2013

KLM Royal Dutch Airlines
Annual Report

KLM SKYTEAM

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Key figures

In millions of Euros, unless stated otherwise	2013	2012 Restated *
Revenues	**9,688**	9,473
Expenses before depreciation and long-term rentals	**8,579**	8,565
Depreciation and long-term rentals	**808**	827
Income from current operations	**301**	81
As a % of operating revenues	**3.1**	0.9
Profit / (loss) for the period	**133**	(98)
Earnings per ordinary share (EUR)	**2.82**	(2.14)
Equity	**1,611**	1,501
As a % of total long-term funds	**26**	23
Return on equity (%)	**8.5**	(6.0)
Capital employed	**3,627**	3,820
Return on capital employed (%)	**4.9**	(0.3)
Net-debt-to-equity ratio (%)	**157**	186
Dividend per ordinary share (EUR)	**0.15**	-
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**89,039**	86,281
Capacity (in millions of available seat-kilometers, ASK)	**103,793**	100,727
Passenger load factor (%)	**85.8**	85.7
Number of passengers (x 1,000)	**26,581**	25,775
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**5,890**	6,116
Capacity (in millions of available ton freight-kilometers, ATFK	**8,558**	8,849
Cargo load factor (%)	**68.8**	69.1
Weight of Cargo carried (in tons)	**770,215**	780,662
Financial position		
Cash flow from operating activities	**626**	572
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(363)**	(353)
Free cash flow	**263**	219
Average number FTEs of KLM Group staff		
Permanent	**29,209**	29,611
Temporary	**1,426**	1,578
Employed by KLM	**30,635**	31,189
Agency staff	**1,870**	1,661
Total KLM	**32,505**	32,850
Headcount KLM Group staff (per end financial year)	**35,662**	35,787

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

Report of the Board of Managing Directors

Letter from the President

2013 was a year for KLM to be proud of. We entered a new phase with a new Board of Managing Directors and a new senior management structure within AIR FRANCE KLM. We also worked hard in order to keep the promises we made in our Transform 2015 / Securing our Future program. In an economy showing only very light signs of recovery, we continued the upward financial trend we commenced in 2012.

Given the intensity of the economic crisis, 2012 was not a bad year, but 2013 was even better. We showed that we can adhere to the course we have set and can adapt to changing circumstances. Thanks to strict capacity management, supported by cost reduction initiatives, the whole-hearted dedication of our staff and a raft of innovative measures, we were able to deliver what we promised. The improvement in the financial results, the improvement of performance of the European network, the appreciation shown by customers and partners and our designation as best employer in The Netherlands are reasons for satisfaction.

Innovation not only brought us closer to our goals in 2013, it also triggered the awards and appreciation by passengers and external parties. The many new initiatives contributed to cost reduction, sustainability and customer loyalty. The initiative taken earlier to diversify or "unbundle" the passenger product increased revenues and opened the door to numerous growth opportunities. New products and services achieved a new record by earning more than EUR 100 million in revenues.

Even though we are actively carrying out our cost reduction operation and effectively forcing costs down, perseverance and discipline remain the order of the day. Overall, we still have to deliver EUR 350 million of the proposed Transform 2015 target of EUR 1.1 billion, the total of initiatives on operating income. These will be the most difficult of all planned measures and we will have to remain alert to changes in the airline industry, the fierce competition and the economic tide. Cost reductions are needed if we are to reduce our debt and finance our new fleet. Our innovative strength to overcome the challenges we face, is a source of optimism and we have the pleasure of working with solid partners at home and abroad. Furthermore, the commitment, knowledge potential and dedication of our staff make us agile and flexible; a must in a volatile industry and an ailing economy. In the 95th and future years of our existence, we will continue to do what we have always done: we will consolidate our position to secure our future.

New President and a new phase for the AIR FRANCE KLM Group

AIR FRANCE KLM entered a new phase in the second half of the year. It hallmarks greater synergy, cooperation, both between the two airlines, Air France and KLM, on the one hand and the AIR FRANCE KLM Group on the other. The AIR FRANCE KLM Group and the companies will make even better use of their strengths: innovation, sustainability, an extensive network, solid partners, experienced and committed people. Our ambitions are to be even more competitive and profitable. This will be achieved by building a mutual trust.

The new phase was accompanied by a new senior management team. Jean-Cyril Spinetta and Leo van Wijk stepped down as Chairman and Vice-Chairman respectively of AIR FRANCE KLM's Board of Directors. They were succeeded by respectively Alexandre de Juniac and Peter Hartman, the latter stepping down as President and Chief Executive Officer of KLM as per July 1, 2013.

At KLM, I succeeded Peter Hartman as President and Chief Executive Officer. Under Peter Hartman's leadership, KLM grew into the major player it is today. We are very grateful to him for all he accomplished during his 40 years at the Company. The new board of Managing Directors will gladly build on the achievements of Peter Hartman and his predecessors. Any changes to the future will merely be a shift in emphasis, because KLM's structure and its foundations are strong and do not need altering.

Changes in the world, the economy and the airline industry

Economic situation

We will enter – so it seems – a new economy. Forecasts about economic recovery are widely divergent. Instead of waiting for the crisis to pass, it is important that we anticipate continuously changing market circumstances, characterized by more critical passengers, growing competition and as a consequence revenues that stay under pressure.

Operating conditions are uncertain across the board. On the other hand, the global airline industry is still growing by about 5 percent per year, a rate companies in other industries can only dream about. Nevertheless, growth figures vary substantially in various parts of the world and thus the market remains precarious, especially in the cargo sector. Profiting from the growth is a permanent challenge but something we achieved during the year.

In November 2013, The Netherlands came out of recession for the first time in 15 months. The growth rate, however, was still minimal (0.1 percent) and the recovery is fragile. There are concerns about the high rate of unemployment and its influence on expenditure. Although consumer confidence seemed to pick up slightly at the end of the year, it is still low. At the end of 2013, it was revealed that the Dutch were taking 3 percent fewer holidays than in the previous year, the largest drop since the 1980s.

Geopolitical conditions reasonably stable

Geopolitical conditions were reasonably stable in 2013, although certain incidents had a negative impact on the industry. Apart from being an enormous humanitarian tragedy, the civil war in Syria – like the situation in the Near East in general – led to economic unrest, which will probably endure into the longer term. The same is true for the situation in Egypt. By contrast, the friendlier relations between Iran and the West are encouraging.

Challenges of a completely different nature and order arose in Africa and Asia. In Nairobi, the capital of Kenya and one of KLM's daily destinations, a fire broke out at Jomo Kenyatta International Airport. Our partner, Kenya Airways, was badly affected and we were unable to serve the airport for two days. Typhoon Yolanda/Haiyan brought devastation to the Philippines. KLM provided a Boeing 747 to Unicef and the Red Cross to fly emergency relief to the disaster area.

Closer to home, our operations were affected by strikes by air traffic controllers in some European countries and a series of storms in The Netherlands during the fall. Events like that again demonstrate that natural phenomenons as well as political uncertainties can quickly impact on the industry and they underline the importance of responding promptly and proactively informing travelers.

International competition: the same rules for all airlines

The trends in the aviation industry that we observed during the last few years continue. The competition remains fierce. Airlines from the Middle East have entered into alliances, placed mega orders for hypermodern aircraft, started to bring operations of Airbus A380 aircraft to Schiphol and are continuing to expand and make conditions difficult for European airlines. Budget airlines are actively present in the short and medium-haul leisure market and are now turning their sights to business travelers. By doing so, budget airlines are directly targeting the traditional players that are operating from hubs. Continuously anticipating these developments, we believe in our own approach which based on building firm network alliances, balancing costs and service, speed and quality, punctuality and safety.

Margins in the global airline industry are thin. The fierce competition on international and, especially, intercontinental routes is part and parcel of the business, but the rules should be the same for all players.

Emission trading rights

The EU directive establishing the EU emissions trading scheme (EU ETS) has applied to aviation since 1 January 2012. The system was designed to apply to all flights to, from and within Europe. AIR FRANCE KLM has always supported the implementation of a market based measures mechanism that benefits the environment, far more than a straightforward tax, provided the mechanism is non-discriminatory, workable and cost efficient. EU ETS, limited to intra-European flights, can be considered as a first step towards a worldwide system that should be defined at ICAO level.

Following strong international objections the EU institutions in November 2012 decided to temporarily limit ETS to intra-European flights. This so called “stop-the-clock” regime was an important step towards talks on a worldwide sector approach and which has full support of the airline industry. IATA and individual airlines such as KLM have actively contributed throughout the ICAO process. The set of principles on aviation market based measures which were adopted during the IATA Annual General Meeting in June 2013 provided a positive impetus for the negotiations between governments. It paved the way for fruitful negotiations during the 2013 International Civil Aviation Organization (ICAO) assembly.

The airline industry including KLM welcomed the landmark ICAO agreement that was reached by ICAO Member States to develop a global market-based measure (MBM) on aviation emissions. It is an historic and important result for air transport as it now becomes the only major industry sector to have a multilateral global MBM agreement in place to help govern future greenhouse gas emissions. ICAO States agreed to report back in 2016 with a proposed MBM solution capable of being implemented globally from 2020.

Following the 2013 ICAO agreement, the EU put forward a proposal for revision of the EU ETS for aviation so as to align the EU approach with the ICAO resolution. The proposed move to the so-called airspace model however faces the same political hurdles with non-EU countries as the original EU ETS and could therefore harm ongoing work on a global scheme within ICAO. The airline industry therefore calls on the EU institutions to seize the global opportunity and focus on constructive negotiations within the scope of the ICAO agreement instead of another confrontation with non-EU states.

Level Playing Field

Together with the Association of European Airlines, we are calling for a level, transparent and easily verifiable playing field. In 2012 the EU Commission adopted communication on the EU's external policy on aviation. AIR FRANCE KLM shares the Commission's observations and analysis and supports its efforts to promote fair and equitable competition. Changes to the European regulatory framework are necessary to preserve the sector's competitiveness, especially in areas involving infrastructure costs such as en route charges and airport fees.

Unification of European airspace

To date, the Single European Sky is still not yet implemented. The Single European Sky regulation, passed in 2009 by the European Parliament, was intended to overhaul air traffic control in order to enable a 3-fold increase in capacity, improve the safety performance by a factor 10, enable up to 12% less CO2 emissions and reduce Air Traffic Management costs by 50%.

Through active cooperation in the ACARE, AIRE and SESAR programs, AIR FRANCE KLM is already actively involved in the development of measures that make implementation possible any moment. Given the importance of a contribution of SES to worldwide CO2 reduction, AIR FRANCE KLM and the airline association's call upon European Member States to take their responsibility in finally agree on the Single European Sky. The 2013 informal EU Transport Council meeting in Vilnius had the aim of speeding up the process, unfortunately this did not lead to a breakthrough. It is still up to the EU Member States to take the necessary steps to finally make SES a reality, the airline industry, including KLM, remains committed to contribute towards reaching this goal.

Passenger rights

Customer relations are at the heart of KLM's business. Safety, punctuality and reliability are key. In case of any unforeseen event KLM takes all measures necessary to minimize the inconvenience for the passengers. KLM contributes to the work undertaken by the European Commission on consumer rights and remains vigilant on the clear, fair and equal application of rules to all airlines operating to and from the European Union, as well as the uniform enforcement.

In March 2013, the European Commission presented proposals to further specify the rights of airline passengers affected by delays, cancellations and denied boarding. The EU decision-making process should in our opinion focus on a proportionate balance between passenger rights and airline obligations. We support global standardization of passenger rights, also in light of the competitive position of European carriers. We will, according to applicable legislation, continue to care for and compensate passengers who fly with us and face a disruption of their flight plans.

Dialogue between KLM and its stakeholders

In a worldwide network of many contacts with a diverse range of parties holding an equally diverse range of interests, KLM is known as a party that well balances the interests of stakeholders involved. We are in continuous dialogue with national and international partners and institutions in the industry, the private sector, financiers, national and regional authorities, customers and our environment. We have good relations with foreign governments.

One of KLM's key partners is its "home base", Schiphol. Aviation in The Netherlands is good for 290,000 jobs and contributes EUR 26 billion to gross national product. Its strength is due in large part to the synergy between the Schiphol hub and the network of KLM. Schiphol handled a record number of 52.5 million passengers in 2013. More than 70 percent of them flew with KLM Group or its partners.

The cooperation between Schiphol and KLM is vital for Schiphol to sustain and reinforce its status as a mainport. Schiphol and KLM made preparations in 2013 for the transition to a central security system for passengers from non-Schengen countries. This is an extensive operation that will impact a large part of the airport. The first measures are already being implemented. Central filters are being installed for security checks so that passengers no longer need to be checked at the gates.

The measures will ultimately create more convenience and time gains for our passengers. Schiphol will continue to comply with European regulations throughout the operation. The constructions will last until 2015.

Apart from these sweeping changes to the airport, Schiphol has many other projects in its Master Plan 2025. In 2013 Schiphol announced that possibilities are investigated to extend the airport with an A-pier. The construction of an additional A-pier will be the largest project of the Master Plan 2025 after the implementation of central security. Together with other stakeholders we are intensely involved in all developments and we are playing our part along.

Dialogue with local community representatives and other stakeholders is done at the Alders Table, a unique consultative body in the international aviation world that was set up in 2006. Public authorities, local residents, Schiphol and the sector sit at the Table. In October 2013, the Alders Table issued a report on a new noise abatement system around Schiphol with rules on the use of runways that allow for growth to up to 510,000 flight movements per annum. Both the Dutch government majority in the Parliament support the recommendations.

Financial results

Operating income for the KLM Group improved to EUR 301 million and the operating margin improved to 3.1 percent. This is very encouraging given the economic situation in Europe.

The Passenger Business performed well, with higher revenues, lower costs and stable, albeit high, fuel prices. The Passenger Business benefitted from the better performance of regions outside Europe, especially North and South America.

Performance at the Cargo Business was difficult. The business is still suffering from negative economic conditions. Measures were taken to adjust capacity by reducing the number of freighters.

Our profit for the year was due principally to the progress we made by implementing the Transform 2015 / Securing our Future program. Its primary goal is to cut net debt while continuing to make necessary investments.

Two years after the Transform 2015 measures came into force, we have achieved EUR 563 million of the targeted EUR 700 million reduction in net debt and have so far fulfilled the commitment we made. Although we have made great strides, we must redouble our efforts to implement the remaining measures in the current regime in 2014, which will be an enormous challenge for all of us. We will be putting our shoulders to the wheel in 2014 to realize this goal.

Transform's second goal is to improve results on European flights. Here, too, we have made definite progress, with a considerable improvement in operating income. We have made better use of the fleet by reducing aircraft turnaround times and a more efficient arrangement of seats on board the aircraft.

The third goal is to cut unit costs. We achieved a further reduction in unit costs by means of productivity gains on all fronts, a more efficient fleet, strict cost management and many initiatives in the framework of Securing our Future. Also in this field, realizing the remaining cost reductions will be a challenging task for 2014.

Exchange rate fluctuations had a negative impact on the result. The relative strength of the Euro versus the US dollar, Japanese Yen and other currencies impacted the revenues negatively. The strong improvement in working capital seen in 2012 continued in 2013 thanks to rigorous cash management.

The financial position has improved. Our continuous efforts to implement the Transform 2015 / Securing our Future program will allow us to invest in a modern fuel efficient fleet as from the end of 2015 and by doing so invest in a healthy future for KLM. Our unwavering focus on debt reduction and a stronger balance sheet is laying the foundations for our future.

Investing in our network

KLM serves 131 destinations from Schiphol. Cooperation with partners adds a further 45. Of the total of 176 destinations, 96 are in Europe, the remainder on other continents. In comparison with competitors such as Lufthansa and IAG (British Airways and Iberia) the AIR FRANCE KLM Group offers the most destinations worldwide.

We are permanently seeking destinations that can positively add to our results. In 2013, we added Manston/Kent, Florence and Ålesund (Norway) to our European network.

New intercontinental destinations are Fukuoka (KLM is the only European airline to serve this destination in Japan) and Santiago de Chile. Thanks in part to our contacts with the Argentine government and our Argentine partner, Aerolinas Argentinas, we will be flying to this new destination as from February 2014. Santiago the Chile will be the ninth South American destination for KLM. In 2013, we withdrew our services to Tehran, Addis Ababa and Khartoum.

We intensified our cooperation with other airlines in 2013. The strategic partnership with Etihad Airways entered its second phase. Since mid-May, KLM has been operating a daily flight to Abu Dhabi. Through code-sharing via Abu Dhabi we added six Etihad destinations to our network, while Etihad extended its network with 12 KLM destinations served from Schiphol. We signed an agreement with Pegasus Airlines of Turkey to carry our passengers to and from Turkey more conveniently and to carry Pegasus passengers to KLM destinations via Schiphol. We concluded a similar code-sharing agreement with SkyTeam partner Korean Air. We also deepened our cooperation with Jet Airways of India. In total, KLM has 33 code-sharing partners.

Of all European airlines, KLM and its partners serve the largest number of destinations in China. We are further strengthening the ties with our partners, China Southern and China Eastern, in the firm belief that we can benefit from the relocation of economic growth from west to east.

Our Trans-Atlantic joint ventures, together with the joint ventures with Kenya Airways, Alitalia, China Southern Airlines and Ukraine International Airlines are of strategic importance in building our network. In 2013 we intensified the joint venture with Kenya Airways by signing a renewed and far-reaching joint venture agreement with Kenya Airways with a view to enlarge the network and to generate more commercial synergy.

The Trans-Atlantic Joint Venture between KLM, Air France and Alitalia on the European side and Delta Air Lines is very important to KLM. The four airlines share revenues and costs on their Atlantic networks between Europe, Canada, the United States and Mexico. Further intensification of the network produced the best results ever in 2013. Schiphol retained its position as the most profitable hub in the joint venture.

Safety

In October 2013 the European Aviation Safety Agency (EASA) published new legislation which will become effective in October 2014. The main requirement for airlines is to have an integrated safety management system (SMS). A structured SMS is an essential feature for our business to manage safety, which is actually about managing risk. We endeavour to maintain an industry-leading, risk and performance based SMS and commit to continuously improve on safety for our customers and employees. KLM aspires to be a leader in aviation safety.

Corporate Social Responsibility (CSR): Integrating within business & operations

Dow Jones Sustainability Index

In the fall, our joint efforts with Air France in the field of sustainability were rewarded for the ninth year in succession with a first place in the airlines category of the Dow Jones Sustainability Index. For the fifth time we were at the same time rewarded as sector leader. In July we were also honored by *Airline Business* with the Airline Strategy Award in the environment category for our pioneering use of sustainable biofuel.

We seek sustainability not only in our customer relations, but also in our environmental footprint, our participation in local development and in a socially responsible human resources policy. KLM has the ambition to remain the most sustainable airline.

Minimize our footprint

Part of our strategy is that we want to minimize our environmental footprint. To reduce our CO_2 emission is the main focus but, in addition, KLM takes extensive measures in other fields that go far beyond legal requirements. Also in 2013 some good and constructive initiatives were implemented. An example of these is the introduction of lightweight nets in Cargo.

Flying on biofuel

Again KLM has set innovative steps that contribute to the development of biofuels. Together with the World Wide Fund for Nature in The Netherlands we strive to operate an aspirational target of 1 percent of all our flights on sustainable biofuel by 2015. The in 2012 launched Corporate BioFuel program in which businesses, corporate customers and frontrunners, together with KLM facilitate travel on sustainable biofuel was extended. The program is supported by partners and we included new partners like the municipality of Amsterdam, CBRE, FMO, Loyens & Loeff, PGGM, Siemens and TomTom.

The optimal flight

From March 2013, we operate a weekly flight from New York to Amsterdam powered by sustainable biofuel. A special milestone, because KLM, Schiphol Group, Delta Air Lines and the Port Authority of New York and New Jersey have joined hands in making these regular flights possible.

During six months, flight KL642 from New York to Amsterdam was weekly operated by a Boeing 777-200, partly powered by sustainable biofuel. With this step, KLM once again leads the way in the development of biofuel. Each of these flights will produce on average 24 tons less CO2. The sustainable biofuel used for this series of flights is refined from used cooking oil, which means there is no impact on biodiversity or food production. By means of the optimal flight KLM – together with partners – has taken an important new step towards making air transport more sustainable.

Sustainable catering

We included new sustainable catering products on all our flights. Also the introduction of the Green Space, (a room at Schiphol where passengers and staff are invited to think about sustainable issues) and the motivation of staff to use less paper are a few of the environmental measures we took in 2013.

Local development

KLM has a strong relationship with the communities in which we are active. Via the KLM Air Cares program we intend to add economic value but we also strive to contribute to the social development of local communities. In 2013 KLM entered into a unique agreement with UNICEF, through which KLM is taking the lead in compliance and transparency concerning children's rights in the airline industry.

In 2013 we sponsored the municipality of Amsterdam's celebration of Amsterdam 2013 and the Royal Concertgebouw Orchestra World Tour to celebrate her 125 years. We have sponsored the KLM Open golf tournament since 2004. In 2013 Joost Luiten became the tournament's fifth Dutch winner in 94 years and the first since 2003.

Towards 100 years of KLM

KLM, the world's oldest airline still operating under its original name, is a healthy company in its 94th year. This, too, is something to be proud of. We have remained young at heart while moving with the times. We took the lead in many areas in 2013 and will remain a global player in 2014 and the years to come.

We are pleased our staff policy is bearing fruit. The newest aircraft are essential, but our people are our most important asset. They are committed to their work and to the Company. During the year we heavily called on our staff to remain alert to potential process improvements and efficiency gains in all parts of the Company. Again our people showed that they are more than willing to do their utmost. And again it is this approach that allowed us to uphold the principle of keeping the family together, in exchange for higher staff productivity and flexibility. In this process we are grateful for the constructive support of our Works Council.

