debt/EBITDAR ratio, specific required investment levels as from 2016, as well as the economic outlook that stays uncertain and the competition that will remain fierce, decided to add an amount of EUR 53,439,412 out of the disclosed profit to the reserves. As a consequence, there will not be profits available for distribution on ordinary shares.

In accordance with further provisions of Article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of approximately EUR 2,611,035 and also relate to the financial year 2014, in which year no distributions were made to these shareholders.

Financial statements 2015

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2015. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V. The Supervisory Board has discussed the financial statements and the annual report with the external auditors and the Board of Managing Directors. The unqualified auditors' report as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements.

The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in the financial year 2015.

Closing remarks

The past 96 years have given KLM a solid foundation. Throughout 2015 everyone in the company has become convinced that the transformation of KLM is an important condition to secure this great history, but also to have a promising and sustainable future. The Supervisory Board is pleased that under the leadership of the new Board of Managing Directors, KLM has shown its resilience and ability to transform. The execution of the Perform 2020 program has demanded a lot of all employees of KLM, but the dedication of all staff has proven to be key for the transformation.

The members of the Supervisory Board are grateful for the work undertaken by the Board of Managing Directors and the Executive Committee in order to meet KLM's strategic and business objectives. The Supervisory Board expresses its appreciation to the KLM Works Council for the constructive dialogue with the Board of Managing Directors. And finally they all wish to thank KLM's employees for their hard work, dedication and commitment to KLM and its customers across the world.

Amstelveen, March 29, 2016

Hans N.J. Smits Chairman

Remuneration policy and report

Remuneration policy for the Board of Managing Directors

The Supervisory Board's Remuneration Committee is responsible for formulating, implementing and evaluating the remuneration policy of KLM with regard to the terms and conditions of service and remuneration of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board. The remuneration policy is formulated and proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders. KLM's remuneration policy was last changed in April 2015.

In accordance with the Articles of Association and the remuneration policy, and subject to prior approval of the Meeting of Priority Shareholders (AIR FRANCE KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the individual members of the Board of Managing Directors. These decisions are prepared by the Supervisory Board's Remuneration Committee.

Each year, the Remuneration Committee evaluates whether there is reason to change the remuneration for the members of the Board of Managing Directors. The following factors are considered in the evaluation: (i) developments in the remuneration of AIR FRANCE KLM's directors, whereby also external benchmark data regarding directors' remuneration (reference group is large Dutch companies) are taken into account as well as (ii) inflation and developments in KLM's Collective Labour Agreement. Any changes in individual remuneration further to the evaluation are proposed by the Remuneration Committee to the Supervisory Board. The Supervisory Board in turn adopts the remuneration subject to approval of the Meeting of Priority Shareholders.

Objective of the policy

The main objective of the remuneration policy is to create a remuneration structure that enables the Company to attract and retain qualified Managing Directors and to offer them a stimulating reward. Furthermore, the remuneration policy objective is to focus KLM and its Managing Directors on improving the performance of KLM and on achieving KLM's long-term objectives within the context of AIR FRANCE KLM.

As a consequence, the remuneration package includes a short-term incentive in cash relating to the performance in the past financial year and a long-term incentive in the form of phantom shares, relating to certain pre-determined financial and non-financial targets with a longer-term focus.

Structure

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:

1. Base salary;
2. Short-term incentive in cash related to performance in the past financial year;
3. Long-term incentive in the form of phantom shares related to certain predetermined financial and non-financial targets.

1. Base salary

The amount of the base salary is related to the requirements and responsibilities pertaining to the function of the relevant member of the Board of Managing Directors. The Remuneration Committee determines an appropriate level for the base salary with the aid of external reference data issued by independent remuneration experts and also takes into account the base salaries for directors at AIR FRANCE KLM level. The job grade is determined on the basis of KLM's size, the complexity of the activities, the national and international environment in which KLM operates and the specific responsibilities pertaining to the position. On the basis of this job grade, a base salary level is set at around the median of the market level. This salary level as established then serves as the maximum achievable base salary for the respective Managing Director.

Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body) with the maximum number of remunerated positions is set at two per Managing Director. Acceptance of such position requires the prior approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remains due to KLM.

Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

2. Short-term incentive plan

The purpose of the short-term incentive plan is to reward members of the Board of Managing Directors for achieving pre-agreed and measurable targets relating to performance in the past financial year. The short-term incentive is paid in cash as a percentage of base salary. The amendment of KLM's remuneration policy as adopted by the General Meeting of Shareholders in April 2015 related to the criteria for the short term incentive. Following the amendment, these criteria are now: (i) financial targets relating to KLM (25%), (ii) financial targets relating to AIR FRANCE KLM (25%) and (iii) individual targets (50%).

The maximum pay-out percentage is connected to the position of the Board member. Depending on the performance level achieved, the pay-out percentages are as follows:

For the CEO position:

- » The maximum percentage that can be paid out on a score of 'excellent' is 100%;
- » On a score of 'at target' for each of the three short-term incentive targets, this percentage is 70%;
- » On a score below a set limit (target less than 80% achieved), no payment is made.

For the Managing Director position:

- » The maximum percentage that can be paid out on a score of 'excellent' is 60%;
- » On a score of 'at target' for each of the three short-term incentive targets, this percentage is 40%;
- » On a score below a set limit (target less than 80% achieved), no payment is made.

The Remuneration Committee evaluates the agreed targets each year and proposes new targets. Both the evaluation and the proposals are submitted to the Supervisory Board for approval. In line with the Dutch Corporate Governance Code, the Remuneration Committee – in establishing both the policy and actual remuneration for individual members of the Board of Managing Directors – analyses the possible outcomes of the intended new short-term incentive target setting (in case of a change to the policy) or the agreed short-term incentive pay-out percentage. The Committee will relate such outcomes against the results of KLM as a whole.

The Remuneration Committee may use its discretionary powers in case the evaluation of the short-term incentive targets would produce an unfair result due to extraordinary circumstances by adjusting the pay-out downwards or upwards. Together with its proposal to the Supervisory Board, the Remuneration Committee will provide an explanation for using its discretionary powers.

3. Long-term incentive plan

Members of the Board of Managing Directors participate in KLM long-term incentive (LTI) plan, which is in the form of phantom shares, relating to certain predetermined financial and non-financial targets. The LTI plan aims to encourage members of the Board of Managing Directors to achieve long-term profitable growth for KLM as part of AIR FRANCE KLM. The phantom performance shares plan provides for the conditional award of an amount in cash that, at the time of selling of the performance shares, is equal to the number of phantom shares that have vested during the performance period and are offered for sale times the AIR FRANCE KLM share price at the time of sale.

Granting of the phantom shares will only take place if the individual performance of the Board members is at least 'at target'. The granted shares will vest in three years, provided certain predetermined performance criteria are met. The vested shares may then be sold after three years from the granting date during a period of two years.

The KLM performance criteria for the LTI plan are:

a. AIR FRANCE KLM total shareholders return (30%);
b. KLM Group Return on Capital Employed (40%), and
c. AIR FRANCE KLM position Dow Jones Sustainability Index, sector transport (30%).

The number of phantom performance shares (in the case of 'at target' performance) that will conditionally be granted to the members of the Board of Managing Directors under the long-term incentive plan amounts to 10,000 shares in respect of the Chief Executive Officer, and 6,000 shares in respect of the Managing Director.

Claw back clause

The Supervisory Board has the authority to reclaim payments on the basis of article 2:135 sub 8 of the Dutch Civil Code.

Pensions

In accordance with KLM's pension policy, the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme, whereby any variable income is excluded from pensionable salary. In line with the new fiscal regime, applicable per January 1, 2015, pensionable income is capped at EUR 100,000. In addition Managing Directors are entitled to an allowance, comparable to the premium available for pension accrual for the part of base salary above EUR 100,000, which can be used as a premium (deposit) for a net pension scheme that is offered by KLM's pension fund.

Employment contracts with members of the Board of Managing Directors

Members of the Board of Managing Directors have a contract of employment with KLM. In case of newly appointed external members of the Board of Managing Directors, the term of the employment contract is set at a maximum of four years. When Board members are appointed from within KLM, the years of service are respected in their new employment contract, and the appointment as a board member has a fixed term of four years.

With regard to the current members of the Board of Managing Directors:

» Pieter Elbers' employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2019.
» Erik Swelheim's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2018.
» René de Groot's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2019.

Severance pay

In case of newly appointed members of the Board of Managing Directors from outside the Company, the maximum severance pay in the event of dismissal is established at one year's base salary. In case of newly appointed members of the Board from within KLM, the severance pay in the event of dismissal has been set at a maximum of two years' base salary, whereby in establishing the amount due consideration will be given to the years of service with KLM.

Remuneration of the Board of Managing Directors in financial year 2015

1. Base salary

The base salaries of Pieter Elbers (EUR 450,000) and Erik Swelheim (EUR 300,000) remained unchanged in 2015. The base salary of René de Groot, who was appointed managing director in 2015, was set at EUR 310,000.

As an usual annual practice, the Remuneration Committee discussed and assessed the base salaries for 2016 of the Board of Managing Directors. Noting that these base salaries were not adjusted since 2014, and based on available external benchmark as well as historical data, the Remuneration Committee concluded that the base salary of the CEO as well as the other Board members is well below the established medians of the market levels pertaining to these positions.

Acknowledging that an increase for that reason would be justified, the Remuneration Committee has discussed such with the Board of Managing Directors and Supervisory Board. The Board of Managing Directors advised the Supervisory Board that, in light of the company situation and the challenges ahead, it wishes to waive for 2016 any suggested increase in base salary, which decision is respected.

Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 32 of the financial statements.

2. Short-term incentive plan

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2015 in accordance with the remuneration policy and its proposal has subsequently been endorsed by the Supervisory Board. This resulted in a short-term incentive payment for financial year 2015 of 83% of the base salary for Pieter Elbers, 51.5% for Erik Swelheim and 51.5% for René de Groot. Erik Varwijk left the company per June 30, 2015 and did not receive a short-term incentive payment in respect of the year 2015.

Details of the amounts involved are included in note 32 of the financial statements.

3. Long-term incentive plan

Pursuant to the long-term incentive phantom shares plan and based on the performance evaluation of financial year 2015, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2016. The number of granted phantom shares will amount to 10,000 for the Chief Executive Officer and 6,000 for the two Managing Directors. The phantom shares are granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

At its February 2016 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan. In respect of financial year 2015, the targets relating to KLM Group ROCE and AIR FRANCE KLM Dow Jones Sustainability Index were met in full, whereas the target relating to AIR FRANCE KLM Total Shareholder Return was only partially met.

Therefore the first (one third) increment of the 2016 phantom shares series, the second (one third) increment of the 2015 phantom shares series and the third (one third) increment of the 2014 phantom shares series will vest for 108.6%. These phantom shares will be unconditionally awarded in April 2016 to the members of the Board of Managing Directors.

Details of the granting and vesting of the phantom shares are included in note 30 of the financial statements.

Loans and advances

No loans or advances have been granted to members of the Board of Managing Directors.

Remuneration policy for the Supervisory Board

The remuneration policy for members of the Supervisory Board has not been changed since 2008. The remuneration consists of a fixed fee per annum and a fee for each meeting of the Board's Committees attended. Members of the Supervisory Board do not receive a performance-related reward or shares or rights to shares by way of remuneration, nor are they granted loans, advances or guarantees. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.

Remuneration of the Supervisory Board members in financial year 2015

The remuneration for the Supervisory Board is as follows. The fixed fee payable for services amounts to EUR 42,500 for the Chairman, EUR 34,500 for the Vice-Chairman and EUR 26,500 for the other members of the Supervisory Board.

The fee per meeting of the Audit Committee attended amounts to EUR 2,000 for the Chairman and EUR 1,000 for the other members of the Audit Committee. The fee per meeting of the Remuneration Committee and the Nomination Committee attended amounts to EUR 1,500 for the Chairman and EUR 1,000 for the other members of the Remuneration Committee and the Nomination Committee.

Members of the Supervisory Board are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

Details on the remuneration received by the individual members of the Supervisory Board are presented in note 31 of the financial statements.


KLM
Royal Dutch Airlines
KLM

Supervisory Board and Board of Managing Directors

Supervisory Board (situation as at December 31, 2015)

Name	Year of birth	Nationality	First appointment/ Current term	Function / Supervisory Board memberships and other functions*
Hans N.J. Smits Chairman	1950	Dutch	2004 / (third) 2012 - 2016	Chairman Janssen en de Jong Group. Former Chairman Board of Managing Directors Havenbedrijf Rotterdam N.V., former Chairman and CEO Rabobank, former Chairman and CEO Amsterdam Airport Schiphol.
Irene P. Asscher-Vonk **	1944	Dutch	2004 / (third) 2012 - 2016	Former Professor of labour law and social security law Radboud University Nijmegen / Arriva Personenvervoer Nederland B.V., Philip Morris Holland, Rabobank Nederland.
Philippe Calavia ***	1948	French	2012 / (first) 2012 - 2016	Senior advisor Accuracy. Former CFO AIR FRANCE KLM, former CEO AIR FRANCE KLM Finance, former deputy CEO Natexis / Director to Servair.
Alice Dautry-Varsat ***	1950	French	2014 / (first) 2014 - 2018	Former President of the Institute Pasteur / Board member UCB (BE), various board memberships in non-profit, educational and research institutions
Henri Guillaume ***	1943	French	2004 / (third) 2012 - 2016	Former CEO of ANVAR, Former Vice President of ERAP/ Adoma, SNI, Demeter Partners.
Cees 't Hart	1958	Dutch	2014 / (first) 2014 - 2018	CEO Carlsberg Group / director Supervisory Board Aids Fonds
Remmert Laan ***	1942	French Dutch	2004 / (third) 2012 - 2016	Senior advisor Leonardo & Co / Chairman Forest Value Investment Management, Director Myoscience.
Jean Peyrelevade ***	1939	French	2007 / (third) 2015 - 2019	Chairman of Banque Degroof Petercam, former CEO of Suez, former CEO Stern Bank, former CEO of the Union des Assurances de Paris, former CEO Credit Lyonnais / Director of Bouygues / SAUR
Annemieke J.M. Roobeek **	1958	Dutch	2011 / (second) 2015 - 2019	Professor for Strategy en Transformation Management Nyenrode Business Universiteit, CEO and founder of MeetingMoreMinds B.V. / Non-Executive Director of ABN AMRO Group, Abbott Healthcare Products. Chairman Advisory Board for Responsible Investing of PGGM Investments

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2015 are shown here
** Appointed upon recommendation of the KLM's Works Council *** Appointed upon recommendation of AIR FRANCE KLM

Board of Managing Directors (situation as at December 31, 2015)

Name	Year of birth	Nationality	First appointment	Function
Pieter J.TH. Elbers	1970	Dutch	2012	President and Chief Executive Officer KLM
René M. de Groot	1969	Dutch	2015	Managing Director and Chief Operating Officer KLM
Erik R. Swelheim	1965	Dutch	2014	Managing Director and Chief Financial Officer KLM

Company Secretary & General counsel

Name	Year of birth	Nationality
Barbara C.P. van Koppen	1966	Dutch

2015 Financial Statements

KLM Royal Dutch Airlines consolidated balance sheet

In millions of Euros	Note	December 31, 2015	December 31, 2014
After proposed appropriation of the result for the year			
ASSETS			
Non-current assets			
Property, plant and equipment	1	3,526	3,672
Intangible assets	2	308	292
Investments accounted for using the equity method	3	24	58
Other non-current assets	4	282	215
Other financial assets	5	277	174
Deferred income tax assets	16	214	365
Pension assets	17	1,773	1,409
		6,404	6,185
Current assets			
Other current assets	4	281	127
Other financial assets	5	194	260
Inventories	6	161	193
Trade and other receivables	7	845	896
Cash and cash equivalents	8	840	838
		2,321	2,314
TOTAL ASSETS		8,725	8,499
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves	10	(2,305)	(2,662)
Retained earnings		2,129	2,099
Total attributable to Company's equity holders		392	5
Non-controlling interests		4	4
Total equity		396	9
LIABILITIES			
Non-current liabilities			
Loans from parent company	11	288	288
Finance lease obligations	12	1,481	1,429
Other non-current liabilities	4	267	301
Other financial liabilities	13	1,184	1,182
Deferred income	15	162	145
Provisions for employee benefits	17	399	401
Other provisions	18	547	526
		4,328	4,272
Current liabilities			
Trade and other payables	19	1,750	1,785
Loans from parent company	11	105	233
Finance lease obligations	12	209	341
Other current liabilities	4	632	529
Other financial liabilities	13	87	212
Deferred income	15	922	897
Provisions for employee benefits	17	32	42
Other provisions	18	264	179
		4,001	4,218
Total liabilities		8,329	8,490
TOTAL EQUITY AND LIABILITIES		8,725	8,499

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines consolidated statement of profit or loss

In millions of Euros	Note	2015	2014 Restated *
Revenues	22	9,905	9,643
Expenses			
External expenses	23	(6,164)	(6,042)
Employee compensation and benefit expenses	24	(2,774)	(2,645)
Othe r income and expenses	25	298	58
Total expenses		(8,640)	(8,629)
EBITDAR		1,265	1,014
Aircraft operating lease costs		(354)	(283)
EBITDA		911	731
Amortisation, depreciation and movements in provisions	26	(527)	(556)
Income from current operations		384	175
Other non-current income and expenses	27	71	676
Income from operating activities		455	851
Gross cost of financial debt	28	(135)	(145)
Income from cash and cash equivalents	28	21	29
Net cost of financial debt		(114)	(116)
Other financial income and expenses	28	(208)	(92)
Pre-tax income		133	643
Income tax (expense)/benefit	29	(42)	(253)
Net result after taxation of consolidated companies		91	390
Share of results of equity shareholdings		(37)	(49)
Profit for the year		54	341
Attributable to:			
Equity holders of the Company		53	340
Non-controlling interests		1	1
		54	341
Net profit attributable to equity holders of the Company		53	340
Dividend on priority shares		-	-
Net profit available for holders of ordinary shares		53	340
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Profit per share (in EUR)		1.14	7.26
Diluted profit per share (in EUR)		1.14	7.26

The accompanying notes are an integral part of these consolidated financial statements

* Reclassification. See notes to the consolidated financial statements: Change in presentation of Consolidated statement of profit or loss

KLM Royal Dutch Airlines consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2015	2014
Profit for the year	54	341
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(439)	(650)
Change in fair value transferred to profit or loss	559	95
Exchange differences on translation foreign operations	(4)	1
Tax on items of comprehensive income that will be reclassified to profit or loss	(30)	139
Total of comprehensive income that will be reclassified to profit or loss	86	(415)
Remeasurement of defined benefit pension plans	329	(2,018)
Tax on items of comprehensive income that will not be reclassified to profit or loss	(82)	499
Total of comprehensive income that will not be reclassified to profit or loss	247	(1,519)
Total of other comprehensive after tax	333	(1,934)
Recognised income and expenses	387	(1,593)
- Equity holders of the company	386	(1,594)
- Non-controlling interests	1	1

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines consolidated statement of changes in equity

	Attributable to Company's equity holders						
In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2015	94	474	(2,662)	2,099	5	4	9
Net gain/(loss) from cash flow hedges	-	-	120	-	120	-	120
Exchange differences on translation foreign operations	-	-	(4)	-	(4)	-	(4)
Remeasurement of defined benefit pension plans	-	-	329	-	329	-	329
Transfer from retained earnings	-	-	24	(24)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(112)	-	(112)	-	(112)
Net income/(expense) recognised directly in equity	-	-	357	(24)	333	-	333
Profit for the year	-	-	-	53	53	1	54
Total recognised income/(expenses)	-	-	357	29	386	1	387
Dividends paid	-	-	-	-	-	(1)	(1)
Other movements	-	-	-	1	1	-	1
As at December 31, 2015	94	474	(2,305)	2,129	392	4	396

