Public Storage
Form DEF 14A
March 12, 2014
Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) of

the Securities Exchange Act of 1934

x **Filed by the Registrant** o **Filed by a Party other than the Registrant**

Check the appropriate box:

o **Preliminary Proxy Statement**

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x **Definitive Proxy Statement**

o **Definitive Additional Materials**

o **Soliciting Material under § 240.14a-12**

PUBLIC STORAGE

(Name of Registrant as Specified in Its Charter)

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x **No fee required.**

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Table of Contents

March 11, 2014

TO THE SHAREHOLDERS OF

PUBLIC STORAGE

Dear Public Storage Shareholder:

On behalf of the Board of Trustees of Public Storage, I am pleased to invite you to attend our 2014 Annual Meeting of Shareholders. The meeting will be held on Thursday, May 1, 2014, at 11:00 a.m., Pacific Daylight Time, at the Westin Pasadena, located at 191 North Los Robles in Pasadena, California.

Details concerning admission to the meeting and the business to be conducted are described in the notice of annual meeting and proxy statement, which accompany this letter. The proxy statement includes information that we are required to provide to you under the rules of the Securities and Exchange Commission and the New York Stock Exchange that is designed to assist you in voting your shares.

This year, we are again offering shareholders the opportunity to receive proxy materials over the Internet.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope you will vote as soon as possible. You may vote your shares over the Internet or by telephone or, if you elect to receive printed proxy materials, you may vote by mail by following the instructions on the proxy card or the voting instruction card. Of course, even if you vote your shares ahead of time, you may still attend the meeting.

We appreciate your investment in Public Storage and look forward to seeing you at our 2014 Annual Meeting.

Sincerely,

Ronald L. Havner, Jr.

Chairman, Chief Executive Officer and President

Table of Contents

PUBLIC STORAGE

701 Western Avenue

Glendale, California 91201-2349

NOTICE OF THE 2014 ANNUAL MEETING OF SHAREHOLDERS

The 2014 Annual Meeting of Shareholders of Public Storage, a Maryland real estate investment trust, will be held at the time and place and for the purposes indicated below.

Time and Date:	11:00 a.m., Pacific Daylight Time, on Thursday, May 1, 2014.
Place:	Westin Pasadena, 191 North Los Robles, Pasadena, California.
Items of Business:	1. To elect eight trustees from the nominees named in the accompanying proxy statement to serve until the 2015 Annual Meeting; 2. To ratify the appointment of Ernst & Young LLP as Public Storage s independent registered public accounting firm for the fiscal year ending December 31, 2014; 3. To approve amendments to our 2007 Equity and Performance-Based Incentive Compensation Plan; 4. To hold an advisory vote to approve executive compensation; and 5. To consider and act upon such other matters as may properly come before the meeting or any adjournment or postponement thereof.
Recommendations of the Board:	The Board of Trustees recommends that you vote For each of the trustee nominees, For ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2014, For the amendments to our 2007 Equity and Performance-Based Incentive Compensation Plan, and For approval of the advisory vote on executive compensation. The full text of these proposals is set forth in the accompanying proxy statement.
Adjournments and Postponements:	Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.
Record Date:	You are entitled to vote at the meeting if you were a shareholder of record at the close of business on March 6, 2014 of Public Storage common shares of beneficial interest.
Voting:	**Your vote is very important.** To ensure your representation at the meeting, please vote your shares as soon as possible. You may vote your shares over the Internet or by telephone. If you

received a paper copy of a proxy card or voting instruction card for the annual meeting, you may vote by completing, signing, dating and returning your proxy card or voting instruction card in the pre-addressed postage-prepaid envelope provided. You may revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying proxy statement.

Important Notice Regarding the Availability of Proxy Materials for the 2014 Annual Meeting: This proxy statement and our 2013 Annual Report are available at the Investor Relations section of our website (www.publicstorage.com).

By Order of the Board of Trustees

Steven M. Glick, Secretary

March 11, 2014

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

2014 PROXY STATEMENT SUMMARY

This section summarizes information contained elsewhere in this proxy statement, but does not contain all of the information you should consider before casting your votes. Please review the entire document and our 2013 annual report to shareholders before voting on the proposals to be considered at our 2014 Annual Meeting.

2014 Annual Meeting at a Glance

Meeting Date	Time	Place
Thursday, May 1, 2014	11:00 a.m., Pacific Daylight Time	Westin Pasadena, 191 North Los Robles, Pasadena, California 91101

Matters for Consideration

Proposal	Board Recommendation	Required Vote
Election of Trustees (Page 1)	FOR	All our nominees are currently serving on the Board and each was previously elected by our shareholders. To be elected, trustees must receive a majority of the votes cast so that the number of shares voted For a trustee nominee is greater than 50% of the votes cast with respect to the election of such trustee. Any shares not voted (whether by abstention or otherwise) will not affect the vote.
Ratification of Appointment of Independent Registered Public Accounting Firm for 2014 (Page 12)	FOR	This proposal requires the affirmative vote of at least a majority of the votes cast at the meeting by the holders of our common shares. Any shares not voted (whether by abstention or otherwise) will not affect the vote.
Approval of Amendments to 2007 Equity and Performance-Based Incentive Compensation Plan (Page 28)	FOR	This proposal requires that the number of votes cast for the proposal exceeds the number of votes cast against the proposal. For purposes of the vote on this proposal, abstentions will have the same effect as votes against, but broker non-votes will not affect the vote.
Advisory Vote on Executive Compensation (Page 35)	FOR	This proposal requires the affirmative vote of at least a majority of the votes cast at the meeting by the holders of our common shares. Any shares not voted (whether by abstention or otherwise) will not affect the vote.

Trustee Nominees

Name	Age	Principal Occupation	Trustee Since	Committees
Ronald L. Havner, Jr.	56		2002	

		Chairman of the Board, President and Chief Executive Officer of Public Storage.		
Tamara Hughes Gustavson	52	Private investor and philanthropist. Our largest single shareholder and a member of the Hughes family, which collectively owns approximately 15.7% of our outstanding common shares.	2008	
Uri P. Harkham	65	Chief Executive Officer of Harkham Family Enterprises, a real estate firm specializing in buying and rebuilding retail and mixed use real estate throughout Southern California.	1993	Compensation
B. Wayne Hughes, Jr.	54	Founder and an officer of American Commercial Equities, LLC and its affiliates, companies engaged in the acquisition and operation of commercial properties in California. One of our largest shareholders, brother of Tamara Hughes Gustavson and son of B. Wayne Hughes, former Chairman of the Board (who owns 1.3% of our	1998	

Table of Contents

		outstanding common shares), and a member of the Hughes family which collectively owns approximately 15.7% of our outstanding common shares.		
Avedick B. Poladian	62	Executive Vice President and Chief Operating Officer for Lowe Enterprises, Inc., a diversified national real estate company active in property investment, management and development.	2010	Nominating/ Corporate Governance (Chair) Audit (Chair)
Gary E. Pruitt	64	Lead Independent Trustee. Retired Chairman of Univar N.V., a chemical distribution company based in Bellevue, Washington, with distribution centers in the United States, Canada and Europe.	2006	Audit Nominating/ Corporate Governance
Ronald P. Spogli	65	Co-founder of Freeman Spogli & Co., a private investment firm. Formerly United States Ambassador to the Italian Republic and the Republic of San Marino from August 2005 until February 2009.	2010	Compensation Nominating/ Corporate Governance
Daniel C. Staton	60	Chairman of Staton Capital, an investment and venture capital company. Chairman of Armour Residential REIT, Inc. (NYSE Amex: ARR). Chairman of Javelin Mortgage Investments, Inc. (NYSE: JMI).	1999	Compensation (Chair) Audit

2013 Financial Results and Achievements

The company, under the more than decade-long leadership of its chairman, chief executive officer and president, Mr. Havner, has continued to provide shareholders with consistently strong total returns. Despite continued uncertain economic conditions during 2013, the company s management team continued to drive long-term growth results. Total shareholder return for the year supported the Compensation Committee s belief that funds from operations (FFO) per common share, funds available for distribution (FAD) per common share and same store revenues are the key drivers of total shareholder return. Public Storage s total shareholder return for 2013 was 7.39%, well ahead of the NAREIT Equity Index s return of 2.86%, although trailing the S&P 500 s unusually strong performance.

Other 2013 company performance highlights:

Year-over-year U.S. same store revenues grew by 5.3%.

FFO per common share increased by 11.4%.

FAD per common share grew by 12.0%.

Year-over-year average occupancy growth was positive in each quarter of 2013.

We acquired 121 domestic properties adding 8 million net rentable square feet for approximately $1.2 billion, by far our most acquisitive year since we acquired Shurgard in 2006.

Table of Contents

We issued approximately $725 million in new preferred shares, lowering our average preferred share dividend rate by approximately four basis points to 5.83%.

Key Takeaways Regarding 2013 Executive Compensation

In 2013, the company continued to maintain an executive compensation program that emphasizes long-term growth for our shareholders. Key highlights of our executive compensation program in 2013 include:

Management far exceeded the incentive targets for payment of cash bonuses and the award of RSUs, which were based on key drivers of company growth in 2013. Targets for annual incentive bonus payments were tied to achieving at least 3.0% increases in year-over-year U.S. same store revenues, funds from operations (FFO) and funds available for distribution (FAD), and the target for awards of RSUs was achievement of at least 3.5% growth in U.S. same store revenues.

Management achieved a 5.3% year-over-year increase in same store revenues, an 11.4% increase in FFO per common share and a 12.0% increase in FAD per common share and, as a result, cash bonuses were paid to the company s named executive officers at levels ranging from 100% to 300% of targeted levels.

The company s achievement of 5.3% growth in year-over-year same store revenues resulted in the award of RSUs to our named executive officers of 200% of targeted levels. These RSUs vest in five equal annual installments beginning February 20, 2015.

Stock options to acquire 100,000 common shares were awarded in February 2014 to each of Messrs. Havner and Reyes.

2013 base salaries for all executive officers were held at 2008 levels.

The company continued to enjoy one of the lowest industry ratios of general and administrative expense, which includes our executive compensation expense, to total revenues.

Compensation decisions and actions relating to named executive officers are discussed in more detail in the Compensation Discussion and Analysis section beginning on page 14 of this proxy statement.

Table of Contents

PUBLIC STORAGE

PROXY STATEMENT

2014 ANNUAL MEETING OF SHAREHOLDERS

May 1, 2014

11:00 a.m., Pacific Daylight Time

Westin Pasadena, 191 North Los Robles, Pasadena, CA 91101

Our proxy materials are first being distributed and made available on or about March 20, 2014 to holders of our common shares of beneficial interest on March 6, 2014, the record date for the 2014 Annual Meeting of Shareholders. We are providing these proxy materials to shareholders in connection with the solicitation by the Board of Trustees of Public Storage of proxies to be voted at our 2014 Annual Meeting and at any adjournment or postponement of the meeting. This proxy statement identifies the proposals on which you are being asked to vote at the 2014 Annual Meeting, provides information that you may find useful in determining how to vote on each proposal and describes voting procedures.

We use several abbreviations in this proxy statement. We refer to Public Storage as Public Storage, we, us, our or company, unless the context indicates otherwise. We call our Board of Trustees the Board. We refer to our common shares of beneficial interest as our common shares or our shares.

PROPOSAL 1 -

ELECTION OF TRUSTEES

About the Trustee Nominees

Our Board of Trustees consists of eight trustees, five of whom are independent. Each nominee is presently a trustee of Public Storage and was previously elected by our shareholders. The Nominating/Corporate Governance Committee recommended and the Board of Trustees has nominated each of our incumbent trustees for re-election to the Public Storage Board for the one-year term beginning with our 2014 Annual Meeting, or until their successors, if any, are elected or appointed. We believe that each nominee for election as a trustee will be able to serve if elected. The names of our trustees and their ages, positions and biographies as of March 10, 2014 are set forth below.

Ronald L. Havner, Jr., age 56, is Chairman of the Board, President and Chief Executive Officer. He was elected Vice Chairman and Chief Executive Officer in 2002 and was elected Chairman of the Board in August 2011. He joined Public Storage in 1986. Mr. Havner has been Chairman of the Board of Public Storage s affiliate, PS Business Parks, Inc. (PSB), since March 1998 and is a director of Business Machine Security, Inc. He is the 2014 Chairman of the Board of Governors of NAREIT.

Tamara Hughes Gustavson, age 52, joined the Public Storage Board in November 2008. She was previously employed by Public Storage from 1983 to 2003, serving most recently as Vice President Administration. During the past five years, Ms. Gustavson has been engaged in charitable and community activities, and her business experience has included supervising her personal financial and business investments. Ms. Gustavson also serves on the Board of Directors of the USC-CHLA Institute for Pediatric Clinical Research. She is the sister of B. Wayne Hughes, Jr., also a

Trustee, and the daughter of B. Wayne Hughes, former Chairman of the Board. The Hughes family together owns approximately 15.7% of the outstanding common shares of Public Storage.

Uri P. Harkham, age 65, a member of the Compensation Committee, became a member of the Board of Public Storage in March 1993. Since 1978, Mr. Harkham has been the Chief Executive Officer of Harkham Family Enterprises, a real estate firm specializing in buying and rebuilding retail and mixed use real estate throughout Southern California. Until his retirement in 2011, Mr. Harkham was also President and Chief Executive Officer of Harkham Industries, which specialized in the design, manufacture and marketing of women s clothing under its four labels, Harkham, Hype, Jonathan Martin and Johnny Martin, since its organization in 1974.

B. Wayne Hughes, Jr., age 54, became a member of the Board of Public Storage in January 1998. He was employed by Public Storage from 1983 to 2002, serving as Vice President Acquisitions of Public Storage from 1992 to 2002. Mr. Hughes, Jr. is the founder and an officer of American Commercial Equities, LLC and its affiliates, companies engaged in the acquisition and operation of commercial properties in California. He is the brother of Tamara Hughes Gustavson, also a Trustee, and the son of B. Wayne Hughes, former Chairman of the Board. The Hughes family together owns approximately 15.7% of the outstanding common shares of Public Storage.

Avedick B. Poladian, age 62, Chairman of the Nominating/Corporate Governance Committee and the Audit Committee, became a member of the Board of Public Storage in February 2010. Since 2007, Mr. Poladian has been Executive Vice President and Chief Operating Officer for Lowe Enterprises, Inc., a diversified national real estate company he joined in 2003 that is active in commercial, residential and hospitality property investment, management and development. Mr. Poladian was with Arthur Andersen from 1974 to 2002 and is a certified public accountant (inactive). He is also a director and member of the Audit Committee of Occidental Petroleum Corporation and Western Asset Funds (Western Asset Income Fund, Western Asset Premier Bond Fund and Western Asset Funds, Inc.). He is also a director of the YMCA of Metropolitan Los Angeles.

Gary E. Pruitt, age 64, is the Lead Independent Trustee of the Board, and a member of the Audit Committee and the Nominating/Corporate Governance Committee. He became a member of the Board of Public Storage in August 2006 in connection with the merger of Shurgard Storage Centers, Inc. with Public Storage. Mr. Pruitt was previously a director of Shurgard until the company was acquired by Public Storage. Mr. Pruitt retired as the Chairman of Univar N.V., a chemical distribution company based in Bellevue, Washington, with distribution centers in the United States, Canada and Europe, on November 30, 2010. Mr. Pruitt joined Univar in 1978 and was appointed Chairman and Chief Executive Officer in 2002. Mr. Pruitt retired as CEO of Univar in October 2009. Mr. Pruitt is also a member of the Board of Directors of Public Storage s affiliate, PSB, and Itron, Inc. (a global technology company) and Esterline Technologies Corp. (a specialized manufactory company), all NYSE-listed companies.

Ronald P. Spogli, age 65, a member of the Compensation Committee and the Nominating/Corporate Governance Committee, became a member of the Board of Public Storage in February 2010. Mr. Spogli co-founded Freeman Spogli & Co., a private investment firm, in 1983. He rejoined Freeman Spogli & Co. in June 2009 after having served as the United States Ambassador to the Italian Republic and the Republic of San Marino from August 2005 until February 2009. Mr. Spogli is a trustee of Stanford University and of the J. Paul Getty Trust and a member of the Investment Committee of the California Institute of Technology, a director of Grandpoint Capital Inc., a bank holding company, a member of the Board of Directors of SAVE, S.p.A., which operates the Venice Marco Polo Airport, and of White Bridge Investments, an Italian investment company.

Daniel C. Staton, age 60, Chairman of the Compensation Committee and a member of the Audit Committee, became a member of the Board of Public Storage in March 1999. He is Chairman of Staton Capital, an investment and venture capital company, and was from November 2004 until December 2013 the Chairman and Co-Chief Executive Officer of FriendFinder Networks Inc., a print and electronic media company. Mr. Staton is also Chairman of Armour Residential REIT, Inc. (NYSE: ARR) since November 2009. He was elected Chairman of Javelin Mortgage Investments, Inc. (NYSE: JMI) in October 2012.

Qualifications and Reasons We Believe the Nominees Should Continue to Serve on the Board

In evaluating potential candidates for service on the Board, our Nominating/Corporate Governance Committee and the Board have and exercise broad discretion to select trustee candidates who will best serve the Board and Public Storage in the current and anticipated business environment. The goal in the vetting and nomination process is to achieve an appropriate balance of knowledge, experience and capability on the Board.

Our trustee nominees have qualifications, skills and experience relevant to our business. Each trustee has experience, mainly at senior executive levels, in other organizations and a majority of the trustees hold or have held directorships at other U.S. public companies. In these positions, our trustees, four of whom, in addition to our CEO, have served as chief executive officers, have demonstrated leadership, intellectual and analytical skills and gained deep experience in management and corporate governance.

