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Key figures

In millions of Euros, unless stated otherwise	January 1 - December 31, 2012 (12 months)	April 1, - December 31, 2011 (9 months)	January 1 - December 31, 2011 (12 months) Proforma unaudited
Revenues	**9,473**	6,985	8,904
Expenses before depreciation and long-term rentals	**8,493**	6,096	7,877
Depreciation and long-term rentals	**827**	614	819
Income from current operations	**153**	275	208
As a % of operating revenues	**1.6**	3.9	2.3
(Loss) / profit for the period	**(44)**	48	1
Earnings per ordinary share (EUR)	**(0.98)**	1.01	0.02
Equity	**2,441**	2,558	2,558
As a % of total long-term funds	**32**	34	34
Return on equity (%)	**(1.8)**	1.8	-
Capital employed	**3,820**	4,142	4,142
Return on capital employed (%)	**1.1**	5.2	3.7
Net-debt-to-equity ratio	**114**	119	119
Dividend per ordinary share (EUR)	**-**	-	-
Traffic figures			
Passenger			
Traffic (in millions of revenue passenger-kilometers, RPK)	**86,281**	65,218	84,217
Capacity (in millions of available seat-kilometers, ASK)	**100,727**	76,189	99,893
Passenger load factor (%)	**85.7**	85.6	84.3
Number of passengers (x 1,000)	**25,775**	19,888	25,337
Cargo			
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**6,116**	4,841	6,442
Capacity (in millions of available ton freight-kilometers, ATFK	**8,849**	6,877	9,065
Cargo load factor (%)	**69.1**	70.4	71.1
Weight of Cargo carried (in tons)	**780,662**	609,329	811,217
Financial position			
Cash flow from operating activities	**572**	86	144
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(353)**	(311)	(401)
Free cash flow	**219**	(225)	(257)
Average number FTEs of KLM Group staff			
Permanent	**29,611**	30,001	30,023
Temporary	**1,578**	1,796	1,682
Employed by KLM	**31,189**	31,797	31,705
Agency staff	**1,661**	2,121	2,036
Total KLM	**32,850**	33,918	33,741
Headcount KLM Group staff (per end financial year)	**35,787**	37,169	37,169

Report of the Board of Managing Directors

Letter from the President

The financial year 2012 was not an easy one but still one we can look back on positively. 2012 was the year in which we defined and rolled out our *Transform 2015 / Securing Our Future* plan. All businesses defined improvement projects and identified potential savings. Several revenue-enhancing and cost-saving measures have already been implemented and are beginning to bear fruit. The first benefits of these measures are already feeding through into our financial results. We are continuously seeking ways to organize our methods and processes differently and more effectively. The goal we have set ourselves is to operate more efficiently and thus at lower cost on a structural basis. Again flexibility and mobility were two of the strong points of KLM and its people in 2012. During the year the organisation showed that these strengths are a source of good results, as illustrated by the new collective labor agreements we concluded with the unions. The agreements provide for a two-year salary freeze and measures to improve productivity. The agreements represent a unique achievement in The Netherlands, particularly given the size and diversity of our company. Since 2008, we have succeeded in living up to our principle of *Keeping the family together* and successfully avoided forced redundancies in The Netherlands.

We are operating in a global geopolitical arena that lacks stability and sees frequent outbursts of unrest in certain regions. The continued instability in the Middle East is having a considerable impact on our operations. The same is true for the natural catastrophes that affected the world during the year. During the year countries like Spain and Italy faced financial problems and there is still no end in sight to the crisis in Greece. Unemployment in the euro zone is accordingly rising steadily. With economic weakness now spreading to Northern Europe, we expect conditions in Europe will overall remain weak in 2013. At a national level the new government set out a new course in pursuit of necessary drastic spending cuts. As a consequence a fall in purchasing power is foreseen. Consumer confidence will remain low and business confidence will weaken further, not only in The Netherlands but throughout Europe. The consequences for the European aviation industry are evident and compared to other global regions, the results of the European airlines came under stronger pressure.

Given these macroeconomic circumstances, we effected a controlled capacity increase in the Passenger Business but also reduced capacity on some underperforming routes. This had a favorable impact on average passenger yields. The measures to lower unit cost and increase revenues were a first step towards improving of KLM's result. The successful start of the phasing-out of the passenger MD-11 fleet, for example, had a positive impact on average unit cost. Therefore the upward trend in results that commenced in the third quarter of the year did not come unexpected.

Owing to the persistent crisis in the euro zone and the increase in competition, cost-saving plans will remain just as important in the future. The outlooks remain uncertain for the foreseeable future and the need to continue the *Transform 2015 / Securing Our Future* plan is therefore of utmost importance. The fragile outlook has not prevented KLM from continuing to invest in the quality of its fleet, products and services, with a positive impact on passenger satisfaction as a result. We have further developed our services with respect to social media. Following its successful introduction on the intercontinental fleet, Economy Comfort was introduced on the Boeing 737 fleet. KLM has thus responded to passengers' increased demand for more comfort on shorter routes, too. We also continued our fleet renewal program in 2012 and decided to invest in the refurbishment of the World Business Class seats, starting with the Boeing 747 fleet.

In 2012 KLM retained its market position despite an increase in competition in Europe. Low-cost carriers are trying to strengthen their presence in the business segment. Competition from the Middle East is also growing. Airlines from this region increased their market share in 2012 in terms of both destinations and passenger volumes. Airlines such as Emirates are continuing to increase their number of destinations sharply, and thus increasing the importance of the Dubai hub. The more traditional European network carriers are suffering the consequences. These market developments underline the need for a structural change in course in order to maintain our competitiveness going forward and lock-in sustainable growth.

Cooperation with other airlines, both as a member of SkyTeam and as an individual carrier, remains an important means to consolidate our position and expand the network in a rapidly changing market. In October, KLM, in cooperation with Air France, announced a commercial partnership with Etihad Airways. The partnership enriches the networks of both airline groups and represents a milestone in the development of a strategic partnership.

In November 2012, the transatlantic joint venture between Air France, KLM, Alitalia and Delta Air Lines was renewed for a further ten years. Signing the new contract cemented the good ties between the partners.

Dialogue with stakeholders

Cooperation between KLM and Amsterdam Airport Schiphol is of vital importance to maintain and enhance the mainport's status and its important network of connections. In 2012 Amsterdam Airport Schiphol handled a record number of almost 51 million passengers. A large majority of these passengers flew with KLM or its partners. In cooperation with the airport, preparations were made during the year to introduce a central security system for the entire airport. This thorough operation will have consequences for a large part of Amsterdam Airport Schiphol but it will ultimately improve passenger comfort and make it easier to serve them appropriately, efficiently and in full compliance with European regulations.

In response to the discussion on a shared vision of Schiphol's mainport function, the then State Secretary Joop Atsma decided to set up a Committee “Shared Vision”, headed by former Minister Hans Alders. The Committee completed the first phase of its enquiry at the end of 2012. Its main conclusion was that Schiphol’s mission must remain focused on consolidating and developing its hub and mainport function and the network operated by KLM and its partners. The Committee also referred to the important role played by KLM together with Air France and its other partners as the fundamental pillars of the hub network. Furthermore it concluded that the two parties, Amsterdam Airport Schiphol and KLM, should work closely together as partners because they need and rely upon each other. The Committee will start the second phase of its enquiry in 2013 by considering the progress made with *Schiphol Masterplan 2025*. Amsterdam Airport Schiphol and KLM reached agreement in December 2012 on the continuation of the joint *Masterplan 2025* task force.

KLM held talks with a variety of authorities throughout 2012. Representatives of the Dutch government regularly visited the organisation to learn about its performance and the national, European and global challenges it is facing. With a new government and new members of parliament, these talks will continue unabated in the coming period. KLM also talked with representatives of the European Union during the year. Our discussions with EU policymakers and regulators again focused on the over-regulation and over-taxation that the airline industry in Europe is facing. Over-regulation and over-taxation reduce the competitiveness of European airlines relative to non-European carriers.

Measures, unilaterally implemented such as the European emissions trading system for flights within, from and to Europe have a serious impact on competitiveness. It is positive that the emission trading system has been deferred for a year in anticipation of a global solution. The International Civil Aviation Organisation took an important initiative to develop worldwide solution during the year. Flights within the Europe Union, however, will continue to be taxed on their CO_2 emissions. The United States, China, Russia and India are opposed to the European system, as proposed, and are unwilling to buy emission allowances for flights to the European Union. KLM does not oppose an emissions trading system as such but it does object to the unilateral European approach. The current system weakens the global competitiveness of European airlines, which could never have been the intention of this system. Agreement is being sought on the more even-handed introduction of a global emissions trading system in 2013 that will share the burden across more than just a limited number of parties.

In October the European Court of Justice passed judgment on the financial compensation of passengers delayed by three or more hours. The decision formalizes the passenger compensation rules unless the cause is beyond the airline's control. KLM is of the opinion that present legislation is out of balance. It favors a revision of the rules currently in force in Europe in order to strike a better balance between consumer rights and airline responsibilities. The current legislation is neither reasonable nor fair and weakens the competitiveness of European airlines.

Another key European issue is the Single European Sky (SES). KLM recognizes the great importance of creating a European airspace. Its advantages would include better connectivity, fewer delays, lower fuel consumption and a cut in CO_2 emissions within Europe by as much as 12%. A Single European Sky would benefit not only the airlines themselves but also their passengers and the environment. Unfortunately, little progress was made in this area in 2012. Siim Kallas, the Vice President of the European Commission and Commissioner for Transport, called on the EU member states to show more urgency in their negotiation of SES. We support his call and remain firm believers in the importance of SES to the future of a sustainable industry.

Operating results

KLM has rolled out an ambitious three-year plan to bring about a structural recovery in the group's profitability. *Transform 2015 / Securing Our Future* is made up of a comprehensive package of measures to enable us to achieve our financial targets and secure a sustainable and lasting recovery in our competitiveness and financial strength. The plan is founded on three priorities for KLM. Firstly, we must turn around the profitability of the European and regional networks from loss-making to break-even. Secondly, we must reduce the debt position by more than EUR 700 million. Thirdly, we must recover our profitability through measures to cut cost and boost revenues by more than EUR 1 billion over the next three years.

The operating result for 2012 amounted to EUR 153 million. In 2012, *Transform 2015 / Securing Our Future* plan introduced the first measures to restore our profitability and improve our cash flow generation ability. As a result, the net debt position was reduced by EUR 271 million. With this reduction, KLM is on track on its target to lower net debt by EUR 700 million. Steps were also taken to reduce personnel cost and improve productivity. The benefits of the collective labor agreements concluded in the closing month of the year will however not be seen in the financial results before 2013. A start was made with the reduction of unit cost. Lower cost will result in a structural improvement in KLM's operating results and generate an operating cash flow that will allow us to finance our future investment program. In 2012 the positive free cash flow amounted to EUR 219 million, which has been used to lower our net debt. It will be essential to continue the cost-cutting measures in the years ahead.

The focus on cash remained strong in 2012. The KLM Cash Committee was set up to devise and implement initiatives to strengthen our financial resistance and cash reserves. Working capital improved considerably in 2012 and a large proportion of our investments could be financed from our operating cash flow. Whenever necessary, we were able to finance the fleet on acceptable terms in 2012.

Despite difficult market circumstances, 2012 was a positive year for the Passenger Business. Average revenue per seat kilometer increased due to modest capacity growth and focus on markets with high demand. This compensated for a further increase in the fuel bill.

KLM Cargo and Martinair Cargo strongly improved their cost efficiency by integrating much further than was anticipated. After completion of the integration of the commercial teams during summer, a start was made with the integration of all support functions.

Engineering & Maintenance posted good financial results in 2012. The business also succeeded in reducing the non-performance cost. transavia.com implemented a raft of measures to bring about a structural recovery in its profitability.

Expansion and renewal

KLM has proven its flexibility by seeking growth in regions reporting strong economic performance, such as Latin America and Africa. The KLM network was enlarged in 2012 to include three new destinations in Africa: Luanda in Angola, Lusaka in Zambia and Harare in Zimbabwe. Africa is emerging strongly as both a tourist and a commercial destination, reason enough for KLM to strengthen its presence on the continent. Raw materials are an important source of local prosperity in these regions and their production can be developed further if connections to Europe and the rest of the world are put in place. Together with our strategic partner Kenya Airways, we offer a large number of destinations in Africa. To facilitate Kenya Airways' growth, KLM invested in a rights issue offered by this partner.

Cooperation is and will remain KLM's strength. In the future too, we will seek specific partners to strengthen our position and network. In 2012 KLM started to cooperate with Etihad Airways in order to raise our profile in the Middle East. The current code-sharing agreement gives us five new destinations with transfers in Abu Dhabi for onward flights to, for example, Australia. In future, transfers to India will be added. Partnerships were also concluded with Ukraine International Airlines and Xiamen Airlines. The agreement with Xiamen Airlines is a good example of our ever-closer cooperation with Asian partners. Four new airlines joined the SkyTeam alliance in 2012: Saudia, Aerolíneas Argentinas, Middle East Airlines and Xiamen Airlines. Each new SkyTeam member adds to the network and thus increases the number of connections and destinations we can offer to our passengers.

Our investments in the fleet in 2012 reduced its average age and enhanced its fuel efficiency.

Corporate sustainability

Corporate social responsibility is an intrinsic part of KLM's strategy and operations. We have been partnering the World Wildlife Fund since 2007. Our aim is to make the airline industry more sustainable by reducing CO_2 emissions, increasing fuel efficiency and creating an international market for renewable fuels. We continued our efforts in the field of biofuel in 2012 despite the difficult and uncertain economic climate. During the year, we flew a second series of a hundred flights to Charles de Gaulle airport in Paris using a biofuel admixture of up to 50%. On 19 June 2012, KLM carried out the longest flight yet on biofuel, from Amsterdam to the Rio+20 climate summit in Rio de Janeiro, Brazil.
KLM is the first airline in the world to have contracted a number of corporate customers who are willing to pay extra to have their employees fly on biofuel. This enabled KLM to secure enough biofuel to roll out its biofuel program in the upcoming years. The development of alternative fuels of which the production is better scalable will be a priority for the next years. We are concentrating on scaling up production but not at the expense of either nature or the environment. KLM is participating in various consortiums to develop these new biofuels.

Investments to cut weight are also essential to sustainability. In 2012 a number of weight saving projects was initiated by staff. The new catering trolleys purchased for the intercontinental fleet considerably reduce the weight on long-haul flights.

The KLM Takes Care logo was introduced to highlight the diversity and variety of KLM's corporate sustainability drive. KLM Takes Care combines our initiatives and shapes our sustainability policy. Many members of staff entered into a dialogue around Sustainability Day, 10 October, to determine how sustainability is or can be embedded in the organisation.

This and the many other efforts we have made to increase corporate social responsibility culminated in September, when AIR FRANCE KLM was acclaimed the most sustainable airline in the Dow Jones Sustainability Index for the eighth consecutive year and the Supersector leader in the Travel & Leisure category for the fourth time running. We can be rightly proud of this achievement. We earned it thanks to the enthusiasm and energy of the many KLM staff members, who give us an exemplary function in the industry.

Looking back and looking forward

We can look back on 2012 as a year, one we can be proud of given the economic circumstances. Operationally, we turned in a good performance and we met our ambitious targets. Productivity increased by more than three percent. At all levels within the organisation, we combined our strengths to consolidate our financial position. We are learning to respond and adapt quickly and flexibly in a continuously changing world with many uncertainties. On one of the last days of the year, the right to attach the predicate "Royal" to our name was extended and we may continue to bear the Royal Crown for a further 25 years until 2037. Something we can all be proud of.

We have launched a three-year plan and will proceed resolutely as our success depends on the progress we make with the *Transform 2015 / Securing Our Future* plan. We must continue with the decisive implementation of its projects. The *Transform 2015 / Securing Our Future* measures taken in 2012 will produce more tangible results in the 2013 financial year in the form of further cost-savings, higher revenues, a return to a stable and acceptable level of profitability and reduction of net debt. In all parts of the company, we will call on our staff to remain alert to potential process improvements and efficiency gains. In 2012, this approach allowed us to uphold the principle of *Keeping the family together*, in exchange for higher staff productivity and flexibility, and it will remain our guiding principle for 2013.

To help achieve the *Transform 2015 / Securing Our Future* targets and generate further synergy, we have decided to advance the development and organisation of the AIR FRANCE KLM group structure. The plans for the new organisation will be worked out in the first half of 2013.

In conclusion, we will carry on doing what we are good at so that passengers choose for KLM both now and in the future. Whilst safety is our key priority we will do so by serving our customers, making further improvements to our product and expanding our network. The way in which KLM has sustained its market position in uncertain circumstances shows that we can handle the changes. The enthusiasm and flexibility that all our people successfully dedicate to their work every day is a good indication that the organisation is ready for the future.

Peter Hartman
President & CEO, KLM

Financial Performance

General comments

In this financial performance the 12 months period January 1, 2012 until December 31, 2012 (financial year 2012) is compared to the proforma unaudited figures for the same 12 months period 2011. In addition the 9 months period April 1, 2011 until December 31, 2011 (financial year 2011) are given. As a consequence, financial year 2012 is not comparable to financial year 2011.

In financial year 2012 KLM achieved a positive income from current operations of EUR 153 million, a decrease of EUR 55 million compared to the same period last year. The higher revenues could not completely offset the increased operating expenses, mainly related to the increased fuel bill and higher pension cost. Strict capacity management has led to a limited capacity increase of 0.5% and resulted in higher load factors for the Passenger Business.

Revenues and cost development

In millions of Euros	January 1 - December 31, 2012 (12 months)	January 1 - December 31, 2011 (12 months) Proforma unaudited	Variance %	April 1 - December 31, 2011 (9 months)
Revenues	9,473	8,904	6	6,985
External expenses	(6,456)	(5,968)	8	(4,627)
Employee compensation, pension cost and benefit expenses	(2,321)	(2,177)	7	(1,637)
Depreciation and amortisation	(517)	(547)	(5)	(410)
Other income and expenses	(26)	(4)	-	(36)
Total expenses	(9,320)	(8,696)	7	(6,710)
Income from current operations	**153**	**208**		**275**

Revenues

Revenues were up by 6.4%, to EUR 9,473 million (+2.8% at constant exchange rates), compared to the same 12 months period in 2011. Capacity (in EASK's) was 0.5% higher than last year.

Passenger transport revenues were at EUR 6,631 million, 9.7% higher compared to the same 12 months period 2011, with an increase of capacity, measured in available seat kilometers, of 0.8%. Unit revenue increased with 8.3% (+4.9% at constant exchange rates). Revenue per Passenger kilometer (yield) increased by 6.6% (+3.3% at constant exchange rates), while load factor improved to 85.7% (+ 1.4% point).

Cargo transport revenues were at EUR 1,664 million, a decrease of 1.5%, with a capacity decrease of 2.4%. Unit revenue increased with 0.3% (-3.9% at constant exchange rates). Revenue per ton-kilometer (yield) increased by 3.1% (- 1.2% at constant exchange rates), whilst load factor decreased by 2.0% point versus the comparative 12 months period 2011 to 69.1.%.

Leisure transport revenues increased 8.4% to EUR 681 million compared to the same 12 months period 2011.

Revenues from maintenance for third parties and the work performed for Air France amounted to EUR 455 million, which is a decrease of 6.6%, compared to the 12 months period 2011, and is mainly resulting from lower maintenance revenues from third parties.

Expenses

Expenses increased by 7.1% to EUR 9,320 million (2.7% at constant exchange rates) compared to the 12 months period 2011.

Fuel cost increased by 17% to EUR 3,102 million. The average jet fuel price was 9.7% higher than the 12 months period 2011, whilst the USD was 8.2% stronger.

Excluding fuel, expenses increased by 2.8% with a capacity increase measured in “equivalent” seat kilometers of 0.5%. At constant exchange rates and fuel price, unit costs were 0.4% higher than the 12 months period 2011.

Employee cost increased by 6.6% to EUR 2,321 million, mainly due to EUR 97 million higher pension cost. The average workforce employed by the KLM Group was 31,189 FTE’s (12 months period 2011: 31,705 FTE’s) and productivity increased with 3.3% compared to the 12 months period 2011.

Income from current operations

In financial year 2012, the income from current operations amounted to EUR 153 million (12 months period 2011: EUR 208 million). The main reason for the lower income from current operations is the increased operating expenses, which is caused by a higher fuel bill and increased pension cost.

Passenger Business operating profit amounted to EUR 186 million, an increase of EUR 31 million compared to the 12 months period 2011. Total traffic revenues increased EUR 538 million (+9.2%) to EUR 6,359 million. Unit revenues (at constant exchange rates) increased 4.9% being the result of 3.3% yield improvement and 1.3%-point better load factor. Unit costs (at constant exchange rates) were 3.3% higher than the 12 months period 2011, whilst capacity showed an increase of 0.8%.

Cargo Business operating loss was EUR 69 million (12 months period 2011: EUR 33 million profit). The deterioration of the operating result is mainly due to 13% higher fuel cost, and to a lesser extent, to lower revenues in an increasingly competitive environment.

Maintenance activities accounted for EUR 34 million of operating income (12 months period 2011: EUR 36 million). The leisure activities realised an operating loss of EUR 3 million, compared to EUR 1 million operating loss in the 12 months period 2011.

In millions of Euros	**January 1 - December 31, 2012 (12 months)**	**January 1 - December 31, 2011 (12 months) Proforma unaudited**	**April 1 - December 31, 2011 (9 months)**
Income from current operations	153	208	275
Other non-current income and expenses	(95)	(11)	(3)
Net cost of financial debt	(128)	(123)	(95)
Other financial income and expenses	24	(79)	(112)
Pre-tax income	**(46)**	**(5)**	**65**
Income tax benefit/(expenses)	13	3	(22)
Share of results of equity shareholdings	(11)	3	5
(Loss) / profit for the period	**(44)**	**1**	**48**

The net loss in financial year 2012 amounted to EUR 44 million (12 months period 2011: EUR 1 million profit).

Other non-current income and expenses showed a loss of EUR 95 million in financial year 2012 which mainly relates to an onerous lease provision on the full freighter fleet (EUR 50 million), book losses related to the phase-out of Passenger MD-11 fleet (EUR 17 million), a one-time 16% income tax levied in The Netherlands on salaries higher than EUR 150,000 in 2012 (EUR 17 million) and an addition to the provision for the still pending Cargo anti-trust investigations and relating legal cost (EUR 11 million).

The improvement in other financial expenses mainly relates to the revaluation of KLM's debt in foreign currencies, the time value on fuel and finance derivatives and the higher market value of the AIR FRANCE KLM shares owned by KLM.