We will continue to rely on our employees' dedication, especially in the third challenging year of the Transform 2015 / Securing our Future program. We are fully aware that achieving the Transform goals demand a lot from our people. But the measures are necessary to ensure a healthy and sustainable future for KLM. It is in all our interests to keep the "family" together and avoid redundancies.

In 2019, we will become the first airline in the world to reach 100 years of age. That is something to be proud of. And we will be stronger, bigger and healthier than ever before. We will continue doing what brought us to our current position, thereby heavily drawing on the dedication, creativity and support of our people.

It is difficult to become a global player, to remain one at the age of 94, never mind 100, is a true achievement. The countdown to 2019 has already started.

Camiel Eurlings
President and Chief Executive Officer

Financial Performance

General comments

In this financial performance the figures for the financial year 2013 are compared to the restated figures for the financial year 2012. The 2012 figures have been restated following the implementation of the revised IAS 19 "Employee Benefits", as per January 1, 2013. The impact on 2012 was a EUR 72 million lower income from current operations and a EUR 54 million lower net result.

In financial year 2013 KLM achieved a positive income from current operations of EUR 301 million, an increase of EUR 220 million compared to the restated 2012 financial figures. The Passenger Business performed well, with higher revenues, lower costs and, slightly lower (-4%), albeit, still high fuel prices. The Passenger Business benefitted from better performance in the European market, as well as, outside of Europe in North and South America. Performance at Cargo Business was considerably more difficult. The Cargo Business is still suffering from negative economic conditions, putting pressure on Unit Revenue. Measures were however taken to further lower the unit cost and the capacity was adjusted by reducing the number of freighters.

Revenue and cost development

In millions of Euros	2013	2012 Restated *	Variance %
Revenues	9,688	9,473	2
External expenses	(6,337)	(6,456)	(2)
Employee compensation, pension cost and benefit expenses	(2,404)	(2,393)	-
Depreciation and amortisation	(507)	(517)	(2)
Other income and expenses	(139)	(26)	-
Total expenses	(9,387)	(9,392)	-
Income from current operations	**301**	**81**	

* After the impact of revised IAS 19 as per January 1, 2013

Revenues

Revenues were up by 2.3%, to EUR 9,688 million (+4.6% at constant exchange rates), compared to 2012. Capacity (in equivalent available seat kilometers) was 2.4% higher than last year.

Passenger transport revenues were at EUR 6,869 million, 3.6% higher compared to 2012, with an increase of capacity, measured in available seat kilometers, of 3.0%. Unit revenue increased by 0.5% (+2.9% at constant exchange rates). Revenue per Passenger kilometer (yield) increased by 0.4% (+2.8% at constant exchange rates), while load factor slightly improved to 85.8% (+ 0.1% point).

Cargo transport revenues were at EUR 1,537 million, a decrease of 7.6%, with a capacity decrease, measured in available ton kilometers, of 3.3%. Unit revenue decreased by 6.0% (-3.6% at constant exchange rates). Revenue per ton-kilometer (yield) decreased by 5.5% (- 3.2% at constant exchange rates), whilst load factor decreased by 0.3% point to 68.8%.

Leisure transport revenues increased by 6.3% to EUR 724 million compared 2012. Revenues from maintenance for third parties and the work performed for Air France amounted to EUR 518 million, which is an increase of 13.8%, compared to 2012, and is mainly resulting from higher maintenance revenues from third parties.

Expenses

Expenses remained stable at EUR 9,387 million (+2.6% at constant exchange rates) compared to the restated figures 2012.

Fuel cost decreased by 5.2% to EUR 2,941 million. Compared to 2012, the average jet fuel price was 1.5% lower after hedge, volume was 0.7% lower and a 3.1% weaker USD.

Excluding fuel, expenses increased by 2.5% with a capacity increase measured in equivalent seat kilometers of 2.4%. At constant exchange rates and fuel price, unit costs were 1.4% lower than the restated figures 2012.

Employee cost only increased by 0.5% to EUR 2,404 million, despite EUR 44 million higher pension cost in 2013. The average workforce employed by the KLM Group was 30,635 FTE's (2012: 31,189 FTE's) and productivity increased by 3.4% compared to 2012.

Income from current operations

In financial year 2013, the income from current operations amounted to EUR 301 million (2012: EUR 81 million). The main reason for the higher income from current operations is the higher revenues, mainly from Passenger Business, overall stable expenses, including a lower fuel bill and well controlled employee cost, mainly caused by increased pension cost.

Passenger Business operating profit amounted to EUR 357 million, an increase of EUR 227 million compared to 2012. Total traffic revenues increased EUR 210 million (+3.3%) to EUR 6,569 million. Unit revenues (at constant exchange rates) increased 2.9% being the result of 2.8% yield improvement and 0.1%-point better load factor. Unit costs (at constant exchange rates) were 1.9% lower than 2012, whilst capacity showed an increase of 3.0%.

Cargo Business operating loss was EUR 68 million (2012: EUR 78 million loss). The slight improvement of the operating result is mainly due to 3.6% lower unit cost (at constant exchange rates).

Maintenance activities accounted for EUR 29 million of operating income (2012: EUR 26 million). The leisure activities realised an operating loss of EUR 18 million, compared to EUR 2 million operating loss for 2012.

In millions of Euros	2013	2012 Restated *
Income from current operations	301	81
Other non-current income and expenses	(51)	(95)
Net cost of financial debt	(127)	(128)
Other financial income and expenses	68	24
Pre-tax income	**191**	**(118)**
Income tax (expenses)/benefit	(48)	31
Share of results of equity shareholdings	(10)	(11)
Profit / (loss) for the period	**133**	**(98)**

* After the impact of revised IAS 19 as per January 1, 2013

The net profit in financial year 2013 amounted to EUR 133 million, an increase of EUR 231 million compared to 2012.

Other non-current income and expenses showed a loss of EUR 51 million in financial year 2013 which mainly relates to losses on the sale of 7 Fokker 70's and book losses on related F70 engines (EUR 13 million), an one-time 16% income tax levied in The

Netherlands on salaries higher than EUR 150,000 in 2013 (EUR 12 million), an onerous lease provision on a full freighter (EUR 9 million) which will be early phased-out, additional cost for the settlement of Cargo anti-trust investigations (EUR 8 million) and additional losses related to the earlier phase out of a Passenger MD-11 (EUR 6 million).

The improvement in other financial expenses mainly relates to the revaluation of KLM's debt in foreign currencies, mainly related to weakening of the Japanese Yen against Euro, and the time value on fuel derivatives.

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	2013	2012 Restated *
Cash flow from operating activities	626	572
Cash flow from investment activities	(363)	(353)
(Increase) / Decrease in short-term deposits and commercial paper	(184)	(1)
Cash flow from financing activities	(322)	(41)
Other	(16)	1
Changes in cash and cash equivalents	**(259)**	**178**

* After the impact of revised IAS 19 as per January 1, 2013

The operating cash flow of EUR 626 million positive, is composed of a cash flow from operating activities before working capital of EUR 587 million, and a positive working capital movement of EUR 39 million. The focus on cash resulted in an improved positive free cash flow of EUR 263 million, compared to a EUR 219 million positive free cash flow in 2012.

Investing cash flow amounted to EUR 363 million, of which EUR 223 million for fleet renewal and modifications. Next to prepayments for future fleet, one Boeing 777-300ER, two Airbus A330 (one -200 and one -300), two Boeing 737-800 and two Embraer 190 entered the fleet in financial year 2013. Fleet related investments amounted to EUR 206 million, including EUR 135 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 96 million (including EUR 68 million for capitalized software) whilst disposal of aircraft led to an income of EUR 161 million and mainly relates to aircraft sale and leaseback operations.

The financing cash flow was EUR 322 million negative. New financing included financing of new fleet amounting to EUR 114 million and other transactions of EUR 93 million. Redemption of finance lease liabilities amounted to EUR 288 million, redemption on existing loans (EUR 198 million), redemption on an AIR FRANCE KLM loan (EUR 45 million) and near cash (EUR 2 million).

Equity increased to EUR 1,611 million at December 31, 2013 (restated equity of EUR 1,501 million per December 31, 2012) as a result of the positive net result for the financial year 2013 and the positive movements in the value of interest and currency derivatives, however partly offset by the negative movements in remeasurement of defined benefit pension plans 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 2,195 million at December 31, 2013 (EUR 2,136 million at December 31, 2012 restated). The net debt to equity ratio improved from 186% (restated 2012) to 157%.

Overview of significant KLM participating interests

As at December 31, 2013

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	2013	2012	% Change	2013	2012	% Change	2013 %	2012 %
Route areas								
Europe & North Africa	14,554	13,918	4.6	17,842	17,096	4.4	81.6	81.4
North America	18,602	18,663	(0.3)	20,866	20,896	(0.1)	89.1	89.3
Central and South America	11,015	9,504	15.9	12,486	10,796	15.7	88.2	88.0
Asia	26,450	25,683	3.0	30,593	29,446	3.9	86.5	87.2
Africa	10,138	10,229	(0.9)	12,097	12,262	(1.3)	83.8	83.4
Middle East	3,638	3,622	0.4	4,560	4,647	(1.9)	79.8	77.9
Caribbean and Indian Ocean	4,642	4,662	(0.4)	5,349	5,584	(4.2)	86.8	83.5
Total	**89,039**	**86,281**	**3.2**	**103,793**	**100,727**	**3.0**	**85.8**	**85.7**

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2013	2012	% Change	2013	2012	% Change	2013 %	2012 %
Route areas								
Europe & North Africa	24	23	2.2	311	298	4.1	7.7	7.8
North America	965	985	(2.0)	1,536	1,548	(0.8)	62.9	63.7
Central and South America	1,350	1,330	1.5	1,886	1,846	2.1	71.6	72.0
Asia	2,418	2,548	(5.1)	3,079	3,251	(5.3)	78.5	78.4
Africa	910	988	(7.8)	1,294	1,393	(7.1)	70.3	70.9
Middle East	152	149	2.4	243	246	(1.1)	62.7	60.6
Caribbean and Indian Ocean	71	93	(23.3)	209	267	(21.7)	33.9	34.6
Total	**5,890**	**6,116**	**(3.7)**	**8,558**	**8,849**	**(3.3)**	**68.8**	**69.1**

Commercial and operational developments

Passenger Business

Passenger traffic exceeded expectations in 2013, thanks in part to our strong network, KLM's focus on stronger economic regions, such as North and South America, and improvements in Asia. In 2013 we carried 26.6 million passengers. In the second year of Transform 2015 / Securing our Future we are still on the anticipated road to recovery.

Improved revenues per passenger at a stable load factor resulted in a positive development of the unit revenues. Unit cost shows a decreasing trend in line with our ambitions in Transform 2015 / Securing our Future. Through a combination of increased production and a lower number of FTE's the Passenger Business realized a firm increase of productivity. Fuel prices were high but fairly stable compared to previous year. The Passenger Business realized transport revenues of EUR 6,869 million and an operating income of EUR 357 million.

Results in Europe also developed positively on both short and medium-haul flights. We broke the negative spiral in our European performance and have regained an upward trend. We worked hard on our European product. Many good ideas were successfully implemented due to a great effort from everyone in the Passenger Business. It will be essential that we keep this upward trend as the re-focus of our short- and medium haul activities is one of the three cornerstones of Transform 2015 / Securing our Future.

Listening to the customer: Customer Centricity

Ancillary Services

In 2013 we took an important step forward to unbundle our passenger products. We analyzed every part of our product, the chain of booking, check-in, time at the airport, arrival and the journey home, in order to identify ways to diversify and offer additional and better products and services. Mid May we introduced the option of paying for baggage on European sectors and other ancillary services to complement the existing paid options such as choice of seat and extra legroom.

We implement all these innovations to increase our customer loyalty, for KLM aspires to a long-lasting relationship with its customers.

Social Media

New products and services to improve passenger satisfaction included new self-service check-in machines, smart boarding (a trial), mobile data traffic during the flight (wifi) and the KLM Passport app. The revamped check-in machines are simpler to use than the older ones, have a new look and feel and accept payment by bank card. A KLM Boeing 777-300 hosted the first commercial flight with wireless internet in early April. Passengers paid access to the internet via their smartphones, laptops or tablets. The service meets customers' growing demand to be online at any place and any time.

KLM was an early adopter of social media as a means to provide service, increase customer loyalty and develop commercial activities. We have had a Facebook account since January 2010. In 2011 we were the first European airline to provide 24/7 customer service via social media. We respond instantly to urgent customer needs via Facebook, Twitter and VKontakte, a popular Russian Social media platform, and in 2013 we took a major step by developing Facebook as an even more commercial channel. Through KLM 24/7, we increased the number of languages in which we communicate on Facebook and Twitter from seven to ten: French, Russian and Norwegian were the newcomers.

KLM has more than 10 million followers on social media worldwide, a milestone that we passed in summer 2013. With 4 million fans on Facebook we are the largest airline on Facebook. A survey in August also found that KLM was the most socially devoted brand on Facebook, measured by number of followers, response time and number and quality of helpdesks.

In 2013 the SimplyFlying consultancy declared KLM the best airline on social media and shortly afterwards an online survey by Social Embassy ranked KLM as the best social media brand in The Netherlands. Our efforts to improve customer service even further were rewarded in April with the Market Leader Award for the best service via Twitter and Facebook.

E-commerce

We have identified growth potential for online sales in emerging markets (Brazil, China, Southeast Asia). We are therefore setting up more digital acquisition channels for these markets. We are permanently working on improving our applications. Our mobile first strategy requires us to develop all our digital products and services for use on mobile devices: smartphones, tablets and laptops.

In 2013 we adapted our online content and marketing and sales campaigns for use on all devices (including desktop computers).

KLM is also innovative in the field of E-commerce. One of the most recently launched services is Wannagives, a good example of “listening to the customer”. In response to demand highlighted on social media, KLM developed a service to surprise friends and family on board with a gift. @KLM_LocalEyes is an initiative to inform passengers about their destinations. On the new Twitter account @KLM_LocalEyes, local KLM staff tweet weekly tips about their cities. The free KLM Passport app enables travelers to compile a trip report using their own photographs and films. They can then share their reports on Facebook and by e-mail.

In March 2013 we introduced a new app for customers to provide feedback on KLM’s service and ground process. We are increasing the involvement of the customer in the process at the airport so that we can improve it where necessary.

A completely new venture in KLM’s customer loyalty program is a strategy game, Aviation Empire, in which gamers play the part of airline executives and take decisions on fleet investments and new destinations. The game was launched on July 1. It is much more than amusement. It enables us to build up and strengthen customer relations. The goal of 100,000 users set for the end of 2013 was passed just a few weeks after the game’s introduction.

Customer appreciation

The customers’ appreciation of our services was reflected in the receipt of several awards. In May we received five Freddie Awards for the best loyalty program and in July SkyTrax rated KLM a four-star airline for its product offer and service delivery. It has placed us in a very select group of airlines. SkyTrax also conferred a second consecutive award on us for the Best Airline Staff Service in Europe. The award was based on the opinions of frequent travelers, those who are in the best position to make comparisons. KLM also won an E-commerce award for the best website performance.

Fleet

Investments in the fleet are essential to every modern airline. New aircraft are more comfortable and the engines are quieter, more economical and cleaner. In our case, they are bringing us closer to our social ambitions and increasing our competitiveness. For KLM, fleet renewal is a continuous process.

The preparations for the introduction of the Boeing 787 have started. In addition AIR FRANCE KLM Group placed an order for 25 Airbus 350s in June this year.

As well as adding new aircraft to the fleet, we also invested in renewing the existing fleet and modernizing our services and products, for example by introducing the new World Business Class. A significant change was the redesign of the World Business Class with new full flat reclining seats that meet the passengers' wishes for comfort and privacy. Dutch designer Hella Jongerius designed the interior with new carpets, new wall decorations, curtains, cushions and blankets. The design is both innovative and sustainable, partly because old KLM uniforms were used for the materials and old carpets were recycled in accordance with the cradle-to-cradle principle.

Product diversification – more options for the customers – was also introduced on the KLM Cityhopper fleet with Economy Comfort. With the introduction of the slim seat, passengers are given more legroom.

Operations

The most important categories of the key performance indicators of KLM's operations are (I) service, (II) completion, (III) on-time performance and (IV) baggage. Operationally, 2013 was a good year, better than last year's performance, since 14 out of 17 operational targets were met. We met our targets on long haul and short haul punctuality. Arrival punctuality on both short-haul and long-haul flights exceeded that of our competitors. The same is true for our short-haul departure punctuality. Our long-haul departure punctuality is at target and brings us to a top two position compared to our competitors. Also our targets on completion were realized and we improved our performance on baggage. Initiatives to make operational processes and operational support more reliable and more efficient are key to improving performance and reducing unit costs. Within the scope of the Flight Plan 2013 KLM took several such initiatives during the year.

Flight Plan 2013

The Flight Plan 2013, being a comprehensive, single page summary of the strategy we want to follow, has proven to be a useful tool that helps all colleagues within the Passenger Business operations to set and monitor priorities. The flight plan concentrates objectives and priorities around five themes being (I) Customer & Product, (II) Network & Fleet, (III) Operations, (IV) People & Organization and (V) Finance. Looking back we conclude that almost all our ambitions are accomplished.

Hereunder we name a few important projects we made progress on:

- Higher seat density

To allow more sales we fitted six additional seats in each of our 24 Boeing 737-800 by removing the coatrooms and removal of the side galleys. Despite the higher seat density the load factor increased.

- Shorter turnaround times

By having all departments concerned meticulously analyze the entire handling process (catering, cleaning and crew boarding) of the Fokker 70, Embraer 190 and Boeing 737, we cut turnaround times by five to fifteen minutes depending on aircraft type. The aircraft can now fly more hours and be more productive. The input of our staff was the key to this successful reduction in turnaround time. By involving concerned staff in the design of the new processes, innovative and creative solutions were found.

The trial with smart boarding involves an innovative system that speeds up and simplifies the boarding process and thus reduce turnaround time by issuing sequence numbers to passengers at the gate. Depending on satisfaction of our customer as well as the operational improvements in the processes, we will decide whether we will roll out the system in 2015.

- Seasonality

Also as part of Transform 2015 / Securing our Future we looked for creative ways to break through the traditional patterns of seasonality. The airline industry, and thus KLM, has different result patterns depending on the season. To some degree, we have already responded to this by planning network and maintenance programs during low season. But there are still parts of our operational system that are spread evenly over the year, which is expensive. During the year, a multidisciplinary team set out constructive solutions that will break the patterns and will lead to improvement of the financial results.

- Regional Jet Center

In 2012 we started the transfer of maintenance activities of the Embraer 190 from a third party maintenance supplier to Martinair Regional Jet Center. In 2013 the maintenance of all Embraer aircraft has been transferred. A very challenging operation, because it had to be performed in as short a time as possible, without compromising on quality in any way.

The Regional Jet Center focusses on being a “learning and innovative organization” in an environment of heavy competition.

- Emergency Management

Alignment of the Emergency Management Procedures of Air France, Delta and KLM is in full progress. Training and introduction of the aligned Local Emergency Response Action Plans has been completed worldwide. An audit performed on this process has been executed with positive recommendations.

- “Steering Scenarios”

Disruption of operations in winter due to snow and icing conditions is a continuous focus area. During winter 2012 we introduced a scenario based methodology in case of expected operational disruptions. A poor weather forecast of three days in advance activates different processes, in order to be prepared for a disrupted day in which the air- or airport capacity is reduced. Pro-active measures enable us to make the most efficient and customer focused decisions. Passengers can be informed pro-actively on their change in schedule due to weather conditions. Results are very positive and further development of this scenario based methodology is in progress.

- Implement new tools / systems

The introduction of our new passenger and baggage handling system Altéa Departure Control Customer Management at Schiphol was an important event. It handled its first flight, to São Paulo, on October 1. The system will be rolled out for all flights in the course of 2014. The benefit in the longer term will be more interaction with passengers, which will in turn enable us to offer more targeted products and services. Our compliments go to the staff who put great effort in the implementation of the new system that leads to significant changes in the operational processes.

The successful implementation of Icrew (planning and rostering tool for cockpit- and cabin crew) in 2012 was followed by introduction of Milord Sirocco KLM, a joint tool of Air France and KLM for use in the front office of the Operations Control Center for day of operations network steering.

- 70MB project

A joint project carried out by KLM and Schiphol is "70MB" (70 million bags), a redesign and extension of the baggage system so that many more bags can be handled now and

in the future. In 2013 the new system with many innovative features was put into operations.
In spite of two major baggage disruptions at Schiphol that have put the performance under pressure the number of bags (per 1000 pieces) that do not travel with their owner was decreased from 70 in the year 2012 to 25 in the year 2013.

- SkyPriority audit

In May, SkyTeam, the alliance between KLM and 18 other airlines, subjected KLM to a SkyPriority audit. The audit determines whether SkyTeam members carry out SkyPriority (faster handling of SkyTeam members) promptly and correctly. SkyTeam examines the check-in, baggage drop-off, security control, boarding, etc. We met all the standards set by SkyTeam, further proof of our quality and efficiency.

- Ipad on board

We improved our efficiency by issuing iPads to cabin and cockpit crew. Crew members can use the information in the iPad apps to respond more effectively to customer wishes. The information in the tablets will allow our crew to inform customers about connecting flights or last-minute operational changes. The Ipads also allows the crew to sell additional products and to make passengers join the Flying Blue program on the spot.

Cargo

The economic climate had more impact on the cargo market than on the passenger market. Conditions on the cargo market were dominated by overcapacity and pressure on prices. A slump in imports and exports has had an immediate impact on the sector.