	Attributable to Company's equity holders						
In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2014	94	474	(736)	1,776	1,608	3	1,611
Net gain/(loss) from cash flow hedges	-	-	(555)	-	(555)	-	(555)
Exchange differences on translation foreign operations	-	-	1	-	1	-	1
Remeasurement of defined benefit pension plans	-	-	(2,018)	-	(2,018)	-	(2,018)
Transfer from retained earnings	-	-	8	(8)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	638	-	638	-	638
Net income/(expense) recognised directly in equity	-	-	(1,926)	(8)	(1,934)	-	(1,934)
Profit for the year	-	-	-	340	340	1	341
Total recognised income/(expenses)	-	-	(1,926)	332	(1,594)	1	(1,593)
Dividends paid	-	-	-	(7)	(7)	(1)	(8)
Other movements	-	-	-	(2)	(2)	1	(1)
As at December 31, 2014	94	474	(2,662)	2,099	5	4	9

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines consolidated cash flow statement

In millions of Euros	2015	2014
Profit for the period	54	341
Depreciation and amortisation	511	539
Changes in provisions	16	17
Results of equity shareholdings	37	49
Changes in pension assets	(18)	(143)
Changes in deferred income tax	42	253
Other changes	74	(609)
Net cash flow from operating activities before changes in working capital	716	447
(Increase) / decrease in inventories	43	2
(Increase) / decrease in trade receivables	24	(11)
Increase / (decrease) in trade payables	(84)	2
(Increase) / decrease in other receivables and other payables	49	63
Change in working capital requirement	32	56
Net cash flow from operating activities	748	503
Capital expenditure on intangible fixed assets	(73)	(72)
Capital expenditure on aircraft	(378)	(353)
Disposal of aircraft	29	50
Capital expenditure on other tangible fixed assets	(63)	(55)
Disposal of other (in-)tangbile fixed assets	144	9
Dividends received	1	1
(Increase) / decrease in short-term deposits and commercial paper	(7)	45
Net cash used in investing activities	(347)	(375)
Increase in long-term debt	490	343
Decrease in long-term debt	(943)	(624)
Increase in long-term receivables	(45)	(6)
Decrease in long-term receivables	86	20
Dividend paid	(1)	(8)
Net cash flow used in financing activities	(413)	(275)
Effect of exchange rates on cash and cash equivalents	14	9
Change in cash and cash equivalents	2	(138)
Cash and cash equivalents at beginning of period	838	976
Cash and cash equivalents at end of period *	840	838
Change in cash and cash equivalents	2	(138)

The accompanying notes are an integral part of these consolidated financial statements

* Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amounts to EUR 1,233 million as at December 31, 2015 (December 31, 2014 EUR 1,185 million)

In millions of Euros	2015	2014
Cash flow from operating activities	748	503
Cash flow used in investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	(340)	(420)
Free cash flow	408	83

Financial Statements financial year 2015

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company") is a public limited liability company incorporated and domiciled in The Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

The Company together with its subsidiaries (the "Group") has as its principal business activities the air transport of passengers and cargo, aircraft maintenance and any other activity linked to air transport.

These financial statements have been authorised for issue by the Board of Managing Directors on March 29, 2016 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 26, 2016.

Subsequent events paragraph

On February 29, 2016 the possibility for the EU Commission to appeal the decision made by the General Court on December 16, 2015 elapsed. As a result the fine on the allegations of anti-competitive agreements or concerted actions in the airfreight industry by the EU Commission has been annulled. As the grounds for the annulment of the Commission's decision do not prelude them from pursuing the proceedings against KLM and Martinair (and Air France and AIR FRANCE KLM), the EUR 156 million in respect of the fine has been maintained as per December 31, 2015. The accrued interest, amounting to EUR 21 million, has been released to the consolidated statement of profit or loss in the first quarter of 2016. Reference is made to note 21 "Contingent assets and liabilities of the Consolidated Financial Statements.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (EU-IFRS) and effective at the reporting date December 31, 2015.
The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of The Dutch Civil Code. As permitted by Section 402 of Book 2 of The Dutch Civil Code the company statement of profit or loss has been presented in condensed form. All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Change in presentation of Consolidated statement of profit or loss

To facilitate performance analysis, the Group decided to change the presentation of the Consolidated statement of profit and loss, as per January 1, 2015, including the 2014 comparative figures, as follows:

» The capitalised production is included in "Other income and expenses" whereas it was included in "External expenses" and "Employee compensation and benefit expenses";
» The temporary staff cost is included in "Employee compensation and benefit expenses" whereas it was included in "External expenses";
» Inclusion of the aggregates EBITDAR and EBITDA. To facilitate this inclusion "Aircraft operating leasing cost" has been reclassified to a separate line item in the Consolidated statement of profit or loss whereas it was included in "External expenses".

All changes in presentation are only reclassifications and have no impact on "Income from current operations" and/or "Profit for the year" for both 2015 and 2014.

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless stated otherwise. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

Recent accounting pronouncements

The following IFRS standards, amendments and IFRIC interpretations, have been published by the IASB, and are applicable on a mandatory basis to the 2015 financial statements:

» The amendment to the standard IAS 19 "Employee Benefits" relating to employees' contributions is effective as from February 1, 2015. This amendment has no significant impact on the financial statements of the Group as of December 31, 2015.

IFRS standards and IFRIC interpretations which are applicable on a mandatory basis to the 2016 financial statements:

» Amendment to IFRS 11 "Joint Arrangements", effective for the period beginning January 1, 2016;
» Amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets", effective for the period beginning January 1, 2016, and
» Amendment to IAS 1 "Presentation of Financial Statements", effective for the period beginning January 1, 2016.

The Group does not expect any significant impact on the amendments mentioned above.

Other texts potentially applicable to the Group, published by the IASB but not yet adopted by the European Union, are described as follows:

» Amendment to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements", effective for the period beginning January 1, 2016;
» Standard IFRS 15 "Revenue Recognition from Contracts with Customers", effective for the period beginning January 1, 2018 and replacing the standards IAS 18 "Revenues", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes", and
» Standard IFRS 9 "Financial Instruments", effective for the period beginning January 1, 2018.

KLM does not expect any significant impact on the amendments mentioned above.

The implementation of IFRS 9 and IFRS 15 is followed as a project. For each standard, AIR FRANCE KLM, KLM and Air France have set up dedicated joint working groups with the individual business segment and department concerned. The initial aim is to identify the changes relative to the current standards, so as to be in a second step, in the position to evaluate the financial impacts. In January 2016 the IASB issued IFRS 16 "Leases", effective for the period beginning January 1, 2019. AIR FRANCE KLM, KLM and Air France started a joint project to establish the impact of this new standard.

Use of estimates and the exercise of judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from the estimates.
The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in the note Accounting policies for the consolidated balance sheet.

Consolidation principles

Subsidiaries

In conformity with IFRS 10 "Consolidated Financial Statements", the Group's consolidated financial statements comprise the financial statements for all entities that are controlled directly or indirectly by the Group, irrespective of its level of participation in the equity of these entities. The companies over which the Group exercises control are fully consolidated.

An entity is controlled when the Group has power on it, is exposed or has rights to variable returns from its involvement in this entity, and has the ability to use its power to influence the amounts of these returns. The determination of control takes into account the existence of potential voting rights if they are substantive, meaning they can be exercised in time when decisions about the relevant activities of the entity need to be taken.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins until the date this control ceases.
Non-controlling interests are presented within equity and on the statement of profit or loss separately from Company's equity holders and the Group's net result, 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 recognised in equity. In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including all the items initially recognised in equity and reclassified to profit and loss.

Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions are also eliminated. Gains and losses realised 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.

Interest in associates and jointly controlled entities

In accordance with IFRS 11 "Joint arrangements", the Group applies the equity method to partnership over which it exercises control jointly with one or more partners (jointly controlled entities). Control is considered to be joined when decisions about the relevant activities of the partnership require the unanimous consent of the Group and the other parties sharing the control. In cases of a joint activity (joint operation), the Group recognises assets and liabilities in proportion to its rights and obligations regarding the entity.

In accordance with IAS 28 "Investments in Associates and Joint Ventures", companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are also accounted for using the equity method. The ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

The consolidated financial statements include the Group's share of the total recognised global result of associates and jointly controlled entities from the date the ability to exercise significant influence begins to the date it ceases, adjusted for any impairment loss.

The Group's share of losses of an associate that exceed the value of the Group's interest and net investment (long-term receivables for which no reimbursement is scheduled or likely) in this entity are not accounted for, unless:

» the Group has incurred contractual obligations; or
» the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer accounted for by the equity method and are valued at their fair value on the date of loss of significant influence or joint control.

Scope of consolidation

A list of the significant subsidiaries is included in note 36 of the consolidated financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the exchange rate of the related hedge, if applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

» Assets and liabilities are translated at the closing rate;
» The statement of profit or loss and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
» All resulting translation differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity.

When control is given up, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for the most significant currencies were as follows:

	Balance Sheet December 31, 2015 EUR	Average in Statement of profit or loss 2015 EUR	Balance Sheet December 31, 2014 EUR
1 US Dollar (USD)	0.92	0.89	0.82
1 Pound sterling (GBP)	1.36	1.37	1.28
1 Swiss franc (CHF)	0.92	0.94	0.83
100 Japanese yen (JPY)	0.76	0.74	0.69
100 Kenya Shilling (KES)	0.90	0.92	0.90

Business combinations

Business combinations are accounted for using the purchase method in accordance with IFRS 3 revised standard "Business combinations". The cost of a business combination is measured at the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquirer.
Any other costs directly attributable to the business combination are recorded in the statement of profit or loss.

When a business combination agreement provides for an adjustment to the cost contingent on future events, then the adjustment is taken into account when determining the cost if the adjustment is probable and can be measured reliably.

Where goodwill has been initially determined on a provisional basis, adjustments arising within twelve months of the acquisition date are recognised on a retrospective basis.
Goodwill acquired in a business combination is no longer amortised, but instead is subject to annual impairment test or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Segment reporting

The Company defines its primary segments on the basis of the Group's internal organisation, main revenue generating activities and the manner in which the Board of Managing Directors manages operations.

Business segments

The activities of each segment are as follows:

» Passenger
The Passenger Business segment's main activity is the transportation of passengers on scheduled flights that have the Company's airline code. Passenger revenues include receipts from passengers for excess baggage and inflight sales. Other Passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements and revenues from block-seat sales.

» Cargo
Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of Cargo capacity to third parties.

» Maintenance
Maintenance revenues are generated through maintenance services (engine services, component services and airframe maintenance) provided to other airlines and clients around the world.

» Leisure
This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com.

» Other
This segment covers primarily catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

» Direct flights: Revenue is allocated to the geographical segment in which the destination falls;
» Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted Passenger-kilometers).

The greater part of the Group's assets comprises aircraft and other assets that are located in The Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the statement of profit or loss a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have little predictive value due to their nature, frequency and/or materiality.

Such elements can be divided into three categories:

» Elements that are both very infrequent and material, such as the recognition in the statement of profit or loss of negative goodwill;
» Elements that have been incurred for both periods presented and may recur in future periods but for which amounts have varied from period to period. The Group believes that amounts to be incurred in future periods will continue to vary materially in amount and nature such as sales of aircraft equipment and disposals of other assets;
» Elements that are by nature unpredictable and non-recurring, if they are material such as restructuring cost 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.

Aggregates used within the framework of financial communication

EBITDA (Earnings Before Interests, Taxes, Depreciation, Amortisation and movements in provision): by extracting the main line of the income statement which does not involve cash disbursement ("Amortisation, depreciation and movements in provision") from income from current operations, EBITDA provides a simple indicator of the Group's cash generation on operational activities.

EBITDAR (Earnings Before Interests, Taxes, Depreciation, Amortisation, movements in provision and Rents): this aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA (as defined above).

Operating free cash flow corresponds to the cash available after investment in (prepayments in) aircraft, other tangible fixed assets and intangible fixed assets less the proceeds of disposals. It does not include the other cash flows linked to investment operations, particularly investments in subsidiaries and other financial assets and net cash flow from the operating activities.

Accounting policies for the balance sheet

Impairment of assets

The Group's assets, other than inventories, deferred tax assets, assets arising from construction contracts, assets arising from employee benefits, financial assets that are within the scope of IAS 39 and non-current assets held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to Passenger Business and software to the business unit which uses the software.

An impairment loss is recognised in the statement of profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspond to the Group's Business segments.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs (or groups of CGUs) and then, to reduce the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. To determine the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Property, plant and equipment

With the exception of leased assets, and except as described in the following paragraph property, plant and equipment are stated initially at historical acquisition or manufacturing cost. Leased assets are stated initially at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.
Interest incurred in connection with the financing of aircraft (including other flight equipment) during the period prior to commissioning is included in cost. The interest rate adopted is the applicable interest rate for debts outstanding at the balance sheet date unless capital expenditure or advance payments are themselves funded by specific loans.

The cost of major maintenance operations (airframes and engines excluding parts with limited useful lives) which are carried out in accordance with specifications and schedules defined by manufacturers and regulating authorities are capitalised when incurred. Other maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives.

Aircraft fixtures and fittings and spare parts are classified as separate components from the airframe and depreciated separately.

During the annual operational planning cycle, the Group reviews the depreciation methods, useful lives and residual values and, if necessary amends these.

The useful lives of property, plant and equipment are as follows:

Category	Useful life (years)
Aircraft	20 to 25
Aircraft fixtures and fittings, and spare parts	3 to 20
Land	Not depreciated
Buildings	10 to 40
Equipment and fittings	3 to 15
Other property and equipment	5 to 20

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or when shorter, the term of relevant use. Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount.

Intangible assets

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the statement of profit or loss. Goodwill on acquisition of associates is included in investments in associates. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of profit or loss on disposal. The useful life of goodwill is indefinite.

Computer software

Computer software is stated at historical cost less accumulated amortisation and accumulated impairment losses. Only the costs incurred in the software development phase are capitalised. Cost incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the statement of profit or loss as incurred. The costs comprise the cost of KLM personnel as well as external IT consultants.
Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 10 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.
The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Trademarks

The Martinair trademarks were acquired as part of the acquisition of Martinair and have useful lives between 5 and 10 years. The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Jointly controlled entities are entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.
Investments in associates and jointly controlled entities are accounted for by the equity method and are initially recognised at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognised in the statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, taking into account other than temporary losses (impairment). When the Group's share of losses in an associate/jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate/jointly controlled entity. Unrealised gains on transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group's interest in the associates/jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially (trade date), and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques where an active market does not exist.
Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterpart, a legal right to off-set exists and the cash flows are intended to be settled on a net basis.

Recognition of fair value gains and losses

The method of recognising fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

Derivatives are used to hedge the risks associated with changes in interest rates, foreign currency rates and fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rate movements. The Group also uses swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent.

Hedging transactions fall into two categories:

1. Fair value hedges;
2. Cash flow hedges.

1. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

2. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item will affect profit or loss. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge effectiveness testing

To qualify for hedge accounting, at the inception of the hedge, and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must be demonstrated on an ongoing basis.

The documentation at inception of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method used to assess effectiveness will depend on the risk management strategy.

For interest rate and foreign exchange derivatives used as fair value and cash flow hedges, the offset method is used as the effectiveness testing methodology. For fuel derivatives used as cash flow hedges regression analysis and offset methodologies are used.
If the hedging instrument no longer meets the criteria for hedge accounting, is sold, is terminated or designation is revoked, then hedge accounting is discontinued prospectively.
The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is recognised immediately in profit or loss.

Fair value hierarchy

Based on the requirements of IFRS 7, the fair values for financial assets and liabilities are classified following a scale that 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 techniques based on observable data such as active prices or similar liabilities or scopes quoted on the active market; or
» Level 3: Fair value from valuation techniques which rely completely or in part on non observable data such as prices on an inactive market or the valuation on a multiple basis for non quoted securities.

Financial instruments: Recognition and measurement of financial assets and liabilities

For the purposes of determining the basis on which they are to be recognised and measured financial instruments are classified into the following categories:

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to held until maturity. Held-to-maturity investments are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest is recognised in the statement of profit or loss.

Medium term notes and bank deposits held by the Group as natural hedges for foreign currency liabilities and debts are generally classified as held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest calculated using the effective interest method is recognised in the statement of profit or loss.
Loans to associates, other loans and trade and other receivables are classified as loans and receivables, except for short-term receivables where the recognition of interest would be immaterial.

Effective interest method

For held-to-maturity investments and loans and receivables, the Group applies the effective interest rate method and amortises the transaction cost, discounts or other premiums included in the calculation of the effective interest rate over the expected life of the instrument.

At fair value through profit or loss

At fair value through profit or loss financial assets are other financial assets which have not been classified under either held-to-maturity or loans and receivables. At fair value through profit or loss financial assets are measured at fair value both on initial recognition and subsequently. Gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents cover all highly liquid instruments with original maturities of three months or less and include cash in hand, deposits held at call and on short-term with banks and bank overdrafts. Bank overdrafts are shown under "Financial liabilities" in "Current liabilities" in the balance sheet.

Where the Company has a practice and legally enforceable right to offset bank balances, the net balance is included under cash and cash equivalents or bank overdrafts as applicable. Cash and cash equivalents are stated in the balance sheet at fair value.

Financial liabilities

Financial liabilities are initially recognised at amortised cost, which is the fair value of the consideration received. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments carried at amortised cost.

Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled. Any costs that were attributable to financial liabilities are expensed through the statement of profit or loss.

Inventories

Inventories consist primarily of expendable aircraft spare parts, fuel stock and other supplies and are stated at the lower of cost and net realisable value. Cost, representing the acquisition cost, is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Leases

Finance leases

The Group has entered into a number of finance lease contracts (exclusively for aircraft). Under the terms of these contracts substantially all the risks and rewards in connection with the ownership of the underlying assets are transferred to the Group and the lease payments are treated as repayment of principal and finance cost to reward the lessor for its investment. The assets which are the subject of finance leases are presented as property, plant and equipment in the balance sheet.

Finance lease liabilities are stated initially at the present value of the minimum lease payments. Finance cost is recognised based on a pattern that reflects an effective rate of return to the lessor.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
Sale and leaseback transactions resulting in a finance lease with a deferred credit are initially established at present value and credited to net cost of financial debt over the remaining term of the associated financial lease contracts.

Operating leases

In addition to finance leases, the Group also leases aircraft, buildings and equipment under operating lease agreements. Operating leases are lease contracts which are not classified as finance leases, i.e. the risks and rewards in connection with the ownership of the underlying assets are not substantially transferred to the lessee.
Lease expense of operating leases is recognised in the statement of profit or loss on a straight-line basis over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately in the statement of profit or loss. If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred and amortised in proportion over the period for which the asset is expected to be used.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and the fair value is recognised immediately in the statement of profit or loss.

Deferred income

Advance ticket sales

Upon issuance, both Passenger and Cargo sales, including fuel and security surcharges, are recorded as deferred income under Advance ticket sales. The Company applies an estimation policy with respect to the recognition of those revenues in order to determine which part of the tickets sold and related surcharges will expire without any transport commitment for the Company.