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

Cash flow statement

In millions of Euros	January 1 - December 31, 2012 (12 months)	April 1 - December 31, 2011 (9 months)	January 1 - December 31, 2011 (12 months)
			Proforma unaudited
Cash flow from operating activities	572	86	144
Cash flow from investment activities	(353)	(311)	(401)
(Increase) / Decrease in short-term deposits and commercial paper	(1)	75	159
Cash flow from financing activities	(41)	(25)	122
Other	1	3	-
Changes in cash and cash equivalents	**178**	**(172)**	**24**

The operating cash flow of EUR 572 million positive, is composed of a cash flow from operating activities before working capital of EUR 315 million and a positive working capital movement of EUR 257 million. The focus on cash resulted in a strongly improved free cash flow of EUR 219 million positive, which compares to a EUR 257 million negative free cash flow in the 12 months period 2011.

Investing cash flow amounted to EUR 353 million, of which EUR 284 million for fleet renewal and modifications. Next to prepayments for future fleet, two Boeing 777-300ER's, three Airbus A330-300, two Boeing 737-800 and five Embraer 190 entered the fleet in financial year 2012. Fleet related investments amounted to EUR 176 million, including EUR 128 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 118 million (including EUR 36 million for a share capital investment in our strategic partner Kenya Airways, EUR 2 million for an increase in common stock at Transavia France and EUR 62 million for capitalized software) whilst disposal of aircraft led to an income of EUR 225 million and mainly relates to aircraft sale and leaseback operations.

The financing cash flow was EUR 41 million negative. New financing included financing of new fleet amounting to EUR 389 million and other movements of EUR 112 million.

Redemption of finance lease liabilities amounted to EUR 313 million, redemption on existing loans (EUR 240 million) and near cash (EUR 11 million).

Equity decreased to EUR 2,441 million at December 31, 2012 (EUR 2,558 million per December 31, 2011) as a result of the negative net result for the financial year 2012 and the negative movements in the value of interest and currency derivatives that are reported in “Other Comprehensive Income”, part of the equity.

Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 3,085 million at December 31, 2012 (EUR 3,234 million at December 31, 2011). The net debt to equity ratio decreased from 119% to 114%.

Overview of significant KLM participating interests

As at December 31, 2012

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

Traffic and Capacity

Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2012 (12 months)	2011 (12 months)	% Change	2012 (12 months)	2011 (12 months)	% Change	2012 % (12 months)	2011 % (12 months)
Route areas								
Europe & North Africa	13,918	13,466	3.4	17,096	16,706	2.3	81.4	80.6
North America	18,663	16,929	10.2	20,896	19,538	7.0	89.3	86.6
Central and South America	9,504	9,621	(1.2)	10,796	11,031	(2.1)	88.0	87.2
Asia	25,683	24,841	3.4	29,446	28,783	2.3	87.2	86.3
Africa	10,229	9,828	4.1	12,262	12,017	2.0	83.4	81.8
Middle East	3,622	4,517	(19.8)	4,647	5,745	(19.1)	77.9	78.6
Caribbean and Indian Ocean	4,662	5,016	(7.1)	5,584	6,073	(8.1)	83.5	82.6
Total	**86,281**	**84,217**	**2.5**	**100,727**	**99,893**	**0.8**	**85.7**	**84.3**

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2012 (12 months)	2011 (12 months)	% Change	2012 (12 months)	2011 (12 months)	% Change	2012 % (12 months)	2011 % (12 months)
Route areas								
Europe & North Africa	23	32	(28.1)	298	305	(2.3)	7.8	10.4
North America	985	960	2.6	1,548	1,437	7.7	63.6	66.8
Central and South America	1,330	1,519	(12.4)	1,846	2,006	(8.0)	72.0	75.7
Asia	2,548	2,658	(4.2)	3,251	3,423	(5.0)	78.4	77.7
Africa	988	1,035	(4.5)	1,393	1,368	1.8	70.9	75.7
Middle East	149	165	(9.7)	246	299	(17.7)	60.6	55.4
Caribbean and Indian Ocean	93	73	27.4	267	227	17.6	34.6	31.9
Total	**6,116**	**6,442**	**(5.1)**	**8,849**	**9,065**	**(2.4)**	**69.1**	**71.1**

Commercial and operational developments

Passenger Business

A cautious expansion of capacity enabled us to reduce unit cost and increase average unit revenues. The number of passengers rose by 1.7 % in 2012, on an average capacity increase of 0.8%. The load factor accordingly increased 1.4% point to 85.7%. Performance on the North-Atlantic was excellent, resulting from capacity adjustments and the beneficial effect of our transatlantic joint venture. Performance in key growth markets such as China and South America was satisfactory. The new 2011 destinations, including Rio de Janeiro and Buenos Aires, turned in promising results. Performance on African routes was also good. Despite the deteriorated economic environment in Europe, this market performed satisfactorily as well, following strict capacity control and a shift of capacity from Southern to Northern Europe and to secondary less disputed markets.

Product development

Service quality remains one of the most decisive features in KLM's positioning in the market. Many investments were made in the quality of our services in 2012. Our aim is to increase passenger choice and comfort, both on board and on the ground. The number of Self Service Baggage Drop Off Points at Amsterdam Airport Schiphol, for example, was increased. A new pedestrian bridge was opened between Privium/ Premium car parks and the C-pier. Premium passengers can now reach the gate for their Schengen flights more quickly. The SkyTeam members introduced "Sky Priority" in 2012. It will be rolled out at all airports of the SkyTeam members to guide premium passengers through the airport more conveniently and quickly. The introduction of Economy Comfort on all Boeing 737 aircraft has met the demand from passengers for more comfort and also generates additional revenues. Revenues from supplementary services, such as Economy Comfort on intercontinental flights and à la carte meals, have grown strongly. The basic product, of course, remains an excellent proposition. A trial will be carried out with mobile data traffic on board the Boeing 777-300 in 2013. The trial will be the first step in KLM's long-term strategy to offer an inflight mobile data service on intercontinental flights. A decision was taken in 2012 to invest in the refurbishment of the World Business Class and preparations were started to renew the World Business Class on the Boeing 747 fleet.

Social media have become an essential part of KLM's service. Social media services were further extended in 2012. The number of languages used to serve customers, for example, was increased from two to seven. In addition to Dutch and English, questions at central level are now also answered in German, Italian, Japanese, Portuguese and Spanish. Several campaigns using social media, such as the Miffy campaign and Be My Guest, proved a great success, not only in The Netherlands but also far outside the national borders.

The new Meet and Seat check-in service was introduced to enable passengers to become acquainted with each other before the flight. The lead that KLM has taken in this area has not gone unnoticed. KLM won many awards during the year for its use of social media. The social media service provided for Flying Blue members was also enhanced. The introduction of the Commercial Desk in the operational control center was an important step to look after the commercial interests of our clients, especially during disruptions. The Commercial Desk ensures that both our passengers and the operational staff receive the most accurate information they need to help our customers when necessary. The ground staff has been issued with iPads to give them easier access to information and provide an even better service to premium and other passengers. The flight crew will be issued with iPads in the course of 2013 to improve the quality and accuracy of the information they have.

Operational quality

Operationally, 2012 was a good year. Virtually all our ambitious operational targets were achieved. Arrival punctuality on short-haul flights exceeded that of our competitors; that on long-haul flights was slightly below the ambitious target of being the best. Huge steps were taken to provide an excellent baggage service for our passengers and actually improve the operational goals.

A variety of projects were completed under the slogan "Keeping the basics right" in order to maintain and, where possible, improve operational performance with a view to passenger appreciation of the KLM product. Operational measures in combination with infrastructure improvements prompted a decline in the volume of baggage left behind.

At the same time, the number of indirect staff was reduced and the aim of improving productivity by three percent was achieved.

As part of the *Transform 2015 / Securing Our Future* plan, a large number of projects was launched to lower cost and raise the quality of the KLM product. Staff were invited to suggest ways to reduce operational cost. This resulted in several cost-saving initiatives that will not compromise the quality of the basic product. The turnaround time of the Embraer 190 aircraft at Amsterdam Airport Schiphol was reduced to 35 minutes through a more effective design of the process. Comparable processes have been introduced for other aircraft types. The coatrooms were removed from the Boeing 737-800 and the Boeing 737-900 to increase seating capacity in the aircraft.

Further modifications of the Boeing 737 aircraft will follow, creating an overall capacity increase equal to two additional 737 aircraft. The baggage backbone was taken into operation at Amsterdam Airport Schiphol. It connects all baggage halls with each other so that transfer baggage travels a shorter distance and baggage systems can be used more flexibly during disruptions. We therefore worked hard in 2012 on further improving our service delivery in front of and behind the scenes, inside and outside Amsterdam Airport Schiphol and in ways that are visible and perhaps less visible to the customer.

Cooperation with authorities, suppliers and other partners had very positive results. Flight Operations, for example, was awarded a second flight route above China by the authorities involved. It cuts the flight time to and from Hong Kong, Taipei and Chengdu. Less fuel is consumed and the cost of fly-over rights is lower. In The Netherlands, cooperation with Air Traffic Control The Netherlands resulted in more effective routes and improved flight plans.

Cargo Business

Cargo faced a challenging year in 2012, as the economic crisis depressed demand for cargo transport throughout the year. Many airlines unfortunately continued to take additional capacity into service and rates came under pressure from the resultant global overcapacity.

This underlined the need to adhere to our strategy of carrying as much airfreight as possible in the bellies and on the main decks of our passenger aircraft, using additional full freighters only on routes with substantial cargo flows. Cargo also responded alertly and flexibly to changing market demand by adapting its routes or adding stopovers where necessary to optimize revenues.

To reduce KLM's financial exposure, Cargo further decreased the size of its freighter fleet.

Following the integration in the summer of 2012 of the worldwide commercial operations of AIR FRANCE KLM Cargo and Martinair Cargo, Cargo completed the integration of the Martinair Cargo central commercial team, incorporating the Martinair strengths.

Far-reaching transformation projects were launched and partly implemented, resulting in stabilized manageable unit cost. Moreover, Cargo focused on maintaining its premium market position: achieving an above average load factor and yield.
In delivering on the strategy and projects, the cargo contribution to AIR FRANCE KLM was restored to above 2009 crisis levels.
Cargo's strengths still lie in its knowledge of local markets and customers throughout the world. The customer satisfaction as measured by TNS methodology strongly improved in 2012. Key success factors for Cargo to reach a sustainable position are further unit cost reduction, development of our IT capabilities to strengthen our premium position, optimization of capacity/network, customer information management, improved integrated revenue management and booking systems and an easy and efficient E-channel. Projects to deliver results in these areas were launched in 2012.

Finally, Cargo continued to play an important role in the development of partnerships, both vertically with other players in the supply chain and horizontally with other airlines, worldwide, from all regions. Further to intensifying our North Atlantic joint venture with Delta Air Lines and Alitalia, Cargo launched a strategic cooperation with Kenya Airways and the Chinese partners in the SkyTeam Cargo alliance. The Safari Route, which links China directly to Africa via the Nairobi hub, has proved successful, partly due to rising airfreight demand in the Chinese and African growth markets.

Engineering & Maintenance

Engineering & Maintenance posted good results in the 2012 financial year and maintained its operating result. A start was made on implementing the projects that are part of the *Transform 2015 / Securing Our Future* plan during the year. The aim is to increase fleet availability and reduce the cost for KLM as a customer and an operator. Proposals have been made at all levels within the Engineering & Maintenance organisation to improve working processes and cut cost. A large number of cost-saving and revenue-improving projects were also launched within Engineering & Maintenance and the first results can already be seen.

The D-line for maintenance of the Boeing 747-400 fleet was taken out of service during the year and replaced with a modification and project line. Various maintenance contracts for components and engines were concluded.

Performance of this sophisticated high-tech work reflects Engineering & Maintenance's strategy of providing high quality service that generates additional revenues.

A number of modifications were brought forward, such as the installation of additional seats in the Boeing 737 next generation fleet. The improved operational performance led to lower non-performance cost. The quality of aircraft maintenance on both the narrow-body and the wide-body fleet was permanently improved.
Engineering & Maintenance is preparing for the future by starting to maintain components of new aircraft types, such as the Embraer 170/190 fleet and the Boeing 787.

transavia.com

transavia.com took a package of measures in 2012 to achieve a structural recovery in its results. It has laid a strong foundation for further growth in the low-fare segment.

transavia.com retained its leadership in the modern leisure market. Substantial growth was achieved in the Dutch market, mainly in scheduled flights. It strengthened its position at Eindhoven and Rotterdam regional airports in line with the growing demand from these regions. Growth at the regional airports is also in line with the selective growth agreements made at the Alders table focused on the transfer of non-hub related traffic to those airports. The focus was set on new destinations for short city breaks. To rectify the imbalance between summer and winter capacity, new winter sun destinations were added to the network.

The sharper positioning was continued and transavia.com benefited in full from its distinctive "low fare with care" concept. It offers good service at keen prices, with an extensive choice of additional paid services. The new, paid baggage check-in service proved a success.

transavia.com took a clear step forward in its cooperation with KLM during the year by introducing transfer options to the KLM network at 12 destinations.

Synergies were also realized from the shared business model with Transavia France. transavia.com provided support to prepare for the forthcoming expansion of this French low-cost carrier.

To retain its competitiveness, measures were taken to ensure the ground organisation remains compact. New collective labor agreements were concluded with all relevant unions to increase productivity.

Safety

“Never compromise on safety!” is at the heart of KLM’s safety policy. Safety is of vital importance to our customers, employees, equipment and environment.
As a leader in aviation safety, KLM is committed to continuously improving on safety and has the ambition to have an industry-leading, risk and performance-based safety management system so that risk-based decisions can be taken at all levels of the company.

With the help of its safety management system KLM continuously monitors, analyses and manages safety risks reactively, proactively and ultimately predictively. KLM is constantly raising the system's professional standards; this is a major undertaking being carried out by all the operational divisions.

KLM is audited every two years to retain its IATA Operational Safety Audit registration (IOSA). IOSA covers all operational management and control measures that play a part in safety procedures. In November 2012 the International Air Transport Association (IATA) conducted a safety and quality audit at KLM’s operational divisions. KLM Cityhopper was also audited. Airlines must pass the IOSA Audit in order to obtain their IOSA certificate and extend their IATA membership. A good result in an IOSA audit is the foundation for our code-sharing activities with partners and important for participation in the SkyTeam alliance. This year the auditors reported zero findings and only one observation for KLM; for KLM Cityhopper they reported zero findings and two observations. Altogether an excellent result of which KLM can be proud of.

Safety, however, depends not only on good equipment and procedures but above all on the expertise and dedication of all employees. All employees are expected to be constantly mindful of hazards and to participate in the continuous improvement of our safety performance. KLM encourages its staff to report unsafe situations and guarantees those that do a "just culture": staff can report an incident or dangerous situation without fear of reprisal, unless criminal intent is suspected.

Within KLM one is increasingly working together in all the fields of safety (operational, occupational, environmental, and security). The aim is to integrate procedures and learn from each other. To support this, all members of divisional management teams received Safety Management System training.

In 2012 the e-learning program Safety F@cts was launched as a means of safety education. The objective once again is to stress the importance of safety to KLM and to underline the importance of working safely. The online training sessions, available to all KLM staff, are released every two months, offering new content based on the five safety principles: Work safely, Stick to the rules, Report unsafe situations, Help and challenge each other and Be fit to work.

To promote safety at work, additional safety rules were implemented in some of our operational divisions. These rules are based on the five KLM safety principles.

In 2012 several initiatives with a focus on occupational safety were launched. For example, the "*Wear personal protection aids*" and "*Be fit to work*" campaigns were held. A toolbox was also made available to discuss safety with all employees and workshops were held to bring safety@work to the attention of staff. A modification was also completed to limit the speed of KLM vehicles in the baggage sorting area.

KLM has had zero serious incidents since 2010 and we have succeeded in meeting our safety goals while raising our standards each year. KLM will continue to work on securing the highest possible safety standards in the aviation industry.

Staff

KLM lived up to its earlier promise of doing the utmost to *Keeping the family together*. As part of the AIR FRANCE KLM *Transform 2015 / Securing Our Future* plan, in February all unions were invited to a series of meetings to discuss the financial situation of KLM and the future of the airline business in general. Intensive negotiations on new collective labor agreements for cockpit crew, cabin crew and ground staff followed, all set against the backdrop of the acknowledged financial situation. The positive outcome fuelled the commitment of KLM and the unions to increase productivity and restrain cost in order to be better prepared for the future. Additionally, the commitment to *Keeping the family together*, subject to the flexibility of both employees and the company, was part of the deal concluded in late December 2012.

Many employees have shown maximum flexibility in their work. Others changed position as part of the mobility programs. All employees from Engineering & Maintenance who were affected by the reorganisation of the D-check found employment elsewhere within Engineering & Maintenance. Supported by the Works Council and unions, the transition was aided and facilitated by training and advice to individual employees to accommodate a successful change.

To reduce cost without affecting core business KLM cut the number of staff positions at all divisions. For employees in a position earmarked as redundant, active internal matching enabled them to be repositioned within the company in positions left vacant through retirement or voluntary redundancy. A training class was set up for future secretaries and HR managers. After finishing their training they will be qualified for positions within KLM, but the diploma will equally qualify them for positions at other companies.

The external hiring restraints introduced in 2008 remained in place, providing an extra stimulus for mobility within KLM, which was supported by constructive talks between KLM and the Works Council. All efforts together led to a decrease of the number of permanent staff at the KLM Group of 687 (-2.3%) in 2012 to 29,226 FTE's at the end of 2012.

Adequate working conditions are vital to secure the health of employees and thus to sustain employability. In 2012 talks with the Works Council led to an agreement on measures to mitigate the effects of noise, radiation and soot, mostly related to ground operations.

KLM took second place in the 2012 election by VNU Media and Effectory of Best Employer. It was based on a survey of 190,000 people who were asked to grade their employer. According to a LinkedIn study of online behavior, KLM ranked fifth in the top ten of favorite Dutch employers.

More challenges wait for the future. New legislation, high volatility in financial markets and the risk of longevity increase the risk that additional pension payments will have to be made in the future. In view of these developments, it is necessary to future-proof the current KLM pension plans in The Netherlands for ground, cabin and cockpit staff. KLM started discussions with the unions about this topic in 2012. They will be continued in 2013.

Fleet development

KLM Group continued its fleet renewal program in financial year 2012. Fleet renewal raises the quality of service we offer to our customers and enhances the efficiency of our operations.

During financial year 2012, we welcomed a total of 12 new aircraft: two Boeing 777-300 ER's and three Airbus A330-300 entered the long haul fleet. The Airbus A330-300 is a new sub type to the Long Haul fleet which has 49 additional seats compared to the existing Airbus A330-200. Two Boeing 737-800 were introduced and five Embraer 190 were added to the regional fleet. All these aircraft fit perfectly in the network, are more fuel-efficient, require less maintenance and are quieter.

In total, 12 aircraft left the fleet in financial year 2012. KLM Group started to phase-out its MD-11 passenger fleet and four left the fleet in 2012. One Boeing 737-800 was phased out and KLM cityhopper completed the phase out of its remaining 5 Fokker 100's. Two full freighters left the fleet, one Boeing 747-400 BCF and one MD-11 Freighter.

Fleet composition KLM Group

		Included in balance sheet				
		Average age in years *	Owned **	Finance leases	Operating leases ***	Total
Consolidated fleet as at December 31, 2012						
Boeing 747-400 PAX	wide body	16.7	1	1	5	7
Boeing 747-400 Combi	wide body	19.2	12	3		15
Boeing 747-400 ER Freighter	wide body	9.5		3	1	4
Boeing 777-300 ER	wide body	2.8		7		7
Boeing 777-200 ER	wide body	8.2		6	9	15
Airbus A330-300	wide body				3	3
Airbus A330-200	wide body	6.8		6	5	11
MD-11	wide body	18.1	5	1		6
MD-11 Freighter	wide body	16.8	3	2	1	6
Boeing 737-900	narrow body	9.9	1	1	3	5
Boeing 737-800	narrow body	9.5	4	11	29	44
Boeing 737-700	narrow body	5.6		13	15	28
Embraer 190	regional	3.1		13	9	22
Fokker 70	regional	16.9	26			26
Training aircraft			4			4
Total consolidated fleet		**11.5**	**56**	**67**	**80**	**203**

* Excluding operating leases and training aircraft. The average age including operating leases is 9.8 years
** Excluding 3 Boeing 737-400, 2 MD-11 and 1 F100 not in operation as at December 31, 2012
*** Excluding 3 Boeing 747-400 BC freighters and 1 MD-11 Freighter not in operation as at December 31, 2012, of which 3 are subleased

Risks and risk management

General

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

This paragraph 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 markets developments. The financial risks are elaborated in the section under "Financial risk management" in the notes attached to the consolidated financial statements.

Overall risks of AIR FRANCE KLM are explained in 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.

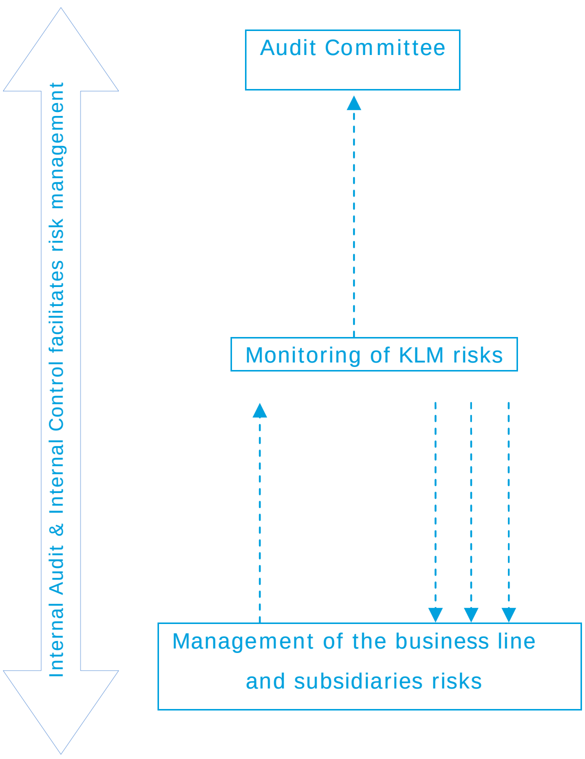
Furthermore, AIR FRANCE KLM considers it crucial to have a balance between the interests of all stakeholders in the company. As a consequence, the KLM is of the opinion that matters like business ethics, risk management and transparency are essential parts in bringing about this balance. The business ethics are embedded in the Business Principles and the Code of Conduct. Together with other codes, like a Whistle Blower Policy, this Code of Conduct is published on KLM's intranet.