Other factors that affected the cargo market in 2013 were the shift from air to sea freight, the global increase in passenger aircraft with greater belly (freight) capacity and an increase in the local production of goods. They were offset to some extent by the growth of E-commerce and stability in the regions in which KLM operates. On balance, Cargo incurred an operating loss in 2013 of EUR 68 million, on transport revenues of EUR 1,537 million, versus an operating loss of EUR 78 million in 2012.

Although we turned in a loss, we have improved our result and we have done what we set out to do: take a firm grip on costs, so firm in fact that costs fell more sharply than capacity in 2013.

Phasing out freighters

Unit cost was 6.3 percent lower in 2013. The improvement was brought about by relatively stable fuel prices and a combination of a wide range of activities, chief among them being the decrease of the number of freighters in operation: a MD-11 was returned to the lessor, a Boeing 747 was leased to Etihad and another Boeing 747 is now operating in the joint venture with Kenya Airways. Slightly more cargo was carried in the bellies and combi aircraft. On the whole capacity declined with 3%.

To supplement the Transform 2015 / Securing our Future measures, we have decided to phase out another two freighters in 2014. Further, we lower our unit cost by continuously investing in IT to reduce process costs.

Integration of KLM Cargo and Martinair Cargo

AIR FRANCE KLM Martinair Cargo took the next step in the integration of Martinair Cargo and KLM Cargo during the year. We further merged the two business units. The integration is now almost complete. The integration has been including the introduction of a single Air Waybill since May 1.

New services

We have successfully developed two new products for its customers in 2013. The "Secure" product enables cargo customers to have their shipments checked for the presence of explosives and then secured for further handling. Stricter regulations have prohibited certain customer groups from delivering their own secure cargo to the airport. We have assumed this task from these customers. We secure the cargo by means of an innovative and certified procedure. The second product is a new temperature and climate-controlled zone of 15-25°C to handle and transport pharmaceutical products. To guarantee this temperature throughout the supply chain, we built a separate cell at Schiphol. There was a great deal of demand for this new service, which induced more demand for the other cooling services as well. Both new products were well received in the market.

The iPhone app introduced in 2012 to track cargo proved a success in 2013, as did the new cargo web site. The site includes a tool for customers to book their shipments online.

Cargo Customer satisfaction increased in 2013 compared to 2012. Customers appreciate our customer service, sales and network (high score, our strength). They indicated also that we can further improve on operational performance, which will be a 2014 business priority.

We took an innovative approach to improve its environmental performance. We introduced nets for cargo pallets that were 50 percent lighter but much stronger than the old ones. Also working with electrical trucks on the aprons was introduced.

Stable partners are of strategic importance in the air cargo sector. KLM decided to intensify its cargo cooperation with Etihad and leased a freighter to Etihad (a Boeing 747, including crew) profiting from the expansion and refinement of Etihad's cargo network.

With Delta Airlines we agreed to drastically intensify our transatlantic cooperation in the fields of Sales, Pricing and Revenue Management and Operations. Implementation of first steps has started in 2014. Full implementation will be realized in 2016.

The three-year safety business plan represented a breakthrough with respect to the safety culture. The safety plan includes a two-day safety event, the installation of ergonomic coaches, training and a safety program manager.

Looking to the future, commercial initiatives can be seen in certain segments of the cargo market, such as pharmacy products, while express and mail services are growing with the increase in E-commerce.

Engineering & Maintenance

The Engineering & Maintenance Business performed well in 2013. For the second year in succession we reduced our maintenance costs while retaining our safety and operational integrity. We introduced a successful internal mobility program, and our Moonshine team stood out for its innovations in the business's own workplaces. The team built its own vehicle, for example, to transport Boeing 737 wheels and brake components, which made the work easier and improved ergonomic conditions. Two major modification programs that Engineering & Maintenance worked on in 2013 included the redesign of the World Business Class of all 22 Boeing 747-400 aircraft and the cabin conversion to increase seat density in the Boeing 737-800s. In August a start was made with the cabin midlife upgrade of the Economy Class of the Boeing 777-200s. The upgrade includes new seats, seat covers, curtains, carpets and wallpaper.

In January Martinair transferred maintenance of its MD-11s to Engineering & Maintenance and in July Engineering & Maintenance concluded a maintenance and inventory management agreement with Royal Brunei Airlines for the components of five Boeing 787-800s. The AIR FRANCE KLM Group made several major investments for Engineering & Maintenance to carry out maintenance for external customers.

Proof of the business high standards was provided by the Performance Excellence Award that Boeing's Component Services department conferred to Engineering & Maintenance in recognition of its excellent work in 2012. Boeing praised the punctuality of deliveries and the quality of the repairs performed.

On balance, Engineering & Maintenance achieved an operating income in 2013 of EUR 29 million, and revenues of EUR 518 million on third parties and work performed for Air France.

transavia.com

In 2013 transavia.com reported an operating loss of EUR 18 million on transport revenues of EUR 724 million.

transavia.com, a wholly owned subsidiary of KLM, continued to roll out its strategy and made progress in productivity, efficiency and cost reduction, creating the base for further growth in the "low fare plus" segment, in both The Netherlands and France.

transavia.com maintained its leading position in the very competitive leisure market. It was a challenging year with headwind from the economic crisis in Europe, the unstable political situation in Egypt and bankruptcies in the tour operator market. Despite these difficult circumstances, passenger growth was realized in the Dutch home market, particularly on scheduled services. The position at the regional airports of Eindhoven and Rotterdam was enhanced, in line with growing market demand for regional services.

The focus was mainly on destinations for a city or business trip and short break holidays. The imbalance between summer and winter capacity was further decreased by the success of the new winter sun destinations and by flying city destinations the whole year round.

transavia.com is investing in a new future proof IT environment to align and improve the customer experience and the internal operational processes. This enables the airline to benefit optimally from transavia.com's distinctive "low fare with care" approach: offering a typical transavia.com service at sharp, basic prices with the freedom to select a wide range of additional paid services. The new systems enable the organization to serve all customers, scheduled and charter, with the same products and thus achieve lower cost levels and a consistent service.

transavia.com generated more synergy with KLM and expanded the transfer traffic by introducing codeshares of KLM on the transavia.com flights to 25 destinations.

The Dutch airline shares business model with transavia.com France and intensified the cooperation in order to support the expansion of the low fare airline in the French market. Both companies are combining their efforts in inbound markets to increase the proportion of foreign customers.

For the coming years the way forward is profitable growth, resulting in an extended focus on the two home markets as the leading low cost carrier, but also, more offensively, a broader view on foreign markets and passenger audience.

Safety

Safety is of vital importance for both our customers and employees. Sustaining our license to operate depends on maintaining the safety and reliability of our operations.

To achieve our ambition to be a leader in aviation safety, we manage safety through our risk and performance based Safety Management System (SMS). We actively look for the unknown, try to see what is hidden and control the outcome of that knowledge. Our SMS includes all aspects of operational, occupational and environmental safety and security and enables us to make risk based decisions at all levels in the organization. We carefully identify risks and put mitigating measures in place to prevent those risks resulting in incidents or even accidents.

Our main objective is to have zero accidents and to minimize incidents. In 2013 operational safety goals were met. We succeeded to decrease the number of high risk occurrences, even though the standards were raised in 2012.

However, we have not yet achieved our goals regarding occupational safety. Sadly, in 2013 a fatal road accident occurred on Schiphol Airside. The accident was investigated thoroughly in close co-operation with authorities.

To substantially improve our occupational safety performance, we will continue our efforts on this subject. Occupational safety will be integrated more and more with operational safety. We endeavor to have positive results from this program in 2014.

Furthermore, the new way of integrated safety management was laid down in a revised safety management manual. Besides a clear corporate governance structure and procedures for safety management, it also includes a redesign of our risk assessment process. Our risk assessment matrix now supports integrated risk based decision making regarding seven business concerns: people, environment, operations, compliance, reputation, security and assets. Reactive assessment of incidents is possible, but also proactive and predictive assessment: the new matrix can be used for risk assessment of hazards, incidents and intended changes.

As our prime method for proactive risk management we started to use the BowTie-model. For our operational risk register we identified the key top events for KLM, including all their preventive and recovery barriers.

The safety of our operations depends not only on a good SMS, but also on a beneficial safety culture, stimulating our employees to improve our safety performance. This is supported by our five safety principles, which we have integrated in our safety policy:

- Work Safely: if an employee is convinced that the task assigned to him cannot be performed without compromising safety, he or she is expected not to perform this task and inform his management;
- Stick to the rules: every KLM employee has the responsibility to contribute to the solutions to safety problems by complying with laws, regulations and procedures;
- Report unsafe situations: every KLM employee has the responsibility to identify and alert each other and management to potential hazards and threats, not only in their own job but also in cross-functional relationships;
- Help and challenge each other: all KLM employees are expected to help, support and challenge each other about safety when performing their work;
- Be fit to work: employees have the responsibility to be physically, medically and mentally fit when performing their work.

In 2013 the KLM Safety Culture Program continued to strengthen this culture among our employees and subcontractors.

Staff

KLM was declared one of the three coolest brands in The Netherlands at the end of 2012. In 2013 a survey conducted by Effectory and *Intermediair* proclaimed us the best employer in The Netherlands in the category of companies with more than 1,000 employees. Our staff gave us a score of 8.9 out of 10.

Apart from best employer, social professional network LinkedIn found KLM to be the fifth most popular employer in 2013. This underscores our efforts to foster and develop good employment practices, which was also supported by the results of our Employee Engagement Monitor. Being the third largest corporate employer in The Netherlands with more than 30,000 employees based in The Netherlands, we recognize the impact that KLM can have and we are dedicated to fulfilling that role in every respect.

Social Rights and Ethics Charter

An important guide for all our personnel is our new Social Rights and Ethics Charter, which the new Board of the AIR FRANCE KLM Group signed on July 15, 2013. The previous version dated back to 2006. The charter covers not only good employment practices, it also sets out the principles of the AIR FRANCE KLM Group's corporate social responsibility in general.

An important theme of the charter is (gender) diversity, which received special attention in 2013. KLM recognizes the importance of diversity: we are convinced that diversity will be a catalyst for creativity, flexibility and productivity and will enable us to use the full potential of our labor population. Improvements in this domain are possible and desired. We will therefore give the diversity policy and the associated diversity program within KLM even more priority in 2014. In 2013 the decision was already made to create a diversity council, presided by the CEO, to promote and co-ordinate new diversity initiatives.

Works Council

KLM's new Works Council was installed on May 31. KLM's employees voted for the candidate of their choice in the spring. For the first time, the ballot was entirely digital. The "turnout" was high: 60%.

The Works Council handled nearly 40 requests for advice and approval in 2013. The most important ones were the requests for advice on the new structure of the AIR FRANCE

KLM Group and of KLM itself. Upon its inauguration, the Council declared it would "continue to follow the line in cooperation with management to keep the KLM family together in these challenging times."

Health policy

We made changes to our health policy in 2013. One of the results was a multi-year plan for the next three years and an action plan for 2014. The action plans will make clear which projects regarding health and safety KLM will work on in 2014. The new policy targets not only sickness absenteeism but specifically focusses on keeping KLM employees healthy and fit. We will step up our preventive measures by investing in both working conditions and health promotion. The Works Council approved the multiyear plan and the action plan in December.

Commitment

We listen closely not only to our customers but also to our people. Using their know-how and skills creates innovative ideas and cuts costs, as demonstrated by such initiatives as the Young KLM Round Table, smart boarding and the commitment shown by staff in several departments to reduce aircraft turnaround times.

Fleet development

KLM Group continued its fleet renewal program in financial year 2013. Fleet renewal raises the quality of service we offer to our customers and enhances the efficiency of our operations.

During financial year 2013, KLM took delivery of 7 new aircraft: one Boeing 777-300ER and two Airbus A330 (one -200 and one -300) entered the long haul fleet. Two Boeing 737-800 and two Embraer 190 were added to the fleet. All these aircraft fit perfectly in the network, are more fuel-efficient, require less maintenance and are quieter. Also the preparations for the introduction of the Boeing 787 have started.

The contract with Airbus for the A350XWB concerns twenty-five firm positions and twenty-five options. The firm positions are split between KLM and Air France and 7 positions are allocated to KLM. The first A350 is planned to enter into services within KLM in 2019.

In total, 4 aircraft left the fleet in 2013. KLM Group phased out two MD-11 passenger aircraft, one Boeing 737-700 was phased out and one Boeing 737-800 was subleased to Transavia France.

Fleet composition KLM Group

		Included in balance sheet				
		Average age in years *	Owned **	Finance leases	Operating leases ***	Total
Consolidated fleet as at December 31, 2013						
Boeing 747-400 Passenger	wide body	17.7	1	1	5	7
Boeing 747-400 Combi	wide body	20.2	14	1		15
Boeing 747-400 ER Freighter	wide body	10.5		3		3
Boeing 747-400 BC Freighter	wide body				1	1
Boeing 777-300 ER	wide body	3.4		8		8
Boeing 777-200 ER	wide body	9.2		6	9	15
MD-11	wide body	19.6	3	1		4
MD-11 Freighter	wide body	17.8	3	2	1	6
Airbus A330-300	wide body				4	4
Airbus A330-200	wide body	7.8		6	6	12
Boeing 737-900	narrow body	10.9		2	3	5
Boeing 737-800	narrow body	9.9	6	10	29	45
Boeing 737-700	narrow body	5.8	2	9	16	27
Embraer 190	regional	4.1		13	11	24
Fokker 70	regional	17.9	26			26
Training aircraft			4			4
Total consolidated fleet		**12.2**	**59**	**62**	**85**	**206**

* Excluding operating leases and training aircraft. The average age including operating leases is 10.5 years

** Excluding 1 Boeing 737-800 (subleased) and 1 MD-11 not in operation as per December 31, 2013

*** Excluding 2 Boeing 747-400BCF and 1 Boeing 747-400ERF (subleased) not in operation as per December 31, 2013

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 strong fluctuating oil prices and increasing laws and regulations, for instance in the areas of environment, (flight) security and passengers rights.

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

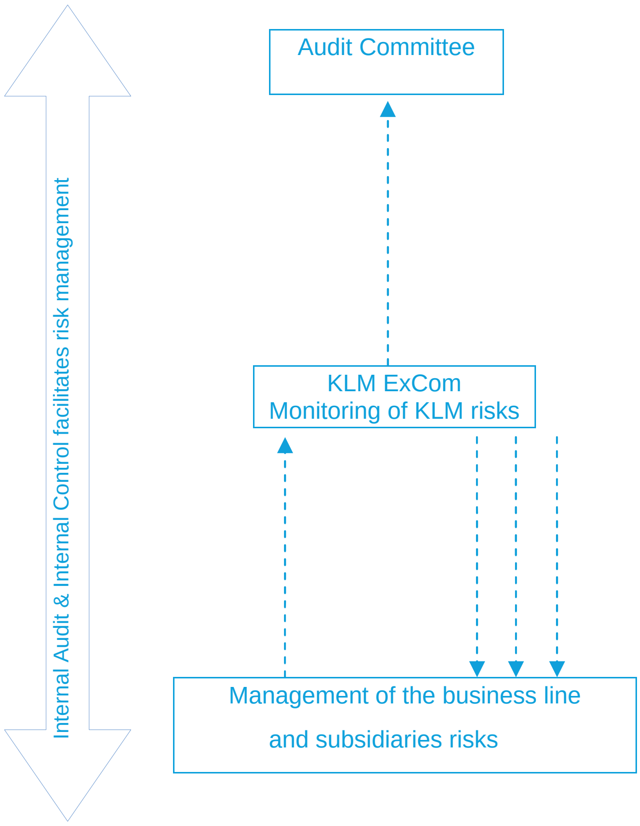
Overall risks of AIR FRANCE KLM are explained in relevant parts of the AIR FRANCE KLM financial disclosure reporting. These parts have a strong connection with this section, in which basically, the most important KLM risks are discussed. These risks can have an impact on KLM's brand, reputation, profitability,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

Risk management process

KLM is exposed to general risks associated with air transport and has consequently implemented a system to identify, monitor and control/manage risks. 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 by KLM.

Every three months, KLM entities update the overview of their major operational risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both specific risks to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the reported risks, members of the KLM Executive Committee are responsible for reviewing the measures implemented to control these risks. On a quarterly basis, a presentation on the most significant operational and financial risks is made by Internal Audit & Internal Control and presented to the KLM Executive Committee and twice a year to the KLM Audit Committee of the Supervisory Board.

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



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

Monitoring

AIR FRANCE KLM is continuously paying additional attention on financial reporting, based on the internal control framework for financial reporting. The existing risk management system supports 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 its DoR, business management confirms to the Board of Managing Directors, the reliability of the financial and other figures they have submitted and if control procedures 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 KLM Executive Committee adopted in 2011 a new fraud policy which better clarifies and aligns the already existing fraud prevention and detection procedures and responsibilities within the organization 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 to support the awareness and identification of fraud risks.
During the year, as part of reporting on compliance to the Board of Managing Directors and Supervisory Board, a more comprehensive reporting on fraud related cases and their potential financial impact has been introduced.

Risk factors and their management

Risks relating to the air transport activity

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalisation of the European market on April 1, 1997, the resulting competition between carriers and the increasing volumes have led to a reduction in airfares.

The EU-US Air Traffic Agreement has been in force since end-March 2008 meaning that European airlines are authorised to operate flights to any airport in the United States from any European airport. In this timeframe KLM has extended its cooperation within the SkyTeam alliance, particularly within the framework of the implementation of a trans-Atlantic joint venture with the partners Air France, Alitalia and Delta Air Lines.

On its short and medium-haul flights to and from The Netherlands, the Company also competes with alternative means of transportation. In particular, the high-speed rail network in Europe competes directly with KLM flights in Europe. The competition is currently limited, but a substantial extension of high-speed rail networks in Europe may have a negative impact on the Company's activity and financial results. KLM also faces competition from low-cost airlines for European point-to-point traffic. With leisure travel markets reaching saturation, these airlines are shifting their focus to expand in the business travel market; this will sustain the general downward pressure on airfares in Europe.

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

The Company also competes with alternatives to travel, such as telecommunications. Especially high quality videoconferencing is becoming mainstream technology and, in part, a viable replacement for physical presence. But as these substitutes also facilitate the expansion of global business the net effect does not necessarily be detrimental to air travel.

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 seeks opportunities in mutually reinforcing partnerships, such as the high-speed air-rail link with Brussels and Antwerp, and the various airline partnerships (codeshares, joint ventures, alliances). The Company regularly raises with the Dutch and European authorities the need to establish and maintain fair competition regulations.

Risks linked to the seasonal nature of the air transport industry

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

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Company's activities and, hence, its financial results. Periods of crisis are liable to affect demand for transportation, both for leisure and business travel. Furthermore, during such periods, the Company may have to take delivery of new aircraft or be unable to sell aircraft not in use under acceptable financial conditions. The Company monitors demand closely so as to adjust capacity while reinforcing the flexibility of the fleet. (An example is the accelerated phase out of the MD-11 passenger aircraft, to be out of service as of the winter 2014-2015.)

Risks linked to the air cargo market

The air cargo market is characterized by structural excess capacity resulting from a low growth in demand and the influx on new freighter aircraft, while old freighters slowly retire, as well as a steep growth in belly capacity due to the strong growth of the number of wide body passenger aircraft worldwide. As a result yield and unit revenues are structurally under pressure. Also alternative modes of transport, particularly sea transport by large container vessels, put pressure on air cargo volumes and yields.

Risks 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, Asian and African countries had, and still has, a significant impact on air transport activity.

The Company has developed a security management system, contingency plans and procedures enabling it to adapt to changing environments to ensure that it can respond effectively to different situations, such as 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 and security, KLM complies with European and international regulations and submits regular reports to the national authorities of the measures and procedures deployed.

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

Air transport activities remain highly regulated, particularly with regard to the allocation of traffic rights 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.

In March 2011, the European Commission 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: curbing mobility is not an option.

The report highlights various initiatives which are intertwined with KLM's ambitions, such as developing a market for bio-fuels, stimulating innovation and pushing for a 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. Some of these initiatives, such as a revision of passenger rights legislation, have meanwhile materialised.

The European Commission's ambitions for the year to come are incorporated in its working program for 2014, labeling the final year of its tenure as "a year of delivery and implementation." Implementation of the revision of the EU Emissions Trading System for aviation will be one of the European Commission's key priorities. Such initiatives have the potential to increase the Company's operating expenses or reduce its revenues. Moreover, they potentially expose the Company to retaliatory measures.
KLM, in close coordination with Air France, actively defends its positions towards the Dutch government and European institutions, both directly and 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 ("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 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 are not leading to a distortion of the level playing field in the airline industry.

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

Due to the congestion at major European airports, all air carriers must obtain airport slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Pursuant to this regulation, at least 80 percent of the airport slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. Any loss of flight slots or lack of access to flight slots due to airport saturation could have an impact in terms of market share, results or even development.

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

Risks linked to the consumer compensation regulations

Passenger rights in the European Union are defined by regulations. One of them, Regulation 261/2004, applies to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union.

This regulation establishes common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or class downgrading. However, the interpretation of this regulation differs per jurisdiction. The European Commission therefore published last year (13 March 2013) its proposal to amend this Regulation 261/2004. The new Regulation is currently expected to come into force early 2015, which timetable is subject to further change depending on the degree of agreement that can be reached at European Parliament and Council level.

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

KLM supports a global standardization of passenger rights, also in the light of the competitive position of EU carriers.

Risks relating to the environment

The air transport industry is subject to numerous environmental laws and regulations 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. Following strong international objectives the EU institutions in March 2013 decided to temporarily limit ETS. 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 sectorial approach, a global response looks to be taking shape. Within the ICAO framework, in the context of the resolution in the last assembly (October 2013), it will result in an ICAO proposition at the assembly of 2016. Currently the EU institutions are considering a European Commission proposal for revision of ETS for aviation so as to align the EU approach with the ICAO resolution.

