KLM Royal Dutch Airlines

2014 Annual Report

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Registered under number 33014286
in the Trade Register of the Chamber
of Commerce and Industry
Amsterdam, The Netherlands

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In millions of Euros, unless stated otherwise	2014	2013
Revenues	**9,643**	9,688
Expenses before depreciation and long-term rentals	**8,646**	8,579
Depreciation and long-term rentals	**822**	808
Income from current operations	**175**	301
As a % of operating revenues	**1.8**	3.1
Profit for the period	**341**	133
Earnings per ordinary share (EUR)	**7.26**	2.82
Equity	**9**	1,611
As a % of total long-term funds	**-**	26
Return on equity (%)	**42.1**	8.5
Capital employed	**3,326**	3,627
Return on capital employed (%)	**18.1**	4.9
Net-debt-to-equity ratio (%)	**495**	157
Dividend per ordinary share (EUR)	**-**	0.15
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**91,477**	89,039
Capacity (in millions of available seat-kilometers, ASK)	**105,755**	103,793
Passenger load factor (%)	**86.5**	85.8
Number of passengers (x 1,000)	**27,740**	26,581
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**5,873**	5,890
Capacity (in millions of available ton freight-kilometers, ATFK)	**8,524**	8,558
Cargo load factor (%)	**68.9**	68.8
Weight of Cargo carried (in tons)	**759,732**	770,215
Financial position		
Cash flow from operating activities	**503**	626
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(420)**	(363)
Free cash flow	**83**	263
Average number FTEs of KLM Group staff		
Permanent	**29,246**	29,209
Temporary	**1,465**	1,426
Employed by KLM	**30,711**	30,635
Agency staff	**1,983**	1,870
Total KLM	**32,694**	32,505
Headcount KLM Group staff (per end financial year)	**35,685**	35,662

Letter from the President

PROUD OF OUR HISTORY, COMMITTED TO OUR FUTURE

For KLM, the year 2014 marked our 95th anniversary, a memorable milestone in the history of aviation and of our company. KLM is the oldest airline in the world operating under its original name. An achievement realized by the dedication, spirit, expertise and energy of our people. It's our people who make the difference for our customers every day. We owe it to our legacy to shape our future and become the most customer centric, innovative and efficient European network carrier. Transformation of our company is therefore necessary in order to not only have a great history, but also a promising future.

It was a turbulent year, with the tragic accident of flight MH17 of KLM partner Malaysia Airlines being the darkest hour. The loss of all on board - including many of our fellow countrymen - was a tragedy for the Netherlands in general and for the aviation industry in particular. We are grateful to the many KLM staff members who helped in the aftermath.

The year again demonstrated that KLM is operating in a rapidly changing world. Economically, our environment is undergoing structural change. The economic recesion can no longer be regarded as a temporary phenomenon. Competition from airlines from the Gulf States is becoming fiercer and tangible for KLM especially in the Asian markets. Low-cost carriers (LCC) are growing ever-faster and are gaining a permanent position also at our hub. This changing environment with LCC and Gulf carriers underline the need for speed of change of KLM and AIR FRANCE KLM as well.

The geopolitical situation in some regions also impacted the aviation industry in 2014. The proclamation of the Islamic State in Iraq and Syria created tension throughout the world. The turmoil in Ukraine caused great uncertainty both inside and outside the region. The outbreak of the Ebola epidemic in Africa has had a negative effect on traffic.

KLM realized a positive operating income in 2014 but it was lower than in 2013 and lower than projected. Revenues in the Passenger Business and Cargo Business fell short of expectations in the second half of the year. 2014 was the third and final year of our Transform 2015 / Securing our Future program. We have made good progress with this program.

The unit costs have been reduced and the net debt position improved. Nevertheless, we did not achieve all our targets in full, partially because of the shortfall in revenues, partially because of the shortfall in the realization of cost saving measures and partially due to the exchange rate changes.

It was a challenging year for our operations, too. A combination of circumstances, such as construction work at Schiphol and IT issues inevitably have had an impact on operations and demanded a great deal from our staff.

In September we faced a strike by the pilots at Air France. For two weeks, Air France was able to complete only 40 percent of its flights, which had a major impact on our passengers. The cost of the strike may not be directly visible in KLM's profit and loss account, but there were obviously consequences for AIR FRANCE KLM.

The combination Air France and KLM in 2004 was made in response to the conviction that the airline industry would further consolidate, which happened as said. The merger has had many benefits. They include economies of scale, a more extensive network and higher revenues. It is thanks to the step-by-step integration that KLM has been able to grow to the extent it has over recent years. In 2014 the cooperation within AIR FRANCE KLM entered a new phase in terms of organization structure.

In October, Camiel Eurlings stepped down as President and Chief Executive Officer. We wish to express our gratitude to Mr. Eurlings for his contributions to KLM during his four years of service. The Supervisory Board decided to appoint me as his successor. As of January 1, 2015 René de Groot took office as Chief Operating Officer. Early 2015, KLM announced that Erik Varwijk would, in mutual agreement, resign as Managing Director and EVP of Air France KLM Cargo effective March 1, 2015. More changes in KLM's Executive Committee were announced.

KLM has a solid base. We are frontrunners in social media, our frontline staff is highly appreciated and Schiphol is an excellent airport and home base for KLM. The base is strong but we have lost ground in a number of areas. We have to increase our competitiveness in terms of product and price. This means we must reduce our costs and invest in our fleet and product. Our KLM vision is to become the most customer centric, innovative and efficient European network carrier.

Accordingly, we have set targets and formulated a plan to achieve these ambitions. The plan is part of Perform 2020, which was presented in November for AIR FRANCE KLM. We must reduce unit costs by 1.5 percent and increase productivity by 4 percent every year in order to enable the necessary investments in our fleet and product. In addition we need to strengthen our balance sheet given KLM's equity position as per end 2014. The concept of "Keeping the Family Together" which served its purpose over the last few years is no longer appropriate in the current circumstances. KLM must make rapid, far-reaching changes in order to achieve its goals. That calls for a real transformation.

In our Transformation agenda and our Flight Plan 2015, we have defined five pillars:

1. Customer & Product;
2. Network & Fleet;
3. Operations;
4. People & Organization, and
5. Finance.

We have set out for each of these pillars concrete plans for the things that we need to change.

In the fourth quarter of 2014 a dialogue was opened with KLM staff. The dialogue took place along three lines, (I) What is going on?, (II) What do we need to do?, and (III) How are we going to do it? Under the motto "Change, Participate, Win" ("*Veranderen, Meedoen, Winnen*") we have made an urgent appeal to all colleagues to participate. In order to reach our KLM staff, a variety of communication channels were deployed, such as interactive meetings and webcasts. The response received from many colleagues has been very supporting and encouraging.

The aviation industry is still a growth market. In order to take advantage of the growth opportunities and improve our competitive position we need to change. 2015 will not be an easy year, but we are convinced to work hard to make it a good one. It will be a year in which customers, innovation and efficiency stand front and center. I have every confidence that we will find our way to the top. The first results will be visible in 2015.

Pieter Elbers
President and Chief Executive Officer

2014: In Review

OUR OPERATING ENVIRONMENT

While the global economy as a whole is stagnating, the economies of a number of European and Latin American countries are actually declining. Although forecasts differ, the general outlook for the coming years is that there will be few, if any, signs of recovery.

In the long-term, the highest passenger growth markets are expected to be found in emerging countries in Asia, Africa and South America, driven by an increase in living standards and growth in working-age population. In absolute terms even the U.S. will profit from demographic changes, while Russia and mature economies such as Japan and Germany will feel the impact of their aging population.

In the short-term, aviation volumes are still expected to expand despite uncertainty about the health of the global economy. Of the BRIC countries, only India still grows.

The Eurozone saw limited growth in 2014. Europe's economy was restrained both by trade restrictions (in particular to/from Russia) and the strength of the euro against other currencies. The Netherlands saw only limited economic growth. Unemployment was slightly lower, and at 6.8 percent of the labour force was relatively low by international standards. Despite the fact that consumer confidence was slightly firmer, as was expenditure per household, 1.5 percent fewer holidays had been booked in The Netherlands in 2014 than in the previous year. Thus the Dutch holiday market has not yet recovered from the economic crisis.

Industry trends

The airline industry is subject to laws and regulations at local, national and international level. It is of overriding importance to KLM that the laws and regulations do not distort the level playing field in the airline industry. In close collaboration with Air France, KLM actively argues its case with the Dutch government and with institutions on an European and global level. It does so both directly and indirectly through industry associations such as the International Air Transport Association (IATA), the Association of European Airlines (AEA) and the Board of Airline Representatives in the Netherlands (BARIN).

Some progress was made in 2014 regarding the European regulations on emission trading allowances, passenger rights and the Single European Sky. In April, the European Parliament voted in favor of a proposal to charge CO_2 allowances only on flights within the European Union until the end of 2016. This is a first step, applauded by KLM, towards a worldwide emission trading system subject to the frameworks of the International Civil Aviation Organization (ICAO).

In November, AIR FRANCE KLM together with Lufthansa and the labour unions submitted a petition to the President of the European Commission expressing their concerns about alleged unfair competition from a low-cost airline, Norwegian Air. In contravention of European labour law, this airline wants to perform trans-Atlantic flights from the EU using personnel from Thailand.

Competition from LCC such as easyJet, Ryanair, Vueling and Norwegian Air is fierce and intensifying. With the exception of Ryanair, these LCC are operating from the same hubs as AIR FRANCE KLM, including Schiphol. Their market share is set to grow further as they have already made their first steps into the business market.

Competition from airlines from the Gulf States is still growing as they increasingly turn their focus on Europe. Etihad, for example, is a shareholder in Air Berlin but also acquired a stake in Alitalia in 2014. The scale of competition, including their growth plans, is also reflected in the large numbers of aircraft these carriers have on order. Some of these Gulf carriers have made deep inroads into the Asian market and are now even competing on trans-Atlantic flights. Their volume is also creating overcapacity on the cargo market. Traditional European carriers are responding to these competitive developments with new 'low-cost' type of initiatives and have built up strong market positions in recent years.

Global unrest

By definition, the airline industry is sensitive to incidents that trigger global unrest. The outbreak of the Ebola virus in the West African countries of Guinea, Liberia and Sierra Leone in summer 2014 was such an incident. KLM does not serve these countries but suffered from the panic that broke out in parts of the market. For the safety and security of passengers and crew, KLM makes daily risk assessments of problem areas.

Conflicts are also a cause of unrest. Syria had been a source of turmoil in 2013 and the proclamation of the Islamic State in Syria and Iraq this year is having sweeping political, economic and social consequences for the region and the West. The conflict in Ukraine between pro-Russian separatist groups and the government caused great unrest in this region.

2014 was a dark year for the airline industry. At the beginning of March, Malaysia Airlines flight MH370 disappeared; this prompted calls to improve the satellite tracking of aircraft. Following the example set by Air France and in anticipation of proposals by IATA, KLM decided to transmit the position of its aircraft every ten minutes by satellite. AIR FRANCE KLM, world leader in aircraft tracking, is a member of an IATA working group that is developing a real-time aircraft tracking system. The accident with Air Asia flight QZ8501 in December again proved the need for the development of such a real-time tracking system.

The debate following the tragedy with MH17 about flight routes over Ukraine led to four major industry associations convening a meeting in Montreal at the beginning of August to evaluate the decision-making process for flights over conflict zones. Two projects were launched to improve the exchange of information on the risks by means of a centralized system. KLM is closely monitoring and is frequently informed on any relevant developments and improvements.

Schiphol and the local community

Thanks to the network operated by KLM and its partners, Schiphol is ranked among the four largest airports in Europe. The Dutch airline industry owes its strength largely to the synergy between Schiphol and KLM. In 2014, Schiphol handled a record number of nearly 55 million passengers, a little more than 40 million of whom travelled with KLM, Air France, and/or its partners.

KLM worked closely with Schiphol and a number of industry associations in 2014 on projects in order to improve passenger comfort, increase capacity and make the security process more efficient. One of the most significant developments was the decision to develop a new A- pier to accommodate boarding lounges, transfer lounges and parking facilities.

Schiphol will switch to central security controls fully by June 2015. Controls for non-Schengen countries will no longer be performed at the gates but at five central security filters. This will make the security process a more pleasant and efficient experience for the passengers. The new central security filter for Schengen countries was delivered and partially taken into service in 2014.

KLM is seeking to obtain a balance between its own interests, and those of the local community. It therefore takes part in consultative bodies such as the Schiphol Local Community Council (CROS), which also includes local authorities, residents, Air Traffic Control The Netherlands (LVNL) and Schiphol. Together with Schiphol, KLM invited the mayors, executives and councilors of some 50 municipalities around Schiphol to exchange thoughts on the airline industry. KLM is doing its utmost to ensure the responsible growth of the number of flight movements at Schiphol. Since 2008, the industry has taken virtually every measure possible to minimize any nuisance for the surrounding communities. The former goal of reducing severe nuisance by 5 percent, to be realized in the year 2020, has comfortably been met with a reduction of 20 percent today. Nevertheless, KLM will continue to evaluate and improve its processes to minimize nuisance around Schiphol and reduce its emissions with respect to the climate worldwide, wherever it can.

BUSINESS DEVELOPMENTS

The business developments of 2014 are described according to the five pillars of the KLM Flight Plan, being Customer & Product, Network & Fleet, Operations, People & Organization, and Finance.

Customer & Product

Customers are becoming more and more demanding, digitalization is continuing, business class tickets are no longer the automatic choice for many corporate customers and competition is extremely fierce. KLM intends to be the most customer centric, innovative and efficient network carrier in Europe. To achieve this, KLM is investing in continuous innovation, especially in the field of e-commerce and product innovation.

PASSENGER BUSINESS

World Business Class

KLM began revamping the World Business Class of its Boeing 747 fleet in 2013 to meet the demands of its World Business Class customers. The operation was completed by Engineering & Maintenance in April 2014.

The first of the 15 Boeing 777-200 aircraft underwent an extended makeover in September, not only is the World Business Class being refurbished but also the entire interior.

The same full-flat seats as the Boeing 747 will be fitted in the World Business Class and a newly designed seat with more legroom will be introduced in Economy Class. Both classes will have a state-of-the-art Inflight Entertainment System. The new interior will be fitted in all Boeing 777-200s by the end of 2015, after which the Boeing 777-300 fleet will be refurbished.

Service and customer appreciation

KLM is one of the leading airlines in customer satisfaction on European flights, in Economy Class as well as in Business Class. The introduction of the new World Business Class was greatly appreciated by KLM's customers. Thanks to the quality of our services, KLM is one of the most highly regarded airlines in the world.

New joint revenue management system

KARMA, AIR FRANCE KLM's new joint revenue management system, was rolled out in 2014 and operational since May. The system accurately forecasts passenger flows so that the right capacity can be mobilized at the right moment for the right price.

New passenger lounge at Schiphol

KLM is a transfer airline, about 70 percent of its customers transfer from one flight to another flight at Schiphol. KLM has decided to invest in a new Crown Lounge to meet the customers' need for comfort, peace and quiet, relaxation and entertainment. The new lounge will meet the very highest service standards. The opening is planned in 2016.

Social media

KLM is a successful pioneer in the use of social media to strengthen its customer relations. KLM does its utmost to inform its customers as optimally as possible, to assist them before and after their journeys and to make their flights as comfortable and as enjoyable as possible. Social media are also an excellent means to generate e-commerce, and thus additional revenues.

Every week 150 members of staff answer tens of thousands of customer questions on Facebook and Twitter in 14 languages within an hour. At the end of 2013, KLM had 4.7 million Facebook fans. By the end of 2014, the eight millionth Facebook fan was welcomed. KLM was again one step ahead of the competition again as the airline with the most Facebook fans. The total number of followers via the various social media channels is now 17 million.
Since July, customers have also been able to ask questions via LinkedIn with KLM being the first airline to offer this option. KLM is also well represented on non-English social media. Since September it has been serving its customers in Chinese via Sina Weibo and WeChat.

According to Social Bakers, a social media analytics and publishing company, for many quarters in succession, KLM has been the brand that answers the most customer questions and was the most dedicated Facebook brand worldwide during the year. On Twitter, KLM rose to fifth place worldwide and answered the most customer questions on this medium, as well.

New customer information system

KLM launched a new customer information system in May. It combines information on reservations, Flying Blue status and previous bookings, complaints, compliments or problems. The social media staff uses the system to answer questions via Facebook and Twitter. The system has considerably enhanced KLM's service to its customers by reducing the response time significantly.

Lost & Found service
Most questions put to KLM via social media concern lost property. KLM renewed its Lost & Found service in September. A special team at Schiphol returns lost property to the owners as quickly as possible on board or in the airport. The team returns more than 80 percent of lost property, often even before the owner has noticed it is missing. The promotional campaign KLM made to introduce the service had been viewed more than 16 million times on YouTube by the end of 2014.

Digital services
KLM introduced several apps and other electronic services in 2014 to better serve its customers at various points in the booking process and journey. By doing so, it is responding to its customers' wishes.

The KLM tablet app offers users booking and check-in functionalities and also inspiration for future journeys, in 11 languages. At the beginning of 2014 KLM was the first airline in the world to launch a payment method via Facebook and Twitter. An alliance with Airbnb was launched in December 2014, enabling visitors to KLM.com to book accommodation via Airbnb as well as via Booking.com.

To make transfers easier, KLM has developed a mobile navigation service in the KLM app especially for transfer passengers. With a supporting map, the service directs them to the gate for their connecting flight and informs them how long the transfer will take. The eTag, an electronic baggage label (for example a bar code on a smartphone), speeds up the baggage process and facilitates baggage tracking (eTrack).

CARGO BUSINESS

Professional in high-value segments
KLM is scaling down the cargo fleet but not the Cargo Business. As part of the new strategy, KLM will specialize even further in profitable niches at the top end of the market, such as Express Mail and the transport of animals and pharmaceutical products. In 2014 Pharmaceuticals grew by 15 percent and Express Mail grew by 29 percent, proof of the success of KLM's new commercial strategy. KLM is currently one of the biggest niche players in the world and has identified opportunities for further growth.

New commercial system: CargoBus
Together with Air France, KLM has taken several initiatives to improve the Cargo Business' profitability. KLM has started to implement a new commercial system known as CargoBus, which will be operational in the first half of 2015. CargoBus is a combined booking and inventory system for AIR FRANCE KLM. The new software will replace several older systems. It divides the cargo capacity into four classes so that capacity can be reserved for more profitable cargo. The new system will enable KLM to better steer its revenues and hence to increase unit revenues.

Customer satisfaction
A survey found that customer satisfaction rose for the third year in succession, up from 73 to 76 points. AIR FRANCE KLM rose from the 11th to the 7th place. AIR FRANCE KLM's ambition is to be ranked in the top three. One area for improvement is the provision of information in the case that shipments do not fly according to schedule. Cargo has taken measures to improve tracking and tracing in order to inform customers promptly of any delays with their shipments. The ´Freight Made Personal´ campaign highlights Cargo's work on the ground to enhance customer satisfaction and recovery.

ENGINEERING & MAINTENANCE

MRO center of the year
At the beginning of 2014, 6,000 aviation professionals acclaimed KLM's Engineering & Maintenance as the MRO (Maintenance, Repair and Overhaul) center of the year for the solutions it offers to customers. Engineering & Maintenance also received an award for the component maintenance for the NATO AWACS for the third consecutive year.