Risk management process

KLM is exposed to general risks associated with air transport and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operational risk mapping processes have been established by all the relevant entities, supervised by Internal Audit & Internal Control. These risk maps are regularly updated and consolidated for KLM.

Every three months, KLM entities update the content of its major operational and financial risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, members of KLM's Executive Committee (ExCom) level 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 to the ExCom and twice a year to the 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 Group's strategy. These risks and action plans are the subject of a presentation and discussion during the meetings of the Board of Managing Directors devoted to the Group's strategy.



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

Monitoring

Following the delisting from NYSE in 2007, AIR FRANCE KLM decided voluntarily to continue complying with the main requirements of the US Sarbanes-Oxley Act. This resulted in continuing attention of the internal control framework for financial reporting.
The existing risk management system is supportive to this additional attention and contributes to fulfil 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 the DoR, business management confirms to the Board of Managing Directors, the reliability of the figures they have submitted and if control procedures were 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

The ExCom adopted in 2011 a new fraud policy which better clarifies and aligns the already existing fraud prevention and detection procedures and responsibilities within the organisation and structures the cooperation between KLM Internal Audit & Internal Control and KLM Security Services. With this fraud policy, KLM is mitigating the risk of intentional act designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.
To support the implementation and maintenance of this fraud policy a company-wide fraud table has been established and tools are developed to support the awareness and identification of fraud risks. Every quarter KLM Security Services and KLM Internal Audit & Internal Control report to the Chief Financial Officer on fraud cases and their potential financial impact.

Risk factors and their management

Risks relating to the air transport activity

Risk linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months. Consequently, the quarterly operating results within one financial year are difficult to compare.

Risk linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis are liable to affect demand for transportation, both for leisure and business travel. Furthermore, during such periods, the Group 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.

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

Any terrorist attack, the threat of an attack, or a military action has a negative effect on the revenues. 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 some Arab and African countries had, and still has, a significant impact on air transport activity with these regions.

The KLM has developed emergency plans and procedures enabling it to adapt to changing environments to ensure that it can respond effectively to different situations, such as epidemic, 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 events experienced.

More generally, in terms of safety, KLM complies with European and international regulations and submits regular reports to the national authorities of the measures and procedures deployed.

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

Air transport activities remain highly regulated, particularly with regard to the allocation of traffic rights and time slots and the conditions relating to operations (such as: standards on safety, aircraft noise, CO_2 emissions and airport access). Within this context, the community institutions notably decide on the regulations which may be restrictive for airlines and are liable to have a significant organisational and/or financial impact.

The European Commission has published its White Paper entitled *Roadmap to a Single European Transport Area* which emphasises the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development.
In terms of its content, the main positive measures are the Commission's commitment to developing bio-fuels, promoting intermodality, stimulates innovation as well as the implementation of the Single European Sky. The White Paper also, however, envisages introducing a tax on air transportation, levying VAT on international flights, stepping up initiatives in the passenger rights area, pursuing a pro-active policy on rail development and reviewing the regulation governing the allocation of time slots in the European platforms. These initiatives could increase the Company's operating expenses or reduce its revenues.

KLM, in close cooperation with Air France, actively defends its positions with the Dutch government and European institutions directly or through industry bodies such as the International Air Transport Association (IATA) and the Association of European Airlines (AEA) regarding both changes in European and national regulations and a reasonable and balanced allocation of traffic rights to non-European airlines.

On a national level, the Dutch government continued the implementation of the air transport policy (the "Luchtvaartnota") which was adopted by parliament in 2011, and which has the mainport function of Amsterdam Airport Schiphol and the essential role of the network of KLM and partners at its core.

The new 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.

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

Risk to lose airport slots

Due to the saturation 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% 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 this carrier and transferred into a pool.

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.
At the preventive level, two months before the beginning of a season, the Company analyses the reductions to be considered for commercial reasons (holidays, long weekends and bank holidays, for example). As a result, it does not request airport slots corresponding to these flights in order to avoid the under-utilisation of this portfolio of airport slots. At operational level, the Company uses tools shared by the program regulation unit and by the operations control center which warn of any under-utilisation risk.

Risk 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. For KLM it is important that a European and non-European level playing field in aviation is secured.

Currently, also outside Europe, Air Passenger Rights come into effect.

Risk relating to the environment

The air transport industry is subject to numerous environmental regulations and laws 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 the compliance of their operations.

The Dutch "Aviation Act" has a separate chapter relating to Amsterdam Airport Schiphol including environmental regulations covering emissions, noise and security.
In December 2008, the European Commission decided to include air transportation in the Emissions Trading Scheme (EU ETS)[1]. The directive is effective as of January 2012, but under the current ICAO-negotiations to a limited scope, intra-EU flights only. The European directive applies now to all European and non-European airlines flying within Europe.

Consistent with the proposals by the aviation sector for an overall sectoral approach, a global response looks to be taking shape. Under the ICAO in the context, of the resolution in last assembly (2010) and its follow up in last council (December 2012), it will result in a proposition for the assembly of fall 2013, at which gathering it will be determined how the ETS regulation will be proceeded in Europe.

KLM is acting constantly to reduce its fuel consumption and carbon emissions by:

- Modernisation of the fleet and engines, improved fuel management, a KLM fuel savings plan, continuous reductions in weight carried and improved operating procedures;
- Cooperating with partners such as the WWF-NL, SkyNRG and Corporate customers for the development, research and commercial applications of sustainable biofuels;
- Cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), operating procedures.

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[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 every year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances 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 also acts with the relevant national, European and international authorities and bodies and participates in the work of the airline industry (AEA, ICAO, IATA) stimulating to work on effective solutions for the environment.
On the ground all relevant activities are also covered by our environmental management system under the ISO14001 certification. Until now this is only applicable for KLM airline but it is planned to extend this certification to the subsidiaries.

Risk linked to the oil price

The fuel bill is the largest cost item for airlines. The volatility in the oil price thus represents a risk for the air transport industry. In effect, a sharp increase in the oil price, will have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges.
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 this risk that is set out in the section under “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 improve the entire safety of its operations. This is achieved by building upon the best safety and security practices through a management and working environment of continuous learning and improvement.

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 an Accident Prevention and Flight Safety program (APFS), which forms an integrated 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) which renewal audit took place in 2012 without any findings.

KLM, as a leader in aviation safety, has the ambition to have an industry-leading, risk and performance based safety management system so that 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 highly sensitive to disruptions. Delays lead to loss of quality and are costly. KLM has taken a number of initiatives to safeguard its operational integrity. The Operations Control Centre, where all network-related decisions on the day of operations are taken, plays a central role.

To KLM a prerequisite for delivering a high quality service to its customers is good cooperation with its suppliers. To mitigate the inherent risks of third party processes, the quality of their operation and well-tuned cooperation between all parties involved is of utmost importance. A good example is Amsterdam Airport Schiphol, as the supplier of the baggage handling system.

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 such adverse climate conditions tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace. They can represent a significant cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). For instance, the closure of the airspace for several days, as was the case in April 2010 in Europe following the eruption of a volcano, has very major commercial, human and financial consequences for the airlines and their passengers. The earthquake followed by a tsunami, which caused a nuclear disaster in Japan in March 2011, also had an important impact. Similarly, bad weather, such as heavy fog and heavy (winter) storms at airports can have significant operational and financial repercussions for the activity of KLM, with regulations requiring the KLM to assist passengers.

Within this context, KLM, in association with Air France, is lobbying, either directly or through representative bodies, both the Dutch and European authorities to develop robust crisis management tools and, secondly, to obtain an adjustment in the regulation regarding the Company's responsibilities vis-à-vis passengers in extraordinary circumstances.

Risk of food poisoning

The in-flight service policy provides for food and beverage to be served to passengers during flights. These meals are prepared in catering facilities belonging either to the Group or to independent service providers. As with all food preparation, there is a risk of food poisoning. In order to limit this, preventive measures have been implemented requiring suppliers, whether internal or external, to contractually guarantee the respect of regulatory obligations (granting of the relevant approvals, traceability, compliancy to food regulations, etc).

Furthermore, bacteriological analysis based on random sampling are carried out by laboratories in accordance with industry standards and audits of compliance are regularly conducted by third parties at service provider premises.

Risk of the failure of a critical IT system and IT risks

The IT and telecommunications systems are of essential importance for the Group's day-to-day operations. They comprise the IT applications operated in the data centres and used through 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 Group.

KLM consistently ensures the allocation of resources required to withstand the 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 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 cyberspace for economic, personal or psychological gain. The high dependency on ICT makes also airlines vulnerable for cybercrime.

KLM recently initiated governance of actions by the KLM Cybercrime Coordination Committee and is improving the awareness of management and staff regarding this phenomenon.

Risks linked to the Company's activities

Risk linked to non-compliance of antitrust and antibribery legislation

In connection with the exercise of its activities, the Company and its subsidiaries have been exposed to investigations by authorities alleging breach of antitrust legislation.

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.

KLM Group, together with Air France, has reinforced its procedures to supplement its already extensive actions, aimed at preventing breach of antitrust legislation, such as online training modules, on-site and tailor-made training sessions and poster campaigns. Furthermore, KLM, considering compliance in general a top priority for the company, is further expanding its procedures to secure and monitor compliance with, amongst other, antitrust and antibribery legislation.

Risk linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalisation of the European market on April 1, 1997 and the resulting competition between carriers has led to a reduction in airfares. Furthermore, the *Open Skies* agreement between the European Commission and the United States has been in force since end-March 2008 meaning that European airlines are authorised to operate flights to the United States from any European airport.
While this agreement potentially opens the way to increased competition at Amsterdam Airport Schiphol, it has also enabled KLM to extend its network and strengthen cooperation within the SkyTeam alliance, particularly within the framework of the implementation of a trans-Atlantic joint venture with the partners Air France, Delta Air Lines, and Alitalia.

On its short and medium-haul flights to and from The Netherlands, the Company competes with alternative means of transportation. In particular, the high-speed rail network in Europe competes directly with KLM flights in Europe. Any extension of high-speed rail networks in Europe is liable to have a negative impact on the Company's activity and financial results.

KLM also faces competition from low-cost airlines for some European point-to-point traffic. To respond to the competition from other airlines or railway networks, the Company constantly adapts its network strategy, capacity and commercial offers. Furthermore, the Company regularly raises with the Dutch and European authorities the need to establish and maintain fair competition regulations.

Risk linked to the regulatory authorities' inquiry into the 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 joint venture has been granted antitrust immunity from the US Department of Transport in 2008.

Risk linked to commitments made by KLM and Air France and 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 takeoff 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 risk

KLM and Air France finance their capital requirements by contracting bank loans using aircraft as collateral which constitutes an attractive guarantee for lenders, via bilateral unsecured loans, and by issuing bonds.

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 European debt crisis and Euro currency

The risk perception of the Euro increased as the stability and continuity of the currency is under pressure due to the debt crisis in a number of European Union countries. The Euro is KLM's home market currency and the largest part of revenues and cost are in this currency. Any change to the European and Monetary Union affecting the value or abandoning of the Euro, will have a significant impact on its activities and financial results. The debt crises itself and its impact on banks and financial institutions can have a significant impact on the borrowing capability of KLM.

Risk linked to labour disruptions

Personnel cost account for around 25% 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 among others in order to prevent the emergence of a conflict.

Risks linked to the implementation of the three-year *Transform 2015 / Securing Our Future* plan

Within the framework of the priorities set by the AIR FRANCE KLM Board of Directors on 9 November 2011, the Company launched early 2012 a three-year plan to enable the generation of EUR 2 billion (KLM's part: EUR 700 million) of free cash flow aimed at reducing its debt. The achievement of this target largely depends on an improvement in the productivity of all employee categories. Negotiations with the organisations representing the employees have resulted in a new collective agreement framework. The final terms of these collective agreements may not prove sufficient to achieve the objective set. After the first year of the *Transform 2015 / Securing Our Future* plan, all the defined projects are on track.

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 in the last couple of years.

Deferred tax assets are recognised only to the extent it is probable that future taxable profits, based on budget and medium term plan, will be available against which the asset can be utilised in the Dutch KLM fiscal unity. If these future taxable profits will not materialise, it could have a significant impact on the recoverability of these deferred tax assets.

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.

Risk linked to pension plans

The Company's main commitments in terms of defined benefit schemes are the three KLM pension funds for Ground staff, Cockpit crew and Cabin crew. The potential risks are threefold.

Firstly, under the IAS 19 Revised regulations, applicable as from January 1, 2013, the Company is exposed to changes in (external) financial parameters (e.g. discount rate for pension obligations and plan assets, rate of future price inflation) which may result in yearly (non cash) fluctuations in the income statement and the Company's equity.

In the financial statements the potential volatility is elucidated in the paragraph "Accounting policies for the balance sheet – Provisions for employee benefits" and note 16 Provisions for employee benefits of the consolidated financial statement.

Secondly if the solvency levels according to Dutch law are below the required levels, KLM is according to the current financing agreements, obliged to pay recovery premiums. The period to recover may take 1-3 years up to 15 years depending on the gap with the required solvency levels. For 2013 this risk of cash out flow is mitigated given the improved solvency levels as of December 31, 2012.

Thirdly the European Union may decide, based upon advice by the European Insurance and Occupational Pensions Authority (EIOPA), on a new directive for Institutions for Occupational Retirement Provisions (IORP) that may require even higher buffers for pension funds. This would impact especially countries with defined benefit plans like the KLM pension schemes in The Netherlands.

Risk 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 over which it does not have direct control.

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 the 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 the Group's different operating entities to ensure the long-term viability of the operations.

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.

Legal risk and arbitration procedures

In connection with the normal exercise of their activities, the Company and its subsidiaries are involved in disputes 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.

Board and Governance

General

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 separate Supervisory Board. KLM has been subject to the mitigated structure regime for large companies since May 2007.

KLM's corporate governance is based on the statutory requirements applicable to limited companies 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 amended Dutch Corporate Governance Code, which was presented by the Monitoring Committee (Commissie Frijns) in December 2008.

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 2011.

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, 2012, “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 the cumulative preference shares A, which represents 5.92% of the voting rights.

AIR FRANCE KLM

Air France and KLM share the same holding Company, AIR FRANCE KLM S.A. The holding Company’s Board of Directors (*Conseil d’Administration*) has 15 members. The AIR FRANCE KLM Group Executive Committee among others decides upon issues of a strategic nature.

Supervisory Board

KLM’s Supervisory Board has a duty to supervise 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 has 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, 2012, the Board of Managing Directors has four 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. 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. 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

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 at Schiphol East on April 25, 2013.

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 are discussed such as the cooperation with Air France, the Company's strategy, and financial results. The KLM Works Council has 25 members. The KLM Works Council met on thirteen occasions with management in financial year 2012.
At AIR FRANCE KLM level a 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 three occasions in financial year 2012.

Dutch Act on Management and Supervision

The new legislation pertaining to the Act on Management and Supervision has entered into force on January 1, 2013. The Company has evaluated the new Act and will change its articles of association and internal regulations if and where applicable and compulsory to comply with the new Act.

Among other topics, the Act (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 this moment the Supervisory Board of the Company is not composed in accordance with the gender diversity principle of the new Act. The aim is however to increase the number of female (Supervisory) Board members and to nominate a third female candidate next year, provided that candidates meet the criteria of the profiles of new Supervisory Board candidates.

In 2012, the Board of Managing Directors was also not composed of at least 30 percent female members. The Company is in the process of finalizing a diversity policy that should over time increase 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.

Corporate Governance Code

KLM's Corporate Governance is, insofar as possible, in line with generally accepted principles of good governance, such as the 2008 Dutch Corporate Governance Code ("the Code"). Although KLM as an unlisted 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;
- In deviation from best practice provision II.1.6, KLM has implemented a whistleblower policy with a limited financial scope. In view of this scope, it has been decided that the Chairman of the Audit Committee will be the primary point of contact if there are suspicions of financial misconduct regarding the Board of Managing Directors. The Company intends to introduce a general whistleblower policy in 2013, which will serve next to existing company (complaints) regulations;
- Best practice provision II.2.8 is only implemented in contracts of new external members of the Board of Managing Directors;
- In deviation from best practice provision II.2.11, KLM has integrated the claw back clause with a maximum term of recovery of three years after the variable remuneration was awarded, until pending new legislation in this respect will enter into force;
- 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 securities issued by its AIR FRANCE KLM, because these are considered to be less relevant for KLM;
- In deviation of best practice provision III.5.13, a limited number of consultants that 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.

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 in line with its regular schedule on seven occasions during financial year 2012. The meetings were well attended by the members, with an attendance score of 92 percent for all meetings combined.

Like the previous years and keeping with usual practice, four of the seven 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 two meetings for discussion of the Company's three-year plan, budget, investment plan and financial plan.

The year 2012 was again challenging for the Company. The economic outlook in particular in Europe continued to remain weak and the lack of a sound solution to the European debt crisis had its impact, not in the least on consumer confidence and thus on consumer spending. Competition remained fierce, especially from Middle East carriers, despite prudent capacity planning (and trimming) of the vast majority of European airlines. Any of such developments had obviously its impact on the airline industry, with the cargo business in general being hit hardest. The Company's response, embedded in the *Transform 2015 / Securing Our Future* plan and aiming at a reduction of the Company's net debt by EUR 700 million at the end of 2014, should bring the Company in better shape to counter any further adverse effects or to benefit quickly of any signs of (economic) recovery. The Board discussed during each meeting the progress on the *Transform 2015 / Securing Our Future* plan. Targets (in respect of unit cost reductions, revenue improvement, and net debt reduction) and achievements were presented. As part of the regular discussions on the program, the Supervisory Board also discussed at length the Company's liquidity position and balance sheet.

During the annual strategy meeting in October 2012, the Supervisory Board discussed the AIR FRANCE KLM Group Strategic Framework for the next five years, including the financial outlook for the period. An update on the strategic positioning of cargo was presented, which business notably suffers from the weak economy, and faces continued pressure on demand and thus on revenues. In this context, both freighter strategy and the next steps in the integration of Martinair Cargo were discussed. As regards the Passenger Business, the Board was informed on the European positioning and envisaged product developments and improvements to keep pace with industry developments. The Supervisory Board approved investments relating to the second phase of the cabin 'midlife' upgrade, including the replacement of the current seats by new full flat ones in the World Business Class.

Due to the change of financial year in 2011 and the related changes to the financial cycles and meeting schedules, the Supervisory Board discussed the Company's three-year plan, including the budget for 2012 early January 2012 and in December 2012 for financial year 2013. During these meetings, the Board approved the respective budgets as well as the related Investment Plans and Financial Plans. With respect to the company's financing, the Supervisory Board was informed about the planned capital market transaction by AIR FRANCE KLM (bond issue), of which proceeds 40 percent is available to KLM. The Supervisory Board approved the related 40 percent guarantee.

The Board was informed during each meeting on the developments in respect of AIR FRANCE KLM, and notably the project 'Next Phase of the Group', aiming at further optimizing the cooperation between AIR FRANCE KLM, and KLM and Air France respectively. The project will entail certain organisation changes both at AIR FRANCE KLM as well as at KLM and Air France.

As is meanwhile an annually recurring topic on the Board's agenda, the Supervisory Board was informed about the Company's Operational Safety & Quality Assurance policies and results. Safety remains the most important priority for KLM, and the Board considers it of utmost importance to be informed on KLM's performance and relevant developments at least once a year.

On a regular basis, the Supervisory Board was informed on relevant developments in the relationship with important partners of KLM, in particular Delta Air Lines, with the renewal of the joint venture contract being concluded during the year, and Amsterdam Airport Schiphol.

The Board welcomed the partnership with Etihad, which it believes is the right step to deal with the ever increasing competition from other Middle East carriers.

During the different meetings, the Board was moreover informed on the Company's compliance framework, the envisaged changes thereto, which include the introduction of a general Whistleblower Policy, and communications and training to further embed and improve awareness.

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

- The new Act on Management and Supervision, and its implications on KLM;
- The Company's hedging policy and hedging results;
- Performance of the Company's three main pension funds;
- Performance and remuneration of the Board of Managing Directors;
- Composition of the Board of Managing Directors and CEO succession planning (see also below);
- Status of the investigations into the Group's Cargo Business by competition authorities in various jurisdictions, the pending appeal in Luxemburg, and the related civil actions;
- Impact analysis (financial) of the implementation of ETS; and
- Benchmark information of the Company's main competitors relative to the Company's positioning and financial results.

In keeping with previous years, members of the Supervisory Board attended meetings between management and the Works Council on a rotation basis.

Composition of the Supervisory Board

No changes in the composition of the Supervisory Board are foreseen for 2013, since no Board members are due to retire by rotation as per the closure of the 2013 General Meeting of Shareholders.

The Supervisory Board hereby announces that Messrs. Storm and Blanchet are due to retire by rotation as per the closure of the General Meeting of Shareholders in 2014. Both gentlemen are not available for reappointment. Shareholders are entitled to make recommendations for the vacancies. It should however be noted that for the position of Mr. Storm KLM's Works Council has the power to propose a candidate for appointment and that for the position of Mr. Blanchet AIR FRANCE KLM has the power to nominate a candidate.

Composition of the Board of Managing Directors

During the financial year 2012, the Supervisory Board discussed on multiple occasions the composition of the Board of Managing Directors, and in particular the CEO succession planning in view of Peter Hartman's contract expiry per December 31, 2013.

Pursuant to article 17 paragraph 7 of KLM's Articles of Association, the Supervisory Board has decided to appoint Camiel Eurlings as President and Chief Executive Officer of the Company as of July 1, 2013. In addition, as from that same date, Pieter Elbers will be appointed Deputy Chief Executive Officer of the Company. The general meeting of shareholders will be informed of the aforementioned appointments at its meeting of April 25, 2013.

Committees

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

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

Audit Committee

- Hans Smits (Chairman)
- Henri Guillaume
- Annemieke Roobeek

Remuneration Committee

- Remmert Laan (Chairman)
- Irene Asscher-Vonk
- Kees Storm

Nomination Committee

- Remmert Laan (Chairman)
- Irene Asscher-Vonk
- Kees Storm

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 internal audits and the yearly Audit plan performed by the Group's internal auditor.
With regard to non-financial risks, the Audit Committee discussed in more detail the IT continuity measures and plans in place to safeguard the continued operations of the Company's critical systems.
The Audit Committee moreover discussed the impact of the new IFRS rules (as of 2013) on the presentation of KLM's pension assets and liabilities. The Audit Committee also discussed the external auditors' engagement letter and fee proposal.

The Chairman of the Audit Committee reported on the main topics during the meeting of the full Board.

The Audit Committee's meetings were attended by the Chairman (as an observer) and the President and 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 two occasions during the financial year and once a conference call was convened. 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 2012. 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 four 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 and Chief Executive Officer, the Company Secretary & General Counsel and the EVP Human Resources and Industrial Relations.