The following summarizes the reasons we believe our incumbent trustees should be elected to serve additional one-year terms on the Board:

Mr. Havner s qualifications for the Public Storage Board include his extensive leadership experience and company and industry knowledge. As the only Board member who is also a member of the Public Storage management team, Mr. Havner provides management s perspective in Board discussions about the operations and strategic direction of the company.

Ms. Hughes Gustavson is our largest single shareholder and a member of the Hughes family that collectively owns approximately 15.7% of the company s outstanding common shares. Her qualifications for election to the Public Storage Board also include her previous managerial experience at Public Storage, as well as her ongoing investment and charitable board experience.

Table of Contents

Mr. Harkham s qualifications for election to the Public Storage Board include his extensive real estate experience and experience with consumer businesses. He also brings to the Board his leadership experience as the Chief Executive Officer of Harkham Industries and Harkham Family Enterprises, as well as his knowledge of international business operations.

Mr. Hughes, Jr. s qualifications for election to the Public Storage Board include his extensive experience in the real estate industry, including previous management experience at Public Storage. He continues to play an active role in family real estate investment activities and brings that expertise to Board discussions.

Mr. Poladian s qualifications for election to the Public Storage Board include his executive, operational and financial experience at Lowe Enterprises, his extensive knowledge of the real estate industry and previous accounting experience at Arthur Andersen. He also has experience as a director of other public companies.

Mr. Pruitt s qualifications for election to the Public Storage Board include his leadership and financial experience as chairman and chief executive officer at Univar, as well as his experience on other boards, including his former service on the board of Shurgard Storage Centers, Inc., a self-storage real estate investment trust.

Mr. Spogli s qualifications for election to the Public Storage Board include his broad-ranging board and executive responsibilities for a variety of companies engaged in consumer businesses in which the firm of Freeman Spogli & Co. has investments. In addition, Mr. Spogli s experience in government and international relations provides helpful insight in the European countries where Public Storage has investments.

Mr. Staton s qualifications for election to the Public Storage Board include his extensive real estate industry experience. He also brings his leadership, operational and financial experience as Chairman of Armour Residential REIT and Javelin Mortgage Investments, Inc. to the Public Storage Board.

Your Board of Trustees recommends that you vote FOR the election to the Board of Trustees of each nominee named above.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance Framework

Our Board has adopted the Public Storage Corporate Governance Guidelines and Trustee Code of Ethics (Corporate Governance Guidelines), which, together with our charter, bylaws and the charters of our standing committees of the Board, establish the framework for our corporate governance. These documents outline the general practices of the Board with respect to Board structure, function and conduct, and Board and committee organization. The Corporate Governance Guidelines are reviewed at least annually by the Nominating/Corporate Governance Committee, which makes recommendations for any changes to the Board.

We have also adopted Business Conduct Standards applicable to our officers and employees and a Code of Ethics for our senior financial officers, which has additional requirements. The Corporate Governance Guidelines, the Business Conduct Standards, the Code of Ethics for senior financial officers and the Board committee charters may be found on the Public Storage website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx . Any shareholder may request a copy by writing to the Corporate Secretary, Public Storage, 701 Western Avenue, Glendale, California 91201-2349. Any amendments or waivers to the code of ethics for trustees or executive officers will be disclosed on our website or other appropriate means in accordance with applicable requirements of the Securities Exchange Commission (SEC) and the New York Stock Exchange (NYSE).

Board Leadership

Our Board recognizes that one of its key responsibilities is to determine the optimal leadership structure to provide effective oversight of management. As a result, the Board does not have a policy as to whether the roles of chairman and chief executive officer should be combined or separated. Rather, the Board believes that Public Storage shareholders are best served by the Board having flexibility to consider the relevant facts and circumstances when the chairman is elected so that the Board leadership structure best reflects the needs of the company at that time.

In August 2011, the Board elected Ronald L. Havner, Jr. as Chairman of the Board following the resignation of B. Wayne Hughes, the company s co-founder and chief executive officer, as Chairman as a result of having reached the mandatory retirement age for Board members established in the company s Corporate Governance Guidelines. The Board considered the decision as to whether to combine the roles of chairman and chief executive officer in the context of our company s governance structure and based its decision to combine the roles in large part on the experience and qualifications of Mr. Havner. The Board also considered that the advantages of separating the roles of Chairman and CEO could be met in significant part by the appointment of a Lead Independent Trustee for the Board.

To preserve these advantages, in 2011 the Board established the position of Lead Independent Trustee to provide for an independent leadership role on the Board when the role of Chairman and Chief Executive Officer are combined. The role of the Lead Independent Trustee is described in our Corporate Governance Guidelines. Among other things, the Lead Independent Trustee presides at all executive sessions of the non-management trustees and the independent trustees.

Mr. Pruitt is serving as the Lead Independent Trustee for a three-year term, expiring in November 2014.

In addition, during 2013, B. Wayne Hughes continued to serve as Founder and Chairman Emeritus, which enabled the Board to continue to avail itself of his wisdom, judgment and experience. In that role, Mr. Hughes attended Board meetings and participated in discussions of matters that came before the Board, although he was not entitled to vote upon any such matters or otherwise have any duties or liabilities of a trustee under law. While Mr. Hughes did not receive compensation as a board member, he continued to provide services to the company and receive compensation pursuant to his 2004 post-retirement consulting agreement with the company. This agreement was extended by the Board and will now expire, unless further extended, on December 31, 2014.

Board Responsibilities and Oversight of Risk Management

The Board is responsible for overseeing our company-wide approach to major risks and our policies for assessing and managing these risks. In connection with its oversight function, the Board regularly receives presentations from management on areas of risk facing our business. The Board and management actively engage in discussions about these potential and perceived risks to the business.

In addition, the Board is assisted in its oversight responsibilities by the standing Board committees, which have assigned areas of oversight responsibility for various matters as described in the Committee charters and as provided in the rules of the NYSE. The Audit Committee assists the Board s oversight of the integrity of our financial statements and risks and exposures related to financial matters, tax, accounting, disclosure and internal controls over financial reporting. The Audit Committee is also responsible for considering the qualifications and independence of our independent registered public accounting firm and the performance of our internal audit function and independent registered public accounting firm. The Audit Committee also considers our policies with respect to risk assessment and risk management. The Compensation Committee oversees the compensation of our chief executive officer and other executive officers and evaluates the appropriate compensation incentives to motivate senior management to grow long-term shareholder returns without undue risk taking. The Nominating/Corporate Governance Committee focuses on risks associated with trustee and management succession planning, corporate governance and overall Board effectiveness.

The Board committees also hear reports from the members of management, which help each committee to understand and discuss risk identification and risk management. The chairman of each of the Board s standing committees reports on the discussion to the full Board at the next Board meeting. All trustees have access to members of management in the event a trustee wishes to follow up on items discussed outside the Board meeting.

Board Meetings and Attendance

The Board meets at regularly scheduled intervals and may hold additional special meetings as necessary or desirable in furtherance of its oversight responsibilities. The non-management trustees generally meet in executive session without the presence of management following each regularly scheduled board meeting, with at least one meeting of only independent trustees held annually. The sessions are designed to encourage open Board discussion of any matter of interest without the chief executive officer or any other members of management present.

Each trustee attended at least 75% of the Board meetings held or, if a member of a committee of the Board, 75% of the meetings held by both the Board and all committees of the Board on which the trustee served. Although the company has no formal policy on trustee attendance at the annual meeting of shareholders, trustees are encouraged to attend the annual meeting of shareholders. Seven of the Board s eight trustees attended the 2013 annual meeting of shareholders.

Table of Contents

Board Orientation and Education

Each new trustee participates in an orientation program and receives material and briefings concerning our business, industry, management and corporate governance policies and practices. Continuing education is provided for all trustees through board materials and presentations, discussions with management and the opportunity to attend external board education programs. In addition, the company offers membership in the National Association of Corporate Directors to all Board members.

Trustee Independence

The Board evaluates the independence of each trustee annually based on information supplied by trustees and the company, and on the recommendations of the Nominating/Corporate Governance Committee. In making its determinations, the Board also considers the standards for independence set forth in the requirements of the rules of the NYSE. A trustee qualifies as independent unless the Board determines that the trustee has a material relationship with Public Storage, based on all relevant facts and circumstances, subject to the provisions of the NYSE rules. Material relationships may include commercial, industrial, consulting, legal, accounting, charitable, family and other business, professional and personal relationships.

Based on its review in February 2014, the Nominating/Corporate Governance Committee recommended to the Board and the Board determined that (1) other than Tamara Hughes Gustavson, B. Wayne Hughes, Jr. and Ronald L. Havner, Jr., each member of the Board (including each member of the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee) is independent pursuant to the rules of the NYSE, (2) each member of the Audit Committee meets the additional independence requirements set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934 and the SEC s rules thereunder, and (3) each member of the Compensation Committee meets the NYSE s heightened independence requirements for compensation committee members. In addition, each member of the Compensation Committee qualifies as a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act of 1934 (the Exchange Act) and as an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

Committees of the Board of Trustees

Our Board has three standing committees: the Audit Committee, the Nominating/Corporate Governance Committee and the Compensation Committee. These standing committees are described below, and the committee members and number of meetings held in 2013 are identified in the following table:

Trustee (1)	**Audit Committee**	**Nominating/Corporate Governance Committee**	**Compensation Committee**
Uri P. Harkham			X
Avedick B. Poladian	X (Chairman)	X (Chairman)	
Gary E. Pruitt	X	X	
Ronald P. Spogli		X	X
Daniel C. Staton	X		X (Chairman)
Number of meetings in 2013	4	3	2

Each of the standing committees operates pursuant to a written charter, which can be viewed at our website at www.publicstorage.com/Corporateinformation/CorpGovernance.aspx and will be provided in print to any shareholder who requests a copy by writing to the Corporate Secretary.

Audit Committee

The primary functions of the Audit Committee, as set forth in its charter, are to assist the Board in fulfilling its responsibilities for oversight of:

(1) the integrity of the company s financial statements;

(2) compliance with legal and regulatory requirements;

(3) the qualifications, independence and performance of the independent registered public accounting firm; and

(4) the scope and results of internal audits, the company s internal controls over financial reporting and the performance of the company s internal audit function.

Table of Contents

Among other things, the Audit Committee appoints, evaluates and determines the compensation of the independent registered public accounting firm; reviews and approves the scope of the annual audit, the audit fee and the financial statements; approves all other services and fees performed by the independent registered public accounting firm; prepares the Audit Committee report for inclusion in the annual proxy statement; and annually reviews its charter and performance.

The Board of Trustees has determined that each member of the Audit Committee meets the financial literacy and independence standards of the NYSE rules, and qualifies as an audit committee financial expert within the meaning of the rules of the SEC and the NYSE.

Compensation Committee

The primary functions of the Compensation Committee, as set forth in its charter, are to:

(1) determine, either as a committee or together with other independent trustees, the compensation of the company s chief executive officer;

(2) determine the compensation of other executive officers;

(3) administer the company s stock option and incentive plans;

(4) review with management its annual assessment of potential risks related to compensation policies and practices applicable to all employees; and

(5) oversee the advisory shareholder votes on the company s executive compensation programs and policies and the frequency of such votes.

The Compensation Committee also periodically reviews compensation of non-management trustees and makes recommendations to the full Board, which determines the amount of such compensation; reviews and discusses with management the Compensation Discussion and Analysis to be included in the proxy statement and recommends to the Board inclusion of the Compensation Discussion and Analysis in the company s Annual Report on Form 10-K and proxy statement; provides a description of the processes and procedures for the consideration and determination of executive compensation for inclusion in the company s annual proxy statement; produces the Compensation Committee Report for inclusion in the annual proxy statement; and annually reviews its charter and performance.

Compensation Committee Interlocks and Insider Participation. No executive officer of Public Storage served on the Compensation Committee or Board of Trustees of any other entity which has an executive officer who also served on the Compensation Committee or Board of Trustees of Public Storage at any time during 2013, and no member of the Compensation Committee had any relationship with us requiring disclosure under Item 404 of SEC Regulation S-K.

Oversight of Compensation Risks. With respect to consideration of risks related to compensation, the Compensation Committee annually considers a report from management concerning its review of potential risks related to compensation policies and practices applicable to all employees. Most recently, in February 2014, the Committee considered management s annual report and also considered and discussed with management, management s conclusion that the company s compensation policies and practices are not reasonably likely to have a material adverse effect on our company.

In connection with preparing the report for the Compensation Committee s consideration, members of our senior management team, including our chief executive officer and senior vice president for human resources, reviewed the target metrics for all our employee incentive compensation plans. At the completion of the review, management and the Committee concluded that the incentive compensation plans did not create undue risks for the company. As a result, we believe there is little motivation or opportunity for employees to take undue risks to earn incentive compensation awards. Our review concluded that employees who are eligible for incentive compensation are properly incentivized to achieve long-term company goals without creating undue risks for the company.

6

Table of Contents

Nominating/Corporate Governance Committee

The primary functions of the Nominating/Corporate Governance Committee, as set forth in its charter, are to:

(1) identify, evaluate and make recommendations to the Board for trustee nominees for each annual shareholder meeting or to fill any vacancy on the Board;

(2) develop and review and assess the adequacy of the Board s Guidelines on Corporate Governance on an ongoing basis and recommend any changes to those guidelines to the Board; and

(3) oversee the annual Board assessment of Board performance.

Other duties and responsibilities of the Nominating/Corporate Governance Committee include periodically reviewing the structure, size, composition and operation of the Board and each Board committee; recommending assignments of trustees to Board committees; conducting a preliminary review of trustee independence; periodically evaluating trustee compensation and recommending any changes in trustee compensation to the Board; overseeing trustee orientation; periodically evaluating risks associated with trustee and management succession planning, corporate governance and overall Board effectiveness; and annually evaluating its charter and performance.

Trustee Qualifications. The Nominating/Corporate Governance Committee of the Board is responsible under the company s Corporate Governance Guidelines for reviewing with the Board the skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment includes trustees qualifications as independent, as well as consideration of skills, knowledge, perspective, broad business judgment and leadership, relevant specific industry or regulatory affairs knowledge, business creativity and vision and experience, all in the context of an assessment of the perceived needs of the Board at that time. The Board has delegated to the Nominating/Corporate Governance Committee responsibility for recommending to the Board new trustees for election. Although the Nominating/Corporate Governance Committee does not have and does not believe there is a need for a formal policy concerning diversity, it seeks to ensure that a diversity of different experience and viewpoints are represented on the Board and is also guided by the principles set forth in the Committee s charter.

There are no other policies or guidelines that limit the selection of trustee candidates by the Nominating/Corporate Governance Committee, and the Committee and the Board have and exercise broad discretion to select trustee candidates who will best serve the Board and Public Storage in the current and anticipated business environment.

Communications with the Board

The company provides a process by which shareholders and interested parties may communicate with the Board. Communications to the Board should be addressed to: Steven M. Glick, Corporate Secretary, Public Storage, 701 Western Avenue, Glendale, California 91201-2349. Communications that are intended for a specified individual Board member or group of Board members should be addressed c/o Corporate Secretary at the above address and will be forwarded to the Board member(s).

Compensation of Trustees

General Compensation Arrangements. Compensation for non-management trustees who are not officers or employees of Public Storage or an affiliate (currently, all trustees other than Ronald L. Havner, Jr.) is set by the Board after consideration of the recommendations of the Compensation Committee. The Board has approved the mix of cash and equity compensation described below.

Retainers. Retainers are paid in cash quarterly and are pro-rated when a trustee joins the Board (or in the case of the Lead Independent Trustee, when an appointment is made) other than at the beginning of a calendar year. During 2013, non-management trustees were entitled to receive the following annual retainers for Board service:

	Annual Retainer
Board member	$ 40,000
Lead Independent Trustee supplemental retainer	$ 20,000
Audit Committee chair s supplemental retainer	$ 10,000
Other standing committee chairs supplemental retainer	$ 5,000
Committee member	$ 7,500

7

Table of Contents

Equity Awards. Each new non-management trustee is, upon the date of his or her initial election by the Board or the shareholders to serve as a trustee, granted a non-qualified stock option to purchase 15,000 common shares, which vests in three equal annual installments based on continued service.

Annually, each trustee, other than Ronald L. Havner, Jr., receives a non-qualified stock option to acquire 5,000 common shares, which vests in three equal annual installments based on continued service. The annual grants are made immediately following the annual meeting of shareholders at the closing price for the company s common shares on the NYSE on such date.

Changes in Trustee Compensation. The Compensation Committee is evaluating the company s trustee compensation policies, which have been in effect without change since 2007. Trustee compensation is likely to increase in 2014 as the company wants to ensure that it can attract and retain the best possible trustees.

Consulting Arrangement. Pursuant to a consulting arrangement approved by the Compensation Committee and by the disinterested trustees in March 2004, B. Wayne Hughes, currently Founder and Chairman Emeritus and formerly Chairman of the Board and Chief Executive Officer, (1) agreed to be available for up to 50 partial days a year for consulting services, (2) receives compensation of $60,000 per year and the use of a company car and (3) is provided with the services of an executive assistant at the company s headquarters. This consulting arrangement was extended through December 31, 2014.