Deferred gains on sale and leaseback transactions

This item relates to amounts deferred arising from sale and leaseback transactions.

Flying Blue frequent flyer program

KLM and Air France have a common frequent flyer program "Flying Blue". This program allows members to acquire "miles" as they fly on KLM, Air France or with other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies.

The probability of air miles being converted into award tickets is estimated using a statistical method. The value of air miles is estimated based on the deferred revenue approach, based on its fair value. This estimate takes into consideration the conditions of the use of free tickets and other awards.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred income" as liability on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognised.

The Group also sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognised as revenue immediately.

Deferred income taxes

Deferred tax assets and liabilities arising from the tax losses carried forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Except for goodwill arising from a business combination, deferred tax assets are recognised to the extent that is probable that taxable profit will be available against which the tax losses carried forward and the temporary difference can be utilised.

Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same authority.
A deferred tax asset is recognised for all deductible temporary differences associated with investments in

subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realised.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions for employee benefits

Pensions and other post-employment benefits

Pensions and other post-employment benefits relate to provisions for benefits (other than termination benefits) which are payable to employees on retirement. The provisions cover defined benefit pension plans, early-retirement schemes and post-employment medical benefits available to employees. The Group has various defined benefit and defined contribution pension plans, which are generally funded through payments to separately administered funds or to insurance companies.

The amount recognised as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:

1. The present value of the defined benefit obligations at the balance sheet date; and
2. Minus the fair value of the plan assets at the balance sheet date.

The actuarial gain and losses are recognised immediately in Other Comprehensive Income (part of equity).

The present values of the defined benefit obligations are calculated using the projected unit credit method. The calculations of the obligations have been performed by independent qualified actuaries.
This benefit/years-of-service method not only takes into account the benefits and benefit entitlements known at the balance sheet date, but also increases in salaries and benefits to be expected in the future. When a plan is curtailed or settled, gains or losses arising are recognised immediately.

The determination of the liability or asset to be recognised as described above is carried out for each plan separately. In situations where the fair value of plan assets, adjusted for any unrecognised positions, exceeds the present value of a fund's defined benefit obligations then an asset is recognised if available.

The service cost and the interest accretion to the provisions are included in the statement of profit or loss under "Employee compensation and benefit expense".

Other long-term employment benefits

The provision for other long-term employment benefits relates to benefits (other than pensions and other post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. The provision covers jubilee benefits. The benefits are unfunded.

The amount recognised as a liability for other long-term employment benefits at the balance sheet date is the present value of the defined benefit obligations. Appropriate assumptions are made about factors such as salary increases, employee turnover and similar factors impacting the measurement of the obligations.

The service cost, the interest accretion to the provisions and the remeasurement of the net defined liability are included in the statement of profit or loss under "Employee compensation and benefit expense".

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. The provision is recognised when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn.
Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Other provisions

Provisions are recognised when:
- There is a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

The provisions are carried at face value unless the effect of the time value of money is material, in which case the amount of the provision is the present value of the expenditures expected to settle the obligation. The effect of the time value of money is presented as a component of financial income.

Emission Trading Scheme

European airlines are subject to the Emission Trading Scheme (ETS). In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group chose the following scheme known as the "netting approach".

According to this approach, the quotas are recognised as intangible assets:
- Free quotas given the State are valued at nil; and
- Quotas purchased on the market are accounted at the acquisition cost.

These intangible assets are not amortised.

If the difference between recognised quotas and real emissions is negative then the Group recognises a provision. This provision is assessed at acquisition cost for acquired rights and, for the non-hedged part, with reference to the market price as of each closing date. At the date of the restitution of the quotas corresponding to real emissions, the provision is written-off and the intangible assets are returned.

Accounting policies for the statement of profit or loss

Revenues

Air transport
Revenues from air transport transactions are recognised as and when transportation service is provided. Air transport revenues are stated net of external charges such as commissions paid to agents, certain taxes and volume discounts. The revenues however include (fuel) surcharges paid by passengers.

Maintenance contracts
The Group uses the "percentage of completion method" to determine the appropriate amount of revenue and cost relating to third-party maintenance contracts to be recognised in the statement of profit or loss in a given period, when the outcome can be estimated reliably. When the outcome of a maintenance contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract cost incurred that are likely to be recoverable.

Maintenance revenues from time and material contracts are recognised together with incurred direct maintenance expenses as a percentage of completion of the individual maintenance visits in progress. The degree of progress to completion is measured with use of recorded progress and expenses incurred per individual maintenance visit. Revenues on maintenance/power by the hour contracts, that are billed on logged flight hours customers' engines and components, are recognised to the extent that actual maintenance services, valued at sales prices against the amounts billed on logged flight hours have actually been carried out. Any amount billed for services not yet performed are recorded as liability for unearned revenues.

External expenses
External expenses are recognised in the statement of profit or loss using the so called matching principle which is based on a direct relationship between cost incurred and obtaining income related to the operation. Any deferral of cost in view of applying the matching principle is subject to these costs meeting the criteria for recognising them as an asset on the balance sheet. In order to minimize the financial risks involved with such transactions the Company makes use of financial derivatives such as fuel forward contracts, foreign currency options and swaps. The gains and losses arising from the use of the derivatives are included in these costs.

Gains/losses on disposals of property, plant and equipment
The gain on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the item. Gains on disposal are netted against losses on disposal.

Reversal of impairment losses on financial assets
This item represents increases in the carrying amounts of financial assets arising from reversals of previously recognised impairment losses. The amount of the reversal does not exceed the carrying amount of the assets that would have been determined had no impairment losses been recognised in prior years.

Other income and expense items

Gross cost of financial debt
Gross cost of financial debt includes interest on loans of third parties and finance leases using the effective interest rate method.

Income from cash and cash equivalents
Interest income includes interest on loans, interest-bearing marketable securities, short-term bank deposits and money at call. Interest income is recognised on an accrual basis.

Foreign currency exchange gains and losses
Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Fair value gains and losses
Fair value gains / losses represent the total of increases / decreases during the year in the fair values of assets and liabilities, excluding derivative financial instruments designated as cash flow hedges.

Share-based compensation

Phantom shares
The Group has cash-settled long-term incentive plans in which it grants to its employees phantom shares. The phantom shares are shares, generating an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of shares. Phantom shares are accounted for as a liability at the fair value at each reporting date. The liability will be built up monthly during a 3-year vesting period.

The fair value of the phantom shares is measured at the AIR FRANCE KLM share closing price at the end of the month. Changes in the fair value of the liability are recognised as employee benefit expense in profit and loss.

Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, financial leases and fair value changes have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as investing activities. Interest paid is included in operating activities.

Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets
Factors may exist which require the recognition of an impairment of certain assets and/or CGUs. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspond to the Group's business segments. Such impairment is based on estimates of the fair value less cost to sell and the value in use. The fair value less cost to sell is derived from assumptions in relation to the possible selling price of a certain asset. The value in use is based on the discounted value of the cash flows that the asset/CGU is expected to generate in the future. These future cash flows are based on the business plans for the coming years. The value in use also takes into account possible adverse developments, which may lead to impairment. It is possible that the Group may have to recognise additional impairment charges in the future as a result of changes in (market) conditions that may take place in future periods.

Useful lives of property, plant and equipment
The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories

The Group records its inventories at cost and provides for the risk of obsolescence using the lower of cost or market principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Valuation of accounts receivable and the allowance for bad or doubtful debts

The Group periodically assesses the value of its accounts receivable based on specific developments in its customer base. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

Valuation of deferred tax assets and liabilities

In the process of estimating the value of deferred tax assets, in particular with regard to tax losses carried forward, assumptions are made regarding the degree to which these losses can be offset in the future. This is based, among other things, on business plans. In addition, in the preparation of the Financial Statements, assumptions are made with regard to temporary differences between the valuation for tax purposes and the valuation for financial reporting purposes. The actual outcome may diverge from the assumptions made in determining the current and deferred tax positions, e.g. as a result of disputes with the tax authorities or changes in tax laws and regulations.

Accounting for pensions and other post-employment benefits

Post-employment benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit cost over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rates, and future healthcare cost. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and defined benefit cost recognised in profit or loss incurred. For details on key assumptions and policies, see note 17.

It should be noted that when discount rates decline or rates of compensation increase pension and post-employment benefit obligations will increase. Defined benefit cost recognised in profit or loss and post-employment cost also increase, when discount rates decline, since this rate is also used for the expected return on fund assets.

Other provisions

A provision will be recognised in the balance sheet when the Group has a present legal or constructive obligation to a third party as a result of a past event and it is probable that an outflow of economic benefits will require settling the obligation.

Management must make estimates and assumptions as at the balance sheet date concerning the probability that a certain obligation will crystallise as well as the amount that is likely to be paid. Future developments, such as changes in market circumstances or changes in legislation and judicial decisions may cause the actual obligation to diverge from the provision. The Group is involved in legal disputes and proceedings. Management decides on a case-by-case basis whether a provision is necessary based on actual circumstances. This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Determination of fair value

The Group uses available market information and appropriate valuation techniques to determine the fair values of financial instruments. However, judgement is required to interpret market data and to determine fair value. Management believes that the carrying value of financial assets and financial liabilities with a maturity of less than one year approximates their fair value.
These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable. Details of the assumptions used and the results of sensitivity analyses recognising these assumptions are provided in note 4.

Financial Risk Management

Risk management organisation and fuel hedging policy

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 KLM, the Chief Executive Officer and the Chief Financial Officer of Air France and the Chief Financial Officer of AIR FRANCE KLM. The RMC meets each quarter to review AIR FRANCE KLM 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 and, thus, to preserve budgeted margins. 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. Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The treasury 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 instruments used are swaps and options.

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 financial year and the two following ones, is supplied to the executive managements. 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 underlying used, average hedge levels, the resulting net prices and stress scenarios, as well as market commentary. Furthermore, a weekly AIR FRANCE KLM report consolidates the figures from the two companies relating to fuel hedging and to physical cost. The instruments used are swaps and options.

Financial Risk Management

The Group is exposed to the following financial risks:
1. Market risk;
2. Credit risk; and
3. Liquidity and solvency risk.

1. Market risk

The Group is exposed to market risks in the following areas:
a. Currency risk;
b. Interest rate risk; and
c. Fuel price risk.

a. Currency risk

Most of AIR FRANCE KLM revenues are generated in euros. However, because of its international activities, AIR FRANCE KLM incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to British pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the euro may have an impact on AIR FRANCE KLM's financial results.

With regard to the US dollar, since expenditures such as fuel, operating leases or component cost exceed the level of revenue, AIR FRANCE KLM is a net buyer. This means that any significant appreciation in the US 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 the Japanese yen and of British pound sterling, the level of revenues in these currencies exceeding expenditure. 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, AIR FRANCE KLM has adopted hedging strategies. Both KLM and Air France hedge progressively their net exposure over a rolling 24-month period.

Aircraft are purchased in US dollars, meaning that AIR FRANCE KLM 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.

Despite this active hedging policy, not all exchange rate risks are covered. AIR FRANCE KLM might then encounter difficulties in managing currency risks, which could have a negative impact on AIR FRANCE KLM business and financial results.

b. Interest rate risk

At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of December 2015, KLM's net exposure to changes in market interest rates is neutral.

c. Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of AIR FRANCE KLM.

Main characteristics of the hedge strategy:

» Hedge horizon: 2 years.
» Minimum hedge percentage:
  Quarter underway: 65% of the volumes consumed;
  Quarter 1 to quarter 2: 65% of the volumes consumed;
  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; and
  Quarter 8: 10% of the volumes consumed.
» Underlying: Brent, Gasoil and Jet CIF.
  At least 25% 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, collar and collar put spread.

2. Credit risk

Credit risks arise from various activities including investing and operational activities as well as hedging activities with regard to financial instruments. The risk is the loss that could arise if a counterpart were to default in the performance of its contractual obligations. The Group has established credit limits for its external parties in order to mitigate the credit risk. These limits are determined on the basis of ratings from organisations such as Standard & Poor's and Moody's Investors Services.

As of December 31, 2015, KLM identified the following exposure to counterparty risk:

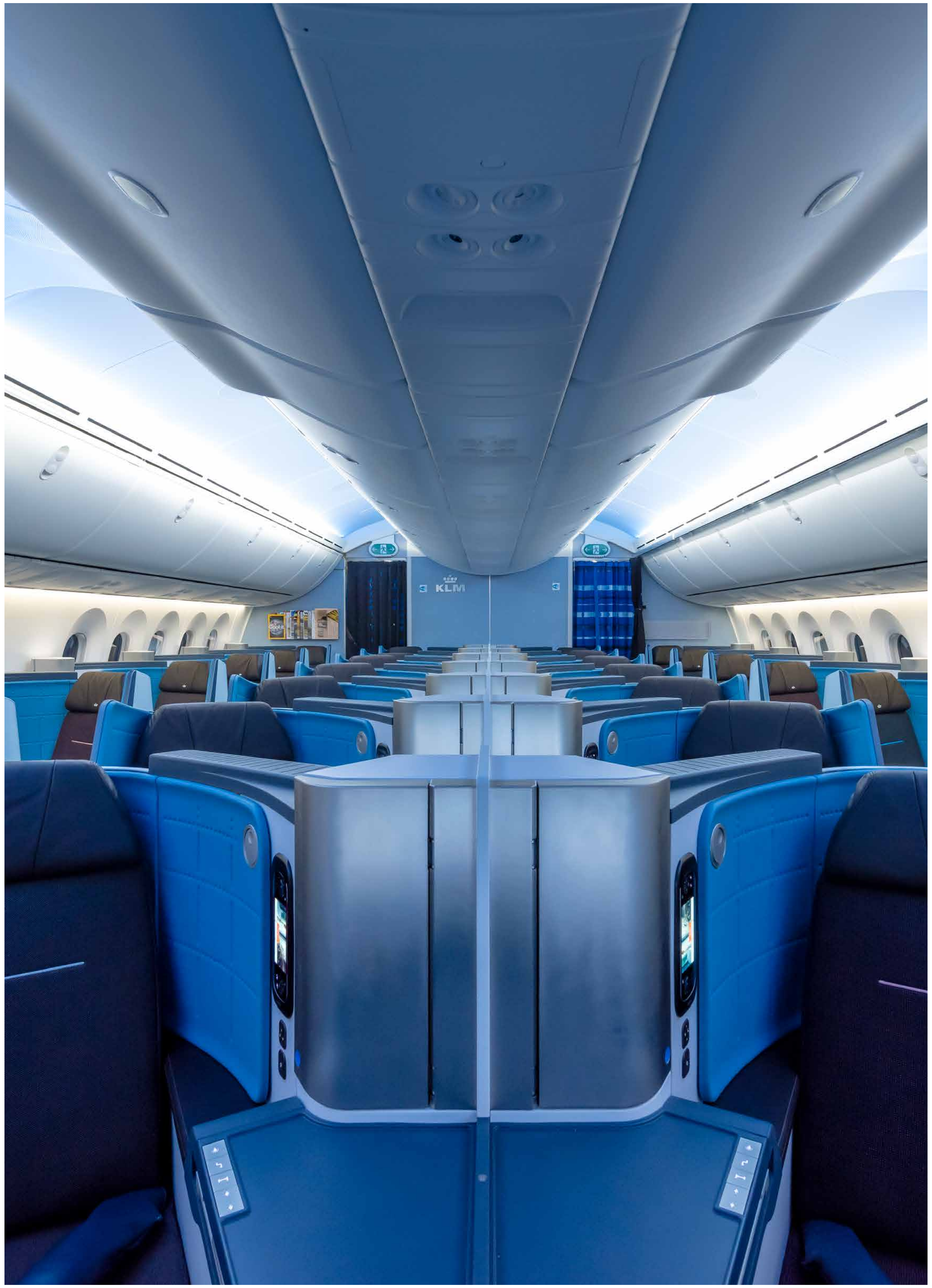
LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	305
AA+	204
AA	-
A+	149
A	504
Total	1,162

At December 31, 2015, the exposure consists of the fair market value of the short-term (less than 1 year) marketable securities and mainly unrestricted triple A bonds.

3. Liquidity and solvency risk

Liquidity and solvency risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its short- and long-term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, amongst others, operational cash flows, dividends, debt and interest payments and capital expenditure. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the short- and long-term.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.



1. Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at Jan. 1, 2014	1,414	3,128	1,813	6,355	684	549	109	1,342	196	7,893
Additions	21	18	210	249	11	23	8	42	117	408
Disposals	(293)	-	(241)	(534)	(24)	(17)	(3)	(44)	-	(578)
Other movements	237	(40)	(14)	183	(67)	(7)	-	(74)	(102)	7
As at Dec. 31, 2014	1,379	3,106	1,768	6,253	604	548	114	1,266	211	7,730
Accumulated depreciation										
As at Jan. 1, 2014	1,061	1,127	891	3,079	298	441	76	815	-	3,894
Depreciation	82	141	226	449	32	25	6	63	-	512
Disposals	(266)	(3)	(215)	(484)	(24)	(17)	(3)	(44)	-	(528)
Other movements *	205	22	26	253	(69)	(6)	2	(73)	-	180
As at Dec. 31, 2014	1,082	1,287	928	3,297	237	443	81	761	-	4,058
Net carrying amount										
As at Jan. 1, 2014	353	2,001	922	3,276	386	108	33	527	196	3,999
As at Dec. 31, 2014	297	1,819	840	2,956	367	105	33	505	211	3,672

* Following the announcement to restructure the full freighter Cargo Business an impairment of EUR 82 million was recorded on MD-11 cargo fleet to the recoverable amount, being its market value, based on appraiser's valuations, less costs of disposal. Reference is made to note 27 Other non-current income and expenses

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at Jan. 1, 2015	1,379	3,106	1,768	6,253	604	548	114	1,266	211	7,730
Additions	20	95	260	375	25	3	36	64	2	441
Disposals	(181)	14	(256)	(423)	(11)	(28)	(22)	(61)	-	(484)
Other movements	519	(475)	121	165	-	(71)	77	6	(148)	23
As at Dec. 31, 2015	1,737	2,740	1,893	6,370	618	452	205	1,275	65	7,710
Accumulated depreciation										
As at Jan 1, 2015	1,082	1,287	928	3,297	237	443	81	761	-	4,058
Depreciation	103	115	198	416	31	21	9	61	-	477
Disposals	(185)	14	(229)	(400)	(11)	(28)	(16)	(55)	-	(455)
Other movements	263	(266)	92	89	15	(75)	75	15	-	104
As at Dec. 31, 2015	1,263	1,150	989	3,402	272	361	149	782	-	4,184
Net carrying amount										
As at Jan. 1, 2015	297	1,819	840	2,956	367	105	33	505	211	3,672
As at Dec. 31, 2015	474	1,590	904	2,968	346	91	56	493	65	3,526

Property, plant and equipment include assets which are held as security for mortgages and loans as follows:

As at December 31,	2015	2014
Aircraft	98	85
Land and buildings	126	132
Other property and equipment	27	34
Carrying amount	251	251

Borrowing cost capitalised during the year amount to EUR 4 million (2014 EUR 4 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.2 % (2014 3.4%).

Land and buildings include buildings located on land which have been leased on a long-term basis. The book value of these buildings at December 31, 2015 amounts to EUR 225 million (December 31, 2014 EUR 240 million).