KLM's Group 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 research, development and commercial applications of sustainable biofuels;
- Cooperation with the authorities: e.g. on the SESAR project (Single European Sky, optimization of traffic control) and operating procedures.

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

[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).

The KLM and Martinair flight operations as well as all relevant ground activities in The Netherlands are also covered by our environmental management system under the ISO 14001 certification. It is planned to extend this certification to other subsidiaries.

Risks 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. Furthermore, for the European airlines, any appreciation in the US dollar relative to the euro also results in an increased fuel bill.

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

Operating risks

Safety and Security

Safety and Security are basic elements of KLM operations and a vital source for customer satisfaction. KLM is committed to continuously 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. Reference is made to the safety section in this annual report.

Airline accident risk

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

Accident risk is inherent to air transport, each AOC holder is required to adopt 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 for KLM and KLM Cityhopper without any findings. Martinair and Transavia passed the renewal audit in 2013.

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.

Natural phenomena leading to exceptional situations

Air transport depends on meteorological conditions, which can lead to flight cancellations, delays and diversions. Generally speaking, the duration of adverse climate conditions such as heavy fog and heavy (winter) storms tends to be short and their geographical range limited. Yet, at times they may require the temporary closure of an airport or airspace and thus can represent a significant cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). 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, had major commercial, human and financial consequences for the airlines and their passengers. Moreover, the earthquake followed by a tsunami, which caused a nuclear disaster in Japan in March 2011, also had an important impact. The unprecedented magnitude of the April 2010 ash cloud phenomenon in particular revealed how current passenger rights regulations put an imbalanced strain on KLM, requiring the Company to provide its passengers with accommodation for an infinite number of days.
Within this context, KLM, together with Air France, is lobbying, either directly or through representative bodies, both the Dutch, French and European authorities to develop robust crisis management tools and, secondly, to establish more equitable regulations with regard to the Company's responsibilities vis-à-vis passengers in extraordinary circumstances.

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

The IT and telecommunications systems are of essential importance for the Company's day-to-day operations. They comprise the IT applications operated in the data centres and used 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 Company. 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, a frequently check of the disaster recovery plan and regular evaluations of the effectiveness of solutions are in place.

Cybercrime

Cybercrime refers to a broad range of different activities relating to the misuse of data, computer and information systems and to cyberspace for economic, personal or psychological gain. The high dependency on ICT makes also airlines vulnerable for cybercrime.
The KLM Cybercrime Coordination Committee, a dedicated Distributed Denial of Service (DDoS) Taskforce and a dedicated steering committee for other high cybercrime risks govern the Cybercrime related actions and is improving the awareness of management and staff regarding this phenomenon.

Risks 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 KLM 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, and 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.

Risks linked to the Company's activities

Risks linked to non-compliance with antitrust legislation and compliance in general

In connection with the exercise of its activities, the Company and its subsidiaries have been exposed to investigations by authorities alleging breaches of antitrust legislation and follow-on civil claims.

In 2010, the European Commission imposed fines totaling EUR 799 million on 25 companies in the air freight industry, including KLM, Air France and Martinair. All three airlines have filed an appeal against the decision with the General Court of the European Union in Luxemburg in January 2011.

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, anti-bribery legislation and the broadening of the scope of its Whistleblower Policy.

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

In January 2012, the European Commission announced that it has opened an investigation to assess whether the transatlantic joint venture between KLM, Air France, Alitalia and Delta Air Lines is compatible with EU antitrust legislation. This investigation is still on-going. The joint venture has been granted antitrust immunity from the US Department of Transport in 2008.

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

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

Financing risks

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

Risks linked to European debt crisis and Euro currency

There is still a risk perception of the Euro as the stability and continuity of the currency remains 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 KLM's 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.

Risks linked to labor disruptions

Labor cost account for around a quarter of the operating expenses of KLM. As such, the level of salaries has an impact on operating results. Any strike or cause for work to be stopped could have a negative impact on the Company's activity and financial results. KLM fosters social dialogue and employee agreements 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 November 9, 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 also depends on an improvement in the productivity of all employee categories. Negotiations with the organisations representing the employees have resulted in new collective labor agreements. Within these agreements some challenges are still open (for instance a reduction of labor costs of cabin crew and roster efficiency of ground staff). After the first two years of the Transform 2015 / Securing our Future plan, all the defined projects are on track.

Nevertheless, achieving the full objective before the end of 2014 will be an enormous challenge.

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.

Risks linked to pension plans

The Company's main commitments in terms of defined benefit schemes are the three KLM pension funds for Ground staff, Cockpit crew and Cabin crew. The potential risks are twofold.
Firstly, under the IAS 19 Revised regulations, 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 profit and loss account 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 2014 this risk of cash out flow is mitigated given the improved solvency levels as at December 31, 2013.

Risks linked to the use of third-party services

KLM's activities depend to a certain extent on services provided by third parties, such as air traffic controllers and airport authorities, and public security officers like aircraft handling companies, aircraft maintenance companies and fuel supply companies. The Company also uses sub-contractors which it does not directly 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 KLM Group's activity and financial results.

In order to secure supplies of goods and services, the contracts signed with third parties provide, whenever possible, clauses for service, continuity and responsibility. Furthermore, business continuity plans are developed by KLM Group's different operating entities to ensure the long-term viability of the operations.

Legal risks and arbitration procedures

In connection with the normal exercise of activities, the Company and its subsidiaries are involved in disputes or subject to monitoring actions or investigations by authorities such as the Dutch Competition Authority, ACM, which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities. Reference is made to note 20 Contingent assets and liabilities of the consolidated financial statements.

Insurance coverage

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

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy for its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd. which is to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activities.
It covers KLM's legal liability up to USD 2.25 billion per event and also includes liability for damage to third parties caused by acts of terrorism up to an amount of USD 1 billion.
In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC) whose maximum liability is limited to USD 8 million annually.

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

Board and Governance

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 2012.

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, 2013, "SAK I" held 33.16% of the voting rights in KLM on the basis of common shares and cumulative preference shares A. "SAK II" holds 11.25% of the voting rights in KLM. The Dutch State directly holds cumulative preference shares A, which represents 5.92% of the voting rights.

AIR FRANCE KLM

Air France and KLM share the same holding Company, AIR FRANCE KLM S.A. The holding Company's Board of Directors (*Conseil d'Administration*) has 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, 2013, the Board of Managing Directors has three members. It is supervised by the Supervisory Board. The Managing Directors are appointed and dismissed by the General Meeting of Shareholders. The members of the Board of Managing Directors are appointed for a fixed term of four years. Further information on the members' service agreements is presented in the section Remuneration Policy and Report. Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single entity with joint responsibility. The Supervisory Board appoints one of the members of the Board of Managing Directors as President & Chief Executive Officer and may in addition appoint one or more Managing Directors as Deputy CEO. The Board of Managing Directors shares its operational management tasks with an Executive Committee, consisting of the Company's divisional managers.

General Meeting of Shareholders

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 23, 2014.

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 developments within AIR FRANCE KLM, the Company's strategy and financial results. The KLM Works Council has 25 members. The KLM Works Council met on thirteen occasions with management in financial year 2013. Following elections in April 2013, a new Works Council was installed per May 1, 2013.

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 four occasions in financial year 2013.

Dutch Act on Management and Supervision

New legislation pertaining to the Act on Management and Supervision has entered into force on January 1, 2013. The Company's Articles of Association and internal regulations are compliant 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.

As at December 31, 2013, the Supervisory Board of the Company is not composed in accordance with the gender diversity principle of the Act on Management and Supervision. The aim is however to increase the number of female (Supervisory) Board members and to nominate a third female candidate per Annual General Meeting of Shareholders in 2014, provided that candidates meet the criteria of the profiles of new Supervisory Board candidates.

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

Claw Back Act

January 1, 2014, the Claw Back Act on amongst others the adjustment or claw back of variable remuneration awarded came into force. The Company will amend its remuneration policy, regulations and agreements in place if and where applicable and compulsory to include the applicable provisions of the new Act and will – as per the Act – include as a topic on the agenda for the Annual General Meeting of Shareholders the execution of the remuneration policy in light of the Claw Back Act.

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 a non-listed Company is not formally obliged to comply with the Code, it has committed itself to follow the Code voluntarily where possible.

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

- Regulations and other documents are not made available on the Internet. Since the vast majority of KLM shares are owned by a small group of known shareholders, it has been decided to provide copies of regulations and other documents upon written request;
- Best practice provision II.2.8 is only implemented in contracts of new external members of the Board of Managing Directors;
- In deviation 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. Now that the Claw Back Act has entered into force on January 1, 2014, this will be amended to five years, in accordance with the Act.
- In deviation of best practice provision III.5.13, a limited number of consultants that can provide advice to the Remuneration Committee of the Supervisory Board, also provide advice to the Board of Managing Directors. However, in these cases separate agreements are made in order to create a so-called Chinese wall.
- In deviation from best practice provision III.6.5, KLM has not drawn up regulations governing ownership of and transactions in securities by Board of Managing Directors or Supervisory Board members, other than securities issued by its AIR FRANCE KLM, because these are considered to be less relevant for KLM;

During 2013 and in line with best practice provision II.2.6, KLM has introduced a general Whistleblower Policy, which replaced the Financial Whistleblower Policy.

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 six occasions during financial year 2013. The meetings were well attended by the members, with an attendance score of 98 percent for all meetings combined.
Like the previous years and keeping with usual practice, four of the six meetings were held shortly after the quarterly close and deliberations during these meetings concentrated on KLM's (quarterly, semi-annual and annual) financial results. One meeting was dedicated for discussion of the AIR FRANCE KLM Group Strategic Framework and one meeting for discussion of the Company's three-year plan (budget, investment plan and financial plan) and the Internal Audit plan.

2013 was again a challenging year. In an uncertain operating environment, consumer confidence, in particular in Europe, remained weak. Concerns about the development of economic growth in Asia increased. Volatile fuel prices and a fluctuating dollar characterized the industry landscape as well. However, 2013 also is the year in which signs of recovery became visible and thus hopefully marks the end of the downturn that started in 2007. Competition remains fierce, not only in Europe from the low cost carriers; also Middle East carriers increase their capacity especially on routes to / from Europe, and as such unlock the Far East via their hubs in the Middle East.

The Company successfully continued the execution of its Transform 2015 / Securing Our Future program and is well on track on achieving its targeted net debt reduction of EUR 700 million by the end of 2014. The Supervisory Board was regularly informed on the progress of the program, and as part of these discussions, the Board also discussed at length the company's liquidity position and balance sheet.

During the annual strategy meeting in September 2013, the Supervisory Board discussed the AIR FRANCE KLM Group Strategic Framework, including the plans of the businesses, for the next five years, as well as the financial outlook for the period.

The Board also discussed the trends in the competitive landscape, feeding the strategic directions of the Company and AIR FRANCE KLM. Furthermore, ample time was dedicated to customer and product, as a key corner stone of the strategy for the years to come.

With respect to financing, the Supervisory Board approved the Company providing a guarantee to AIR FRANCE KLM in connection with its planned capital market transaction, part of which proceeds are available to KLM. Next to that, the Board discussed and approved the Company's financing plan, including the financing of new aircraft, as well as risk and hedging policies.

During the year, the Supervisory Board was kept informed on the developments in respect of the new phase of AIR FRANCE KLM. From July 1 onwards, AIR FRANCE KLM as well as KLM and Air France have implemented a new management and organizational structure, aiming at further optimizing cooperation within the AIR FRANCE KLM Group. The Board considers it of great importance that these steps are taken to secure the Company's long-term future. The Board also has been informed on the challenges that come along with the implementation of the changes.

As 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.

During the different meetings, the Board was moreover informed on the Company's compliance framework, the envisaged changes thereto, the introduction of the anti-bribery manual, the updated 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 Company's fleet development planning;
- Management Development and Diversity;
- Performance of the Company's three main pension funds;
- Performance and remuneration of the Board of Managing Directors;
- Status of the investigations into KLM Group's Cargo Business by competition authorities in various jurisdictions, the pending appeal in Luxemburg, and the related civil actions.

In keeping with previous years, members of the Supervisory Board attended meetings between management and the Works Council on a rotation basis. The traditional annual lunch between KLM's Works Council, the Supervisory Board and the Company's management underpins the good and appreciated relationship with the Works Council.

Composition of the Supervisory Board

As announced in last year's annual report, Messrs. Kees Storm and Jean Didier 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.

In the resulting vacancy due to Mr. Blanchet's retirement, AIR FRANCE KLM has advised the Company it wishes to propose Mrs. Alice Dautry for appointment to the KLM Supervisory Board as per the General Meeting of Shareholders in April 2014.

With respect to the vacancy due to Mr. Storm's retirement, the Supervisory Board proposed to appoint Mr. Cees 't Hart to the KLM Supervisory Board as per the General Meeting of Shareholders.

Mr. Hans Smits will take over the chairmanship of the Supervisory Board in April 2014.

The Supervisory Board hereby announces that Mrs. Annemieke Roobeek and Mr. Jean Peyrelevade are due to retire by rotation as per the closure of the Annual General Meeting of Shareholders in 2015. Both are in principle eligible for re-appointment. Shareholders are entitled to make recommendations for the vacancies. It should however be noted that for the position of Mrs. Roobeek KLM's Works Council has the right to propose a candidate and that for the position of Mr. Peyrelevade AIR FRANCE KLM has the power to nominate a candidate.

Composition of the Board of Managing Directors

As of July 1, Camiel Eurlings succeeded Peter Hartman as President & Chief Executive Officer. As per that same date, next to his position of Chief Operating Officer, Pieter Elbers was appointed Deputy Chief Executive Officer of the Company. The General Meeting of Shareholders has been informed on these appointments in April 2013.

The Supervisory Board sincerely expresses its gratitude to Peter Hartman for his commitment during his almost 40-years of service and since 2007 as President and Chief

Executive Officer. Under his leadership, Peter Hartman kept his KLM family together, a legacy to be proud of. He continues as Vice-Chairman of the AIR FRANCE KLM Group.

The Supervisory Board hereby announces that it will propose to the General Meeting of Shareholders the appointment of Mr. Erik Swelheim, Chief Financial Officer, to the Board of Managing Directors.

Committees

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

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 the different internal audits, performed under the authority of the Company's internal auditor.

With regard to non-financial risks, the Audit Committee discussed in more detail the central fare control system and the adherence to fare conditions. Next to that, the Audit

Committee discussed the developments on consumer rights and the controls in place to mitigate its potential financial impact.

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

The Remuneration Committee met on 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 & Chief Executive Officer, the Company Secretary & General Counsel and the EVP Human Resources & Industrial Relations.

Distribution to shareholders

Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (AIR FRANCE KLM) the right to set aside an amount of the disclosed profit to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consultation of the Board of Managing Directors and the Supervisory Board. After having consulted both Boards and under the condition that the financial statements 2013 being adopted by the general meeting of shareholders in April 2014, the Meeting of Priority Shareholders has decided to add an amount of EUR 125,280,957 out of the disclosed profit to the reserves.

In accordance with further provisions of Article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of approximately EUR 3,202,486 and also relate to the financial year 2012, in which year absent a net profit no distributions were made to these shareholders.

As a consequence of the foregoing, there will be EUR 7,021,455 or EUR 0.15 per common share available for distribution to the shareholders.

Financial Statements 2013

The Supervisory Board hereby presents the annual report and the financial statements for financial year 2013. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V. The Supervisory Board has discussed the financial statements and the annual report with the external auditors and the Board of Managing Directors. The unqualified auditors' report as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements.

The Supervisory Board is satisfied that the annual report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of KLM Group's affairs and the Supervisory Board's supervision thereof in the financial year 2013.

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. Mr. Calavia resigned as Chief Financial Officer of AIR FRANCE KLM as of the end of January 2014.

Closing remarks

In 2013, the Company laid a strong foundation for its achieving the Transform 2015 Securing Our Future targets. The Board believes it is an important prerequisite in view of the challenging competitive environment and the Company's balance sheet and financing needs in the (near) future for its fleet renewal program.

In 2014, all focus will be on further improving the Company's financial situation, which will again require flexibility and loyalty of management and staff. Next to that, as part of AIR FRANCE KLM, the Company will contribute to the developments of the AIR FRANCE KLM Group organization.

2014 is the year that KLM celebrates its 95th anniversary. In achieving the Transform 2015 ambitions, KLM will prove – 95 years old – it still is young, healthy, ambitious and ready for the future.

The Supervisory Board expresses its appreciation for the contributions of management and employees during the financial year 2013.

Amstelveen, March 24, 2014

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 2013 and no changes are foreseen to be proposed for adoption to the General Meeting of Shareholders in April 2014.

In accordance with the Articles of Association and the remuneration policy, and subject to the prior approval of the Meeting of Priority Shareholders (AIR FRANCE KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the individual members of the Board of Managing Directors. These decisions are prepared by the 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 Labor 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 current operations; 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' for each of the three short-term incentive targets, this percentage is 70%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

For the COO & Deputy CEO position:

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

For the Managing Director position:

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

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

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

3. Long-term incentive plan

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

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

The KLM performance criteria for the LTI plan are:

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

The number of phantom performance shares (in the case of 'at target' performance) that will conditionally be granted to the members of the Board of Managing Directors under the long-term incentive plan amounts to 10,000 shares in respect of the Chief Executive Officer, 7,500 in respect of the COO & Deputy CEO and 6,000 shares in respect of the Managing Director.

Claw back clause

The Company's remuneration policy also provides for the Supervisory Board having the authority to recover any short-term incentive paid out or any long-term incentive vested on the basis of incorrect financial or other data up until three years after such payment or vesting has been awarded. This 'claw back clause' has been integrated in the individual employment contracts of the members of the Board of Managing Directors. Following the entry into force of the Claw Back Act on January 1, 2014, these contracts will be amended to reflect the legal five-year period for "claw back".

Pensions

In accordance with KLM's pension policy, the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme, whereby any variable income is excluded from pensionable salary.

Employment contracts with members of the Board of Managing Directors

Members of the Board of Managing Directors have a contract of employment with the Company. In case of newly appointed external members of the Board of Managing Directors the term of the employment contract is set at a maximum of four years. In those cases that Board members are appointed from within the Company, the 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. Eurlings has a fixed term employment contract of four years, which expires on March 14, 2015;
- Mr. Elbers' employment contract contains a fixed-term clause for a period of four years until May 1, 2016.
- Mr. Varwijk's employment contract contains a fixed-term clause for a period of four years until July 1, 2015;

Severance pay

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

Remuneration of the Board of Managing Directors in financial year 2013

1. Base salary

In line with the collective labor agreements' zero-percent exogenous salary increase, the base salaries of the individual members of the Board did not increase in 2013.

Within the parameters of the Company's remuneration policy and associated job grades for the Board members, the base salaries were evaluated and adjusted, also to reflect the newly assumed responsibilities of Messrs. Eurlings and Elbers. As such, Mr. Eurlings base salary was increased to EUR 475,000 and Mr. Elbers base salary was increased to EUR 425,000 as from July 1, 2013. Mr. Varwijk's base salary was increased to EUR 410,000 as of April 1, 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 2013 in accordance with the remuneration policy. This resulted in a short-term incentive payment for financial year 2013 of 59% of base salary for Mr. Eurlings, 50% for Mr. Elbers and 32% for Mr. Varwijk.

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 2013, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2014. The number of granted phantom shares will amount to 10,000 for the Chief Executive Officer, 7,500 for the COO & Deputy CEO and 6,000 for the Managing Director. The phantom shares are granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

At its February 2014 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the LTI plan. In respect of financial year 2013, the targets were partially met.