In order to execute maintenance for the new Boeing 787s also for its customers, KLM invested in Component Services and EPCOR (European Pneumatic Component Overhaul and Repair). The license General Electric granted to Engineering & Maintenance also includes the option to maintain GEnx-1B engines for third parties. In 2014, Engineering & Maintenance concluded new long-term component contracts with multiple airlines, including LOT, Virgin Atlantic, Xiamen Airlines of China, Air New Zealand and the South American carrier LATAM.

Network & Fleet

Every day, KLM welcomes more than 70,000 passengers, carries 3,000 tons of cargo and completes more than 700 flights. KLM serves 135 destinations from Schiphol, and the Cooperation with KLM's partners adds a further 40 destinations. Of these 175 destinations in total, 96 are located in Europe and 79 on other continents. AIR FRANCE KLM and joint venture partner Delta Air Lines together offer more destinations worldwide than any other airline group.

PASSENGER BUSINESS

Guided by the economic importance and tourist potential of a region, KLM is permanently seeking destinations that contribute to its results. KLM added Bilbao (KLM's third destination in Spain), Zagreb (Croatia) and Turin (KLM's sixth destination in Italy) to the European network in 2014. With South America being a major emerging market; KLM introduced flights to Santiago de Chile (Chile). Cali and Bogotá (Colombia) will be added to the network in 2015, as will Edmonton in Canada. KLM withdrew services to Manston/Kent (United Kingdom) and Teheran (Iran) in 2014.

Partners
It is not possible to have an extensive network without reliable partners. KLM's Trans-Atlantic Joint Venture with Air France, Delta Air Lines and Alitalia and its joint ventures with Kenya Airways, Alitalia, Ukraine International and China Southern Airlines remain of strategic importance. Besides KLM's Joint Venture partners, KLM has a great number of partners. In spite of fierce competition, and overcapacity on many of the routes, the longstanding and successful Trans-Atlantic Joint Venture produced its best ever results in 2014, with Schiphol retaining its position as the most profitable hub in this joint venture.

In April AIR FRANCE KLM concluded a strategic partnership with the Brazilian airline GOL. AIR FRANCE KLM took a 1.5 percent interest in the carrier and will work closely with GOL in commercial areas. The partnership enables KLM to offer passengers more than 50 destinations in Brazil and new destinations in the rest of South America.
KLM's partnership with Kenya Airways is benefiting from Kenya Airways' extensive fleet renewal program. KLM recently revised the route network to East Africa so that more direct connections can be offered. KLM and Kenya Airways continue to expand the number of codeshare flights within the regions.

The successful cooperation with Etihad, dating from 2012, has led to an increase in passengers and in codeshares to selected destinations in Africa. KLM is strengthening its joint venture partnership with China Southern Airlines in order to maintain its leadership on routes to China, with the Amsterdam gateway offering one of the highest number of direct flights between China and Europe.

KLM is a member of the Sky Team Alliance. In 2014 Garuda Indonesia joined, increasing the number of members to 20. This led to a further deepening of the cooperation between the two airlines.

Fleet development
New generation aircraft are not only more fuel efficient, and thus contribute to lower costs and emissions, they also better meet the needs and demands of the modern traveler. Investment in new aircraft is the key to winning customers and is accordingly KLM's highest priority.

In 2014, KLM took delivery of six new aircraft. One Airbus A330-300 entered the long haul fleet. One Boeing 737-800 and four Embraer 190s were added to the European fleet. Transavia took delivery of one Boeing 737-800.

KLM welcomed the last new Embraer 190 in April, bringing the total number of Embraers in the KLM fleet to 28. KLM Cityhopper now has the largest Embraer 190 fleet in Europe. To renew the regional fleet, a range of options to replace the Fokker F70 was studied in 2014.

KLM will receive the first Boeing 787 Dreamliner in October 2015. KLM submitted the specifications for the new 787 to Boeing in July to ensure that the aircraft will meet all the preferred requirements. Since February 2015 pilots are being trained on the Boeing 787 simulator in anticipation of the new aircraft's arrival.

KLM took a final decision on the engine for the Boeing 787 in 2014, opting for the GEnx-1B manufactured by General Electric. This engine consumes less fuel than older generation engines and thus emitting 15 percent less CO_2, less nitrogen oxide and is far quieter. The engine perfectly matches KLM´s sustainability ambitions as it already exceeds the sustainability standards for the coming decades.

The agreement between AIR FRANCE KLM and General Electric covers more than just the procurement of the engines. KLM Engineering & Maintenance signed an engine maintenance contract that also entitles it to perform maintenance work for third party airlines.

KLM has ordered Boeings 787s partly to replace its MD-11 fleet, which had come to the end of its operating life after 21 years' service. KLM phased out its last MD-11 in October 2014. The last commercial passenger flight, from Montreal, landed at Schiphol on October 26.

In total, eleven aircraft left the fleet in 2014. KLM Group phased out and sold the last four MD-11 passenger aircraft, and seven Fokker 70's.

Fleet composition KLM Group

			Included in balance sheet			
		Average age in years *	**Owned ****	**Finance leases**	**Operating leases *****	**Total**
Consolidated fleet as at December 31, 2014						
Boeing 747-400 PAX	wide body	18.7	1	1	5	7
Boeing 747-400 Combi	wide body	21.2	14	1		15
Boeing 747-400 ER Freighter	wide body	11.5		3		3
Boeing 747-400 BC Freighter	wide body				1	1
Boeing 777-300 ER	wide body	4.4		8		8
Boeing 777-200 ER	wide body	10.2		6	9	15
MD-11 Freighter	wide body	18.8	3	2	1	6
Airbus A330-300	wide body				5	5
Airbus A330-200	wide body	8.8		6	6	12
Boeing 737-900	narrow body	11.9	1	1	3	5
Boeing 737-800	narrow body	10.3	7	10	30	47
Boeing 737-700	narrow body	6.8	2	9	16	27
Embraer 190	regional	5.1		13	15	28
Fokker 70	regional	19.0	19			19
Training aircraft			4			4
Total consolidated fleet		**12.5**	**51**	**60**	**91**	**202**

* Excluding operating leases and training aircraft. The average age including operating leases is 10.6 years
** Excluding 1 MD-11 and 1 Fokker 70 not in operation as per December 31, 2014
*** Excluding 2 Boeing 747-400BCF, 1 Boeing 747-400ERF and 1 Boeing 737-800 (subleased) not in operation as per December 31, 2014

CARGO BUSINESS

AIR FRANCE KLM took several major decisions in 2014 to restructure the Cargo organization related to market conditions. Demand for air freight has been weak for many years as demand has shifted to ocean freight. At the same time, (belly) cargo capacity on our passenger aircraft has been increasing. KLM has studied several scenarios to rise to this challenge. In September it was decided to phase out all six of Martinair's MD-11 freighter aircraft earlier than planned in 2015 and 2016.

Columbus

Under the name Columbus, KLM is extending the alliance with Delta Air Lines with respect to cargo transport, in both operational and commercial areas. This will save costs for both companies, strengthen KLM´s competitiveness and deliver benefits for customers. AIR FRANCE KLM and Delta Air Lines are increasingly presenting a single face to the market as the preferred cargo carrier to and from the United States.

Operations

Being competitive is not only about costs, but also about the value delivered to customers through operational excellence. In the third and final year of Transform 2015, several projects that were launched in previous years were given further attention. They included seat densification on the Boeing 737 and shortening the turnaround time of the Boeing 737 at Schiphol. The seat densification project resulted in 95,000 additional seats in 2014, which is an increase of 0.4 percent of the total number of seats on the European flights. In 2014, KLM started to modify the Boeing 737-700's with ten extra seats. This project will be concluded in 2015.

At the close of the financial year, KLM evaluates its operational performance against the targets as set for the year. The key performance indicators for KLM's operations are service, completion, on-time performance and baggage.
KLM had a challenging operational year and improvement projects have been defined to turn the tide. In all operational areas KLM worked hard to improve operational performance and enhance customer products and service. Despite the operational challenges, KLM was named the most punctual airline of 2014 by Flight Stats.

PASSENGER BUSINESS

Punctuality

In comparison with competitors, KLM has been a leader in on time performance for many years. However this leadership has come under pressure from a variety of sources in the past two years. Departing on time enables more efficient use of the fleet, reduces unit costs and allows a greater offer of connecting flights. In the first quarter of the year, KLM decided to take a critical look at the departure process. A small team worked hard to map out the long haul departure process throughout the entire operational chain.

The low long haul departure performance (D0) was due to a wide range of factors, varying from lack of focus to issues with the process design. Both short-term actions and structural improvements have been started. KLM also worked hard in other areas in 2014 to improve operational performance.

Turnaround time

KLM again took many initiatives in 2014 to reduce the turnaround times of certain aircraft types. Those of the Fokker 70 and the Embraer 190 had already been shortened. In 2014, KLM concentrated all effort on the Boeing 737 and will continue to do so in 2015. Shorter turnaround times boost productivity. Shortening the turnaround time of the Embraer fleet already saves KLM EUR 2.5 million a year.

Altéa

Altéa DC (Departure Control) is AIR FRANCE KLM's new passenger and baggage handling system. It was introduced at Schiphol in 2013. Since then, it has been rolled out at all outstations and is currently undergoing final optimization. The long-term benefit will be greater interaction with passengers, and enabling KLM to target its products and services even more closely at its customers´ wishes. The time gains expected from the user-friendlier graphic interface can also be used to devote more time and attention to customers.

70 million bags a year (70MB)

Schiphol completed its 70MB program in April. The airport now has the most modern baggage hall in the world. With its enormous capacity, human operators and six robots, it can handle up to 1,200 items an hour, with the system processing 70 million bags a year. About 75 percent of these bags are handled for KLM and partners. As a comparison, Schiphol processed more than 50 million bags in 2014. The risk of passengers not traveling on the same flight as their bags is now considerably lower. KLM invested in the program with a view to growth, higher capacity, and customer satisfaction.

Seasonality

With greater seasonality in its flight operations, KLM can respond better to the worldwide booking behavior of its passengers. To this end, KLM operates more aircraft in the peak summer season. At the start of the 2014 summer schedule, capacity was increased by 2.6 percent. In the low season more and different maintenance work is carried out in order to earn a better return on its aircraft.

CARGO BUSINESS

In 2013, a three year safety business plan was implemented with respect to the safety culture. In 2014, this safety program resulted in a reduction in accidents and incidents.

Hub improvement program

To improve the performance of the cargo hub, a dedicated program was launched in 2014 and should bear fruit in 2015 and 2016. The program's aim is to make the work more efficient and smarter so that KLM can deliver the highest possible quality at the lowest possible cost. To this end, Cargo is analyzing all the work processes at the Schiphol hub.

Joint Inspection Center

A start was made with the construction of the Joint Inspection Center at Schiphol in October 2014. This initiative of the Customs authority, Amsterdam Airport Schiphol (AAS), Air Cargo Netherlands (ACN) and KLM Cargo will increase the efficiency of inspections and cut the throughput-time for cargo by several hours.

Savings on road transport and cargo handling

Trucking is a significant cost item for AIR FRANCE KLM. The group is aiming to cut these costs by millions of euros by partnering Delta Air Lines in the conclusion of new global contracts with new suppliers at European outstations and worldwide. Similar savings have been made on cargo handling, which is also performed by external parties. By working with fewer handlers, KLM will offer contractors more work and they in turn will be able to offer a lower price and higher quality.

Traffic and Capacity

Passenger		**Passenger kilometers**			**Seat kilometers**		**Load factor**	
In millions	**2014**	**2013**	**% Change**	**2014**	**2013**	**% Change**	**2014 %**	**2013 %**
Route areas								
Europe & North Africa	15,321	14,554	5.3	18,965	17,842	6.3	80.8	81.6
North America	19,427	18,602	4.4	21,740	20,866	4.2	89.4	89.1
Central and South America	11,893	11,015	8.0	13,514	12,486	8.2	88.0	88.2
Asia	26,191	26,450	(1.0)	29,714	30,593	(2.9)	88.1	86.5
Africa	10,153	10,138	0.1	12,067	12,097	(0.2)	84.1	83.8
Middle East	3,631	3,638	(0.2)	4,451	4,560	(2.4)	81.6	79.8
Caribbean and Indian Ocean	4,861	4,642	4.7	5,304	5,349	(0.8)	91.6	86.8
Total	**91,477**	**89,039**	**2.7**	**105,755**	**103,793**	**1.9**	**86.5**	**85.8**

Cargo			**Traffic**			**Capacity**	**Load factor**	
In million cargo ton-km	**2014**	**2013**	**% Change**	**2014**	**2013**	**% Change**	**2014 %**	**2013 %**
Route areas								
Europe & North Africa	24	24	0.7	334	311	7.6	7.2	7.7
North America	1,060	965	9.8	1,623	1,536	5.7	65.3	62.9
Central and South America	1,340	1,350	(0.7)	1,923	1,886	2.0	69.7	71.6
Asia	2,335	2,418	(3.4)	2,939	3,079	(4.5)	79.4	78.5
Africa	893	910	(1.9)	1,255	1,294	(3.0)	71.2	70.3
Middle East	154	152	1.0	242	243	(0.5)	63.7	62.7
Caribbean and Indian Ocean	67	71	(5.7)	207	209	(1.1)	32.4	33.9
Total	**5,873**	**5,890**	**(0.3)**	**8,524**	**8,558**	**(0.4)**	**68.9**	**68.8**

People & Organization

2014 was dedicated to the completion of the third and final year of the Transform 2015 / Securing our Future program. Thanks to the dedication and commitment of our staff, KLM has made good progress for the future of the organization. In the last quarter of 2014 a start was made with Perform 2020 and KLM's Flight Plan for 2015, which includes a set of objectives and plans for 2015. This was communicated through webcast sessions, large central staff meetings and many decentralized communications.

KLM is determined to stimulate and improve the direct dialogue with its employees. Next to top-down initiatives, KLM has opted for a bottom-up approach. In the conviction that KLM will achieve its goals by making use of the know-how and expertise of all colleagues, KLM has invited every member of its staff to participate and make their own contribution to the change process.

Digitalizing the HR processes

KLM offers its customers highly advanced digital options. KLM has the ambition to design its internal processes just as conveniently for its staff. In 2014 KLM therefore introduced the digital MyHR system. All members of staff will eventually have quick and simple online access to arrange their HR affairs. They are able to access their pay slips online and check and amend their personal particulars. The system will contribute to efficiency and cost control.

Pensions

The Dutch government made several important changes to the pension system in 2014. KLM has, together with CLA parties, responded to them by revising pension plans as of January 1, 2015.

Diversity

Diversity, especially gender diversity, is an important theme of the renewed 2013 Social Rights and Ethics Charter. The Charter covers not only good employment practices, but also sets out the general principles of AIR FRANCE KLM's corporate social responsibility. KLM recognizes the importance of diversity and is convinced that it will be a catalyst for creativity, flexibility and productivity. This will enable KLM to use the full potential of its labour population. In 2014, a diversity council was formed which set certain diversity goals, promotes and coordinates new diversity initiatives.

Mobility

Staff mobility is a key issue within KLM. Commercial and economic circumstances have led to the loss of some positions. KLM has undertaken to find suitable alternative work within the organization for the people affected. The Engineering & Maintenance division has done a great deal to eliminate overcapacity, where possible within own ranks and otherwise outside the company. The Employability Services department offers all KLM staff the opportunity to work on their futures by means of, among other things, career advice and workshops. Increasing mobility continues to be a goal for 2015.

Collective labour agreement

Preparations to negotiate new collective labour agreements started in 2014. The kick-off of this process took place in December 2014, in which the Perform 2020 program was explained, the changes that will be needed and the company proposals were presented. In 2015, this process will be continued.

Finance

RESULT DEVELOPMENT

In 2014 KLM achieved an income from current operations of EUR 175 million, compared to EUR 301 million for 2013. The Passenger Business had a particularly difficult second half of the year, turning in an operating profit of EUR 247 million, EUR 110 million less than in 2013. The Cargo Business reported an operating loss of EUR 98 million. The Cargo Business's new strategy and restructuring plan must restore an upward trend. Restructuring will lower costs in the years ahead so that the Cargo Business will make a higher financial contribution. The Engineering & Maintenance division achieved a good financial result, as it had done in the previous year, with an operating profit of EUR 45 million. Engine Services and Components Services strengthened their competitive position. Transavia booked an operating loss of EUR 19 million.

In millions of Euros	2014	2013	Variance %
Revenues	9,643	9,688	-
External expenses	(6,367)	(6,337)	-
Employee compensation, pension cost and benefit expenses	(2,451)	(2,404)	2
Depreciation and amortisation	(539)	(507)	6
Other income and expenses	(111)	(139)	-
Total expenses	(9,468)	(9,387)	1
Income from current operations	**175**	**301**	

Revenues
Revenues were in line with 2013 (+0.7% at constant exchange rates). Capacity (in equivalent available seat kilometers) was 1.7% higher than last year. Unit revenue decreased with -2.0% (-0.7% at constant exchange rates). Yield decreased with -2.8% (-1.5% at constant exchange rates), while load factor increased with 0.7%.

Expenses
Total expenses of EUR 9,486 million (+1.4% at constant exchange rates), increased with EUR 81 million compared to 2013. Excluding fuel, expenses increased with 2.3%, with a capacity increase measured in equivalent seat kilometers of 1.7%. At constant exchange rates and fuel price, unit cost were 0.5% above last year.

Fuel prices
Mid-2014 fuel prices began to decline, with a sharp drop in the autumn. In June the price per barrel had been USD 115, by early December it was down to USD 70. So far, KLM is not fully benefiting from this sharp drop in fuel prices, due to the current structure of its fuel hedges.

Overall Fuel cost decreased with EUR 47 million compared to 2013, with a 2.2% lower jet fuel price after hedge and including a negative pay out of the hedge portfolio of EUR 65 million. Fuel volume was 1.5% higher and the USD was 0.8% weaker.

Foreign exchange rates
The income from current operations for 2014 was affected by a loss of EUR 88 million on foreign exchange movements. This is mainly due to a stronger EUR compared to most currencies for which KLM has a long position (Japanese Yen, Canadian Dollar and Norwegian Krone). This is only partly compensated by a weaker USD, for which KLM has a short position.

Income from current operations

In millions of Euros	2014	2013
Income from current operations	175	301
Other non-current income and expenses	676	(51)
Net cost of financial debt	(116)	(127)
Other financial income and expenses	(92)	68
Pre-tax income	**643**	**191**
Income tax (expenses)/benefit	(253)	(48)
Share of results of equity shareholdings	(49)	(10)
Profit for the period	**341**	**133**

The net profit in financial year 2014 amounted to EUR 341 million. Excluding a 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.

Other non-current income and expenses
Other non-current income and expenses show a positive amount of EUR 676 million. This includes 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 non-current income and expenses also includes losses of EUR 147 million. This mainly relates to impairment on MD-11 cargo fleet (EUR 82 million), additional onerous lease provisions for cargo fleet (EUR 23 million), provisions for severance payments (EUR 22 million), impairment on spare engines at Engineering & Maintenance (EUR 17 million) and other items (EUR 3 million).

Other financial income and expenses
The loss of EUR 92 million in other financial income and expenses in 2014, mainly relates to negative revaluation of KLM's debt in foreign currencies and negative time value on fuel derivatives. In 2013 both revaluation and impact of time value were positive.