2. Intangible assets

	Goodwill	Software	Trade-marks	Software under development	Total
Historical cost					
As at Jan. 1, 2014	39	271	6	117	433
Additions	-	21	-	51	72
Disposals	-	-	-	(9)	(9)
Reclassifications	-	2	1	(2)	1
As at December 31, 2014	39	294	7	157	497
Accumulated amortisation and impairment					
As at Jan. 1, 2014	29	146	4	-	179
Amortisation	-	25	1	-	26
Disposals	-	-	-	-	-
As at December 31, 2014	29	171	5	-	205
Net carrying amount					
As at January 1, 2014	10	125	2	117	254
As at December 31, 2014	10	123	2	157	292
Historical cost					
As at January 1, 2015	39	294	7	157	497
Additions	-	146	-	(73)	73
Disposals	-	(35)	-	(19)	(54)
Reclassifications	-	2	2	(9)	(5)
As at December 31, 2015	39	407	9	56	511
Accumulated amortisation and impairment					
As at January 1, 2015	29	171	5	-	205
Amortisation	-	33	1	-	34
Disposals	-	(35)	-	-	(35)
Reclassifications	-	(2)	1	-	(1)
As at December 31, 2015	29	167	7	-	203
Net carrying amount					
As at January 1, 2015	10	123	2	157	292
As at December 31, 2015	10	240	2	56	308

As at December 31, 2015, software additions mainly relate to replacement of departure and flight control systems.

3. Investments accounted for using the equity method

As at December 31,	2015	2014
Associates	(1)	34
Jointly controlled entities	25	24
Carrying amount	24	58

Investments in associates

	2015	2014
Carrying amount as at January 1	34	82
Movements		
Share of profit/(loss) after taxation	(37)	(50)
Foreign currency translation differences	2	2
Net movement	(35)	(48)
Carrying amount as at December 31	(1)	34

The share of profit/(loss) after taxation as at December 31 has been adjusted to reflect the estimated share of result of the associate for the year then ended.

The Group's interest in its principal associate and with which it has a joint venture, Kenya Airways Ltd., can be summarised as follows:

As at December 31,	2015	2014
Country of incorporation	Kenya	Kenya
Percentage of interest held	26.73%	26.73%
Assets	1,756	1,243
Liabilities	1,814	1,007
Revenues	970	918
Loss after taxation	(227)	(29)
Share of loss after taxation	(61)	(8)

Above table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2015 and March 31, 2014.

The shares of Kenya Airways Ltd. are quoted on the Nairobi stock exchange. Based on the quoted price of the shares at the close of business on December 31, 2015 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 18 million (2014 EUR 31 million) compared to a carrying amount of EUR nil million as at December 31, 2015 (2014 EUR 32 million). No dividend was received in 2015 (2014 EUR nil). Kenya Airways has a negative equity as at December 31, 2015. KLM has no contractual commitments towards Kenya Airways and consequently no further losses below a book value of nil are accounted for.

The Group's interest in its associate Transavia France S.A.S. can be summarised as follows:

As at December 31,	2015	2014
Country of incorporation	France	France
Percentage of interest held	40%	40%
Assets	151	170
Liabilities	118	159
Revenues	381	324
Profit/(loss) after taxation	(43)	(18)
Share of loss after taxation	(17)	(7)

Transavia France is an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%). The carrying amount of the 40% in Transavia France S.A.S. is EUR nil million (2014 EUR 4 million) as at December 31, 2015.

In the shareholders' agreement it has been stated that when losses exceed the book value, the book value is written down to nil and no further losses are accounted for, unless and to the extent that Transavia has entered into a legally enforceable or constructive obligation or has made payments on behalf of Transavia France.

Jointly controlled entities

	2015	2014
Carrying amount as at January 1	24	23
Movements		
New consolidation	-	-
Share of profit/(loss) after taxation	1	1
Other movements	-	-
Net movement	1	1
Carrying amount as at December 31	25	24

The Group's interest in its principal jointly controlled entity, Schiphol Logistics Park C.V., which is an unlisted company, can be summarised as follows:

As at December 31,	2015	2014
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	62	63
Current assets	4	1
Profit/(loss) after taxation	2	1
Share of profit after taxation	1	1

4. Other assets and liabilities

	ASSETS		LIABILITIES	
	Current	Non-current	Current	Non-current
Exchange rate risk				
Fair value hedges	13	77	(5)	(24)
Cash flow hedges	108	41	(13)	(3)
Items not qualifying for hedge accounting	6	20	(6)	(17)
Total exchange rate risk hedges	127	138	(24)	(44)
Interest rate risk				
Fair value hedges	–	23	–	–
Cash flow hedges	–	–	(2)	(79)
Items not qualifying for hedge accounting	–	–	–	(9)
Total interest rate risk hedges	–	23	(2)	(88)
Commodity risk hedges				
Cash flow hedges	–	–	(503)	(121)
Total commodity risk hedges	–	–	(503)	(121)
Total derivative financial instruments	127	161	(529)	(253)
Others	–	54	–	(48)
Total as at December 31, 2014	127	215	(529)	(301)

	ASSETS		LIABILITIES	
	Current	Non-current	Current	Non-current
Exchange rate risk				
Fair value hedges	96	144	(61)	(8)
Cash flow hedges	98	5	(11)	(2)
Items not qualifying for hedge accounting	–	40	–	(37)
Total exchange rate risk hedges	194	189	(72)	(47)
Interest rate risk				
Fair value hedges	3	28	–	–
Cash flow hedges	–	7	(1)	(62)
Items not qualifying for hedge accounting	–	–	–	(4)
Total interest rate risk hedges	3	35	(1)	(66)
Commodity risk hedges				
Cash flow hedges	84	2	(559)	(78)
Total commodity risk hedges	84	2	(559)	(78)
Total derivative financial instruments	281	226	(632)	(191)
Others	–	56	–	(76)
Total as at December 31, 2015	281	282	(632)	(267)

Exposure to exchange rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

As at December 31, 2015 the types of derivatives used, their nominal amounts and fair values are as follows:

	In millions of Euros							
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	> 5 years	Fair Value
Exchange rate risk hedges								
Fair value hedges								
Forward purchases								
USD	1,976	568	350	294	192	193	379	233
JPY	24	–	24	–	–	–	–	2
Forward sales								
USD	615	356	57	18	33	62	89	(64)
Total fair value hedges	2,615	924	431	312	225	255	468	171
Cash flow hedges								
Options								
GBP	99	31	68	–	–	–	–	–
JPY	172	149	23	–	–	–	–	(2)
Forward purchases								
USD	968	693	275	–	–	–	–	94
GBP	13	13	–	–	–	–	–	–
Other	25	25	–	–	–	–	–	(1)
Forward sales								
GBP	215	167	48	–	–	–	–	(4)
JPY	71	31	40	–	–	–	–	(1)
USD	33	33	–	–	–	–	–	–
KRW	37	37	–	–	–	–	–	1
SEK	46	46	–	–	–	–	–	–
Other	28	28	–	–	–	–	–	3
Total cash flow hedges	1,707	1,253	454	–	–	–	–	90
Items not qualifying for hedge accounting								
Forward purchases								
USD	193	–	62	70	16	32	13	37
Forward sales								
USD	(193)	–	(62)	(70)	(16)	(32)	(13)	(37)
Other	13	13	–	–	–	–	–	3
Total items not qualifying for hedge accounting	13	13	–	–	–	–	–	3
Total exchange rate risk derivatives	4,335	2,190	885	312	225	255	468	264

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

	In local currency millions							In millions of Euros
As at December 31, 2015	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Interest rate risk hedges								
Fair value hedges								
Swaps	195	17	-	-	-	-	178	31
Total fair value hedges	195	17	-	-	-	-	178	31
Cash flow hedges								
Swaps	1,038	62	120	165	63	64	564	(56)
Total cash flow hedges	1,038	62	120	165	63	64	564	(56)
Items not qualifying for hedge accounting								
Swaps	84	7	-	-	77	-	-	(4)
Total Items not qualifying for hedge accounting	84	7	-	-	77	-	-	(4)
Total interest rate risk derivatives	1,317	86	120	165	140	64	742	(29)

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realisation dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the price risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2015 are shown below:

	In USD millions							In millions of Euros
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Commodity risk hedges								
Cash flow hedges								
Swaps	259	214	45	-	-	-	-	(102)
Options	817	421	396	-	-	-	-	(449)
Total cash flow hedges	1,076	635	441	-	-	-	-	(551)
Total commodity risk derivatives	1,076	635	441	-	-	-	-	(551)

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2015, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Total
Financial assets available for sale			
Shares	6	-	6
Assets at fair value through profit and loss			
Marketable securities	305	467	772
Cash and cash equivalents	-	192	192
Derivatives instruments (asset and liability)			
Currency exchange derivatives	-	264	264
Interest rate derivatives	-	(29)	(29)
Commodity derivatives	-	(551)	(551)

No significant changes in levels of hierarchy, or transfers between levels, have occurred in the reporting period.

For the explanation of the three classification levels, reference is made to "fair value hierarchy" paragraph in the accounting policies for the balance sheet section.

Sensitivity analysis

The sensitivity is calculated solely on the valuation of derivatives at the closing date of the period presented. The hypotheses used are coherent with those applied in the financial year ended as at December 31, 2015.

The impact on "other reserves" corresponds to the sensitivity of effective fair value variations for instruments and is documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the "income for tax" corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments. For fuel, the downward and upward sensitivity are not symmetrical when taken into account the utilisation, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

For further information reference is made to the Financial Risk Management paragraph in the text to the notes to the consolidated financial statements.

Fuel price sensitivity

The impact on "income before tax" and "other reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

	December 31, 2015		December 31, 2014	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Pre-tax income	(7)	9	18	(10)
Other reserves	224	(227)	177	(180)

The fuel price sensitivity is only calculated on the valuation of derivatives at the closing date of each period presented.

Currency sensitivity

Values as of the closing date of all monetary assets and liabilities in other currencies are as follows:

	Monetary Assets		Monetary Liabilities	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
USD	143	32	236	250
JPY	-	-	331	298
CHF	-	-	346	348

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "other reserves" of the variation of a 10% weakening in exchange rates in absolute value relative to the Euro is presented below:

	USD		JPY		GBP	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Change in value of financial instruments	(7)	(6)	23	21	-	-
Other reserves	(84)	(122)	10	14	22	14

The impact on "change in value of financial instruments on financial income and expenses" consists of:

» Change in value of monetary assets and liabilities (in accordance with IAS 21, including the effect of fair value and cash flow hedges);
» Changes in time value of currency exchange options (recognised in financial income);
» The changes in fair value of derivatives for which fair value hedges accounting is applied or no hedging accounting is applied.

The impact on "other reserves" is explained by the change in exchange rates on changes in fair value of currency derivatives qualified for cash flow hedging, recognised in "other reserves".

Interest rate sensitivity

The Group is exposed to the risk of changes in market interest rates. The variation of 100 basis points of interest rates would have an impact on income before tax of EUR nil million for 2015 (EUR nil million for 2014).

5. Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Carrying amount as at January 1	217	193	19	29	198	235	434	457
Movements								
Additions and loans granted	1	-	1	3	8	(44)	10	(41)
Loans and interest repaid	(82)	(12)	(4)	(8)	-	-	(86)	(20)
Interest accretion	48	10	-	-	-	-	48	10
Foreign currency translation differences	20	26	-	1	4	1	24	28
Other movements	-	-	2	(6)	39	6	41	-
Net movement	(13)	24	(1)	(10)	51	(37)	37	(23)
Carrying amount as at December 31	204	217	18	19	249	198	471	434

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	-	204	76	141
Loans and receivables				
Other loans and receivables	2	16	2	17
At fair value through profit or loss				
Restricted deposit EU anti-trust investigations	-	-	179	-
Other restricted deposits	3	-	3	-
Other deposits	186	-	-	-
Deposits on operasting leased aircraft	-	49	-	-
AIR FRANCE KLM S.A. shares	-	8	-	9
Other financial assets	3	-	-	7
	192	57	182	16
Carrying amount	194	277	260	174

Regarding the restricted deposit EU anti-trust investigations reference is made to note 21 Contingent assets and liabilities - guarantees and to note 18 Other provisions - Legal issues.

As a consequence of a court ruling dated December 16, 2015, the European Commission (EC) has released in January 2016 KLM N.V. and Martinair B.V. of their respective obligation to provide bank guarantees to cover the imposed fines. After receipt of the guarantee release notification from the EC, the involved banks have informed KLM in February 2016 of the cancellation of the counter guarantee and the pledge on deposits, which were provided as security for the counter guarantee by KLM to the banks. As a result the restricted deposit for the EU anti-trust investigations is shown in Other deposits as per December 31, 2015.

The carrying amounts of financial assets denominated in currencies other than the Euro are as follows:

As at December 31,	2015	2014
USD	207	219
GBP	1	2
Total	208	221

The interest-bearing financial assets have fixed interest rates. The weighted average effective interest rates at the balance sheet date are as follows:

	December 31, 2015		December 31, 2014	
in %	EUR	USD	EUR	USD
Held-to-maturity investments	-	2.4	-	3.3
Loans and receivables	1.3	1.8	0.3	1.0
At fair value through profit or loss	1.6	-	0.9	-

The triple A bonds and long-term deposits are held as a natural hedge to mitigate the effect of foreign exchange movements relating to financial lease liabilities. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 3 million (December 31, 2014 EUR 182 million) is restricted.

The maturities of loans and receivables are as follows:

As at December 31,	2015	2014
Held-to-maturity		
Less than 1 year	-	73
Between 1 and 2 years	14	-
Between 2 and 3 years	43	14
Between 3 and 4 years	1	40
Between 4 and 5 years	-	2
Over 5 years	146	88
Total	204	217

The maturities of held-to-maturity investments are as follows:

As at December 31,	2015	2014
Loans and receivables		
Less than 1 year	3	7
Between 1 and 2 years	5	1
Between 2 and 3 years	1	2
Between 3 and 4 years	-	1
Between 4 and 5 years	-	-
Over 5 years	9	8
Total	18	19

The fair values of the financial assets are as follows:

As at December 31,	2015	2014
Held-to-maturity		
Triple A bonds and long-term deposits	**213**	**231**
Loans and receivables		
Other loans and receivables	**16**	**11**
At fair value through profit or loss		
Restricted deposit EU Cargo Claim	-	179
Restricted deposit other	3	3
Other deposits	186	-
Deposits on operating leased aircraft	8	9
AIR FRANCE KLM S.A. shares	49	-
Other financial assets	2	7
	248	**198**
Total fair value	477	440

The fair values listed above have been determined as follows:

» Triple A bonds and long-term deposits: The fair values are based on the net present value of the anticipated future cash flows associated with these instruments;
» Deposits and commercial paper: The carrying amounts approximate fair value because of the short maturity of these deposits and commercial paper;
» AIR FRANCE KLM S.A. shares: Quoted price as at close of business on December 31, 2015 and December 31, 2014;
» Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

The contractual re-pricing dates of the Group's interest bearing assets are as follows:

As at December 31,	2015	2014
Less than 1 year	193	212
Between 1 and 2 years	19	51
Between 2 and 3 years	44	15
Between 3 and 4 years	1	1
Between 4 and 5 years	-	-
Over 5 years	148	132
Total interest bearing financial assets	405	411

6. Inventories

As at December 31,	2015	2014
Carrying amount		
Maintenance inventories	119	111
Other sundry inventories	42	82
Total	161	193

Allowance for obsolete inventory amounted to EUR 58 million (December 31, 2014 EUR 57 million).

7. Trade and other receivables

As at December 31,	2015	2014
Trade receivables	508	528
Provision trade receivables	(34)	(28)
Trade receivables - net	474	500
Amounts due from:		
- AIR FRANCE KLM group companies	61	105
- associates and jointly controlled entities	3	7
- maintenance contract customers	156	141
Taxes and social security premiums	31	33
Other receivables	61	38
Prepaid expenses	59	72
Total	845	896

In the financial year EUR 7 million (December 31, 2014 EUR 4 million increase) increase of provision trade receivables has been recorded in other operating income and expenses in the consolidated statement of profit or loss.

Maintenance contract cost incurred to date for contracts in progress at December 31, 2015 amounted to EUR 173 million (December 31, 2014 EUR 130 million).

Advances received for maintenance contracts in progress at December 31, 2015 amounted to EUR 11 million (December 31, 2014 EUR 2 million).

8. Cash and cash equivalents

As at December 31,	2015	2014
Cash at bank and in hand	68	72
Short-term deposits	772	766
Total	840	838

The effective interest rates on short-term deposits are in the range from 0% to 5.26% (2014 range 0.01% to 4.70%).
The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

The part of the cash and cash equivalents held in currencies other than the Euro is as follows:

As at December 31,	2015	2014
USD	29	30
GBP	2	-
Other currencies	12	14
Total	43	44

The fair value of cash and cash equivalents does not differ materially from the book value.

9. Share capital

Authorised share capital

No movements have occurred in the authorised share capital since April 1, 2004. The authorised share capital of the Company is summarised in the following table:

	Authorised		
	Par value per share (in EUR)	Number of shares	Amount in EUR 1,000
Priority shares	2.00	1,875	4
Ordinary shares	2.00	149,998,125	299,996
A Cumulative preference shares	2.00	37,500,000	75,000
B Preference shares	2.00	75,000,000	150,000
C Cumulative preference shares	2.00	18,750,000	37,500
Total authorised share capital			562,500

Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

	Issued and fully paid			
	December 31, 2015		December 31, 2014	
	Number of shares	Amount in EUR 1,000	Number of shares	Amount in EUR 1,000
Included in equity				
Priority shares	1,312	3	1,312	3
Ordinary shares	46,809,699	93,619	46,809,699	93,619
		93,622		93,622
Included in financial liabilities				
A Cumulative preference shares	8,812,500	17,625	8,812,500	17,625
C Cumulative preference shares	7,050,000	14,100	7,050,000	14,100
		31,725		31,725
Total issued share capital		125,347		125,347

The rights, preferences and restrictions attaching to each class of shares are as follows:

Priority shares

All priority shares are held by AIR FRANCE KLM S.A. Independent rights attached to the priority shares include the power to determine or approve:

a. To set aside an amount of the profit established in order to establish or increase reserves (art. 32.1 Articles of Association (AoA);
b. Distribution of interim dividends, subject to the approval of the Supervisory Board (art. 32.4 AoA);
c. Distribution to holders of common shares out of one or more of the freely distributable reserves, subject to the approval of the Supervisory Board (art. 32.5 AoA);
d. Transfer of priority shares (art. 14.2 AoA).

Before submission to the General meeting of Shareholders prior approval of the holder of the priority shares is required for:
a. Issuance of shares (art. 5.4 AoA);
b. Limitation of or exclusion from pre-emptive rights of the holders of other classes of shares (art. 5.4 AoA);
c. Repurchase of own shares (art. 10.2 AoA);
d. Alienation of own priority shares and C cumulative preference shares (art. 11.2 AoA);
e. Reduction of the issued share capital (art. 11.3 AoA);
f. Remuneration and conditions of employment of the Managing Directors (art.17.4 AoA);
g. Amendments of the Articles of Association and/or dissolution of the Company (art. 41.1 AoA).

A Cumulative preference shares, B Preference shares, C Cumulative preference shares and Ordinary shares
Holders of preference and ordinary shares are entitled to attend and vote at shareholders meetings. Each share entitles the holder to one vote.

As at December 31, 2015 the State of The Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since financial year 2006/07. For details of the right to dividend distributions attaching to each class of share see the section Other information.