Therefore the first (one third) increment of the 2014 phantom shares series, the second (one third) increment of the 2013 phantom shares series and the third (one third) increment of the 2012 phantom shares series will vest for 76.4%. These phantom shares will be unconditionally awarded in April 2014 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 2013

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, 2013)

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 / Airport Aimé Césaire (Martinique), Port of 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
Remmert Laan	1942	French Dutch	2004 / (third) 2012 – 2016	Vice-Chairman Leonardo & Co / Chairman Forest Value Investment Management, Director Myoscience
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 Bonnard Gardel, SAVR
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, Co-owner XL labs / ABN Amro Group, Amsterdam RAI Exhibition Centres, Abbott Healthcare Products, Chairman Supervisory Board NCWT
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 en de Jong Group

* Only memberships of Supervisory Boards and functions with large companies on December 31, 2013 are shown here

Board of Managing Directors (situation as at December 31, 2013)

Name	Year of birth	Nationality	First appointment	Function
Camiel M.P.S. Eurlings	1973	Dutch	2011	President and Chief Executive Officer KLM
Pieter J.TH. Elbers	1970	Dutch	2012	Chief Operating Officer KLM and Deputy Chief Executive Officer KLM
Erik F. Varwijk	1961	Dutch	2011	Managing Director

Company Secretary & General Counsel

Barbara C.P. Van Koppen	1966	Dutch		

KLM Royal Dutch Airlines

Financial Statements for the year ended December 31, 2013

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros After proposed appropriation of the result for the year	Note	December 31, 2013	December 31, 2012 Restated *	January 1, 2012 Restated *
ASSETS				
Non-current assets				
Property, plant and equipment	1	3,999	4,182	4,405
Intangible assets	2	254	218	183
Investments accounted for using the equity method	3	105	113	85
Other non-current assets	4	108	88	95
Other financial assets	5	210	204	203
Deferred income tax assets	15	61	72	57
Pension assets	16	2,454	2,477	2,336
		7,191	**7,354**	**7,364**
Current assets				
Other current assets	4	121	80	165
Other financial assets	5	247	78	86
Inventories	6	202	204	236
Trade and other receivables	7	872	887	856
Cash and cash equivalents	8	976	1,235	1,057
		2,418	**2,484**	**2,400**
TOTAL ASSETS		**9,609**	**9,838**	**9,764**
EQUITY				
Capital and reserves				
Share capital	9	94	94	94
Share premium		474	474	474
Other reserves	10	(736)	(735)	(597)
Retained earnings		1,776	1,666	1,797
Total attributable to Company's equity holders		**1,608**	**1,499**	**1,768**
Non-controlling interests		3	2	2
Total equity		**1,611**	**1,501**	**1,770**
LIABILITIES				
Non-current liabilities				
Loans from parent company	11	491	476	387
Finance lease obligations	12	1,683	1,796	1,795
Other non-current liabilities	4	167	206	119
Other financial liabilities	13	1,077	1,424	1,476
Deferred income	14	158	186	210
Deferred income tax liabilities	15	84	57	126
Provisions for employee benefits	16	389	434	327
Other provisions	17	506	484	412
		4,555	**5,063**	**4,852**
Current liabilities				
Trade and other payables	18	1,805	1,784	1,624
Loans from parent company	11	-	60	150
Finance lease obligations	12	263	322	284
Other current liabilities	4	68	44	64
Other financial liabilities	13	344	152	239
Deferred income	14	875	825	685
Current income tax liabilities	15	-	-	4
Provisions for employee benefits	16	45	48	48
Other provisions	17	43	39	44
		3,443	**3,274**	**3,142**
Total liabilities		**7,998**	**8,337**	**7,994**
TOTAL EQUITY AND LIABILITIES		**9,609**	**9,838**	**9,764**

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

KLM Royal Dutch Airlines

Consolidated statement of profit or loss

In millions of Euros	Note	2013	2012 Restated *
Revenues	21	**9,688**	**9,473**
Expenses			
External expenses	22	(6,337)	(6,456)
Employee compensation and benefit expense	23	(2,404)	(2,393)
Depreciation and amortisation	24	(507)	(517)
Other income and expenses		(139)	(26)
Total expenses		**(9,387)**	**(9,392)**
Income from current operations		**301**	**81**
Other non-current income and expenses	25	(51)	(95)
Income from operating activities		**250**	**(14)**
Gross cost of financial debt	26	(157)	(157)
Income from cash and cash equivalents	26	30	29
Net cost of financial debt		**(127)**	**(128)**
Other financial income and expense	26	68	24
Pre-tax income		**191**	**(118)**
Income tax (expense)/benefit	27	(48)	31
Net result after taxation of consolidated companies		**143**	**(87)**
Share of results of equity shareholdings		(10)	(11)
Profit / (loss) for the year		**133**	**(98)**
Attributable to:			
Equity holders of the Company		132	(100)
Non-controlling interests		1	2
		133	**(98)**
Net profit / (loss) attributable to equity holders of the Company		132	(100)
Dividend on priority shares		-	-
Net profit / (loss) available for holders of ordinary shares		**132**	**(100)**
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Profit / (loss) per share (in EUR)		2.82	(2.14)
Diluted profit / (loss) per share (in EUR)		2.82	(2.14)

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

KLM Royal Dutch Airlines

Consolidated statement of profit or loss and other comprehensive income

In millions of Euros	2013	2012 Restated *
Profit / (loss) for the year	133	(98)
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	71	(3)
Change in fair value transferred to income statement	(14)	(90)
Exchange differences on translation foreign operations	(4)	(1)
Tax on items of comprehensive income that will be reclassified to profit and loss	(14)	23
Total of comprehensive income that will be reclassified to profit and loss	***39***	***(71)***
Remeasurement of defined benefit pension plans	(85)	(131)
Tax on items of comprehensive income that will not be reclassified to profit and loss	20	33
Total of comprehensive income that will not be reclassified to profit and loss	***(65)***	***(98)***
Total of other comprehensive after tax	***(26)***	***(169)***
Recognised income and expenses	**107**	**(267)**
- Equity holders of the company	106	(269)
- Non-controlling interests	1	2

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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, 2013 (Restated *)	**94**	**474**	**(735)**	**1,666**	**1,499**	**2**	**1,501**
Net gain/(loss) from cash flow hedges	-	-	57	-	57	-	57
Exchange differences on translation foreign operations	-	-	(4)	-	(4)	-	(4)
Remeasurement of defined benefit pension plans	-	-	(85)	-	(85)	-	(85)
Transfer from retained earnings	-	-	25	(25)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	6	-	6	-	6
Net income/(expense) recognised directly in equity	**-**	**-**	**(1)**	**(25)**	**(26)**	**-**	**(26)**
Profit for the year	-	-	-	132	132	1	133
Total recognised income/(expense)	**-**	**-**	**(1)**	**107**	**106**	**1**	**107**
Dividends paid	-	-	-	-	-	-	-
Other movements	-	-		3	3	-	3
As at December 31, 2013	**94**	**474**	**(736)**	**1,776**	**1,608**	**3**	**1,611**

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**
First application of IAS19 revised	-	-	(788)	-	(788)	-	(788)
As at January 1, 2012 (Restated *)	**94**	**474**	**(597)**	**1,797**	**1,768**	**2**	**1,770**
Net gain/(loss) from cash flow hedges	-	-	(93)	-	(93)	-	(93)
Exchange differences on translation foreign operations	-	-	(1)	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	-	(131)	-	(131)	-	(131)
Transfer from retained earnings	-	-	31	(31)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	56	-	56	-	56
Net income/(expense) recognised directly in equity	**-**	**-**	**(138)**	**(31)**	**(169)**	**-**	**(169)**
(Loss) for the year	-	-	-	(100)	(100)	2	(98)
Total recognised income/(expense)	**-**	**-**	**(138)**	**(131)**	**(269)**	**2**	**(267)**
Dividends paid	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	(2)	(2)
As at December 31, 2012 (Restated *)	**94**	**474**	**(735)**	**1,666**	**1,499**	**2**	**1,501**

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

KLM Royal Dutch Airlines

Consolidated cash flow statement

In millions of Euros	2013	2012 Restated *
Profit / (loss) for the period	133	(98)
Depreciation and amortisation	507	517
Changes in provisions	43	31
Results of equity shareholdings	10	11
Changes in pension assets	(103)	(161)
Changes in deferred income tax	49	(29)
Other changes	(52)	44
Net cash flow from operating activities before changes in working capital	**587**	**315**
(Increase) / decrease in inventories	(4)	22
(Increase) / decrease in trade receivables	7	(70)
Increase / (decrease) in trade payables	151	(7)
(Increase) / decrease in other receivables and other payables	(115)	312
Net cash flow from operating activities	**626**	**572**
Capital expenditure on intangible fixed assets	(68)	(62)
Capital expenditure on aircraft	(429)	(460)
Disposal of aircraft	161	225
Capital expenditure on other tangible fixed assets	(39)	(29)
Disposal of other tangible fixed assets	11	8
Investment in equity shareholdings	-	(38)
Sale of equity shareholdings	-	1
Dividends received	1	2
(Increase) / decrease in short-term deposits and commercial paper	(184)	(1)
Net cash used in investing activities	**(547)**	**(354)**
Increase in long-term debt	207	664
Decrease in long-term debt	(531)	(717)
Increase in long-term receivables	(57)	(36)
Decrease in long-term receivables	60	48
Dividend paid	(1)	-
Net cash flow from financing activities	**(322)**	**(41)**
Effect of exchange rates on cash and cash equivalents	(16)	1
Change in cash and cash equivalents	**(259)**	**178**
Cash and cash equivalents at beginning of period	1,235	1,057
Cash and cash equivalents at end of period **	976	1,235
Change in cash and cash equivalents	**(259)**	**178**
Income tax reimbursed / (paid) (flow included in operating activities)	-	-

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

** Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amounts to EUR 1,356 million as at December 31, 2013 (December 31, 2012 EUR 1,434 million)

Financial Statements financial year 2013

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 24, 2014 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 23, 2014.

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, 2013. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of The Dutch Civil Code. As permitted by Section 402 of Book 2 of The Dutch Civil Code the company statement of profit or loss has been presented in condensed form.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Significant accounting policies

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

Change in accounting policies

As per January 1, 2013, the revised standard IAS 19 "Employee Benefits" is applicable. 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. In addition the return on assets, previously determined from an expected rate of return, is now assessed on the basis of the discount rate used to value the benefit obligations.

The application as of January 1, 2013, resulted 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.

In the financial statements 2013, the balance sheet as per January 1, 2012 and December 31, 2012 have been restated for purpose of comparison.

Impact of the revision of the standard are summarised below:

Impact on the consolidated balance sheet in millions of Euros	Closing balance as at Dec. 31, 2011 as published	IAS19 Revised as at Jan. 1, 2012 after implementation	Opening balance as at Jan. 1, 2012 after implementation	IAS19 revised impact in 2012 (incl. on net result)	Other movements in equity in 2012 as published	Closing balance as at Dec. 31, 2012 after implementation
Equity attibutable to Company's equity holders	2,556	(788)	1,768	(152)	(117)	1,499
Non-controlling interests	2	-	2	-	-	2
Total Equity	**2,558**	**(788)**	**1,770**	**(152)**	**(117)**	**1,501**
Pension Assets (note 16)	3,209	(873)	2,336	(109)	250	2,477
Deferred income tax assets (note 15)	37	20	57	12	3	72
Provision for employee benefits (note 16)	(197)	(178)	(375)	(93)	(14)	(482)
Deferred income tax liabilities (note 15)	(369)	243	(126)	38	31	(57)

Impact on the consolidated income statement

in millions of Euros	2012 As published	IAS 19 Revised Implementation	2012 After implementation
Employee compensation and benefit expense (note 23)	(2,321)	(72)	(2,393)
Income tax benefit	13	18	31
Adjustment on Net result		(54)	
Equity attibutable to Company's equity holders		(54)	
Non-controlling interests		-	

As a result of the amendment to IAS 1, the Group has modified the presentation of items of OCI in its consolidated statement of profit and loss and other income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been represented accordingly.

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. The impacts linked to these other standards are not significant.

Recent accounting pronouncements

The following IFRS standards, amendments and IFRIC interpretations, mandatory as from January 1, 2014, have been published by the IASB, but are not applicable on a mandatory basis to the 2013 financial statements:

- 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”.

Above mentioned standards are 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 statement of profit or loss 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 statement of profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

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

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

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

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

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

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

	Balance Sheet December 31, 2013 EUR	Average in Statement of profit or loss 2013 EUR	Balance Sheet December 31, 2012 EUR
1 US Dollar (USD)	0.73	0.75	0.76
1 Pound sterling (GBP)	1.20	1.18	1.23
1 Swiss franc (CHF)	0.81	0.81	0.83
100 Japanese yen (JPY)	0.69	0.78	0.88
100 Kenya Shilling (KES)	0.85	0.88	0.88

Business combinations

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

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

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

Segment reporting

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

Business segments

The activities of each segment are as follows:

Passenger

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

Cargo

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

Maintenance

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

Leisure

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

Other

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

Geographical segments

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

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

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

Distinction between income from current operations and income from operating activities

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

Such elements can be divided into three categories:

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

- Elements that are by nature unpredictable and non-recurring, if they are material such as restructuring cost or gains/ (losses) resulting from specific transactions. The Group considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to the other.

Accounting policies for the balance sheet

Impairment of assets

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

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

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

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

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

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

Property, plant and equipment

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

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

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

Depreciation

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

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

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

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

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

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

Intangible assets

Goodwill

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

Computer software

Computer software is stated at historical cost less accumulated amortisation and accumulated impairment losses. Only the costs incurred in the software development phase are capitalised. Cost incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the statement of profit or loss as incurred. The costs comprise the cost of KLM personnel as well as external IT consultants.

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 10 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the cost are capitalised as prepaid intangible assets.

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

Trademarks

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

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

Investments accounted for using the equity method

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

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

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

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

Derivative financial instruments and hedge accounting

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

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

Recognition of fair value gains and losses

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

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

Categories of hedging transactions

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

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

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

Hedging transactions fall into two categories:

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

1. Fair value hedges

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

2. Cash flow hedges

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

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

Hedge effectiveness testing

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

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

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

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

Fair value hierarchy

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

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

Financial instruments: Recognition and measurement of financial assets and liabilities

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

Held-to-maturity investments

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest calculated using the effective interest method is recognised in the statement of profit or loss.

Loans to associates, other loans and trade and other receivables are classified as loans and receivables, except for short-term receivables where the recognition of interest would be immaterial.

Effective interest method

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

At fair value through profit or loss

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

Cash and cash equivalents

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

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

Financial liabilities

Financial liabilities are initially recognised at amortised cost, which is the fair value of the consideration received. Transaction costs are included in this initial measurement.

Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments carried at amortised cost.

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

Inventories

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

Leases

Finance leases

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

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

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

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

Operating leases

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

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

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

Deferred income

Advance ticket sales

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

Deferred gains on sale and leaseback transactions

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

Flying Blue frequent flyer program

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

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

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

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

Deferred income taxes

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

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

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

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

Provisions for employee benefits

Pensions and other post-employment benefits

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

As per January 1, 2013, the revised standard IAS19 “Employee Benefits” is applicable. For an elucidation and impact see notes to the financial statements: Changes in accounting policies.

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

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

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

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

The determination of the liability or asset to be recognised as described above is carried out for each plan separately. In situations where the fair value of plan assets, adjusted for any unrecognised positions, exceeds the present value of a fund's defined benefit obligations then an asset is recognised if available.
The service cost and the interest accretion to the provisions are included in the statement of profit or loss under "Employee compensation and benefit expense".

Other long-term employment benefits

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

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

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

Termination benefits

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

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

Other provisions

Provisions are recognised when:

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

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

Emission Trading Scheme

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 statement of profit or loss

Revenues

Air transport

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

Maintenance contracts

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

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

External expenses

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

Gains/losses on disposals of property, plant and equipment

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

Reversal of impairment losses on financial assets

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

Other income and expense items

Gross cost of financial debt

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

Income from cash and cash equivalents

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

Foreign currency exchange gains and losses

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

Fair value gains and losses

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

Share-based compensation

Phantom shares

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

Cash flow statement

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

Accounting estimates and judgements

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

Key sources of estimation uncertainty

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

Impairment of assets

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

Useful lives of property, plant and equipment

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

Valuation of inventories

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

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

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

Valuation of deferred tax assets and liabilities

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

Accounting for pensions and other post-employment benefits

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

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, mortality rates, and future healthcare cost. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and defined benefit cost recognized in profit or loss incurred. For details on key assumptions and policies, see note 16.

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

Other provisions

A provision will be 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 British pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the euro may have an impact on AIR FRANCE KLM's financial results.
With regard to the US dollar, since expenditures such as fuel, operating leases or component cost exceed the level of revenue, AIR FRANCE KLM is a net buyer.
This means that any significant appreciation in the US dollar against the euro could result in a negative impact on the Group's activity and financial results. Conversely, AIR FRANCE KLM is a net seller of the Japanese yen and of British pound sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity

and financial results. In order to reduce its currency exposure, AIR FRANCE KLM has adopted hedging strategies.
Both KLM and Air France hedge progressively their net exposure over a rolling 24-month period.

Aircraft are purchased in US dollars, meaning that AIR FRANCE KLM is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy plans the progressive and systematic implementation of hedging between the date of the aircraft order and their delivery date.

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

b. Interest rate risk

At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of December 2013, 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, 2013, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	505
AA+	12
AA	216
A+	14
A	537
Total	1,284

At December 31, 2013, the exposure consists of the fair market value of the short-term (less than 1 year) marketable securities and mainly unrestricted triple A bonds.

3. Liquidity and solvency risk

Liquidity and solvency risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its 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 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**

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

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

	As at December 31, 2013	2012
Aircraft	100	123
Land and buildings	153	163
Other property and equipment	41	47
Carrying amount	**294**	**333**

Borrowing cost capitalised during the year amount to EUR 3 million (2012 EUR 7 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 4.0% (2012 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, 2013 amounts to EUR 270 million (December 31, 2012 EUR 290 million).

2 Intangible assets

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

As at December 31, 2013, software under development mainly relates to replacement of departure and flight control systems and aircraft maintenance systems.

3 Investments accounted for using the equity method

	2013	As at December 31, 2012
Associates	82	90
Jointly controlled entities	23	23
Carrying amount	**105**	**113**

Investments in associates

	2013	2012
Carrying amount as at January 1	**90**	**62**
Movements		
Investments	-	44
Share of profit/(loss) after taxation	(10)	(12)
Dividends received	-	(1)
Foreign currency translation differences	(2)	(3)
OCI movements derivatives	4	(2)
Other movements	-	2
Net movement	**(8)**	**28**
Carrying amount as at December 31	**82**	**90**

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:

	2013	As at December 31, 2012
Country of incorporation	Kenya	Kenya
Percentage of interest held	26.73%	26.73%
Assets	1,104	681
Liabilities	823	479
Revenues	902	949
Profit/(loss) after taxation	(72)	15
Share of profit/(loss) after taxation	**(19)**	**4**

Above table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2013 and March 31, 2012.

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, 2013 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 45 million (2012 EUR 40 million).

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

		As at December 31,
	2013	**2012**
Country of incorporation	France	France
Percentage of interest held	40%	40%
Assets	139	130
Liabilities	110	97
Revenues	272	215
Profit/(loss) after taxation	(4)	-
Share of profit/(loss) after taxation	**(2)**	**-**

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

	2013	2012
Carrying amount as at January 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,
	2013	**2012**
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	64	59
Current assets	1	2
Profit/(loss) after taxation	-	1
Share of profit/(loss) after taxation	**-**	**1**

4 Other assets and liabilities

	Assets		Liabilities	
	Current	Non-current	Current	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)**
Total derivative financial instruments	**80**	**62**	**(44)**	**(203)**
Others	-	26	-	(3)
Total as at December 31, 2012	**80**	**88**	**(44)**	**(206)**

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

Exposure to exchange rate risk

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

As at December 31, 2013 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	763	137	180	208	119	71	48	(39)
Forward sales USD	-	-	-	-	-	-	-	-
Total fair value hedges	**763**	**137**	**180**	**208**	**119**	**71**	**48**	**(39)**
Cash flow hedges								
Options								
JPY	32	32	-	-	-	-	-	-
Forward purchases								
USD	1,454	953	490	11	-	-	-	(56)
GBP	21	21	-	-	-	-	-	-
MXN	1	1	-	-	-	-	-	-
Forward sales								
GBP	199	142	57	-	-	-	-	(3)
JPY	154	88	66	-	-	-	-	42
Other	59	41	18	-	-	-	-	-
Total cash flow hedges	**1,920**	**1,278**	**631**	**11**	**-**	**-**	**-**	**(17)**
Items not qualifying for hedge accounting								
Forward purchases USD	219	36	31	-	49	55	48	3
Forward sales USD	(219)	(36)	(31)	-	(49)	(55)	(48)	(3)
Total items not qualifying for hedge accounting	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exchange rate risk derivatives	**2,683**	**1,415**	**811**	**219**	**119**	**71**	**48**	**(56)**

Exposure to interest rate risk

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

	In local currency millions							In millions of Euros
As at December 31, 2013	**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	261	28	17	35	-	-	181	1
Total fair value hedges	**261**	**28**	**17**	**35**	**-**	**-**	**181**	**1**
Cash flow hedges								
Swaps	1,598	183	116	161	191	237	710	(88)
Total cash flow hedges	**1,598**	**183**	**116**	**161**	**191**	**237**	**710**	**(88)**
Items not qualifying for hedge accounting								
Swaps	83	-	-	14	-	-	69	(10)
Others	34	-	-	34	-	-	-	6
Total Items not qualifying for hedge accounting	**117**	**-**	**-**	**48**	**-**	**-**	**69**	**(4)**
Total interest rate risk derivatives	**1,976**	**211**	**133**	**244**	**191**	**237**	**960**	**(91)**

Exposure to commodity risk

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

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

The nominal amounts of the Group's commitments on the crude and refined oil markets as at December 31, 2013 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	290	290	-	-	-	-	-	10
Options	2,044	1,409	635	-	-	-	-	94
Total cash flow hedges	**2,334**	**1,699**	**635**	**-**	**-**	**-**	**-**	**104**
Total commodity risk derivatives	**2,334**	**1,699**	**635**	**-**	**-**	**-**	**-**	**104**

Valuation methods for financial assets and liabilities at their fair value

As at December 31, 2013, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Total
Financial assets available for sale			
Shares	6	-	6
Assets at fair value through profit and loss			
Marketable securities	375	530	905
Cash and cash equivalents	-	226	226
Derivatives instruments (asset and liability)			
Currency exchange derivatives	-	(56)	(56)
Interest rate derivatives	-	(91)	(91)
Commodity derivatives	-	104	104

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

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

Sensitivity analysis

The sensitivity is calculated solely on the valuation of derivatives at the closing date of the period presented. The hypotheses used are coherent with those applied in the financial year ended as at December 31, 2013.

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, 2013		December 31, 2012	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Pre-tax income	(29)	(72)	50	(59)
Other reserves	207	(92)	84	(73)

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, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
USD	44	124	250	232
JPY	-	-	309	393
CHF	-	-	341	347

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, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Change in value of financial instruments	(4)	1	22	28	-	-
Other reserves	(130)	(147)	15	21	16	14

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

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

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

Interest rate sensitivity

The Group is exposed to the risk of changes in market interest rates. The variation of 100 basis points of interest rates would have an impact on income before tax of EUR nil million for 2013 (EUR nil million for 2012).