Distribution to shareholders

Absent a net profit for the financial year, no distribution will be made to shareholders.

Financial Statements 2012

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2012. 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 the Group's affairs and the Supervisory Board's supervision thereof in the financial year 2012.

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 Chief Financial Officer of AIR FRANCE KLM, is not considered to be independent.

Closing remarks

Financial year 2012 was marked by the launch of the *Transform 2015 / Securing Our Future* plan. Its targets and actions should secure a healthy future for KLM as a meaningful airline within AIR FRANCE KLM. The Supervisory Board finds the first achievements encouraging, and is confident the targets will be met by the end of 2014. The Company will continue its focus on improving its financial situation, whilst at the same time keeping a close eye on the social aspects of any of its measures and actions. *Keeping the family together* still stands, but the need for 'more value for money' has been successfully introduced as well. It is beyond doubt that without the flexibility and loyalty of management and staff the ambitious targets cannot be met.

The Supervisory Board expresses its appreciation for the contributions of management and employees during the financial year 2012.

Amstelveen, March 18, 2013

On behalf of the Supervisory Board

Kees J. Storm
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 2012 and no changes are foreseen to be proposed for adoption to the General Meeting of Shareholders in April 2013.

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 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. 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 operating activities; 20% is based on a target relating to the operating income of AIR FRANCE KLM, 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', 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', 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.

As of July 1, 2010, 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 Directors.

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.

Pensions

In accordance with KLM's pension policy, the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme, whereby any variable income is excluded from pensionable salary. In the changeover to this career average salary scheme, a transitional plan was agreed for employees born before January 1, 1950. This transitional plan is only applicable to Mr. Hartman.

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 existing employment contract is respected, 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. Hartman's fixed term employment contract expires January 1, 2014;
- Mr. Eurlings has a fixed term employment contract of four years, which expires on March 15, 2015;
- Mr. Varwijk's employment contract contains a fixed-term clause for a period of four years until July 1, 2015;
- Mr. Elbers' employment contract contains a fixed-term clause for a period of four years until May 1, 2016.

Severance pay

The employment contract with Mr. Hartman was formally dissolved on August 1, 2005 and replaced with a fixed-term employment contract. As a consequence, Mr. Hartman has lost his possible entitlement to severance pay based on the "sub-district court formula". In the event of forced redundancy, the maximum severance pay will be equal to the remaining term of his service agreement.

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. As of 2012, 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 duration of the employment with the Company.

Remuneration of the Board of Managing Directors in financial year 2012

1. Base salary

The base salaries of the individual members of the Board were not increased in line with its usual practice to follow any CLA increases, as it was agreed that the CLA increase of 1.25 percent as per January 1, 2012 would not be applied to the Board members.

As already announced in last year's annual report, the base salaries of Messrs. Eurlings and Varwijk were increased to EUR 375,000 and EUR 400,000 respectively as of April 1, 2012. These increases were in line with the parameters of the remuneration policy, whereby the maximum base salary, which maximum was not yet reached, is set around the median of the market level for the corresponding job grade. Mr. Elbers' base salary, who joined the Board of Managing Directors as of the Annual General Meeting of 2012, was set at EUR 325,000. Changes for 2013 in the base salaries of the members of the Board of Managing Directors are only foreseen to be effective as of July 1, 2013 (taking into account the changes in positions), and are subject of decision making by the Supervisory Board in the second quarter of 2013.

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 2012 in accordance with the remuneration policy. This resulted in a short-term incentive payment for financial year 2012 of 68% of base salary for Mr. Hartman, 40% for Mr. Eurlings, 40% for Mr. Varwijk and 40% for Mr. Elbers.

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 2012, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2013. The number of granted phantom shares will amount to 10,000 for the Chief Executive Officer and 6,000 for the Managing Directors. The phantom shares are granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

At its February 2013 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the LTI plan. In respect of financial year 2012, the targets were partially met.

Therefore the first (one third) increment of the 2013 phantom shares series, the second (one third) increment of the 2012 phantom shares series and the third (one third) increment of the 2011 phantom shares series will vest for 107.9%. These phantom shares will be unconditionally awarded in April 2013 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 2012

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, 2012)

Name	Year of birth	Nationality	First appointment / Current term	Function / Supervisory Board memberships and other functions *
Kees J. Storm *Chairman*	1942	Dutch	2002 / (third) 2010 – 2014	Former Chairman Executive Board AEGON N.V. / Chairman Anheuser-Busch InBev S.A., Vice-Chairman and Senior Independent Director Unilever NV and Plc., Vice-Chairman Pon Holdings B.V., member AEGON N.V., member Baxter International Inc., member Curatorium VNO-NCW
Jean-Didier F.C. Blanchet *Vice-Chairman*	1939	French	2004 / (third) 2012 – 2014	Former CEO Board of Air France, former Chairman and CEO of Méridien /Cercle des Transports, Airport Aimé Césaire (Martinique)
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	Chief Financial Officer AIR FRANCE KLM, CEO AIR FRANCE KLM Finance / Director to Air France, Alitalia and Servair
Henri Guillaume	1943	French	2004 / (third) 2012 – 2016	Former CEO of ANVAR, Former Vice President of ERAP/ Adoma, SNI, Demeter Partners, Director MPO
Remmert Laan	1942	French Dutch	2004 / (third) 2012 – 2016	Vice-Chairman Leonardo & Co / Chairman Forest Value Investment Management, Director Patrinvest S.A., Trustee Insead Foundation
Jean Peyrelevade	1939	French	2007 / (second) 2011 – 2015	Chairman of the Supervisory Board Leonardo & Co SAS, 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 Gardel Bonnard
Annemieke J.M. Roobeek	1958	Dutch	2011/ (first) 2011 – 2015	Professor Strategy en Transformation management, Nyenrode Business University and Director-owner, MeetingMoreMinds and Open Dialogue / ABN Amro Group, Amsterdam RAI Exhibition Centres, Abbott Healthcare Products, DIGH, Chairman Supervisory Board NCWT, member advisory Board PGGM
Hans N.J. Smits	1950	Dutch	2004 / (third) 2012 - 2016	Chairman Board of Managing Directors Havenbedrijf Rotterdam N.V., former Chairman and CEO Rabobank, former Chairman and CEO Amsterdam Airport Schiphol / Chairman Janssen de Jong Group

(*) Only memberships of Supervisory Boards and functions with large companies on December 31, 2012 are shown here.

Board of Managing Directors (situation as at December 31, 2012)

Name	Year of birth	Nationality	First appointment	Function
Peter F. Hartman	1949	Dutch	1997	President and Chief Executive Officer KLM
Camiel M.P.S. Eurlings	1973	Dutch	2011	Managing Director KLM and EVP AIR FRANCE KLM Cargo
Erik F. Varwijk	1961	Dutch	2011	Managing Director KLM and EVP AIR FRANCE KLM International & The Netherlands
Pieter J.TH. Elbers	1970	Dutch	2012	Managing Director and Chief Operating Officer KLM

Company Secretary & General Counsel

Barbara C.P. Van Koppen	1966	Dutch		

KLM Royal Dutch Airlines

Financial Statements for the year ended December 31, 2012

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros After proposed appropriation of the result for the year	Note	December 31, 2012	December 31, 2011	December 31, 2010 Proforma unaudited
ASSETS				
Non-current assets				
Property, plant and equipment	1	4,182	4,405	4,537
Intangible assets	2	218	183	131
Investments accounted for using the equity method	3	113	85	84
Derivative financial instruments	4	88	95	73
Other financial assets	5	204	203	204
Deferred income tax assets	15	40	37	38
Pension assets	16	3,459	3,209	2,916
		8,304	**8,217**	**7,983**
Current assets				
Derivative financial instruments	4	80	165	294
Other financial assets	5	78	86	371
Inventories	6	204	236	208
Trade and other receivables	7	887	856	804
Cash and cash equivalents	8	1,235	1,057	1,033
		2,484	**2,400**	**2,710**
TOTAL ASSETS		**10,788**	**10,617**	**10,693**
EQUITY				
Capital and reserves				
Share capital	9	94	94	94
Share premium		474	474	474
Other reserves	10	151	191	106
Retained earnings		1,720	1,797	1,855
Total attributable to Company's equity holders		**2,439**	**2,556**	**2,529**
Non-controlling interests		2	2	2
Total equity		**2,441**	**2,558**	**2,531**
LIABILITIES				
Non-current liabilities				
Loans from parent company	11	476	387	388
Finance lease obligations	12	1,796	1,795	1,760
Derivative financial instruments	4	206	119	160
Other financial liabilities	13	1,424	1,476	1,512
Deferred income	14	186	210	205
Deferred income tax liabilities	15	338	369	363
Provisions for employee benefits	16	163	149	168
Other provisions	17	484	412	239
		5,073	**4,917**	**4,795**
Current liabilities				
Trade and other payables	18	1,784	1,624	1,603
Loans from parent company	11	60	150	-
Finance lease obligations	12	322	284	503
Derivative financial instruments	4	44	64	259
Other financial liabilities	13	152	239	73
Deferred income	14	825	685	687
Current income tax liabilities	15	-	4	-
Provisions for employee benefits	16	48	48	40
Other provisions	17	39	44	202
		3,274	**3,142**	**3,367**
Total liabilities		**8,347**	**8,059**	**8,162**
TOTAL EQUITY AND LIABILITIES		**10,788**	**10,617**	**10,693**

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

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros	Note	January 1 - December 31, 2012 (12 months)	April 1 - December 31, 2011 (9 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
Revenues	21	**9,473**	**6,985**	**8,904**
Expenses				
External expenses	22	(6,456)	(4,627)	(5,968)
Employee compensation and benefit expense	23	(2,321)	(1,637)	(2,177)
Depreciation and amortisation	24	(517)	(410)	(547)
Other income and expenses		(26)	(36)	(4)
Total expenses		**(9,320)**	**(6,710)**	**(8,696)**
Income from current operations		**153**	**275**	**208**
Other non-current income and expenses	25	(95)	(3)	(11)
Income from operating activities		**58**	**272**	**197**
Gross cost of financial debt	26	(157)	(124)	(162)
Income from cash and cash equivalents	26	29	29	39
Net cost of financial debt		**(128)**	**(95)**	**(123)**
Other financial income and expense	26	24	(112)	(79)
Pre-tax income		**(46)**	**65**	**(5)**
Income tax (expense)/benefit	27	13	(22)	3
Net result after taxation of consolidated companies		**(33)**	**43**	**(2)**
Share of results of equity shareholdings		(11)	5	3
(Loss) / profit for the year		**(44)**	**48**	**1**
Attributable to:				
Equity holders of the Company		(46)	47	1
Non-controlling interests		2	1	-
		(44)	**48**	**1**
Net (loss) / profit attributable to equity holders of the Company		(46)	47	1
Dividend on priority shares		-	-	-
Net (loss) / profit available for holders of ordinary shares		**(46)**	**47**	**1**
Average number of ordinary shares outstanding		46,809,699	46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699	46,809,699
(Loss) / profit per share (in EUR)		(0.98)	1.01	0.02
Diluted (loss) / profit per share (in EUR)		(0.98)	1.01	0.02

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

KLM Royal Dutch Airlines

Consolidated statement of recognised income and expenses

In millions of Euros	January 1 - December 31, 2012 (12 months)	April 1 - December 31, 2011 (9 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
(Loss) / profit for the year	(44)	48	1
Cash flow hedges			
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(3)	(81)	224
Change in fair value transferred to income statement	(90)	(155)	(184)
Exchange differences on translation foreign operations	(1)	8	(1)
Tax on items taken directly to or transferred from equity	23	59	(10)
Total of other comprehensive income included in the recognised income and expenses	**(71)**	**(169)**	**29**
Recognised income and expenses	**(115)**	**(121)**	**30**
- Equity holders of the company	(117)	(122)	30
- Non-controlling interests	2	1	-

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

KLM Royal Dutch Airlines

Consolidated statement of changes in equity

In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to Company's equity holders						
As at January 1, 2012	**94**	**474**	**191**	**1,797**	**2,556**	**2**	**2,558**
Net gain/(loss) from cash flow hedges	-	-	(93)	-	(93)	-	(93)
Exchange differences on translation foreign operations	-	-	(1)	-	(1)	-	(1)
Transfer from retained earnings	-	-	31	(31)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	23	-	23	-	23
Net income/(expense) recognised directly in equity	**-**	**-**	**(40)**	**(31)**	**(71)**	**-**	**(71)**
(Loss) for the year	-	-	-	(46)	(46)	2	(44)
Total recognised income/(expense)	**-**	**-**	**(40)**	**(77)**	**(117)**	**2**	**(115)**
Dividends paid	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	(2)	(2)
As at December 31, 2012	**94**	**474**	**151**	**1,720**	**2,439**	**2**	**2,441**

In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to Company's equity holders						
As at April 1, 2011	**94**	**474**	**304**	**1,809**	**2,681**	**2**	**2,683**
Net gain/(loss) from cash flow hedges	-	-	(236)	-	(236)	-	(236)
Exchange differences on translation foreign operations	-	-	8	-	8	-	8
Transfer from retained earnings	-	-	56	(56)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	59	-	59	-	59
Net income/(expense) recognised directly in equity	**-**	**-**	**(113)**	**(56)**	**(169)**	**-**	**(169)**
Profit for the year	-	-	-	47	47	1	48
Total recognised income/(expense)	**-**	**-**	**(113)**	**(9)**	**(122)**	**1**	**(121)**
Dividends paid	-	-	-	(5)	(5)	-	(5)
Other movements	-	-	-	2	2	(1)	1
As at December 31, 2011	**94**	**474**	**191**	**1,797**	**2,556**	**2**	**2,558**

Proforma unaudited	Attributable to Company's equity holders						
In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at January 1, 2011	**94**	**474**	**106**	**1,855**	**2,529**	**2**	**2,531**
Net gain/(loss) from cash flow hedges	-	-	40	-	40	-	40
Exchange differences on translation foreign operations	-	-	1	(2)	(1)	-	(1)
Transfer from retained earnings	-	-	54	(54)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(10)	-	(10)	-	(10)
Net income/(expense) recognised directly in equity	**-**	**-**	**85**	**(56)**	**29**	**-**	**29**
Profit for the year	-	-	-	1	1	-	1
Total recognised income/(expense)	**-**	**-**	**85**	**(55)**	**30**	**-**	**30**
Dividends paid	-	-	-	(5)	(5)	-	(5)
Other movements	-	-	-	2	2	-	2
As at December 31, 2011	**94**	**474**	**191**	**1,797**	**2,556**	**2**	**2,558**

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

KLM Royal Dutch Airlines

Consolidated cash flow statement

In millions of Euros	January 1, - December 31, 2012 (12 months)	April 1, - December 31, 2011 (9 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
(Loss) / profit for the period	(44)	48	1
Depreciation and amortisation	517	410	547
Changes in provisions	31	14	5
Results of equity shareholdings	11	(5)	(2)
Changes in pension assets	(233)	(217)	(303)
Changes in deferred income tax	(11)	18	(7)
Other changes	44	86	28
Net cash flow from operating activities before changes in working capital	**315**	**354**	**269**
(Increase) / decrease in inventories	22	(30)	(16)
(Increase) / decrease in trade receivables	(70)	107	(59)
Increase / (decrease) in trade payables	(7)	(36)	52
(Increase) / decrease in other receivables and other payables	312	(309)	(102)
Net cash flow from operating activities	**572**	**86**	**144**
Capital expenditure on intangible fixed assets	(62)	(50)	(69)
Capital expenditure on aircraft	(460)	(395)	(489)
Disposal of aircraft	225	156	185
Capital expenditure on other tangible fixed assets	(29)	(31)	(39)
Disposal of other tangible fixed assets	8	7	7
Investment in equity shareholdings	(38)	-	3
Sale of equity shareholdings	1	-	(1)
Dividends received	2	2	2
(Increase) / decrease in short-term deposits and commercial paper	(1)	75	159
Net cash used in investing activities	**(354)**	**(236)**	**(242)**
Increase in long-term debt	664	396	681
Decrease in long-term debt	(717)	(511)	(680)
Increase in long-term receivables	(36)	(50)	(52)
Decrease in long-term receivables	48	145	178
Dividend paid	-	(5)	(5)
Other changes	-	-	-
Net cash flow from financing activities	**(41)**	**(25)**	**122**
Effect of exchange rates on cash and cash equivalents	1	3	-
Change in cash and cash equivalents	**178**	**(172)**	**24**
Cash and cash equivalents at beginning of period	1,057	1,229	1,033
Cash and cash equivalents at end of period *	1,235	1,057	1,057
Change in cash and cash equivalents	**178**	**(172)**	**24**
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 1,434 million as at December 31, 2012 (December 31, 2011 EUR 1,264 million)

Financial Statements financial year 2012

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 company 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 18, 2013 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 25, 2013.

In the AGM of shareholders on June 29, 2006 it was approved that the annual report is prepared in the English language only.

Change of financial year

AIR FRANCE KLM S.A. decided in 2011 to change its financial year from March 31 to a calendar year, to come in line with the majority of airlines. This change has been approved at the KLM Annual General Meeting of Shareholders on July 1, 2011, and the financial year 2011 was therefore a short financial year from April 1, until December 31, 2011 (9 months) As a consequence, the financial statements for the year ended December 31, 2012 are not comparable to the financial statements for the previous fiscal year.

For comparison purposes a pro-forma unaudited consolidated income statement, consolidated statement of recognised income and expenses, consolidated statement of changes in equity and consolidated cash flow statement for the calendar year 2011 and an unaudited consolidated balance sheet as at December 31, 2010 have been included.

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, 2012. 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 income statement 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.

Change in accounting policies

The amendment to IFRS 7 “Disclosure in the transfer of financial assets” is applicable for financial years beginning on or after July 1, 2011. This amendment has no impact on the consolidated financial statements of the Company at December 31, 2012.

Recent accounting pronouncements

The following IFRS standards, amendments and IFRIC interpretations, have been published by the IASB, but are not applicable on a mandatory basis to the 2012 financial statements.

Amendment to IAS 1 on presentation of other comprehensive income (applicable for financial years beginning on or after July 1, 2012).

The revised standard IAS 19 “Employee Benefits” (applicable for financial years beginning on or after January 1, 2013). The main consequence of the revision to IAS 19 is the removal of the option allowing, when a scheme was out of a 10% corridor, the amortization of actuarial differences. From now, they will have to be accounted directly in Other Comprehensive Income (OCI) in equity.

According to the standard, the application as of January 1, 2013, will result in:

- A negative adjustment in the opening equity of the first comparative financial year, i.e. as of January 1, 2012, amounting to EUR 1,051 million gross reduced by the tax effect to EUR 788 million net of tax;
- An adjustment in the result 2012 amounting to EUR 72 million negative gross reduced by the tax effect to EUR 54 million negative net of tax; and
- A negative adjustment in equity as of December 31, 2012 amounting to EUR 1,254 million gross reduced by the tax effect to EUR 940 million net of tax.

Other standards applicable to the Group on a mandatory basis from January 1, 2013 are IFRS 13 Fair Value Measurement and the amendment to IFRS 7 Disclosures – Offsetting Financial assets and Financial liabilities.

January 1, 2014:

- Standard IFRS 10 “Consolidated Financial Statements” which will replace IAS 27 “Consolidated and Separate Financial Statements” for the part concerning the consolidated financial statements and also the SIC 12 interpretation “Consolidation – Special Purpose Entities”;
- Standard IFRS 11 “Joint Arrangements” which will replace IAS 31 “Interests in Joint Ventures” and also the interpretation SIC 13 interpretation “Jointly Controlled Entities – Non-Monetary Contributions by Ventures”;
- Standard IFRS 12 “Disclosure on Interests in Other Entities”;
- Standard IAS 28 “Investments in Associates”;
- Amendment to IAS 32 “Presentation - Offsetting Financial assets and Financial liabilities”.

January 1, 2015:

Standard IFRS 9 “Financial instruments - Classification and measurement of financial assets and liabilities has been published by the IASB but not yet adopted by the European Union. It will have to be applied, subject to its approval by the European Union, for the accounting periods starting January 1, 2015.

The application of the standards IFRS 10 (a single definition of control) and IFRS 11 (abolition of the proportional method of consolidation for Joint Venture) is currently being considered. KLM does not expect significative changes in its consolidation perimeter.

Other new standards, interpretations and amendments to existing standards are not applicable to the Group.

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are companies (including special purpose entities) over which the Company has control, either directly or indirectly. Control is defined as the power to govern a subsidiary's operating and financial policies as to obtain benefits from its activities. In assessing whether control exists, account is taken of the existence and effect of potential voting rights that are currently exercisable or convertible or other arrangements that give the Company the right to determine operating and financial policy.

The results of consolidated companies acquired in the year are included in the consolidated income statement from the date on which control could be exercised. They are de-consolidated from the date that control ceases.

The assets, liabilities and results of subsidiaries are fully consolidated.

The interest of third parties in group equity and group results is disclosed separately as non-controlling interest. Non-controlling interest in the balance sheet represents the minority shareholders' proportion of the fair value of identifiable assets and liabilities of the subsidiaries at the date of acquisition and the minority's proportion of movements in equity since that date.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. With the exception of a few non significant subsidiaries and equity affiliates closing their books at March 31, all Group companies are consolidated based on annual accounts closed on December 31.

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

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

When control is given up, such exchange differences are recognised in the income statement 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, 2012 EUR	Average in Income Statement 2012 EUR	Balance Sheet December 31, 2011 EUR
1 US Dollar (USD)	0.76	0.78	0.77
1 Pound sterling (GBP)	1.23	1.23	1.20
1 Swiss franc (CHF)	0.83	0.83	0.82
100 Japanese yen (JPY)	0.88	0.98	0.99
100 Kenya Shilling (KES)	0.88	0.92	0.92

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 income statement.

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

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

Segment reporting

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

Business segments

The activities of each segment are as follows:

Passenger

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

Cargo

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

Maintenance

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

Leisure

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com and Martinair (until October 31, 2011).

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 income statement 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 income statement 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 recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

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

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

Property, plant and equipment

With the exception of leased assets, and except as described in the following paragraph property, plant and equipment are stated initially at historical acquisition or manufacturing cost. Leased assets are stated initially at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.

Interest incurred in connection with the financing of aircraft (including other flight equipment) during the period prior to commissioning is included in cost. The interest rate adopted is the applicable interest rate for debts outstanding at the balance sheet date unless capital expenditure or advance payments are themselves funded by specific loans.

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

Depreciation

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

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

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

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

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

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

Intangible assets

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the income statement. 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 cost 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 income statement as incurred. The cost comprise the cost of KLM personnel as well as external IT consultants.