Income tax
The income tax expense 2014 includes a provision on deferred tax assets relating to tax losses of EUR 89 million.

Equity shareholdings
The result from equity shareholdings reflects the KLM share of the results in Kenya Airways Ltd. and Transavia France.

CASH FLOW STATEMENT

In millions of Euros	2014	2013
Cash flow from operating activities	503	626
Cash flow from investment activities	(420)	(363)
(Increase) / Decrease in short-term deposits and commercial paper	45	(184)
Cash flow from financing activities	(275)	(322)
Other	9	(16)
Changes in cash and cash equivalents	**(138)**	**(259)**

The positive operating cash flow of EUR 503 million is composed of a cash flow from operating activities before working capital of EUR 447 million, and a positive working capital movement of EUR 56 million. The focus on cash resulted in a positive free cash flow of EUR 83 million, compared to a EUR 263 million positive free cash flow in 2013.
Investing cash flow amounted to EUR 420 million, of which EUR 144 million for fleet renewal and modifications (2013: EUR 223 million). Fleet related investments amounted to EUR 209 million, including EUR 129 million for capitalised fleet maintenance.

Other capital expenditure amounted to EUR 118 million (including EUR 72 million for capitalized software). Disposal of aircraft led to an income of EUR 50 million and mainly relates to a sale and leaseback of a Boeing 737-800 and sale of four MD-11 Passenger, six Fokker 70 and spare engines. In 2013 the disposal of aircraft was EUR 161 million, mainly related to aircraft sale and leaseback operations.

The financing positioning of the cash flow was EUR 275 million negative. New financings include new external loans of EUR 273 million, an AIR FRANCE KLM loan of EUR 70 million and near cash of EUR 14 million.
Redemption of finance lease liabilities amounted to EUR 264 million, redemption on existing loans to EUR 320 million, and redemption on an AIR FRANCE KLM loan to EUR 40 million. Dividend paid to KLM shareholders amounted to EUR 7 million and to a minority interest shareholder of a KLM subsidiary to EUR 1 million.

EQUITY

Equity decreased significantly to EUR 9 million at December 31, 2014, despite a positive net result for the financial year 2014 and positive movements in the value of interest and currency derivatives reported in "Other Comprehensive Income" in equity. This positive contribution was indeed more than offset by significant negative movements in the value of fuel derivatives amounting to EUR 528 million and remeasurement of defined benefit pension plans amounting to EUR 1,510 million reported in "Other Comprehensive Income".

Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 605 million at December 31, 2014 (EUR 2,195 million at December 31, 2013). The net debt to equity ratio increased from 157% to 495%.

The main reason for the low equity level at the end of 2014 is the significant negative movement of the remeasurement of the defined benefit pension plans. The lower discount rate, compared with previous year, to calculate the pension obligations is the main driver for this negative movement. 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.

Given the low equity per end 2014, the balance sheet and thus the equity need to be strengthened and also an improvement of the net debt to equity ratio is needed.

TRANSFORM 2015 / SECURING OUR FUTURE

KLM has implemented major projects under the banner of the Transform 2015 program. Transform 2015's objectives were to reduce net debt, achieve a structural cut in costs, an increase in unit revenue and to improve results on the European network. Three years after the Transform 2015 measures were introduced, we have achieved some EUR 600 million of the EUR 700 million net debt reduction target. By financing its investments out of the cash flow from operating activities, KLM was able to repay debts. Net unit costs (excluding fuel) were cut by 2.6% over these three years. The net unit revenue increased with 2.8% over these three years.

With respect to the results of our European network, definite progress has been made, with a EUR 117 million improvement in operating income.

Transform 2015 has succeeded in some areas but the results are still inadequate to finance the investments we need to make in the fleet and product renewals in the future. Unit costs rose in 2014 and unit revenue came under pressure, especially in the second half of the year. Productivity improvement was lower in 2014 than in the previous two years of Transform 2015, and revenue from the Passenger Business was lower than expected.

Despite important improvements made, driven by Transform, it did not bring the targeted operating profit over the three years.

PERFORM 2020

The environment is changing faster than we are. KLM will have to change more quickly if it is to retain its position in the highly competitive aviation industry. Perform 2020 has been launched as a dynamic plan to cut costs and enable investments. Unit costs must be reduced by 1.5 percent per year. To continue growing profitably and to work more efficiently, KLM must invest in its operating processes. Competitiveness will be retained through an increase in productivity of at least 4 percent per annum. A flatter organization is also required and costs will have to be reduced by EUR 700 million in the next five years, to reach an operating margin of 7-8%. Net debt will have to be cut by a further EUR 400 million during the Perform period in order to get below EUR 2 billion.

Safety

KLM's safety performance was dominated in 2014 by the further development and implementation of an integrated safety system. The Integrated Safety Management System (ISMS) covers all aspects of operational, occupational and environmental safety and security and enables KLM to take performance and risk-based decisions at all levels in the organization. Where risks are too high, KLM proactively and when needed reactively prepares an improvement plan with concrete actions. The system contributes to KLM´s ambition of being the safest airline in the world, for both staff and passengers.

Results

KLM met the operational safety goals in 2014 and successfully reduced the number of high risk occurrences, even though the standards have been raised in 2012 and 2013. Occupational safety is increasingly being integrated into operational safety.

In mid-December 2014 the Human Environment and Transport Inspectorate of the Ministry of Infrastructure and the Environment carried out an audit to approve the safety management system. KLM submitted all necessary documentation by the end of October. Based on this the government extended KLM's Air Operator Certificate.

The safety of KLM's operations depends not only on the effectiveness of the ISMS but also on a positive safety culture that encourages employees to improve safety performance. The 'KLM Safety Culture Program' continued to strengthen this culture among employees and subcontractors by means of a wide range of courses and communication. It is structurally supported by the five safety principles integrated into KLM's safety policy: (I) Work safely, (II) Stick to the rules, (III) Report unsafe situations, (IV) Help and challenge each other and (V) Be fit to work. This systematic approach will be further rolled out in 2015 in order to improve occupational safety performance.

Corporate Social Responsibility

Dow Jones Sustainability Index
AIR FRANCE KLM was named the most sustainable airline for the tenth consecutive year in the Dow Jones Sustainability Index (DJSI) last fall. Moreover, AIR FRANCE KLM was the world leader for the sixth time in the broader Transportation category of the DJSI, which includes air, rail, sea and road transport, also at airports.

KLM's ambition is to be the most sustainable airline in the world. In 2014 ambitious targets were set for 2020 in four key areas of KLM's Takes Care strategy: smart energy, responsible catering, zero waste and community involvement throughout the value chain.

Smart energy
KLM will optimize its business operations and supply chain in order to reduce energy use in the air and on the ground by 20 percent by 2020. KLM will improve environmental performance by investing in a modern, more fuel efficient fleet. A new take-off procedure introduced at Schiphol in April 2014 has reduced not only emissions but also noise levels.

Creating a market for sustainable biofuels
KLM has been playing a leading role in the development of sustainable aviation fuel since 2011. Biofuels can reduce carbon dioxide emissions by as much as 89 percent. After the success of the New York series of 2013, KLM launched a six-month series of biofuel flights to Aruba and Bonaire in May 2014. The European Commission and KLM used the series to demonstrate the potential of biofuels for air travel and their contribution towards reducing the environmental impact of aviation. KLM's work, and that of partners in the BioPort Holland joint initiative to scale up production of sustainable jet fuels in the Netherlands, led to KLM receiving the Sustainable Bio Award for best collaboration of the year.

The Corporate BioFuel program grew with four new partners (raising the number to twenty in total). As part of this program, KLM's large corporate customers fly on sustainable biofuel for a part of their total flight volume or on specific routes, thereby stimulating the further development of the biofuel market.

Flying lighter
Flying with lighter materials and more efficient aircraft with greater engine capacity also helps reduce carbon dioxide emissions. In November 2014, KLM Cityhopper was the first European airline to start flying with paperless cockpits. Flight bags on board were replaced with iPads, which are much lighter therefore saving fuel.

Community involvement
KLM has a strong relationship with the communities in which KLM is active, both at the hub and at foreign destinations. Through continuous stakeholder dialogue and structural partnerships, through the innovation of business processes, in collaboration with suppliers and by supporting local charity organizations, KLM aims to have a social impact in the entire value chain.

KLM's partner UNICEF, with whom KLM started collaborating at the end of 2013, supports KLM in creating impact. Instead of a "traditional" funding-based partnership, the partnership centers on the Children's Rights and Business principles and their application in existing business processes. As such, the focus will be in part on the supply chain sustainability.

Further information on the subject of Corporate Social Responsibility is available in the separate AIR FRANCE KLM Corporate Social Responsibility report.

Transavia

Transavia, a wholly owned subsidiary of KLM, maintained its leadership in the Dutch leisure market, realizing growth in available seat kilometers of 3.9 percent. Regional operations at Rotterdam The Hague and Eindhoven airports were stepped up. Transfer traffic from the KLM network was increased by 29 percent. Services to support the strong growth of Transavia France, in which Transavia has a 40 percent interest, increased in volume and generated organizational synergies. Nevertheless, in spite of achieving the majority of the 2011-2014 strategic objectives, an operating loss of EUR 19 million was incurred on net revenues of EUR 740 million. The company saw revenues suffer from a faster than expected decline in the traditional charter market, as proved by the lower B2B yields and a strong increase in seat capacity in the very competitive leisure market, while cost were only marginally lower. Results were further affected by a weak economic recovery and continuing political instability in Egypt and neighbouring countries.

The 2014 result continued the downward trend that must be reversed in the interest of all stakeholders. New strategic and tactical plans have been developed for 2015-2019 to achieve a breakthrough to secure further growth and long-term continuity. Implementation began in the last quarter of 2014. Covering all aspects of Transavia's business, they include a commercial repositioning with corresponding changes to the network and an accelerated move towards more adaptable and sustainable IT. They also include the introduction of Lean principles and tooling throughout the organization. Furthermore, the plans include a range of initiatives to reduce operating cost by at least 15 percent. The company will continue its distinctive 'low fare with care' approach, offering friendly service at sharp, basic prices with the freedom to select from a growing range of additional paid services. These paid services are offered to passengers both directly and through B2B partners. In 2015 Transavia will maintain capacity at a level comparable to 2014. Together with all stakeholders, including social partners, Transavia will put the right conditions in place to boost productivity and expand the fleet as from 2016.

Overview of significant KLM participating interests

As at December 31, 2014

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
KLM Financial 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

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.

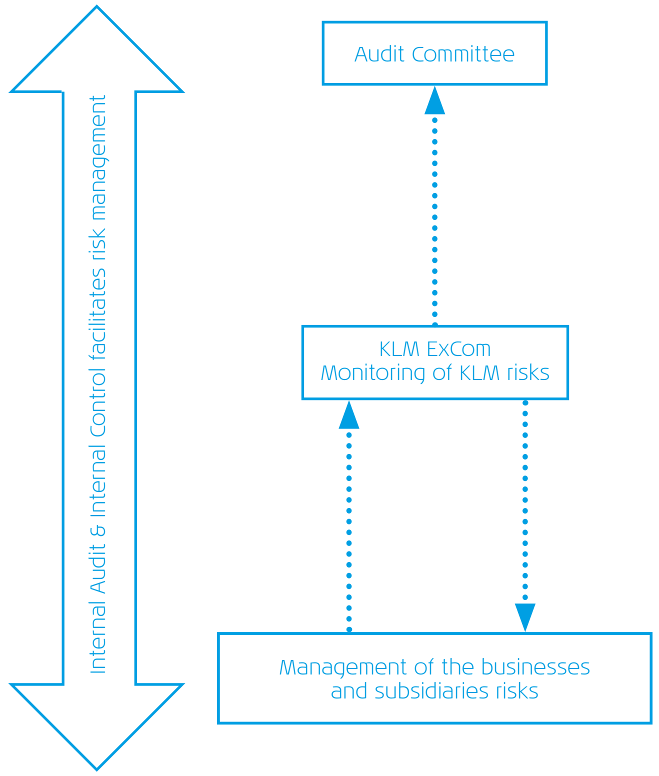
This chapter focuses on the risks, which KLM is facing, including the management and monitoring of these risks. A distinction is made between strategic, operational and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are directly related to operational activities 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 is exposed to general risks associated with air transport and has consequently implemented a system to identify, monitor and control/manage risks. The strategic and operational risk mapping processes have been established by all the relevant entities, facilitated by Internal Audit & Internal Control. These risk maps are regularly updated and consolidated at KLM level.

Every three months, KLM entities update the overview of their major operational risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both specific risks to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the reported risks, members of the KLM Executive Committee are responsible for reviewing the measures implemented to control these risks.

On a quarterly basis, a presentation on the most significant operational and financial risks is made by Internal Audit & Internal Control and presented to 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 the subject of a presentation and are discussed by the AIR FRANCE KLM Group Executive Committee. The risk management process is in line with international risk management standards (COSO Enterprise Risk Management) and complies with to the risk management part of the 8th EU company law directive.

Monitoring

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

A yearly 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;
- To maintain a reliable internal control framework in general (including the Company-wide controls) and for financial reporting in particular;
- To report open control issues and the measures to monitor and to mitigate the risks and related consequences of these control issues, and
- To 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 is 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.

RISK FACTORS AND THEIR MANAGEMENT

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 also 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 expand in the business travel market; this is expected to sustain the general 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.
Especially, non-EU airlines are operating 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 in balance 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 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, mitigation, 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 Company's activities and, hence, its financial results. Periods of crisis are liable to affect demand for transportation, both for leisure and business travel. Furthermore, during such periods, the Company may have to take delivery of new aircraft or be unable to sell aircraft not in use under acceptable financial conditions. The Company 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 is characterized by structural excess capacity resulting from a low growth in demand and the influx of new freighter aircraft, while old freighters slowly retire, as well as a steep growth in belly capacity due to the strong growth of the number of wide body passenger aircraft worldwide. As a result yield and unit revenues are structurally under pressure. Also alternative modes of transport, particularly sea transport by large container vessels, put added pressure on air cargo volumes and yields. Consequently KLM and Air France decided to reduce their full freighter footprint.

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

Any terrorist attacks, the threat of an attack, or a military action have a negative effect on our business. This negative effect is notably due to a decrease in demand and to an increase of insurance and security cost. Also an epidemic or the perception that an epidemic could occur, can have a negative impact on the Company's passenger traffic. Since early 2011, the geopolitical situation resulting from political problems in a number of countries / areas had, and still has, a significant impact on air transport activity.

The Company has developed a security management system, contingency plans and procedures enabling it to adapt to changing environments to ensure that it can respond effectively to different situations, such as epidemics, geopolitical or other types of events that can occur. The aim of these plans is the effective protection of passengers and staff, operational and service continuity and the preservation of the long-term viability of the Company's businesses. These plans are regularly evaluated to take into account the lessons learnt from past events.
More generally, in terms of safety and security, KLM complies with European and international 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 notably decide on the regulations which may be restrictive for airlines and are liable to have a significant organizational and/or financial impact.
In the European Commission's White Paper "Roadmap to a Single European Transport Area" the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development is emphasised. However in this White Paper also introducing a tax on air transportation, levying VAT on international flights, initiatives on passenger rights and reviewing the regulation on the allocation of time slots is envisaged. This Paper will be reviewed in 2015.

Implementation of a Single European Sky will remain one of the European Commission's key priorities. The airline industry is also closely following 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 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 sector.

On a national level, the Dutch government has continued the implementation of the air transport policy ("Luchtvaart-nota") which was adopted by parliament in 2011, and 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 that was installed in 2012 asserted that Amsterdam Airport Schiphol is of major importance for 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 the 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 the 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 regulations. One of them, Regulation 261/2004, applies to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union.

This regulation 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 in March 2013 its proposal to amend this Regulation 261/2004. The new Regulation is currently expected to come into force in 2015. The timetable is subject to further change depending on the degree of agreement that can be reached at European Parliament and Council level.

Also outside Europe, Air Passenger Rights are in effect which might have as a consequence that discrepancies arise between the different applicable legal consumer protection systems.

KLM supports a global standardization of passenger rights, also in the 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 these 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 and US 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.

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, to align the unilateral EU approach with the global ICAO based measure.

The aviation industry, lead by IATA, is aware of the joint responsibility to limit global emissions and the impact on climate change. In 2010 the global 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.

KLM is setting the standard in fuel efficiency and saving CO_2 emissions. In the context of the objective to 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 and modernisation of the fleet and engines, operational measures such as improved fuel management, a KLM fuel savings plan, continuous reductions in weight carried and improved operating procedures;
- Being global leader in operating biofuels for international aviation. Together with partners such as the WWF-NL, SkyNRG and corporate customers KLM invests in research, development and creating a market for sustainable biofuels;
- Cooperation with the authorities: e.g. on the SESAR project (Single European Sky, optimization of traffic control) and operating procedures.

KLM also acts with the relevant national, European and international authorities and bodies and participates in the work of the airline industry (AEA, IATA, ICAO) stimulating to work on effective solutions for the environmental risks.

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 Environmental Management system according to the international ISO 14001 standards.
In 2014 KLM further integrated the Environmental Management System with the Integrated Safety Management System including Operational, Occupational and Environmental Safety as well as Security. In 2015 this integration will result in an integrated risk assessment with respect to all relevant operational business decisions.

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 for the air transport industry. Both an increase and decrease of the oil price may have an impact on the profitability of airlines, furthermore, for the European airlines, 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.

OPERATING RISKS

Safety and Security

Safety and Security are basic elements of KLM operations and a vital source 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 and working environment of continuous learning and improvement. Reference is made to the safety section in this annual report.

Airline accident risk

Air transport is heavily regulated 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 safety management system. The civil aviation authority carries out a series of checks 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 2014 for KLM without any findings. Martinair and Transavia passed the renewal audit in 2013 and KLM Cityhopper in 2014.

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).

KLM, as a leader in aviation safety, has the ambition 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 the Company.

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. Generally speaking, the duration of adverse climate conditions such as heavy fog and heavy (winter) storms tends to be short and their geographical range limited. Yet, at times they 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.). KLM, together with Air France, is lobbying, either directly or through representative bodies, both the Dutch, French and European authorities to develop robust crisis management tools and, to establish more equitable regulations with regard to the Company's responsibilities vis-à-vis passengers in extraordinary circumstances.

Risk of the failure of a critical IT system and IT risks
The IT and telecommunications systems are of essential importance for the Company's day-to-day operations. They comprise the IT applications operated in the data centres and used throughout the network of tens of thousands of workstations. The information these systems contain is threatened increasingly by diverse causes, both from inside and outside the Company. KLM consistently ensures the allocation of resources required to withstand these threats, to secure the information and to safeguard the regulatory compliance and operation of the IT systems.

Dedicated support centres and redundant networks guarantee the accessibility of data and IT processing in the event of a major incident. The IT disaster recovery plan is checked regularly.

The access controls to IT applications and to the computer files at each workstation, together with the control over the data exchanged outside the Company, are governed by rules that meet international standards.

Campaigns to raise information security awareness of all staff are regularly carried out. Specialised companies, external auditors and Internal Audit and Internal Control, comprising IT specialists, regularly evaluate the effectiveness of the solutions in place.