5 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Carrying amount as at January 1	**196**	**205**	**36**	**38**	**50**	**46**	**282**	**289**
Movements								
Additions and loans granted	1	1	2	6	184	1	187	8
Loans and interest repaid	(56)	(42)	(4)	(7)	-	-	(60)	(49)
Interest accretion	62	38	-	-	-	-	62	38
Foreign currency translation differences	(10)	(5)	(1)	(1)	1	3	(10)	(3)
Other movements	-	(1)	(4)	-	-	-	(4)	(1)
Net movement	**(3)**	**(9)**	**(7)**	**(2)**	**185**	**4**	**175**	**(7)**
Carrying amount as at December 31	**193**	**196**	**29**	**36**	**235**	**50**	**457**	**282**

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	12	181	31	165
Loans and receivables				
Other loans and receivables	9	20	5	31
At fair value through profit or loss				
Restricted deposit EU anti-trust investigations	174	-	42	-
Other restricted deposits	52	-	-	-
AIR FRANCE KLM S.A. shares	-	9	-	8
	226	**9**	**42**	**8**
Carrying amount	**247**	**210**	**78**	**204**

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,	
	2013	2012
USD	211	220
GBP	1	2
Total	**212**	**222**

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, 2013		December 31, 2012	
in %	**EUR**	**USD**	**EUR**	**USD**
Held-to-maturity investments	-	3.3	-	3.4
Loans and receivables	0.3	2.0	0.3	2.3
At fair value through profit or loss	1.0	-	0.8	-

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 226 million (December 31, 2012 EUR 42 million) is restricted.

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

		As at December 31,
	2013	**2012**
Held-to-maturity		
Less than 1 year	12	31
Between 1 and 2 years	65	28
Between 2 and 3 years	-	66
Between 3 and 4 years	12	-
Between 4 and 5 years	35	-
Over 5 years	69	71
Total	**193**	**196**

The maturities of loans and receivables are as follows:

		As at December 31,
	2013	**2012**
Loans and receivables		
Less than 1 year	9	4
Between 1 and 2 years	4	9
Between 2 and 3 years	2	4
Between 3 and 4 years	1	1
Between 4 and 5 years	1	2
Over 5 years	12	16
Total	**29**	**36**

The fair values of the financial assets are as follows:

	2013	As at December 31, 2012
Held-to-maturity		
Triple A bonds and long-term deposits	**209**	**221**
Loans and receivables		
Other loans and receivables	**16**	**22**
At fair value through profit or loss		
Restricted deposit EU Cargo Claim	174	42
Restricted deposit other	52	-
AIR FRANCE KLM S.A. shares	9	8
	235	**50**
Total fair value	**460**	**293**

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, 2013 and December 31, 2012;
- 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:

	2013	As at December 31, 2012
Less than 1 year	247	77
Between 1 and 2 years	69	37
Between 2 and 3 years	2	70
Between 3 and 4 years	1	1
Between 4 and 5 years	1	2
Over 5 years	122	81
Total interest bearing financial assets	**442**	**268**

6 Inventories

	2013	As at December 31, 2012
Carrying amount		
Maintenance inventories	124	110
Other sundry inventories	78	94
Total	**202**	**204**

Allowance for obsolete inventory amounted to EUR 62 million (December 31, 2012 EUR 62 million).

7 Trade and other receivables

	2013	As at December 31, 2012
Trade receivables	546	560
Provision trade receivables	(21)	(13)
Trade receivables - net	525	547
Amounts due from:		
- AIR FRANCE KLM group companies	108	102
- associates and jointly controlled entities	5	6
- maintenance contract customers	88	96
Taxes and social security premiums	30	26
Other receivables	30	38
Prepaid expenses	86	72
Total	**872**	**887**

In the financial year EUR 9 million (December 31, 2012 EUR 4 million increase) increase of provision trade receivables has been recorded in other operating income and expenses in the consolidated statement of profit or loss.

Maintenance contract cost incurred to date (less recognised losses) for contracts in progress at December 31, 2013 amounted to EUR 95 million (December 31, 2012 EUR 78 million).

Advances received for maintenance contracts in progress at December 31, 2013 amounted to EUR 4 million (December 31, 2012 EUR 6 million).

8 Cash and cash equivalents

	As at December 31, 2013	2012
Cash at bank and in hand	71	158
Short-term deposits	905	1,077
Total	**976**	**1,235**

In 2013 a cash amount of EUR 132 million has been added to the restricted deposit for the EU anti-trust investigations (see note 5 Other financial assets).

The effective interest rates on short-term deposits are in the range from 0.02% to 3.80% (2012 range 0.02% to 3.00%). 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, 2013	2012
USD	31	18
GBP	-	-
JPY	-	2
Other currencies	11	10
Total	**42**	**30**

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, 2013		December 31, 2012	
	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, 2013 the State of The Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since financial year 2006/07. For details of the right to dividend distributions attaching to each class of share see the section Other information.

10 Other reserves

	Hedging reserve	Remeasurement of defined benefit pension	Translation reserve	Other Legal reserve	Total
As at January 1, 2012 *	**(14)**	**(788)**	**(10)**	**215**	**(597)**
(Losses)/gains from cash-flow hedges	(93)	-	-	-	(93)
Exchange differences on translating foreign operations	-	-	(1)	-	(1)
Remeasurement of defined benefit pension plans	-	(131)	-	-	(131)
Transfer from retained earnings	-	-	-	31	31
Tax on items taken directly to or transferred from equity	23	33	-	-	56
As at December 31, 2012 *	**(84)**	**(886)**	**(11)**	**246**	**(735)**
As at January 1, 2013 *	**(84)**	**(886)**	**(11)**	**246**	**(735)**
Gains/(losses) from cash-flow hedges	57	-	-	-	57
Exchange differences on translating foreign operations	-	-	(4)	-	(4)
Remeasurement of defined benefit pension plans	-	(85)	-	-	(85)
Transfer from retained earnings	-	-	-	25	25
Tax on items taken directly to or transferred from equity	(14)	20	-	-	6
As at December 31, 2013	**(41)**	**(951)**	**(15)**	**271**	**(736)**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

The legal reserves consist of the following items:

Hedging reserve

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

Remeasurement of defined benefit plans

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

Translation reserve

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

Other legal reserve

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

11 Loans from parent company

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A	-	491	60	476
Others	-	-	-	-
Total	**-**	**491**	**60**	**476**

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

Loans from parent company – Non current

On 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. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated March 19, 2010, a total amount of EUR 386 million. On December 31, 2013, KLM has drawn an amount of EUR 203 million on this intercompany loan facility. The drawn amount bears a floating interest rate.

On December 14, 2012, AIR FRANCE KLM S.A. issued a plain vanilla bond of a principal amount of EUR 500 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated December 14, 2012, a total amount of EUR 180 million. On December 31, 2013, KLM has drawn an amount of EUR 90 million on this intercompany loan facility. The drawn amount bears a fixed interest rate of 6.25%.

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

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

Loans from parent company - Current

On October 14, 2009, AIR FRANCE KLM S.A. issued a plain vanilla bond of a principal amount of EUR 700 million. Of the total proceeds, AIR FRANCE KLM S.A. has granted to KLM by means of an intercompany loan facility, dated March 26, 2010, a total amount of EUR 350 million. On December 31, 2013, KLM has not drawn (December 31, 2012 EUR 60 million) on this intercompany loan facility.

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, 2013			December 31, 2012		
	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	331	68	263	404	82	322
Total current	**331**	**68**	**263**	**404**	**82**	**322**
Between 1 and 2 years	361	53	308	291	75	216
Between 2 and 3 years	230	43	187	362	60	302
Between 3 and 4 years	354	34	320	226	54	172
Between 4 and 5 years	311	21	290	352	39	313
Over 5 years	610	32	578	847	54	793
Total non-current	**1,866**	**183**	**1,683**	**2,078**	**282**	**1,796**
Total	**2,197**	**251**	**1,946**	**2,482**	**364**	**2,118**

The finance leases relate exclusively to aircraft leasing. At the expiry of the leases, KLM has the option to purchase the aircraft at the amount specified in each contract. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 1.90% (average fixed rate 3.62%, average floating rate 1.25%). Taking into account the impact of hedging the average interest rate is 3.16% (average fixed rate 3.36%, average floating rate 1.79%). After hedging 85% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 1,776 million as at December 31, 2013 (December 31, 2012 EUR 1,982 million). The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

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

	Aircraft		Buildings		Other equipment		Total	
	December 31,		December 31,		December 31,		December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Operating lease commitments								
Within 1 year	312	316	34	31	9	9	355	356
Total current	**312**	**316**	**34**	**31**	**9**	**9**	**355**	**356**
Between 1 and 2 years	309	293	30	28	7	8	346	329
Between 2 and 3 years	330	266	29	25	7	6	366	297
Between 3 and 4 years	324	264	28	23	5	6	357	293
Between 4 and 5 years	316	229	25	23	3	3	344	255
Over 5 years	1,123	1,005	210	202	5	5	1,338	1,212
Total non-current	**2,402**	**2,057**	**322**	**301**	**27**	**28**	**2,751**	**2,386**
Total	**2,714**	**2,373**	**356**	**332**	**36**	**37**	**3,106**	**2,742**

13 Other financial liabilities

	2013	2012
Carrying amount as at January 1	**1,576**	**1,715**
Additions and loans received	74	121
Loans repaid	(153)	(239)
Foreign currency translation differences	(53)	(42)
Other changes	(23)	21
Net movement	**(155)**	**(139)**
Carrying amount as at December 31	**1,421**	**1,576**

The financial liabilities comprise:

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	553	-	603
Other loans (secured/unsecured)	344	492	152	789
Total	**344**	**1,077**	**152**	**1,424**

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 341 million as at December 31, 2013 (December 31, 2012 EUR 348 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	As at December 31,	
	2013	**2012**
Less than 1 year	344	152
Between 1 and 2 years	178	347
Between 2 and 3 years	66	183
Between 3 and 4 years	163	85
Between 4 and 5 years	82	87
Over 5 years	588	722
Total	**1,421**	**1,576**

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

	As at December 31,	
	2013	**2012**
USD	10	52
CHF	341	347
JPY	211	256
Total	**562**	**655**

The fair values of financial liabilities are as follows:

	As at December 31,	
	2013	**2012**
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	248	324
Other loans (secured/unsecured)	848	921
Fair value	**1,128**	**1,277**

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, 2012				
Total borrowings	950	-	626	1,576
Effect of interest rate swaps	(355)	-	355	-
	595	**-**	**981**	**1,576**
As at December 31, 2013				
Total borrowings	870	-	551	1,421
Effect of interest rate swaps	(264)	-	264	-
	606	**-**	**815**	**1,421**

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

	December 31, 2013		**December 31, 2012**	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	3.57	-	3.76	-
Subordinated perpetual loans	-	2.77	-	4.00
Other loans	2.02	-	1.78	-

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	-	553	-	4.53	4.53
Other loans	344	492	2.21	2.70	2.36

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. In addition the Company has a EUR 25 million credit facility through a bilateral agreement with a bank. No amounts have been drawn on these facilities as at December 31, 2013 and 2012.

14 Deferred income

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Advance ticket sales	706	-	721	-
Sale and leaseback transactions	7	12	7	24
Flying Blue frequent flyer program	106	139	96	154
Others	56	7	1	8
Total	**875**	**158**	**825**	**186**

15 Deferred income tax

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

	2013	2012 *
Carrying amount as at January 1	**(15)**	**69**
Income statement (credit) /charge	48	(29)
Tax (credited)/charged to equity	(6)	(55)
Other movements	(4)	-
Net movement	**38**	**(84)**
Carrying amount as at December 31	**23**	**(15)**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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 61 million, EUR 3 million is expected to be recovered in 12 months or less and EUR 32 million is expected to be recovered after more than 12 months. An amount of EUR 26 million related to taxes on remeasurement via Other Comprehensive Income of defined benefit pension plans and will not be recycled through the statement of profit and loss.

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

	2013	As at December 31, 2012 *
Deferred tax asset	(61)	(72)
Deferred tax liability (offset)	84	57
	23	**(15)**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

The net deferred tax liability is built up as follows:

	2013	As at December 31, 2012 *
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	46	16
Deferred tax assets to be recovered after more than 12 months	457	523
	503	**539**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	2	5
Deferred tax liabilities to be settled over more than 12 months	585	591
	587	**596**
Net deferred tax liability	**84**	**57**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

	Carrying amount as at January 1	Income statement (charge) / credit	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
Fiscal 2012 (restated)					
Tax losses	412	83	-	-	495
Fleet assets	45	(14)	-	-	31
Fleet related assets (maintenance)	4	(1)	-	-	3
Provisions for employee benefits	36	12	-	-	48
Financial lease obligations	2	-	-	-	2
Derivative financial instruments	4	-	23	-	27
Other	6	(1)	-	-	5
Total	**509**	**79**	**23**	**-**	**611**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax assets					
Fiscal 2013					
Tax losses	495	(5)	-	11	501
Fleet assets	31	(13)	-	-	18
Fleet related assets (maintenance)	3	(1)	-	-	2
Provisions for employee benefits	48	-	(13)	-	35
Financial lease obligations	2	-	-	(2)	-
Derivative financial instruments	27	-	(14)	-	13
Other	5	(2)	-	2	5
Total	**611**	**(21)**	**(27)**	**11**	**574**

	Carrying amount as at January 1	Income statement charge / (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2012 (restated)					
Other tangible fixed assets	8	(3)	-	-	5
Pensions and benefits (asset)	559	23	-	-	582
Maintenance provision	6	(2)	-	-	4
Other	5	-	-	-	5
Total	**578**	**18**	**-**	**-**	**596**

	Carrying amount as at January 1	Income statement charge / (credit)	Tax (charged) / credited to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2013					
Other tangible fixed assets	5	(4)	-	-	1
Pensions and benefits (asset)	582	35	(34)	8	591
Maintenance provision	4	(2)	-	-	2
Other	5	(2)	1	(1)	3
Total	**596**	**27**	**(33)**	**7**	**597**

The Group has tax loss carry forwards in The Netherlands amounting to EUR 1.9 billion (December 31, 2012 EUR 1.9 billion) and in The United Kingdom amounting to EUR 37 million (December 31, 2012 EUR 39 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 17 million (December 31, 2012 EUR 11 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 5 million (December 31, 2012 EUR 19 million).

16 Provisions for employee benefits

	As at December 31, 2013	2012 *
Pension and early-retirement obligations	301	329
Post-employment medical benefits	41	56
Other long-term employment benefits	81	85
Termination benefits	11	12
Total Liabilities	**434**	**482**
Less: Non-current portion		
Pension and early-retirement obligations	263	292
Post-employment medical benefits	39	54
Other long-term employment benefits	77	77
Termination benefits	10	11
Non-current portion	**389**	**434**
Current portion	**45**	**48**

	As at December 31, 2013	2012 *
Assets		
Pension assets non current portion	2,454	2,477
Total assets	**2,454**	**2,477**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

Pension plans

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

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

Characteristics of Cabin Crew plan

The pension plan relating to Cabin Crew of the Company is a defined benefit plan with reversion to the spouse in case of death of the beneficiary. The pension is calculated based on the last wage reference for employees hired since 2009, and based on an average wage reference relating to the entire career for the other employees. The age of retirement defined in the plan is 60 years old. The duration of the pension plan is 22 years.

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

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding.

The Company and the employee have to pay additional contributions if the coverage ratio is under the funding rules detailed above: within 3 years if non-compliance with the threshold of 105% or within 15 years if non-compliance with the threshold of 115% to 120 %. The amount of regular and additional employer contributions is limited to 48% of the pensionable basis. The amount of possible additional employee contributions is limited to 0.7% of the pensionable basis. A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction in a year is limited to twice the normal contributions.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions are limited to 24% of the pensionable base. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

The required funding of this pension plan also includes buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, to reduce the sensitivity to a decline of the interest rate, approximately 50% of the sensitivity to an interest rate shock on all maturities is covered by an interest hedge. About 90% of the currency risk is also hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Characteristics of Cockpit Crew plan

The pension plan relating to Cockpit Crew of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The age of retirement defined in the plan is 56 years old. The duration of the pension plan is 19 years.

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

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding.

The Company has to pay additional contributions if the coverage ratio is under the funding rules detailed above: during the current year for non-compliance with the threshold of 105% or within 10 years if non-compliance with the threshold of 115% to 120 %. The amount for regular and additional employer contributions is not limited. The employee contributions cannot be increased in case of non-compliance with these minimum funding. A reduction of the employer contribution is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions.

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

The required funding of this pension plan also includes a buffer against the following risks: interest rate mismatch, equity risk, currency risk, credit risk, actuarial risk and real estate risk. For example, about 90% of the currency risk is hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Characteristics of Ground Staff plan

The pension plan relating to ground staff of the Company is a defined benefit plan based on the average salary with reversion to the spouse in case of death of the beneficiary. The age of retirement defined in the plan was 65 years before January 1, 2014 and 67 years as of this date. The duration of the pension plan is 19 years.

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

To satisfy the requirements of the Dutch regulations and rules set between the employer and the board of the pension fund, the plan imposes a minimum funding level of 105% projection of the short-term commitment, and approximately 115% to 120% projection of the long-term commitment. The projection of these commitments is calculated according to the rules of local funding.

The Company and the employee have to pay additional contributions if the coverage ratio is under the funding rules detailed above: during the current year for non-compliance with the threshold of 105% or within 15 years if non-compliance with the threshold of 115% to 120%. The amount of regular and additional employer contributions is not limited. The amount of possible additional employee contributions is limited to 2% of the pensionable basis. A reduction of contribution is possible if the indexation of pensions is fully funded. This reduction is not limited and can be performed either by a reimbursement of contributions, or by a reduction in future contributions.

The return on plan assets, the discount rate used to value the commitments, the longevity and the characteristics of the active population are the main factors that impact both the coverage ratio and the level of the regular contribution for future pension accrual. The regular contributions are limited to 24% of the pensionable base. The funds, fully dedicated to the Company, are mainly invested in bonds, equities and real estate.

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

by an interest hedge.
About 90% of the currency risk is also hedged. Put options are in place, which cover a decrease of about 25% of the value of the equity portfolio.

Investment strategy

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

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest a large proportion of their assets in equities which 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. The management of most assets is outsourced to a private institution, Blue Sky Group, under a service contract.

Developments 2013

The financial markets remained volatile in 2013, the plan assets increased by EUR 389 million. The discount rate used to calculate the pension obligations remained stable at 3.65%. Through the addition of the periodical service and interest cost, the funded pension obligations increased by EUR 383 million, leading to a slight improvement of the funded status.

Based on the aforementioned and the criteria under the Dutch Pension Law, as set by the Dutch Central Bank, the funding ratios are as follows as at December 31, 2013:

- Cabin Crew pension fund 123.0% (December 31, 2012: 115.9%)
- Cockpit Crew pension fund 132.8% (December 31, 2012: 126.9%)
- Ground Staff pension fund 122.1% (December 31, 2012: 116.6%)

In 2013 three plan changes have been agreed between the Company and the respective Unions/Works council. As from January 1, 2014, the annual accrual rate in the Cabin Crew plan decreased from 1.78% to 1.57% for the average career plan and from 1.58% to 1.39% for the final wage plan. As from January 1, 2013, the annual accrual rate in the Ground Staff plan decreased from 2.25% to 2.15%. In addition the pension age for Ground Staff plan will gradually increase from 65 years to 67 years as from January 1, 2014. These plan changes led to lower pension obligations and to lower defined benefit cost recognized in profit or loss in 2013. The financing agreements have not changed during 2013.

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, defined benefit cost recognized in profit or loss will increase as from 2013 (including comparative figures 2012).

The implementation as of January 1, 2013 resulted 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.

In the financial statements 2013 the balance sheets as per January 1, 2012 and December 31, 2012 have been restated in order to allow comparison. See Notes to the consolidated financial statements: Changes in accounting policies.

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 2,153 million as at December 31, 2013 (December 31, 2012 EUR 2,147 million).

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

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

As at December 31, 2013 the net assets recognised in the balance sheet of the three main funds amount to EUR 2,454 million (December 31 2012 EUR 2,477 million).

Assumptions used for provisions for employee benefits

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

	Pension and early-retirement obligations	
	As at December 31,	
in %	2013	2012 *
Weighted average assumptions used to determine benefit obligations		
Discount rate for year ended	3.67	3.66
Rate of compensation increase	1.57	1.55
Rate of price inflation	1.96	1.95
Weighted average assumptions used to determine net cost		
Discount rate for year ended	3.66	4.98
Expected long-term rate of return on plan assets	n.a.	n.a.
Rate of compensation increase	1.55	2.35
Rate of price compensation	1.95	2.04

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

	Pension and early-retirement obligations	
	As at December 31,	
	2013	**2012 ***
Present value of wholly or partly funded obligations	14,133	13,750
Fair value of plan assets	(16,286)	(15,897)
Net liability / (asset) relating pension and other post-retirement obligations	**(2,153)**	**(2,147)**

	Pension and early-retirement obligations	
	As at December 31,	
	2013	**2012 ***
Amounts in the balance sheet		
Liabilities	301	329
Remeasurement of defined benefit pension plans to equity	-	1
Assets	(2,454)	(2,477)

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

	Pension and early-retirement obligations	
	2013	**2012**
Carrying amount as at January 1	**13,750**	**11,785**
Current service cost	435	397
Interest expense	497	575
Past service cost	(40)	(3)
Actuarial losses/(gains) demographic assumptions	(21)	112
Actuarial losses/(gains) financial assumptions	(207)	1,286
Actuarial losses/(gains) experience gap	127	(23)
Benefits paid from plan/company	(392)	(381)
Other	-	(5)
Exchange rate changes	(16)	7
Net movement	383	1,965
Carrying amount as at December 31	**14,133**	**13,750**

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

	2013	2012
Fair value as at January 1	**15,897**	**13,883**
Interest income	582	778
Return on plan assets excluding interest income	(207)	1,176
Employer contributions	367	386
Member contributions	45	54
Benefits paid from plan / company	(392)	(385)
Other	1	(2)
Exchange rate changes	(7)	7
Net movement	389	2,014
Fair value as at December 31	**16,286**	**15,897**

The actual return on pension plan assets is EUR 375 million positive (December 31, 2012 EUR 1,954 million positive).