10. Other reserves

	Hedging reserve	Remeasurement of defined benefit pension plans	Translation reserve	Other Legal reserve	Total
As at January 1, 2014	(41)	(951)	(15)	271	(736)
(Losses)/gains from cash-flow hedges	(555)	-	-	-	(555)
Exchange differences on translating foreign operations	-	-	1	-	1
Remeasurement of defined benefit pension plans	-	(2,018)	-	-	(2,018)
Transfer from retained earnings	-	9	-	(1)	8
Tax on items taken directly to or transferred from equity	139	499	-	-	638
As at December 31, 2014	(457)	(2,461)	(14)	270	(2,662)
As at January 1, 2015	(457)	(2,461)	(14)	270	(2,662)
Gains/(losses) from cash-flow hedges	120	-	-	-	120
Exchange differences on translating foreign operations	-	(7)	3	-	(4)
Remeasurement of defined benefit pension plans	-	329	-	-	329
Transfer from retained earnings	-	-	-	24	24
Tax on items taken directly to or transferred from equity	(30)	(82)	-	-	(112)
As at December 31, 2015	(367)	(2,221)	(11)	294	(2,305)

The Company's equity has become volatile, following the implementation of the revised IAS 19 for pensions, as of January 1, 2013. Not only results for the year and dividend distributions can have an impact on equity, but moreover the impact of "Other Comprehensive Income" coming from the remeasurement of defined pension plans or the changes in the fair value of cash flow hedges (predominantly related to fuel hedges) can have a significant impact on equity.

The Company needs to strengthen its balance sheet and equity. The perform 2020 program aims to improve results and further lower net debt. The non-cash changes in remeasurements of defined benefit plans and changes in fair value of cash flow hedges will however remain volatile going forward. In the event that the Company's equity would become negative, the Company foresees no immediate issues given that its operational cash flow is strong enough and that this accounting situation has no consequences on the Company's operations and liabilities. Of course the issue has to be addressed on a structural basis.

For an elucidation on the volatility of defined pension plans, reference is made to the paragraph Risks linked to the impact of external economic factors on equity and Risks linked to pension plans in the Risk and risk management section.

The legal reserves consist of the following items:

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Remeasurement of defined benefit plans
Comprises all actuarial gains and losses related to the remeasurement of defined benefit plans.

Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the consolidated figures of non Euro foreign subsidiaries, as well as from the translation of the Company's net investment in foreign associates and jointly controlled entities.

Other legal reserve
The other legal reserve is maintained equal to the non distributable reserves of investments accounted for using the equity method and the amount of development cost incurred on computer software and prepayments thereon at the balance sheet date, as required by Article 365.2 of Book 2 of The Dutch Civil Code.

11. Loans from parent company

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A.	105	288	233	288
Others	-	-	-	-
Total	105	288	233	288

AIR FRANCE KLM S.A., Air France and KLM have agreed that the proceeds of capital market transactions will be made available to Air France and KLM by means of intercompany loan agreements.

Loans from parent company – Non current
On December 14, 2012, AIR FRANCE KLM S.A. issued a plain vanilla bond of a principal amount of EUR 500 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated December 14, 2012, a total amount of EUR 180 million. On December 31, 2014, KLM has drawn an amount of EUR 90 million on this intercompany loan facility. The drawn amount bears a fixed rate of 6.25%.

On March 28, 2013, AIR FRANCE KLM S.A. issued a convertible bond of a principal amount of EUR 550 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated June 7, 2013, a total amount of EUR 198 million. On December 31, 2013, KLM has drawn the intercompany loan facility in full. The drawn amount bears a fixed interest rate of 2.03%.

Loans from parent company - Current

On October 14, 2009, AIR FRANCE KLM S.A. issued a plain vanilla bond of a principal amount of EUR 700 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated March 26, 2010, a total amount of EUR 350 million. On December 31, 2014, KLM has drawn an amount of EUR 105 million on this intercompany loan facility. The drawn amount bears a floating interest rate.

According to the three above mentioned intercompany loan agreements, KLM may repay the drawn amounts at any time before the maturity date. Any advance repaid can be borrowed again.

The carrying amounts for the loans from parent company approximate the fair value.

For the guarantees from KLM to AIR FRANCE KLM reference is made to note 21.

12. Lease obligations

	December 31, 2015			December 31, 2014		
	Future minimum lease payment	Future finance charges	Total financial lease liabilities	Future minimum lease payment	Future finance charges	Total financial lease liabilities
Lease obligations						
Within 1 year	228	19	209	379	38	341
Total current	228	19	209	379	38	341
Between 1 and 2 years	391	24	367	221	36	185
Between 2 and 3 years	346	15	331	360	27	333
Between 3 and 4 years	206	12	194	319	16	303
Between 4 and 5 years	141	10	131	189	11	178
Over 5 years	475	17	458	440	10	430
Total non-current	1,559	78	1,481	1,529	100	1,429
Total	1,787	97	1,690	1,908	138	1,770

The finance leases relate exclusively to aircraft leasing. At the expiry of the leases, KLM has the option to purchase the aircraft at the amount specified in each contract. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 1.76% (average fixed rate 3.17%, average floating rate 1.1%). Taking into account the impact of hedging the average interest rate is 2.78% (average fixed rate 3.00%, average floating rate 1.55%). After hedging 84% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 1,503 million as at December 31, 2015 (December 31, 2014 EUR 1,603 million). The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

The total future minimum lease payments under operating leases are as follows:

	Aircraft		Buildings		Other equipment		Total	
	December 31,		December 31,		December 31,		December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
Operating lease commitments								
Within 1 year	461	380	37	36	11	11	509	427
Total current	461	380	37	36	11	11	509	427
Between 1 and 2 years	476	412	35	33	11	9	522	454
Between 2 and 3 years	460	412	31	31	9	8	500	451
Between 3 and 4 years	422	404	29	29	7	7	458	440
Between 4 and 5 years	383	376	22	27	4	7	409	410
Over 5 years	817	1,064	175	192	7	8	999	1,264
Total non-current	2,558	2,668	292	312	38	39	2,888	3,019
Total	3,019	3,048	329	348	49	50	3,397	3,446

13. Other financial liabilities

	2015	2014
Carrying amount as at January 1	1,394	1,421
Additions and loans received	71	270
Loans repaid	(242)	(323)
Foreign currency translation differences	65	20
Other changes	(17)	6
Net movement	(123)	(27)
Carrying amount as at December 31	1,271	1,394

The financial liabilities comprise:

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	584	-	569
Other loans (secured/unsecured)	87	568	212	581
Total	87	1,184	212	1,182

The subordinated perpetual loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

The Swiss Franc subordinated perpetual loans amounting to EUR 346 million as at December 31, 2015 (December 31, 2014 EUR 348 million) are listed on the SWX Swiss Exchange, Zurich. In 2015 a partial redemption by mutual agreement took place on the 1985 CHF 200 million subordinated perpetual loan for a nominal amount of CHF 44 million.

The maturity of financial liabilities is as follows:

As at December 31,	2015	2014
Less than 1 year	87	212
Between 1 and 2 years	259	86
Between 2 and 3 years	129	272
Between 3 and 4 years	133	102
Between 4 and 5 years	31	126
Over 5 years	632	596
Total	1,271	1,394

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

As at December 31,	2015	2014
USD	9	9
CHF	346	348
JPY	238	216
Total	593	573

The fair values of financial liabilities are as follows:

As at December 31,	2015	2014
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	302	272
Other loans (secured/unsecured)	677	801
Fair value	1,011	1,105

The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments.

The exposure of the Group's borrowing interest rate changes and the contractual re-pricing dates are as follows:

	<1 year	>1 and < 5 years	> 5 years	Total
As at December 31, 2014				
Total borrowings	830	-	564	1,394
Effect of interest rate swaps	(176)	-	176	-
	654	-	740	1,394
As at December 31, 2015				
Total borrowings	673	-	598	1,271
Effect of interest rate swaps	(67)	-	67	-
	606	-	665	1,271

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	December 31, 2015		December 31, 2014	
in %	EUR	Other	EUR	Other
Cumulative preference shares	3.70	-	5.04	-
Subordinated perpetual loans	-	2.61	-	2.80
Other loans	1.90	-	2.09	-

The interest rates of the subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable %-rate	Average fixed %-rate	Average %-rate
Subordinated perpetual loans	-	584	-	4.85	4.85
Other loans	560	95	1.89	0.87	1.74

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

In July 2015, KLM signed a EUR 575 million revolving credit facility for a period of 5 years with 10 international banks, finalizing the early refinancing of its credit facility which was due to mature in July 2016.

14. Net debt

As at December 31,	2015	2014
Current and non-current financial debt	3,354	3,686
Financial debt	3,354	3,686
Cash and cash equivalents	840	838
Restricted deposits	196	241
Cross currency element of CCIR swaps	36	21
Near cash	204	166
Financial assets	1,276	1,266
Total net debt	2,078	2,420
	2015	2014
Carrying amount as at January 1	2,420	2,457
Free cash flow	(408)	(83)
Other (including currency translation adjustment)	66	46
Net movement	(342)	(37)
Carrying amount as at December 31	2,078	2,420

15. Deferred income

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advance ticket sales	810	-	736	-
Sale and leaseback transactions	3	8	2	-
Flying Blue frequent flyer program	94	149	103	140
Others	15	5	56	5
Total	922	162	897	145

16. Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2015	2014
Carrying amount as at January 1	(365)	23
Income statement (credit) /charge	42	253
Tax (credited)/charged to equity	112	(638)
Other movements	(3)	(3)
Net movement	151	(388)
Carrying amount as at December 31	(214)	(365)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts of deferred tax assets recognised in the other tax jurisdictions (i.e. in The United Kingdom) and in Dutch subsidiaries not included in KLM income tax fiscal unity in The Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 32 million, EUR 1 million is expected to be recovered in 12 months or less and EUR 5 million is expected to be recovered after more than 12 months. An amount of EUR 26 million related to taxes on remeasurement via Other Comprehensive Income of defined benefit pension plans and will not be recycled through the statement of profit or loss.

The split between deferred tax assets, net (offset) deferred tax liabilities and current income tax liability is as follows:

As at December 31,	2015	2014
Deferred tax asset other tax jurisdictions	(32)	(32)
Net Deferred tax asset KLM income tax fiscal unity (offset)	(182)	(333)
	(214)	(365)

The net deferred tax liability is built up as follows:

As at December 31,	2015	2014
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	75	22
Deferred tax assets to be recovered after more than 12 months	324	615
	399	637
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	2	5
Deferred tax liabilities to be settled over more than 12 months	215	299
	217	304
Net Deferred tax asset KLM income tax fiscal unity (offset)	(182)	(333)

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
Fiscal 2014					
Tax losses	501	4	-	(21)	484
Fleet assets	18	(12)	-	-	6
Fleet related assets (maintenance)	2	(1)	-	-	1
Provisions for employee benefits	35	-	(5)	-	30
Financial lease obligations	-	-	-	-	-
Derivative financial instruments	13	-	139	-	152
Other	5	(1)	-	2	6
Total	574	(10)	134	(19)	679

	Carrying amount as at January 1	Income statement (charge)/ credit	Tax (charged)/ credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
Fiscal 2015					
Tax losses	484	(211)	-	7	280
Fleet assets	6	(4)	-	-	2
Fleet related assets (maintenance)	1	(1)	-	-	-
Provisions for employee benefits	30	-	5	-	35
Financial lease obligations	-	-	-	-	-
Derivative financial instruments	152	-	(31)	-	121
Other	6	-	-	(3)	3
Total	679	(216)	(26)	4	441

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2014					
Other tangible fixed assets	1	(4)	-	-	(3)
Pensions and benefits (asset)	591	248	(504)	(20)	315
Maintenance provision	2	(1)	-	-	1
Other	3	-	-	(2)	1
Total	597	243	(504)	(22)	314

	Carrying amount as at January 1	Income statement charge/ (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2015					
Other tangible fixed assets	(3)	(3)	-	-	(6)
Pensions and benefits (asset)	315	13	87	-	415
Maintenance provision	1	(132)	-	-	(131)
Other	1	(52)	-	-	(51)
Total	314	(174)	87	-	227

The Group has tax loss carry forwards in The Netherlands amounting to EUR 1.1 billion (December 31, 2014 EUR 1.9 billion) and in The United Kingdom amounting to EUR 31 million (December 31, 2014 EUR 49 million) for which a deferred tax asset has been recognised to the extent that expected future taxable profits in excess of the profit arising from the reversal of existing temporary differences, are sufficient for utilisation of those tax loss carry forwards. If these expected future taxable profits will not materialise, this could have a significant impact on the recoverability of these deferred tax assets. Under Income Tax law in The Netherlands, the maximum future period for utilising tax losses carried forward is nine years. In The United Kingdom, this period is indefinite.

In 2015, some accounting principles in the KLM income tax fiscal unity have been changed as a result of which the result for tax purposes increased with EUR 730 million. This decrease in tax losses carried forward is fully offset by an increase in temporary differences.
In 2014 a provision of EUR 65 million (corresponding to a basis of EUR 260 million) was recorded at December 31, 2014. In addition in 2014, The Group decided to fully de-recognize the deferred tax asset on pre-acquisition fiscal losses of Martinair. This had a negative impact on the deferred tax charge amounting to EUR 24 million.

The Group has tax loss carry forwards in The United Kingdom in the amount of EUR 0 million (December 31, 2014 EUR 0.1 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences amount to EUR 26 million (December 31, 2014 EUR 4 million).

17. Provisions for employee benefits

As at December 31,	2015	2014
Pension and early-retirement obligations	279	293
Post-employment medical benefits	52	51
Other long-term employment benefits	89	88
Termination benefits	11	11
Total Liabilities	431	443
Less: Non-current portion		
Pension and early-retirement obligations	258	261
Post-employment medical benefits	49	48
Other long-term employment benefits	82	83
Termination benefits	10	9
Non-current portion	399	401
Current portion	32	42

As at December 31,	2015	2014
Assets		
Pension assets non current portion	1,773	1,409
Total assets	1,773	1,409

Pension plans
The Company sponsors a number of pension plans for employees world-wide. The major plans are defined benefit plans covering Cabin Crew, Cockpit Crew and Ground Staff based in The Netherlands, The United Kingdom, Germany, Hong Kong, and Japan. The major plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities.

In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located in- and outside The Netherlands.

Characteristics of Cabin Crew plan
The pension plan relating to Cabin Crew of the Company is a defined benefit plan with reversion to the spouse in case of death of the beneficiary. The pension is based on final wage. For a closed group of active members the pension is based on an average wage. The age of retirement defined in the plan is 60 years old. The duration of the pension plan is 22 years.

The board of the pension fund is composed of members appointed by the employer and employees. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund. The financing agreement is part of the Collective Labour Agreement between the Company and the Unions.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment. As a consequence the existing recovery plan for the Cabin Crew plan has been updated as per July 1, 2015.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. If the threshold cannot be realised within 10 years (transitionary period of 12 years as from 2015) additional contributions are payable by the Company and the employees. The amount of regular and additional employer contributions is limited to 48% of the pensionable basis. The amount of possible additional employee contributions is limited to 0.7% of the pensionable basis. A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction in a year is limited to twice the normal contributions. Given the new Dutch fiscal rules, amongst others, a lower future accrual rate is applicable as from 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, approximately 50% of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Characteristics of Cockpit Crew plan
The pension plan relating to Cockpit Crew of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. For the year 2015 the age of retirement defined in the plan is 56 years old. As of July 2016 the retirement age for pension accrual will gradually increase to 58 years. Implementation of the increase is phased in four steps of a half year starting July 2016. As of July 2019 the retirement will be 58 years for all members. The duration of the pension plan is 19 years.

The board of the pension fund is composed of members appointed by the employer and employees. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund. The financing agreement is part of the Collective Labour Agreement between the Company and the Unions.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 123% to 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015.

The impact of the nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. If the threshold cannot be realised within 10 years (transitionary period of 12 years as from 2015) additional contributions are payable by the Company and the employees. The amount for regular and additional employer contributions is not limited. The employee contributions cannot be increased in case of non-compliance with these minimum funding. A reduction of the employer contribution is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of EUR 100,000 and lower future accrual rate are applicable as from 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact the coverage ratio and could lead to a risk of additional contributions for the Company on the long term. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

The required funding of this pension plan also includes a buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk.

Characteristics of Ground Staff plan

The pension plan relating to ground staff of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The age of retirement defined in the plan is 67 years. The duration of the pension plan is 20 years.

The board of the pension fund is composed of members appointed by the employer and employees. The board is fully responsible for the execution of the plan. The Company can only control the financing agreement between the Company and the pension fund. The financing agreement is part of the Collective Labour Agreement between the Company and the Unions/Works council.

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a mandatory funding level of approximately 125% of the projected long-term commitment. The projection of these commitments is calculated according to local funding rules. The mandatory funding ratio is based on the new Financial Assessment Framework (nFTK) applicable as per January 1, 2015. The impact of the nFTK amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan that also includes projected future return on investment. As a consequence the existing recovery plan for the Ground Staff plan has been updated as per July 1, 2015.

If the coverage ratio is under the funding rules detailed above, the pension fund is required to implement a recovery plan that aims for compliance with the threshold of 125% within 10 years and includes projected future return on investment. If the threshold cannot be realised within 10 years (transitionary period of 12 years as from 2015) additional contributions are payable by the Company and the employees. The amount of regular and additional employer contributions is not limited. The amount of possible additional employee contributions is limited to 2% of the pensionable basis. A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions. Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of EUR 100,000 and lower future accrual rate are applicable as from 2015.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions are limited to 22% of the pensionable base. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, approximately 50% of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge.

Investment strategy

The boards of the funds of the aforementioned Cabin, Cockpit and Ground plan, consult independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the funds. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the contribution to the Company of the benefits provided. The funds use asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest a large proportion of their assets in equities which is believed offer the best returns over the long term commensurate with an acceptable level of risk. Also a proportion of assets is invested in property, bonds and cash. The management of most assets is outsourced to a private institution, Blue Sky Group, under a service contract.

Developments 2015

In 2015 the financial markets were volatile and ultimately plan assets increased with EUR 140 million, taking into account a settlement of EUR 394 million. This relates to the settlement of the Transavia Cockpit Crew plan from defined benefit to defined contribution as per January 1, 2016. Also the related defined benefit obligations reduced with EUR 439 million. The net positive settlement of EUR 45 million is recorded in other non-current income and expenses (see note 27).
The discount rate used to calculate the pension obligations remained stable at 2.35%. The defined benefit obligations were lower as a result of the aforementioned settlement and updated actuarial assumptions. Overall the funded status increased by EUR 378 million in 2015.

In addition for the KLM Cockpit crew plan an increase of the pension age from 56 to 58 years offset by an increased yearly accrual rate was agreed, which overall resulted in a past service cost of EUR 25 million (see note 27).

Based on the aforementioned and the mid-2015 changed criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratios (based on the average 12 months rolling policy coverage) are as follows as at December 31, 2015 (including restated comparatives as at December 31, 2014):

» Cabin Crew pension fund	108.5%
(December 31, 2014:	121.1%)
» Cockpit Crew pension fund	122.9%
(December 31, 2014:	130.6%)
» Ground Staff pension fund	111.1%
(December 31, 2014:	120.5%)

A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan (transitionary period of 12 years as from 2015). As a consequence the existing recovery plan for the Cabin Crew and Ground Staff plan has been updated per July 1, 2015. As per yearend 2015 also the Cockpit Crew plan is slightly below the required coverage ratio. If this is still the case per end of March 2016, the Cockpit Crew plan also has to issue a recovery plan. As a result of the 10 year rolling recovery plans no additional recovery payments are needed for 2016.

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 1,494 million as at December 31, 2015 (December 31, 2014 EUR 1,116 million).