Cybercrime
Cybercrime refers to a broad range of different activities relating to the misuse of data, computer and information systems and to cyberspace for economic, personal or psychological gain. The high dependency on ICT makes airlines vulnerable for cybercrime.
The KLM Cybercrime Coordination Committee and the AIR FRANCE KLM Cybercrime program for other high cybercrime risks govern the Cybercrime related actions and it helps to improve the awareness of management and staff regarding this phenomenon.

RISKS LINKED TO THE COMPANY'S ACTIVITIES

Risks linked to non-compliance with antitrust legislation and compliance in general
The Company 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 fines totaling EUR 799 million on 25 companies in the air freight industry, 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.

The Company, 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, the Company, considering compliance in general a top priority, has further expanded its procedures to secure and monitor compliance with, amongst others, anti-bribery legislation and broadened the scope of its Whistleblower Policy.

Risks linked to the regulatory authorities' inquiry into commercial cooperation agreements between carriers (Alliances)
In January 2012, the European Commission announced that it has opened an investigation to assess whether the transatlantic joint venture between KLM, Air France, Alitalia and Delta Air Lines is compatible with EU antitrust legislation. This investigation is still on-going. The joint venture has been granted antitrust immunity from the US Department of Transport 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 AIR FRANCE KLM, KLM and Air France 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 the Company'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 freezes and productivity increase in all domains, staff expects a general salary increase. However, in view of the challenges we have defined in the framework of Perform 2020, we need to amore structural reduction in labour costs and an increase of productivity.

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 recognized 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 15 Deferred income tax and note 27 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
The Company's main commitments in terms of defined benefit schemes are the three KLM pension funds for ground staff, cabin crew and flight deck crew based in the Netherlands.

Both the fiscal rules for accruing pensions as well as the Financial Assessment framework (part of the Pension law) in the Netherlands have 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.

The risk for the Company, although dependent on of the outcome of collective labour negotiations during the first half of 2015, could remain that in case of shortages, based on existing or future financing agreements, KLM could be required to make additional cash payments. For 2015, this additional payment risk is mitigated by the solvency levels noted since December 31, 2014.

At the end of December 2014, the regulatory solvency levels of the three KLM funds were calculated and, based on the results obtained, the Company's contribution should not see a significant increase in 2015.

Given the revised IAS 19 applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (e.g; discount rate, future inflation rate) which could lead to annual fluctuations in the income statement and Company'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 recognized in the Company'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 liabilities. 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 16 Provisions for employee benefits of the consolidated financial statements.
The sensitivity of the defined benefit cost recognized 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 16 of the consolidated financial statements.

Risks linked to the impact of external economic factors on equity

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 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. This was the case end 2014. Reference is made to note 9 Share Capital and note 10 Other reserves in the consolidated financial statements.

The Company 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, reference is made 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. The Company also uses sub-contractors 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 provide, whenever possible, clauses for service, continuity and responsibility. Furthermore, 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, the Company 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. Reference is made to note 20 Contingent assets and liabilities of the consolidated financial statements.

Insurance coverage

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

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 public limited liability company incorporated under Dutch law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a Board of Supervisory Directors. 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. Furthermore, KLM 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 considers KLM's corporate governance policy. There have been no material changes in the Company's governance policy in comparison with financial year 2013.

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 and a proportion of the common shares, together 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, together representing 33.16% of the beneficial rights of KLM's nominal share capital;
- The depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C ("SAK II") on the cumulative preference shares C.

On December 31, 2014, "SAK I" held 33.16% 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 14 members. The Board has four Dutch members, of which one is appointed upon nomination of the State of the Netherlands and two are upon nomination of the KLM Supervisory Board. The fourth Dutch member is the President and CEO of KLM, a position currently filled in by a former CEO of KLM. The AIR FRANCE KLM Group Executive Committee among others decides upon issues of a strategic nature within the framework of the strategy approved by the Board of Directors.

Supervisory Board

Required by law KLM has a Supervisory Board that as per its duty supervises the management by the Board of Managing Directors and the general performance of the Company. It also provides the Board of Managing Directors with advice. The Supervisory Board consists of nine members. 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, 2014, the Board of Managing Directors consisted of three members. It is supervised by the Supervisory Board. 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 in addition 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 the Company'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 23, 2015.

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, the Company's strategy and financial results. The KLM Works Council has 25 members. The KLM Works Council met on eleven occasions with management in financial year 2014.

At AIR FRANCE KLM level an European Works Council has been installed to jointly represent 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 2014. In 2014 the European Works Council was re-elected for a period of four years.

Dutch Act on Management and Supervision

Among other topics, 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, 2014, the Supervisory Board of the Company is composed in accordance with the gender diversity principle of the Act on Management and Supervision as one third of the directors of the Supervisory Board is female.

In the course of 2013, the Company has evaluated and revitalized its Diversity Policy, with the aim to increase over time the number of women in executive positions through promotion from within the Company. In the event that candidates for new appointments to the Board of Managing Directors are to be selected, the Supervisory Board will duly consider the relevant diversity requirements, when searching, selecting and evaluating the candidates.

Claw Back Act

On January 1, 2014, the Claw Back Act on amongst others the adjustment or claw back of variable remuneration awarded came into force. The Company has amended its remuneration policy, regulations and agreements in place if and where applicable and has - as per the Act - included the execution of the remuneration policy as a topic on the agenda for the Annual General Meeting of Shareholders.

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 KLM as a non-listed Company is not formally obliged to comply with the Code, it has committed itself to follow the Code 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. Since the vast majority of KLM shares are owned by a small group of known shareholders, it has been decided to provide copies of regulations and other documents 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 the Company's head office. Copies shall be made available to shareholders on written request to the Company Secretary.

Report of the Supervisory Board

The supervision of the policies and actions of the Board of Managing Directors of Koninklijke Luchtvaart Maatschappij is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body and fully independent of the Board of Managing Directors.

Supervision

In fulfillment of its duty to supervise and advise the Company's Board of Managing Directors, the Supervisory Board met on nine occasions, either in person or by means of a conference call, during financial year 2014. Six meetings were planned in line with the regular schedule. Early September, an extra meeting was scheduled to discuss the details of a plan securing on overall sustainable future for the Cargo Business. In October, an extra meeting took place to discuss the composition of the Board of Managing Directors. Also, an extra meeting was held in December to finalize the discussions on the 2015 budget.

Like the previous years and keeping with usual practice, four of these six meetings were held shortly after the quarterly close and deliberations during these meetings concentrated on KLM's (quarterly, semi-annual and annual) financial results. One meeting was dedicated for discussion of the AIR FRANCE KLM Group Strategic Framework and one meeting for discussion of the Company's three-year plan (budget, investment plan and financial plan) and the Internal Audit plan. The meetings were well attended by the members, with an attendance score of 98 percent for all meetings combined.

2014 was a turbulent year. The 95th anniversary of the Company marked a memorable milestone in the history of KLM, one that was modestly celebrated. The operating environment remained challenging, which was certainly felt by the Company. The worldwide economy is slowing down and shifting to emerging countries. Industry capacity development is putting structural pressure on unit revenues. The competition is fierce. Significant growth of the Middle East carriers, as well as the ongoing growth of LCC, underline the challenges the Company is facing. Customers demand high quality at low fares. Apart from these competitive developments, geopolitical and health events had their impact on the Company's performance. The Transform 2015 / Securing Our Future program was finalized and major projects have been implemented. Not all targets were met in full, and challenges ahead to make the necessary investments in fleet and product were discussed. The Supervisory Board was regularly informed on the progress of the program, and as part of these discussions, the Board also discussed the company's liquidity position, balance sheet ratios and net debt position.

During its annual strategy meeting in June, the Supervisory Board discussed the AIR FRANCE KLM Group Strategic Framework, including the most important themes within the framework, being Short and Medium haul (including low-cost development), Product (Customer first) and alliances strategy and a plan securing on overall sustainable future for the Cargo Business. The Board also discussed the trends in the competitive landscape. 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 these developments, in particular margin improvement, risk mitigation and cost savings. With respect to financing, the Supervisory Board approved the recapitalization of Transavia and Martinair. Next to that, the Board discussed and approved the Company's financing plan, including the financing of new aircraft, as well as the Group's risk and hedging policies.

The Supervisory Board discussed the outline of the Perform 2020 program, being the AIR FRANCE KLM Group's follow-up plan of Transform 2015, the underlying assumptions of this program, the main objectives and the methodology that is chosen by the Company to engage all staff.

During the year the Supervisory Board discussed at length the future positioning of the Cargo Business and the alternative scenarios therein. The Board was regularly informed about the assessments that have been made and carefully deliberated the financial and social effects of various scenarios. The Supervisory Board concluded by approving a freighter reduction scenario in order to secure a sustainable future for Cargo Business.

The Supervisory Board meeting of July 2014 was attended by Mr. de Juniac, Chairman and Chief Executive Officer of AIR FRANCE KLM, who updated the Board on the AIR FRANCE KLM Group strategy. In this context the plans for Long haul, Cargo, and Short & medium haul (in particular the Group's low cost strategy) were discussed.

The Supervisory Board was kept informed on the developments in respect of the ongoing implementation of the new management and organization structure of the AIR FRANCE KLM Group. The Board is convinced that the new organizational structure will secure the Company's long-term future as part of the AIR FRANCE KLM Group.
As an annually recurring topic on the Board's agenda, the Supervisory Board was informed about the performance of the Company's intercontinental and European network, as well as future network and partner developments.

With respect to its responsibility towards corporate governance and compliance, the Supervisory Board discussed the Company's compliance framework and the results of an external assessment into the adequacy of the compliance framework. Other topics discussed during the financial year, of which some are recurring:

- The Company's fleet development planning;
- Developments at partner airlines;
- Management Development;
- Discussions with the unions and Works Council;
- Performance of the Company'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, with which the Board has frequent discussions and enjoys good relations. There was also informal consultation between the Chairman of the Supervisory Board and the Chairman of the Works Council.

Composition of the Supervisory Board

As per the closing of the Annual General Meeting of 2014 Mr. Blanchet and Mr. Storm stepped down as Director, respectively Chairman of the Supervisory Board. The Supervisory Board wishes to express its gratitude to Mr. Storm and Mr. Blanchet for their contributions to the Company during 12 respectively 10 years of service.

As announced in last year's annual report, Mrs. Annemieke Roobeek and Mr. Jean Peyrelevade are due to retire by rotation as per the closure of the General Meeting of Shareholders in 2015. Both Board members have advised the Company to be available for reappointment. KLM's Works Council has recommended the reappointment of Mrs. Roobeek for a second term of four years. AIR FRANCE KLM has notified the Company it wishes to nominate Mr. Peyrelevade for a third and final term of four years.

The Supervisory Board hereby announces that Mr. Hans Smits, Mrs. Irene Asscher, Mr. Philippe Calavia, Mr. Henri Guillaume and Mr. Remmert Laan are due to retire by rotation as per the closure of the Annual General Meeting of Shareholders in 2016.

Shareholders are entitled to make recommendations for the vacancies. It should however be noted that for the position of Mrs. Ascher, KLM's Works Council has the right to propose a candidate and that for the positions of Mr. Calavia, Mr. Guillaume and Mr. Laan, AIR FRANCE KLM has the power to nominate a candidate.

Composition of the Board of Managing Directors

As of October 15, Camiel Eurlings stepped down as President and Chief Executive Officer. The Supervisory Board is grateful to Mr. Eurlings for his contribution to the Company during the four years of service.
Pieter Elbers was appointed President and Chief Executive Officer as per the same date. Although Mr. Elbers' current term only expires in 2016, the Supervisory Board has decided to already propose his reappointment for a new term of four years to the 2015 Annual General Meeting of Shareholders, confirming its confidence and support for the new Chief Executive Officer, in light of the challenging times ahead.

Erik Varwijk stepped down as Managing Director of KLM as per March 1, 2015. The Supervisory Board expresses its gratitude to Mr. Varwijk for his contribution to KLM and his commitment during his 25 years of service.

The Supervisory Board hereby announces that it will propose to the Annual General Meeting of Shareholders the appointment of Mr. René de Groot, Chief Operating Officer, to the Board of Managing Directors.

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.

Due to the retirement by rotation of Mr. Storm and Mr. Blanchet and the joining of Mr.'t Hart and Mrs. Dautry, the composition of the committees was amended in the financial year and is 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

The Audit Committee met on two occasions during the financial year. Apart from the financial results, the Audit Committee discussed the main (financial and non-financial) risks based on Management's risk assessments, the results of the different internal audits, performed under the authority of the Company's internal auditor.

With regard to non-financial risks, the Audit Committee discussed in more detail the way in which the businesses of the Company demonstrate follow-up to actions and recommendations from internal audits. Next to that, the Audit Committee discussed the topic fraud prevention and detection.

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 being present, to discuss the closing process and course of affairs during the financial year.

The Remuneration Committee met on three 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 also discussed the remuneration of the individual members of the Board of Managing Directors and submitted proposals in that context for approval by the Supervisory Board. The Remuneration Committee furthermore developed a proposal for targets for the new financial year, which targets have been endorsed by the Supervisory Board. For further information, reference is made to the section Remuneration Policy and Report of this annual report.

The Nomination Committee met on three 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, the Company Secretary & General Counsel and the EVP Human Resources & Industrial Relations.

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 consultation of the Board of Managing Directors and the Supervisory Board.

After having consulted both Boards and under the condition that the financial statements 2014 being adopted by the general meeting of shareholders in April 2015, the Meeting of Priority Shareholders has decided to add the entire amount of EUR 339,830,000 out of the disclosed profit to the reserves, with the aim to improve equity and the Company's net debt to equity ratio.

Given the Company's low equity per December 31, 2014, as per compulsory Dutch law (article 105 book 2 of the Dutch Civil Code) no distribution of dividend to any class of share may be made.

Financial Statements 2014

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2014. 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 2014.

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

Closing remarks
In 2014, the Company finalized its Transform 2015 / Securing our Future program. Despite the achievements under the program and taking the world around us, important challenges are still ahead of KLM, especially when considering the planned investments in product and fleet. Hence, the reason why KLM as well as AIR FRANCE KLM have decided to introduce a new program: Perform 2020. Perform 2020 will guide the Company in the coming years, focusing on productivity improvement and unit cost reduction.

The execution of Perform 2020 will without doubt demand a lot of all employees of KLM. The Supervisory Board however trusts that under the new leadership, the Company will demonstrate its resilience and ability to transform, with the support of all staff. Their dedication will prove to be the key for the transformation.

The Supervisory Board expresses its appreciation for the contributions of management and employees during the financial year 2014.

Amstelveen, March 26, 2015

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 the Company 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. No changes to the Company's remuneration policy have been implemented in financial year 2014.

In accordance with the Articles of Association and the remuneration policy, and subject to the 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 cause 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 the 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 the Company and its Managing Directors on improving the performance of the Company and on achieving the Company's long-term objectives within the context of AIR FRANCE KLM.

As a consequence, the remuneration package includes a short-term incentive 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; and
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 the Company's size, the complexity of the activities, the national and international environment in which the Company 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 the Company.

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: 60% of the short-term incentive is based on a target relating to KLM's income from current operations; 20% is based on a target relating to AIR FRANCE KLM's income from current operations, and 20% on achieving individual targets.

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 the Company 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 are furthermore participating in the Company's 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 is designed to focus the members of the Board of Managing Directors on achieving 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 in the Dow Jones Sustainability Index (DJSI) (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 Company's remuneration policy also provides for the Supervisory Board having the authority to recover any short-term incentive paid out or any long-term incentive vested on the basis of incorrect financial or other data up until three years after such payment or vesting has been awarded. This 'claw back clause' has been integrated in the individual employment contracts of the members of the Board of Managing Directors.

Following the entry into force of the Claw Back Act on January 1, 2014, these contracts have been amended to reflect the legal five-year period for "claw back".

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.

Employment contracts with members of the Board of Managing Directors

Members of the Board of Managing Directors have a contract of employment with the Company. 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. In those cases that Board members are appointed from within the Company, 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:
- Mr. Elbers' employment contract contains a fixed-term clause for a period of four years until May 1, 2016;
- Mr. Varwijk's employment contract contains a fixed-term clause for a period of four years until July 1, 2015;
- Mr. Swelheim's employment contract contains a fixed-term clause for a period of four years until the Annual General Meeting of 2018.

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 the Company, 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 the Company.

Remuneration of the Board of Managing Directors in financial year 2014

1. Base salary

In line with the collective labour agreements' zero-percent exogenous salary increase, the base salaries of the individual members of the Board did not increase in 2014.

Within the parameters of the Company's remuneration policy, the base salaries have been evaluated in February 2014. As a result, Mr. Eurlings' base salary remained the same at EUR 475,000, Mr. Elbers' base salary was increased to EUR 450,000 as from April 1, 2014, and Mr. Varwijk's base salary also remained the same at EUR 410,000. Mr. Swelheim, Chief Financial Officer, who joined the Board of Managing Directors in April 2014 receives a base salary of EUR 300,000. Mr. Elbers' base salary did not change following his appointment as President and Chief Executive Officer of the Company per October 15, 2014.

Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 30 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 2014 in accordance with the remuneration policy. This resulted in a short-term incentive payment for financial year 2014 15% of base salary for Mr. Elbers, 8% for Mr. Varwijk and 4% for Mr. Swelheim. Mr. Eurlings left the company and did not receive a short-term incentive payment in respect of the year 2014.

Details of the amounts involved are included in note 30 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 2014, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2015. The number of granted phantom shares will amount to 10,000 for the Chief Executive Officer and 6,000 for the (2) Managing Directors. The phantom shares are granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

At its February 2015 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan. In respect of financial year 2014, the targets were partially met.

Therefore the first (one third) increment of the 2015 phantom shares series, the second (one third) increment of the 2014 phantom shares series and the third (one third) increment of the 2013 phantom shares series will vest for 70.2%. These phantom shares will be unconditionally awarded in April 2015 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 members of the Supervisory Board 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 2014

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 29 of the financial statements.

Supervisory Board and Board of Managing Directors

SUPERVISORY BOARD (SITUATION AS AT DECEMBER 31, 2014)

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 / Director to Servair.
Alice Dautry-Varsat ***	1950	French	2014 / (first) 2014 - 2018	Former President of the Institute Pasteur.
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 of Royal FrieslandCampina N.V., Chairman NZO (Dutch Dairy Organization), Member Executive Committee VNO-NCW.
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/ (second) 2011 - 2015	Director of Banque Degroof, former CEO of Suez, former CEO Stern Bank, former CEO of the Union des Assurances de Paris, former CEO Credit Lyonnais / Director of Bouygues BG Bonnard Gardel, SAVR.
Annemieke J.M. Roobeek **	1958	Dutch	2011 / (first) 2011-2015	Professor for Strategy en Transformation Management Nyenrode Business Universiteit, CEO and founder of Open Dialogue B.V. and MeetingMoreMinds B.V./ Non-Executive Director of ABN AMRO Group, Abbott Healthcare Products.