The experience adjustments are as follows:

	As at December 31, 2013	2012
Benefit obligation	127	23
Plan asset	(207)	1,176

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

	Sensitivity of the assumptions for the year ended	
		December 31,
In millions of Euros	**2013**	**2012 ***
0.25% increase in the discount rate		
Impact on the defined benefit cost	(55)	(54)
Impact on defined benefit obligation	(590)	(581)
0.25% decrease in the discount rate		
Impact on the defined benefit cost	59	68
Impact on defined benefit obligation	783	804

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2013	2012 *
0.25% increase in the salary increase		
Impact on the defined benefit cost	12	10
Impact on defined benefit obligation	106	82
0.25% decrease in the salary increase		
Impact on the defined benefit cost	(10)	(11)
Impact on defined benefit obligation	(94)	(73)

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2013	2012 *
0.25% increase in the pension rate		
Impact on the defined benefit cost	49	31
Impact on defined benefit obligation	643	468
0.25% decrease in the pension rate		
Impact on the defined benefit cost	(36)	(38)
Impact on defined benefit obligation	(488)	(453)

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

in %	As at December 31, 2013	2012
Debt securities	50	50
Real estate	10	10
Equity securities	38	38
Other	2	2

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

Post-employment medical benefits

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

	Post-employment medical benefits	
	As at December 31,	
	2013	2012 *
Present value of unfunded obligations	41	56
Net liability / (asset) relating pension and other post-retirement obligations	**41**	**56**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

	Post-employment medical benefits	
	2013	2012
Carrying amount as at January 1	**56**	**45**
Interest expense	2	2
Actuarial losses/(gains) demographic assumptions	1	-
Actuarial losses/(gains) financial assumptions	(10)	7
Actuarial losses/(gains) experience gap	(4)	5
Benefits paid from plan/company	(2)	(2)
Exchange rate changes	(2)	(1)
Net movement	**(15)**	**11**
Carrying amount as at December 31	**41**	**56**

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

in %	Post-employment medical benefits As at December 31, 2013	2012
Weighted average assumptions used to determine benefit obligations		
Discount rate for year	4.35	3.35
Weighted average assumptions used to determine net cost		
Discount rate for year	3.35	4.40
Medical cost trend rate assumptions used to determine net cost *		
Immediate trend rate Pre 65	7.30	9.50
Immediate trend rate Post 65	7.30	9.50
Ultimate trend rate	4.90	5.00
Year that the rate reaches ultimate trend rate	2095	2016

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

Other long-term employee benefits

	As at December 31, 2013	2012
Jubilee benefits	59	57
Other benefits	22	28
Total carrying amount	**81**	**85**
Less: Non-current portion		
Jubilee benefits	56	52
Other benefits	21	25
Non-current portion	**77**	**77**
Current portion	**4**	**8**

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.

	As at December 31, 2013	2012
Redundancy benefits		
Non-current portion	10	11
Current portion	1	1
Total carrying amount	**11**	**12**

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, 2013	**169**	**71**	**29**	**181**	**73**	**523**
Additional provisions and increases in existing provisions	88	6	8	13	22	137
Unused amounts reversed	(3)	-	(14)	-	(6)	(23)
Used during year	(47)	(5)	(1)	(17)	(17)	(87)
Other changes	9	(2)	-	-	(8)	(1)
As at December 31, 2013	**216**	**70**	**22**	**177**	**64**	**549**
Current / non-current portion						
Non-current portion	216	53	22	173	42	506
Current portion	-	17	-	4	22	43
Carrying amount as at December 31, 2013	**216**	**70**	**22**	**177**	**64**	**549**

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, 2013 relates to the Cargo anti-trust investigations in Europe for KLM and Martinair and anti-trust investigations in Switzerland. For more details reference is made to note 20 Contingent assets and liabilities. The Group has provided 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 and site restoration cost for land and buildings under long term lease agreements.

18 Trade and other payables

	As at December 31, 2013	2012
Trade payables	966	668
Amounts due to AIR FRANCE KLM Group companies	129	117
Taxes and social security premiums	260	121
Other payables	295	300
Accrued liabilities	155	578
Total	**1,805**	**1,784**

19 Commitments

As at December 31, 2013, KLM has commitments for previously placed orders amounting to EUR 2,507 million (December 31, 2012 EUR 1,789 million). EUR 2,364 million of this amount relates to aircraft (December 31, 2012 EUR 1,702 million) of which EUR 151 million is due in 2014. The balance of the commitments as at December 31, 2013 amounting to EUR 143 million (December 31, 2012 EUR 87 million) is related to other tangible fixed assets. As at December 31, 2013 prepayments on aircraft orders have been made, amounting to EUR 133 million (December 31, 2012 EUR 156 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 of 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) 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 in June 2012.

Brazil

In Brazil, a settlement agreement was concluded on February 20, 2013 with the Brazilian authorities on the basis whereof KLM paid EUR 1.5 million.

Switzerland

In Switzerland, a decision was received on January 9, 2014 from the Swiss competition authority confirming a fine of EUR 3.2 million for KLM and Air France together. A provision for KLM's share of the fine was recorded amounting to EUR 0.6 million. KLM and Air France will appeal the decision which will suspend the obligation to pay the fine during the time of the appeal.

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.

With respect to the four KLM, Martinair (and Air France) customers who have chosen to be excluded, a portion of the settlement proportional to the revenue of KLM, Martinair (and Air France) received from those parties as compared with the overall revenue was segregated in separate escrow. The parties who opted out are free to sue KLM, Martinair (and Air France) individually.

Netherlands

Equilib

Litigation vehicle Equilib initiated two, largely overlapping, proceedings at the Amsterdam District Court aimed at establishing liability for claims of 547 individual shippers (or 184 groups), whereby the actual amounts are to be determined in follow-up proceedings. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, KLM, Martinair (and Air France) are now due to file their statement of defence on April 2, 2014 in the first proceedings. The second proceedings will be introduced on July 2, 2014 at which date the District Court will set a time limit for the statement of defence.

KLM, Martinair (and Air France) initiated contribution proceedings at the Amsterdam District Court against the other airlines included in the European Commission (EC) decision, which were stayed with the main proceedings. As the annulment of this stay by the Amsterdam Court of Appeal did not affect the stay of the contribution proceedings, KLM, Martinair (and Air France) asked the Court of Appeal in a separate appeal to annul the stay of the contribution proceedings, which would synchronize main and contribution proceedings again.

East West Debt

Litigation vehicle East West Debt ("EWD") initiated proceedings at the Amsterdam District Court to obtain compensation from KLM (and Air France), as well as Lufthansa and British Airways for the claims of 8 individual shippers. Following the annulment by the Amsterdam Court of Appeal of the interim decision of the District Court to stay the proceedings, the case is expected to resume at the District Court where a date will be set for filing of the statement of defence.

KLM (and Air France) initiated two contribution proceedings at the Amsterdam District Court against the other airlines included in the EC decision, which were stayed with the main proceedings but are now to be resumed as a result of the annulment of the stay of the main proceedings by the Court of Appeal.

Stichting Cartel Compensation

Litigation vehicle SCC ("Stichting Cartel Compensation") initiated proceedings at the Amsterdam District Court to obtain compensation from KLM, Martinair (and Air France), as well as Lufthansa, Singapore Airlines and British Airways for the claims of 877 individual shippers. The proceedings will be introduced on April 2, 2014 at which date the District Court will set a time limit for the statement of defence.

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

UK

In the United Kingdom, a civil suit has been filed with the competent court in the UK against British Airways by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group. To date, British Airways has neither quantified nor substantiated its purported claims. These contribution proceedings have been stayed. 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. No provision has been made for this law suit.

Australia

Within the context of on-going class action proceedings instituted in 2007 against seven airlines (excluding KLM, Martinair and Air France) in the Australian Federal Court, cross claims have been filed against Air France, KLM and Martinair by Singapore Airlines, Cathay Pacific, Lufthansa, Air New Zealand and British Airways. In the cross claims, the respondent airlines claim that if, despite their denial of the claims of wrongdoing in the class action, they are ordered to pay damages, they will seek contribution from the cross respondents. KLM, Martinair and Air France have filed defences to these cross claims in which they deny that the respondent airlines are entitled to any contribution from them. As of December 31, 2013, this proceeding was still pending.
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

On May 25, 2012, a civil suit was filed by a company named Marine Harvest before the Norwegian court against KLM (and Air France, SAS and Lufthansa) on the grounds of allegedly additional costs caused by anticompetitive practices. The Tribunal decided that the proceedings should be stayed until the pending appeals against the EC decision of November 9, 2010 have fully run their course. 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

Litigations concerning anti-trust laws

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including KLM and Air France. The plaintiffs allege the defendants participated in a conspiracy to enhance unreasonably the price of passenger services by the adoption and adjustment of fuel surcharges to and from Canada and on Transatlantic destinations and claim damages. KLM and Air France strongly deny any participation in such a conspiracy and intend to file a motion to dismiss.

d. Other litigation

Minority shareholders

On July 12, 2013, the Dutch Supreme Court (*Hoge Raad*) in third and highest instance denied all claims made by the Dutch association “Vereniging van Effectenbezitters” together with an individual KLM shareholder, initiated in 2008 against KLM and AIR FRANCE KLM (the latter in its capacity of priority shareholder) on the subject of the minority shareholders of KLM being entitled to a higher dividend than the EUR 0.58 paid for the financial year 2007/08.

By request dated December 31, 2012, the same individual and one additional minority shareholder requested the Enterprise Chamber (*Ondernemingskamer*) of the Amsterdam Court of Appeal to order an enquiry into, amongst others, the dividend policy of KLM in respect of the fiscal years 2004/05 through 2007/08 and 2010/11.

The Enterprise Chamber on January 9, 2014 ordered only one element of the requested enquiry, which is an enquiry into the dividend resolutions and policy for the various book years (the other three elements of the request were denied). The main focus of the enquiry is the manner in which AIR FRANCE KLM, in its capacity as the sole priority shareholder, and KLM's Board of Managing Directors and Supervisory Board, have executed clause 32 of KLM's Articles of Association. This provides that the priority shareholder may reserve part of the profits after consulting with the Board of Managing Directors and the Supervisory Board of KLM.

Other

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

Site cleaning up cost

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

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

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

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

Guarantees

Bank guarantees and corporate guarantees given by the Company on behalf of subsidiaries, unconsolidated companies and third parties, including the guarantees provided by the Company for the four bond loans issued by AIR FRANCE KLM S.A. (see note 11), amount to EUR 845 million as at December 31, 2013 (December 31, 2012 EUR 732 million).

The guarantee, which relates to the EU anti-trust investigations (see note 17), amounts to EUR 167 million as at December 31, 2013. This total guarantee amount is secured by cash pledge as at December 31, 2013 (see note 5). As at December 31, 2012, the guarantee was EUR 121 million and a cash pledge of EUR 42 million.

For the four bond loans issued by AIR FRANCE KLM S.A. (see note 11) the total guarantee for the Company is EUR 793 million as at December 31, 2013. The guarantees that the Company provides covers the principal amount as well as the remaining interest obligations.

With respect to the guarantee provided by the Company on the convertible bond loan, issued by AIR FRANCE KLM S.A. in June 2009 (see note 11), both Air France and the Company have irrevocably and unconditionally agreed to act joint and several as guarantors. But the guaranteed amount for the Company has been reduced, since Air France and the Company have entered into separate agreements where Air France will compensate the Company for 50% of any amount claimed by the bondholders (and vice

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

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

For the four bond loans issued on AIR FRANCE KLM S.A. level (see note 11) the total guaranteed amount outstanding is reduced by the total amount drawn as at December 31, 2013 on the existing intercompany loan facilities (see note 11).

Section 403 guarantees

General guarantees as defined in Book 2, Section 403 of The Dutch Civil Code have been given by the Company on behalf of several subsidiaries in The Netherlands. The liabilities of these companies to third parties and unconsolidated companies amount to EUR 409 million as at December 31, 2013 (December 31, 2012 EUR 418 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

	2013	2012
Services rendered		
Passenger transport	6,869	6,631
Cargo transport	1,537	1,664
Maintenance contracts	518	455
Charter and low cost business	724	681
Other services	40	42
Total revenues	**9,688**	**9,473**

22 External expenses

	2013	2012
Aircraft fuel	2,941	3,102
Chartering costs	69	77
Aircraft operating lease costs	301	310
Landing fees and route charges	764	745
Catering	182	181
Handling charges and other operating costs	492	470
Aircraft maintenance costs	669	593
Commercial and distribution costs	309	326
Insurance	32	44
Rentals and maintenance of housing	187	122
Sub-contracting	145	195
Hired personnel	128	113
Other external expenses	118	178
Total external expenses	**6,337**	**6,456**

In Aircraft fuel expenses an amount of EUR 33 million positive (2012 EUR 75 million positive) is included which was transferred from OCI to the consolidated statement of profit or loss.

23 Employee compensation and benefit expense

	2013	2012 *
Wages and salaries	1,904	1,918
Social security premiums other than for state pension plans	197	209
Share-based remuneration	1	2
Pension and early-retirement plan costs *	286	241
Post-employment medical benefit costs	2	3
Other long-term employee benefit costs	14	20
Total employee compensation and benefit expense	**2,404**	**2,393**

* After the impact on pension and early-retirement plan costs of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

Pension and early-retirement plan cost comprise:

	2013	2012 *
Defined benefit plans	264	220
Defined contribution plans	22	21
Total	**286**	**241**

* After the impact on pension and early-retirement plan costs of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

Defined benefit plans and early-retirement plan cost comprise:

	2013	2012 *
Current service cost	377	342
Interest cost	497	575
Expected return on plan assets	(582)	(706)
Losses/(gains) arising from plan amendments and curtailments	(40)	(2)
Administration cost	12	11
Total	**264**	**220**

* After the impact on pension and early-retirement plan costs of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

In the financial year 2013 the defined benefit cost recognized in profit or loss for the major defined benefit plans recognised in the statement of profit or loss amounted to EUR 264 million (2012 EUR 220 million, under IAS19 revised) and the total contributions paid by the Group amounted to EUR 367 million (2012 EUR 382 million). The contributions paid in the financial year 2013 include additional deficit funding in The United Kingdom amounting to EUR 8 million (2012 EUR 5 million).

The Group's projected defined benefit plans and early retirement plan cost for 2014 amount to EUR 275 million. The Group's expected cash contributions for these plans amount to EUR 401 million.

Post-employment medical benefits cost comprise:

	2013	2012
Interest cost	2	2
Losses/(gains) arising from plan amendments and curtailments	-	1
Total	**2**	**3**

Other long-term employee benefits comprise:

	2013	2012
Current service cost	10	12
Interest cost	3	3
Losses/(gains) arising from plan amendments and curtailments	1	4
Other	-	1
Total	**14**	**20**

Number of full-time equivalent employees:

	2013	2012
Average for year		
Flight deck crew	3,214	3,284
Cabin crew	7,735	7,708
Ground staff	19,686	20,197
Total	**30,635**	**31,189**

		As at December 31,
	2013	2012
Flight deck crew	3,220	3,241
Cabin crew	7,387	7,270
Ground staff	19,628	19,901
Total	**30,235**	**30,412**

24 Depreciation and amortisation

	2013	2012
Intangible assets	23	19
Flight equipment	416	430
Other property and equipment	68	68
Total depreciation and amortisation	**507**	**517**

25 Other non-current income and expenses

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

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).

26 Net cost of financial debt

	2013	2012
Gross cost of financial debt		
Loans from third parties	62	74
Finance leases	50	53
Other interest expenses	45	30
Total gross cost of financial debt	**157**	**157**
Income from cash and cash equivalents		
Loans to third parties	30	29
Total income from cash and cash equivalents	**30**	**29**
Net cost of financial debt	**127**	**128**

	2013	2012
Foreign currency exchange gains/(losses)	(14)	-
Fair value gains/(losses)	82	24
Total other financial income and expense	**68**	**24**

The fair value gains recorded in the financial year mainly consist of the ineffective portion of fuel and foreign currency exchange derivatives for EUR 31 million positive (2012 EUR 10 million negative), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 1 million positive (2012 EUR 1 million negative) as well as the unrealised revaluation of other balance sheet items for EUR 50 million positive (2012 EUR 35 million positive).

27 Income tax expense / benefit

	2013	2012 *
Current tax (income)/expense	-	(2)
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	50	(26)
Benefit from previously unrecognised tax loss	(2)	(3)
Total tax (income) / expense	**48**	**(31)**

* After the income tax impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

The applicable average tax rate in The Netherlands for the financial year 2013 is 25% (2012: 25%).

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

in %	2013	2012 *
Applicable average tax rate in The Netherlands	**25.0**	**25.0**
Impact of:		
Profit free of tax/Non-deductible expenses	5.2	(3.3)
Recognition of tax losses	(4.8)	2.5
Release tax liability	-	2.0
Differences in foreign tax rate changes	(0.2)	0.1
Effective tax rate	**25.2**	**26.3**

* After the income tax impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

28 Share-based payments

Phantom shares

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

	2013	2012
As at January 1	**573,646**	**465,497**
Granted	88,828	159,497
Forfeited	(37,861)	-
Exercised	(104,255)	(51,348)
As at December 31	**520,358**	**573,646**

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

	2013	As at December 31, 2012
Phantom shares expiry date		
July 1, 2013	-	68,451
July 1, 2014	53,900	77,515
July 1, 2015	81,073	131,085
July 1, 2016	119,218	150,591
April 1, 2017	116,136	146,004
April 1, 2018	150,031	-
Carrying number	**520,358**	**573,646**

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the following criteria: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company.

Under the Long Term Incentive plan 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 0.4 million as at December 31, 2013.

Under the Long Term Incentive plan 2010, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2010. The first tranche has vested for 64% in July 2010. The second tranche has vested for 113.4% in July 2011. The third tranche has vested for 36% in April 2012. The 2010 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2013 and July 1, 2015. The 2010 plan has an intrinsic value of EUR 0.6 million as at December 31, 2013.

Under the Long Term Incentive plan 2011, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2011. The first tranche has vested for 113.4% in July 2011. The second tranche has vested for 36% in April 2012. The third tranche has vested for 108% in April 2013. The 2011 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2014 and July 1, 2016. The 2011 plan has an intrinsic value of EUR 0.7 million as at December 31, 2013.

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. The second tranche has vested for 108% in April 2013. The third tranche is still conditionally awarded.

Under the Long Term Incentive plan 2013, executive employees of KLM have received (conditional and unconditional) phantom shares per April 1, 2013. The first tranche has vested for 108% per April 2013 and the second and third tranche are still conditionally awarded.

29 Supervisory Board remuneration

(Amounts in EUR)	2013 As Supervisory Board member	2013 As Committee member	2013 Total	2012 As Supervisory Board member	2012 As Committee member	2012 Total
K.J. Storm	42,500	2,000	44,500	42,500	6,000	48,500
J.F.H. Martre (until May 11, 2012)	-	-	-	14,375	-	14,375
I.P Asscher-Vonk	26,500	2,000	28,500	26,500	6,000	32,500
J.D.F.C. Blanchet	34,500	-	34,500	31,167	-	31,167
P. Calavia (as from May 11, 2012) *	-	-	-	-	-	-
H. Guillaume	26,500	2,000	28,500	26,500	2,000	28,500
R. Laan	26,500	3,000	29,500	26,500	9,000	35,500
J. Peyrelevade	26,500	-	26,500	26,500	-	26,500
A.J.M. Roobeek	26,500	2,000	28,500	26,500	2,000	28,500
H.N.J. Smits	26,500	4,000	30,500	26,500	4,000	30,500
Total	**236,000**	**15,000**	**251,000**	**247,042**	**29,000**	**276,042**

*) 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)	2013	2012
P.F. Hartman (until July 1, 2013) *	365,725	731,449
C.M.P.S. Eurlings	425,000	369,188
P.J.Th. Elbers (as from May 11, 2012)	375,000	216,667
E.F. Varwijk	407,500	394,219
F.N.P.P. Gagey (until April 1, 2012)	-	112,014
Total	**1,573,225**	**1,823,537**

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

In addition to the base salary, in 2012 the Dutch Government implemented a one-off crisis wage tax of 16% for wages above EUR 150,000. In 2013 the Dutch government extended this crisis wage tax for one year. For 2013 this crisis wage tax amounts to EUR 386,644 (2012 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

	2013		2012	
(amounts in EUR)	Short term incentive plan	Targets achieved	Short term incentive plan	Targets achieved
P.F. Hartman (until July 1, 2013) *	215,777	Partially	497,385	Partially
C.M.P.S. Eurlings	280,250	Partially	160,000	Partially
P.J.Th. Elbers (as from May 11, 2012)	212,500	Partially	86,667	-
E.F. Varwijk	131,200	Partially	150,000	Partially
Total	**839,727**		**894,052**	

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

For a description of the short-term incentive plan, we refer to the Remuneration Policy and Report in the Board and Governance Section.

Other allowances and benefits in kind

In addition to the base salary, the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone cost and fixed monthly allowances for business expenses not otherwise reimbursed. Following his resignation as Statutory Board Member, Mr. Hartman forfeited some of these benefits, such as a company car.

Pension cost

Pension (amounts in EUR)	2013	2012
P.F. Hartman (until July 1, 2013) *	69,886	304,247
C.M.P.S. Eurlings	90,000	84,420
P.J.Th. Elbers (as from May 11, 2012)	81,074	46,782
E.F. Varwijk	100,372	94,583
Total	**341,332**	**530,032**

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

External supervisory board memberships

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 63,273 (December 31, 2012 EUR 40,646), and amongst others include remunerated positions in connection with directorships in AIR FRANCE KLM, Transavia.com and Kenya Airways.