No limit (i.e. after the impact of IAS 19 and IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction" on IAS 19) on the net assets recognised in the balance sheet is applied since, based on the current financing agreements between these pension funds and the Company, future economic benefits are available in the form of a reduction in future contributions. These net assets recognised are not readily available for the Company.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase and mortality rates. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14).

As at December 31, 2015 the net assets recognised in the balance sheet of the three main funds amount to EUR 1,773 million (December 31, 2014 EUR 1,409 million).

Assumptions used for provisions for employee benefits

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Pension and early-retirement obligations	
	As at December 31,	
in %	2015	2014
Weighted average assumptions used to determine benefit obligations		
Discount rate for year ended	2.39	2.39
Rate of compensation increase	1.32	1.48
Rate of price inflation	1.70	1.75
Weighted average assumptions used to determine net cost		
Discount rate for year ended	2.39	3.67
Rate of compensation increase	1.48	1.57
Rate of price compensation	1.75	1.96

For the main Dutch pension plans, the 2014 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association were used.

	Pension and early-retirement obligations	
As at December 31,	2015	2014
Present value of wholly or partly funded obligations	16,722	17,354
Fair value of plan assets	(18,216)	(18,470)
Net liability/(asset) relating pension and other post-retirement obligations	**(1,494)**	**(1,116)**

	Pension and early-retirement obligations	
As at December 31,	2015	2014
Amounts in the balance sheet		
Liabilities	279	293
Assets	(1,773)	(1,409)

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Pension and early-retirement obligations	
	2015	2014
Carrying amount as at January 1	**17,354**	**14,133**
Current service cost	344	415
Interest expense	412	512
Past service cost (reference is made to note 27)	26	(823)
Past service cost	-	(9)
Curtailments/settlements	(437)	(39)
Actuarial losses/(gains) demographic assumptions	1	(295)
Actuarial losses/(gains) financial assumptions	(451)	3,925
Actuarial losses/(gains) experience adjustments	(145)	(108)
Benefits paid from plan/company	(416)	(394)
Exchange rate changes	34	37
Net movement	**(632)**	**3,221**
Carrying amount as at December 31	**16,722**	**17,354**

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarised as follows:

	2015	2014
Fair value as at January 1	**18,470**	**16,286**
Interest income	440	597
Return on plan assets excluding interest income	(260)	1,510
Employer contributions	214	418
Member contributions	130	58
Settlements	(394)	(32)
Benefits paid from plan / company	(411)	(394)
Other	-	-
Exchange rate changes	27	27
Net movement	**(254)**	**2,184**
Fair value as at December 31	**18,216**	**18,470**

The experience adjustments are as follows:

	2015	2014
Benefit obligation	(145)	(108)
Plan asset	(260)	1,510

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the discount rate is:

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	2015	2014
0.25% increase in the discount rate		
Impact on service cost	(19)	(23)
Impact on defined benefit obligation	(776)	(839)
0.25% decrease in the discount rate		
Impact on service cost	22	27
Impact on defined benefit obligation	894	963

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the salary increase is:

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	2015	2014
0.25% increase in the salary increase		
Impact on service cost	5	6
Impact on defined benefit obligation	65	75
0.25% decrease in the salary increase		
Impact on service cost	(4)	(5)
Impact on defined benefit obligation	(59)	(66)

The sensitivity of the defined benefit cost recognised in profit or loss and the defined benefit obligation to variation in the pension increase rate is:

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	2015	2014
0.25% increase in the pension increase rate		
Impact on service cost	19	21
Impact on defined benefit obligation	809	862
0.25% decrease in the pension increase rate		
Impact on service cost	(13)	(17)
Impact on defined benefit obligation	(635)	(709)

The major categories of assets as a percentage of the total pension plan assets are as follows:

	As at December 31,	
in %	2015	2014
Debt securities	53	51
Real estate	13	13
Equity securities	32	36
Other	2	-

Debt securities are primarily composed of listed government bonds, equally split between inflation linked and fixed interest, at least rated BBB, and invested in Europe, the United States of America and emerging countries. Real estate are primarily invested in Europe and the United States of America and equally split between listed and unlisted. Equity securities are mainly listed and invested in Europe, the United States of America and emerging countries.

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in The United States of America and Canada.

	Post-employment medical benefits	
As at December 31,	2015	2014
Present value of unfunded obligations	52	51
Net liability/(asset) relating pension and other post-retirement obligations	52	51

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Post-employment medical benefits	
	2015	2014
Carrying amount as at January 1	51	41
Interest expense	3	2
Actuarial losses/(gains) demographic assumptions	(2)	8
Actuarial losses/(gains) financial assumptions	4	(1)
Actuarial losses/(gains) experience adjustments	2	(2)
Past service cost	(9)	-
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	5	5
Net movement	1	10
Carrying amount as at December 31	52	51

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Post-employment medical benefits As at December 31,	
in %	2015	2014
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	4.15	4.20
Weighted average assumptions used to determine net cost		
Discount rate for year	4.20	4.35
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	6.90	3.94
Immediate trend rate Post 65	6.90	3.94
Ultimate trend rate	4.40	4.41
Year that the rate reaches ultimate trend rate	2089	2089

* The rates shown are the weighted averages for The United States of America and Canada

Other long-term employee benefits

	2015	2014
Jubilee benefits	66	67
Other benefits	23	21
Total carrying amount	89	88
Less: Non-current portion		
Jubilee benefits	61	62
Other benefits	21	21
Non-current portion	82	83
Current portion	7	5

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service.

The provision for other benefits relates to existing retirement entitlements.

Termination benefits

	2015	2014
Redundancy benefits		
Non-current portion	10	9
Current portion	1	2
Total carrying amount	11	11

Termination benefits relate to a provision for supplements to unemployment benefits to former employees.

18. Other provisions

	Phasing-out costs of operating lease aircraft	Aircraft maintenance provision	Legal Issues	Other	Total
As at January 1, 2015	150	288	181	86	705
Additional provisions and increases in existing provisions	43	100	4	81	228
Unused amounts reversed	(1)	-	-	(5)	(6)
Used during year	(36)	(99)	-	(83)	(218)
Foreign currency translation differences	17	35	-	6	58
Other changes	(83)	109	1	17	44
As at December 31, 2015	90	433	186	102	811
Current/non-current portion					
Non-current portion	68	290	186	3	547
Current portion	22	143	-	99	264
Carrying amount as at December 31, 2015	90	433	186	102	811

Phasing-out cost of operating lease aircraft

For a number of aircraft operated under operating lease contracts, there is a contractual obligation to the lessor to redeliver the aircraft in an agreed state of maintenance. The provision represents the estimated cost to be incurred or reimbursed to the lessor at the balance sheet date.

Aircraft maintenance provision

The provision for aircraft maintenance relates to contractual commitments for aircraft financed under operating leases. The provision has a variable term between one and seven years and is in 2015 discounted at 6.0% (2014 6.0%).

Legal issues

The provision as at December 31, 2015 relates to the Cargo anti-trust investigations in Europe for KLM and Martinair and anti-trust investigations in Switzerland. For more details reference is made to note 21 Contingent assets and liabilities. The Group has provided cash pledges (by means of restricted deposits) to provide security to banks that have issued the guarantees related to the fine imposed by the EU. Reference is made to note 5 Other financial assets.

Other provisions

Other provisions include provisions for onerous leases of aircraft and site restoration cost for land and buildings under long term lease agreements.

19. Trade and other payables

As at December 31,	2015	2014
Trade payables	952	1,006
Amounts due to AIR FRANCE KLM Group companies	86	105
Taxes and social security premiums	231	230
Other payables	332	310
Accrued liabilities	149	134
Total	1,750	1,785

20. Commitments

As at December 31, 2015, KLM has commitments for previously placed orders amounting to EUR 3,299 million (December 31, 2014 EUR 2,857 million). EUR 3,212 million of this amount relates to aircraft (December 31, 2014 EUR 2,760 million) of which EUR 270 million is due in 2016. The balance of the commitments as at December 31, 2015 amounting to EUR 87 million (December 31, 2014 EUR 97 million) is related to other tangible fixed assets. As at December 31, 2015 prepayments on aircraft orders have been made, amounting to EUR 167 million (December 31, 2014 EUR 214 million).

21. Contingent assets and liabilities

Contingent liabilities

Antitrust investigations and civil litigation

a. Actions instigated by the EU Commission and several competition authorities in other jurisdictions for alleged cartel activity in air cargo transport.

Air France, KLM and Martinair have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the antitrust authorities in several countries with respect to allegations of anti-competitive agreements or concerted actions in the airfreight industry.

As of December 31, 2015, most of these investigations and related public proceedings have been concluded, with the following exceptions.

In Europe, Air France, KLM, Martinair and AIR FRANCE KLM have filed an appeal before the EU General Court against the 2010 EU Commission decision. For KLM and Martinair a provision has been recorded of EUR 177 million (including accrued interest). On December 16, 2015 the General Court rendered its judgment and annulled the decision in its entirety.

The appeal term for the Commission expired on February 29, 2016, and the Commission has not filed an appeal, following which the annulment has become definitive. As the grounds for the annulment of the Commission's decision do not prelude them from pursuing the proceedings against KLM and Martinair (and Air France and AIR FRANCE KLM), the EUR 156 million in respect of the fine has been maintained as per December 31, 2015. The accrued interest, amounting to EUR 21 million, has been released to the consolidated statement of profit or loss in the first quarter of 2016. Reference is made to the Subsequent events paragraph in the Notes to the Consolidated Financial Statements.

In Switzerland, Air France and KLM are challenging a decision imposing an EUR 3.2 million fine before the relevant court. Taking into account the part thereof that external counsel assesses to be for the account of KLM, a provision of EUR 0.6 million was recorded.

As of December 31, 2015, the total amount of provisions in connection with antitrust cases amounts to EUR 186 million.

b. Related civil lawsuits

Following the initiation of various investigations by competition authorities in 2006 and the EU Commission decision in 2010, several collective and individual actions were brought by forwarders and airfreight shippers in civil courts against KLM, Air France and Martinair, and the other airlines in several jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices as a consequence of the alleged anticompetitive behaviours.

Air France, KLM and/or Martinair remain defendants, either as main defendants or as third party interveners brought in these cases by other main defendants under "contribution proceedings". Where Air France, KLM and/or Martinair are main defendants, they have initiated contribution proceedings against other airlines.

No provision has been recognised at present in connection with these disputes as KLM and Martinair are not in a position at this stage of the judicial proceedings to give a reliable estimate of the maximum potential loss that would be incurred if the outcome of these proceedings were to be negative. In particular, although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs generally refer to was annulled by the General Court in its decision of December 16, 2015.

c. Civil actions relating to the Passenger Business

Litigations concerning anti-trust laws

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including KLM and Air France. The plaintiffs allege the defendants participated in a conspiracy in the passenger air transport service from/to Canada on the cross-Atlantic routes, for which they are claiming damages. KLM and Air France strongly deny any participation in such a conspiracy.

Other

The Company and certain of its subsidiaries are involved as defendant in litigation relating to competition issues, commercial transactions, and labour relations. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that, with the exception of the matters discussed above, the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

Site cleaning up cost

The Group owns a number of Cargo and Maintenance buildings situated on various parcels of land which are the subject of long lease agreements.

At the expiry of each of these agreements the Company has the following options:

1. To demolish the buildings and clean up the land prior to return to the lessor;
2. To transfer ownership of the building to the lessor; or
3. To extend the lease of the land.

No decision has been taken regarding the future of any of the buildings standing on leased land. Therefore, it cannot be determined whether it is probable that site cleaning up cost will be incurred and to what extent. Accordingly, no provision for such cost has been established.

Guarantees

Bank guarantees and corporate guarantees given by the Company on behalf of subsidiaries, unconsolidated companies and third parties, including the guarantees provided by the Company for the four bond loans issued by AIR FRANCE KLM S.A. (see note 11), amount to EUR 528 million as at December 31, 2015 (December 31, 2014 EUR 764 million).

The guarantee, which relates to the EU anti-trust investigations (see note 18), amounts to EUR 177 million as at December 31, 2015 (December 31, 2014 EUR 171 million). This total guarantee amount is secured by a cash pledge as at December 31, 2015 (see note 5) and as at December 31, 2014.

For the three bond loans issued by AIR FRANCE KLM S.A. (see note 11) the total guarantee for the Company is EUR 454 million as at December 31, 2015. The guarantees that the Company provides covers the principal amount as well as the remaining interest obligations.

With respect to the guarantee provided by the Company on the plain vanilla bond loan, issued by AIR FRANCE KLM S.A. in October 2009 (see note 11), the Company has irrevocably and unconditionally agreed to act as several but not as joint guarantors (the Company for 50%).

With respect to the guarantee provided by the Company on the two other bond loans that have been issued by AIR FRANCE KLM S.A. (see note 11), the Company has irrevocably and unconditionally agreed to act as several but not as joint guarantors (the Company for 40%).

For the three bond loans issued on AIR FRANCE KLM S.A. level (see note 11) the total guaranteed amount outstanding is reduced by the total amount drawn as at December 31, 2015 on the existing intercompany loan facilities (see note 11).

Section 403 guarantees

General guarantees as defined in Book 2, Section 403 of The Dutch Civil Code have been given by the Company on behalf of several subsidiaries in The Netherlands. The liabilities of these companies to third parties and unconsolidated companies amount to EUR 373 million as at December 31, 2015 (December 31, 2014 EUR 361 million).

Contingent assets

Other litigation

The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favourable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

22. Revenues

	2015	2014
Services rendered		
Passenger transport	7,143	6,847
Cargo transport	1,376	1,505
Maintenance contracts	625	520
Charter and low cost business	727	740
Other services	34	31
Total revenues	9,905	9,643

23. External expenses

	2015	2014 Restated *
Aircraft fuel	2,694	2,894
Chartering costs	61	67
Landing fees and route charges	819	780
Catering	206	188
Handling charges and other operating costs	560	515
Aircraft maintenance costs	943	725
Commercial and distribution costs	315	306
Insurance	28	28
Rentals and maintenance of housing	199	191
Sub-contracting	139	143
Other external expenses	200	205
Total external expenses	6,164	6,042

* Reclassification. See notes to the consolidated financial statements: Change in presentation of consolidated statement of profit or loss

In Aircraft fuel expenses an amount of EUR 691 million negative (2014 EUR 65 million negative) is included which was transferred from OCI to the consolidated statement of profit or loss.

24. Employee compensation and benefit expense

	2015	2014 Restated *
Wages and salaries	2,211	1,969
Social security premiums other than for state pension plans	216	219
Share-based remuneration	-	1
Hired personnel	134	146
Pension and early-retirement plan costs	206	283
Post-employment medical benefit costs	(6)	2
Other long-term employee benefit costs	13	25
Total employee compensation and benefit expenses	2,774	2,645

* Reclassification. See notes to the consolidated financial statements: Change in presentation of consolidated statement of profit or loss

Pension and early-retirement plan cost comprise:

	2015	2014
Defined benefit plans	187	256
Defined contribution plans	19	27
Total	206	283

Defined benefit plans and early-retirement plan cost comprise:

	2015	2014
Current service cost	199	343
Interest expense	412	512
Interest income	(440)	(598)
Losses/(gains) arising from plan amendments and curtailments	-	-15
Administration cost	16	14
Total	187	256

In the financial year 2015 the defined benefit cost recognised in profit or loss for the major defined benefit plans recognised in the statement of profit or loss amounted to EUR 187 million (2014 EUR 256 million) and the total contributions paid by the Group amounted to EUR 214 million (2014 EUR 418 million). The contributions paid in the financial year 2015 include additional deficit funding for the Dutch KLM plans amounting to EUR nil million (2014 EUR 4 million) and in The United Kingdom amounting to EUR 8 million (2014 EUR 8 million).
The Group's projected defined benefit plans and early retirement plan cost for 2016 amount to EUR 172 million. The Group's expected cash contributions for these plans amount to EUR 217 million.

Post-employment medical benefits cost comprise:

	2015	2014
Interest cost	2	2
Losses/(gains) arising from plan amendments	(8)	-
Total	(6)	2

Other long-term employee benefits comprise:

	2015	2014
Current service cost	5	5
Interest cost	2	2
Immediate recognition of (gains)/losses	-	9
Other	6	9
Total	13	25

Number of full-time equivalent employees:

	2015	2014
Average for year		
Flight deck crew	3,302	3,307
Cabin crew	7,838	7,832
Ground staff	19,275	19,572
Total	30,415	30,711

As at December 31,	2015	2014
Flight deck crew	3,258	3,335
Cabin crew	7,329	7,421
Ground staff	19,237	19,435
Total	29,824	30,191

25. Other income and expenses

	2015	2014
Capitalised production	256	153
Operating Currency hedging recycling	155	1
Other expenses	(113)	(96)
Other income and expenses	298	58

26. Amortisation, depreciation and movements in provision

	2015	2014
Intangible assets	34	26
Flight equipment	416	450
Other property and equipment	61	63
Movements in provision	16	17
Total amortisation, depreciation and movements in provision	527	556

27. Other non-current income and expenses

The 2015 expense showed a profit of EUR 71 million which mainly relates to profit from sale of 3 slots at Heathrow Airport (EUR 125 million), positive pension plan settlement from defined benefit to defined contribution for Transavia Cockpit Crew (EUR 45 million), negative pension plan change related to a pension age increase from 56 to 58 years offset by an increased yearly accrual rate of KLM Cockpit Crew (EUR 25 million), release provision onerous lease B747-400 BCF (EUR 7 million), provision for severance payment cockpit crew at Martinair (EUR 40 million), provision for voluntary leave at KLM (EUR 31 million) and several other items (EUR 9 million).

The 2014 expenses showed a profit of EUR 676 million which mainly relates to a non-cash release of pension liabilities of EUR 823 million (reference is made to note 17). Other non-current income and expenses include losses of EUR 147 million which mainly relate to impairment on MD-11 cargo fleet (EUR 82 million), additional onerous lease provisions for cargo fleet (EUR 23 million), provision for severance payments (EUR 22 million), impairment on spare engines at Engineering & Maintenance (EUR 17 million) and other items (EUR 3 million).

28. Net cost of financial debt

	2015	2014
Gross cost of financial debt		
Loans from third parties	68	64
Finance leases	40	45
Other interest expenses	27	36
Total gross cost of financial debt	135	145
Income from cash and cash equivalents		
Loans to third parties	21	29
Total income from cash and cash equivalents	21	29
Net cost of financial debt	114	116

	2015	2014
Foreign currency exchange gains/(losses)	(5)	(5)
Fair value gains/(losses)	(203)	(87)
Total other financial income and expenses	(208)	(92)

The fair value losses recorded in the financial year mainly consist of the ineffective and time value portion of fuel and foreign currency exchange derivatives for EUR 68 million negative (2014 EUR 27 million negative), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 8 million negative (2014 EUR 4 million positive) as well as the unrealised revaluation of other balance sheet items for EUR 127 million negative (2014 EUR 64 million negative).

29. Income tax expense / benefit

	2015	2014
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	38	164
Benefit from previously unrecognised tax loss	-	-
Reduction of tax losses carried forward	4	89
Total tax (income)/expenses	42	253

The reduction of tax losses carried forward relates to the Dutch tax group and the pre-acquisition fiscal losses of Martinair. Reference is made to note 16.

The applicable average tax rate in The Netherlands for the financial year 2015 is 25% (2014: 25%).