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2014 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, 2014)

Name	Year of birth	Nationality	First appointment	Function
Pieter J.TH. Elbers	1970	Dutch	2012	President and Chief Executive Officer KLM
Erik F. Varwijk	1961	Dutch	2011	Managing Director
Erik R. Swelheim	1965	Dutch	2014	Managing Director and Chief Financial Officer KLM

Company Secretary & General Counsel

Barbara C.P. Van Koppen	1966	Dutch

Financial Statements for the year ended December 31, 2014

KLM ROYAL DUTCH AIRLINES
Consolidated balance sheet

In millions of Euros		December 31, 2014	December 31, 2013
After proposed appropriation of the result for the year	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	1	3,672	3,999
Intangible assets	2	292	254
Investments accounted for using the equity method	3	58	105
Other non-current assets	4	215	108
Other financial assets	5	174	210
Deferred income tax assets	15	365	61
Pension assets	16	1,409	2,454
		6,185	**7,191**
Current assets			
Other current assets	4	127	121
Other financial assets	5	260	247
Inventories	6	193	202
Trade and other receivables	7	896	872
Cash and cash equivalents	8	838	976
		2,314	**2,418**
TOTAL ASSETS		**8,499**	**9,609**
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves	10	(2,662)	(736)
Retained earnings		2,099	1,776
Total attributable to Company's equity holders		**5**	**1,608**
Non-controlling interests		4	3
Total equity		**9**	**1,611**
LIABILITIES			
Non-current liabilities			
Loans from parent company	11	288	491
Finance lease obligations	12	1,429	1,683
Other non-current liabilities	4	301	167
Other financial liabilities	13	1,182	1,077
Deferred income	14	145	158
Deferred income tax liabilities	15	-	84
Provisions for employee benefits	16	401	389
Other provisions	17	526	506
		4,272	**4,555**
Current liabilities			
Trade and other payables	18	1,785	1,805
Loans from parent company	11	233	-
Finance lease obligations	12	341	263
Other current liabilities	4	529	68
Other financial liabilities	13	212	344
Deferred income	14	897	875
Provisions for employee benefits	16	42	45
Other provisions	17	179	43
		4,218	**3,443**
Total liabilities		**8,490**	**7,998**
TOTAL EQUITY AND LIABILITIES		**8,499**	**9,609**

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	2014	2013
Revenues	21	**9,643**	**9,688**
Expenses			
External expenses	22	(6,367)	(6,337)
Employee compensation and benefit expense	23	(2,451)	(2,404)
Depreciation and amortisation	24	(539)	(507)
Other income and expenses		(111)	(139)
Total expenses		**(9,468)**	**(9,387)**
Income from current operations		**175**	**301**
Other non-current income and expenses	25	676	(51)
Income from operating activities		**851**	**250**
Gross cost of financial debt	26	(145)	(157)
Income from cash and cash equivalents	26	29	30
Net cost of financial debt		**(116)**	**(127)**
Other financial income and expense	26	(92)	68
Pre-tax income		**643**	**191**
Income tax (expense)/benefit	27	(253)	(48)
Net result after taxation of consolidated companies		**390**	**143**
Share of results of equity shareholdings		(49)	(10)
Profit for the year		**341**	**133**
Attributable to:			
Equity holders of the Company		340	132
Non-controlling interests		1	1
		341	**133**
Net profit attributable to equity holders of the Company		340	132
Dividend on priority shares		-	-
Net profit available for holders of ordinary shares		**340**	**132**
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)		7.26	2.82
Diluted profit per share (in EUR)		7.26	2.82

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

Consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2014	2013
Profit for the year	341	133
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(650)	71
Change in fair value transferred to profit or loss	95	(14)
Exchange differences on translation foreign operations	1	(4)
Tax on items of comprehensive income that will be reclassified to profit or loss	139	(14)
Total of comprehensive income that will be reclassified to profit or loss	***(415)***	***39***
Remeasurement of defined benefit pension plans	(2,018)	(85)
Tax on items of comprehensive income that will not be reclassified to profit or loss	499	20
Total of comprehensive income that will not be reclassified to profit or loss	***(1,519)***	***(65)***
Total of other comprehensive after tax	**(1,934)**	**(26)**
Recognised income and expenses	**(1,593)**	**107**
- Equity holders of the company	(1,594)	106
- Non-controlling interests	1	1

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

Consolidated statement of changes in equity

In millions of Euros	Attributable to Company's equity holders						
	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/(expense)	**-**	**-**	**(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**

In millions of Euros	Attributable to Company's equity holders						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2013	**94**	**474**	**(735)**	**1,666**	**1,499**	**2**	**1,501**
Net gain/(loss) from cash flow hedges	-	-	57	-	57	-	57
Exchange differences on translation foreign operations	-	-	(4)	-	(4)	-	(4)
Remeasurement of defined benefit pension plans	-	-	(85)	-	(85)	-	(85)
Transfer from retained earnings	-	-	25	(25)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	6	-	6	-	6
Net income/(expense) recognised directly in equity	**-**	**-**	**(1)**	**(25)**	**(26)**	**-**	**(26)**
Profit for the year	-	-	-	132	132	1	133
Total recognised income/(expense)	**-**	**-**	**(1)**	**107**	**106**	**1**	**107**
Other movements	-	-	-	3	3	-	3
As at December 31, 2013	**94**	**474**	**(736)**	**1,776**	**1,608**	**3**	**1,611**

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

Consolidated cash flow statement

In millions of Euros	2014	2013
Profit for the period	341	133
Depreciation and amortisation	539	507
Changes in provisions	17	43
Results of equity shareholdings	49	10
Changes in pension assets	(143)	(103)
Changes in deferred income tax	253	49
Other changes	(609)	(52)
Net cash flow from operating activities before changes in working capital	**447**	**587**
(Increase) / decrease in inventories	2	(4)
(Increase) / decrease in trade receivables	(11)	7
Increase / (decrease) in trade payables	2	151
(Increase) / decrease in other receivables and other payables	63	(115)
Net cash flow from operating activities	**503**	**626**
Capital expenditure on intangible fixed assets	(72)	(68)
Capital expenditure on aircraft	(353)	(429)
Disposal of aircraft	50	161
Capital expenditure on other tangible fixed assets	(55)	(39)
Disposal of other tangible fixed assets	9	11
Dividends received	1	1
(Increase) / decrease in short-term deposits and commercial paper	45	(184)
Net cash used in investing activities	**(375)**	**(547)**
Increase in long-term debt	343	207
Decrease in long-term debt	(624)	(531)
Increase in long-term receivables	(6)	(57)
Decrease in long-term receivables	20	60
Dividend paid	(8)	(1)
Net cash flow from financing activities	**(275)**	**(322)**
Effect of exchange rates on cash and cash equivalents	9	(16)
Change in cash and cash equivalents	**(138)**	**(259)**
Cash and cash equivalents at beginning of period	976	1,235
Cash and cash equivalents at end of period *	838	976
Change in cash and cash equivalents	**(138)**	**(259)**
Income tax reimbursed / (paid) (flow included in operating activities)	-	-

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 1,185 million as at December 31, 2014 (December 31, 2013 EUR 1,356 million)

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 26, 2015 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 23, 2015.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (IFRS) and effective at the reporting date December 31, 2014. 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).

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 2014 financial statements:

- Standard IFRS 10 Consolidated Financial Statements;
- Standard IFRS 11 Joint Arrangements;
- Standard IFRS 12 Disclosure of Interests in Other Entities;
- Standard IAS 28 Investments in Associates and Joint Ventures;
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial assets and Financial liabilities;
- Amendments to IAS 36 Information on the impairment of non-financial assets; and
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement.

These standards and amendments have been applied by the Group as from January 1, 2014. The application does not have a significant impact on the Group's 2014 consolidated financial statements. The other texts whose application became mandatory in 2014 had no impact on the Group's 2014 consolidated financial statements.

The Group opted for the early adoption of IFRIC 21 "Levies" which was applied for the first time to the 2014 financial statements. There was no impact of the application of this interpretation.

The amendments to the standard IAS 19 "Employee Benefits" will be effective as from fiscal year 2015. The Group does not expect these amendments to have a significant impact.

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

- The amendments to IFRS 11 Joint Arrangements, effective for the period beginning January 1, 2016;
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, effective for the period beginning January 1, 2016;
- The amendments to IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements, effective for the period beginning January 1, 2016;

- The standard IFRS 15 Revenue Recognition from Contracts with Customers, effective for the period beginning January 1, 2017 and replacing the standards IAS 18 Revenues, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes; and
- The standard IFRS 9 Financial Instruments, effective for the period beginning January 1, 2018.

The Group does not expect the application of the amendments mentioned above to have a significant impact. The application of the standards IFRS 15 and IFRS 9 is under review.

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 recognized in equity. In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including all the items initially recognized in equity and reclassified to profit and loss.

Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are fully eliminated. Profits and losses resulting from intra-group transactions are also eliminated. Gains and losses realized on internal sales with associates and jointly-controlled entities are eliminated, to the extent of the Group's interest in the entity, providing there is no impairment.

Interest in associates and jointly controlled entities

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.

In accordance with IFRS 11 "Join arrangements", the Group applies the equity method to partnership over which it exercises control jointly with one or more partners (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 recognizes assets and liabilities in proportion to its rights and obligations regarding the entity.

The consolidated financial statements include the Group's share of the total recognized 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 34 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 recognized 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 recognized 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 recognized 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, 2014 EUR	Average in Statement of profit or loss 2014 EUR	Balance Sheet December 31, 2013 EUR
1 US Dollar (USD)	0.82	0.75	0.73
1 Pound sterling (GBP)	1.28	1.24	1.20
1 Swiss franc (CHF)	0.83	0.82	0.81
100 Japanese yen (JPY)	0.69	0.71	0.69
100 Kenya Shilling (KES)	0.90	0.85	0.85

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 recognized 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 organization, 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.

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 recognized 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 recognized 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 recognized. 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in the statement of profit or loss, and its share of post-acquisition movements in reserves is recognized 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 recognized 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 recognized in equity. Any gain or loss relating to an ineffective portion is recognized 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 on going 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 recognized 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 recognized 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 recognized 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 recognized at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest is recognized 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 recognized at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest calculated using the effective interest method is recognized 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 recognized 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 recognized 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 derecognized 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 recognized 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 recognized 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 recognized immediately in the statement of profit or loss. If the sale price is below fair value, any profit or loss is recognized 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 recognized 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 recognized.

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized immediately.

The determination of the liability or asset to be recognized as described above is carried out for each plan separately. In situations where the fair value of plan assets, adjusted for any unrecognized positions, exceeds the present value of a fund's defined benefit obligations then an asset is recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized only to the extent of contract cost incurred that are likely to be recoverable.

Maintenance revenues from time and material contracts are recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss incurred. For details on key assumptions and policies, see note 16.

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 recognized 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 recognized 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 organization 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 2014, KLM's net exposure to changes in market interest rates is neutral.

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 organizations such as Standard & Poor's and Moody's Investors Services.

As of December 31, 2014, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	241
AA+	144
AA	82
A+	126
A	521
Total	1,114

At December 31, 2014, 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, 2013	**1,466**	**3,207**	**1,749**	**6,422**	**628**	**586**	**161**	**1,375**	**177**	**7,974**
Additions	25	140	172	337	1	2	2	5	126	468
Disposals	(442)	(1)	(169)	(612)	(8)	(52)	(9)	(69)	-	(681)
Other movements	365	(218)	61	208	63	13	(45)	31	(107)	132
As at Dec. 31, 2013	**1,414**	**3,128**	**1,813**	**6,355**	**684**	**549**	**109**	**1,342**	**196**	**7,893**
Accumulated depreciation										
As at Jan. 1, 2013	**1,122**	**1,051**	**813**	**2,986**	**236**	**467**	**103**	**806**	**-**	**3,792**
Depreciation	78	151	187	416	32	28	8	68	-	484
Disposals	(307)	(1)	(147)	(455)	(8)	(52)	(3)	(63)	-	(518)
Other movements	168	(74)	38	132	38	(2)	(32)	4	-	136
As at Dec. 31, 2013	**1,061**	**1,127**	**891**	**3,079**	**298**	**441**	**76**	**815**	**-**	**3,894**
Net carrying amount										
As at Jan. 1, 2013	**344**	**2,156**	**936**	**3,436**	**392**	**119**	**58**	**569**	**177**	**4,182**
As at Dec. 31, 2013	**353**	**2,001**	**922**	**3,276**	**386**	**108**	**33**	**527**	**196**	**3,999**

	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 25 Other non-current income and expenses

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

	As at December 31,	
	2014	2013
Aircraft	85	100
Land and buildings	132	153
Other property and equipment	34	41
Carrying amount	**251**	**294**

Borrowing cost capitalised during the year amount to EUR 4 million (2013 EUR 3 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.4% (2013 4.0%).

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, 2014 amounts to EUR 240 million (December 31, 2013 EUR 270 million).

2 INTANGIBLE ASSETS

	Goodwill	Software	Trade-marks	Software under development	Total
Historical cost					
As at Jan. 1, 2013	**39**	**195**	**6**	**153**	**393**
Additions	-	-	-	68	68
Disposals	-	(19)	-	(9)	(28)
Reclassifications	-	95	-	(95)	-
As at December 31, 2013	**39**	**271**	**6**	**117**	**433**
Accumulated amortisation and impairment					
As at January 1, 2013	**29**	**143**	**3**	**-**	**175**
Amortisation	-	22	1	-	23
Disposals	-	(19)	-	-	(19)
As at December 31, 2013	**29**	**146**	**4**	**-**	**179**
Net carrying amount					
As at January 1, 2013	**10**	**52**	**3**	**153**	**218**
As at December 31, 2013	**10**	**125**	**2**	**117**	**254**
Historical cost					
As at January 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 January 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**

As at December 31, 2014, software under development mainly relates to replacement of departure and flight control systems and aircraft maintenance systems.

3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at December 31, 2014	2013
Associates	34	82
Jointly controlled entities	24	23
Carrying amount	**58**	**105**

Investments in associates

	2014	2013
Carrying amount as at January 1	**82**	**90**
Movements		
Share of profit/(loss) after taxation	(50)	(10)
Foreign currency translation differences	2	(2)
OCI movements derivatives	-	4
Net movement	**(48)**	**(8)**
Carrying amount as at December 31	**34**	**82**

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, 2014	2013
Country of incorporation	Kenya	Kenya
Percentage of interest held	26.73%	26.73%
Assets	1,243	1,104
Liabilities	1,007	823
Revenues	918	902
Loss after taxation	(29)	(72)
Share of loss after taxation	**(8)**	**(19)**

Above table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2014 and March 31, 2013.

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, 2014 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 31 million (2013 EUR 45 million) compared to a carrying amount of EUR 32 million as at December 31, 2014 (2013 EUR 70 million). No dividend was received in 2014 (2013 EUR 3.2 million).

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

	As at December 31, 2014	2013
Country of incorporation	France	France
Percentage of interest held	40%	40%
Assets	170	139
Liabilities	159	110
Revenues	324	272
Profit/(loss) after taxation	(18)	(4)
Share of profit/(loss) after taxation	**(7)**	**(2)**

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 4 million (2013 EUR 12 million) as at December 31, 2014.

In the shareholders' agreement it has been stated that when losses exceed the book value, the book value is written down to zero 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

	2014	2013
Carrying amount as at January 1	**23**	**23**
Movements		
New consolidation	-	-
Share of profit/(loss) after taxation	1	-
Other movements	-	-
Net movement	**1**	**-**
Carrying amount as at December 31	**24**	**23**

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, 2014	2013
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	63	64
Current assets	1	1
Profit/(loss) after taxation	1	-
Share of profit/(loss) after taxation	**1**	**-**

4 OTHER ASSETS AND LIABILITIES

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	-	2	(8)	(33)
Cash flow hedges	28	17	(48)	(14)
Items not qualifying for hedge accounting	1	8	(1)	(8)
Total exchange rate risk hedges	**29**	**27**	**(57)**	**(55)**
Interest rate risk				
Fair value hedges	-	7	(3)	(3)
Cash flow hedges	-	-	(1)	(87)
Items not qualifying for hedge accounting	-	6	-	(10)
Total interest rate risk hedges	**-**	**13**	**(4)**	**(100)**
Commodity risk hedges				
Cash flow hedges	92	20	(7)	(1)
Total commodity risk hedges	**92**	**20**	**(7)**	**(1)**
Total derivative financial instruments	**121**	**60**	**(68)**	**(156)**
Others	-	48	-	(11)
Total as at December 31, 2013	**121**	**108**	**(68)**	**(167)**

	Assets Current	Assets Non-current	Liabilities Current	Liabilities 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)**

Exposure to exchange rate risk

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

As at December 31, 2014 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	1,481	215	434	206	128	131	367	88
JPY	21	-	-	21	-	-	-	-
Forward sales								
USD	480	160	300	20	-	-	-	(27)
Total fair value hedges	**1,982**	**375**	**734**	**247**	**128**	**131**	**367**	**61**
Cash flow hedges								
Options								
JPY	217	83	134	-	-	-	-	3
Forward purchases								
USD	1,382	970	412	-	-	-	-	122
GBP	22	22	-	-	-	-	-	1
Other	14	14	-	-	-	-	-	(1)
Forward sales								
GBP	177	135	42	-	-	-	-	(9)
JPY	65	65	-	-	-	-	-	18
USD	33	33	-	-	-	-	-	1
KRW	35	35	-	-	-	-	-	(3)
Other	18	18	-	-	-	-	-	1
Total cash flow hedges	**1,963**	**1,375**	**588**	**-**	**-**	**-**	**-**	**133**
Items not qualifying for hedge accounting								
Forward purchases								
USD	208	35	-	55	63	15	40	22
Forward sales								
USD	(208)	(35)	-	(55)	(63)	(15)	(40)	(22)
Other	27	-	27	-	-	-	-	3
Total items not qualifying for hedge accounting	**27**	**-**	**27**	**-**	**-**	**-**	**-**	**3**
Total exchange rate risk derivatives	**3,972**	**1,750**	**1,349**	**247**	**128**	**131**	**367**	**197**

Exposure to interest rate risk

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

	In local currency millions							In millions of Euros
As at December 31, 2014	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	225	10	32	-	-	-	183	23
Total fair value hedges	**225**	**10**	**32**	**-**	**-**	**-**	**183**	**23**
Cash flow hedges								
Swaps	1,228	82	142	156	202	72	574	(81)
Total cash flow hedges	**1,228**	**82**	**142**	**156**	**202**	**72**	**574**	**(81)**
Items not qualifying for hedge accounting								
Swaps	79	-	10	-	-	69	-	(9)
Total Items not qualifying for hedge accounting	**79**	**-**	**10**	**-**	**-**	**69**	**-**	**(9)**
Total interest rate risk derivatives	**1,532**	**92**	**184**	**156**	**202**	**141**	**757**	**(67)**

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in equity are recycled in the statement of profit or loss at realization 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, 2014 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	128	128	-	-	-	-	-	(48)
Options	1,563	1,055	508	-	-	-	-	(576)
Total cash flow hedges	**1,691**	**1,183**	**508**	**-**	**-**	**-**	**-**	**(624)**
Total commodity risk derivatives	**1,691**	**1,183**	**508**	**-**	**-**	**-**	**-**	**(624)**

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2014, 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	216	550	766
Cash and cash equivalents	-	182	182
Derivatives instruments (asset and liability)			
Currency exchange derivatives	-	197	197
Interest rate derivatives	-	(67)	(67)
Commodity derivatives	-	(624)	(624)

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, 2014.

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, 2014		December 31, 2013	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Pre-tax income	18	(10)	(29)	(72)
Other reserves	177	(180)	207	(92)

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

Currency sensitivity

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

	Monetary Assets		Monetary Liabilities	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
USD	32	44	250	250
JPY	-	-	298	309
CHF	-	-	348	341

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, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Change in value of financial instruments	(6)	(4)	21	22	-	-
Other reserves	(122)	(130)	14	15	14	16

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 (recognized 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, recognized 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 2014 (EUR nil million for 2013).