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 10 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.
The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Trademarks

The Martinair trademarks were acquired as part of the acquisition of Martinair and have useful lives between 5 and 10 years.

The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Jointly controlled entities are entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.

Investments in associates and jointly controlled entities are accounted for by the equity method and are initially recognised at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, taking into account other than temporary losses (impairment). When the Group's share of losses in an associate/jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate/jointly controlled entity.

Unrealised gains on transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group's interest in the associates/jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially (trade date), and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques where an active market does not exist.

Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

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

Recognition of fair value gains and losses

The method of recognising fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged.

All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

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

Forward currency contracts and options are used to cover exposure to exchange rate movements. The Group also uses swaps to manage its exposure to interest rate risk.

Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent.

Hedging transactions fall into two categories:

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

1. Fair value hedges

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

2. Cash flow hedges

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

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

Hedge effectiveness testing

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

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

For interest rate and foreign exchange derivatives used as fair value and cash flow hedges, the offset method is used as the effectiveness testing methodology. For fuel derivatives used as cash flow hedges regression analysis and offset methodologies are used.

If the hedging instrument no longer meets the criteria for hedge accounting, is sold, is terminated or designation is revoked, then hedge accounting is discontinued prospectively.
The cumulative gain or loss previously recognised in equity remains there until the forecast transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is recognised immediately in profit or loss.

Fair value hierarchy

Based on the requirements of IFRS 7, the fair values for financial assets and liabilities are classified following a scale that reflects the nature of the market data used to make the valuations. This scale has three levels of fair value:

- Level 1: Fair value calculated from the exchange rate / price quoted on the active market for identical instruments;
- Level 2: Fair value calculated from valuation techniques based on observable data such as active prices or similar liabilities or scopes quoted on the active market; or
- Level 3: Fair value from valuation techniques which rely completely or in part on non observable data such as prices on an inactive market or the valuation on a multiple basis for non quoted securities.

Financial instruments: Recognition and measurement of financial assets and liabilities

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

Held-to-maturity investments

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

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

Loans and receivables

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

Effective interest method

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

At fair value through profit or loss

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

Cash and cash equivalents

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

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

Financial liabilities

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

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

Inventories

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

Leases

Finance leases

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

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

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Sale and leaseback transactions resulting in a finance lease with a deferred credit are initially established at present value and credited to net cost of financial debt over the remaining term of the associated financial lease contracts.

Operating leases

In addition to finance leases, the Group also leases aircraft, buildings and equipment under operating lease agreements. Operating leases are lease contracts which are not classified as finance leases, i.e. the risks and rewards in connection with the ownership of the underlying assets are not substantially transferred to the lessee.

Lease expense of operating leases is recognised in the income statement on a straight-line basis over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately in the income statement. If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred and amortised in proportion over the period for which the asset is expected to be used.

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

Deferred income

Advance ticket sales

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

Deferred gains on sale and leaseback transactions

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

Flying Blue frequent flyer program

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

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

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

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

Deferred income taxes

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

Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same authority.

A deferred tax asset is recognised for all deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realised.

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

Provisions for employee benefits

Pensions and other post-employment benefits

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

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

1. The present value of the defined benefit obligations at the balance sheet date;
2. Plus any unrecognised actuarial gains (less actuarial losses) at the balance sheet date as described below;
3. Minus any past service cost not recognised at the balance sheet date; and
4. Minus the fair value of the plan assets at the balance sheet date.

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.

Using the so-called "corridor approach", previously unrecognised cumulative, actuarial gains and losses exceeding 10% of the present value of the total benefit obligations or the plan assets (whichever is higher) are recognised over expected employees' average residual active lives with an effect on future net income. When a plan is curtailed or settled, gains or losses arising are recognised immediately.

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

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

Other long-term employment benefits

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

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

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

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy.

The provision is recognised when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn.
Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Other provisions

Provisions are recognised when:

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

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

Emission Trading Scheme

As of January 1, 2012, European airlines entered the scope of companies subject to the Emission Trading Scheme (ETS). In the absence of an IFRS standard or interpretation regarding ETS accounting, the Group chose the following scheme known as the “netting approach”.
According to this approach, the quotas are recognised as intangible assets:

- Free quotas given the State are valued at nil; and
- Quotas purchased on the market are accounted at the acquisition cost.

These intangible assets are not amortised.

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

Accounting policies for the income statement

Revenues

Air transport

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

Maintenance contracts

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

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

External expenses

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

Gains / losses on disposals of property, plant and equipment

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

Reversal of impairment losses on financial assets

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

Other income and expense items

Gross cost of financial debt

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

Income from cash and cash equivalents

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

Foreign currency exchange gains and losses

Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, 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 and stock option program

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.

Until 2006/07 options to acquire AIR FRANCE KLM shares were granted. The last option expiry date was July 25, 2012 (see note 28).

Changes in the fair value of the liability are recognised as employee benefit expense in profit and loss.

Cash flow statement

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

Accounting estimates and judgements

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

Key sources of estimation uncertainty

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

Impairment of assets

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

Useful lives of property, plant and equipment

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

Valuation of inventories

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

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

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

Valuation of deferred tax assets and liabilities

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

Accounting for pensions and other post-employment benefits

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

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, 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 periodic pension cost 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. Net periodic pension and post-employment cost might also increase, but that depends on the actual relation between the unrecognised loss and the so-called corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation.

Other provisions

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

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

Determination of fair value

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

Financial Risk Management

Risk management organisation and fuel hedging policy

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of KLM, the Chief Executive Officer and the Chief Financial Officer of Air France and the chief Financial Officer of AIR FRANCE KLM. The RMC meets each quarter to
review AIR FRANCE KLM reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, and to decide on the hedging to be

implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument.

The aim is to reduce the exposure of AIR FRANCE KLM and, thus, to preserve budgeted margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. In-house procedures governing risk management prohibit speculation. Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The treasury departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis.

Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are swaps and options.
The policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current financial year and the two following ones, is supplied to the executive managements.
This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlying used, average hedge levels, the resulting net prices and stress scenarios, as well as market commentary. Furthermore, a weekly AIR FRANCE KLM report consolidates the figures from the two companies relating to fuel hedging and to physical cost. The instruments used are swaps and options.

Financial Risk Management

The Group is exposed to the following financial risks:

1. Market risk;
2. Credit risk; and
3. Liquidity and solvency risk.

1. Market risk

The Group is exposed to market risks in the following areas:

a. Currency risk;

b. Interest rate risk; and

c. Fuel price risk.

a. Currency risk

Most of AIR FRANCE KLM revenues are generated in euros. However, because of its international activities, AIR FRANCE KLM incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to 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 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 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 2012, KLM's net exposure to changes in market interest rates is neutral.

c. Fuel price risk

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

Main characteristics of the hedge strategy:

- Hedge horizon: 2 years.
- Minimum hedge percentage:
  Quarter underway: 65% of the volumes consumed;
  Quarter 1 to quarter 2: 65% of the volumes consumed;
  Quarter 3: 60% of the volumes consumed;
  Quarter 4: 50% of the volumes consumed;
  Quarter 5: 40% of the volumes consumed;
  Quarter 6: 30% of the volumes consumed;
  Quarter 7: 20% of the volumes consumed; and
  Quarter 8: 10% of the volumes consumed.
- Underlying: Brent, Gasoil and Jet CIF.
  At least 25% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (Jet Fuel and Gasoil).
- Instruments: Swap, call, call spread, three ways, four ways, collar and collar put spread.

2. Credit risk

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

As of December 31, 2012, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	596
AA+	32
AA	275
A+	195
A	253
Total	1,351

At December 31, 2012, 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 solvability risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its long and short 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 coming years.

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 April 1, 2011	**1,695**	**2,814**	**1,677**	**6,186**	**621**	**630**	**163**	**1,414**	**221**	**7,821**
Additions	230	76	47	353	2	12	5	19	55	427
Disposals	(310)	-	-	(310)	(1)	(41)	(3)	(45)	-	(355)
Other movements	-	44	(22)	22	(1)	6	-	5	-	27
As at Dec. 31, 2011	**1,615**	**2,934**	**1,702**	**6,251**	**621**	**607**	**165**	**1,393**	**276**	**7,920**
Accumulated depreciation										
As at April 1, 2011	**1,080**	**710**	**725**	**2,515**	**186**	**491**	**92**	**769**	**-**	**3,284**
Depreciation	97	109	132	338	22	21	10	53	-	391
Disposals	(154)	-	-	(154)	(2)	(33)	(3)	(38)	-	(192)
Other movements	51	70	(83)	38	1	(7)	-	(6)	-	32
As at Dec. 31, 2011	**1,074**	**889**	**774**	**2,737**	**207**	**472**	**99**	**778**	**-**	**3,515**
Net carrying amount										
As at April 1, 2011	**615**	**2,104**	**952**	**3,671**	**435**	**139**	**71**	**645**	**221**	**4,537**
As at Dec. 31, 2011	**541**	**2,045**	**928**	**3,514**	**414**	**135**	**66**	**615**	**276**	**4,405**

	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, 2012	**1,615**	**2,934**	**1,702**	**6,251**	**621**	**607**	**165**	**1,393**	**276**	**7,920**
Additions	-	76	290	366	-	3	1	4	129	499
Disposals	(434)	-	(171)	(605)	(1)	(34)	(7)	(42)	-	(647)
Other movements	285	197	(72)	410	8	10	2	20	(228)	202
As at Dec. 31, 2012	**1,466**	**3,207**	**1,749**	**6,422**	**628**	**586**	**161**	**1,375**	**177**	**7,974**
Accumulated depreciation										
As at Jan 1, 2012	**1,074**	**889**	**774**	**2,737**	**207**	**472**	**99**	**778**	**-**	**3,515**
Depreciation	97	147	186	430	29	27	12	68	-	498
Disposals	(215)	-	(166)	(381)	(1)	(32)	(7)	(40)	-	(421)
Other movements	166	15	19	200	1	-	(1)	-	-	200
As at Dec. 31, 2012	**1,122**	**1,051**	**813**	**2,986**	**236**	**467**	**103**	**806**	**-**	**3,792**
Net carrying amount										
As at Jan. 1, 2012	**541**	**2,045**	**928**	**3,514**	**414**	**135**	**66**	**615**	**276**	**4,405**
As at Dec. 31, 2012	**344**	**2,156**	**936**	**3,436**	**392**	**119**	**58**	**569**	**177**	**4,182**

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

	As at December 31, 2012	2011
Aircraft	123	142
Land and buildings	163	171
Other property and equipment	47	52
Carrying amount	**333**	**365**

Borrowing cost capitalised during the year amount to EUR 7 million (2011 EUR 5 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 4.0% (2011 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, 2012 amounts to EUR 290 million (December 31, 2011 EUR 306 million).

2 Intangible assets

	Goodwill	Software	Trade-marks	Software under development	Total
Historical cost					
As at April 1, 2011	**39**	**162**	**7**	**82**	**290**
Additions	-	16	-	34	50
Reclassifications	-	1	(2)	-	(1)
As at December 31, 2011	**39**	**179**	**5**	**116**	**339**
Accumulated amortisation and impairment					
As at April 1, 2011	**29**	**112**	**2**	**2**	**145**
Amortisation	-	18	1	-	19
Reclassifications	-	(5)	(1)	(2)	(8)
As at December 31, 2011	**29**	**125**	**2**	**-**	**156**

	Goodwill	Software	Trade-marks	Software under development	Total
Historical cost					
As at January 1, 2012	**39**	**179**	**5**	**116**	**339**
Additions	-	16	-	46	62
Reclassifications	-	-	1	(9)	(8)
As at December 31, 2012	**39**	**195**	**6**	**153**	**393**
Accumulated amortisation and impairment					
As at January 1, 2012	**29**	**125**	**2**	**-**	**156**
Amortisation	-	18	1	-	19
Reclassifications	-	-	-	-	-
As at December 31, 2012	**29**	**143**	**3**	**-**	**175**
Net carrying amount					
As at January 1, 2012	**10**	**54**	**3**	**116**	**183**
As at December 31, 2012	**10**	**52**	**3**	**153**	**218**

As at December 31, 2012, software under development mainly relates to replacement of departure and flight control systems, crew planning systems and aircraft maintenance systems.

3 Investments accounted for using the equity method

		As at December 31,
	2012	**2011**
Associates	90	62
Jointly controlled entities	23	23
Carrying amount	**113**	**85**

Investments in associates

	2012	**2011**
Carrying amount as at January 1 / April 1	**62**	**53**
Movements		
Investments	44	-
Share of profit/(loss) after taxation	(12)	5
Dividends received	(1)	(1)
Foreign currency translation differences	(3)	5
OCI movements derivatives	(2)	-
Other movements	2	-
Net movement	**28**	**9**
Carrying amount as at December 31	**90**	**62**

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, Kenya Airways Ltd., can be summarised as follows:

	2012	As at December 31, 2011
Country of incorporation	Kenya	Kenya
Percentage of interest held	26.73%	26%
Assets	681	721
Liabilities	479	509
Revenues	949	786
Profit/(loss) after taxation	15	32
Share of profit/(loss) after taxation	**4**	**8**

Above table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2012 and March 31, 2011.

In 2012, the Group participated in a share issue of Kenya Airways for an amount of EUR 36 million, which also slightly increased the Group's share in Kenya Airways from 26% to 26.73%.

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, 2012 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 40 million (2011 EUR 23 million).

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

	2012	As at December 31, 2011
Country of incorporation	France	France
Percentage of interest held	40%	40%
Assets	130	97
Liabilities	97	84
Revenues	215	172
Profit/(loss) after taxation	-	2
Share of profit/(loss) after taxation	**-**	**1**

Transavia France is an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%).

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.

In 2012 the Group participated in a share issue of Transavia France for an amount of EUR 8 million, of which EUR 2 million was paid in 2012.

Jointly controlled entities

	2012	2011
Carrying amount as at January 1 / April 1	**23**	**23**
Movements		
New consolidation	-	-
Share of profit/(loss) after taxation	1	-
Other movements	(1)	-
Net movement	**-**	**-**
Carrying amount as at December 31	**23**	**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,
	2012	**2011**
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	59	59
Current assets	2	-
Profit/(loss) after taxation	1	-
Share of profit / (loss) after taxation	**1**	**-**

4 Derivative financial instruments

As at December 31, 2011	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	17	31	-	-
Cash flow hedges	60	19	(20)	(7)
Items not qualifying for hedge accounting	9	1	(3)	(1)
Total exchange rate risk hedges	**86**	**51**	**(23)**	**(8)**
Interest rate risk				
Fair value hedges	1	20	-	(12)
Cash flow hedges	-	-	(1)	(74)
Items not qualifying for hedge accounting	-	2	-	(17)
Total interest rate risk hedges	**1**	**22**	**(1)**	**(103)**
Commodity risk hedges				
Cash flow hedges	78	7	(40)	(6)
Total commodity risk hedges	**78**	**7**	**(40)**	**(6)**
Others	-	15	-	(2)
Total as at December 31, 2011	**165**	**95**	**(64)**	**(119)**

As at December 31, 2012	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	10	4	(1)	(17)
Cash flow hedges	30	13	(27)	(12)
Items not qualifying for hedge accounting	3	14	(3)	(14)
Total exchange rate risk hedges	**43**	**31**	**(31)**	**(43)**
Interest rate risk				
Fair value hedges	-	19	-	(27)
Cash flow hedges	-	-	-	(115)
Items not qualifying for hedge accounting	-	1	-	(15)
Total interest rate risk hedges	**-**	**20**	**-**	**(157)**
Commodity risk hedges				
Cash flow hedges	37	11	(13)	(3)
Total commodity risk hedges	**37**	**11**	**(13)**	**(3)**
Others	-	26	-	(3)
Total as at December 31, 2012	**80**	**88**	**(44)**	**(206)**

Exposure to exchange rate risk

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

As at December 31, 2012 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	708	174	112	143	92	77	110	(7)
Forward sales								
USD	38	38	-	-	-	-	-	3
Total fair value hedges	**746**	**212**	**112**	**143**	**92**	**77**	**110**	**(4)**
Cash flow hedges								
Forward purchases								
USD	1,624	1,097	527	-	-	-	-	(17)
GBP	21	21	-	-	-	-	-	1
MXN	9	9	-	-	-	-	-	
Forward sales								
GBP	181	134	47	-	-	-	-	(3)
JPY	237	136	101	-	-	-	-	23
Other	1	1	-	-	-	-	-	
Total cash flow hedges	**2,073**	**1,398**	**675**	**-**	**-**	**-**	**-**	**4**
Items not qualifying for hedge accounting								
Forward purchases								
USD	4	4	-	-	-	-	-	(1)
JPY	267	38	38	32	-	51	108	15
Forward sales								
USD	4	4	-	-	-	-	-	1
JPY	267	38	38	32	-	51	108	(15)
Total items not qualifying for hedge accounting	**542**	**84**	**76**	**64**	**-**	**102**	**216**	**-**
Total exchange rate risk derivatives	**3,361**	**1,694**	**863**	**207**	**92**	**179**	**326**	**-**

Exposure to interest rate risk

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

			In local currency millions					In millions of Euros
As at December 31, 2012	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	593	-	30	32	60	-	471	(8)
Total fair value hedges	**593**	**-**	**30**	**32**	**60**	**-**	**471**	**(8)**
Cash flow hedges								
Swaps	1,859	24	239	157	163	225	1,051	(115)
Total cash flow hedges	**1,859**	**24**	**239**	**157**	**163**	**225**	**1,051**	**(115)**
Items not qualifying for hedge accounting								
Swaps	88	-	-	-	-	-	88	(13)
Total Items not qualifying for hedge accounting	**88**	**-**	**-**	**-**	**-**	**-**	**88**	**(13)**
Total interest rate risk derivatives	**2,540**	**24**	**269**	**189**	**223**	**225**	**1,610**	**(136)**

Exposure to commodity risk

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

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

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2012 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	213	170	43	-	-	-	-	-
Options	2,211	1,657	554	-	-	-	-	32
Total cash flow hedges	**2,424**	**1,827**	**597**	**-**	**-**	**-**	**-**	**32**
Total commodity risk derivatives	**2,424**	**1,827**	**597**	**-**	**-**	**-**	**-**	**32**

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2012, 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	7	-	7
Assets at fair value through profit and loss			
Marketable securities	-	42	42
Cash and cash equivalents	1,077	-	1,077
Derivatives instruments (asset and liability)			
Currency exchange derivatives	-	-	-
Interest rate derivatives	-	(137)	(137)
Commodity derivatives	-	33	33

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, 2012.

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, 2012		December 31, 2011	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Pre-tax income	50	(59)	55	(69)
Other reserves	84	(73)	63	(49)

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, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
USD	124	203	232	756
JPY	-	-	393	331
CHF	-	-	347	344

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, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Change in value of financial instruments	1	-	28	30	-	-
Other reserves	(147)	(131)	21	13	14	10

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 trading derivatives.

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 2012 (EUR nil million for 2011).

5 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Carrying amount as at January 1 / April 1	**205**	**272**	**38**	**34**	**46**	**136**	**289**	**442**
Movements								
Additions and loans granted	1	-	6	(2)	1	(75)	8	(77)
Loans and interest repaid	(42)	(135)	(7)	(3)	-	-	(49)	(138)
Interest accretion	38	52	-	-	-	-	38	52
Foreign currency translation differences	(5)	22	(1)	3	3	(9)	(3)	16
Other movements	(1)	(6)	-	6	-	(6)	(1)	(6)
Net movement	**(9)**	**(67)**	**(2)**	**4**	**4**	**(90)**	**(7)**	**(153)**
Carrying amount as at December 31	**196**	**205**	**36**	**38**	**50**	**46**	**282**	**289**

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	31	165	40	165
Loans and receivables				
Other loans and receivables	5	31	4	34
At fair value through profit or loss				
Restricted deposit EU anti-trust investigations	42	-	42	-
AIR FRANCE KLM S.A. shares	-	8	-	4
Other financial assets	-	-	-	-
	42	**8**	**42**	**4**
Carrying amount	**78**	**204**	**86**	**203**

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, 2012	2011
USD	220	227
GBP	2	2
Total	**222**	**229**

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, 2012		December 31, 2011	
in %	**EUR**	**USD**	**EUR**	**USD**
Held-to-maturity investments	-	3.4	-	4.9
Loans and receivables	0.3	2.3	1.5	0.2
At fair value through profit or loss	0.8	-	1.5	-

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 42 million (December 31, 2011 EUR 42 million) is restricted.

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

	As at December 31, 2012	2011
Held-to-maturity		
Less than 1 year	31	40
Between 1 and 2 years	28	33
Between 2 and 3 years	66	32
Between 3 and 4 years	-	61
Between 4 and 5 years	-	-
Over 5 years	71	39
Total	**196**	**205**

The maturities of loans and receivables are as follows:

	2012	As at December 31, 2011
Loans and receivables		
Less than 1 year	4	2
Between 1 and 2 years	9	1
Between 2 and 3 years	4	1
Between 3 and 4 years	1	4
Between 4 and 5 years	2	1
Over 5 years	16	29
Total	**36**	**38**

The fair values of the financial assets are as follows:

	2012	As at December 31, 2011
Held-to-maturity		
Triple A bonds and long-term deposits	**221**	**225**
Loans and receivables		
Other loans and receivables	**22**	**37**
At fair value through profit or loss		
Restricted deposit EU Cargo Claim	42	42
AIR FRANCE KLM S.A. shares	8	4
	50	**46**
Total fair value	**293**	**308**

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, 2012 and December 31, 2011;
- Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

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

	As at December 31, 2012	2011
Less than 1 year	77	45
Between 1 and 2 years	37	32
Between 2 and 3 years	70	31
Between 3 and 4 years	1	103
Between 4 and 5 years	2	-
Over 5 years	81	51
Total interest bearing financial assets	**268**	**262**

6 Inventories

	As at December 31, 2012	2011
Carrying amount		
Maintenance inventories	110	130
Other sundry inventories	94	106
Total	**204**	**236**

Allowance for obsolete inventory amounted to EUR 62 million (December 31, 2011 EUR 55 million).

7 Trade and other receivables

	As at December 31, 2012	2011
Trade receivables	560	503
Provision trade receivables	(13)	(12)
Trade receivables - net	547	491
Amounts due from:		
- AIR FRANCE KLM group companies	102	82
- associates and jointly controlled entities	6	6
- maintenance contract customers	96	111
Taxes and social security premiums	26	27
Other receivables	38	63
Prepaid expenses	72	76
Total	**887**	**856**

In the financial year EUR 4 million (December 31, 2011 EUR 1 million increase) increase of provision trade receivables has been recorded in other operating income and expenses in the consolidated income statement.