Other transactions with members of the Board of Managing Directors

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

Long-term incentive plan

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

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding phantom shares are forfeited.
The maximum number of phantom shares granted to the Chief Executive Officer is 10,000, Chief Operating Officer/Deputy Chief Executive Officer is 7,500 and to the Managing Director 6,000. For further information see note 28.

The current and former members of the Board of Managing Directors have the following positions with respect to the phantom shares granted under the KLM long-term incentive plan at December 31, 2013:

(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, 2013
P.F. Hartman (until July 1, 2013)								
July, 2008	10,000	July 1, 2013	(2,524)	(7,476)	7.83	-	7,476	-
July, 2009	10,000	July 1, 2014	(2,087)	(7,913)	8.22	-	7,913	-
July, 2010	10,000	July 1, 2015	(2,886)	-		-	7,114	7,114
July, 2011	10,000	July 1, 2016	(1,423)	-		-	8,577	8,577
April, 2012	10,000	April 1, 2017	(1,871)	-		3,333	4,796	8,129
April, 2013	10,000	April 1, 2018	-	-		6,666	3,597	10,000
	60,000		**(10,791)**	**(15,389)**		**9,999**	**39,473**	**33,820**
C.M.P.S. Eurlings								
July, 2011	6,000	July 1, 2016	(854)	-		-	5,146	5,146
April, 2012	6,000	April 1, 2017	(1,122)	-		2,000	2,878	4,878
April, 2013	6,000	April 1, 2018	-	-		4,000	2,158	6,000
	18,000		**(1,976)**	**-**		**6,000**	**10,182**	**16,024**
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	(640)	-		-	3,860	3,860
April, 2012	4,500	April 1, 2017	(841)	-		1,500	2,159	3,659
April, 2013	6,000	April 1, 2018	-	-		4,000	2,158	6,000
	22,500		**(3,473)**	**(1,120)**		**5,500**	**13,685**	**17,907**
E.F. Varwijk								
July, 2008	4,500	July 1, 2013	(1,140)	(3,360)	7.72	-	3,360	-
July, 2009	4,500	July 1, 2014	(939)	-		-	3,561	3,561
July, 2010	4,500	July 1, 2015	(1,299)	-		-	3,201	3,201
July, 2011	6,000	July 1, 2016	(854)	-		-	5,146	5,146
April, 2012	6,000	April 1, 2017	(1,122)	-		2,000	2,878	4,878
April, 2013	6,000	April 1, 2018	-	-		4,000	2,158	6,000
	31,500		**(5,354)**	**(3,360)**		**6,000**	**20,304**	**22,786**
F.N.P.P. Gagey (until April 1, 2012)								
July, 2008	7,500	July 1, 2013	(1,900)	(5,600)	7.68	-	5,600	-
July, 2009	7,500	July 1, 2014	(1,565)	-		-	5,935	5,935
July, 2010	7,500	July 1, 2015	(2,165)	-		-	5,335	5,335
July, 2011	7,500	July 1, 2016	(1,067)	-		-	6,433	6,433
	30,000		**(6,697)**	**(5,600)**		**-**	**23,303**	**17,703**
Total	**162,000**		**(28,291)**	**(25,469)**		**27,499**	**106,947**	**108,240**

As at December 31, 2013 Mr. Hartman held 12,960 shares AIR FRANCE KLM S.A. Mr. Eurlings, Mr. Elbers and Mr. Varwijk 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:

	2013	2012
Sales of goods and services		
AIR FRANCE KLM Group companies	123	139
Associates	9	6
Other related parties	4	4
Purchases of goods and services		
AIR FRANCE KLM Group companies	169	212
Associates	3	-
Other related parties	12	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. Other than AIR FRANCE KLM S.A., no loans were granted to or received from related parties during 2013 and 2012.

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	130	(78)	26	(2)	5	-	81
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							31
(Loss) / profit for the year							**(98)**
Depreciation and amortisation	(397)	(28)	(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	1,019	(233)	262	436	3,407		4,891
Total assets	**4,090**	**436**	**842**	**741**	**3,729**		**9,838**
Liabilities							
Deferred revenues on sales	947	3	41	61	-		1,052
Other liabilities	3,668	585	117	528	2,387		7,285
Total liabilities	**4,615**	**588**	**158**	**589**	**2,387**		**8,337**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

33 Secondary segment reporting

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

Revenues by destination 2012	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**

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, 2013:

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, 2013	December 31, 2012 Restated *	January 1, 2012 Restated *
ASSETS				
Non-current assets				
Property, plant and equipment	35	3,203	3,327	3,487
Intangible assets		241	209	173
Investments accounted for using the equity method	36	490	509	504
Other non-current assets	4	108	87	93
Other financial assets	37	284	273	244
Pension assets	16	2,454	2,477	2,336
		6,780	**6,882**	**6,837**
Current assets				
Other current assets	4	121	80	165
Other financial assets	37	246	54	84
Inventories		176	178	207
Trade and other receivables	38	987	972	916
Cash and cash equivalents	39	930	1,179	1,019
		2,460	**2,463**	**2,391**
TOTAL ASSETS		**9,240**	**9,345**	**9,228**
EQUITY				
Capital and reserves				
Share capital	40	94	94	94
Share premium		474	474	474
Other reserves	40	(736)	(735)	(597)
Retained earnings		1,776	1,666	1,797
Total attributable to Company's equity holders		**1,608**	**1,499**	**1,768**
LIABILITIES				
Non-current liabilities				
Loans from parent company	41	491	476	386
Loans from subsidiaries	42	218	265	220
Finance lease obligations	43	1,328	1,400	1,335
Other non-current liabilities	4	164	205	115
Other financial liabilities	44	994	1,320	1,358
Deferred income	45	138	162	192
Deferred income tax liabilities	46	163	148	208
Provisions	47	495	488	415
		3,991	**4,464**	**4,229**
Current liabilities				
Trade and other payables	48	2,122	2,084	1,807
Loans from parent company	41	-	60	150
Loans from subsidiaries	42	33	33	48
Finance lease obligations	43	218	200	243
Other current liabilities	4	68	44	64
Other financial liabilities	44	329	138	226
Deferred income	45	817	772	640
Provisions	47	54	51	53
		3,641	**3,382**	**3,231**
Total liabilities		**7,632**	**7,846**	**7,460**
TOTAL EQUITY AND LIABILITIES		**9,240**	**9,345**	**9,228**

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

KLM Royal Dutch Airlines

Company statement of profit or loss

In millions of Euros	2013	2012 Restated *
Profit from investments accounted for using equity method after taxation	15	21
Profit / (loss) of KLM N.V. after taxation	117	(121)
Income / (loss) for the year after taxation	**132**	**(100)**

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

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

Notes to the Company financial statements

General

The Company financial statements are part of the 2013 financial statements of KLM Royal Dutch Airlines (the “Company”).

Significant accounting policies

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

Principles for the measurement of assets and liabilities and the determination of the result

In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362(8) of Book 2 of the Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated IFRS financial statements.

Investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments themselves are not incorporated insofar as they can be deemed to be unrealised.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

35 Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at Jan. 1, 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**

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

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

	As at December 31, 2013	2012
Aircraft	72	91
Land and buildings	153	163
Other property and equipment	41	47
Carrying amount	**266**	**301**

Borrowing cost capitalised during the year amounted to EUR 3 million (2012 EUR 7 million). The interest rate used to determine the amount of borrowing cost to be capitalised was 4.0% (2012: 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, 2013 was EUR 258 million (December 31, 2012 EUR 277 million).

36 Investments accounted for using the equity method

	As at December 31, 2013	2012 *
Subsidiaries	385	396
Associates	82	90
Jointly controlled entities	23	23
Carrying amount	**490**	**509**

	2013	2012 *
Subsidiaries		
Carrying amount as at January 1	**396**	**521**
Movements		
Investments	-	-
Share of profit/(loss) after taxation	27	30
OCI movement	1	(145)
Dividends received	(39)	(3)
Foreign currency translation differences	1	1
Other movements	(1)	(8)
Net movement	**(11)**	**(125)**
Carrying amount as at December 31	**385**	**396**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	12	144	9	110
Loans and receivables				
Other loans and receivables	8	132	3	155
At fair value through profit or loss				
Restricted deposit EU Cargo Claim	174	-	42	-
Other restricted deposits	52	-	-	-
AIR FRANCE KLM S.A. shares	-	8	-	8
Total at fair value	**226**	**8**	**42**	**8**
Carrying amount	**246**	**284**	**54**	**273**

38 Trade and other receivables

	As at December 31, 2013	2012
Trade receivables	499	451
Provision trade receivables	(18)	(11)
Trade receivables - net	481	440
Amounts due from:		
- subsidiaries	215	238
- AIR FRANCE KLM group companies	102	103
- associates and jointly controlled entities	2	3
- maintenance contract customers	77	88
Taxes and social security premiums	24	22
Other receivables	24	28
Prepaid expenses	62	50
Total	**987**	**972**

Maintenance contract cost incurred to date (less recognised losses) for contracts in progress at December 31, 2013 amounted to EUR 94 million (December 31, 2012 EUR 78 million). Advances received for maintenance contracts in progress at December 31, 2013 amounted to EUR 4 million (December 31, 2012 EUR 6 million). The maturity of trade and other receivables is within one year.

39 Cash and cash equivalents

	2013	As at December 31, 2012
Cash at bank and in hand	39	122
Short-term deposits	891	1,057
Total	**930**	**1,179**

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

The effective interest rates on short-term deposits are in the range from 0.02% to 3.80% (2012 range 0.02% to 3.00%). The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

40 Share capital and other reserves

For details of the Company's share capital and movements on other reserves see note 9 and 10 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, remeasurement of defined benefit plans (IAS19 revised as per January 1, 2013), translation and other legal reserves. Reference is made to note 10.

41 Loans from parent company

	2013	As at December 31, 2012
Non-current portion	491	476
Current portion	-	60
Carrying amount	**491**	**536**

For the non current loans with AIR FRANCE KLM amounting to EUR 491 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, 2013	2012
Non-current portion	218	265
Current portion	33	33
Carrying amount	**251**	**298**

43 Finance lease obligations

	As at December 31, 2013	2012
Non-current portion	1,328	1,400
Current portion	218	200
Carrying amount	**1,546**	**1,600**

44 Other financial liabilities

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	553	-	603
Other loans (secured/unsecured)	329	409	138	685
Total	**329**	**994**	**138**	**1,320**

45 Deferred income

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Advance ticket sales	653	-	674	-
Sale and leaseback transactions	2	(7)	1	-
Flying Blue frequent flyer program	106	139	96	154
Others	56	6	1	8
Total	**817**	**138**	**772**	**162**

46 Deferred income tax

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

	2013	2012 *
Carrying amount as at January 1	**148**	**208**
Movements:		
Income statement (credit) /charge	38	(38)
Tax (credited)/charged to equity	(6)	(42)
Other movements	(17)	20
Net movement	**15**	**(60)**
Carrying amount as at December 31	**163**	**148**

* After the deferred income tax impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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:

	2013	As at December 31, 2012 *
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	39	14
Deferred tax assets to be settled after 12 months	486	499
	525	**513**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	7
Deferred tax liabilities to be settled after 12 months	681	654
	688	**661**
Carrying amount	**163**	**148**

* After the deferred income tax impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

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

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets 2012 (restated)					
Tax losses	327	107	-	-	434
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**	**93**	**23**	**-**	**513**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax assets 2013					
Tax losses	434	(5)	-	25	454
Fleet assets	(3)	3	-	-	-
Fleet related assets (maintenance)	3	(1)	-	-	2
Provisions for employee benefits	14	-	-	-	14
Financial lease obligations	2	(1)	-	-	1
Derivative financial instruments	24	-	(14)	-	10
Other	39	5	-	-	44
Total	**513**	**1**	**(14)**	**25**	**525**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities 2012 (restated)					
Other tangible fixed assets	8	(4)	-	-	4
Pensions & benefits (asset)	572	62	(19)	-	615
Maintenance provision	6	(2)	-	-	4
Derivative financial instruments	-		-	-	-
Other	19	(1)	-	20	38
Total	**605**	**55**	**(19)**	**20**	**661**

	Carrying amount as at January 1	Income statement (charge) / credit	Tax charged / (credited) to equity	Other movements	Carrying amount as at December 31
Deferred tax liabilities 2013					
Other tangible fixed assets	4	(2)	-	-	2
Pensions & benefits (asset)	615	44	(20)	8	647
Maintenance provision	4	(2)	-	-	2
Derivative financial instruments	-	-	-	-	-
Other	38	(1)	-	-	37
Total	**661**	**39**	**(20)**	**8**	**688**

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, 2013 *	**163**	**222**	**147**	**7**	**539**
Additional provisions and increases in existing provisions	87	24	11	6	128
Unused amounts reversed	-	-	-	(6)	(6)
Used during year	(47)	(21)	(15)	(2)	(85)
Other changes	9	(36)	-	-	(27)
As at December 31, 2013	**212**	**189**	**143**	**5**	**549**
Current / non-current portion					
Non-current portion	212	144	139	-	495
Current portion	-	45	4	5	54
As at December 31, 2013	**212**	**189**	**143**	**5**	**549**

* After the impact of revised IAS19 as per January 1, 2013. See notes to the consolidated financial statements: Change in accounting policies

48 Trade and other payables

	As at December 31, 2013	2012
Trade payables	860	611
Amounts due to subsidiaries	619	602
Amounts due to AIR FRANCE KLM Group companies	117	117
Taxes and social security premiums	249	109
Employee related liabilities	186	191
Accrued liabilities	44	41
Other payables	47	413
Total	**2,122**	**2,084**

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 24, 2014

The Board of Managing Directors	The Supervisory Board
Camiel M.P.S. Eurlings	Kees J. Storm
Pieter J.Th. Elbers	
Erik F. Varwijk	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

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, 2013 as set out on the pages 83 to 197 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, 2013, the consolidated statement of profit or loss, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at December 31, 2013, the company statement of profit and loss for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the report of the Board of Managing Directors in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at December 31, 2013, 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, 2013, 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 24, 2014

KPMG Accountants N.V.	Deloitte Accountants B.V.
T. van der Heijden RA	D.A. Sonneveldt RA

Provisions of the Articles of Association on the Distribution of Profit

Unofficial translation of Article 32 of the Articles of Association of KLM Royal Dutch Airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves. The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.
2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:
   (a) the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of financial year concerned, with a maximum of five per cent (5%) of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;
   (b) next the holders of cumulative preference shares-A shall receive six per cent (6%) of the par value of their cumulative preference shares-A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares-A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares-A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares-A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;
   (c) next the holders of preference shares-B shall receive five per cent (5%) of the par value of their preference shares-B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;

(d) next the holders of preference shares-B shall receive one half per cent (½%) of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the operating revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of five per cent (5%) of the nominal amount of the issued common shares;

(e) subsequently, on each cumulative preference share-C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share-C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;

(f) government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of The Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of The Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been published in the Officiële Prijscourant of Euronext Amsterdam N.V. at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;

(g) on the date on which the cumulative preference shares-C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares-C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series.

If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;

(h) if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares-C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares-C shall receive equal treatment. No further payment shall be made on the cumulative preference shares-C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;

(i) if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares-C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;

(j) if the profits over a financial year have been established and in that financial year one or more cumulative preference shares-C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares-C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares-C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares-C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;

(k) if, in the course of a given financial year, issuance of cumulative preference shares-C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance;

(l) the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of priority shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the Company as the type of the shares to which these payments relate.

4. As far as possible and subject to the approval of the Supervisory Board, the meeting of priority shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the Company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.

5. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.
6. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.
7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of Profit and Distribution to Shareholders

It is proposed that the net profit for 2013 amounting to EUR 132,304,000 be appropriated as follows :

Transfer to reserves		
Retained earnings	EUR	125,280,957
Dividend distributions		
Priority shareholders 2012		794
Priority shareholders 2013		794
Ordinary shareholders 2013		7,021,455
Total dividend distributions	EUR	7,023,043
Total transfer to reserves/ dividends	**EUR**	**132,304,000**
Interest expenses		
A cumulative preference shareholder 2012 (6%)		1,057,500
A cumulative preference shareholder 2013 (6%)		1,057,500
C cumulative preference shareholder 2012 (3.85%)		542,949
C cumulative preference shareholder 2013 (3.85%)		542,949
Total interest expenses	**EUR**	**3,200,898**

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	**2013**	2012 ** restated	2011 *	2010/11	2009/10
Consolidated income statement					
Passenger	6,869	6,631	4,675	5,702	4,873
Cargo	1,537	1,664	1,271	1,695	1,278
Other revenues	1,282	1,178	1,039	1,254	1,318
Revenues	9,688	9,473	6,985	8,651	7,469
Expenses	(9,387)	(9,392)	(6,710)	(8,268)	(7,754)
Income from current operations	301	81	275	383	(285)
Financial income and expense	(59)	(104)	(207)	(159)	(114)
Other non-current income and expenses	(51)	(95)	(3)	(78)	(91)
Pre-tax income	191	(118)	65	146	(490)
Income tax expense	(48)	31	(22)	(1)	114
Net result after taxation of consolidated companies	143	(87)	43	145	(376)
Share of results of equity shareholdings	(10)	(11)	5	2	(7)
Profit / (loss) for the year	133	(98)	48	147	(383)
Consolidated balance sheet					
Current assets	2,418	2,484	2,400	3,157	2,780
Non-current assets	7,191	7,354	8,217	8,067	8,019
Total assets	9,609	9,838	10,617	11,224	10,799
Current liabilities	3,443	3,274	3,142	3,507	3,449
Non-current liabilities	4,555	5,063	4,917	5,034	5,110
Group equity	1,611	1,501	2,558	2,683	2,240
Total liabilities	9,609	9,838	10,617	11,224	10,799

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

** After the impact of revised IAS19 as per January 1, 2013

Five-Year Review

(in millions of EUR, unless stated otherwise)		**2013**	2012 *** restated	2011 **	2010/11	2009/10
Key financial figures (KLM Group)						
Return on equity (%)		8.5	(6.0)	1.8	6.0	(17.6)
Result for the year as percentage of revenues		1.4	(1.0)	0.7	1.7	(5.1)
Earnings per ordinary share (EUR)		2.82	(2.14)	1.01	3.14	(8.18)
Result for the year plus depreciation		640	(98)	458	686	163
Capital expenditures (net)		(363)	(353)	(311)	(434)	(481)
Net-debt-to-equity percentage		157	186	119	109	118
Dividend per ordinary share (EUR)		0.15	-	-	0.10	-
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		26,505	26,915	27,426	27,166	28,003
Outside The Netherlands		4,130	4,274	4,371	4,550	4,574
Employed by KLM		30,635	31,189	31,797	31,716	32,577
Total agency staff		1,870	1,661	2,121	1,726	1,455
Total KLM Group		32,505	32,850	33,918	33,442	34,032
Traffic (KLM Company)						
Passenger kilometers	*	89,039	86,281	63,823	76,974	74,129
Revenue ton freight-kilometers	*	3,688	3,651	2,875	3,738	4,134
Passenger load factor (%)		85.8	85.7	85.8	83.6	82.2
Cargo load factor (%)		66.1	66.4	68.6	72.9	71.2
Number of passengers (x 1,000)		26,581	25,775	19,888	23,104	22,446
Weight of cargo carried (kilograms)	*	480	474	375	491	540
Average distance flown per passenger (in kilometers)		3,350	3,347	3,237	3,332	3,300
Capacity (KLM Company)						
Available seat-kilometers	*	103,793	100,727	74,429	92,064	90,168
Available ton freight-kilometers	*	5,576	5,497	4,192	5,128	5,802
Kilometers flown	*	409	403	305	374	388
Blockhours (x 1,000)		612	607	460	560	585
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.4	7.4	7.1	7.1	6.3
Cargo (per RTK)		24.7	26.0	25.1	24.9	19.3
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		20,944	21,190	21,337	21,004	21,340
Outside The Netherlands		2,719	2,745	2,762	2,698	2,756
Employed by KLM		23,663	23,935	24,099	23,702	24,096

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

Glossary of Terms and Definitions

Available Ton Freight Kilometer (ATFK)	One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.
Available Seat Kilometer (ASK)	One aircraft seat flown a distance of one kilometer.
Passenger load factor	Total Revenue Passenger-Kilometers (RPK) expressed as a percentage of the total Available Seat-Kilometers (ASK).
Revenue Ton Freight Kilometer (RTFK)	One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.
Revenue Passenger Kilometer (RPK)	One passenger flown a distance of one kilometer.
Cargo load factor	Total Revenue Ton Freight Kilometers (RTFK) expressed as a percentage of the total Available Ton Freight Kilometers (ATFK).
Capital employed	The sum of property, plant and equipment, intangible assets, equity method investments, inventories and trade and other receivables less trade and other payables.
Code sharing	Service offered by KLM and another airline using the KL code and the code of the other airline.
Earnings per ordinary share	The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the year.
Net debt	The sum of current and non-current financial liabilities, current and non-current finance lease obligations, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Return on capital employed

The sum of income from operating activities, adjusted for the gain/ (loss) on disposal of assets and the results of equity shareholdings after taxation divided by average capital employed.

Return on equity

Net result after taxation divided by the average equity after deduction of the priority shares.

Warning about Forward-Looking Statements

This Annual Report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:

- The airline pricing environment;
- Competitive pressure among companies in our industry;
- Current economic downturn;
- Political unrest throughout the world;
- Changes in the cost of fuel or the exchange rate of the Euro to the U.S. dollar and other currencies;
- Governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
- Developments affecting labor 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.