5 OTHER FINANCIAL ASSETS

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Carrying amount as at January 1	**193**	**196**	**29**	**36**	**235**	**50**	**457**	**282**
Movements								
Additions and loans granted	-	1	3	2	(44)	184	(41)	187
Loans and interest repaid	(12)	(56)	(8)	(4)	-	-	(20)	(60)
Interest accretion	10	62	-	-	-	-	10	62
Foreign currency translation differences	26	(10)	1	(1)	1	1	28	(10)
Other movements	-	-	(6)	(4)	6	-	-	(4)
Net movement	**24**	**(3)**	**(10)**	**(7)**	**(37)**	**185**	**(23)**	**175**
Carrying amount as at December 31	**217**	**193**	**19**	**29**	**198**	**235**	**434**	**457**

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	76	141	12	181
Loans and receivables				
Other loans and receivables	2	17	9	20
At fair value through profit or loss				
Restricted deposit EU anti-trust investigations	179	-	174	-
Other restricted deposits	3	-	52	-
AIR FRANCE KLM S.A. shares	-	9	-	9
Other financial assets	-	7	-	-
	182	**16**	**226**	**9**
Carrying amount	**260**	**174**	**247**	**210**

Regarding the restricted deposit EU anti-trust investigations reference is made to note 20 Contingent assets and liabilities – guarantees and to note 17 Other provisions – Legal issues.

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

	As at December 31,	
	2014	2013
USD	219	211
GBP	2	1
Total	**221**	**212**

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, 2014		December 31, 2013	
in %	EUR	USD	EUR	USD
Held-to-maturity investments	-	3.3	-	3.3
Loans and receivables	0.3	1.0	0.3	2.0
At fair value through profit or loss	0.9	-	1.0	-

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 182 million (December 31, 2013 EUR 226 million) is restricted.

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

	As at December 31,	
	2014	2013
Held-to-maturity		
Less than 1 year	73	12
Between 1 and 2 years	-	65
Between 2 and 3 years	14	-
Between 3 and 4 years	40	12
Between 4 and 5 years	2	35
Over 5 years	88	69
Total	**217**	**193**

The maturities of loans and receivables are as follows:

	As at December 31,	
	2014	2013
Loans and receivables		
Less than 1 year	7	9
Between 1 and 2 years	1	4
Between 2 and 3 years	2	2
Between 3 and 4 years	1	1
Between 4 and 5 years	-	1
Over 5 years	8	12
Total	**19**	**29**

The fair values of the financial assets are as follows:

	2014	As at December 31, 2013
Held-to-maturity		
Triple A bonds and long-term deposits	**231**	**209**
Loans and receivables		
Other loans and receivables	**11**	**16**
At fair value through profit or loss		
Restricted deposit EU Cargo Claim	179	174
Restricted deposit other	3	52
AIR FRANCE KLM S.A. shares	9	9
Other financial assets	7	-
	198	**235**
Total fair value	**440**	**460**

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, 2014 and December 31, 2013;
- 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:

	2014	As at December 31, 2013
Less than 1 year	212	247
Between 1 and 2 years	51	69
Between 2 and 3 years	15	2
Between 3 and 4 years	1	1
Between 4 and 5 years	-	1
Over 5 years	132	122
Total interest bearing financial assets	**411**	**442**

6 INVENTORIES

	2014	As at December 31, 2013
Carrying amount		
Maintenance inventories	111	124
Other sundry inventories	82	78
Total	**193**	**202**

Allowance for obsolete inventory amounted to EUR 57 million (December 31, 2013 EUR 62 million).

7 TRADE AND OTHER RECEIVABLES

	2014	As at December 31, 2013
Trade receivables	528	546
Provision trade receivables	(28)	(21)
Trade receivables - net	500	525
Amounts due from:		
- AIR FRANCE KLM group companies	105	108
- associates and jointly controlled entities	7	5
- maintenance contract customers	141	88
Taxes and social security premiums	33	30
Other receivables	38	30
Prepaid expenses	72	86
Total	**896**	**872**

In the financial year EUR 4 million (December 31, 2013 EUR 9 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, 2014 amounted to EUR 130 million (December 31, 2013 EUR 95 million).

Advances received for maintenance contracts in progress at December 31, 2014 amounted to EUR 2 million (December 31, 2013 EUR 4 million).

8 CASH AND CASH EQUIVALENTS

	2014	As at December 31, 2013
Cash at bank and in hand	72	71
Short-term deposits	766	905
Total	**838**	**976**

The effective interest rates on short-term deposits are in the range from 0.01% to 4.70% (2013 range 0.02% to 3.80%). 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,	
	2014	2013
USD	30	31
Other currencies	14	11
Total	**44**	**42**

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, 2014		December 31, 2013	
	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, 2014 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.

Dividend distribution to shareholders

Given the Company's low equity per December 31, 2014, as per compulsory Dutch law (article 105 book 2 of the Dutch Civil Code) no distribution of dividend to any class of share may be made.

10 OTHER RESERVES

	Hedging reserve	Remeasurement of defined benefit pension plans	Translation reserve	Other Legal reserve	Total
As at January 1, 2013	**(84)**	**(886)**	**(11)**	**246**	**(735)**
(Losses)/gains from cash-flow hedges	57	-	-	-	57
Exchange differences on translating foreign operations	-	-	(4)	-	(4)
Remeasurement of defined benefit pension plans	-	(85)	-	-	(85)
Transfer from retained earnings	-	-	-	25	25
Tax on items taken directly to or transferred from equity	(14)	20	-	-	6
As at December 31, 2013	**(41)**	**(951)**	**(15)**	**271**	**(736)**
As at January 1, 2014	(41)	(951)	(15)	271	(736)
Gains/(losses) 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)**

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. This was the case at the end of 2014.

The Company 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. 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, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A	233	288	-	491
Others	-	-	-	-
Total	**233**	**288**	**-**	**491**

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 June 26, 2009, AIR FRANCE KLM S.A. issued a convertible bond of a principal amount of EUR 661 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated March 19, 2010, a total amount of EUR 386 million. On December 31, 2014, KLM has drawn an amount of EUR 203 million on this intercompany loan facility. The drawn amount bears a floating interest rate.

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 30 million on this intercompany loan facility. The drawn amount bears a floating interest rate.

According to the four 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 20.

12 LEASE OBLIGATIONS

	December 31, 2014			December 31, 2013		
	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	379	38	341	331	68	263
Total current	**379**	**38**	**341**	**331**	**68**	**263**
Between 1 and 2 years	221	36	185	361	53	308
Between 2 and 3 years	360	27	333	230	43	187
Between 3 and 4 years	319	16	303	354	34	320
Between 4 and 5 years	189	11	178	311	21	290
Over 5 years	440	10	430	610	32	578
Total non-current	**1,529**	**100**	**1,429**	**1,866**	**183**	**1,683**
Total	**1,908**	**138**	**1,770**	**2,197**	**251**	**1,946**

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 1.82% (average fixed rate 3.46%, average floating rate 1.13%). Taking into account the impact of hedging the average interest rate is 3.05% (average fixed rate 3.29%, average floating rate 1.66%). After hedging 85% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 1,603 million as at December 31, 2014 (December 31, 2013 EUR 1,776 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,	
	2014	2013	2014	2013	2014	2013	2014	2013
Operating lease commitments								
Within 1 year	380	312	36	34	11	9	427	355
Total current	**380**	**312**	**36**	**34**	**11**	**9**	**427**	**355**
Between 1 and 2 years	412	309	33	30	9	7	454	346
Between 2 and 3 years	412	330	31	29	8	7	451	366
Between 3 and 4 years	404	324	29	28	7	5	440	357
Between 4 and 5 years	376	316	27	25	7	3	410	344
Over 5 years	1,064	1,123	192	210	8	5	1,264	1,338
Total non-current	**2,668**	**2,402**	**312**	**322**	**39**	**27**	**3,019**	**2,751**
Total	**3,048**	**2,714**	**348**	**356**	**50**	**36**	**3,446**	**3,106**

13 OTHER FINANCIAL LIABILITIES

	2014	2013
Carrying amount as at January 1	**1,421**	**1,576**
Additions and loans received	270	74
Loans repaid	(323)	(153)
Foreign currency translation differences	20	(53)
Other changes	6	(23)
Net movement	**(27)**	**(155)**
Carrying amount as at December 31	**1,394**	**1,421**

The financial liabilities comprise:

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	569	-	553
Other loans (secured/unsecured)	212	581	344	492
Total	**212**	**1,182**	**344**	**1,077**

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 348 million as at December 31, 2014 (December 31, 2013 EUR 341 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	As at December 31,	
	2014	2013
Less than 1 year	212	344
Between 1 and 2 years	86	178
Between 2 and 3 years	272	66
Between 3 and 4 years	102	163
Between 4 and 5 years	126	82
Over 5 years	596	588
Total	**1,394**	**1,421**

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

	As at December 31,	
	2014	2013
USD	9	10
CHF	348	341
JPY	216	211
Total	**573**	**562**

The fair values of financial liabilities are as follows:

	As at December 31,	
	2014	2013
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	272	248
Other loans (secured/unsecured)	801	848
Fair value	**1,105**	**1,128**

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, 2013				
Total borrowings	870	-	551	1,421
Effect of interest rate swaps	(264)	-	264	-
	606	**-**	**815**	**1,421**
As at December 31, 2014				
Total borrowings	830	-	564	1,394
Effect of interest rate swaps	(176)	-	176	-
	654	**-**	**740**	**1,394**

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

	December 31, 2014		December 31, 2013	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	5.04	-	3.57	-
Subordinated perpetual loans	-	2.80	-	2.77
Other loans	2.09	-	2.02	-

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	-	563	-	4.64	4.64
Other loans	617	176	2.12	2.04	2.10

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

The Company has a EUR 540 million syndicated revolving credit facility which will expire in July 2016. No amounts have been drawn on these facilities as at December 31, 2014 and 2013.

14 DEFERRED INCOME

	December 31, 2014		December 31, 2013	
	Current	**Non-current**	**Current**	**Non-current**
Advance ticket sales	736	-	706	-
Sale and leaseback transactions	2	-	7	12
Flying Blue frequent flyer program	103	140	106	139
Others	56	5	56	7
Total	**897**	**145**	**875**	**158**

15 DEFERRED INCOME TAX

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

	2014	**2013**
Carrying amount as at January 1	**23**	**(15)**
Income statement (credit) /charge	253	48
Tax (credited)/charged to equity	(638)	(6)
Other movements	(3)	(4)
Net movement	**(388)**	**38**
Carrying amount as at December 31	**(365)**	**23**

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 recognized 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 11 million is expected to be recovered after more than 12 months. An amount of EUR 20 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,	
	2014	**2013**
Deferred tax asset other tax jurisdictions	(32)	(61)
Net Deferred tax asset KLM income tax fiscal unity (offset)	(333)	84
	(365)	**23**

The net deferred tax liability is built up as follows:

	As at December 31,	
	2014	**2013**
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	22	46
Deferred tax assets to be recovered after more than 12 months	615	457
	637	**503**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	5	2
Deferred tax liabilities to be settled over more than 12 months	299	585
	304	**587**
Net Deferred tax asset KLM income tax fiscal unity (offset)	**(333)**	**84**

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 2013					
Tax losses	495	(5)	-	11	501
Fleet assets	31	(13)	-	-	18
Fleet related assets (maintenance)	3	(1)	-	-	2
Provisions for employee benefits	48	-	(13)	-	35
Financial lease obligations	2	-	-	(2)	-
Derivative financial instruments	27	-	(14)	-	13
Other	5	(2)	-	2	5
Total	**611**	**(21)**	**(27)**	**11**	**574**

	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 liabilities					
Fiscal 2013					
Other tangible fixed assets	5	(4)	-	-	1
Pensions and benefits (asset)	582	35	(34)	8	591
Maintenance provision	4	(2)	-	-	2
Other	5	(2)	1	(1)	3
Total	**596**	**27**	**(33)**	**7**	**597**

	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**

The Group has tax loss carry forwards in The Netherlands amounting to EUR 1.9 billion (December 31, 2013 EUR 1.9 billion) and in The United Kingdom amounting to EUR 49 million (December 31, 2013 EUR 37 million) for which a deferred tax asset has been recognized 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.

The Group 3 year plan for 2015 through 2017 shows that for part of the tax losses generated in 2009/10 (yearly closing March 31, 2010) it is not expected that these can be recovered in this 9-year window. To take this into account, a provision of EUR 65 million (corresponding to a basis of EUR 260 million) was recorded at December 31, 2014. Moreover, The Group decided, within the framework of its considerations on the full-freighter activity in Schiphol, to fully de-recognize the deferred tax asset on pre-acquisition fiscal losses of Martinair. This has 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 0.1 million (December 31, 2013 EUR 17 million) as well as deductible temporary differences for which no deferred tax asset has been recognized, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognized deferred tax assets relating to temporary differences amount to EUR 4 million (December 31, 2013 EUR 5 million).

16 PROVISIONS FOR EMPLOYEE BENEFITS

	As at December 31,	
	2014	**2013**
Pension and early-retirement obligations	293	301
Post-employment medical benefits	51	41
Other long-term employment benefits	88	81
Termination benefits	11	11
Total Liabilities	**443**	**434**
Less: Non-current portion		
Pension and early-retirement obligations	261	263
Post-employment medical benefits	48	39
Other long-term employment benefits	83	77
Termination benefits	9	10
Non-current portion	**401**	**389**
Current portion	**42**	**45**

	As at December 31,	
	2014	**2013**
Assets		
Pension assets non current portion	1,409	2,454
Total assets	**1,409**	**2,454**

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 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/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 minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding. A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan. As a consequence the existing recovery plan for the Cabin Crew plan will need to be updated before July 1, 2015.

The Company and the employees have to pay additional contributions if the coverage ratio is under the funding rules detailed above: within 3 years if non-compliance with the threshold of 105% or within 15 years if non-compliance with the threshold of 115% to 120 %. 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 regular contributions are limited to 24% 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. About 90% of the currency risk is also hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

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. The age of retirement defined in the plan is 56 years old. 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/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 minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding. 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.

The Company has to pay additional contributions if the coverage ratio is under the funding rules detailed above: during the current year for non-compliance with the threshold of 105% or within 10 years if non-compliance with the threshold of 115% to 120 %. 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 generate a risk of additional contributions for the Company. 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. For example, about 90% of the currency risk is hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

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 was 65 years before January 1, 2014 and 67 years as of this date. 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/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 minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding. A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan. As a consequence the existing recovery plan for the Ground Staff plan will need to be updated before July 1, 2015.

The Company and the employee have to pay additional contributions if the coverage ratio is under the funding rules detailed above: during the current year for non-compliance with the threshold of 105% or within 15 years if non-compliance with the threshold of 115% to 120%. 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 24% 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. About 90% of the currency risk is also hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

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 2014

In 2014 the financial markets performed well with plan assets increasing EUR 2,184 million. On the other hand the discount rate used to calculate the pension obligations further decreased from 3.65% end 2013 to 2.35% end 2014, being the main driver for the significant increase in the funded pension obligations of EUR 3,221 million. This significant increase includes also plan changes amounting to EUR 823 million, which decreased the funded pension obligations. Overall the funded status decreased by EUR 1,037 million in 2014.

The aforementioned EUR 823 million income relates to plan changes following the new Dutch fiscal rules as from January 1, 2015. These new fiscal rules consist of lower future accrual rates for building up pensions and a maximum pensionable salary of EUR 100,000. The plan changes have been agreed with the respective Dutch Labor Parties in December 2014. Given the one-off nature of these plan changes and related releases, the total EUR 823 million has been recorded in other non-current income in the 2014 consolidated statement of profit or loss. Reference is made to note 25.

In addition the KLM Catering Services defined benefit plan has been closed in 2014, resulting in a EUR 11 million release. As from 2014 the KLM Catering Services employees have a (collective) defined contribution plan, partly at an industry wide pension plan for the catering industry and partly a separate insured pension plan.

Based on the aforementioned and the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratios are as follows as at December 31, 2014:

- Cabin Crew pension fund 115.1% (December 31, 2013: 123.0%)
- Cockpit Crew pension fund 126.3% (December 31, 2013: 132.8%)
- Ground Staff pension fund 116.3% (December 31, 2013: 122.1%)

A new Financial Assessment Framework (FTK) is applicable as per January 1, 2015. This amongst others resulted in higher minimum required solvency levels. On the other hand pension funds have more time to recover from immediate and material shortages through a rolling 10 year recovery plan. As a consequence the existing recovery plan for the Cabin Crew and Ground Staff plan will need to be updated before July 1, 2015.

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 1,116 million as at December 31, 2014 (December 31, 2013 EUR 2,153 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 recognized 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 recognized 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, 2014 the net assets recognized in the balance sheet of the three main funds amount to EUR 1,409 million (December 31 2013 EUR 2,454 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 %	**2014**	**2013**
Weighted average assumptions used to determine benefit obligations		
Discount rate for year ended	2.39	3.67
Rate of compensation increase	1.48	1.57
Rate of price inflation	1.75	1.96
Weighted average assumptions used to determine net cost		
Discount rate for year ended	3.67	3.66
Rate of compensation increase	1.57	1.55
Rate of price compensation	1.96	1.95

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,	
	2014	**2013**
Present value of wholly or partly funded obligations	17,354	14,133
Fair value of plan assets	(18,470)	(16,286)
Net liability/(asset) relating pension and other post-retirement obligations	**(1,116)**	**(2,153)**

	Pension and early-retirement obligations	
	As at December 31,	
	2014	**2013**
Amounts in the balance sheet		
Liabilities	293	301
Assets	(1,409)	(2,454)

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

	Pension and early-retirement obligations	
	2014	**2013**
Carrying amount as at January 1	**14,133**	**13,750**
Current service cost	415	435
Interest expense	512	497
Past service cost (reference is made to note 25)	(823)	-
Past service cost	(9)	(40)
Settlements	(39)	-
Actuarial losses/(gains) demographic assumptions	(295)	(21)
Actuarial losses/(gains) financial assumptions	3,925	(207)
Actuarial losses/(gains) experience gap	(108)	127
Benefits paid from plan/company	(394)	(392)
Exchange rate changes	37	(16)
Net movement	**3,221**	**383**
Carrying amount as at December 31	**17,354**	**14,133**

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

	2014	2013
Fair value as at January 1	**16,286**	**15,897**
Interest income	597	582
Return on plan assets excluding interest income	1,510	(207)
Employer contributions	418	367
Member contributions	58	45
Settlements	(32)	-
Benefits paid from plan / company	(394)	(392)
Other	-	1
Exchange rate changes	27	(7)
Net movement	**2,184**	**389**
Fair value as at December 31	**18,470**	**16,286**

The actual return on pension plan assets is EUR 2,107 million positive (December 31, 2013 EUR 375 million positive).