Trustee Compensation in Fiscal 2013

The following table presents the compensation provided by the company to our non-management trustees for the fiscal year ended December 31, 2013:

Name (a)	**Fees Earned or Paid in Cash ($)**	**Option Awards ($) (b)(c)**	**Total ($)**
Tamara Hughes Gustavson	$ 40,000	$ 121,400	$ 161,400
Uri P. Harkham	$ 47,500	$ 121,400	$ 168,900
Ronald L. Havner, Jr. (a)	NA	NA	NA
B. Wayne Hughes, Jr.	$ 40,000	$ 121,400	$ 161,400
Avedick B. Poladian	$ 65,000	$ 121,400	$ 186,400
Gary E. Pruitt	$ 80,000	$ 121,400	$ 201,400
Ronald P. Spogli	$ 55,000	$ 121,400	$ 176,400
Daniel C. Staton	$ 60,000	$ 121,400	$ 181,400

(a) Ronald L. Havner, Jr., our Chairman, Chief Executive Officer and President, does not receive any compensation for his service as a trustee. Mr. Havner s compensation as Chairman, Chief Executive Officer and President of Public Storage is described beginning on page 14.

(b) Reflects the fair value of the grant on May 9, 2013 of a stock option to acquire 5,000 common shares. For a more detailed discussion of the assumptions used in the calculation of these amounts, refer to Note 10 to the company s audited financial statements for the fiscal year ended December 31, 2013 included in the company s Annual Report on Form 10-K.

(c) As of December 31, 2013, each non-management trustee on such date had the following number of options outstanding: Tamara Hughes Gustavson: 40,000, of which 29,999 are fully vested and exercisable; Uri P. Harkham: 27,500, of which 17,499 are fully vested and exercisable; B. Wayne Hughes, Jr.: 37,500, of which 27,499 are fully vested and exercisable; Avedick B. Poladian: 35,000, of which 24,999 are fully vested and exercisable; Gary E. Pruitt: 35,000, of which 24,999 are fully vested and exercisable; Ronald P. Spogli: 35,000, of which 24,999 are fully vested and exercisable; and Daniel C. Staton: 11,667, of which 1,666 are fully vested and exercisable.

Table of Contents

SHARE OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of the dates indicated with respect to persons known to us to be the beneficial owners of more than 5% of the outstanding common shares:

Share Ownership of 5% or Greater Beneficial Owners

	Common Shares Beneficially Owned	
Name and Address	**Number of Shares**	**Percent of Class**
B. Wayne Hughes (1)	2,236,814	1.3%
B. Wayne Hughes, Jr. (1)	6,170,865	3.6%
Tamara Hughes Gustavson (1)	18,561,220	10.8%
B. Wayne Hughes, Jr. and Tamara Hughes Gustavson (1)	11,348	
Total	26,657,471	15.7%
Vanguard Specialized Funds Vanguard REIT Index Fund 100 Vanguard Blvd. Malvern, PA 19355 (2)	9,897,214	5.8%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022 (3)	11,763,089	6.8%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355 (4)	17,527,255	10.2%

(1) This information is as of March 1, 2014. B. Wayne Hughes, B. Wayne Hughes, Jr. and Tamara Hughes Gustavson have filed a joint Schedule 13D, as amended most recently on December 16, 2009, to report their collective ownership of common shares and may constitute a group within the meaning of section 13(d) (3) of the Exchange Act, although each of these persons disclaims beneficial ownership of the shares owned by the others. The address for the Hughes family is 701 Western Avenue, Glendale, California 91201-2349. The number of shares owned also reflects transactions reported on Form 4s since the most recent Schedule 13D amendment was

filed.

(2) This information is as of December 31, 2013 and is based on a Schedule 13G/A filed on February 4, 2014 by Vanguard Specialized Funds to report that it has sole voting power with respect to 9,897,214 common shares. These shares are also included in the number of shares beneficially owned by The Vanguard Group, which files as an investment advisor.

(3) This information is as of December 31, 2013 and is based on a Schedule 13G/A filed on January 30, 2014 by BlackRock, Inc. to report that it (including affiliates) has sole voting with respect to 10,452,252 common shares and sole dispositive power with respect to 11,763,089 common shares.

(4) This information is as of December 31, 2013 and is based on a Schedule 13G/A filed on February 12, 2014 by The Vanguard Group to report that it (including affiliates) has sole voting power with respect to 416,628 common shares, shared voting power with respect to 94,126 common shares, sole dispositive power with respect to 17,176,922 common shares and shared dispositive power with respect to 350,333 common shares.

Table of Contents

The following table sets forth information as of March 1, 2014 concerning the beneficial ownership of common shares by each of our trustees, the chief executive officer, the chief financial officer and the other three most highly compensated persons who were executive officers of the company on December 31, 2013 and all trustees and named executive officers as a group. Except as otherwise indicated and subject to applicable community property and similar statutes, each trustee and named executive officer has sole voting and investment power over his or her shares.

Share Ownership of Trustees and Management

Name	Common Shares Beneficially Owned(1)	Percent of Class (1)
Ronald L. Havner, Jr.	433,090(2)	*
Tamara Hughes Gustavson	18,591,219(3)	10.8%
Uri P. Harkham	43,623	*
B. Wayne Hughes, Jr.	6,198,184(4)	3.6%
Avedick B. Poladian	24,999	*
Gary E. Pruitt	26,349	*
Ronald P. Spogli	24,999	*
Daniel C. Staton	35,351	*
John Reyes	604,396	.*
David F. Doll	118,360	*
Candace N. Krol	75,167	*
Shawn L. Weidmann	25,518	*
All trustees and executive officers as a group (12 persons)	26,201,255(2)(3)(4)(5)	15.2%

* Less than 1%

(1) Represents common shares beneficially owned as of March 1, 2014 and includes RSUs which vest, and options to purchase common shares exercisable, within 60 days of March 1, 2014 as follows: RSUs D. Doll, 1,375; C. Krol, 938; J. Reyes, 3,250; stock options R. Havner, 369,000 shares; T. Gustavson, 29,999 shares; U. Harkham, 17,499 shares; B. Hughes, Jr., 27,499 shares; A. Poladian, 24,999 shares; G. Pruitt, 24,999 shares; R. Spogli, 24,999 shares; D. Staton, 1,666 shares; D. Doll, 102,500 shares; C. Krol, 57,482 shares; J. Reyes, 542,500 shares; S. Weidmann, 24,100 shares.

(2) Mr. Havner s holdings, other than shares in 401(k) accounts or IRAs, are held in a margin brokerage account.

(3) Includes 1,787,080 common shares held of record or beneficially by Ms. Gustavson s spouse and 5,500 shares held by Ms. Gustavson and her spouse. Includes 11,348 shares held jointly by Ms. Gustavson and Mr. Hughes, Jr. as to which they share investment power.

(4) Includes 118,475 common shares held of record or beneficially by Mr. Hughes, Jr. s spouse or their children as to which she has investment power, 8,005 shares held jointly by Mr. Hughes, Jr. and his spouse as to which they share investment power and includes 11,348 shares held jointly by Mr. Hughes, Jr. and Ms. Hughes Gustavson as to which they share investment power. Also includes 760,000 shares (approximately 12% of his shares) held by B. Wayne Hughes, Jr. that have been pledged to an institutional lender as security and one million shares (approximately 16% of his shares) pledged to secure an intra-family loan.

(5) Includes common shares held of record or beneficially by members of the immediate family of executive officers of the company and shares represented by units credited to the accounts of the executive officers of Public Storage that are held in the Public Storage 401(k)/Profit Sharing Plan.

Policy Regarding Pledging of Shares

The company s insider trading policy discourages (but does not prohibit) the pledging of common shares by insiders. Over the last 12 months, both the Audit Committee and the Board considered, in particular, the pledges of common shares by Mr. Hughes, Jr. in the light of the company s insider trading policy and the position of Institutional Shareholder Services (ISS), which believes that pledges of common shares by insiders may adversely affect shareholders if the insiders are forced to sell their shares.

Following discussion, both the Audit Committee and the Board concluded that existing pledge arrangements do not present a significant risk of lender foreclosure or an unexpected sale of large volumes of company stock in the open market. The Board specifically considered that Mr. Hughes, Jr., an individual with an extremely high net worth, has long-standing arrangements pursuant to which a portion of his shares in the company are pledged in support of intra-family loans established in connection with their family s estate planning and other business affairs. The Board considered that these arrangements are unlikely to result in ownership changes and that Mr. Hughes, Jr. owns a greater number of shares in Public Storage that are not pledged. The Board further noted that the pledges by Mr. Hughes, Jr. long predated the ISS s anti-pledging policy, that the number of shares pledged by Hughes family trustees has decreased substantially over the past several years (including by over 75% in the last 12 months) and that the pledges are not part of a hedging strategy. The Board also recognized that the ability of Mr. Hughes, Jr. to maintain his existing pledging arrangement permits him to pursue his outside business interests without the need to sell company shares to raise additional capital.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our trustees and executive officers, and persons who own more than 10% of any registered class of our equity securities, to file with the SEC initial reports of beneficial ownership of Public Storage s equity securities on Form 3 and reports of changes in beneficial ownership on Form 4 or Form 5. As a matter of practice, we typically assist our executive officers and trustees with these matters and file these reports on their behalf.

Based solely on a review of reports we filed on behalf of our trustees and executive officers, and written representations from these individuals that no other reports were required, we believe that during 2013 all reports on behalf of these trustees and executive officers were filed on a timely basis under Section 16(a), except that the company inadvertently filed a Form 4 two days late for each executive officer with respect to RSUs granted on February 20, 2013.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transaction Approval Policies and Procedures

With respect to transactions involving our trustees, the Trustees Code of Ethics portion of our Corporate Governance Guidelines provides for review by the Board of related party transactions that might present possible conflicts of interest. The Nominating/Corporate Governance Committee of the Board reviews related party transactions involving Board members pursuant to the Trustees Code of Ethics. Before undertaking a related party transaction, trustees are requested to submit information to the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee considers the matters submitted to it and makes a recommendation to the Board with respect to any action to be taken. The trustee with an actual, potential or apparent conflict of interest does not participate in the decision-making process related to the transaction.

Our executive officers who are not also trustees are subject to our company-wide Business Conduct Standards (BCS). Under the BCS, executive officers are required to discuss and seek pre-approval of the chief executive officer of any potential conflicts of interest, which includes, among other interests, financial relationships or associations where an executive s personal interest may conflict with ours. In reviewing a conflict of interest, the chief executive officer may consult with the chief legal officer. In addition, the Audit Committee reviews on an ongoing basis related party transactions involving our executive officers and trustees and our affiliate, PS Business Parks, that may require Board pre-approval under applicable law or may be required to be disclosed in our financial statements or proxy statement.

Relationships and Transactions with the Hughes Family

B. Wayne Hughes, former Chairman of the Board, and his family (the Hughes Family) have ownership interests in, and operate, approximately 54 self-storage facilities in Canada under the name Public Storage (PS Canada) pursuant to a non-exclusive, royalty-free trademark license trademark agreement with Public Storage. We currently do not own any interests in these facilities nor do we own any facilities in Canada. The Hughes Family owns approximately 15.7% of our common shares outstanding at March 1, 2014. We have a right of first refusal to acquire the stock or assets of the corporation that manages the 54 self-storage facilities in Canada, if the Hughes Family or the corporation agrees to sell them.

Public Storage reinsures risks relating to loss of goods stored by tenants in the self-storage facilities in Canada. During 2013, we received approximately $0.5 million in reinsurance premiums attributable to the Canadian facilities. Since our right to provide tenant reinsurance to the Canadian facilities may be qualified, there is no assurance that these premiums will continue.

Until November 2013, PS Canada held an approximately 2.2% interest in STOR-Re Mutual Insurance Company, Inc. (STOR-Re), a consolidated entity that provides liability and casualty insurance for PS Canada, PSB, the company and certain affiliates of the company for occurrences prior to April 1, 2004. In November 2013, Public Storage acquired PS Canada s interest in STOR-Re at an estimated market value of approximately $0.6 million in cash.

The Hughes Family also owns shares of common stock in PSB.

Table of Contents

Management Agreement with PSB

PSB manages certain of the commercial facilities that we own pursuant to management agreements for a management fee equal to 5% of revenues. Public Storage paid a total of $0.6 million in management fees with respect to PSB s property management services in 2013. At December 31, 2013, we had recorded amounts owed to PSB of $0.2 million for management fees and certain other operating expenses related to the managed facilities, paid by PSB on our behalf. These amounts are the result of a time lag between PSB s paying such expenditures and being reimbursed by us.

PSB owns certain commercial facilities that include self-storage space. We are managing this self-storage space for PSB for a management fee equal to 6% of revenues generated by the self-storage space. We recorded management fees with respect to these facilities of approximately $0.1 million for the year ended December 31, 2013.

Cost Sharing Arrangements with PSB and Other Transactions

Pursuant to a cost-sharing and administrative services agreement, PSB reimburses Public Storage for certain administrative services. PSB s share of these costs totaled approximately $0.4 million for the year ended December 31, 2013.

STOR-Re and third party insurance carriers have provided Public Storage, PS Canada, PSB and other affiliates of Public Storage with liability and casualty insurance coverage for occurrences prior to April 1, 2004. In November 2013, PSB s 4.0% interest in STOR-Re was acquired by Public Storage at an estimated market value of approximately $1.1 million in cash. PS Canada and PSB obtained their own liability and casualty insurance covering occurrences on or after April 1, 2004.

On October 1, 2013, we borrowed $100.0 million from PSB under a term loan which was repaid in full on October 18, 2013. The loan bore interest at 1.388%.

Common Board Members with PSB

Ronald L. Havner, Jr., Chairman, Chief Executive Officer and President of Public Storage, is also Chairman of the Board of PSB. Gary E. Pruitt, a trustee of Public Storage, is a member of the Board of PSB.

PROPOSAL 2 -

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee of the Board of Trustees has appointed Ernst & Young LLP as the independent registered public accounting firm for Public Storage for the fiscal year ending December 31, 2014. The Audit Committee also recommended that the Board submit the appointment of Ernst & Young LLP to the company s shareholders for ratification.

Although we are not required to seek shareholder ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm, Public Storage is asking its shareholders to do so because it believes that shareholder ratification of the appointment is a matter of good corporate practice. Ratification of the appointment of Ernst & Young LLP requires approval by a majority of the votes cast at the meeting. For these purposes, an abstention or broker non-vote will not be treated as a vote cast. If the shareholders do not ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP as the independent registered public accounting firm for Public Storage, but may determine to do so. Even if the appointment of Ernst & Young LLP is ratified by the shareholders, the Audit Committee may change the appointment at any time during the year if it determines that a change would be in the best interest of Public Storage and its shareholders.

Representatives of Ernst & Young LLP, the independent registered public accounting firm for Public Storage since its organization in 1980, will be in attendance at the 2014 Annual Meeting of Shareholders and will have the opportunity to make a statement if they desire to do so and to respond to any appropriate shareholder inquiries.

Fees Billed to the Company by Ernst & Young LLP for 2013 and 2012

The following table shows the fees billed or expected to be billed to Public Storage by Ernst & Young LLP for audit and other services provided for fiscal 2013 and 2012:

Table of Contents

	2013	2012
Audit Fees (a)	$ 1,017,000	$ 916,000
Audit-Related Fees (b)	$ 39,000	$ 39,000
Tax Fees (c)	$ 391,000	$ 682,000
Total	$ 1,447,000	$ 1,637,000

(a) Audit fees represent fees for professional services provided in connection with the audits of Public Storage s annual financial statements and internal control over financial reporting, review of the quarterly financial statements included in Public Storage s quarterly reports on Form 10-Q and services in connection with the company s registration statements and securities offerings.

(b) Audit-related fees represent professional services for auditing the Public Storage 401(k)/Profit Sharing Plan financial statements.

(c) During 2013 and 2012, tax fees included $148,000 and $208,000, respectively, for preparation of federal and state income tax returns for Public Storage and its consolidated entities and $243,000 and $474,000, respectively, for various tax consulting matters.

In 2013, our Audit Committee pre-approved all services performed for us by Ernst & Young LLP.

Audit Committee Report

The Audit Committee s responsibilities include appointing the company s independent registered public accounting firm, pre-approving audit and non-audit services provided by the firm and assisting the Board in providing oversight to the company s financial reporting process. In fulfilling its oversight responsibilities, the Audit Committee meets with the company s independent registered public accounting firm, internal auditors and management to review accounting, auditing, internal controls and financial reporting matters.

In connection with its oversight responsibilities related to the company s consolidated financial statements included in the company s Annual Report on Form 10-K, the Audit Committee met with management and Ernst & Young LLP, the company s independent registered public accounting firm, and reviewed and discussed with them the audited consolidated financial statements. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by PCAOB Auditing Standard No. 16, Communications with Audit Committees, as modified or supplemented. The Audit Committee also discussed with the company s independent registered public accounting firm the overall scope and plans for the annual audit, the results of their examinations, their evaluation of the company s internal controls and the overall quality of the company s financial reporting.

The company s independent registered public accounting firm also provided to the Audit Committee the written disclosures and the letter required by the applicable rules of the Public Company Accounting Oversight Board, and the Audit Committee discussed with the independent registered public accounting firm that firm s independence. In addition, the Audit Committee has considered whether the independent registered public accounting firm s provision of non-audit services to the company and its affiliates is compatible with the firm s independence.