The average effective tax rate is reconciled to the applicable tax rate in The Netherlands as follows:

in %	2015	2014
Applicable average tax rate in The Netherlands	25.0	25.0
Impact of:		
Profit free of tax/Non-deductible expenses	3.0	0.5
Derecognition / (recognition) of tax losses	3.2	13.8
Differences in foreign tax rate changes	0.1	-
Effective tax rate	31.3	39.3

30. Share-based payments

Phantom shares

The movement in the number of phantom performance shares granted is as follows:

	2015	2014
As at January 1	525,703	520,358
Granted	100,611	121,034
Forfeited	(32,990)	(8,563)
Exercised	(69,952)	(107,126)
As at December 31	523,372	525,703

The date of expiry of the phantom shares is as follows:

As at December 31,	2015	2014
Phantom shares expiry date		
July 1, 2015	-	43,107
July 1, 2016	80,082	98,352
April 1, 2017	77,253	102,477
April 1, 2018	113,304	138,046
April 1, 2019	119,715	143,721
April 1, 2020	133,018	-
Carrying number	523,372	525,703

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the following criteria: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.
Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company.

Under the Long Term Incentive plan 2011, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2011. The first tranche has vested for 113.4% in July 2011. The second tranche has vested for 36% in April 2012. The third tranche has vested for 108% in April 2013. The 2011 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2014 and July 1, 2016. The 2011 plan has an intrinsic value of EUR 0.6 million as at December 31, 2015.

Under the Long Term Incentive plan 2012, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2012. The first tranche has vested for 36% in April 2012. The second tranche has vested for 108% in April 2013. The third tranche has vested for 76.4% in April 2014. The 2012 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between April 1, 2015 and April 1, 2017. The 2012 plan has an intrinsic value of EUR 0.5 million as at December 31, 2015.

Under the Long Term Incentive plan 2013, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2013. The first tranche has vested for 108% in April 2013. The second tranche has vested for 76.4% in April 2014. The third tranche has vested for 70.2% in April 2015. The 2013 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between April 1, 2016 and April 1, 2018. The 2013 plan has an intrinsic value of EUR 0.8 million as at December 31, 2015.

Under the Long Term Incentive plan 2014, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2014. The first tranche has vested for 76.4% in April 2014. The second tranche has vested for 70.2% in April 2015. The third tranche is still conditionally awarded.

Under the Long Term Incentive plan 2015, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2015. The first tranche has vested for 70.2% in April 2015. The second and third tranche are still conditionally awarded.

31. Supervisory Board remuneration

	2015			2014		
(Amounts in EUR)	As Super-visory Board member	As Committee member	Total	As Super-visory Board member	As Committee member	Total
H.N.J. Smits	42,500	3,000	45,500	37,522	4,000	41,522
I.P. Asscher-Vonk	26,500	3,000	29,500	26,500	3,000	29,500
P.C. Calavia	26,500	-	26,500	26,500	-	26,500
A. Dautry (as from April 23, 2014)	26,500	-	26,500	18,255	-	18,255
H. Guillaume	26,500	2,000	28,500	26,500	2,000	28,500
C.C. 't Hart (as from April 23, 2014)	26,500	2,000	28,500	18,255	1,000	19,255
R.J. Laan	26,500	4,500	31,000	26,500	4,500	31,000
J. Peyrelevade	26,500	4,000	30,500	26,500	2,000	28,500
A.J.M. Roobeek	26,500	2,000	28,500	26,500	2,000	28,500
J.D.F.C. Blanchet (until April 23, 2014)	-	-	-	10,733	-	10,733
K.J. Storm (until April 23, 2014)	-	-	-	13,222	1,000	14,222
Total	254,500	20,500	275,000	256,987	19,500	276,487

For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section. The fees paid to the Supervisory Board are not linked to the Company's results.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

32. Board of Managing Directors remuneration

Base salary

(amounts in EUR)	2015	2014
P.J.Th. Elbers	450,000	443,750
R.M. de Groot (as from April 23, 2015)	206,667	-
E.R. Swelheim (as from April 23, 2014)	300,000	200,000
C.M.P.S. Eurlings (until October 15, 2014) *	-	475,000
E.F. Varwijk (until July 1, 2015) **	205,000	410,000
Total	1,161,667	1,528,750

* Mr. Eurlings stepped down as President and Chief Executive Officer, and therefore as Statutory Board Member per October 15, 2014. His contract ended December 31, 2014. Based on his contract he received a redundancy packagone year base salary in 2014, which amounted to EUR 475,000

** Mr. Varwijk stepped down as Managing Director per March 2015. His contract ended June 30, 2015. Based on his contract he received a redundancy package of two year base salary, which amounted to EUR 820,000

Total base salaries for the Board of Managing Directors amounted to EUR 1,161,667, which was 24% below 2014 and 26% below 2013. Since July 1, 2015 the Board of Managing Directors has been brought down to three members. Base salaries of the current CEO and CFO remained unchanged in 2015.

Short-term incentive plan

	2015		2014	
(amounts in EUR)	Short term incentive plan	Targets achieved	Short term incentive plan	Targets achieved
P.J.Th. Elbers	373,500	Partially	67,500	Partially
R.M. de Groot (as from April 23, 2015)	106,433	Partially	-	-
E.R. Swelheim (as from April 23, 2014)	154,500	Partially	12,000	Partially
E.F. Varwijk (until July 1, 2015) *	-	-	32,800	Partially
Total	634,433		112,300	

* Mr. Varwijk did not receive a short term incentive over 2015

Total payment of the short-term incentive plan amounted to EUR 634,433. This was EUR 522,133 above 2014 and EUR 205,294 below 2013.

For a description of the short-term incentive plan, we refer to the Remuneration Policy and Report in the Board and Governance Section.

Other allowances and benefits in kind

In addition to the base salary, the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone cost and a fixed monthly allowances of EUR 440 for business expenses not otherwise reimbursed.

Pensions

Pension cost (post-employment benefit)

(amounts in EUR)	2015	2014
P.J.Th. Elbers	29,743	106,074
R.M. de Groot (as from April 23, 2015)	14,684	-
E.R. Swelheim (as from April 23, 2014)	19,178	46,033
C.M.P.S. Eurlings (until October 15, 2014)	-	114,000
E.F. Varwijk (until July 1, 2015)	4,447	102,877
Total	68,052	368,984

Given the new Dutch fiscal rules, amongst others, a maximum pensionable salary of EUR 100,000 and lower future accrual rate are applicable as from 2015. Therefore the pension cost, being the pension premium paid to the pension fund (defined benefit plan), are lower than previous years.

Pension allowance (short-term benefit)

(amounts in EUR)	2015	2014
P.J.Th. Elbers	75,831	-
R.M. de Groot (as from April 23, 2015)	28,049	-
E.R. Swelheim (as from April 23, 2014)	51,578	-
E.F. Varwijk (until July 1, 2015)	39,706	-
Total	195,164	-

Given the new Dutch fiscal rules, as described above, the Board of Managing Directors receive a pension allowance for the pensionable salary above EUR 100,000. This gross pension allowance can, after wage tax, either be used to participate in the KLM net pension savings scheme (defined contribution plan) or paid out as net allowance.

External supervisory board memberships

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 30,556 (December 31, 2014 EUR 47,351 and amongst others includes remunerated positions in connection with directorships in AIR FRANCE KLM, Transavia.com and Kenya Airways.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

As an incentive to make a longer-term commitment to the Company, phantom shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets. Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding phantom shares are forfeited.

The maximum number of phantom shares granted to the Chief Executive Officer is 10,000 and to the Managing Director 6,000. For further information see note 30.

The current and former members of the Board of Managing Directors have the following positions with respect to the phantom shares granted under the KLM long-term incentive plan at December 31, 2015:

(Amounts in EUR)	Number of phantom shares granted	Expiry date	Number of phantom shares forfeited	Number of phantom shares exercised	Average share price at exercise	Number of phantom shares conditional	Number of phantom shares vested	Total outstanding as at December 31, 2015
P.J.Th. Elbers								
July, 2011	4,500	July 1, 2016	(640)	-		-	3,860	3,860
April, 2012	4,500	April 1, 2017	(1,195)	-		-	3,305	3,305
April, 2013	6,000	April 1, 2018	(910)	-		-	5,090	5,090
April, 2014	7,500	April 1, 2019	(1,335)	-		2,500	3,665	6,165
April, 2015	10,000	April 1, 2020	(994)	-		6,666	2,340	9,006
	32,500		(5,074)	-		9,166	18,260	27,426
R.M. de Groot (as from April 23, 2015)								
April, 2012	1,500	April 1, 2017	(398)	-		-	1,102	1,102
April, 2013	1,500	April 1, 2018	(227)	-		-	1,273	1,273
April, 2014	1,500	April 1, 2019	(267)	-		500	733	1,233
April, 2015	4,500	April 1, 2020	(447)	-		3,000	1,053	4,053
	9,000		(1,339)	-		3,500	4,161	7,661
E.R. Swelheim (as from April 23, 2014)								
July, 2010	1,500	July 1, 2015	(433)	(1,067)	8.21	-	1,067	-
July, 2011	1,500	July 1, 2016	(213)	-		-	1,287	1,287
April, 2012	4,500	April 1, 2017	(1,195)	-		-	3,305	3,305
April, 2013	4,500	April 1, 2018	(682)	-		-	3,818	3,818
April, 2014	4,500	April 1, 2019	(801)	-		1,500	2,199	3,699
April, 2015	6,000	April 1, 2020	(596)			4,000	1,404	5,404
	22,500		(3,920)	(1,067)		5,500	13,080	17,513
P.F. Hartman (until July 1, 2013)								
July, 2011	10,000	July 1, 2016	(1,423)	-		-	8,577	8,577
April, 2012	10,000	April 1, 2017	(2,658)	-		-	7,342	7,342
April, 2013	10,000	April 1, 2018	(1,517)	-		-	8,483	8,483
	30,000		(5,598)	-		-	24,402	24,402
E.F. Varwijk (until July 1, 2015)								
July, 2011	6,000	July 1, 2016	(854)	(5,146)	6.73	-	5,146	-
April, 2012	6,000	April 1, 2017	(1,594)	(4,406)	6.73	-	4,406	-
April, 2013	6,000	April 1, 2018	(910)	(5,090)	6.73	-	5,090	-
April, 2014	6,000	April 1, 2019	(3,068)	(2,932)	6.73	-	2,932	-
	24,000		(6,426)	(17,574)		-	17,574	-
F.N.P.P. Gagey (until April 1, 2012)								
July, 2010	7,500	July 1, 2015	(2,165)	(5,335)	6.52	-	5,335	-
July, 2011	7,500	July 1, 2016	(1,067)	-		-	6,433	6,433
	15,000		(3,232)	(5,335)		-	11,768	6,433
Total	133,000		(25,589)	(23,976)		18,166	89,245	83,435

The 2015 phantom shares cost for the current Board of Managing Directors members is EUR 30,135 for Mr. Elbers (2014: EUR 41,028), EUR 7,383 for Mr. de Groot (2014: EUR nil) and EUR 16,731 for Mr. Swelheim (2014: EUR 22,628). For the former Board of Managing Directors the 2015 cost is EUR 2,602 negative for Mr. Varwijk (2014: EUR 57,724). For the other former Board of Managing Directors the 2014 cost were EUR 61,745 for Mr. Hartman and EUR 21,223 for Mr. Eurlings.

As at December 31, 2015 Mr. Hartman held 12,960 shares AIR FRANCE KLM S.A. Mr. Elbers, Mr. de Groot and Mr. Swelheim had no interest in AIR FRANCE KLM S.A.

Total remuneration

The 2015 total remuneration of the Board of Managing Directors is EUR 964,489 for Mr. Elbers (2014: EUR 663,632), EUR 366,736 for Mr. de Groot (2014: EUR nil) and EUR 547,267 for Mr. Swelheim (2014: EUR 284,181).

For the former Board of Managing Directors the 2015 total remuneration is EUR 1,069,191 for Mr. Varwijk (2014: 608,681). For the other former Board of Managing Directors the 2014 cost were EUR 61,745 for Mr. Hartman and EUR 1,090,503 for Mr. Eurlings.

33. Related party transactions

The Group has interests in various associates in which it has either significant influence in but not control or joint control over operating and financial policy. Transactions with these parties, some of which are significant, are negotiated at commercial conditions and prices, which are not more favourable than those which would have been negotiated with third parties on an arm's length basis. In addition dividends have been received from those interests (see note 3). The following transactions were carried out with related parties:

	2015	2014
Sales of goods and services		
AIR FRANCE KLM Group companies	138	138
Associates	12	11
Other related parties	-	1
Purchases of goods and services		
AIR FRANCE KLM Group companies	196	188
Associates	3	4
Other related parties	20	17

For details of the year-end balances of amounts due to and from related parties see notes 7 and 19. For the AIR FRANCE KLM loans see note 11. Other than AIR FRANCE KLM S.A., no loans were granted to or received from related parties during 2015 and 2014.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors see note 30 to 32. For information relating to transactions with pension funds for the Group's employees see note 17.

34. Primary segment reporting

2015	Passenger	Cargo	Maintenance	Leisure	Other	Eliminations	Total
Revenues							
Revenues External	7,143	1,376	625	727	34	-	9,905
Revenues Internal	737	3	851	-	194	(1,785)	-
Total revenue	7,880	1,379	1,476	727	228	(1,785)	9,905
EBITDAR	1,154	(81)	108	78	6	-	1,265
EBITDA	867	(88)	108	18	6	-	911
Income from current operations	448	(110)	46	-4	4	-	384
Share of results of equity shareholdings							(37)
Financial Income and expenses							(322)
Gain/(loss) on disposal of assets							127
Other non current income and expenses							(56)
Income tax expenses							(42)
Profit for the year							54
Amortisation, depreciation and movements in provision	-419	-22	-62	-22)	-2		(527)
Other financial income and expenses	-160	-10	16	-6)	-48		(208)
ASSETS							
Intangible assets	181	4	62	18	43		308
Flight equipment	2,263	254	359	258	(140)		2,994
Other property, plant and equipment	103	8	72	6	343		532
Trade receivables	283	175	16	14	(14)		474
Other assets	737	(277)	319	228	3,410		4,417
Total assets	3,567	164	828	524	3,642		8,725
LIABILITIES							
Deferred revenues on sales	1,000	13	52	70	-		1,135
Other liabilities	3,628	343	157	366	2,700		7,194
Total liabilities	4,628	356	209	436	2,700		8,329

2014	Passenger	Cargo	Maintenance	Leisure	Other	Eliminations	Total
Revenues							
Revenues External	6,847	1,505	520	740	31	-	9,643
Revenues Internal	746	3	735	1	189	(1,674)	-
Total revenue	7,593	1,508	1,255	741	220	(1,674)	9,643
EBITDAR	918	(58)	99	47	8	-	1,014
EBITDA	686	(61)	99	-	7	-	731
Income from current operations	242	(98)	45	(19)	5	-	175
Share of results of equity shareholdings							(49)
Financial Income and expenses							(208)
Gain/(loss) on disposal of assets							-
Other non current income and expenses							676
Income tax expenses							(253)
Profit for the year							341
Amortisation, depreciation and movements in provision	(445)	(37)	(54)	(19)	(1)		(556)
Other financial income and expenses	(73)	(5)	8	(6)	(16)		(92)
ASSETS							
Intangible assets	81	5	48	14	144		292
Flight equipment	2,296	273	338	267	(56)		3,118
Other property, plant and equipment	88	10	97	7	352		554
Trade receivables	288	199	16	13	(16)		500
Other assets	598	12	307	253	2,865		4,035
Total assets	3,351	499	806	554	3,289		8,499
LIABILITIES							
Deferred revenues on sales	980	10	54	52	-		1,096
Other liabilities	3,639	426	84	452	2,793		7,394
Total liabilities	4,619	436	138	504	2,793		8,490

35. Secondary segment reporting

Revenues by destination 2015	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,127	315	913	2,064	1,461	6,880
Other passenger revenues	76	14	37	77	59	263
Total passenger revenues	2,203	329	950	2,141	1,520	7,143
Scheduled cargo	16	17	258	588	421	1,300
Other cargo revenues	1	1	15	34	25	76
Total cargo revenues	17	18	273	622	446	1,376
Maintenance	625	-	-	-	-	625
Other revenues	761	-	-	-	-	761
Total maintenance and other	1,386	-	-	-	-	1,386
Total revenues by destination	3,606	347	1,223	2,763	1,966	9,905

Revenues by destination 2014	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,022	294	899	1,899	1,437	6,551
Other passenger revenues	85	16	42	87	66	296
Total passenger revenues	2,107	310	941	1,986	1,503	6,847
Scheduled cargo	15	17	259	605	526	1,422
Other cargo revenues	1	1	15	35	31	83
Total cargo revenues	16	18	274	640	557	1,505
Maintenance	520	-	-	-	-	520
Other revenues	771	-	-	-	-	771
Total maintenance and other	1,291	-	-	-	-	1,291
Total revenues by destination	3,414	328	1,215	2,626	2,060	9,643

Geographical analysis of assets: the major revenue-earning asset of the Group is the fleet, the majority of which are registered in The Netherlands. Since the Group's fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

36. Subsidiaries

The following is a list of the Company's significant subsidiaries as at December 31, 2015:

Name	Country of incorporation	Ownership interest in %	Proportion of voting power held in %
Transavia Airlines C.V.	The Netherlands	100	100
Martinair Holland N.V.	The Netherlands	100	100
KLM Cityhopper B.V.	The Netherlands	100	100
KLM Cityhopper UK Ltd.	United Kingdom	100	100
KLM UK Engineering Ltd.	United Kingdom	100	100
European Pneumatic Component Overhaul & Repair B.V.	The Netherlands	100	100
KLM Catering Services Schiphol B.V.	The Netherlands	100	100
KLM Flight Academy B.V.	The Netherlands	100	100
KLM Health Services B.V.	The Netherlands	100	100
KLM Equipment Services B.V.	The Netherlands	100	100
Cygnific B.V.	The Netherlands	100	100
Cobalt Ground Solutions Ltd.	United Kingdom	60	60

KLM Royal Dutch Airlines company balance sheet

In millions of Euros	Note	December 31, 2015	December 31, 2014
After proposed appropriation of the result for the year			
ASSETS			
Non-current assets			
Property, plant and equipment	37	2,922	3,016
Intangible assets		285	272
Investments accounted for using the equity method	38	260	418
Other non-current assets	4	280	211
Other financial assets	39	293	197
Deferred income tax assets	48	75	210
Pension assets	17	1,773	1,409
		5,888	5,733
Current assets			
Other current assets	4	281	127
Other financial assets	39	139	209
Inventories		134	169
Trade and other receivables	40	1,393	1,517
Cash and cash equivalents	41	368	308
		2,315	2,330
TOTAL ASSETS		8,203	8,063
EQUITY			
Capital and reserves			
Share capital	42	94	94
Share premium		474	474
Other reserves	42	(2,305)	(2,662)
Retained earnings		2,129	2,099
Total attributable to Company's equity holders		392	5
LIABILITIES			
Non-current liabilities			
Loans from parent company	43	288	288
Loans from subsidiaries	44	88	198
Finance lease obligations	45	1,180	1,160
Other non-current liabilities	4	254	279
Other financial liabilities	46	1,179	1,159
Deferred income	47	151	145
Provisions	49	546	486
		3,686	3,715
Current liabilities			
Trade and other payables	50	2,120	2,229
Loans from parent company	43	105	233
Loans from subsidiaries	44	33	33
Finance lease obligations	45	176	235
Other current liabilities	4	585	482
Other financial liabilities	46	71	148
Deferred income	47	856	843
Provisions	49	179	140
		4,125	4,343
Total liabilities		7,811	8,058
TOTAL EQUITY AND LIABILITIES		8,203	8,063

The accompanying notes are an integral part of these Company financial statements

KLM Royal Dutch Airlines company statement of profit or loss

In millions of Euros	2015	2014
Profit / (loss) from investments accounted for using equity method after taxation	4	(87)
Profit / (loss) of KLM N.V. after taxation	49	427
Income / (loss) for the year after taxation	53	340

The accompanying notes are an integral part of these Company financial statements

Notes to the Company financial statements

General
The Company financial statements are part of the 2015 financial statements of KLM Royal Dutch Airlines (the "Company").