The experience adjustments are as follows:

	2014	2013
Benefit obligation	(108)	127
Plan asset	1.510	(207)

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

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	**2014**	**2013**
0.25% increase in the discount rate		
Impact on service cost	(23)	(55)
Impact on defined benefit obligation	(839)	(590)
0.25% decrease in the discount rate		
Impact on service cost	27	59
Impact on defined benefit obligation	963	783

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

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	**2014**	**2013**
0.25% increase in the salary increase		
Impact on service cost	6	12
Impact on defined benefit obligation	75	106
0.25% decrease in the salary increase		
Impact on service cost	(5)	(10)
Impact on defined benefit obligation	(66)	(94)

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

	Sensitivity of the assumptions for the year ended December 31,	
In millions of Euros	**2014**	**2013**
0.25% increase in the pension increase rate		
Impact on service cost	21	49
Impact on defined benefit obligation	862	643
0.25% decrease in the pension increase rate		
Impact on service cost	(17)	(36)
Impact on defined benefit obligation	(709)	(488)

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

	As at December 31,	
in %	**2014**	**2013**
Debt securities	51	50
Real estate	13	10
Equity securities	36	38
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,	
	2014	2013
Present value of unfunded obligations	51	41
Net liability/(asset) relating pension and other post-retirement obligations	**51**	**41**

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

	Post-employment medical benefits	
	2014	2013
Carrying amount as at January 1	**41**	**56**
Interest expense	2	2
Actuarial losses/(gains) demographic assumptions	8	1
Actuarial losses/(gains) financial assumptions	(1)	(10)
Actuarial losses/(gains) experience gap	(2)	(4)
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	5	(2)
Net movement	**10**	**(15)**
Carrying amount as at December 31	**51**	**41**

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 %	**2014**	**2013**
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	4.20	4.35
Weighted average assumptions used to determine net cost		
Discount rate for year	4.35	3.35
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	3.94	7.30
Immediate trend rate Post 65	3.94	7.30
Ultimate trend rate	4.41	4.90
Year that the rate reaches ultimate trend rate	2089	2095

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

Other long-term employee benefits

	2014	2013
Jubilee benefits	67	59
Other benefits	21	22
Total carrying amount	**88**	**81**
Less: Non-current portion		
Jubilee benefits	62	56
Other benefits	21	21
Non-current portion	**83**	**77**
Current portion	**5**	**4**

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

	2014	2013
Redundancy benefits		
Non-current portion	9	10
Current portion	2	1
Total carrying amount	**11**	**11**

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

17 OTHER PROVISIONS

	Phasing-out costs of operating lease aircraft	Power by the hour contracts regarding aircraft	Aircraft mainte-nance provision	Legal Issues	Other	Total
As at January 1, 2014	**216**	**70**	**22**	**177**	**64**	**549**
Additional provisions and increases in existing provisions	91	-	15	4	59	169
Unused amounts reversed	(2)	-	-	-	(7)	(9)
Used during year	(44)	-	-	-	(34)	(78)
Other changes	(111)	(70)	251	-	4	74
As at December 31, 2014	**150**	**-**	**288**	**181**	**86**	**705**
Current/non-current portion						
Non-current portion	121	-	196	176	33	526
Current portion	29	-	92	5	53	179
Carrying amount as at December 31, 2014	**150**	**-**	**288**	**181**	**86**	**705**

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 discounted at 6.0%.

Legal issues

The provision as at December 31, 2014 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 20 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.

18 TRADE AND OTHER PAYABLES

		As at December 31,
	2014	2013
Trade payables	1,006	966
Amounts due to AIR FRANCE KLM Group companies	105	129
Taxes and social security premiums	230	260
Other payables	310	295
Accrued liabilities	134	155
Total	**1,785**	**1,805**

19 COMMITMENTS

As at December 31, 2014, KLM has commitments for previously placed orders amounting to EUR 2,857 million (December 31, 2013 EUR 2,507 million). EUR 2,760 million of this amount relates to aircraft (December 31, 2013 EUR 2,364 million) of which EUR 135 million is due in 2015. The balance of the commitments as at December 31, 2014 amounting to EUR 97 million (December 31, 2013 EUR 143 million) is related to other tangible fixed assets. As at December 31, 2014 prepayments on aircraft orders have been made, amounting to EUR 214 million (December 31, 2013 EUR 133 million).

20 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, 2014, most of these investigations have been concluded, with the exception of the proceedings initiated by the European Commission and the Swiss antitrust authority, which are still under appeal.

In Europe, Air France, KLM and Martinair 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 172 million (including accrued interest).

In Switzerland, Air France and KLM are challenging a decision imposing a 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.

In South Korea, the procedure is definitely closed. In December 2014, the Supreme Court confirmed the fines against Air France and KLM for a total amount of approximately EUR 7 million, but dismissed the action against AIR FRANCE KLM and accordingly decided the annulment of the fine against AIR FRANCE KLM.

As of December 31, 2014, the total amount of provisions in connection with antitrust cases amounts to EUR 173 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 recognized 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 is still not definitive.

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.

d. Other litigation

Minority shareholders

By request dated December 31, 2012, a minority shareholder (that had attempted but failed earlier to claim a higher dividend for the financial year 2007/08 than what was paid), requested the Enterprise Chamber (*Ondernemingskamer*) of the Amsterdam Court of Appeal to order an enquiry into, amongst others, the dividend policy of KLM in respect of the fiscal years 2004/05 through 2007/08 and 2010/11.
The Enterprise Chamber on January 9, 2014 ordered the enquiry. The main focus of the enquiry is the manner in which AIR FRANCE KLM, in its capacity as the sole priority shareholder, and KLM's Board of Managing Directors and Supervisory Board, have executed clause 32 of KLM's Articles of Association. This provides that the priority shareholder may reserve part of the profits after consulting with the Board of Managing Directors and the Supervisory Board of KLM. Following the decision, an investigator was appointed, who initiated the investigation and started with his interviews. KLM filed for Cassation with the Hoge Raad on April 8, 2014 objecting the inquiry ordered.

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 764 million as at December 31, 2014 (December 31, 2013 EUR 845 million).

The guarantee, which relates to the EU anti-trust investigations (see note 17), amounts to EUR 171 million as at December 31, 2014 (December 31, 2013 EUR 167 million). This total guarantee amount is secured by a cash pledge as at December 31, 2014 (see note 5) and as at December 31, 2013.

For the four bond loans issued by AIR FRANCE KLM S.A. (see note 11) the total guarantee for the Company is EUR 703 million as at December 31, 2014. 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 convertible bond loan, issued by AIR FRANCE KLM S.A. in June 2009 (see note 11), both Air France and the Company have irrevocably and unconditionally agreed to act joint and several as guarantors. But the guaranteed amount for the Company has been reduced, since Air France and the Company have entered into separate agreements where Air France will compensate the Company for 50% of any amount claimed by the bondholders (and vice versa).

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 four 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, 2014 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 361 million as at December 31, 2014 (December 31, 2013 EUR 409 million).

Contingent assets

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.

21 REVENUES

	2014	2013
Services rendered		
Passenger transport	6,847	6,869
Cargo transport	1,505	1,537
Maintenance contracts	520	518
Charter and low cost business	740	724
Other services	31	40
Total revenues	**9,643**	**9,688**

22 EXTERNAL EXPENSES

	2014	2013
Aircraft fuel	2,894	2,941
Chartering costs	67	69
Aircraft operating lease costs	283	301
Landing fees and route charges	780	764
Catering	188	182
Handling charges and other operating costs	515	492
Aircraft maintenance costs	665	669
Commercial and distribution costs	306	309
Insurance	28	32
Rentals and maintenance of housing	191	187
Sub-contracting	143	145
Hired personnel	146	128
Other external expenses	161	118
Total external expenses	**6,367**	**6,337**

In Aircraft fuel expenses an amount of EUR 65 million negative (2013 EUR 33 million positive) is included which was transferred from OCI to the consolidated statement of profit or loss.

23 EMPLOYEE COMPENSATION AND BENEFIT EXPENSE

	2014	2013
Wages and salaries	1,921	1,904
Social security premiums other than for state pension plans	219	197
Share-based remuneration	1	1
Pension and early-retirement plan costs	283	286
Post-employment medical benefit costs	2	2
Other long-term employee benefit costs	25	14
Total employee compensation and benefit expense	**2,451**	**2,404**

Pension and early-retirement plan cost comprise:

	2014	2013
Defined benefit plans	256	264
Defined contribution plans	27	22
Total	**283**	**286**

Defined benefit plans and early-retirement plan cost comprise:

	2014	2013
Current service cost	343	377
Interest cost	512	497
Expected return on plan assets	(598)	(582)
Losses/(gains) arising from plan amendments and curtailments	(15)	(40)
Administration cost	14	12
Total	**256**	**264**

In the financial year 2014 the defined benefit cost recognized in profit or loss for the major defined benefit plans recognized in the statement of profit or loss amounted to EUR 256 million (2013 EUR 264 million) and the total contributions paid by the Group amounted to EUR 418 million (2013 EUR 367 million). The contributions paid in the financial year 2014 include additional deficit funding for the Dutch KLM plans amounting to EUR 4 million (2013 EUR nil) and in The United Kingdom amounting to EUR 8 million (2013 EUR 8 million).
The Group's projected defined benefit plans and early retirement plan cost for 2015 amount to EUR 148 million. The Group's expected cash contributions for these plans amount to EUR 154 million.

Post-employment medical benefits cost comprise:

	2014	2013
Interest cost	2	2
Total	**2**	**2**

Other long-term employee benefits comprise:

	2014	2013
Current service cost	5	10
Interest cost	2	3
Losses/(gains) arising from plan amendments and curtailments	-	1
Immediate recognition of (gains)/losses	9	-
Other	9	-
Total	**25**	**14**

Number of full-time equivalent employees:

	2014	2013
Average for year		
Flight deck crew	3,307	3,214
Cabin crew	7,832	7,735
Ground staff	19,572	19,686
Total	**30,711**	**30,635**

		As at December 31,
	2014	**2013**
Flight deck crew	3,335	3,220
Cabin crew	7,421	7,387
Ground staff	19,435	19,628
Total	**30,191**	**30,235**

24 DEPRECIATION AND AMORTISATION

	2014	2013
Intangible assets	26	23
Flight equipment	450	416
Other property and equipment	63	68
Total depreciation and amortisation	**539**	**507**

The 2014 increase in depreciation of flight equipment includes an additional amount of EUR 35 million related to the review of the expected phase-out dates of the Boeing 747-400 passenger fleet.

25 OTHER NON-CURRENT INCOME AND EXPENSES

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 16). 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).

The 2013 expenses showed a loss of EUR 51 million which mainly relates to book losses related to the sale of Fokker 70 fleet (EUR 13 million) and phase out of passenger MD-11 fleet (EUR 6 million), an onerous lease provision on a full freighter (EUR 9 million), a one-time 16% income tax levied in The Netherlands for salaries above EUR 150,000 in 2013 (EUR 12 million), an addition to the provision for the Cargo anti-trust investigations (EUR 8 million) and several other items (EUR 3 million).

26 NET COST OF FINANCIAL DEBT

	2014	2013
Gross cost of financial debt		
Loans from third parties	64	62
Finance leases	45	50
Other interest expenses	36	45
Total gross cost of financial debt	**145**	**157**
Income from cash and cash equivalents		
Loans to third parties	29	30
Total income from cash and cash equivalents	**29**	**30**
Net cost of financial debt	**116**	**127**

	2014	2013
Foreign currency exchange gains/(losses)	(5)	(14)
Fair value gains/(losses)	(87)	82
Total other financial income and expense	**(92)**	**68**

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 27 million negative (2013 EUR 31 million positive), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 4 million positive (2013 EUR 1 million positive) as well as the unrealised revaluation of other balance sheet items for EUR 64 million negative (2013 EUR 50 million positive).

27 INCOME TAX EXPENSE / BENEFIT

	2014	2013
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	164	50
Benefit from previously unrecognised tax loss	-	(2)
Reduction of tax losses carried forward	89	-
Total tax (income)/expense	**253**	**48**

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 15.

The applicable average tax rate in The Netherlands for the financial year 2014 is 25% (2013: 25%).

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

in %	2014	2013
Applicable average tax rate in The Netherlands	25.0	25.0
Impact of:		
Profit free of tax/Non-deductible expenses	0.5	5.2
Derecognition / (recognition) of tax losses	13.8	(4.8)
Differences in foreign tax rate changes	-	(0.2)
Effective tax rate	**39.3**	**25.2**

28 SHARE-BASED PAYMENTS

Phantom shares

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

	2014	2013
As at January 1	**520,358**	**573,646**
Granted	121,034	88,828
Forfeited	(8,563)	(37,861)
Exercised	(107,126)	(104,255)
As at December 31	**525,703**	**520,358**

The date of expiry of the phantom shares is as follows:

		As at December 31,
	2014	2013
Phantom shares expiry date		
July 1, 2014	-	53,900
July 1, 2015	43,107	81,073
July 1, 2016	98,352	119,218
April 1, 2017	102,477	116,136
April 1, 2018	138,046	150,031
April 1, 2019	143,721	-
Carrying number	**525,703**	**520,358**

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 2010, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2010. The first tranche has vested for 64% in July 2010. The second tranche has vested for 113.4% in July 2011. The third tranche has vested for 36% in April 2012. The 2010 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2013 and July 1, 2015. The 2010 plan has an intrinsic value of EUR 0.3 million as at December 31, 2014.

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 0.8 million as at December 31, 2014.

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 July 1, 2015 and July 1, 2017. The 2012 plan has an intrinsic value of EUR 0.8 million as at December 31, 2014.

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 is still conditionally awarded.

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 and third tranche are still conditionally awarded.

29 SUPERVISORY BOARD REMUNERATION

	2014			2013		
(Amounts in EUR)	**As Supervisory Board member**	**As Committee member**	**Total**	**As Supervisory Board member**	**As Committee member**	**Total**
H.N.J. Smits	37,522	4,000	41,522	26,500	4,000	30,500
I.P Asscher-Vonk	26,500	3,000	29,500	26,500	2,000	28,500
P. Calavia *	26,500	-	26,500	-	-	-
A. Dautry (as from April 23, 2014)	18,255	-	18,255	-	-	-
H. Guillaume	26,500	2,000	28,500	26,500	2,000	28,500
C. 't Hart (as from April 23, 2014)	18,255	1,000	19,255	-	-	-
R. Laan	26,500	4,500	31,000	26,500	3,000	29,500
J. Peyrelevade	26,500	2,000	28,500	26,500	-	26,500
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	34,500	-	34,500
K.J. Storm (until April 23, 2014)	13,222	1,000	14,222	42,500	2,000	44,500
Total	**256,987**	**19,500**	**276,487**	**236,000**	**15,000**	**251,000**

* Mr. Calavia, in his capacity of Chief Financial Officer of AIR FRANCE KLM, did not receive a remuneration as Supervisory Board member of KLM in 2013. Mr. Calavia resigned as Chief Financial Officer of AIR FRANCE KLM as of the end of January 2014

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.

30 BOARD OF MANAGING DIRECTORS REMUNERATION

Base salary

(amounts in EUR)	**2014**	**2013**
P.J.Th. Elbers	443,750	375,000
C.M.P.S. Eurlings *	475,000	425,000
P.F. Hartman (until July 1, 2013) **	-	365,725
E.F. Varwijk	410,000	407,500
E.R. Swelheim (as from April 23, 2014)	200,000	-
Total	**1,528,750**	**1,573,225**

* 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 package of one year base salary, which amounted to EUR 475,000

** Mr. Hartman stepped down as President and Chief Executive Officer, and therefore as Statutory Board Member per July 1, 2013. The base salary for the second half of 2013 amounted to EUR 365,724. He formally retired from KLM at December 31, 2013

In 2013 the Dutch Government charged a one-off crisis wage tax of 16% for wages above EUR 150,000. For 2013 this crisis wage tax amounted to EUR 386,644 for the Board of Managing Directors. As from 2014 this crisis wage tax is not charged anymore. For details of the remuneration policy see the Remuneration Policy and Report in the Board and Governance section.

Short-term incentive plan

	2014		2013	
(amounts in EUR)	**Short term incentive plan**	**Targets achieved**	**Short term incentive plan**	**Targets achieved**
P.J.Th. Elbers	67,500	Partially	212,500	Partially
C.M.P.S. Eurlings *	-	-	280,250	Partially
P.F. Hartman (until July 1, 2013) **	-	-	215,777	Partially
E.F. Varwijk	32,800	Partially	131,200	Partially
E.R. Swelheim (as from April 23, 2014)	12,000	Partially	-	-
Total	**112,300**		**839,727**	

* Mr. Eurlings did not receive a short term incentive over 2014

** The short term incentive for Mr. Hartman for the second half of 2013 amounted to EUR 204,806

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 fixed monthly allowances for business expenses not otherwise reimbursed. Following his resignation as Statutory Board Member, Mr. Eurlings forfeited some of these benefits, such as a company car.

Pension cost

Pension (amounts in EUR)	2014	2013
P.J.Th. Elbers	106,074	81,074
C.M.P.S. Eurlings (until October 15, 2014)	114,000	90,000
P.F. Hartman (until July 1, 2013) *	-	69,886
E.F. Varwijk	102,877	100,372
E.R. Swelheim (as from April 23, 2014)	46,033	-
Total	**368,984**	**341,332**

* The pension cost for Mr. Hartman for the second half of 2013 amounted to EUR 69,886

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 47,351 (December 31, 2013 EUR 63,273), 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, to the Chief Operating Officer/ Deputy Chief Executive Officer 7,500 and to the Managing Director 6,000. For further information see note 28.
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, 2014:

(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, 2014
P.J.Th. Elbers								
July, 2009	1,500	July 1. 2014	(313)	(1,187)	10.70	-	1,187	-
July, 2010	4,500	July 1. 2015	(1,299)	(3,201)	10.70	-	3,201	-
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	(314)	-		2,000	3,686	5,686
April, 2014	7,500	April 1. 2019	(590)	-		5,000	1,910	6,910
	28,500		**(4,351)**	**(4,388)**		**7,000**	**17,149**	**19,761**
C.M.P.S. Eurlings (until October 15, 2014)								
July, 2011	6,000	July 1. 2016	(854)	(5,146)	7.63	-	5,146	-
April, 2012	6,000	April 1. 2017	(2,695)	(3,305)	7.63	-	4,406	-
April, 2013	6,000	April 1. 2018	(3,236)	(2,764)	7.63	-	3,686	-
April, 2014	10,000	April 1. 2019	(8,090)	(1,910)	7.63	-	2,547	-
	28,000		**(14,875)**	**(13,125)**		**-**	**15,785**	**-**
P.F. Hartman (until July 1, 2013)								
July, 2009	10,000	July 1. 2014	(2,087)	(7,913)	8.22	-	7,913	-
July, 2010	10,000	July 1. 2015	(2,886)	(7,114)	9.90	-	7,114	-
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	(524)	-		3,333	6,143	9,476
	50,000		**(9,578)**	**(15,027)**		**3,333**	**37,089**	**25,395**
E.F. Varwijk								
July, 2009	4,500	July 1. 2014	(939)	(3,561)	9.15	-	3,561	-
July, 2010	4,500	July 1. 2015	(1,299)	(3,201)	10.81	-	3,201	-
July, 2011	6,000	July 1. 2016	(854)	-		-	5,146	5,146
April, 2012	6,000	April 1. 2017	(1,594)	-		-	4,406	4,406
April, 2013	6,000	April 1. 2018	(314)	-		2,000	3,686	5,686
April, 2014	6,000	April 1. 2019	(472)	-		4,000	1,528	5,528
	33,000		**(5,472)**	**(6,762)**		**6,000**	**21,528**	**20,766**
E.R. Swelheim (as from April 23, 2014)								
July, 2009	1,500	July 1. 2014	(313)	(1,187)	10.20	-	1,187	-
July, 2010	1,500	July 1. 2015	(433)	-		-	1,067	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	(235)	-		1,500	2,765	4,265
April, 2014	4,500	April 1. 2019	(354)	-		3,000	1,146	4,146
	18,000		**(2,743)**	**(1,187)**		**4,500**	**10,757**	**14,070**
F.N.P.P. Gagey (until April 1, 2012)								
July, 2009	7,500	July 1. 2014	(1,565)	(5,935)	10.37	-	5,935	-
July, 2010	7,500	July 1. 2015	(2,165)	-		-	5,335	5,335
July, 2011	7,500	July 1. 2016	(1,067)	-		-	6,433	6,433
	22,500		**(4,797)**	**(5,935)**		**-**	**17,703**	**11,768**
Total	**180,000**		**(41,816)**	**(46,424)**		**20,833**	**120,011**	**91,760**

As at December 31, 2014 Mr. Hartman held 12,960 shares AIR FRANCE KLM S.A. Mr. Elbers, Mr. Eurlings, Mr. Varwijk and Mr. Swelheim had no interest in AIR FRANCE KLM S.A.