Maintenance contract cost incurred to date (less recognised losses) for contracts in progress at December 31, 2012 amounted to EUR 78 million (December 31, 2011 EUR 86 million).

Advances received for maintenance contracts in progress at December 31, 2012 amounted to EUR 6 million (December 31, 2011 EUR 17 million).

8 Cash and cash equivalents

		As at December 31,
	2012	**2011**
Cash at bank and in hand	158	117
Short-term deposits	1,077	940
Total	**1,235**	**1,057**

The effective interest rates on short-term deposits are in the range from 0.02% to 3.00% (2011 range 0.65% to 3.44%). 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,
	2012	**2011**
USD	18	30
GBP	-	2
JPY	2	1
Other currencies	10	14
Total	**30**	**47**

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, 2012		December 31, 2011	
	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, 2012 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 other information section.

10 Other reserves

	Hedging reserve	Translation reserve	Other Legal reserve	Total
As at April 1, 2011	**163**	**(18)**	**159**	**304**
Gains/(losses) from cash-flow hedges	(236)	-	-	(236)
Exchange differences on translating foreign operations	-	8	-	8
Transfer to retained earnings	-	-	56	56
Tax on items taken directly to or transferred from equity	59	-	-	59
As at December 31, 2011	**(14)**	**(10)**	**215**	**191**
As at January 1, 2012	**(14)**	**(10)**	**215**	**191**
Gains/(losses) from cash-flow hedges	(93)	-	-	(93)
Exchange differences on translating foreign operations	-	(1)	-	(1)
Transfer to retained earnings	-	-	31	31
Tax on items taken directly to or transferred from equity	23	-	-	23
As at December 31, 2012	**(84)**	**(11)**	**246**	**151**

The legal reserves consist of the following items:

Hedging reserve

The hedging reserve comprised 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.

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, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A	60	476	150	386
Others	-	-	-	1
Total	**60**	**476**	**150**	**387**

Loans from parent company non-current

On June 26, 2009, AIR FRANCE KLM S.A. issued a loan of a principal amount of EUR 661 million, represented by 56 million bonds convertible and/or exchangeable for new or existing shares of AIR FRANCE KLM due April 1, 2015.

AIR FRANCE KLM S.A., Air France and KLM have agreed that the proceeds of the convertible bonds will be made available to Air France and KLM pursuant to a loan agreement dated March 19, 2010. Thereby AIR FRANCE KLM grants to KLM a total amount of EUR 386 million in the form of a credit facility.

On March 26, 2010, KLM has drawn the credit facility in full. The drawn amount bears a floating interest rate. KLM has the intention to keep the drawn amount until maturity date.

On December 14, 2012, AIR FRANCE KLM S.A. issued a loan of a principal amount of EUR 500 million, whereby AIR FRANCE KLM grants to KLM a total amount of EUR 180 million in the form of a credit facility. On December 20, 2012, KLM has drawn EUR 90 million on this facility with a maturity date of January 18, 2018. The drawn amount bears a fixed rate of 6.25%.

However, according to both loan agreements, KLM may repay the drawn amounts of both loans at any time before the maturity date. Any advance repaid can be borrowed again.

Loans from parent company current

In addition, AIR FRANCE KLM S.A. issued a EUR 700 million bond with 7 years duration as of October 14, 2009. AIR FRANCE KLM S.A., Air France and KLM have agreed that the proceeds of the bond will be made available to Air France and KLM pursuant to a loan agreement dated March 26, 2010. Thereby AIR FRANCE KLM grants to KLM a total amount of EUR 350 million in the form of a credit facility.

On December 31, 2012, KLM has drawn EUR 60 million (December 31, 2011 EUR 150 million) of the EUR 350 million credit facility, for a period of three months. The drawn amount bears a floating interest rate.

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, 2012			December 31, 2011		
	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	404	82	322	365	81	284
Total current	**404**	**82**	**322**	**365**	**81**	**284**
Between 1 and 2 years	291	75	216	329	70	259
Between 2 and 3 years	362	60	302	276	60	216
Between 3 and 4 years	226	54	172	325	47	278
Between 4 and 5 years	352	39	313	205	33	172
Over 5 years	847	54	793	932	62	870
Total non-current	**2,078**	**282**	**1,796**	**2,067**	**272**	**1,795**
Total	**2,482**	**364**	**2,118**	**2,432**	**353**	**2,079**

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 2.16% (average fixed rate 3.80%, average floating rate 1.46%). Taking into account the impact of hedging the average interest rate is 3.43% (average fixed rate 3.42%, average floating rate 3.47%). After hedging 89% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 1,982 million as at December 31, 2012 (December 31, 2011 EUR 2,070 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	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Operating lease commitments								
Within 1 year	316	327	31	31	9	15	356	373
Total current	**316**	**327**	**31**	**31**	**9**	**15**	**356**	**373**
Between 1 and 2 years	293	291	28	28	8	12	329	331
Between 2 and 3 years	266	267	25	24	6	10	297	301
Between 3 and 4 years	264	243	23	22	6	7	293	272
Between 4 and 5 years	229	247	23	20	3	7	255	274
Over 5 years	1,005	1,187	202	201	5	18	1,212	1,406
Total non-current	**2,057**	**2,235**	**301**	**295**	**28**	**54**	**2,386**	**2,584**
Total	**2,373**	**2,562**	**332**	**326**	**37**	**69**	**2,742**	**2,957**

13 Other financial liabilities

	2012	2011
Carrying amount as at January 1 / April 1	**1,715**	**1,771**
Additions and loans received	121	(3)
Loans repaid	(239)	(119)
Foreign currency translation differences	(42)	73
Other changes	21	(7)
Net movement	**(139)**	**(56)**
Carrying amount as at December 31	**1,576**	**1,715**

The financial liabilities comprise:

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	603	-	625
Other loans (secured/unsecured)	152	789	239	819
Total	**152**	**1,424**	**239**	**1,476**

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, 2012 (December 31, 2011 EUR 346 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

		As at December 31,
	2012	**2011**
Less than 1 year	152	239
Between 1 and 2 years	347	153
Between 2 and 3 years	183	329
Between 3 and 4 years	85	165
Between 4 and 5 years	87	76
Over 5 years	722	753
Total	**1,576**	**1,715**

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

		As at December 31,
	2012	**2011**
USD	52	64
CHF	347	344
JPY	256	280
Total	**655**	**688**

The fair values of financial liabilities are as follows:

		As at December 31,
	2012	**2011**
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	324	733
Other loans (secured/unsecured)	921	1,057
Fair value	**1,277**	**1,822**

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, 2011				
Total borrowings	1,053	-	662	1,715
Effect of interest rate swaps	(455)	-	455	-
	598	**-**	**1,117**	**1,715**
As at December 31, 2012				
Total borrowings	950	-	626	1,576
Effect of interest rate swaps	(355)	-	355	-
	595	**-**	**981**	**1,576**

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

	December 31, 2012		**December 31, 2011**	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	3.76	-	4.30	-
Subordinated perpetual loans	-	4.00	-	3.96
Other loans	1.78	-	2.37	-

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	-	602	-	4.35	4.35
Other loans	582	360	2.10	3.01	2.45

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 this facility as at December 31, 2012 and 2011.

14 Deferred income

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Advance ticket sales	721	-	597	-
Sale and leaseback transactions	7	24	14	19
Flying Blue frequent flyer program	96	154	73	182
Others	1	8	1	9
Total	**825**	**186**	**685**	**210**

15 Deferred income tax

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

	2012	2011
Carrying amount as at January 1 / April 1	**332**	**373**
Income statement (credit) /charge	(11)	22
Tax (credited)/charged to equity	(23)	(59)
Other movements	-	(4)
Net movement	**(34)**	**(41)**
Carrying amount as at December 31	**298**	**332**

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

The amounts of deferred tax assets recognised in the other tax jurisdictions (i.e. in The United Kingdom) and in Dutch subsidiaries not included in KLM income tax fiscal unity in The Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 40 million, EUR 2 million is expected to be recovered in 12 months or less and EUR 38 million is expected to be recovered after more than 12 months.

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

	2012	As at December 31, 2011
Deferred tax asset	(40)	(37)
Deferred tax liability (offset)	338	369
Current income tax liability	-	4
	298	**336**

The current income tax liability relates to the result on the disposal of real estate outside The Netherlands.

The net deferred tax liability is built up as follows:

	As at December 31, 2012	2011
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	16	10
Deferred tax assets to be recovered after more than 12 months	523	432
	539	**442**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	5	7
Deferred tax liabilities to be settled over more than 12 months	872	804
	877	**811**
Net deferred tax liability	**338**	**369**

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 April 1	Income statement (charge) / credit	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
Fiscal 2011					
Tax losses	370	42	-	-	412
Fleet assets	54	(9)	-	-	45
Fleet related assets (maintenance)	5	(1)	-	-	4
Provisions for employee benefits	16	-	-	-	16
Financial lease obligations	2	-	-	-	2
Derivative financial instruments	-	-	-	4	4
Other	7	(1)	-	-	6
Total	**454**	**31**	**-**	**4**	**489**

	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 2012					
Tax losses	412	83	-	-	495
Fleet assets	45	(14)	-	-	31
Fleet related assets (maintenance)	4	(1)	-	-	3
Provisions for employee benefits	16	-	-	-	16
Financial lease obligations	2	-	-	-	2
Derivative financial instruments	4	-	23	-	27
Other	6	(1)	-	-	5
Total	**489**	**67**	**23**	**-**	**579**

	Carrying amount as at April 1	Income statement charge / (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2011					
Other tangible fixed assets	11	(3)	-	-	8
Pensions and benefits (asset)	747	55	-	-	802
Maintenance provision	8	(2)	-	-	6
Derivative financial instruments	55	-	(59)	4	-
Other	6	(1)	-	-	5
Total	**827**	**49**	**(59)**	**4**	**821**

	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 2012					
Other tangible fixed assets	8	(3)	-	-	5
Pensions and benefits (asset)	802	61	-	-	863
Maintenance provision	6	(2)	-	-	4
Derivative financial instruments	-	-	-	-	-
Other	5	-	-	-	5
Total	**821**	**56**	**-**	**-**	**877**

The Group has tax loss carry forwards in The Netherlands amounting to EUR 1.9 billion (December 31, 2011 EUR 1.6 billion) and in The United Kingdom amounting to EUR 39 million (December 31, 2011 EUR 24 million) for which a deferred tax asset has been recognised to the extent that expected future taxable profits in excess of the profit arising from the reversal of existing temporary differences, are sufficient for utilisation of those tax loss carry forwards. If these expected future taxable profits will not materialise, this could have a significant impact on the recoverability of these deferred tax assets.
Under Income Tax law in The Netherlands, the maximum future period for utilising tax losses carried forward is nine years. In The United Kingdom, this period is indefinite.

The Group has tax loss carry forwards in The United Kingdom in the amount of EUR 11 million (December 31, 2011 EUR 7 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences amounting to EUR 19 million (December 31, 2011 EUR 32 million).

16 Provisions for employee benefits

	December 31,		March 31,		
	2012	2011	2011	2010	2009
Pension and early-retirement obligations	78	67	66	70	73
Post-employment medical benefits	36	36	33	35	34
Other long-term employment benefits	85	82	79	91	67
Termination benefits	12	12	12	11	11
Total Liabilities	**211**	**197**	**190**	**207**	**185**
Less: Non-current portion					
Pension and early-retirement obligations	41	28	41	45	45
Post-employment medical benefits	34	33	31	33	32
Other long-term employment benefits	77	77	73	79	61
Termination benefits	11	11	11	10	9
Non-current portion	**163**	**149**	**156**	**167**	**147**
Current portion	**48**	**48**	**34**	**40**	**38**

	December 31,		March 31,		
	2012	2011	2011	2010	2009
Assets					
Pension assets non current portion	3,459	3,209	2,989	2,707	2,472
Total assets	**3,459**	**3,209**	**2,989**	**2,707**	**2,472**

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.

Despite the volatility in the financial markets in 2012, the plan assets increased by EUR 2,014 million. Overall interest rates decreased sharply in 2012 as a result of which the discount rate used to calculate the pension obligations decreased from 5.0% to 3.65%. This was partly offset by lower future salary increase assumptions in relation to the *Transform 2015 / Securing Our Future* plan. Due the aforementioned and the addition of the periodical service- and interest cost, the funded pension obligations increased by EUR 1,965 million, leading to a slight improvement of the funded status.

The three major KLM pension funds benefited from the increase in the value of fund assets, but the obligations increased due to the low interest rates, as set by the Dutch Central Bank. This resulted in the following funding ratios as at December 31, 2012:

- Ground Staff pension fund 116.6% (December 31, 2011: 108.6%)
- Cabin Crew pension fund 115.9% (December 31, 2011: 107.2%)
- Cockpit Crew pension fund 126.9% (December 31, 2011: 122.2%)

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 2,147 million as at December 31, 2012 (December 31, 2011 EUR 2,098 million). Actuarial gains and losses are recognised in determining the benefit obligations and the plan assets only to the extent that they cumulatively exceed the greater of 10% of the present value of the obligations or the fair value of the plan assets. Surpluses and deficits have been recognised in the balance sheet according to IAS 19.

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

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets 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, 2012 the net assets recognised in the balance sheet of the three main funds, after taking into account unrecognised net actuarial gains and losses and net unrecognised past service cost amount to EUR 3,459 million (December 31 2011 EUR 3,209 million).

New IAS 19 as from 2013

The main impacts of the revisions of IAS 19 as per January 1, 2013 are:

- Removal of the corridor method. As of the effective date all actuarial gains and losses should be recognised as remeasurement in Other Comprehensive Income (OCI) in equity as per transition date; and
- Expected return on fund assets will be replaced by the same interest rate as used to calculate the discounted defined benefit obligations. Since this new interest rate is lower than the expected return on fund assets used under the former IAS 19, the Net Periodic Pension Cost (NPPC) will increase as from 2013 (including comparative figures 2012).

The implementation as of January 1, 2013 will result in:

- A negative adjustment in the opening equity of the first comparative financial year, i.e. as of January 1, 2012, amounting to EUR 1,051 million gross reduced by the tax effect to EUR 788 million net of tax;
- An adjustment in the result 2012 amounting to EUR 72 million negative gross reduced by the tax effect to EUR 54 million negative net of tax; and
- A negative adjustment in equity as of December 31, 2012 amounting to EUR 1,254 million gross reduced by the tax effect to EUR 940 million net of tax.

Investment strategy

The boards of the funds 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 the assets in equities which it 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. Most assets are managed by the Blue Sky Group.

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				
	December 31,		March 31,		
in %	2012	2011	2011	2010	2009
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended	3.66	4.98	5.21	4.78	5.53
Rate of compensation increase	1.55	2.35	2.89	3.08	3.03
Rate of price inflation	1.95	2.04	2.02	1.84	1.81
Weighted average assumptions used to determine net cost					
Discount rate for year ended	4.98	5.21	4.78	5.53	5.53
Expected long-term rate of return on plan assets	5.58	6.05	6.15	6.16	5.71
Rate of compensation increase	2.35	2.89	3.08	3.03	3.01
Rate of price compensation	2.04	2.02	1.84	1.81	2.03

For the main Dutch pension plans, the 2012-2062 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association were used.

The sensitivity of the net periodic pension cost and the defined benefit obligation to variation in the discount rate are:

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2012	December 31, 2011
0.25% increase in the discount rate		
Impact on the net periodic pension cost	(54)	(22)
Impact on defined benefit obligation	(581)	(480)
0.25% decrease in the discount rate		
Impact on the net periodic pension cost	68	44
Impact on defined benefit obligation	804	634

	Pension and early-retirement obligations				
	December 31,		March 31,		
	2012	2011	2011	2010	2009
Present value of wholly or partly funded obligations	13,750	11,785	10,969	10,803	8,834
Fair value of plan assets	(15,897)	(13,883)	(13,218)	(12,407)	(9,967)
Subtotal	**(2,147)**	**(2,098)**	**(2,249)**	**(1,604)**	**(1,133)**
Present value of unfunded obligations	(1)	(1)	(1)	1	1
Unrecognised net actuarial gains/(losses)	(1,233)	(1,042)	(673)	(1,034)	(1,267)
Subtotal	**(1,234)**	**(1,043)**	**(674)**	**(1,033)**	**(1,266)**
Net liability/(asset) relating pension and other post-retirement obligations	**(3,381)**	**(3,141)**	**(2,923)**	**(2,637)**	**(2,399)**

	Pension and early-retirement obligations				
	December 31,		March 31,		
	2012	2011	2011	2010	2009
Amounts in the balance sheet					
Liabilities	78	67	66	70	73
Assets	(3,459)	(3,209)	(2,989)	(2,707)	(2,472)

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

	Pension and early-retirement obligations				
	2012	**2011**	**2011/10**	**2010/09**	**2009/08**
Carrying amount as at January 1 / April 1	**11,785**	**10,969**	**10,803**	**8,834**	**8,652**
Service cost	397	270	356	287	282
Interest cost	575	423	525	495	484
Curtailments	(3)	-	(15)	(1)	(7)
Actuarial losses/(gains)	1,375	378	(340)	1,517	(212)
Benefits paid from plan/company	(381)	(280)	(357)	(345)	(324)
Other	(5)	(1)	(6)	3	(3)
Exchange rate changes	7	26	3	13	(38)
Net movement	1,965	816	166	1,969	182
Carrying amount as at December 31 / March 31	**13,750**	**11,785**	**10,969**	**10,803**	**8,834**

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

	2012	**2011**	**2011/10**	**2010/09**	**2009/08**
Fair value as at January 1 / April 1	**13,883**	**13,218**	**12,407**	**9,967**	**11,910**
Expected return on plan assets	778	601	765	616	679
Actuarial gains/(losses) (related to the plan assets)	1,176	13	14	1,729	(2,607)
Employer contributions	386	274	354	376	310
Member contributions	54	38	51	51	36
Benefits paid from plan / company	(385)	(280)	(357)	(345)	(324)
Curtailments	-	-	(16)	(1)	-
Other	(2)	2	(1)	3	(2)
Exchange rate changes	7	17	1	11	(35)
Net movement	2,014	665	811	2,440	(1,943)
Fair value as at December 31 / March 31	**15,897**	**13,883**	**13,218**	**12,407**	**9,967**

The actual return on pension plan assets is EUR 1,954 million positive (December 31, 2011 EUR 614 million positive).

The experience adjustments are as follows:

	December 31,		March 31,		
	2012	**2011**	**2011**	**2010**	**2009**
Benefit obligation	23	86	121	91	(115)
Plan asset	1,176	13	14	1,729	(2,607)

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

in %	December 31, 2012	December 31, 2011	March 31, 2011	March 31, 2010	March 31, 2009
Debt securities	50.3	51.9	48.9	52.4	55.5
Real estate	9.9	12.2	10.5	9.0	9.4
Equity securities	38.3	35.9	40.5	38.2	34.7
Other	1.5	-	0.1	0.4	0.4

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				
	December 31,		March 31,		
	2012	2011	2011	2010	2009
Present value of unfunded obligations	56	45	37	37	33
Unrecognised net actuarial gains/(losses)	(20)	(9)	(4)	(2)	1
Net liability/(asset) relating pension and other post-retirement obligations	**36**	**36**	**33**	**35**	**34**

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

	Post-employment medical benefits				
	2012	2011	2011	2010	2009
Carrying amount as at January 1 / April 1	**45**	**37**	**37**	**33**	**32**
Service cost	-	-	-	-	-
Interest cost	2	1	2	2	2
Curtailments	-	-	-	-	-
Actuarial losses/(gains)	12	5	2	4	(5)
Benefits paid from plan/company	(2)	(1)	-	-	-
Other	-	(1)	(2)	(2)	(1)
Exchange rate changes	(1)	4	(2)	-	5
Net movement	**11**	**8**	**-**	**4**	**1**
Carrying amount as at December 31 / March 31	**56**	**45**	**37**	**37**	**33**

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

in %	Post-employment medical benefits				
	December 31, 2012	2011	March 31, 2011	2010	2009
Weighted average assumptions used to determine benefit obligations					
Discount rate for year	3.35	4.40	5.38	5.90	7.05
Weighted average assumptions used to determine net cost					
Discount rate for year	3.35	4.40	5.38	5.90	7.05
Medical cost trend rate assumptions used to determine net cost *					
Immediate trend rate Pre 65	7.30	9.50	9.56	9.56	8.20
Immediate trend rate Post 65	7.30	9.50	9.56	9.56	10.90
Ultimate trend rate	4.90	5.00	5.00	5.00	5.00
Year that the rate reaches ultimate trend rate	2095	2016	2015	2014	2013/14

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

Other long-term employee benefits

	December 31, 2012	2011	March 31, 2011	2010	2009
Jubilee benefits	57	53	51	52	47
Other benefits	28	29	28	39	20
Total carrying amount	**85**	**82**	**79**	**91**	**67**
Less: Non-current portion					
Jubilee benefits	52	48	45	46	43
Other benefits	25	29	28	33	18
Non-current portion	**77**	**77**	**73**	**79**	**61**
Current portion	**8**	**5**	**6**	**12**	**6**

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

Termination benefits

The provision for other benefits relates to existing retirement entitlements.

	December 31, 2012	2011	March 31, 2011	2010	2009
Redundancy benefits					
Non-current portion	11	11	11	10	9
Current portion	1	1	1	1	2
Total carrying amount	**12**	**12**	**12**	**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, 2012	**148**	**75**	**26**	**176**	**31**	**456**
Additional provisions and increases in existing provisions	70	6	11	15	42	144
Unused amounts reversed	(1)	-	(2)	-	-	(3)
Used during year	(43)	(10)	(9)	(5)	(6)	(73)
Other changes	(5)	-	3	(5)	6	(1)
As at December 31, 2012	**169**	**71**	**29**	**181**	**73**	**523**
Current / non-current portion						
Non-current portion	168	60	17	179	60	484
Current portion	1	11	12	2	13	39
Carrying amount as at December 31, 2012	**169**	**71**	**29**	**181**	**73**	**523**

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.

Legal issues

The provision as at December 31, 2012 relates to the Cargo anti-trust investigations in Europe for KLM and Martinair and anti-trust investigations in South Africa, Brazil and Switzerland. For more details reference is made to note 20 Contingent assets and liabilities. The Group has provided restricted deposits for part of 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, demolition cost of buildings and site restoration cost for land and buildings under long term lease agreements.