The Audit Committee met with representatives of management, the internal auditors, legal counsel and the independent registered public accounting firm on a regular basis throughout the year to discuss the progress of management s testing and evaluation of the company s system of internal control over financial reporting in response to the applicable requirements of the Sarbanes-Oxley Act of 2002 and related SEC regulations. At the conclusion of this process, the Audit Committee received from management its assessment and report on the effectiveness of the company s internal controls over financial reporting. In addition, the Audit Committee received from Ernst & Young LLP its attestation report on the company s internal control over financial reporting. These assessments and reports are as of December 31, 2013. The Audit Committee reviewed and discussed the results of management s assessment and Ernst & Young s attestation.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Trustees, and the Board has approved, that the audited consolidated financial statements be included in the company s Annual Report on
Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission. The Audit Committee also approved

13

the appointment of Ernst & Young LLP as the company s independent registered public accountants for the fiscal year ending December 31, 2014 and recommended that the Board submit this appointment to the company s shareholders for ratification at the 2014 Annual Meeting.

THE AUDIT COMMITTEE

Avedick B. Poladian (Chairman)
Gary E. Pruitt
Daniel C. Staton

Your Board of Trustees recommends that you vote FOR the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2014.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Our Compensation Discussion and Analysis describes our compensation for our principal executive officer, principal financial officer and the three next most highly compensated persons who were executive officers of the company on December 31, 2013 (the named executive officers). The Compensation Discussion and Analysis explains the objectives of our executive compensation program, outlines the elements of executive officer compensation and describes the factors that were considered in determining the amounts of compensation awarded to our executive officers in 2013.

Executive Summary

The goal of our executive compensation program is to hire, retain and motivate our chief executive officer and his senior management team to create long-term shareholder value. To achieve this goal, the Compensation Committee ties a substantial portion of each executive officer s compensation to the achievement of corporate performance goals that the Board believes increase total shareholder return over the long term. These typically include achievement of targeted growth in the company s same store revenues, FFO per common share and FAD per common share. The Compensation Committee selects these targets because of the importance management and investors place on growth in these metrics

The Compensation Committee s incentive compensation programs for 2013 were designed to focus management on growing our business. After discussing the appropriate incentives with the Board and considering the recommendations of Mr. Havner, in February 2013, the Compensation Committee met and agreed that the threshold for payment of any senior executive officer bonuses would be the achievement of at least a 3% year-over-year increase in the company s same store revenues, FFO per common share and FAD per common share. Similarly, the Compensation Committee set the minimum performance level for awards of RSUs at the achievement of at least 3.5% growth in same store revenues. For purposes of these targets, FFO is generally defined as net income before depreciation expense, gains and losses on real estate assets, foreign currency gains and losses, allocations of income to or from common shareholders as a result of redemptions, impairment charges on real estate assets, acquisition due diligence costs, changes in accounting estimates, gains and losses on early redemption of debt and our equity share of PSB s lease termination fees received from tenants. FAD represents FFO adding back non-cash share-based compensation expense, less capital expenditures to maintain our facilities.

In early 2014, the Compensation Committee considered that senior management far exceeded these goals with increases in same store revenues of 5.3%, in FFO per common share of 11.4% and in FAD per common share of 12.0%.

In recognition of Mr. Havner s success in achieving the corporate goals and driving shareholder value during 2013, and in accordance with the terms of the compensation program for Mr. Havner approved by the Compensation Committee in 2012, the Compensation Committee approved a cash bonus of $2,000,000, an award of 50,000 RSUs and an option to acquire 100,000 of the company s common shares.

In recognition of Mr. Reyes s contributions to the company s strong financial condition and results, in February 2014 the Compensation Committee awarded to Mr. Reyes an option to acquire 100,000 of the company s common shares.

As a result of the company s achievement of the performance targets, bonuses for the named executive officers (listed in the Summary Compensation Table) reporting to Mr. Havner were paid at between 100% and 300% of the target amount, based on the Compensation Committee s consideration of the recommendations of Mr. Havner, which were

Table of Contents

based on his subjective evaluation of whether individual and business unit performance achieved his expectations.

The performance-based RSU awards were granted to eligible named executive officers reporting to Mr. Havner as a result of the company s achievement of the performance targets that qualified for awards at 200% of the target award level, and vest in five equal annual installments beginning one year from the date of the award.

All named executive officer base salaries, including Mr. Havner s, continued to be frozen at 2008 levels.

The following charts depict for each of our named executive officers the split between base pay (salary), stock options, non- equity (cash) and equity incentive compensation, and other compensation as a percentage of total compensation in 2013.

Compensation Type	Amount
Salary	$ 1,000,000
Non-Equity Incentive Plan Compensation	$ 2,000,000
Stock Awards	$ 3,814,000
Stock Options	$ 2,375,000
All Other Compensation	$ 10,200
Total	$ 9,199,200

Compensation Type	Amount
Salary	$ 600,000
Non-Equity Incentive Plan Compensation	$ 1,800,000
Stock Awards	$ 4,576,800
Stock Options	$ 2,375,000
All Other Compensation	$ 10,200
Total	$ 9,362,000

Table of Contents

Compensation Type	Amount	
Salary	$	500,000
Non-Equity Incentive Plan Compensation	$	500,000
Stock Awards	$	686,520
All Other Compensation	$	-
Total	$	1,686,520

Compensation Type	Amount	
Salary	$	350,000
Non-Equity Incentive Plan Compensation	$	700,000
Stock Awards	$	1,373,040
All Other Compensation	$	10,200
Total	$	2,433,240

Compensation Type	Amount
Salary	$ 275,000
Non-Equity Incentive Plan Compensation	$ 275,000
Stock Awards	$ 686,520
All Other Compensation	$ 10,200
Total	$ 1,246,720

Table of Contents

1. The purple-shaded slices reflect performance-based compensation.
2. The orange-shaded slices reflect non-performance-based compensation.
3. All compensation is based on the Summary Compensation Table on p. 23.
4. For executive officers other than Mr. Havner, amounts reported in Stock Awards in the above charts include performance-based RSU awards granted as a result of the company s achievement of applicable same-store revenue growth performance targets in 2013. For Mr. Havner, the amount reported in Stock Awards reflects RSU awards received in respect of the company s performance in 2013, pursuant to his separate compensation program approved by the Compensation Committee in 2012.

Executive Compensation and Corporate Governance. Our executive compensation program is designed to align executive performance with the long-term interests of shareholders, and is regularly reviewed to ensure that our compensation policies and practices continue to support the needs of our business, create value for shareholders and reflect sound governance practices. Below is a summary of our key governance practices as they relate to executive compensation:

We Do:

Align pay with performance by putting a substantial portion of named executive officer compensation at risk. Approximately 69% of 2013 named executive officer compensation was tied to the achievement of performance goals that are key drivers to the success of our business.

Promote retention and increase long-term shareholder value. Equity award grants to named executive officers typically vest over a time period of at least three and as many as eight years from the grant date.

Mitigate undue risk in our executive compensation program. Financial targets for bonuses typically are based on multiple metrics, to avoid inordinate focus on any particular metric. In addition, the Board and management do not establish any earnings targets for cash bonus awards, and management does not give earnings guidance to analysts. Also, bonus payments are capped at a maximum payout level.

We Do Not:

Provide employment agreements with severance benefits. None of the named executive officers has any type of employment agreement with the company that provides for future payments upon termination of employment and we do not maintain a formal severance or retirement program for payments on termination of employment.

Maintain supplemental retirement plans. The company does not provide any nonqualified deferred compensation or supplemental retirement benefits to our executives.

Reimburse named executive officers for taxes or provide special change in control benefits. The company does not provide gross-ups or other reimbursements of golden parachute or other taxes nor does it provide change in control benefits to its executive officers that are not available to other employees generally.

Offer excessive executive perquisites. Except for perquisites that are available to employees generally such as contributions to the company s 401(k)/profit sharing plan, the company does not offer material perquisites to our named executive officers.

Elements of Our Executive Compensation Program

In general, our compensation program for executive officers consists of (1) payment of a base salary, (2) short-term incentive opportunities in the form of bonuses that are generally paid in cash, and (3) long-term incentive opportunities in the form of equity awards, which typically may include stock options and/or RSU awards, each of which generally vests upon continued service. Mr. Havner s bonus under his compensation plan is paid in a combination of cash and RSUs, as discussed above, and the Compensation Committee has the discretion to pay other executive officer bonuses in RSUs or a combination of cash and RSUs.

Base Salaries. Base salaries provide a base level of fixed monthly income for our named executive officers. We believe that providing a fixed level of guaranteed cash compensation is important to allow us to attract and retain executives. We establish base salaries at a level so that a significant portion of the total cash compensation such executives can earn is performance-based (through annual and special incentive compensation).

Base salaries are set based on factors, as applicable and as discussed below, that include whether levels are competitive with comparable REITs and/or competitive conditions in the local market, an individual s performance and responsibilities and the business judgment of the members of the Compensation Committee. The factors considered also include input from Board members with respect to Mr. Havner s base salary, and the recommendations of Mr. Havner for the other named executive officers. In general, the Compensation Committee reviews base salaries annually for the named executive officers.

Annual Incentives. We historically have paid annual cash bonuses to reward our executive officers, including each of the named executive officers, for the achievement of financial and operational goals and individual performance objectives to enable Public Storage to meet long- and short-term goals. Mr. Havner now typically receives a combination of cash and RSUs for his bonus.

The Compensation Committee selects key financial metrics based on their importance to our senior executive team and investors. The Compensation Committee typically sets a target and maximum for bonus payments for each individual executive officer to comply with Section 162(m) of the Code. If the performance targets are met, the Compensation Committee must approve a bonus award, but has the discretion to reduce the bonus below the maximum target bonus amount set for purposes of Section 162(m) of the Code. The actual bonus amounts are subject to the discretion of the Compensation Committee based on the collective business judgment of its members. The Compensation Committee has the discretion to award bonuses even if the performance targets are not met.

We also may reward the accomplishment of significant transactions with special bonuses that may be paid to designated executive officers upon successful completion of the transaction. These bonuses, like the amount of annual bonuses paid, are subject to the discretion of the Compensation Committee.

Consistent with its pay for performance philosophy, in early 2013, the Compensation Committee set the performance goals for payment of 2013 annual incentive compensation for the chief executive officer and his team as the achievement of at least a 3% year-over-year increase in each of 2013 same store revenues, FFO per common share and FAD per common share.

The Committee also agreed that the performance numbers would be adjusted for extraordinary items, primarily foreign exchange gains and losses and the application of EITF D-42 to the redemption of securities. The Compensation Committee did not assign any specific numerical targets or weights to the three performance goals other than achieving gains during 2013 of at least 3% year-over-year for each goal. The Compensation Committee considered that the goals might be challenging in view of continued economic uncertainty in the United States, but concluded that the goals were achievable.

The Compensation Committee also did not establish targets for the amount of increase required in any of the three performance metrics as a condition to earning a particular level of bonus. Target bonuses for 2013 performance were set at 100% of base salary, and maximum bonuses were set at ten times base salary to comply with Section 162(m) of the Code. Upon achievement of the target in each of the three metrics, the Compensation Committee is required to approve a bonus award but has the discretion to reduce the amount paid below the maximum target amount set for purposes of 162(m) of the Code.

Equity-Based Compensation. The Compensation Committee believes that our executive officers should have an incentive to improve the company s performance by having an ongoing stake in the success of our business. The Compensation Committee seeks to create this incentive by granting executive officers various forms of equity in Public Storage to link part of their compensation to increases in Public Storage s share price and to provide an incentive to continue employment with Public Storage. Equity awards of stock options or RSUs are long-term incentives designed to reward long-term growth in the price of Public Storage common shares and shareholder value. We believe equity awards help retain and motivate executives because they vest over a period of time and thus the recipient may only realize the full potential value of the award to the extent he or she remains employed by Public Storage over that period.

Stock Options. Stock options have value solely to the extent that the price of our common shares is greater than the exercise price of the option at the time of exercise. Stock options are granted with an exercise price of not less than 100% of the fair market value of our common shares on the date of grant, so that the executive officer may not profit from the option unless the price of our common shares increases. Options also are designed to help us retain executive officers in that options vest over a multi-year period and achieve their maximum value only if the executive remains in the company s employ for a period of years.

With respect to option awards to the named executive officers, the Compensation Committee determines award levels in its discretion, with input from other Board members with respect to stock option awards to Mr. Havner, the recommendations of Mr. Havner for awards to the other named executive officers, and consideration of an individual s responsibilities and performance and equity awards at other companies, including REITs, of a comparable size and market capitalization.

Restricted Share Units. RSUs increase in value as the value of our common shares increases, and vest over time provided that the executive officer remains employed at Public Storage. Accordingly, awards of RSUs serve the Committee s objectives of retaining

Public Storage executive officers and other employees and motivating them to advance the interests of Public Storage and its shareholders. They also may offer value during difficult market conditions because, unlike stock options, RSUs retain some value even when the market price of our common shares declines below the price on the date of grant. This may enhance their retention value at a time when we may most need executive talent. In recent years, the Compensation Committee has approved a program to provide awards of RSUs to senior executives (other than our chief executive officer) based on the achievement of targeted performance levels.

Equity Grant Practices. Equity grants to all of our executive officers, including the named executive officers, must be approved by the Board or the Compensation Committee of the Board, which consists entirely of independent trustees. Grants occur only at meetings or upon written actions of the Board or the Compensation Committee (including telephonic meetings), and such grants are made effective as of the date of the meeting, written action or a future date if appropriate (such as in the case of a new hire). Equity awards are not timed in coordination with the release of material non-public information. The exercise price of all options granted is equal to the closing market price of our common shares on the date of grant. Awards are also subject to the terms of the 2007 Equity and Performance-Based Compensation Plan (the 2007 Plan).

Our executive officers may receive stock options, RSUs or a mix based on the determination of the Compensation Committee in its discretion. The Compensation Committee does not set awards based on a fixed weighting between stock options and RSUs. In general, the Compensation Committee considers equity awards for executive officers in connection with their annual performance review.

Historically, equity awards to executive officers other than the chief executive officer have vested over an extended period, typically periods varying from three to eight years for RSU awards and three to five years for stock options, which the Compensation Committee believes furthers the goals of retention and motivation over the long-term.

Pursuant to the compensation arrangement approved for Mr. Havner in 2012, he is awarded between 25,000 and 50,000 RSUs as part of his annual incentive compensation, provided the performance targets are achieved. With respect to awards of performance- based RSUs to the named executive officers other than Mr. Havner, the Compensation Committee determines award levels based on recommendations from Mr. Havner, taking into consideration each individual s responsibilities and performance, as discussed in more detail below.

Equity awards, including grants of stock options, to employees who are not executive officers, are made by the Equity Awards Committee of the Board, which consists of at least one trustee appointed by the Board, currently Mr. Havner. The Equity Awards Committee acts after consideration of management recommendations. Grants of stock options to new hires who are not executive officers are generally made by the Equity Awards Committee on a quarterly basis during the last month of the calendar quarter following an individual s date of hire. Equity grants to other employees may be made at other times during the year, but are not timed in coordination with the release of material non-public information.

Factors Considered by the Compensation Committee in Making Decisions for 2013

2013 Advisory Vote on Executive Compensation. We believe our executive compensation program is appropriately structured to achieve our objective of driving growth in long-term shareholder value. At our 2013 Annual Meeting, more than 98% of the votes cast by shareholders voted to approve our executive compensation practices as described in the proxy statement. The Compensation Committee considered the results of this vote and concluded that its pay for performance philosophy is supported by shareholders, and made no changes during 2013 to our executive compensation programs in response to the shareholder vote.

Compensation Surveys. Each component of compensation we pay to our named executive officers salary, cash bonuses and equity compensation is based generally on the Compensation Committee s (and, for Mr. Havner, the independent trustees , and for each named executive officer other than himself, Mr. Havner s) subjective assessment of each individual s role and responsibilities and consideration of market compensation rates. Consideration of market rates is an additional factor reviewed by the Compensation Committee in determining compensation levels; however, we do not benchmark or specifically target certain levels of compensation.

For our executive officers, historically, the Committee determined market compensation rates by reviewing public disclosures of compensation paid to senior executive officers by other companies (especially REITs) of comparable size and market capitalization. The peer group most recently considered by the Committee was selected in 2012 following a review of information provided by Frederic W. Cook & Co., Inc. (FW Cook) and comprised 18 REITs, as disclosed in last year s proxy.

Table of Contents

Role of Management in Determining Compensation for the Chief Executive Officer and the Other Named Executive Officers. In general, Mr. Havner attends all meetings of the Compensation Committee at which (1) compensation of the other named executive officers is discussed or (2) company-wide compensation matters, such as consideration of a new equity plan, are discussed. Mr. Havner does not vote on items before the Compensation Committee and was not present during the Committee s discussion and determination of his compensation. The Compensation Committee and the Board solicit Mr. Havner s view on the performance of the executive officers reporting to him, including each of the other named executive officers, and consider his recommendations with respect to the compensation paid to each. The Compensation Committee also considers input from Mr. Havner with respect to his compensation.

In general, the Compensation Committee sets the base salaries, bonus and equity compensation for the other named executive officers after consideration of the recommendations prepared by Mr. Havner with respect to the appropriate amounts to reward and incentivize each named executive officer. In addition, the Compensation Committee solicits the views of the Board, particularly with respect to the compensation of Mr. Havner.

Framework for CEO Compensation. During 2012, the Compensation Committee approved a new compensation package for Mr. Havner in his role as the company s Chairman, Chief Executive Officer and President, following the expiration of a three-year compensation program approved in 2008. In connection with this effort, the Compensation Committee retained FW Cook to provide comparative information on peer group compensation practices for the chairman and chief executive officer and other executive officers and directional suggestions for Mr. Havner s new compensation program. The Compensation Committee directly engaged FW Cook and was responsible for oversight of FW Cook. In 2012, FW Cook provided services only to the Compensation Committee and did not provide any other services to the company. FW Cook did not provide any services to the Compensation Committee or the company in 2013.