31 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:

	2014	2013
Sales of goods and services		
AIR FRANCE KLM Group companies	138	123
Associates	11	9
Other related parties	1	4
Purchases of goods and services		
AIR FRANCE KLM Group companies	188	169
Associates	4	3
Other related parties	17	12

For details of the year-end balances of amounts due to and from related parties see notes 7 and 18. 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 2014 and 2013.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors see note 28 to 30. For information relating to transactions with pension funds for the Group's employees see note 16.

32 PRIMARY SEGMENT REPORTING

2013	Passenger	Cargo	Maintenance	Leisure	Other	Eliminations	Total
Revenues							
Revenues External	6,869	1,537	518	724	40	-	9,688
Revenues Internal	765	17	691	1	179	(1,653)	-
Total revenue	7,634	1,554	1,209	725	219	(1,653)	9,688
Income from current operations	357	(68)	29	(18)	1	-	301
Share of results of equity shareholdings							(10)
Financial Income and expense							(59)
Gain/(loss) on disposal of assets							(2)
Other non current income and expense							(49)
Income tax expense							(48)
Profit for the year							**133**
Depreciation and amortisation	(382)	(29)	(47)	(24)	(25)		(507)
Other financial income and expense	(20)	(35)	(32)	4	151		68
Assets							
Intangible assets	81	6	38	7	122		254
Flight equipment	2,439	370	333	272	21		3,435
Other property. plant and equipment	95	43	210	7	209		564
Trade receivables	327	210	8	14	(34)		525
Other assets	609	(34)	258	262	3,736		4,831
Total assets	**3,551**	**595**	**847**	**562**	**4,054**		**9,609**
Liabilities							
Deferred revenues on sales	956	12	41	65	-		1,074
Other liabilities	3,085	450	85	462	2,842		6,924
Total liabilities	**4,041**	**462**	**126**	**527**	**2,842**		**7,998**

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
Income from current operations	242	(98)	45	(19)	5	-	175
Share of results of equity shareholdings							(49)
Financial Income and expense							(208)
Gain/(loss) on disposal of assets							-
Other non current income and expense							676
Income tax expense							(253)
Profit for the year							**341**
Depreciation and amortisation	(430)	(25)	(56)	(25)	(3)		(539)
Other financial income and expense	(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	2,793		3,963
Total assets	**3,351**	**499**	**806**	**554**	**3,217**		**8,427**
Liabilities							
Deferred revenues on sales	980	10	54	52	-		1,096
Other liabilities	3,639	426	84	452	2,721		7,322
Total liabilities	**4,619**	**436**	**138**	**504**	**2,721**		**8,418**

33 SECONDARY SEGMENT REPORTING

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**

Revenues by destination 2013	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,980	278	914	1,865	1,532	6,569
Other passenger revenues	90	13	44	83	70	300
Total passenger revenues	**2,070**	**291**	**958**	**1,948**	**1,602**	**6,869**
Scheduled cargo	14	17	290	607	525	1,453
Other cargo revenues	1	1	17	35	30	84
Total cargo revenues	**15**	**18**	**307**	**642**	**555**	**1,537**
Maintenance	518	-	-	-	-	518
Other revenues	764	-	-	-	-	764
Total maintenance and other	**1,282**	**-**	**-**	**-**	**-**	**1,282**
Total revenues by destination	**3,367**	**309**	**1,265**	**2,590**	**2,157**	**9,688**

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.

34 SUBSIDIARIES

The following is a list of the Company's significant subsidiaries as at December 31, 2014:

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
KLM Financial 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		December 31, 2014	December 31, 2013
After proposed appropriation of the result for the year	**Note**		
ASSETS			
Non-current assets			
Property, plant and equipment	35	3,016	3,203
Intangible assets		272	241
Investments accounted for using the equity method	36	418	490
Other non-current assets	4	211	108
Other financial assets	37	197	284
Deferred income tax assets	46	210	-
Pension assets	16	1,409	2,454
		5,733	**6,780**
Current assets			
Other current assets	4	127	121
Other financial assets	37	209	246
Inventories		169	176
Trade and other receivables	38	1,517	987
Cash and cash equivalents	39	308	930
		2,330	**2,460**
TOTAL ASSETS		**8,063**	**9,240**
EQUITY			
Capital and reserves			
Share capital	40	94	94
Share premium		474	474
Other reserves	40	(2,662)	(736)
Retained earnings		2,099	1,776
Total attributable to Company's equity holders		**5**	**1,608**
LIABILITIES			
Non-current liabilities			
Loans from parent company	41	288	491
Loans from subsidiaries	42	198	218
Finance lease obligations	43	1,160	1,328
Other non-current liabilities	4	279	164
Other financial liabilities	44	1,159	994
Deferred income	45	145	138
Deferred income tax liabilities	46	-	163
Provisions	47	486	495
		3,715	**3,991**
Current liabilities			
Trade and other payables	48	2,229	2,122
Loans from parent company	41	233	-
Loans from subsidiaries	42	33	33
Finance lease obligations	43	235	218
Other current liabilities	4	482	68
Other financial liabilities	44	148	329
Deferred income	45	843	817
Provisions	47	140	54
		4,343	**3,641**
Total liabilities		**8,058**	**7,632**
TOTAL EQUITY AND LIABILITIES		**8,063**	**9,240**

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	2014	2013
Profit / (loss) from investments accounted for using equity method after taxation	(87)	15
Profit / (loss) of KLM N.V. after taxation	427	117
Income / (loss) for the year after taxation	**340**	**132**

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 2014 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.

35 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, 2013	**962**	**2,530**	**1,298**	**4,790**	**581**	**483**	**100**	**1,164**	**161**	**6,115**
Additions	-	140	27	167	-	-	-	-	199	366
Disposals	(384)	-	(132)	(516)	(8)	(41)	(6)	(55)	-	(571)
Other movements	226	(92)	155	289	61	8	(39)	30	(180)	139
As at Dec. 31, 2013	**804**	**2,578**	**1,348**	**4,730**	**634**	**450**	**55**	**1,139**	**180**	**6,049**
Accumulated depreciation and impairment										
As at Jan. 1, 2013	**714**	**783**	**622**	**2,119**	**217**	**392**	**60**	**669**	**-**	**2,788**
Depreciation	58	126	135	319	29	20	5	54	-	373
Disposals	(275)	-	(109)	(384)	(8)	(45)	(1)	(54)	-	(438)
Other movements	112	(28)	33	117	36	(1)	(29)	6	-	123
As at Dec. 31, 2013	**609**	**881**	**681**	**2,171**	**274**	**366**	**35**	**675**	**-**	**2,846**
Net carrying amount										
As at Jan. 1, 2013	**248**	**1,747**	**676**	**2,671**	**364**	**91**	**40**	**495**	**161**	**3,327**
As at Dec. 31, 2013	**195**	**1,697**	**667**	**2,559**	**360**	**84**	**20**	**464**	**180**	**3,203**

	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**

The assets include assets which are held as security for mortgages and loans as follows:

	As at December 31, 2014	2013
Aircraft	64	72
Land and buildings	133	153
Other property and equipment	34	41
Carrying amount	**231**	**266**

Borrowing cost capitalised during the year amounted to EUR 4 million (2013 EUR 3 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 3.4 % (2013: 4.0%).

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, 2014 was EUR 227 million (December 31, 2013 EUR 258 million).

36 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2014	2013
Subsidiaries	359	385
Associates	35	82
Jointly controlled entities	24	23
Carrying amount	**418**	**490**

	2014	2013
Subsidiaries		
Carrying amount as at January 1	**385**	**396**
Movements		
Investments	-	-
Share of profit/(loss) after taxation	(35)	27
OCI movement	-	1
Dividends received	(7)	(39)
Foreign currency translation differences	-	1
Other movements	16	(1)
Net movement	**(26)**	**(11)**
Carrying amount as at December 31	**359**	**385**

For details of the Group's investments in subsidiaries see note 34 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.

37 OTHER FINANCIAL ASSETS

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	76	96	12	144
Loans and receivables				
Other loans and receivables	1	92	8	132
At fair value through profit or loss				
Restricted deposit EU Cargo Claim	129	-	174	-
Other restricted deposits	3	-	52	-
AIR FRANCE KLM S.A. shares	-	9	-	8
Total at fair value	**132**	**9**	**226**	**8**
Carrying amount	**209**	**197**	**246**	**284**

38 TRADE AND OTHER RECEIVABLES

	As at December 31, 2014	2013
Trade receivables	471	499
Provision trade receivables	(25)	(18)
Trade receivables - net	446	481
Amounts due from:		
- subsidiaries	735	215
- AIR FRANCE KLM group companies	99	102
- associates and jointly controlled entities	4	2
- maintenance contract customers	134	77
Taxes and social security premiums	29	24
Other receivables	26	24
Prepaid expenses	44	62
Total	**1,517**	**987**

Maintenance contract cost incurred to date for contracts in progress at December 31, 2014 amounted to EUR 125 million (December 31, 2013 EUR 94 million). Advances received for maintenance contracts in progress at December 31, 2014 amounted to EUR 2 million (December 31, 2013 EUR 4 million). The maturity of trade and other receivables is within one year.

39 CASH AND CASH EQUIVALENTS

	As at December 31, 2014	2013
Cash at bank and in hand	32	39
Short-term deposits	276	891
Total	**308**	**930**

In 2013 a cash amount of EUR 132 million has been added to the restricted deposit for the EU anti-trust investigations (see note 37 Other financial assets).

The effective interest rates on short-term deposits are in the range from 0.01% to 4.70% (2013 range 0.02% to 3.80%). The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

40 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.

41 LOANS FROM PARENT COMPANY

	As at December 31, 2014	2013
Non-current portion	288	491
Current portion	233	-
Carrying amount	**521**	**491**

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 20.

42 LOANS FROM SUBSIDIARIES

	As at December 31, 2014	2013
Non-current portion	198	218
Current portion	33	33
Carrying amount	**231**	**251**

43 FINANCE LEASE OBLIGATIONS

	As at December 31, 2014	2013
Non-current portion	1,160	1,328
Current portion	235	218
Carrying amount	**1,395**	**1,546**

44 OTHER FINANCIAL LIABILITIES

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	569	-	553
Other loans (secured/unsecured)	148	558	329	409
Total	**148**	**1,159**	**329**	**994**

45 DEFERRED INCOME

	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Advance ticket sales	684	-	653	-
Sale and leaseback transactions	-	-	2	(7)
Flying Blue frequent flyer program	103	140	106	139
Others	56	5	56	6
Total	**843**	**145**	**817**	**138**

46 DEFERRED INCOME TAX

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

	2014	2013
Carrying amount as at January 1	**163**	**148**
Movements:		
Income statement (credit) /charge	234	38
Tax (credited)/charged to equity	(623)	(6)
Other movements	16	(17)
Net movement	**(373)**	**15**
Carrying amount as at December 31	**(210)**	**163**

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,	
	2014	**2013**
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	17	39
Deferred tax assets to be settled after 12 months	616	486
	633	**525**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	6	7
Deferred tax liabilities to be settled after 12 months	417	681
	423	**688**
Carrying amount	**(210)**	**163**

The movement 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					
2013					
Tax losses	434	(5)	-	25	454
Fleet assets	(3)	3	-	-	-
Fleet related assets (maintenance)	3	(1)	-	-	2
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	2	(1)	-	-	1
Derivative financial instruments	24	-	(14)	-	10
Other	39	5	-	-	44
Total	**513**	**1**	**(14)**	**25**	**525**

	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 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 liabilities					
2013					
Other tangible fixed assets	4	(2)	-	-	2
Pensions & benefits (asset)	615	44	(20)	8	647
Maintenance provision	4	(2)	-	-	2
Other	38	(1)	-	-	37
Total	**661**	**39**	**(20)**	**8**	**688**

	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**

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.

47 PROVISIONS

	Phasing-out costs of operating lease aircraft	Aircraft mainte-nance provision	Employee Benefit	Legal Issues	Other	Total
As at January 1, 2014	**212**	**-**	**189**	**143**	**5**	**549**
Additional provisions and increases in existing provisions	90	-	23	4	5	122
Unused amounts reversed	(2)	-	-	-	-	(2)
Used during year	(44)	-	(25)	-	-	(69)
Other changes	(143)	162	7	-	-	26
As at December 31, 2014	**113**	**162**	**194**	**147**	**10**	**626**
Current/non-current portion						
Non-current portion	96	95	152	143	-	486
Current portion	17	67	42	4	10	140
As at December 31, 2014	**113**	**162**	**194**	**147**	**10**	**626**

48 TRADE AND OTHER PAYABLES

		As at December 31,
	2014	2013
Trade payables	905	860
Amounts due to subsidiaries	697	619
Amounts due to AIR FRANCE KLM Group companies	92	117
Taxes and social security premiums	215	249
Employee related liabilities	195	186
Accrued liabilities	34	44
Other payables	91	47
Total	**2,229**	**2,122**

OTHER NOTES

For information relating to contingency assets and liabilities, including guarantees, see note 20.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 28 to 30.

Amstelveen, March 26, 2015

The Board of Managing Directors

Pieter J.Th. Elbers
Erik R. Swelheim

The Supervisory Board

Hans N.J. Smits
Irene P. Asscher-Vonk
Philippe Calavia
Alice Dautry
Henri Guillaume
Cees 't Hart
Remmert Laan
Jean Peyrelevade
Annemieke J.M. Roobeek

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, 2014 as set out on the pages 41 to 120. 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, 2014, 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, 2014, 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, 2014, 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, 2014, 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 26, 2015

KPMG Accountants N.V.	Deloitte Accountants B.V.
T. van der Heijden RA	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 2014 amounting to EUR 339,830,000 be appropriated as follows:

Transfer to reserves		
Retained earnings	EUR	339,830,000

For an elucidation, reference is made to the Distribution to shareholders paragraph in the Report of the Supervisory Board in the Board and Governance Section.

Five-Year Review

(in millions of EUR, unless stated otherwise)	2014	2013	2012 ** restated	2011 *	2010/11
Consolidated income statement					
Passenger	6,847	6,869	6,631	4,675	5,702
Cargo	1,505	1,537	1,664	1,271	1,695
Other revenues	1,291	1,282	1,178	1,039	1,254
Revenues	9,643	9,688	9,473	6,985	8,651
Expenses	(9,468)	(9,387)	(9,392)	(6,710)	(8,268)
Income from current operations	175	301	81	275	383
Financial income and expense	(208)	(59)	(104)	(207)	(159)
Other non-current income and expenses	676	(51)	(95)	(3)	(78)
Pre-tax income	643	191	(118)	65	146
Income tax expense	(253)	(48)	31	(22)	(1)
Net result after taxation of consolidated companies	390	143	(87)	43	145
Share of results of equity shareholdings	(49)	(10)	(11)	5	2
Profit / (loss) for the year	341	133	(98)	48	147
Consolidated balance sheet					
Current assets	2,314	2,418	2,484	2,400	3,157
Non-current assets	6,185	7,191	7,354	8,217	8,067
Total assets	8,499	9,609	9,838	10,617	11,224
Current liabilities	4,218	3,443	3,274	3,142	3,507
Non-current liabilities	4,272	4,555	5,063	4,917	5,034
Group equity	9	1,611	1,501	2,558	2,683
Total liabilities	8,499	9,609	9,838	10,617	11,224

* relates to nine months period April 1 - December 31, 2011
** after the impact of revised IAS19 as per January 1, 2013

Five-Year Review

(in millions of EUR, unless stated otherwise)		2014	2013	2012 *** restated	2011 **	2010/11
Key financial figures (KLM Group)						
Return on equity (%)		42.1	8.5	(6.0)	1.8	6.0
Result for the year as percentage of revenues		3.5	1.4	(1.0)	0.7	1.7
Earnings per ordinary share (EUR)		7.26	2.82	(2.14)	1.01	3.14
Result for the year plus depreciation		880	640	(98)	458	686
Capital expenditures (net)		(420)	(363)	(353)	(311)	(434)
Net-debt-to-equity percentage		495	157	186	119	109
Dividend per ordinary share (EUR)		-	0.15	-	-	0.10
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,657	26,505	26,915	27,426	27,166
Outside The Netherlands		4,054	4,130	4,274	4,371	4,550
Employed by KLM		30,711	30,635	31,189	31,797	31,716
Total agency staff		1,983	1,870	1,661	2,121	1,726
Total KLM Group		32,694	32,505	32,850	33,918	33,442
Traffic (KLM Company)						
Passenger kilometers	*	91,477	89,039	86,281	63,823	76,974
Revenue ton freight-kilometers	*	3,764	3,688	3,651	2,875	3,738
Passenger load factor (%)		86.5	85.8	85.7	85.8	83.6
Cargo load factor (%)		66.4	66.1	66.4	68.6	72.9
Number of passengers (x 1,000)		27,740	26,581	25,775	19,888	23,104
Weight of cargo carried (kilograms)	*	491	480	474	375	491
Average distance flown per passenger (in kilometers)		3,298	3,350	3,347	3,237	3,332
Capacity (KLM Company)						
Available seat-kilometers	*	105,755	103,793	100,727	74,429	92,064
Available ton freight-kilometers	*	5,671	5,576	5,497	4,192	5,128
Kilometers flown	*	419	409	403	305	374
Blockhours (x 1,000)		625	612	607	460	560
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.2	7.4	7.4	7.1	7.1
Cargo (per RTK)		24.2	24.7	26.0	25.1	24.9
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		20,979	20,944	21,190	21,337	21,004
Outside The Netherlands		2,744	2,719	2,745	2,762	2,698
Employed by KLM		23,723	23,663	23,935	24,099	23,702

* 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

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.

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.

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 during the year.

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.

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.

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95
Years
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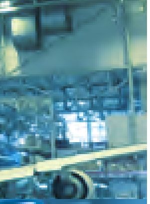
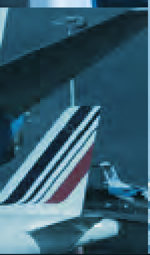
transavia.com
SKYTEAM
KLM
787
TURIN AIRP
DESTINATION
70MB
ADRIAAN DEN HEIJER
SVP HUB OPERATIONS SCHIPHOL
Schiphol
AIR FRANCE KLM






KLM

24/7 service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RFORM 2020

Safety

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