18 Trade and other payables

	As at December 31, 2012	2011
Trade payables	668	690
Amounts due to AIR FRANCE KLM Group companies	117	73
Taxes and social security premiums	121	97
Other payables	300	257
Accrued liabilities	578	507
Total	**1,784**	**1,624**

19 Commitments

As at December 31, 2012, KLM has commitments for previously placed orders amounting to EUR 1,789 million (December 31, 2011 EUR 2,045 million). EUR 1,702 million of this amount relates to aircraft (December 31, 2011 EUR 2,002 million) of which EUR 188 million is due in 2013. The balance of the commitments as at December 31, 2012 amounting to EUR 87 million (December 31, 2011 EUR 43 million) is related to other tangible fixed assets. As at December 31, 2012 prepayments on aircraft orders have been made, amounting to EUR 156 million (December 31, 2011 EUR 250 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, and related civil lawsuits.

On February 14, 2006, authorities from the EU Commission presented themselves at the offices of KLM Cargo and Martinair as well as many other airlines and world major Cargo operators, formally requesting information about an alleged conspiracy to fix the price and certain surcharges of air cargo services. The action was followed by formal or informal investigations by competition authorities in other jurisdictions.

On November 9, 2010, the European Commission announced its decision in this investigation, imposing fines on 14 airlines, including KLM and Martinair. KLM and Martinair received a combined fine of EUR 157 million, which is fully provided for. Reference is made to note 17 Other provisions – Legal issues.

KLM and Martinair have filed an appeal against the decision before the General Court of the European Union in Luxemburg in January 2011. Since the appeal does not suspend the payment of the fine, KLM and Martinair have provided guarantees backed by a cash pledge (reference is made to note 5 Other financial assets) and unsecured guarantees instead of an immediate payment. KLM and Martinair are awaiting a date for the hearing before the General Court.

In South Korea, late 2009, KLM together with numerous other airlines, received notices of charges from the Korean anti-trust authority (KFTC) for allegations of anti-competitive agreements on the fuel surcharge. KLM has disputed these allegations, pointing out that the practices concerned were consistent with its obligations under the bilateral air-traffic agreements between The Netherlands and South Korea, and under the South Korean civil aviation code. On November 29, 2010, the KFTC imposed a fine of the equivalent of EUR 4.5 million on KLM, which was paid in January 2011. KLM filed an appeal against this decision before the competent court in Korea which was dismissed. An appeal filing against the court decision was submitted to the Supreme Court.

As of July 2012, settlement negotiations were finalized between the Competition Commission of South Africa and KLM resulting in a total settlement amount for KLM and Air France combined of EUR 1.8 million (of which EUR 1.15 million is to be paid by KLM, and provided for by KLM). The settlement agreement was confirmed as a consent order by the Competition Tribunal on October 17, 2012.

As of December 31, 2012, the procedures respectively with the authorities of Brazil and Switzerland were still ongoing, in which KLM is co-operating. Provisions are recorded in the financial accounts for both procedures (EUR 1.1 million for the Brazilian procedure and EUR 0.6 million for the Swiss procedure).

b. Civil actions relating to the Cargo Business

In addition to the above-mentioned investigations, KLM and Martinair are (or were) involved in class actions in the US and Australia as well as various civil actions in Europe.

US

With respect to the US class actions, KLM and Martinair (together with Air France) concluded a settlement agreement with the plaintiffs in July 2010, bringing an end to all claims, court proceedings in connection with unlawful practices for Cargo transportation to, from and within the US. The share of KLM and Martinair in the concluded settlement agreement amounts to EUR 31 million, which was paid in July 2010.

On March 14, 2011, the Court issued an order granting final approval of the afore-mentioned settlement. Before that date, 36 claimants have opted out. Of those 36, only 4 are customers of KLM, Martinair or Air France. These customers may pursue separate claims. With respect to those customers who have chosen to be excluded, a part of the settlement proportional to the revenue KLM, Martinair and Air France received from those parties as compared to the overall revenue, was segregated in a separate escrow.

Netherlands

In September 2010, KLM, Martinair as well as Air France have been summoned to appear before the District Court of Amsterdam in a civil law suit brought by a company named Equilib. Equilib currently states that it has purchased claims from 175 indirect purchasers of air cargo services, who claim to have suffered damages as a result of the alleged antitrust infringements.

KLM, Martinair and Air France have served the other airlines that were fined by the European Commission with a contribution claim and a claim to make them join the proceedings. This is to ensure that, if the Amsterdam Court ultimately decides that KLM, Martinair and Air France are liable, the burden will be shared amongst all responsible parties. In the contribution proceedings, the Amsterdam Court ruled in June 2012 that the proceedings be stayed pending appeal against the Commission decision.

KLM and Air France have also been summoned on February 2012 to appear before the Amsterdam Court in a similar civil suit initiated by East West Debt B.V. In its writ, East West Debt claims to represent 8 recipients of airfreight services that allegedly suffered loss as a result of the alleged antitrust infringements. East West Debt to date has not substantiated its claim.

On November 7, 2012, the Amsterdam Court issued a similar ruling as that on Equilib and stayed the proceedings. KLM and Air France have filed contribution proceedings against the other addressees of the European Commission decision to ensure that if the Amsterdam Court ultimately decides that KLM and Air France are liable, the burden will be shared amongst all responsible parties. In the contribution proceedings, the Amsterdam Court has not yet decided on whether to stay the proceedings.

These law suits have not been provided for, as KLM and Martinair are unable given the current status of the proceedings to assess its exposure.

UK

In the United Kingdom, a civil law suit has been filed against British Airways by two flower importers. British Airways has initiated contribution proceedings against the other airlines, which were fined by the European Commission, including KLM, Martinair and Air France, on November 9, 2010. In the main proceedings, the plaintiffs were granted permission to add parties to the proceedings, resulting in 267 plaintiffs. To date, British Airways has neither quantified nor substantiated its purported claims and the contribution proceedings have been stayed. No provision has been made for this law suit.

Australia

In 2007, a class action in the Federal Court of Australia was initiated against seven airlines (Cathay pacific, Singapore Airlines, Lufthansa, British Airways, Qantas, JAL and Air New Zealand). On August 15, 2011, November 4, 2011, December 5, 2011 and December 19, 2011, respectively, Cathay Pacific and Singapore, Lufthansa, Air New Zealand and British Airways have issued cross claims for contribution against KLM, Martinair and Air France. To date, neither of these cross claimant airlines have quantified nor substantiated their purported claims. No provision has been made for this law suit.

Norway

In December 2010, Marine Harvest Norway AS, filed a complaint against KLM and Air France with the Ullensaker Conciliation Board in Norway, stating that it purportedly suffered damages. To date, Marine Harvest Norway AS has not sufficiently substantiated its purported claim. No provision has been made for this law suit.

KLM and Martinair, together with Air France, will vigorously defend themselves in all civil law suits initiated against them.

c. Civil actions relating to the Passenger Business

In 2009, KLM and Air France were subpoenaed in a class action involving all the airlines operating transpacific routes between the United States and Asia/Oceania, on the basis of allegations of price-fixing on such routes. KLM terminated the case on the basis of a non-monetary settlement. This settlement agreement was approved by the competent judge on December 5, 2012.

VEB c.s.

The Dutch association "Vereniging van Effectenbezitters" together with an individual KLM shareholder have served KLM and AIR FRANCE KLM (the latter in its capacity of priority shareholder) with a claim that KLM be ordered to pay a higher dividend over financial year 2007/08, claiming that the dividend that was declared is unfair and not equitable and that the special rights of minority shareholders have not been observed. By its decision of September 1, 2010, the Amsterdam Court dismissed all claims. Claimants appealed the court decision. The Amsterdam Court of Appeal confirmed the Amsterdam court decision denying all claims made by a decision dated November 15, 2011. Claimants filed for cassation with the Netherlands Supreme Court on February 15, 2012. On March 22, 2013 the Advocate General will render his conclusion, following which the Supreme Court will issue its final judgment.

Other litigation

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.

With the exception of the buildings referred to in note 17, 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

Guarantees given by the Company and on behalf of subsidiaries, unconsolidated companies and third parties, including the three bond loans set out below, amount to EUR 732 million as at December 31, 2012 (December 31, 2011 EUR 507 million).

These guarantees include an amount of EUR 121 million (December 31, 2011 EUR 119 million) which relates to the EU anti-trust investigations (see note 17). The remainder is secured by cash pledge (see note 5).

With respect to the guarantee on the convertible bond loan, issued by AIR FRANCE KLM S.A. in June 2009, EUR 386 million was drawn by the Company. This amount has been recorded as a loan from parent company (see note 11) as at December 31, 2012 and thus excluded from the guaranteed amount. Furthermore the guaranteed amount 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 on the EUR 700 million bond loan, issued by AIR FRANCE KLM S.A. in October 2009, EUR 60 million was drawn by the Company. This amount has been recorded as a loan from parent company (see note 11) as at December 31, 2012 and thus excluded from the guaranteed amount.

Furthermore the guaranteed amount has been reduced since both Air France and the Company have irrevocably and unconditionally agreed to act as several but not joint guarantors (each for 50%).

With respect to the guarantee on the EUR 500 million bond loan, issued by AIR FRANCE KLM S.A. in December 2012, EUR 90 million was drawn by the Company. This amount has been recorded as a loan from parent company (see note 11) as at December 31, 2012 and thus excluded from the guaranteed amount. Furthermore the guaranteed amount has been reduced since both Air France and the Company have irrevocably and unconditionally agreed to act as several but not joint guarantors (the Company for 40%).

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 418 million as at December 31, 2012 (December 31, 2011 EUR 396 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

	2012 (12 months)	2011 (9 months)
Services rendered		
Passenger transport	6,631	4,675
Cargo transport	1,664	1,271
Maintenance contracts	455	392
Charter and low cost business	681	606
Other services	42	41
Total revenues	**9,473**	**6,985**

22 External expenses

	2012 (12 months)	2011 (9 months)
Aircraft fuel	3,102	2,067
Chartering costs	77	69
Aircraft operating lease costs	310	204
Landing fees and route charges	745	551
Catering	181	136
Handling charges and other operating costs	470	348
Aircraft maintenance costs	593	493
Commercial and distribution costs	326	242
Insurance	44	32
Rentals and maintenance of housing	122	93
Sub-contracting	195	151
Hired personnel	113	115
Other external expenses	178	126
Total external expenses	**6,456**	**4,627**

23 Employee compensation and benefit expense

	2012 (12 months)	2011 (9 months)
Wages and salaries	1,918	1,406
Social security premiums other than for state pension plans	209	145
Share-based remuneration	2	(1)
Pension and early-retirement plan costs	169	72
Post-employment medical benefit costs	3	2
Other long-term employee benefit costs	20	13
Total employee compensation and benefit expense	**2,321**	**1,637**

Pension and early-retirement plan cost comprise:

	2012 (12 months)	2011 (9 months)
Defined benefit plans	148	55
Defined contribution plans	21	17
Total	**169**	**72**

Defined benefit plans and early-retirement plan cost comprise:

	2012 (12 months)	2011 (9 months)
Current service cost	342	232
Interest cost	575	423
Expected return on plan assets	(778)	(601)
Net actuarial losses/(gains) recognised in year	9	1
Losses/(gains) arising from plan curltailments or settlements	-	-
Other	-	-
Total	**148**	**55**

In the financial year 2012 the net periodic pension cost for the major defined benefit plans recognised in the income statement amounted to EUR 148 million (2011 EUR 55 million) and the total contributions paid by the Group amounted to EUR 382 million (2011 EUR 272 million). The contributions paid in the financial year 2012 include additional deficit funding in The United Kingdom amounting to EUR 5 million (2011 EUR 3 million).

The Group's projected defined benefit plans and early retirement plan cost for 2013 amount to EUR 314 million (under IAS 19 revised). The Group's expected cash contributions for these plans amount to EUR 394 million.

Post-employment medical benefits cost comprise:

	2012 (12 months)	2011 (9 months)
Current service cost	-	-
Interest cost	2	2
Losses/(gains) arising from plan curltailments or settlements	1	-
Total	**3**	**2**

Other long-term employee benefits comprise:

	2012 (12 months)	2011 (9 months)
Current service cost	12	6
Interest cost	3	3
Losses/(gains) arising from plan curltailments or settlements	4	2
Net actuarial losses/(gains) recognised in year	-	-
Other	1	2
Total	**20**	**13**

Number of full-time equivalent employees:

	2012 (12 months)	2011 (9 months)
Average for year		
Flight deck crew	3,284	3,328
Cabin crew	7,708	7,969
Ground staff	20,197	20,500
Total	**31,189**	**31,797**

		As at December 31,
	2012	2011
Flight deck crew	3,241	3,335
Cabin crew	7,270	7,570
Ground staff	19,901	20,526
Total	**30,412**	**31,431**

24 Depreciation and amortisation

	2012 (12 months)	2011 (9 months)
Intangible assets	19	19
Flight equipment	430	338
Other property and equipment	68	53
Total depreciation and amortisation	**517**	**410**

25 Other non-current income and expenses

The 2012 expenses showed a loss of EUR 95 million which mainly relates to an onerous lease provision on the full freighter fleet (EUR 50 million), book losses related to the phase-out of passenger MD-11 fleet (EUR 17 million), an one-time 16% income tax levied in The Netherlands for salaries above EUR 150,000 in 2012 (EUR 17 million) and an addition to the provision for the still pending Cargo anti-trust investigations and relating legal cost (EUR 11 million).

The 2011 expenses include EUR 10 million relating to an one-off pension contribution for the Martinair Cockpit fund (defined contribution), EUR 3 million for an onerous lease of a MD-11 Freighter at Martinair and EUR 1 million for an onerous lease of a foreign office of Martinair. This was partly offset by an EUR 6 million gain on sale of properties in Japan, EUR 3 million gain on the sale of phased out Boeing 737-300 and 400's and EUR 2 million related to favourable sale and lease back transactions at transavia.com.

26 Net cost of financial debt

	2012 (12 months)	2011 (9 months)
Gross cost of financial debt		
Loans from third parties	74	64
Finance leases	53	47
Other interest expenses	30	13
Total gross cost of financial debt	**157**	**124**
Income from cash and cash equivalents		
Loans to third parties	29	29
Total income from cash and cash equivalents	**29**	**29**
Net cost of financial debt	**128**	**95**

	2012 (12 months)	2011 (9 months)
Foreign currency exchange gains/(losses)	-	8
Fair value gains/(losses)	24	(120)
Total other financial income and expense	**24**	**(112)**

The fair value gains recorded in the financial year mainly consist of the ineffective portion of fuel and foreign currency exchange derivatives for EUR 10 million negative (2011 EUR 11 million negative), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 1 million negative (2011 EUR 6 million negative) as well as the unrealised revaluation of other balance sheet items for EUR 35 million positive (2011 EUR 103 million negative).

27 Income tax expense / benefit

	2012 (12 months)	2011 (9 months)
Current tax (income)/expense	(2)	4
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	(8)	18
Benefit from previously unrecognised tax loss	(3)	-
Total tax (income)/expense	**(13)**	**22**

The applicable average tax rate in The Netherlands for the financial year 2012 is 25% (2011: 25%).

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

in %	2012 (12 months)	2011 (9 months)
Applicable average tax rate in The Netherlands	**25.0**	**25.0**
Impact of:		
Profit free of tax/Non-deductible expenses	(8.1)	5.8
Recognition of tax losses	6.3	
Release tax liability	5.2	
Differences in foreign tax rate changes	0.4	3.0
Effective tax rate	**28.8**	**33.8**

28 Share-based payments

The liability arising from share based payment transactions is as follows:

	As at December 31, 2012	2011
Share option plan	-	1
Carrying amount	**-**	**1**

Phantom shares

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

	2012 (12 months)	2011 (9 months)
As at January 1 / April 1	**465,497**	**333,765**
Granted	159,497	144,235
Forfeited	-	(1,415)
Exercised	(51,348)	(11,088)
As at December 31	**573,646**	**465,497**

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

	As at December 31, 2012	2011
Phantom shares expiry date		
July 1, 2013	68,451	96,171
July 1, 2014	77,515	98,921
July 1, 2015	131,085	126,283
July 1, 2016	150,591	144,122
April 1, 2017	146,004	-
Carrying number	**573,646**	**465,497**

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's employment.

Under the Long Term Incentive plan 2008, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2008. The first tranche has vested for 100% in July 2008. The second tranche has vested for 60% in July 2009. The third tranche has vested for 64% in July 2010. The 2008 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2011 and July 1, 2013. The 2008 plan has an intrinsic value of EUR 0.4 million as at December 31, 2012.

Under the Long Term Incentive plan 2009, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2009. The first tranche has vested for 60% in July 2009. The second tranche has vested for 64% in July 2010. The third tranche has vested for 113.4% in July 2011. The 2009 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2012 and July 1, 2014. The 2009 plan has an intrinsic value of EUR 0.5 million as at December 31, 2012.

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.

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 and the third tranche is still conditionally awarded.

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% per April 2012 and the second and third tranche are still conditionally awarded.

Share options

The movement in the number of share options granted and the weighted average exercise prices of the movements is as follows:

	2012 (12 months)		2011 (9 months)	
	Number of share options	**Weighted average exercise price (in EUR)**	**Number of share options**	**Weighted average exercise price (in EUR)**
As at January 1 / April 1	**390,517**	**34.21**	**768,216**	**26.16**
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	(390,517)	34.21	(377,699)	17.83
As at December 31	**-**	**-**	**390,517**	**34.21**
Exercisable as at December 31	**-**		**390,517**	

The last option expiry date was July 25, 2012.

29 Supervisory Board remuneration

(Amounts in EUR)	2012 (12 months) As Supervisory Board member	As Committee member	Total	2011 (9 months) As Supervisory Board member	As Committee member	Total
K.J. Storm	42,500	6,000	48,500	31,875	2,000	33,875
J.F.H. Martre (until May 11, 2012)	14,375	-	14,375	25,875	-	25,875
I.P Asscher-Vonk	26,500	6,000	32,500	19,875	2,000	21,875
J.D.F.C. Blanchet	31,167	-	31,167	19,875	-	19,875
P. Calavia (as from May 11, 2012) *	-	-	-	-	-	-
H. Guillaume	26,500	2,000	28,500	19,875	2,000	21,875
W. Kok (until July 1, 2011)	-	-	-	6,625	1,500	8,125
R. Laan	26,500	9,000	35,500	19,875	2,500	22,375
J. Peyrelevade	26,500	-	26,500	19,875	-	19,875
A.J.M. Roobeek (as from July 1, 2011)	26,500	2,000	28,500	13,250	1,000	14,250
H.N.J. Smits	26,500	4,000	30,500	19,875	4,000	23,875
Total	**247,042**	**29,000**	**276,042**	**196,875**	**15,000**	**211,875**

*) Mr Calavia, in his capacity of Chief Financial Officer of AIR FRANCE KLM, does not receive a remuneration as Supervisory Board member of KLM

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)	2012 (12 months)	2011 (9 months)
P.F. Hartman	731,449	535,965
C.M.P.S. Eurlings (as from July 1, 2011)	369,188	175,583
E.F. Varwijk (as from July 1, 2011)	394,219	188,125
P.J.Th. Elbers (as from May 11, 2012)	216,667	-
F.N.P.P. Gagey (until April 1, 2012)	112,014	328,311
J.E.C. De Groot (until July 1, 2011)	-	76,887
Total	**1,823,537**	**1,304,871**

In addition to the base salary, in 2012 the Dutch Government implemented an one-off crisis wage tax of 16% for wages above EUR 150,000. This crisis wage tax amounts to EUR 210,528 for the Board of Managing Directors.

For details of the remuneration policy see the Remuneration Policy and Report in the Board and Governance section.

Short-term incentive plan

(amounts in EUR)	2012 (12 months) Short term incentive plan	Targets achieved	2011 (9 months) Short term incentive plan	Targets achieved
P.F. Hartman	497,385	Partially	109,717	Partially
C.M.P.S. Eurlings (as from July 1, 2011)	160,000	Partially	29,019	Partially
E.F. Varwijk (as from July 1, 2011)	150,000	Partially	25,439	Partially
P.J.Th. Elbers (as from May 11, 2012)	86,667	Partially	-	-
F.N.P.P. Gagey (until April 1, 2012)	-	-	47,046	Partially
Total	**894,052**		**211,221**	

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.

Pension cost

Pension (amounts in EUR)	2012 (12 months)	2011 (9 months)
P.F. Hartman	304,247	7,745
C.M.P.S. Eurlings (as from July 1, 2011)	84,420	42,000
E.F. Varwijk (as from July 1, 2011)	94,583	43,914
P.J.Th. Elbers (as from May 11, 2012)	46,782	-
F.N.P.P. Gagey (until April 1, 2012)	-	-
J.E.C. De Groot (until July 1, 2011)	-	19,057
Total	**530,032**	**112,716**

The pension costs represent the service cost of the defined benefit plan obligations.
Mr. Gagey's pension and social security cost were born by Air France.

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 40,646 (December 31, 2011 EUR 20,250).

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

As an incentive to make a longer-term commitment to the Company, phantom shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding phantom shares are forfeited.
The maximum number of phantom shares granted to the Chief Executive Officer is 10,000 and to the Managing Directors 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, 2012:

(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, 2012
P.F. Hartman								
July, 2008	10,000	July 1, 2013	(2,533)	-		-	7,476	7,476
July, 2009	10,000	July 1, 2014	(2,533)	-		-	7,913	7,913
July, 2010	10,000	July 1, 2015	(2,886)	-		-	7,114	7,114
July, 2011	10,000	July 1, 2016	(1,686)	-		3,333	4,981	8,314
April, 2012	10,000	April 1, 2017	(2,134)			6,666	1,200	7,866
	50,000		**(11,772)**	**-**		**9,999**	**28,684**	**38,683**
C.M.P.S. Eurlings (as from July 1, 2011)								
July, 2011	6,000	July 1, 2016	(1,012)	-		2,000	2,988	4,988
April, 2012	6,000	April 1, 2017	(1,280)	-		4,000	720	4,720
	12,000		**(2,292)**	**-**		**6,000**	**3,708**	**9,708**
E.F. Varwijk (as from July 1, 2011)								
July, 2008	4,500	July 1, 2013	(1,140)	-		-	3,360	3,360
July, 2009	4,500	July 1, 2014	(1,140)	-		-	3,561	3,561
July, 2010	4,500	July 1, 2015	(1,299)	-		-	3,201	3,201
July, 2011	6,000	July 1, 2016	(1,012)	-		2,000	2,988	4,988
April, 2012	6,000	April 1, 2017	(1,280)	-		4,000	720	4,720
	25,500		**(5,871)**	**-**		**6,000**	**13,830**	**19,830**
P.J.Th. Elbers (as from May 11, 2012)								
July, 2008	1,500	July 1, 2013	(380)	(1,120)	3.73	-	1,120	-
July, 2009	1,500	July 1, 2014	(313)	-		-	1,187	1,187
July, 2010	4,500	July 1, 2015	(1,299)	-		-	3,201	3,201
July, 2011	4,500	July 1, 2016	(759)	-		1,500	2,241	3,741
April, 2012	4,500	April 1, 2017	(960)	-		3,000	540	3,540
	16,500		**(3,711)**	**(1,120)**		**4,500**	**8,289**	**11,669**
F.N.P.P. Gagey (until April 1, 2012)								
July, 2008	7,500	July 1, 2013	(1,900)	-		-	5,600	5,600
July, 2009	7,500	July 1, 2014	(1,900)	-		-	5,935	5,935
July, 2010	7,500	July 1, 2015	(2,165)	-		-	5,335	5,335
July, 2011	7,500	July 1, 2016	(1,265)	-		2,500	3,735	6,235
	30,000		**(7,230)**	**-**		**2,500**	**20,605**	**23,105**
J.E.C. De Groot (until July 1, 2011)								
July, 2008	6,000	July 1, 2013	(1,520)	(4,480)	6.47	-	4,480	-
July, 2009	6,000	July 1, 2014	(1,520)	(4,748)	6.47	-	4,748	-
July, 2010	6,000	July 1, 2015	(2,452)	(3,548)	6.47	-	3,548	-
	18,000		**(5,492)**	**(12,776)**		**-**	**12,776**	**-**
Total	**152,000**		**(36,368)**	**(13,896)**		**28,999**	**87,892**	**102,995**

Until 2006/07 options were granted to the Board of Managing Directors. The last option expiry date was July 25, 2012. No options were exercised in 2012 (see note 28).