Significant accounting policies
The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result
In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362(8) of Book 2 of the Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated IFRS financial statements.

Investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments themselves, are not incorporated insofar as they can be deemed to be unrealised.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

37. Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at Jan. 1, 2014	804	2,578	1,348	4,730	634	450	55	1,139	180	6,049
Additions	-	-	18	18	-	-	-	-	314	332
Disposals	(250)	-	(191)	(441)	(24)	(9)	(1)	(34)	-	(475)
Other movements	205	(41)	234	398	(57)	16	5	(36)	(291)	71
As at Dec. 31, 2014	759	2,537	1,409	4,705	553	457	59	1,069	203	5,977
Accumulated depreciation and impairment										
As at Jan. 1, 2014	609	881	681	2,171	274	366	35	675	-	2,846
Depreciation	60	128	162	350	30	20	2	52	-	402
Disposals	(221)	(3)	(175)	(399)	(24)	(9)	(1)	(34)	-	(433)
Other movements	155	(19)	77	213	(68)	(1)	2	(67)	-	146
As at Dec. 31, 2014	603	987	745	2,335	212	376	38	626	-	2,961
Net carrying amount										
As at Jan. 1, 2014	195	1,697	667	2,559	360	84	20	464	180	3,203
As at Dec. 31, 2014	156	1,550	664	2,370	341	81	21	443	203	3,016

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at Jan. 1, 2015	759	2,537	1,409	4,705	553	457	59	1,069	203	5,977
Additions	18	44	-	62	-	-	-	-	290	352
Disposals	(70)	-	(175)	(245)	(11)	(28)	(17)	(56)	(5)	(306)
Other movements	579	(337)	297	539	25	(73)	118	70	(442)	167
As at Dec. 31, 2015	1,286	2,244	1,531	5,061	567	356	160	1,083	46	6,190
Accumulated depreciation and impairment										
As at Jan. 1, 2015	603	987	745	2,335	212	376	38	626	-	2,961
Depreciation	70	115	170	355	29	16	7	52	-	407
Disposals	(74)	-	(153)	(227)	(11)	(27)	(14)	(52)	-	(279)
Other movements	321	(210)	45	156	15	(76)	84	23	-	179
As at Dec. 31, 2015	920	892	807	2,619	245	289	115	649	-	3,268
Net carrying amount										
As at Jan. 1, 2015	156	1,550	664	2,370	341	81	21	443	203	3,016
As at Dec. 31, 2015	366	1,352	724	2,442	322	67	45	434	46	2,922

The assets include assets which are held as security for mortgages and loans as follows:

As at December 31,	2015	2014
Aircraft	82	64
Land and buildings	126	133
Other property and equipment	27	34
Carrying amount	235	231

Borrowing cost capitalised during the year amounted to EUR 4 million (2014 EUR 4 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.2 % (2014: 3.4%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings as at December 31, 2015 was EUR 213 million (December 31, 2014 EUR 227 million).

38. Investments accounted for using the equity method

As at December 31,	2015	2014
Subsidiaries	236	359
Associates	(1)	35
Jointly controlled entities	25	24
Carrying amount	260	418

	2015	2014
Subsidiaries		
Carrying amount as at January 1	359	385
Movements		
Investments	-	-
Share of profit/(loss) after taxation	57	(35)
OCI movement	(13)	-
Dividends received	(8)	(7)
Foreign currency translation differences	1	-
Other movements	(160)	16
Net movement	(123)	(26)
Carrying amount as at December 31	236	359

For details of the Group's investments in subsidiaries see note 36 to the consolidated financial statements. For details of the Group's investments in associates and jointly controlled entities see note 3 to the consolidated financial statements.

39. Other financial assets

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	-	138	76	96
Loans and receivables				
Other loans and receivables	2	107	1	92
At fair value through profit or loss				
Restricted deposit EU Cargo Claim	-	-	129	-
Other restricted deposits	2	-	3	-
Other deposits	135	-	-	-
Deposits on operating leased aircraft	-	40	-	-
AIR FRANCE KLM S.A. shares	-	8	-	9
Total at fair value	137	48	132	9
Carrying amount	139	293	209	197

40. Trade and other receivables

As at December 31,	2015	2014
Trade receivables	455	471
Provision trade receivables	(32)	(25)
Trade receivables - net	423	446
Amounts due from:		
- subsidiaries	655	735
- AIR FRANCE KLM group companies	61	99
- associates and jointly controlled entities	2	4
- maintenance contract customers	149	134
Taxes and social security premiums	28	29
Other receivables	49	26
Prepaid expenses	26	44
Total	1,393	1,517

Maintenance contract cost incurred to date for contracts in progress at December 31, 2015 amounted to EUR 173 million (December 31, 2014 EUR 125 million). Advances received for maintenance contracts in progress at December 31, 2015 amounted to EUR 11 million (December 31, 2014 EUR 2 million). The maturity of trade and other receivables is within one year.

41. Cash and cash equivalents

As at December 31,	2015	2014
Cash at bank and in hand	38	32
Short-term deposits	330	276
Total	368	308

The effective interest rates on short-term deposits are in the range from 0% to 5.26% (2014 range 0.01% to 4.70%). The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

42. Share capital and other reserves

For details of the Company's share capital and movements on other reserves see note 9 and 10 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, remeasurement of defined benefit plans, translation and other legal reserves. Reference is made to note 10.

43. Loans from parent company

As at December 31,	2015	2014
Non-current portion	288	288
Current portion	105	233
Carrying amount	393	521

For the loans with AIR FRANCE KLM reference is made to note 11. For the guarantees from KLM to AIR FRANCE KLM reference is made to note 21.

44. Loans from subsidiaries

As at December 31,	2015	2014
Non-current portion	88	198
Current portion	33	33
Carrying amount	121	231

45. Finance lease obligations

As at December 31,	2015	2014
Non-current portion	1,180	1,160
Current portion	176	235
Carrying amount	1,356	1,395

46. Other financial liabilities

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	584	-	569
Other loans (secured/unsecured)	71	563	148	558
Total	71	1,179	148	1,159

47. Deferred income

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Advance ticket sales	746	-	684	-
Sale and leaseback transactions	1	(3)	-	-
Flying Blue frequent flyer program	94	149	103	140
Others	15	5	56	5
Total	856	151	843	145

48. Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2015	2014
Carrying amount as at January 1	(210)	163
Movements:		
Income statement (credit) /charge	22	234
Tax (credited)/charged to equity	115	(623)
Other movements	(2)	16
Net movement	135	(373)
Carrying amount as at December 31	(75)	(210)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

As at December 31,	2015	2014
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	77	17
Deferred tax assets to be settled after 12 months	323	616
	400	633
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	2	6
Deferred tax liabilities to be settled after 12 months	323	417
	325	423
Carrying amount	(75)	(210)

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at January 1	Income statement (charge) /credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2014					
Tax losses	454	(3)	-	(20)	431
Fleet assets	-	-	-		-
Fleet related assets (maintenance)	2	(1)	-	-	1
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	1	-	-	-	1
Derivative financial instruments	10	-	139	-	149
Other	44	(7)	-	-	37
Total	525	(11)	139	(20)	633

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets					
2015					
Tax losses	431	(203)	-	2	230
Fleet related assets (maintenance)	1	-	-	-	1
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	1	-	-	-	1
Derivative financial instruments	149	-	(30)	-	119
Other	37	(2)	-	-	35
Total	633	(205)	(30)	2	400

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2014					
Other tangible fixed assets	2	(4)	-	-	(2)
Pensions & benefits (asset)	647	229	(484)	(4)	388
Maintenance provision	2	(2)	-	-	-
Other	37	-	-	-	37
Total	688	223	(484)	(4)	423

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged/ (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities					
2015					
Other tangible fixed assets	(2)	(2)	-	-	(4)
Pensions & benefits (asset)	388	2	85	-	475
Maintenance provision	-	(131)	-	-	(131)
Other	37	(52)	-	-	(15)
Total	423	(183)	85	-	325

Tax fiscal unity

The Company, together with other subsidiaries in The Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group.

49. Provisions

	Phasing-out costs of operating lease aircraft	Aircraft maintenance provision	Employee Benefit	Legal Issues	Other	Total
As at January 1, 2015	113	162	194	147	10	626
Additional provisions and increases in existing provisions	25	58	35	4	34	156
Unused amounts reversed	(1)	-	-	-	-	(1)
Used during year	(24)	(62)	(23)	-	(12)	(121)
Foreign currency translation differences	14	22	3	-	-	39
Other changes	(48)	68	6	-	-	26
As at December 31, 2015	79	248	215	151	32	725
Current/non-current portion						
Non-current portion	60	161	174	151	-	546
Current portion	19	87	41	-	32	179
As at December 31, 2015	79	248	215	151	32	725

50. Trade and other payables

As at December 31,	2015	2014
Trade payables	845	905
Amounts due to subsidiaries	611	697
Amounts due to AIR FRANCE KLM Group companies	76	92
Taxes and social security premiums	217	215
Employee related liabilities	209	195
Accrued liabilities	41	34
Other payables	121	91
Total	2,120	2,229

Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 21.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 30 to 32.

Amstelveen, March 29, 2016

The Board of Managing Directors

Pieter J.Th. Elbers
Erik R. Swelheim
Rene M. de Groot

The Supervisory Board

Hans N.J. Smits
Irene P. Asscher-Vonk
Philippe C. Calavia
Alice Dautry
Henri Guillaume
Cees C. 't Hart
Remmert J. Laan
Jean Peyrelevade
Annemieke J.M. Roobeek

Other information

Independent Auditors' Report

To the Shareholders and Supervisory Board of KLM Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij N.V.)

Report on the financial statements

We have audited the accompanying financial statements of KLM Royal Dutch Airlines, Amstelveen, for the year ended December 31, 2015 as set out on the pages 78 to 159. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2015, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2015, the company statement of profit or loss for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Board of Managing Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating 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.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2015, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2015, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Managing Directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the Board of Managing Directors, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amstelveen/ Rotterdam, March 29, 2016

KPMG Accountants N.V.

T. van der Heijden RA

Deloitte Accountants B.V.

D.A. Sonneveldt RA

Provisions of the articles of association on the distribution of profit
Unofficial translation of article 32 of the articles of association of KLM Royal Dutch Airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves. The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.

2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:
   a. the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of financial year concerned, with a maximum of five per cent (5%) of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;
   b. next the holders of cumulative preference shares-A shall receive six per cent (6%) of the par value of their cumulative preference shares-A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares-A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares-A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares-A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;
   c. next the holders of preference shares-B shall receive five per cent (5%) of the par value of their preference shares-B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;
   d. next the holders of preference shares-B shall receive one half per cent (½%) of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the operating revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of five per cent (5%) of the nominal amount of the issued common shares;
   e. subsequently, on each cumulative preference share-C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share-C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;
   f. government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of The Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of The Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been published in the Officiële Prijscourant of Euronext Amsterdam N.V. at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;
   g. on the date on which the cumulative preference shares-C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares-C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series.If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;
   h. if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares-C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares-C shall receive equal treatment. No further payment shall be made on the cumulative preference shares-C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;
   i. if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares-C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;
   j. if the profits over a financial year have been established and in that financial year one or more cumulative preference shares-C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares-C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares-C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares-C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;
   k. if, in the course of a given financial year, issuance of cumulative preference shares-C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance;
   l. the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of priority shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the Company as the type of the shares to which these payments relate.

4. As far as possible and subject to the approval of the Supervisory Board, the meeting of priority shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the Company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.

5. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.

6. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.

7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of profit and distribution to shareholders

It is proposed that the net profit for 2015 amounting to EUR 53,441,000 be appropriated as follows:

Transfer to reserves	
Retained earnings	EUR 53,439,412
Dividend distributions	
Priority shareholders 2014	794
Priority shareholders 2015	794
Total dividend distributions	EUR 1,588
Total transfer to reserves/ dividends	EUR 53,441,000
Interest expenses	
A cumulative preference shareholder 2014 (6%)	1,057,500
A cumulative preference shareholder 2015 (6%)	1,057,500
C cumulative preference shareholder 2014 (3.85% / 0.82%)	378,982
C cumulative preference shareholder 2015 (0.82%)	115,465
Total interest expenses	EUR 2,609,447

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	2015	2014	2013	2012 ** restated	2011 *
Consolidated income statement					
Passenger	7,143	6,847	6,869	6,631	4,675
Cargo	1,376	1,505	1,537	1,664	1,271
Other revenues	1,386	1,291	1,282	1,178	1,039
Revenues	9,905	9,643	9,688	9,473	6,985
Expenses	(8,640)	(8,629)	(8,536)	(8,534)	(6,082)
EBITDAR	1,265	1,014	1,152	939	903
Aircraft operating lease costs	(354)	(283)	(301)	(310)	(204)
EBITDA	911	731	851	629	699
Amortisation, depreciation and movement in provisions	(527)	(556)	(550)	(548)	(424)
Income from current operations	384	175	301	81	275
Financial income and expenses	(322)	(208)	(59)	(104)	(207)
Other non-current income and expenses	71	676	(51)	(95)	(3)
Pre-tax income	133	643	191	(118)	65
Income tax expenses	(42)	(253)	(48)	31	(22)
Net result after taxation of consolidated companies	91	390	143	(87)	43
Share of results of equity shareholdings	(37)	(49)	(10)	(11)	5
Profit / (loss) for the year	54	341	133	(98)	48
Consolidated balance sheet					
Current assets	2,321	2,314	2,418	2,484	2,400
Non-current assets	6,404	6,185	7,191	7,354	8,217
Total assets	8,725	8,499	9,609	9,838	10,617
Current liabilities	4,001	4,218	3,443	3,274	3,142
Non-current liabilities	4,328	4,272	4,555	5,063	4,917
Group equity	396	9	1,611	1,501	2,558
Total liabilities	8,725	8,499	9,609	9,838	10,617

* relates to nine months period April 1 - December 31, 2011
** after the impact of revised IAS19 as per January 1, 2013

(in millions of EUR, unless stated otherwise)		2015	2014	2013	2012 *** restated	2011 **
Key financial figures (KLM Group)						
Return on equity (%)		26.8	42.1	8.5	(6.0)	1.8
Result for the year as percentage of revenues		0.5	3.5	1.4	(1.0)	0.7
Earnings per ordinary share (EUR)		1.14	7.26	2.82	(2.14)	1.01
Result for the year plus depreciation		565	880	640	(98)	458
Capital expenditures (net)		(340)	(420)	(363)	(353)	(311)
Adjusted net debt/EBITDAR ratio		3.6	4.3	4.0	5.2	5.4
Dividend per ordinary share (EUR)		-	-	0.15	-	-
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,460	26,657	26,505	26,915	27,426
Outside The Netherlands		3,955	4,054	4,130	4,274	4,371
Employed by KLM		**30,415**	**30,711**	**30,635**	**31,189**	**31,797**
Total agency staff		1,928	1,983	1,870	1,661	2,121
Total KLM Group		32,343	32,694	32,505	32,850	33,918
Traffic (KLM Company)						
Passenger kilometers	*	93,228	91,477	89,039	86,281	63,823
Revenue ton freight-kilometers	*	3,730	3,764	3,688	3,651	2,875
Passenger load factor (%)		86.4	86.5	85.8	85.7	85.8
Cargo load factor (%)		65.1	66.4	66.1	66.4	68.6
Number of passengers (x 1,000)		28,562	27,740	26,581	25,775	19,888
Weight of cargo carried (kilograms)	*	483	491	480	474	375
Average distance flown per passenger (in kilometers)		3,264	3,298	3,350	3,347	3,237
Capacity (KLM Company)						
Available seat-kilometers	*	107,851	105,755	103,793	100,727	74,429
Available ton freight-kilometers	*	5,734	5,671	5,576	5,497	4,192
Kilometers flown	*	422	419	409	403	305
Blockhours (x 1,000)		630	625	612	607	460
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.4	7.2	7.4	7.4	7.1
Cargo (per RTK)		23.9	24.2	24.7	26.0	25.1
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		20,898	20,979	20,944	21,190	21,337
Outside The Netherlands		2,619	2,744	2,719	2,745	2,762
Employed by KLM		23,517	23,723	23,663	23,935	24,099

* in millions
** relates to nine months period April 1 - December 31, 2011
*** after the impact of revised IAS19 as per January 1, 2013

Glossary of terms and definitions

Adjusted net debt
The sum of net debt and 7x the annual aircraft leasing costs

Available Ton Freight Kilometer (ATFK)
One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.

Available Seat Kilometer (ASK)
One aircraft seat flown a distance of one kilometer.

Cargo load factor
Total Revenue Ton Freight Kilometers (RTFK) expressed as a percentage of the total Available Ton Freight Kilometers (ATFK).

Capital employed
The sum of property, plant and equipment, intangible assets, equity method investments, inventories and trade and other receivables less trade and other payables.

Code sharing
Service offered by KLM and another airline using the KL code and the code of the other airline.

Earnings per ordinary share
The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding.

EBITDA
The earnings before interests, taxes, depreciation, amortization and movements in provisions. EBITDA provides a simple indicator of the cash generation during the year.

EBITDAR
The earnings before interests, taxes, depreciation, amortization, movements in provisions and operational lease costs. This aggregate is adapted to sectors like the air transport industry which can finance a significant proportion of their assets using operating leases. It is obtained by subtracting aircraft operating lease costs from EBITDA.

Free cash flow
This corresponds to the cash available after investments in (prepayments in) aircraft, other tangible fixed assets, intangible fixed assets less the proceeds of disposals.

Net debt
The sum of current and non-current financial liabilities, current and non-current finance lease obligations, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Passenger load factor
Total Revenue Passenger-Kilometers (RPK) expressed as a percentage of the total Available Seat-Kilometers (ASK).

Revenue Ton Freight Kilometer (RTFK)
One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.

Revenue Passenger Kilometer (RPK)
One passenger flown a distance of one kilometer.

Return on capital employed
The sum of income from operating activities, adjusted for the gain/ (loss) on disposal of assets and the results of equity shareholdings after taxation divided by average capital employed.

Return on equity
Net result after taxation divided by the average equity after deduction of the priority shares.

Warning about forward-looking statements
This Annual Report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:
» The airline pricing environment;
» Competitive pressure among companies in our industry;
» Current economic downturn;
» Political unrest throughout the world;
» Changes in the cost of fuel or the exchange rate of the Euro to the U.S. dollar and other currencies;
» Governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
» Developments affecting labour relations;
» The outcome of any material litigation;
» The future level of air travel demand;
» Future load factors and yields;
» Industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;
» Developments affecting our airline partners;
» The effects of terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the cost of security and the cost and availability of aviation insurance coverage and war risk coverage;
» The effects of natural disasters and extreme weather conditions;
» Changing relationships with customers, suppliers and strategic partners;
» Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained our filings. We do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.