In July 2012, the Compensation Committee approved Mr. Havner s compensation program. As approved, (1) Mr. Havner s annual base salary continues to be set at $1 million, (2) his annual incentive award, assuming achievement of performance criteria set by the Compensation Committee, ranges from a minimum of $1 million paid in cash plus 25,000 RSUs, to a maximum of $2 million paid in cash plus 50,000 RSUs and (3) he is entitled to receive an annual option grant for 100,000 common shares.

Compensation Decisions for 2013

Base Salaries. Consistent with its philosophy to weight executive officer compensation more heavily towards performance-based, at-risk compensation, the Compensation Committee did not increase base salaries for any executive officers during 2013 and has not increased base salaries for executive officers since 2008. This reflects the Committee s view that a substantial portion of management compensation should be incentive compensation that is paid only if performance targets are met.

Annual Cash Incentives. In early 2014, the Compensation Committee reviewed the company s financial results for 2013 and confirmed that management had substantially exceeded the performance targets. Based on these achievements, the Compensation Committee awarded bonuses to all named executive officers. Because these awards are based on pre-established performance goals, they are presented in the Summary Compensation Table on page 23 as Non-Equity Incentive Plan Compensation.

In determining the actual amount of Mr. Havner s bonus, the Compensation Committee also considered Mr. Havner s leadership in achieving these strong results. At the conclusion of its review and discussion, the Compensation Committee awarded Mr. Havner a cash bonus for 2013 annual performance of $2,000,000 together with an award of 50,000 RSUs, consistent with bonus targets and the compensation program approved by the Compensation Committee for Mr. Havner in 2012. The award was reduced from the maximum award approved in February 2013 for purposes of Section 162(m).

The Compensation Committee also considered the recommendations of Mr. Havner with respect to the appropriate bonuses to be paid to the other named executive officers for their accomplishments in exceeding the 2013 performance targets. In determining his recommendations, Mr. Havner compiled information as to each executive officer s responsibilities and achievements, as well as his subjective assessment of the individual performance of each named executive officer. Mr. Havner s recommendations were at or above the target bonus amounts, depending on his assessment of each individual s performance. Based on its review of the company s performance against the previously established goals and after consideration of the information and recommendations provided by Mr. Havner, the Compensation Committee approved cash bonuses for 2013 performance as follows: Mr. Reyes, $1,800,000 (300% of target); Mr. Weidmann, $500,000 (100% of target); Mr. Doll, $700,000 (200% of target); and Ms. Krol, $275,000 (100% of target). Each of the foregoing bonuses was at or below the maximum previously set by the Committee for Section 162(m) purposes.

Table of Contents

Equity Awards. For 2013, the RSU awards were based on achieving a targeted level of growth in year-over-year same store revenues. The Compensation Committee also determined that any RSUs awarded under the program would vest in five equal annual installments beginning one year from the date of the award. The awards were to be issued following the achievement of at least the minimum performance goal and the Committee retained the discretion to reduce the awards based on an executive officer s performance during the year, irrespective of the company s meeting the same store revenue growth target. The potential award levels established early in 2013 ranged from 50% to 200% of a target level award based on the level of 2013 same store revenue growth achieved, as follows:

2013 Same Store Revenue Growth	Grant Award Levels
5.0% and above	200% of Target Award
4.5% and below 5.0%	150% of Target Award
4.0% and below 4.5%	100% of Target Award
3.5% and below 4.0%	50% of Target Award
Below 3.5%	No Award

Actual 2013 same store revenue growth was 5.3%. As a result, each named executive officer reporting to Mr. Havner was awarded RSUs at the 200% level and each named executive officer received the following number of RSUs: Mr. Reyes, 40,000; Mr. Doll, 12,000: Ms. Krol; 6,000; and Mr. Weidmann, 6,000.

2014 Compensation Outlook

We expect the operating environment in 2014 to remain similar to 2013 and believe we are well positioned in financial, operational and strategic terms in the self-storage industry. Given these expectations, the Compensation Committee made the following decisions with respect to 2014 compensation for named executive officers:

Base salaries for all named executive officers are again frozen at 2008 levels to weight total compensation more heavily towards incentive compensation.

Bonus target amounts for all named executive officers reporting to Mr. Havner, other than Mr. Reyes, are set at 100% of base salary. Mr. Reyes s bonus target is set at $1 million.

Mr. Havner s bonus target amounts range from a minimum of $1 million cash plus an award of 25,000 RSUs to a maximum of $2 million cash plus an award of 50,000 RSUs, subject to the limits of Section 162(m) of the Code.

For purposes of Section 162(m) of the Code, all named executive officer bonus targets are capped at fifteen times base salary, subject to shareholder approval of the proposed amendments to the 2007 Plan (otherwise capped at ten times base salary).

The threshold for payment of bonuses is again tied to achieving targeted levels of growth in same store revenues, FFO per common share and FAD per common share.

The Compensation Committee renewed the performance-based RSU plan designed to focus senior management other than Mr. Havner on growing same store revenues. In February 2014, the Compensation Committee approved a similar RSU plan for 2014 based on year-over-year growth in same store revenues and approved targets for RSU awards as follows: Mr. Reyes, 20,000; Mr. Doll, 6,000; Ms. Krol, 3,000; and Mr. Weidmann, 3,000.

Tax and Accounting Considerations   Code Section 162(m)

Section 162(m) of the Code imposes a $1,000,000 limit on the annual deduction that may be claimed for compensation paid to each of the chief executive officer and three other highest paid employees of a publicly held corporation (other than the chief financial officer). Certain performance-based compensation awarded under a plan approved by shareholders is excluded from that limitation. Awards of stock options and our annual cash incentive awards are designed in general to qualify for deduction as performance-based compensation. However, while the Compensation Committee considers the tax deductibility of compensation, the Compensation Committee has approved and may approve compensation that does not qualify for deductibility in circumstances it deems appropriate to promote varying corporate goals.

Table of Contents

In such instances, the Compensation Committee has also considered that as a result of the company s REIT status under federal tax law, the potential impact of a nondeductible expense would not result in an increase in taxable income but would possibly require a future increased distribution to shareholders to maintain the company s REIT status. While the Compensation Committee also considers the accounting impact of various forms of incentive compensation to understand the impact on the financial statements of various compensation elements, the accounting treatment is generally not the basis for the decision to award a particular form of compensation if the Compensation Committee deems the award the most appropriate incentive to achieve the company s compensation goals.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Trustees of Public Storage has reviewed and discussed with management the foregoing Compensation Discussion and Analysis. Based on this review and discussion, the Compensation Committee recommended to the Board of Trustees that the Compensation Discussion and Analysis be included in this proxy statement and in the Annual Report on Form 10-K of Public Storage for the fiscal year ended December 31, 2013. This report is provided by the following independent trustees, who comprise the Compensation Committee:

THE COMPENSATION COMMITTEE

Daniel C. Staton (Chairman)
Uri P. Harkham
Ronald P. Spogli

Table of Contents

Compensation of Executive Officers

The following table sets forth information concerning the compensation earned by or paid during the fiscal year ended December 31, 2013 to the company s named executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Stock Awards ($)(1)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Ot Compen ($)(
Ronald L. Havner, Jr.						
Chairman, Chief	2013	$ 1,000,000	3,814,000	$ 2,375,000	$ 2,000,000	$ 1
Executive	2012	$ 1,000,000	$ 12,109,125 (3)		$ 2,000,000	$ 1
Officer and President	2011	$ 1,000,000			$ 1,750,000	$
John Reyes						
Senior Vice President and	2013	$ 600,000	$ 4,576,800	$ 2,375,000	$ 1,800,000	$ 1
Chief Financial Officer	2012	$ 600,000	$ 2,075,850		$ 1,500,000	$ 1
	2011	$ 600,000	$ 2,070,600		$ 1,200,000	$
David F. Doll						
Senior Vice President and						
President, Real Estate	2013	$ 350,000	$ 1,373,040		$ 700,000	$ 1
Group	2012	$ 350,000	$ 830,340		$ 525,000	$ 1
	2011	$ 350,000	$ 1,242,360		$ 245,000	$
Candace N. Krol						
Senior Vice President,	2013	$ 275,000	$ 686,520		$ 275,000	$ 1
Human Resources	2012	$ 275,000	$ 1,037,925		$ 275,000	$ 1
	2011	$ 275,000	$ 1,552,950		$ 275,000	$
Shawn L. Weidmann						
Senior Vice President and						
	2013	$ 500,000	$ 686,520		500,000	$
Chief Operating Officer (6)	2012	$ 500,000	$ 830,340		$ 400,000	$
	2011	$ 172,436	$ 612,250	$ 1,341,000		$ 36

(1) The amounts shown in this column reflect the grant date fair value of stock awards. Some of the values reflected in this column relate to awards subject to performance conditions. For Messrs. Reyes, Doll and Weidman and Ms. Krol, the amounts shown in 2013 relate to RSU awards that are subject to satisfaction of performance conditions assuming achievement of such conditions at the 150% of Target Award level. The grant date fair value, assuming achievement of maximum performance of this award at the 200% of Target Award level (the

level of performance actually achieved for 2013) would have been as follows: Mr. Reyes $6,098,400; Mr. Doll $1,829,520; Ms. Krol $914,760; and Mr. Weidmann $914,760. For Mr. Havner, the amount shown represents an RSU award with a grant date fair value of $3,814,000 pursuant to his annual incentive plan (which pays part in cash and part in RSUs). For Mr. Havner, the maximum RSU award under this plan would have been $7,628,000. All holders of RSUs receive any dividends paid on the company s common shares.

(2) Mr. Havner s reported stock awards for 2012 include (1) a stock award granted in 2012 for 2011 performance with a grant date fair value of $6,919,500 and (2) a stock award granted in 2012 for 2012 performance with a grant date fair value of $5,189,625. Under the SEC rules, the awards for 2011 and 2012 are both reported as compensation for 2012.

(3) The amounts shown in this column reflect the grant date fair value of stock option awards. For further discussion concerning the assumptions used in this valuation, refer to Note 10 to the company s audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

(4) The amounts shown in this column reflect annual cash incentive awards for named executive officers that are based on pre-established performance targets set early in the year and, therefore, under SEC rules are classified as non-equity incentive plan compensation. See the Compensation Discussion and Analysis section of this proxy statement for further discussion of the 2013 performance targets.

Table of Contents

(5) The amounts shown in this column for all named executive officers other than Mr. Weidmann reflect contributions to each officer s 401(k)/Profit Sharing Plan account (3% of the annual cash compensation, now up to a maximum of $10,200). The 2011 bonus of $365,000 for Mr. Weidmann was paid according to the terms of his Offer Letter/Employment Agreement. Amounts earned by named executive officers for performance are included in the column entitled Non-Equity Incentive Plan Compensation.

(6) Mr. Weidmann was first employed by Public Storage on August 29, 2011.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information regarding 2013 annual incentive bonus awards and equity awards granted to our named executive officers in 2013. All equity grants set forth in this table were made pursuant to the 2007 Plan and non-equity incentive awards were made pursuant to the company s Performance-Based Compensation Plan.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($ Sh)	Grant Date Fair Value of Stock and Option Awards ($)(3)
Name	**Grant Date**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**			
Ronald L. Havner, Jr.									
Annual Incentive(2)	2-20-13	1,000,000	2,000,000						
Annual Incentive(2)	2-20-13				25,000	50,000			$ 3,814,000
Options(3)	2-21-13						100,000	$ 152.01	$ 2,375,000
John Reyes									
Annual Incentive	2-20-13	600,000	6,000,000						
Options(3)	2-21-13						100,000	$ 152.01	$ 2,375,000

RSUs	2-20-13			10,000	20,000	40,000	$ 4,576,800
David F. Doll							
Annual Incentive	2-20-13	350,000	3,500,000				
RSUs	2-20-13			3,000	6,000	12,000	$ 1,373,040
Candace N. Krol							
Annual Incentive	2-20-13	275,000	2,750,000				$
RSUs	2-20-13			1,500	3,000	6,000	$ 686,520
Shawn L. Weidmann							
Annual Incentive	2-20-13	500,000	5,000,000				$
RSUs	2-20-13			1,500	3,000	6,000	$ 686,520

(1) The amounts shown in this column represent the range of possible annual cash incentive payouts pursuant to the Public Storage Performance-Based Compensation Plan based upon achievement of pre-established performance targets. See the Summary Compensation Table for information regarding the 2013 annual cash incentive payouts.

(2) As noted above, Mr. Havner s annual incentive is paid part in cash and part in RSUs that vest in five equal annual installments beginning on the first anniversary after grant.

Table of Contents

(3) Amounts shown in this column reflect the fair value of stock and option awards computed as of the grant date. The fair value of stock awards is calculated by multiplying the fair market value of Public Storage common shares on the grant date by the probable number of shares awarded, which for Messrs. Reyes, Doll and Weidmann and Ms. Krol was assumed to be at the 150% of Target Award level and for Mr. Havner was assumed to be 25,000 RSUs. Stock awards receive dividends as and when and at the same rate paid to all common shareholders of Public Storage. Stock options granted to Messrs. Havner and Reyes vest in five equal annual installments beginning on the first anniversary after grant. See footnote 2 to the Summary Compensation Table on page 23 for information on the fair value of the performance-based RSU awards if the maximum value had been assumed.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2013

The following table provides information about options exercised by and restricted share unit awards vested for the named executive officers during the fiscal year ended December 31, 2013.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($) (1)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($) (2)**
Ronald L. Havner, Jr.			16,666	$ 2,499,567.00
John Reyes			7,625	$ 1,152,593.00
David F. Doll	70,000	$ 5,461,214	4,400	$ 668,057.00
Candace N. Krol	11,800	$ 1,078,418	4,563	$ 693,892.00
Shawn L. Weidmann	15,900	$ 713,494	625	$ 95,506.00

(1) Value realized represents the difference between the market price of the company stock at the time of exercise and the exercise price of the options. Does not reflect any tax or other required withholdings.
(2) Value realized was calculated by multiplying the number of shares vesting by the closing price of our common shares on the NYSE on the vesting date as follows:

Name	RSU Vesting Date	Fair Market Value of PSA
Ronald L. Havner, Jr.	2-23-2013	$ 149.98
John Reyes	2-27-2013	$ 151.84
	2-28-2013	$ 151.21
	3-3-2013	$ 152.75
	3-15-2013	$ 148.25
David F. Doll	2-27-2013	$ 151.84
	2-28-2013	$ 151.21
	3-15-2013	$ 148.25
	3-16-2013	$ 148.39

	11-2-2013	$	168.65
Candace N. Krol	2-27-2013	$	151.84
	2-28-2013	$	151.21
	3-15-2013	$	148.25
	11-2-2013	$	168.65
Shawn L. Weidmann	8-29-2013	$	152.81

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL 2013 YEAR-END

The following table sets forth certain information concerning outstanding equity awards held by the named executive officers at December 31, 2013.

			Option Awards				Stock Awards	
Name	Grant Date (1)		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested ($) (3)
Ronald L. Havner, Jr.	12-31-13						50,000	7,526,000
	2-21-13			100,000	152.01	2-21-23		
	2-20-13						37,500	5,644,500
	2-23-12						33,334	5,017,434
	3-2-09		100,000		50.30	3-2-19		
	12-8-07		83,000		81.81	12-8-17		
	12-8-06		83,000		95.18	12-8-16		
	12-8-05		83,000		69.87	12-8-15		
		Total	349,000	100,000			120,834	18,187,934
John Reyes	12-31-13						40,000	6,020,800
	2-21-13			100,000	152.01	2-21-23		
	2-20-13						15,000	2,257,800
	2-28-12						12,000	1,806,240
	3-2-09		80,000	20,000	50.30	3-2-19		
	2-27-08		250,000		80.48	2-27-18	1,125	169,335
	3-15-07		105,000	35,000	97.47	3-15-17	2,500	376,300
	3-3-06		50,000		78.36	3-3-16	2,000	301,040
		Total	485,000	155,000			72,625	10,931,515
David F. Doll	12-13-13						12,000	1,806,240
	2-20-13						6,000	903,120
	2-28-12						7,200	1,083,744
	3-2-09		40,000	10,000	50.30	3-2-19		
	2-27-08		120,000		80.48	2-27-18	750	112,890
	3-15-07		5,000	5,000	97.47	3-15-17	1,250	188,150
	11-2-06						375	56,445
	3-16-06				82.90	3-16-16	750	112,890
		Total	165,000	15,000			28,325	4,263,479
Candace N. Krol	12-31-13						6,000	903,120
	2-20-13						7,500	1,128,900

	2-28-12						9,000	1,354,680
	3-2-09		8,200	10,000	50.30	3-2-19		
	2-27-08		24,282		80.48	2-27-18	750	112,890
	3-15-07		10,000	10,000	97.47	3-15-17	1,876	282,376
	11-2-06						375	56,445
		Total	42,482	20,000			25,501	3,838,411
Shawn L Weidmann	12-31-13						6,000	903,120
	2-20-13						6,000	903,120
	8-29-11		24,100	60,000	122.45	8-29-21	3,750	564,450
		Total	24,100	60,000			15,750	2,370,690

(1) The options granted on March 15, 2007 to Ms. Krol and Messrs. Doll and Reyes vest in eight equal annual installments, beginning one year from the date of grant. All other options awarded to Ms. Krol and Messrs. Havner, Doll, Reyes and Weidmann (which are not exercisable at December 31, 2013 and have future vesting occurrences) vest in five equal annual installments, beginning one year from the date of grant.