As at December 31, 2012 Mr. Hartman held 12,960 shares AIR FRANCE KLM S.A. Mr. Eurlings, Mr. Varwijk and Mr. Elbers 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:

	2012 (12 months)	2011 (9 months)
Sales of goods and services		
AIR FRANCE KLM Group companies	139	116
Associates	6	8
Other related parties	4	1
Purchases of goods and services		
AIR FRANCE KLM Group companies	212	141
Associates	-	-
Other related parties	13	13

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. No loans were granted to or received from related parties during 2012 and nine months period 2011.

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

2012	Passenger	Cargo	Maintenance	Leisure	Other	Eliminations	Total
Revenues							
Revenues External	6,631	1,664	455	681	42		9,473
Revenues Internal	800	15	652	-	172	(1,639)	-
Total revenue	7,431	1,679	1,107	681	214	(1,639)	9,473
Income from current operations	186	(69)	34	(3)	5		153
Share of results of equity shareholdings							(11)
Financial Income and expense							(104)
Gain/(loss) on disposal of assets							10
Other non current income and expense							(105)
Income tax expense							13
Profit/(loss) for the year							**(44)**
Depreciation and amortisation	(357)	(68)	(46)	(22)	(24)		(517)
Other financial income and expense	(77)	(21)	(25)	-	147		24
Assets							
Intangible assets	68	1	28	4	117		218
Flight equipment	2,584	393	337	281	(3)		3,592
Other property, plant and equipment	110	45	203	7	225		590
Trade receivables	309	230	12	13	(17)		547
Other assets	992	(233)	257	436	4,389		5,841
Total assets	**4,063**	**436**	**837**	**741**	**4,711**		**10,788**
Liabilities							
Deferred revenues on sales	947	3	41	61	-		1,052
Other liabilities	3,557	585	98	479	2,576		7,295
Total liabilities	**4,504**	**588**	**139**	**540**	**2,576**		**8,347**

2011*	Passenger	Cargo	Maintenance	Leisure	Other	Eliminations	Total
Revenues							
Revenues External	4,675	1,271	392	606	41		6,985
Revenues Internal	306	11	469	-	134	(920)	-
Total revenue	4,981	1,282	861	606	175	(920)	6,985
Income from current operations	223	17	31	11	(7)		275
Share of results of equity shareholdings							5
Financial Income and expense							(207)
Gain/(loss) on disposal of assets							9
Other non current income and expense							(12)
Income tax expense							(22)
Profit/(loss) for the year							**48**
Depreciation and amortisation	(268)	(58)	(45)	(21)	(18)		(410)
Other financial income and expense	(73)	(19)	(18)	(4)	2		(112)
Assets							
Intangible assets	68	2	12	2	99		183
Flight equipment	2,779	416	317	283	(30)		3,765
Other property, plant and equipment	129	46	215	9	241		640
Trade receivables	270	211	13	10	(13)		491
Other assets	942	(247)	307	332	4,204		5,538
Total assets	**4,188**	**428**	**864**	**636**	**4,501**		**10,617**
Liabilities							
Deferred revenues on sales	838	4	33	51	2		928
Other liabilities	3,118	543	71	425	2,974		7,131
Total liabilities	**3,956**	**547**	**104**	**476**	**2,976**		**8,059**

* Nine months period April 1 - December 31, 2011

33 Secondary segment reporting

Revenues by destination 2012 (12 months)	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,889	273	913	1,755	1,529	6,359
Other passenger revenues	84	8	46	70	64	272
Total passenger revenues	**1,973**	**281**	**959**	**1,825**	**1,593**	**6,631**
Scheduled cargo	15	18	363	687	514	1,597
Other cargo revenues	1	1	15	29	21	67
Total cargo revenues	**16**	**19**	**378**	**716**	**535**	**1,664**
Maintenance	455					455
Other revenues	723					723
Total maintenance and other	**1,178**	**-**	**-**	**-**	**-**	**1,178**
Total revenues by destination	**3,167**	**300**	**1,337**	**2,541**	**2,128**	**9,473**

Revenues by destination 2011 (9 months)	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,384	145	677	1,219	1,084	4,509
Other passenger revenues	51	5	25	45	40	166
Total passenger revenues	**1,435**	**150**	**702**	**1,264**	**1,124**	**4,675**
Scheduled cargo	13	15	271	526	402	1,227
Other cargo revenues	-	1	10	19	14	44
Total cargo revenues	**13**	**16**	**281**	**545**	**416**	**1,271**
Maintenance	392	-	-	-	-	392
Other revenues	585	49	-	13	-	647
Total maintenance and other	**977**	**49**	**-**	**13**	**-**	**1,039**
Total revenues by destination	**2,425**	**215**	**983**	**1,822**	**1,540**	**6,985**

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, 2012:

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 After proposed appropriation of the result for the year	Note	December 31, 2012	December 31, 2011	December 31, 2010 Proforma unaudited
ASSETS				
Non-current assets				
Property, plant and equipment	35	3,327	3,487	3,517
Intangible assets		209	173	112
Investments accounted for using the equity method	36	654	606	639
Derivative financial instruments	4	87	93	73
Other financial assets	37	273	244	330
Pension assets	16	3,459	3,209	2,916
		8,009	**7,812**	**7,587**
Current assets				
Derivative financial instruments	4	80	165	294
Other financial assets	37	54	84	268
Inventories		178	207	181
Trade and other receivables	38	972	916	798
Cash and cash equivalents	39	1,179	1,019	995
		2,463	**2,391**	**2,536**
TOTAL ASSETS		**10,472**	**10,203**	**10,123**
EQUITY				
Capital and reserves				
Share capital	40	94	94	94
Share premium		474	474	474
Other reserves	40	151	191	106
Retained earnings		1,720	1,797	1,855
Total attributable to Company's equity holders		**2,439**	**2,556**	**2,529**
LIABILITIES				
Non-current liabilities				
Loans from parent company	41	476	386	386
Loans from subsidiaries	42	265	200	193
Finance lease obligations	43	1,400	1,355	1,404
Derivative financial instruments	4	205	115	157
Other financial liabilities	44	1,320	1,358	1,381
Deferred income	45	162	192	205
Deferred income tax liabilities	46	413	433	423
Provisions	47	410	373	225
		4,651	**4,412**	**4,374**
Current liabilities				
Trade and other payables	48	2,084	1,807	1,690
Loans from parent company	41	60	150	-
Loans from subsidiaries	42	33	48	22
Finance lease obligations	43	200	243	383
Derivative financial instruments	4	44	64	260
Other financial liabilities	44	138	226	46
Deferred income	45	772	640	632
Current income tax liabilities	46	-	4	-
Provisions	47	51	53	187
		3,382	**3,235**	**3,220**
Total liabilities		**8,033**	**7,647**	**7,594**
TOTAL EQUITY AND LIABILITIES		**10,472**	**10,203**	**10,123**

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

KLM Royal Dutch Airlines

Company income statement

In millions of Euros	January 1 - December 31, 2012 (12 months)	April 1, 2011 - December 31, 2011 (9 months)	January 1 - December 31, 2011 (12 months) Proforma unaudited
(Loss) / profit from investments accounted for using equity method after taxation	17	17	(8)
(Loss) / profit of KLM N.V. after taxation	(63)	30	9
(Loss) / profit for the year after taxation	**(46)**	**47**	**1**

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 2012 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 April 1, 2011	**891**	**2,355**	**1,229**	**4,475**	**576**	**522**	**98**	**1,196**	**164**	**5,835**
Additions	230	9	30	269	2	8	5	15	55	339
Disposals	(175)	-	-	(175)	(1)	(41)	(3)	(45)	-	(220)
Other movements	115	(72)	8	51	(1)	13	1	13	-	64
As at Dec. 31, 2011	**1,061**	**2,292**	**1,267**	**4,620**	**576**	**502**	**101**	**1,179**	**219**	**6,018**
Accumulated depreciation and impairment										
As at April 1, 2011	**497**	**599**	**547**	**1,643**	**171**	**416**	**50**	**637**	**-**	**2,280**
Depreciation	74	86	93	253	21	16	6	43	-	296
Disposals	(82)	-	-	(82)	(2)	(33)	(3)	(38)	-	(120)
Other movements	171	(46)	(52)	73	-	-	2	2	-	75
As at Dec. 31, 2011	**660**	**639**	**588**	**1,887**	**190**	**399**	**55**	**644**	**-**	**2,531**
Net carrying amount										
As at April 1, 2011	**394**	**1,756**	**682**	**2,832**	**405**	**106**	**48**	**559**	**164**	**3,555**
As at Dec. 31, 2011	**401**	**1,653**	**679**	**2,733**	**386**	**103**	**46**	**535**	**219**	**3,487**

	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, 2012	**1,061**	**2,292**	**1,267**	**4,620**	**576**	**502**	**101**	**1,179**	**219**	**6,018**
Additions	-	99	132	231	-	-	-	-	74	305
Disposals	(153)	(102)	(30)	(285)	-	-	-	-	-	(285)
Other movements	54	241	(71)	224	5	(19)	(1)	(15)	(132)	77
As at Dec. 31, 2012	**962**	**2,530**	**1,298**	**4,790**	**581**	**483**	**100**	**1,164**	**161**	**6,115**
Accumulated depreciation and impairment										
As at Jan. 1, 2012	**660**	**639**	**588**	**1,887**	**190**	**399**	**55**	**644**	**-**	**2,531**
Depreciation	80	118	135	333	27	20	8	55	-	388
Disposals	(104)	(78)	-	(182)	-	(27)	(3)	(30)	-	(212)
Other movements	78	104	(101)	81	-	-	-	-	-	81
As at Dec. 31, 2012	**714**	**783**	**622**	**2,119**	**217**	**392**	**60**	**669**	**-**	**2,788**
Net carrying amount										
As at Jan. 1, 2012	**401**	**1,653**	**679**	**2,733**	**386**	**103**	**46**	**535**	**219**	**3,487**
As at Dec. 31, 2012	**248**	**1,747**	**676**	**2,671**	**364**	**91**	**40**	**495**	**161**	**3,327**

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

	2012	As at December 31, 2011
Aircraft	91	105
Land and buildings	163	171
Other property and equipment	47	52
Carrying amount	**301**	**328**

Borrowing cost capitalised during the year amounted to EUR 7 million (2011 EUR 5 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 4.0% (2011: 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, 2012 was EUR 277 million (December 31, 2011 EUR 293 million).

36 Investments accounted for using the equity method

	2012	As at December 31, 2011
Subsidiaries	541	521
Associates	90	62
Jointly controlled entities	23	23
Carrying amount	**654**	**606**

	2012 (12 months)	2011 (9 months)
Subsidiaries		
Carrying amount as at January 1 / April 1	**521**	**517**
Movements		
Investments	-	-
Change in consolidation scope	-	-
Share of profit/(loss) after taxation	30	12
OCI movement	-	-
Dividends received	(3)	(12)
Foreign currency translation differences	1	3
Other movements	(8)	1
Net movement	**20**	**4**
Carrying amount as at December 31	**541**	**521**

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, 2012		December 31, 2011	
	Current	**Non-current**	**Current**	**Non-current**
Held-to-maturity investments				
Triple A bonds and long-term deposits	9	110	40	87
Loans and receivables				
Other loans and receivables	3	155	2	153
At fair value through profit or loss				
Restricted deposit EU Cargo Claim	42	-	42	-
AIR FRANCE KLM S.A. shares	-	8	-	4
Total at fair value	**42**	**8**	**42**	**4**
Carrying amount	**54**	**273**	**84**	**244**

38 Trade and other receivables

	As at December 31, 2012	2011
Trade receivables	451	393
Provision trade receivables	(11)	(10)
Trade receivables - net	440	383
Amounts due from:		
- subsidiaries	238	245
- AIR FRANCE KLM group companies	103	45
- associates and jointly controlled entities	3	-
- maintenance contract customers	88	73
Taxes and social security premiums	22	24
Other receivables	28	92
Prepaid expenses	50	54
Total	**972**	**916**

Maintenance contract cost incurred to date (less recognised losses) for contracts in progress at December 31, 2012 amounted to EUR 78 million (December 31, 2011 EUR 86 million). Advances received for maintenance contracts in progress at December 31, 2012 amounted to EUR 6 million (December 31, 2011 EUR 17 million). The maturity of trade and other receivables is within one year.

39 Cash and cash equivalents

	As at December 31, 2012	2011
Cash at bank and in hand	122	93
Short-term deposits	1,057	926
Total	**1,179**	**1,019**

The effective interest rates on short-term deposits are in the range from 0.02% to 3.00% (2011 range 0.65% to 3.44%). 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, translation and other legal reserves. Reference is made to note 10.

41 Loans from parent company

	As at December 31, 2012	2011
Non-current portion	476	386
Current portion	60	150
Carrying amount	**536**	**536**

For the non-current loans with AIR FRANCE KLM amounting to EUR 476 million reference is made to note 11. For the current loans with AIR FRANCE KLM amounting to EUR 60 million 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, 2012	2011
Non-current portion	265	200
Current portion	33	48
Carrying amount	**298**	**248**

43 Finance lease obligations

	As at December 31, 2012	2011
Non-current portion	1,400	1,355
Current portion	200	243
Carrying amount	**1,600**	**1,598**

44 Other financial liabilities

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	603	-	625
Other loans (secured/unsecured)	138	685	226	701
Total	**138**	**1,320**	**226**	**1,358**

45 Deferred income

	December 31, 2012		December 31, 2011	
	Current	Non-current	Current	Non-current
Advance ticket sales	674	-	558	-
Sale and leaseback transactions	1	-	8	1
Flying Blue frequent flyer program	96	154	73	182
Others	1	8	1	9
Total	**772**	**162**	**640**	**192**

46 Deferred income tax

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

	2012	2011
Carrying amount as at January 1 / April 1	**437**	**475**
Movements:		
Income statement (credit) /charge	(19)	18
Tax (credited)/charged to equity	(23)	(59)
Other movements	18	3
Net movement	**(24)**	**(38)**
Carrying amount as at December 31	**413**	**437**

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,
	2012	2011
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	14	11
Deferred tax assets to be settled after 12 months	480	386
	494	**397**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	6
Deferred tax liabilities to be settled after 12 months	900	828
	907	**834**
Carrying amount	**413**	**437**

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 April 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets 2011					
Tax losses	286	41	-	-	327
Fleet assets	16	(8)	-	-	8
Fleet related assets (maintenance)	5	(1)	-	-	4
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	3	-	-	-	3
Derivative financial instruments	-	-	-	1	1
Other	41	-	-	(1)	40
Total	**365**	**32**	**-**	**-**	**397**

	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 2012					
Tax losses	327	88	-	-	415
Fleet assets	8	(11)	-	-	(3)
Fleet related assets (maintenance)	4	(1)	-	-	3
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	3	(1)	-	-	2
Derivative financial instruments	1	-	23	-	24
Other	40	(1)	-	-	39
Total	**397**	**74**	**23**	**-**	**494**

	Carrying amount as at April 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities 2011					
Other tangible fixed assets	11	(3)	-	-	8
Pensions & benefits (asset)	746	55	-	-	801
Maintenance provision	8	(2)	-	-	6
Derivative financial instruments	58	-	(59)	1	-
Other	17	-	-	2	19
Total	**840**	**50**	**(59)**	**3**	**834**

	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 2012					
Other tangible fixed assets	8	(4)	-	-	4
Pensions & benefits (asset)	801	62	-	-	863
Maintenance provision	6	(2)	-	-	4
Derivative financial instruments	-		-	-	-
Other	19	(1)	-	18	36
Total	**834**	**55**	**-**	**18**	**907**

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	Employee Benefit	Legal Issues	Other	Total
As at January 1, 2012	**137**	**142**	**137**	**10**	**426**
Additional provisions and increases in existing provisions	68	30	13	1	112
Unused amounts reversed	-	-	-	-	-
Used during year	(42)	(23)	(2)	-	(67)
Other changes	-	(5)	(1)	(4)	(10)
As at December 31, 2012	**163**	**144**	**147**	**7**	**461**
Current / non-current portion					
Non-current portion	163	96	146	5	410
Current portion	-	48	1	2	51
As at December 31, 2012	**163**	**144**	**147**	**7**	**461**

48 Trade and other payables

		As at December 31,
	2012	**2011**
Trade payables	611	621
Amounts due to subsidiaries	602	529
Amounts due to AIR FRANCE KLM Group companies	117	31
Taxes and social security premiums	109	88
Employee related liabilities	191	176
Accrued liabilities	41	15
Other payables	413	347
Total	**2,084**	**1,807**

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 18, 2013

The Board of Managing Directors

Peter F. Hartman
Camiel M.P.S. Eurlings
Erik F. Varwijk
Pieter J.Th. Elbers

The Supervisory Board

Kees J. Storm
Irene P. Asscher-Vonk
Jean-Didier F.C. Blanchet
Philippe Calavia
Henri Guillaume
Remmert Laan
Jean Peyrelevade
Annemieke J.M. Roobeek
Hans N.J. Smits

Other Information

Independent Auditors' Report

To the Shareholders and Supervisory Board of KLM Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij N.V.)

Report on the financial statements

We have audited the accompanying financial statements of KLM Royal Dutch Airlines, Amstelveen, for the year ended December 31, 2012 as set out on the pages 71 to 181. 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, 2012, the consolidated income statement, consolidated statement of recognised income and expenses, 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, 2012, the company income statement 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, 2012, 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, 2012, 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 18, 2013

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

Absent a net profit for 2012, no distribution will be made. The net loss for 2012 amounting to EUR 45,703,000, will be transferred to retained earnings.

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	**2012**	2011 *	2010/11	2009/10	2008/09
Consolidated income statement					
Passenger	6,631	4,675	5,702	4,873	5,602
Cargo	1,664	1,271	1,695	1,278	1,259
Other revenues	1,178	1,039	1,254	1,318	1,321
Revenues	9,473	6,985	8,651	7,469	8,182
Expenses	(9,320)	(6,710)	(8,268)	(7,754)	(8,023)
Income from current operations	153	275	383	(285)	159
Financial income and expense	(104)	(207)	(159)	(114)	(356)
Other non-current income and expenses	(95)	(3)	(78)	(91)	(11)
Pre-tax income	(46)	65	146	(490)	(208)
Income tax expense	13	(22)	(1)	114	62
Net result after taxation of consolidated companies	(33)	43	145	(376)	(146)
Share of results of equity shareholdings	(11)	5	2	(7)	(47)
(Loss) / profit for the year	(44)	48	147	(383)	(193)
Consolidated balance sheet					
Current assets	2,484	2,400	3,157	2,780	2,991
Non-current assets	8,304	8,217	8,067	8,019	8,026
Total assets	10,788	10,617	11,224	10,799	11,017
Current liabilities	3,274	3,142	3,507	3,449	3,627
Non-current liabilities	5,073	4,917	5,034	5,110	5,291
Group equity	2,441	2,558	2,683	2,240	2,099
Total liabilities	10,788	10,617	11,224	10,799	11,017

* relates to nine months period April 1 - December 31, 2011

Five-Year Review

(in millions of EUR, unless stated otherwise)		2012	2011 **	2010/11	2009/10	2008/09
Key financial figures (KLM Group)						
Return on equity (%)		(1.8)	1.8	6.0	(17.6)	(6.5)
Result for the year as percentage of revenues		(0.5)	0.7	1.7	(5.1)	(2.4)
Earnings per ordinary share (EUR)		(0.98)	1.01	3.14	(8.18)	(4.14)
Result for the year plus depreciation		473	458	686	163	317
Capital expenditures (net)		(353)	(311)	(434)	(481)	(493)
Net-debt-to-equity percentage		114	119	109	118	72
Dividend per ordinary share (EUR)		-	-	0.10	-	-
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,915	27,426	27,166	28,003	27,840
Outside The Netherlands		4,274	4,371	4,550	4,574	4,501
Employed by KLM		31,189	31,797	31,716	32,577	32,341
Total agency staff		1,661	2,121	1,726	1,455	2,017
Total KLM Group		32,850	33,918	33,442	34,032	34,358
Traffic (KLM Company)						
Passenger kilometers	*	86,281	63,823	76,974	74,129	76,667
Revenue ton freight-kilometers	*	3,651	2,875	3,738	4,134	4,575
Passenger load factor (%)		85.7	85.8	83.6	82.2	81.6
Cargo load factor (%)		66.4	68.6	72.9	71.2	67.9
Number of passengers (x 1,000)		25,775	19,888	23,104	22,446	23,505
Weight of cargo carried (kilograms)	*	474	375	491	540	606
Average distance flown per passenger (in kilometers)		3,347	3,237	3,332	3,300	3,262
Capacity (KLM Company)						
Available seat-kilometers	*	100,727	74,429	92,064	90,168	93,992
Available ton freight-kilometers	*	5,497	4,192	5,128	5,802	6,733
Kilometers flown	*	403	305	374	388	412
Blockhours (x 1,000)		607	460	560	585	622
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.4	7.1	7.1	6.3	7.0
Cargo (per RTK)		26.0	25.1	24.9	19.3	23.9
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		21,190	21,337	21,004	21,340	21,876
Outside The Netherlands		2,745	2,762	2,698	2,756	2,923
Employed by KLM		23,935	24,099	23,702	24,096	24,799

* in millions
** relates to nine months period April 1 - December 31, 2011

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.