(2) RSUs vest in eight equal annual installments, beginning one year from the date of grant except that performance-based RSUs for which performance targets were achieved on December 31, 2011 vested 20% on the date of award and the remainder vest in four equal annual installments beginning one year from the date of the award, and performance-based RSU s for which performance targets were achieved on December 31, 2012 and December 31, 2013 vest in five equal installments beginning one year from the date of the award.

(3) The value shown in this column assumes a price of $150.52 per share, the closing price for Public Storage common shares on the NYSE on December 31, 2013. The amounts include performance-based RSU awards granted for 2013 performance.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Payments Upon Termination

We do not currently have employment agreements with any named executive officer that provide for future payments upon termination of employment with the company. We do not have a formal severance or retirement program for payments on termination of employment, whether through voluntary or involuntary termination, other than as specifically set forth in our Performance-Based Compensation Plan, 2001 Plan, 2007 Plan, Public Storage 401(k)/Profit Sharing Plan or as required by law. These include:

- any vested stock options following a voluntary termination of employment must be exercised within 30 days following the individual s last date of employment;
- all unvested stock options, restricted shares and/or restricted share units are forfeited;
- amounts contributed under our Public Storage 401(k)/Profit Sharing Plan; and
- accrued and unused vacation pay paid in a lump sum.

Payments Upon Death or Disability

In the event of the death or permanent and total disability of a named executive officer, pursuant to the 2001 Plan and 2007 Plan and in addition to the foregoing:

- all outstanding unvested stock options and unvested restricted share units held by the officer accelerate and vest as of the date of death and may be exercised during the one-year period following the date of death (but prior to termination of the option);
- all outstanding unvested stock options and unvested restricted share units held by the officer continue to vest and are exercisable during the one-year period following the date of such permanent and total disability (but prior to termination of the option); and

the officer will receive payments under Public Storage s life insurance program or disability plan, as applicable.

Payments Upon a Change of Control

Our applicable equity plans provide that upon the occurrence of a change of control of Public Storage;

- all outstanding restricted share units and restricted share grants vest immediately; and
- all outstanding stock options vest 15 days before consummation of such a change of control and are exercisable during the 15-day period, with such exercise conditioned upon and effective immediately before consummation of the change of control.

A change of control is defined in the plans to include generally (a) the dissolution or liquidation of Public Storage or merger in which Public Storage does not survive, (b) the sale of substantially all Public Storage s assets or (c) any transaction which results in any person or entity, other than the Hughes Family, owning 50% or more of the combined voting power of all classes of our shares. The foregoing provisions do not apply to the extent (a) provision is made for continuation of the equity plan or substitution of new options, restricted shares and restricted share units or (b) a majority of our Board of Trustees determines that the change of control will not trigger application of the foregoing provisions.

Table of Contents

The following table shows the estimated value of the acceleration of vesting of unvested equity awards pursuant to the termination events described above assuming the event occurred as of December 31, 2013 and using the value of our common shares on December 31, 2013 of $150.52 per share.

Name	Value of vesting of all outstanding unvested options (1)	Value of vesting of all outstanding restricted share units (2)	Total
Ronald L. Havner, Jr.	$ 0	$ 10,661,934	$ 10,661,934
John Reyes	$ 3,861,150	$ 4,910,715	$ 8,771,865
David F. Doll	$ 1,267,450	$ 2,457,239	$ 3,724,689
Candace N. Krol	$ 1,532,700	$ 2,935,291	$ 4,467,991
Shawn L. Weidmann	$ 1,684,200	$ 1,467,570	$ 3,151,770

(1) Represents the difference between the exercise price of unvested options held by the executive and the closing price of the company s common shares on the NYSE on December 31, 2013. Does not include options awarded to Messrs. Havner and Reyes in February 2014, discussed in the Compensation Discussion and Analysis section above.

(2) Represents the number of unvested restricted share units multiplied by the closing price of Public Storage common shares on the NYSE on December 31, 2013. Includes unvested portion of performance-based RSU awards.

PROPOSAL 3 -

APPROVAL OF AMENDMENTS TO THE 2007 EQUITY AND PERFORMANCE-BASED

INCENTIVE COMPENSATION PLAN

At our 2007 Annual Meeting of Shareholders, our shareholders approved the Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan (the 2007 Plan). The purpose of the 2007 Plan is to enhance the long-term shareholder value of the company by offering opportunities to eligible individuals to participate in the growth in value of the equity of the company and provide appropriate cash and equity incentives to motivate and reward performance. We believe that the awards of cash and equity incentives under the 2007 Plan and opportunities to participate in the growth in value of the equity of the company provide incentives to eligible individuals to exert their best efforts for our success and also align their interests with those of our shareholders.

To continue to attract and retain key employees and to continue to implement the aggregate annual incentive-based cash and equity compensation component (aside from options or stock appreciation rights (SARs)) of our chief executive officer s compensation, the Board has approved, and is asking the company s shareholders to approve, the following amendments to the 2007 Plan.

Amendment No. 1 Increase the Number of Shares Available for Issuance

Pursuant to Section 4 of the 2007 Plan, the maximum number of shares that may be issued thereunder is 5,000,000. As of February 1, 2014, we had already issued 3,771,269 shares under the 2007 Plan and 1,228,731 shares remained available for issuance. The Board believes the 2007 Plan is an integral component of the company s efforts to attract and retain key employees and provides employees the opportunity to invest in our common shares at an attractive price. Accordingly, the Board has approved in February 2014, and is asking the company s shareholders to approve, an amendment to Section 4 of the 2007 Plan to make an additional 771,269 shares available for issuance, bringing the total number of shares authorized for issuance immediately thereafter to 2,000,000 shares (Amendment No. 1).

Amendment No. 2 Increase the Limit on Individual Annual Incentive Awards

Section 6.3(ii) of the 2007 Plan places a limit of $10.0 million on the aggregate value of cash and non-cash awards, other than stock options and SARs, that may be granted to any individual in any calendar year (the Annual Limit). The Annual Limit is intended to permit performance-based cash and equity awards under the 2007 Plan to be deductible under Section 162(m) of the Code. Although cash compensation may be paid outside of the 2007 Plan, cash compensation intended to be deductible as performance based compensation under Section 162(m) of the Code must be awarded through the 2007 Plan.

Because our chief executive officer s annual incentive award, assuming achievement of performance criteria set by the Compensation Committee, ranges from a minimum of $1 million paid in cash plus 25,000 RSUs, to a maximum of $2 million paid in cash plus 50,000 RSUs, continued incentive awards of cash and RSUs to our chief executive officer under the 2007 Plan, coupled with the recent high price of our common shares, will likely exceed the Annual Limit. To address this issue, the Board has approved, and is asking the company s shareholders to approve, an amendment to Section 6.3(ii) of the 2007 Plan increasing the Annual Limit to $15.0 million (Amendment No. 2). Amendment No. 2 will be applied only to grants that are intended to be deductible as performance based compensation under Section 162(m) of the Code and are made after May 1, 2014.

The approval of this Proposal 3 constitutes the approval of both Amendment No. 1 and Amendment No. 2 and requires the affirmative vote of at least a majority of the votes cast at the meeting.

Summary of Material Terms of the 2007 Plan

The material features of the 2007 Plan, as proposed to be amended are summarized below. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to the complete text of the 2007 Plan, as proposed to be amended, a copy of which is attached as **Appendix A** to this proxy statement.

The purpose of the 2007 Plan is to enhance the long-term shareholder value of the company by offering opportunities to eligible individuals to participate in the growth in value of the equity of the company and provide appropriate cash and equity incentives to motivate and reward performance. Awards that may be granted under the 2007 Plan include stock options, SARs, restricted stock, unrestricted stock, stock units, dividend equivalent rights, and cash awards (each, an award). Options granted under the 2007 Plan may be either incentive stock options, as defined in Section 422 of the Code, or non-statutory stock options.

Administration. The Compensation Committee of the Board administers the 2007 Plan. The Board may also delegate to a committee of at least one director, who may also be an employee of the company, the authority to grant awards to employees and other service providers who are not officers or directors of the company. References below to the Compensation Committee include this committee where applicable.

Shares Reserved. The shares with respect to which equity awards may be made under the 2007 Plan are currently authorized but unissued shares. The closing sale price of our shares on the NYSE on March 5, 2014, the last date before the record date, was $171.17 per share. If this Proposal 3 is approved, the maximum number of shares that may be issued under the 2007 Plan after the 2014 Annual Meeting will be 2,000,000 shares. Any shares covered by an award under the 2007 Plan that expires or is forfeited or terminated without issuance of shares (including shares that are attributable to awards that are settled in cash or used to satisfy the applicable tax withholding obligation) will again be available for awards under the 2007 Plan.

Eligibility. Non-statutory stock options and other awards may be granted under the 2007 Plan to employees, directors and consultants of the company, its affiliates and subsidiaries. Incentive stock options may be granted only to employees of the company or its subsidiaries. The Compensation Committee, in its discretion, approves awards to be granted under the 2007 Plan. The company intends the 2007 Plan to be a broad-based employee plan. As of the record date, the company had approximately 309 employees and seven non-employee trustees who are eligible to participate in the 2007 Plan.

Transferability of Awards. Unless otherwise determined by the Compensation Committee, most awards granted under the 2007 Plan are not transferable other than by will, domestic relations order, or the laws of descent and distribution or certain limited not-for-value transfers to family members.

Limitation on Awards. If this Proposal 3 is approved, employees of the company may not be granted under the 2007 Plan (i) stock options in excess of 1,000,000 shares during any single fiscal year, and (ii) any other awards available under the 2007 Plan with a fair market value at the time of grant greater than $15.0 million in the aggregate in any single fiscal year. For this purpose, fair market value shall be determined in accordance with the valuation used in the company s financial statements under Financial Accounting Statement 123(R).

Stock Options

Exercise Price. The Compensation Committee determines the exercise price of options at the time the options are granted. No stock option, including an incentive stock option, may have an exercise price less than the fair market value of a share of common stock on the date of grant. The exercise price of an incentive stock option granted to a ten percent shareholder may not be less than 110% of the fair market value of a share of common stock on the date of grant of such option. The fair market value of a share of common stock is generally determined to be the closing sales price as quoted on the NYSE for the date the value is being determined.

Table of Contents

Exercise of Option; Form of Consideration. The Compensation Committee determines when options become exercisable. The means of payment for shares issued on exercise of an option are cash, check or wire transfer, and such other payment methods as may be specified by the Compensation Committee, including tender of company shares previously owned by the grantee or broker-assisted same-day sale.

Term of Option. The term of an option may be no more than ten years from the date of grant. The term of an incentive stock option granted to a ten percent holder may be no more than five years from the date of grant. No option may be exercised after the expiration of its term.

Vesting. Each option granted under the 2007 Plan will become vested and exercisable at times set forth in the applicable award agreement provided that no options, other than options granted to persons who are not entitled to overtime under applicable state or federal laws, will vest or be exercisable within the six-month period starting on the date of grant.

Termination of Service. Generally, if a grantee s service to the company as an employee, consultant or trustee terminates other than for death, disability or for cause, vested options will remain exercisable for a period of thirty days following the grantee s termination and unvested options will immediately terminate and be forfeited. Unless otherwise provided for by the Compensation Committee in the award agreement:

- if a grantee terminates employment because of his/her death, all unvested options granted to such grantee will fully vest and will be exercisable by the grantee s estate at any time within one year after the date of the grantee s death;

- if a grantee terminates employment because of his/her total and permanent disability, all options granted to the grantee will continue to vest in accordance with the terms of the grantee s award agreement and shall be exercisable to the extent they are vested, for a period of one year after the grantee s termination; and

- if a grantee s employment is terminated for cause, all options granted to him/her, whether or not vested, will immediately be forfeited.

Repricing. Options may not be repriced, replaced or regranted through cancellation or modification without shareholder approval.

Restricted Stock Awards and Stock Unit Awards

The Compensation Committee may grant awards of restricted stock or stock units in its discretion.

Restrictions. At the time a grant of restricted stock or stock units is made, the Compensation Committee may establish a restricted period applicable to the restricted stock or stock units. The restricted period may expire upon the passage of time or the attainment of performance objectives as the Compensation Committee, in its sole discretion, determines.

Right of Holders of Restricted Stock and Stock Units. Unless the Compensation Committee provides otherwise in an award agreement, holders of restricted stock will have the right to vote the stock and the right to receive any dividends declared or paid on the stock and holders of stock units will have no right to vote the stock underlying their units but will have the right to receive any dividends declared or paid on the stock.

Purchase of Restricted Stock and Stock Delivered Pursuant to an Award of Stock Units. To the extent required by applicable law, the grantee will be required to purchase any restricted stock granted to the grantee or any stock delivered to the grantee upon vesting of the grantee s stock units at a purchase price at least equal to the par value of the shares issuable under the restricted stock award or award of stock units.

Termination of Service. Generally, if a grantee s service to the company as an employee, consultant or director terminates other than for death or disability, any restricted stock or stock units that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, will immediately be forfeited. Unless otherwise provided for by the Compensation Committee in the award agreement:

- if a grantee terminates employment because of his death, all unvested restricted stock and stock units granted to such grantee will fully vest and the shares underlying the award will be delivered to the grantee s estate; and

if a grantee terminates employment because of his total and permanent disability, all unvested restricted stock and stock units granted to the grantee will continue to vest in accordance with the terms of the grantee s award agreement for a period of one year after the grantee s termination of employment.

Repurchase Right. If a restricted stock award consists of shares sold to the employee subject to a right of repurchase, the company will have the right, during the seven months after the termination of the grantee s service, to repurchase any or all of the award shares that were unvested as of the date of that termination at a purchase price determined by the Compensation Committee.

Unrestricted Stock Awards

The 2007 Plan permits the grant of fully vested shares in such instances as the Compensation Committee believes are appropriate. Thus for example, if the uncompensated value of past services equals or exceeds the fair market value of the stock award at grant, the Compensation Committee could award fully vested awards if it determines such award is appropriate in the circumstances. Likewise, the Compensation Committee could award fully vested shares as a retirement benefit if it determines such award is appropriate under the circumstances.

Cash Awards

The Compensation Committee may grant cash awards, which entitle the grantee to a cash payment on satisfaction of goals described in an award agreement. The Compensation Committee determines the terms, conditions and restrictions related to cash awards.

SARs

The Compensation Committee may also grant SARs, which are a right to receive, upon exercise, an amount equal to the increase in the fair market value of the shares underlying the SARs during a stated period specified by the Compensation Committee. The term of a SAR may be no more than ten years from the date of grant.

Dividend Equivalent Rights

The Compensation Committee may also grant dividend equivalent rights, which are rights entitling the grantee to receive credits for dividends that would have been paid if the recipient had held a specified number of shares.

Performance-Based Compensation

Pursuant to Section 162(m) of the Code (also discussed below in Federal Income Tax Consequences of Options and Stock Awards under the 2007 Plan), we are generally not entitled to a U.S. income tax deduction for annual compensation in excess of $1 million paid to our chief executive officer and the three next most highly compensated officers, excluding our chief financial officer. However, amounts that constitute performance-based compensation under a plan approved by shareholders are not counted toward the $1 million limit. Qualified performance-based compensation by the company must be paid solely on account of the attainment of one or more objective performance measures established in writing by the Compensation Committee while the attainment of such measures is substantially uncertain as provided by applicable regulatory or other guidance. The Compensation Committee may designate whether any so-called full value awards, such as restricted stock, stock units and stock awards, or cash incentive awards being granted to any participant are intended to be performance-based compensation as that term is used in Section 162(m). The performance measures that may be used for such awards will be based on any one or more of the following performance criteria as selected by the Compensation Committee:

- changes in funds from operation (FFO);
- changes in funds available for distribution (FAD);
- same store revenue growth;
- changes in intrinsic business value;

Table of Contents

- stock price or total shareholder return;
- implementation or completion of critical or strategic projects, acquisitions or processes;
- return on invested capital;
- divestiture, joint venture or development activity;
- geographic business expansion, customer satisfaction, employee satisfaction, human resources management, legal matters or information technology; and
- any combination of any of the foregoing.

These business criteria may apply to an individual, a business unit or the company as a whole, and need not be based on an increase or positive result under the business criteria selected.

The performance targets may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be made (or specified vesting will occur) and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). Performance targets will be subject to certification by the Compensation Committee.

Adjustments on Changes in Capitalization, Merger or Change in Control

Changes in Capitalization. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination or reclassification of stock, spin-off, extraordinary cash or other property dividend or similar change to the company s capital structure, appropriate equitable adjustments will be made to:

- the number and type of awards that may be granted under the 2007 Plan;
- the number and type of options and other awards that may be granted to any individual under the 2007 Plan;
- the purchase price and number and class of securities issuable under each outstanding award; and
- the repurchase price of any securities substituted for award shares that are subject to repurchase rights.

Merger or Change in Control. Generally, outstanding awards under the 2007 Plan may be assumed, converted, replaced, substituted or cashed out if any of the following corporate transactions occur (each, a Fundamental Transaction):

- the dissolution or liquidation of the company or the merger or consolidation in which the company is not the surviving corporation;
- a merger in which the company is the surviving corporation but after which the company s shareholders immediately prior to such merger cease to own their shares or other equity interest in the company;
- the sale of substantially all of the company s assets; or
- the acquisition, sale, or transfer of more than 50% of the company s outstanding shares by tender offer or similar transaction.

In the event the successor corporation (if any) does not assume or substitute outstanding awards in connection with a Fundamental Transaction, the vesting with respect to such awards will accelerate so that the awards may be exercised before the closing of the Fundamental Transaction but then terminate. The Compensation Committee may also, in its sole discretion, elect to accelerate the vesting of any or all outstanding awards prior to the closing of any Fundamental Transaction or to cash out any or all outstanding awards at the transaction price less the exercise price of the award, if applicable, even if the successor corporation will assume such awards or provide for substitute awards.

Table of Contents

In addition, the Board may also specify that certain other transactions or events constitute a change in control or divestiture (as such terms are defined in the 2007 Plan) and, in these cases, may take any one or more of the actions described above for a Fundamental Transaction and may also extend the exercise date of any award (but not beyond the original expiration date). The Board need not adopt the same rules for each award under the 2007 Plan or for each holder of an outstanding award.

The Compensation Committee may provide in an award agreement that any awards that are assumed or replaced in a Fundamental Transaction or change in control and do not otherwise accelerate at that time shall automatically accelerate in full in the event of an involuntary termination of the grantee for any reason other than death, disability or cause within 18 months following the Fundamental Transaction or change in control, and such accelerated awards shall be exercisable for one year following termination, but in no event after the expiration of its term.

Amendment and Termination of the 2007 Plan

The Board may amend, alter, suspend or terminate the 2007 Plan, or any part thereof, at any time and for any reason. However, the company must obtain shareholder approval for any amendment to the 2007 Plan to the extent necessary and desirable to comply with applicable laws. Generally, no such action by the Board or shareholders may alter or impair any award previously granted under the 2007 Plan without the written consent of the grantee. The 2007 Plan will terminate on February 26, 2017, unless terminated earlier by the Board.

Federal Income Tax Consequences of Options and Stock Awards under the 2007 Plan

THE FOLLOWING IS A SUMMARY OF THE FEDERAL INCOME TAX CONSEQUENCES OF GRANTS OF OPTIONS OR OTHER AWARDS UNDER THE 2007 PLAN. IT DOES NOT DESCRIBE STATE, LOCAL OR FOREIGN TAX CONSIDERATIONS. THE APPLICABLE RULES ARE COMPLEX AND MAY VARY WITH A GRANTEE S INDIVIDUAL CIRCUMSTANCES. THE DESCRIPTION IS THUS NECESSARILY GENERAL AND DOES NOT ADDRESS ALL OF THE POTENTIAL FEDERAL AND OTHER INCOME TAX CONSEQUENCES TO EVERY GRANTEE.

Non-Statutory Stock Options

A grantee will not recognize taxable income upon the grant of a non-statutory option. Upon exercise of the option, a grantee will recognize taxable ordinary income equal to the difference between the fair market value of a share of common stock on the date of exercise and the option exercise price. The company will generally be entitled to a tax deduction equal in amount to the income that a grantee recognizes upon the exercise of a non-statutory option. When a grantee sells the shares, the grantee will have short-term or long-term capital gain or loss, as the case may be, equal to the difference between the amount the grantee received from the sale and the tax basis of the shares sold. The tax basis of the shares generally will be equal to the greater of the fair market value of the shares on the exercise date or the option exercise price.

Incentive Stock Options

A grantee will not recognize taxable income upon the grant of an incentive stock option. If a grantee exercises an incentive stock option during employment or within three months after his or her employment ends (12 months in the case of disability), the grantee will not recognize taxable income at the time of exercise, although the grantee generally will have taxable income for alternative minimum tax purposes at that time as if the option were a non-statutory stock option.

If a grantee sells or exchanges the shares after the later of (a) one year from the date the grantee exercised the option and (b) two years from the grant date of the option, the grantee will recognize long-term capital gain or loss equal to the difference between the amount the grantee received in the sale or exchange and the option exercise price. If a grantee disposes of the shares before these holding period requirements are satisfied, the disposition will constitute a disqualifying disposition, and the grantee generally will recognize taxable ordinary income in the year of disposition equal to the excess, as of the date of exercise of the option, of the fair market value of the shares received over the option exercise price (or, if less, the excess of the amount realized on the disposition of the shares over the option exercise price). Additionally, the grantee will have long-term or short-term capital gain or loss, as the case may be, equal to the difference between the amount the grantee received upon disposition of the shares and the option exercise price increased by the amount of ordinary income, if any, the grantee recognized.

The company will generally be entitled to a deduction with respect to an incentive stock option only if the grantee makes a disqualifying disposition. In that situation, the company will generally be entitled to a deduction in an amount equal to the ordinary income that the grantee recognizes as a result of the disqualifying disposition.

With respect to both non-statutory stock options and incentive stock options, special rules apply if a grantee uses shares already held by the grantee to pay the exercise price or if the shares received upon exercise of the option are subject to a substantial risk of forfeiture by the grantee.

Restricted Stock Awards

A grantee of a restricted stock award generally will recognize taxable ordinary income when the restrictions on the shares lapse. The amount of income recognized will equal the excess of the fair market value of the shares at such time over the amount, if any, the grantee paid to the company for the shares. However, no later than 30 days after a grantee receives the restricted stock award, the grantee may elect under Section 83(b) of the Code to recognize taxable ordinary income in an amount equal to the excess of the fair market value of the shares at the time of receipt over the amount the grantee paid to the company for the shares. Provided that the election is made in a timely manner, when the restrictions on the shares lapse, the grantee will not recognize any additional income. The taxable income to the grantee constitutes wages subject to income and employment tax withholding, and the company receives a corresponding income tax deduction.

When a grantee sells the shares, the grantee will have short-term or long-term capital gain or loss, as the case may be, equal to the difference between the amount received from the sale and the tax basis of the shares sold. The tax basis of the shares generally will be equal to the amount, if any, that the grantee paid to the company for the shares plus the amount of taxable ordinary income the grantee recognized either at the time the restrictions lapsed or at the time of a Section 83(b) election, if an election was made by the grantee. If the grantee forfeits the shares to the company (e.g., upon the grantee s termination prior to expiration of the restriction period), the grantee may not claim a deduction with respect to the income recognized as a result of the election. Any dividends paid with respect to shares of restricted stock generally will be taxable as ordinary income to the grantee at the time the dividends are received.

Stock Units

There are no immediate tax consequences of receiving an award of stock units under the 2007 Plan. A grantee who is awarded stock units will be required to recognize ordinary income in an amount equal to the cash or fair market value of the shares issued to him/her when the restrictions on the stock units lapse.

SARs

There are no immediate consequences of receiving an award of SARs under the 2007 Plan. Upon exercising a SAR, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of a share of common stock on the date of exercise.

Dividend Equivalent Rights and Cash Awards

grantees who receive dividend equivalent rights or cash awards under the 2007 Plan will be required to recognize ordinary income on any amounts distributed to the grantee pursuant to such awards.

Limitation on Deduction of Certain Compensation

A publicly held corporation may not deduct compensation of over a certain amount that is paid in any year to its chief executive officer and its three next most highly compensated officers, excluding the chief financial officer, unless the compensation constitutes qualified performance-based compensation under Section 162(m) of the Code. The company will generally attempt to ensure that any award under the 2007 Plan will qualify for deduction, but may not do so in every instance.

Your Board of Trustees recommends that you vote FOR the proposed amendments to the 2007 Plan.

Table of Contents

PROPOSAL 4 -

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

We are again providing shareholders an advisory vote on the compensation of our named executive officers, also known as a say-on-pay proposal. The Board has determined to hold these votes annually. The advisory vote is a non-binding vote on the compensation of our named executive officers as described in this proxy statement in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation and the company s accompanying narrative disclosure.

At our 2013 Annual Meeting, more than 98% of the votes cast on the say-on-pay proposal were voted in favor of the proposal. Our Compensation Committee considered the results of this vote and believes they affirm shareholder support of the company s compensation of its executive officers. Accordingly, our 2013 executive compensation was generally unchanged from the 2012 program.

Annual incentive bonus payments were tied to achieving at least 3% increases in year-over-year U.S. same store revenues, funds from operations (FFO) and funds available for distribution (FAD). The Compensation Committee selected these metrics as key drivers of company growth in February 2013. Similarly, the Committee set the target for awards of RSUs at the achievement of at least 3.5% growth in U.S. same store revenues. As discussed in the Compensation Discussion and Analysis section beginning on page 14 of this proxy statement, management far exceeded the incentive targets for payment of cash bonuses and the award of RSUs.

We believe our compensation program for executive officers helped drive our strong performance in 2013 and that the company s shareholders were rewarded with a 7.39% total shareholder return during 2013, which was well above the NAREIT Equity Index return of 2.86%. In addition, our total shareholder returns beat the NAREIT Equity Index and S&P 500 indices for the three-year, 10-year and 20-year periods ending December 31, 2013, averaging almost a 17% total annual return since 1993.

The Board therefore recommends that shareholders approve the compensation of the company s named executive officers as disclosed pursuant to the SEC s compensation rules, including in the Compensation Discussion and Analysis, the compensation tables and the narrative disclosures that accompany the compensation tables in this proxy statement.

The vote on our executive compensation programs is advisory and nonbinding on the company. However, the Compensation Committee, which is responsible for designing and administering the company s executive compensation programs, values the opinions expressed by the company s shareholders and will continue to consider the outcome of the vote when making future compensation decisions regarding our named executive officers.

Your Board of Trustees recommends that you vote FOR approval of our executive compensation programs as described in this proxy statement.

ADDITIONAL INFORMATION

Information about the delivery of our Annual Meeting materials

As permitted by rules adopted by the SEC, we have made our annual meeting materials, which include this proxy statement, the proxy card, voting instructions and our Annual Report on Form 10-K for the year ended December 31, 2013, available to our shareholders electronically via the Internet. On or about March 20, 2014, we will mail to our shareholders a notice about the Internet availability of proxy materials (the Notice), containing instructions on how to access our annual meeting materials, how to request paper copies of these materials and how to vote online or by telephone. Unless you have asked to receive a paper copy of our annual meeting materials, you will not receive a paper copy of our annual meeting materials in the mail.

Record date and voting information

Only shareholders of record of Public Storage common shares outstanding at the close of business on the record date of March 6, 2014 are entitled to vote at the meeting or at any adjournment or postponement of the meeting. On the record date, Public Storage had issued and outstanding approximately 172,304,740 common shares, each of which is entitled to one vote.

If your shares are held in the name of a bank, broker, trustee or other nominee and you plan to attend our annual meeting, you will need to bring proof of ownership, such as a recent bank or brokerage account statement.

Table of Contents

Board of Trustees recommendations

The Board recommends that you vote:

FOR the election of the eight nominees for trustee named in Proposal 1;

FOR ratification of the appointment of Ernst & Young LLP as Public Storage s independent registered public accounting firm for fiscal year 2014 as set forth in Proposal 2;

FOR approval of the proposed amendments to our 2007 Equity and Performance-Based Incentive Compensation Plan as set forth in Proposal 3; and

FOR approval of our executive compensation programs as set forth in Proposal 4.

Voting your shares before the annual meeting

Whether you hold shares directly as the shareholder of record or through a bank, broker, trustee or other nominee as the beneficial owner, you may direct how your shares are voted without attending the annual meeting. You may vote your shares only in accordance with the instructions on your proxy card or voting instruction card, which will include one or more of the following three ways to vote shares:

By Internet Shareholders who have received the Notice may submit proxies over the Internet by following the instructions on the Notice. Shareholders who have received a paper copy of a proxy card or voting instruction card by mail may submit proxies over the Internet by following the instructions on the proxy card or voting instruction card.

Income linked to financial compensation corresponds to slot swaps at Heathrow airport (London).

9. RESTRUCTURING COSTS

The restructuring costs (22 million euros) primarily correspond to the second progressive early-retirement plan (Plan de Préretraite Progressive, PRP) implemented at Air France. This agreement concluded during the 2003/2004 financial year provides for the progressive retirement of 1,000 people and the hiring of 500 new members of staff. This plan, offered to full-time employees aged 55 and over, involves an adjustment to the working time of employees for the duration of the PRP while complying with an average working time of 50%. Over this period, employees receive 80% of their initial salary, with 50% paid by Air France and 30% by the Fonds National pour l Emploi (FNE). Air France contributes to the financing of the FNE and pays higher contributions into the supplementary pension funds for the duration of the PRP.

During the previous financial year, these restructuring costs (13 million euros) primarily corresponded to the closure of the Nouméa base for commercial cabin crew, following the decision by Air France to stop operating flights between New Caledonia and Japan using its own resources. The costs and the reversal of the provision amounted 7 million euros during the fiscal year 2003/04.

10. NET FINANCIAL CHARGES

	In EUR millions		
Year ended March 31,	**2004**	**2003**	**Variation**
Financial expenses	*(139)*	*(161)*	*-13.7%*
- Loan interest	(98)	(108)	-9.3%
- Lease interest	(52)	(72)	-27.8%
- Capitalized interest	20	25	-20.0%
- Other financial expenses	(9)	(6)	50.0%
Financial income	*38*	*50*	*-24.0%*
- Interest on securities	3	23	-87.0%
- Net gains on securities	24	15	60.0%
- Other financial income	11	12	-8.3%
Net charges	**(101)**	**(111)**	**-9.0%**
Foreign exchange losses, net	*35*	*62*	*N.S*
Net (charge) release to provisions	*6*	*(36)*	*N.S*
Total	**(60)**	**(85)**	**-29.4%**

The net release of financial provisions of 6 million euros for the 2003/04 financial year includes 34 million euros in provisions released relative to: the shares held by Air France and the commitments taken in connection with stock options granted to pilots (19 million euros) following the increase in the Air France share price; the settlement of

Air France Group

the tax dispute with the German tax authorities (8 million euros: cf. Note 12.2); the losses on foreign exchange options maturing (7 million euros); and an allowance for the impairment in value of our interest in OPODO (26 million euros).

In the 2002/03 financial year, a net depreciation allowance of 36 million euros was booked, primarily corresponding to a 5.5 million euro allowance relative to the equity interest in Cordiem on account of the liquidation of this company, which served as a procurement portal. Located in Arlington (Virginia), it had been set up by a certain number of the leading airlines from America and Europe. Similarly, in light of Air France s average share price in March 2003, a 23 million euros depreciation allowance was booked in order to factor in the discount between the average purchase prices of shares held by Air France in connection with stock options granted to pilots.

The interest rate used in the calculation of capitalized interest for the year ended March 31, 2004 was 4.10% (5.51% for the year ended March 31, 2003).

Foreign exchange losses for the period include an unrealized net gains of EUR 31 million (against a net gains of EUR 71 million for the year ended March 31, 2003).

Other financial income includes dividends received from non consolidated companies in the amount of EUR 3 million for the year ended March 31, 2004 (compared with EUR 3 million for the year ended March 31, 2003).

11. DISPOSALS OF SUBSIDIARIES AND AFFILIATES

Disposals of subsidiaries and affiliates (EUR 5 million) essentially involved the sale of Société immobilière 3F shares held by Air France.

During the period ended March le 31, 2003, the Company had sold the SITA Telecom shares, resulting in a profit of EUR 4 million.

12. INCOME TAX

The Company opted for Group tax consolidation as of April 1, 2002. The scope of consolidation mainly includes Air France, Air France Finance and French regional airline companies.

12.1 Analysis of the income tax charge

Year ended March 31,	In EUR millions	
	2004	2003
Current tax charge	10	(9)
Deferred tax credit (charge)	(12)	22
Total tax credit (charge)	**(2)**	**13**

The current tax charge relates to amounts paid or payable in the short term to the tax authorities in respect of the current year, in accordance with the regulations prevailing in various countries and any applicable treaties.

Air France Group

12.2 Effective tax rate

The difference between the standard rate of tax in France and the effective rate incurred breaks down as follows:

	In EUR millions	
Year ended March 31,	**2004**	**2003**
Net income (loss)	**93**	**120**
Minority interests	5	4
Amortization of goodwill	15	16
Share in net income of equity affiliates	(53)	(29)
Income tax	2	(13)
Taxable income - current rate	***62***	***98***
Current rate of tax	35.43%	35.43%
Theorical tax	**(22)**	**(35)**
Permanent differences	(8)	(4)
Income taxed at non-current tax rates	(2)	4
Impact of unrecognized tax asset reductions	2	45
Unrecognized tax assets	(5)	
Differences in France / foreign tax rates		3
Settlement of tax dispute	33	
Consolidated tax charge	**(2)**	**13**
Effective tax rate	**3.23%**	**13.27%**

The settlement of the tax dispute concerns the territoriality of taxation of the capital gains generated on the disposal of Amadeus KG, which were taxed in France, in accordance with the analysis that had previously been confirmed by the French tax authorities (Service de la Législation Fiscale). The German tax authorities claimed that these capital gains should have been taxed in Germany. The case was submitted to the combined Franco-German commission and a compromise was found in the second half of the year. The German tax authorities agreed to scale their request down to 50% of the amount initially claimed and cancel all interest for late payment charged to Air France. The impact on the consolidated financial statements represents 38 million euros in net income and can be analyzed as follows:

reversal of the provision for liabilities : 33 million euros corresponding to the initial tax and 8 million euros corresponding to interest for late payment

tax charge of 17 million euros corresponding to the tax due in Germany

14 million euros of deferred tax income corresponding to the recognition of deferred tax asset on the tax charge to be paid to the German State and for which the French State granted deductibility retroactively.

12.3 Deferred tax recorded on balance sheet

	In EUR millions	
Year ended March 31,	**2004**	**2003**
Tax losses	383	243
Long-term capital losses	15	10
Pension provisions	214	198
Deferred charges	(64)	(53)
Capital gains on intra-group disposals	32	35
Tax-driven provisions	(367)	(388)
Difference between the tax bases and consolidated values of fixed assets	35	44
Other	(152)	17
Net deferred tax assets (note 19)	**96**	**106**

Net tax assets are restricted according to the capacity of each tax entity to recover its assets in the near future.

Air France Group

12.4 Unrecorded tax assets

Unrecorded tax assets relating to timing differences and carry forwards may be carried forward as follows:

	Tax bases in EUR millions	
As of March 31,	**2004**	**2003**
Net timing differences - assets	**7**	**5**
Carryforward tax losses for utilization		**211**
Y+1 - Y+3		127
Y+4 - Y+5		84
6 years and beyond		
Losses for carryforward indefinitely	**255**	**50**
Total at standard rate	**262**	**266**
Reduced rate tax credits		**4**

These unrecognized tax assets represent future tax savings and, as of March 31, 2004, correspond essentially to loss carry forwards of subsidiaries prior to the Group tax consolidation.

In accordance with Article 89 of the French Finance Law (loi de finances) for 2004, approved on December 18, 2003, tax losses may now be carried forward for an unlimited period of time. These new provisions will be applied to financial years starting as of January 1, 2004, as well as to losses to be carried forward at the end of the financial year preceding January 1, 2004.

13. EARNINGS PER SHARE

	In number of shares	
Year ended March 31,	**2004**	**2003**
Weighted average of :		
- Ordinary shares issued	219,780,887	219,780,887

- treasury stock held regarding stock option plan	(1,249,464)	(1,249,464)
- treasury stock held to regulate stock market price	(1,621,935)	(1,262,371)
Number of shares used in the calculation of basic earnings per share	216,909,488	217,269,052
Number of shares used in the calculation of diluted earnings per share	216,909,488	217,269,052

Income used to calculate earnings per share breaks down as follows:

	In EUR millions	
Year ended March 31,	**2004**	**2003**
Income used to calculate basic net eanings per share	93	120
Income used to calculate diluted net eanings per share	93	120

Air France Group

14. CONSOLIDATED GOODWILL AND INTANGIBLE FIXED ASSETS

	In EUR millions					
	2004			**2003**		
As of March 31,	**Gross value**	**Amortization & depreciation**	**Net book value**	**Gross value**	**Amortization & depreciation**	**Net book value**
Purchased goodwill	363	246	117	365	229	136
Consolidation goodwill	214	119	95	216	104	112
Other intangible fixed assets	157	125	32	148	113	35
Total	**734**	**490**	**244**	**729**	**446**	**283**

Consolidated goodwill essentially concerns the regional airlines acquired between March and September 2000 and is amortized over a ten-year period, with accelerated amortization of EUR 47 million for the year ended March 31, 2001.

The movement in the net book value of intangible fixed assets are as follows:

	In EUR millions	
As of March 31,	**2004**	**2003**
Opening balance	**283**	**315**
Additions	17	21
Charge to amortization of goodwill	(15)	(16)
Charge to amortization of other intangible fixed assets	(37)	(37)
Disposals	(3)	(2)
Impact of changes in scope of consolidation		
Exchange fluctuations		
Transfers	(1)	2
Closing balance	**244**	**283**

Air France Group

15. PROPERTY AND EQUIPMENT

	In EUR millions								
	Flight equipment				**Other property and equipment**				
	Owned aircraft	**Leased aircraft**	**Other**	**Total**	**Land and buildings**	**Equipment and fittings**	**Other**	**Total**	**TOTAL**
Gross value as of March 31, 2003	**7,788**	**2,229**	**1,802**	**11,819**	**1,049**	**593**	**731**	**2,373**	**14,192**
Additions	405	94	527	1,026	118	34	90	242	1,268
Disposals	(863)	(86)	(371)	(1,320)	(28)	(17)	(54)	(99)	(1,419)
Changes in scope of consolidation						2		2	2
Exchange fluctuations									
Transfers	358	(177)	(167)	14	26	(18)	(10)	(2)	12
Gross value as of March 31, 2004	**7,688**	**2,060**	**1,791**	**11,539**	**1,165**	**594**	**757**	**2,516**	**14,055**
Accumulated depreciation as of March 31, 2003	**3,340**	**691**	**504**	**4,535**	**600**	**435**	**460**	**1,495**	**6,030**
Charge to depreciation	556	155	285	996	59	34	58	151	1,147
Releases on disposal	(538)	(62)	(370)	(970)	(18)	(16)	(53)	(87)	(1,057)
Changes in scope of consolidation						2		2	2
Exchange fluctuations									
Transfers	105	(95)	17	27	(1)	(19)	20		27
Accumulated depreciation as of March 31, 2004	**3,463**	**689**	**436**	**4,588**	**640**	**436**	**485**	**1,561**	**6,149**
Net book value as of March 31, 2004	**4,225**	**1,371**	**1,355**	**6,951**	**525**	**158**	**272**	**955**	**7,906**
Gross value as of March 31, 2002	**7,295**	**2,524**	**1,888**	**11,707**	**1,002**	**567**	**686**	**2,255**	**13,962**
Impact of changes in accounting policies (of note 1.1)	215	61	(46)	230					230
Additions	516	102	549	1,167	27	29	114	170	1,337
Disposals	(773)	(126)	(386)	(1,285)	(6)	(14)	(41)	(61)	(1,346)
Changes in scope of consolidation					2	5	7	14	14
Exchange fluctuations							(1)	(1)	(1)
Transfers	535	(332)	(203)		24	6	(34)	(4)	(4)
Gross value as of March 31, 2003	**7,788**	**2,229**	**1,802**	**11,819**	**1,049**	**593**	**731**	**2,373**	**14,192**
Accumulated depreciation as of March 31, 2002	**2,984**	**705**	**572**	**4,261**	**554**	**415**	**439**	**1,408**	**5,669**

Impact of changes in accounting policies (of note 2.1)	127	75	(34)	168					168
Charge to depreciation Concorde			45	45					45
Charge to depreciation	554	158	305	1,017	50	32	59	141	1,158
Releases on disposal	(339)	(233)	(384)	(956)	(5)	(13)	(40)	(58)	(1,014)
Changes in scope of consolidation						2	4	6	6
Exchange fluctuations									
Transfers	14	(14)			1	(1)	(2)	(2)	(2)
Accumulated depreciation as of March 31, 2003	**3,340**	**691**	**504**	**4,535**	**600**	**435**	**460**	**1,495**	**6,030**
Net book value as of March 31, 2003	**4,448**	**1,538**	**1,298**	**7,284**	**449**	**158**	**271**	**878**	**8,162**

The net book value of aircraft acquired subject to a reservation of ownership clause totaled EUR 358 million as of March 31, 2004 (EUR 356 million as of March 31, 2003).

The net book value of other property and equipment financed under capital lease amounts to EUR 172 million as of March 31, 2004 (EUR 78 million as of March 31, 2003). Over the course of the 2003/2004 financial year, Air France refinanced its head office.

Air France Group

16. INVESTMENTS

As of March 31,	*In EUR millions* 2004	2003
Investments in equity affiliates	**336**	**316**
Investments in non-consolidated companies	128	125
Loans and receivables relating to investments	142	107
Other financial assets	89	98
Other investments, gross	**359**	**330**
Provisions for impairment	(91)	(70)
Other investments, net	**268**	**260**
Of which less than one year	*11*	*25*

Investments in non-consolidated companies consist of securities which the Company considers of strategic interest and which it intends to hold long-term, together with equity interests in companies over which the Company does not exercise any significant influence.

Other financial assets mainly consist of guarantee deposits and loans (i.e. 1% construction contributions, the Company s Central Employee Committee, personnel, etc.).

16.1 - Equity affiliates

The Company s share in the net equity and net income of equity affiliates is as follows:

	In EUR millions				
	AMADEUS GTD	**AFPL**	**ALPHA PLC**	**OTHERS**	**TOTAL**
As of March 31, 2002	**203**	**32**	**48**	**20**	**303**
Translation adjustments		(7)	(5)	(2)	(14)
Distributions	(9)		(3)		(12)
Change in structure					
Net income/(Loss) of entity	*33*		*4*	*(1)*	*36*

Ajustments	*3*	*(10)*			*(7)*
Share in net income of equity affiliates	**36**	**(10)**	**4**	**(1)**	**29**
Transfers		10			10
As of March 31, 2003	**230**	**25**	**44**	**17**	**316**
Translation adjustments		(3)	(6)		(9)
Distributions	(7)	(8)	(2)	(1)	(18)
Change in structure			0	(2)	(2)
Net income/(Loss) of entity	*37*		*2*	*2*	*41*
Ajustments	*8*	*4*		*0*	*12*
Share in net income of equity affiliates	**45**	**4**	**2**	**2**	**53**
Transfers		(4)			(4)
As of March 31, 2004	**268**	**14**	**38**	**16**	**336**

As of March 31, 2004, the ownership structure of the Amadeus Group was as follows: Air France (23.4%), Iberia (18.3%), Lufthansa (5%) and the public (53.3%). Over the year, Lufthansa sold off 13% of the Amadeus GTD share capital to the public.

The Company leases aircraft from Air France Partnairs Leasing (AFPL) through various operating leases.

Air France Partnairs Leasing is held 45% by the Company as of March 31, 2004 and 2003. The other stockholders are financial institutions.

Alpha PLC is held 27% by Servair, 31% by institutional investors and 42% by the public.

- 25 -

Air France Group

16.2 - Simplified accounts of equity affiliates

The published accounts of the major equity affiliates are presented below.

As part of the consolidation of the Group s financial statements, adjustments are made to the accounts of equity affiliates, mainly in respect of internal transactions with société Air France (transfers of assets).

Amadeus GTD (consolidated accounts)

The simplified consolidated accounts include Amadeus Global Travel Distribution SA., domiciled in Spain and its consolidated subsidiaries (the Group).

The Group is a leader in information technology, serving the marketing, sales and distribution needs of a global travel and tourism industry. Its world-wide data network and database of travel information are used by travel agencies and airlines sales offices. Today travel agencies and airline offices can make bookings with airlines, hotel chains, car rental companies and newer groups of providers such a ferry, rail, cruise, insurance and tour operators.

The Group provides the above-mentioned services through a computerized reservation system (CRS). Additionally, the Group provides services through its new e-commerce channel of distribution and through information technology (IT) services and solutions to airline industry which includes inventory management and passenger departure control.

Income statement **Year ended December 31,**	***In EUR millions*** **2003**	**2002**
Operating revenues	1,929	1,856
Operating income	321	307
Including net charges to depreciation, amortization and provisions	*(212)*	*(184)*
Net income	**160**	**147**

Balance sheet **As of December 31,**	***In EUR millions*** **2003**	**2002**
Fixed assets	998	913
Current assets	539	567

Total assets	**1,537**	**1,480**
Stockholders equity	759	623
Short and long-term debt and capital leases	280	326
Other liabilities	498	531
Total liabilities and stockholders equity	**1,537**	**1,480**

Air France Group

AFPL (statutory)

The activity of AFPL consist to rent aircraft. At March 31, 2004 AFPL owns 4 B747.

Income statement Year ended December 31,	In EUR millions 2003	 2002
Operating revenues	16	26
Operating income	1	2
Including net charges to depreciation, amortization and provisions	*(15)*	*(24)*
Net income	**0**	**1**

Balance sheet As of December 31,	In EUR millions 2003	 2002
Fixed assets	42	70
Current assets	13	23
Total assets	**55**	**93**
Stockholders equity	31	59
Short and long-term debt and capital leases	19	28
Other liabilities	5	6
Total liabilities and stockholders equity	**55**	**93**

Alpha Airports PLC (consolidated accounts)

The simplified consolidated accounts include Alpha Airports PLC, domiciled in England, and its consolidated subsidiaries (the Group).

The Group provides retailing and catering services for airlines and airports. The Group operates from over 150 retailing and catering outlets in 69 airports in 11 countries across 5 continents.

The Group flight services serves airline companies by offering a comprehensive range of catering logistics, flight catering and management services for over 100 airlines. The Group also provides In-flight retail management services.

Alpha Retail serves airport customers by offering purpose-designed retailing and catering services. The Group operate stores at 12 UK airports, 2 airports in North America and 3 airports in the Indian Sub-Continent.

Income statement **Year ended January 31,**	***In EUR millions***	
	2004	**2003**
Operating revenues	662	608
Operating income	33	33
Including net charges to depreciation, amortization and provisions	*(15)*	*(15)*
Net income	**14**	**19**

Balance sheet **As of January 31,**	***In EUR millions***	
	2004	**2003**
Fixed assets	107	102
Current assets	89	76
Total assets	**196**	**178**
Stockholders equity	83	74
Short and long-term debt and capital leases	11	10
Other liabilities	102	94
Total liabilities and stockholders equity	**196**	**178**

Air France Group

16.3 Group transactions with equity affiliates

The major transactions by the Company with equity affiliates were as follows:

Fiscal year ended March 31,	In EUR millions			
	2004		2003	
In the accounts of Air France Group	Amadeus GTD	AFPL	Amadeus GTD	AFPL
Income statement				
Operating revenues	115		118	
External expenses	189	16	188	27
Balance sheet				
Other accounts receivable	25		23	
Other payables	34	1	34	2

Fees paid and received in respect of reservation systems (AMADEUS):

Amadeus GTD SA, through its subsidiaries, markets, develops and manufactures a computerized reservation system.

The Company receives fees for the distributor services performed on behalf of Amadeus, as well as in respect of on-line assistance and travel agency training. These services are rendered by the Company s subsidiary Amadeus France, a distributor on the French market. Furthermore, the Company receives commissions from Amadeus for issues made with its own agencies. These fees and commissions totaled EUR 115 million for the year ended March 31, 2004 (EUR 118 million for the year ended March 31, 2003).

Furthermore, the Company pays Amadeus GTD SA booking fees in connection with use of the Amadeus reservation system. These fees totaled EUR 189 million for the year ended March 31, 2004 (compared to EUR 188 million in the year 2002/2003).

Operating leases -AFPL:

The Company leases aircraft from its subsidiary Air France Partnairs Leasing through various operating leases. These fees totaled EUR 16 million for the year ended March 31, 2004 (compared to EUR 27 million the previous year).

- 28 -

Air France Group

16.4 Investments in non-consolidated companies

The breakdown of net book value of investments in non consolidated companies (EUR 81 million) is as follows :

	In EUR millions				
As of March 31, 2004	**Net book value**	**% holding**	**Equity**	**Net income (loss)**	**Year end**
Opodo	26	22.9%	31	(88)	Dec-02
Alitalia	23	2.0%	1,768	93	Dec-02
Austrian Airlines	9	1.5%	604	46	Dec-03
Voyages Fram	9	8.7%	159	4	Dec-02
Autres	14				

	In EUR millions				
As of March 31, 2003	**Net book value**	**% holding**	**Equity**	**Net income (loss)**	**Year end**
Opodo	48	22.9%	31	(88)	Dec-02
Alitalia	23	2.0%	1,768	93	Dec-02
Austrian Airlines	11	1.5%	557	43	Dec-02
Voyages Fram	9	8.7%	158	5	Dec-01
Autres	15				

The change in this item is primarily due to the 26 million euro impairment in the value of the equity interest in Opodo.

17. INVENTORY

	In EUR millions	
As of March 31,	**2004**	**2003**
Aeronautical spare parts	136	172
Other supplies	60	61
Production work in progress	3	52

Gross value	**199**	**285**
Valuation allowance	(48)	(65)
Net book value	**151**	**220**

Air France Group

18. TRADE AND OTHER RECEIVABLES

	In EUR millions	
As of March 31,	**2004**	**2003**
Passenger operations	693	618
Cargo operations	200	231
Maintenance operations	401	271
Airlines	308	291
Other trade receivables	143	110
Valuation allowance	(94)	(89)
Total (1)	**1,651**	**1,432**
Suppliers with debit balances	120	150
State	56	83
Group and associates	5	10
Other	169	177
Prepayments and accrued income	149	176
Provision	(5)	(4)
Total (2)	**494**	**592**

(1) *Due > 1 year*
(2) *Due > 1 year*

19. INCOME TAX RECEIVABLE

	In EUR millions	
As of March 31,	**2004**	**2003**
Current tax	5	5
Deferred tax (note 12.3)	96	106
Total	**101**	**111**
Portion > 1 year	*96*	*104*

Air France Group

20. MARKETABLE SECURITIES

The market value of financial instruments is disclosed in note 27.5 below.

	In EUR millions	
	Net book value	
As of March 31,	**2004**	**2003**
Original maturity more than three months and/or subject to exchange rate risk		
Treasury shares (note 21.2)	19	11
Negotiable debt securities	2	279
Bonds		
Mutual funds (Sicav)		
Bank deposits	93	3
Sub-total	**114**	**293**
Original maturity less than three months with no exchange rate risk		
Negociable debt securities	30	44
Mutual funds (Sicav)	1,332	672
Bank deposits	2	30
Sub-total cash equivalents	**1,364**	**746**
Total	**1,478**	**1,039**

21. STOCKHOLDERS EQUITY

21.1 Common stock

As of March 31, 2004 and 2003, the common stock of the Company totaled EUR 1,868 million, comprising fully paid up shares of EUR 8.5 nominal value each.

21.2 Breakdown of stock and voting rights

As of March 31,	% stock 2004	% stock 2003	% of voting rights 2004	% of voting rights 2003
French state	54.0	54.4	54.6	55.1
Employees and former employees [1]	12.8	12.9	12.9	13.1
Treasury shares [2]	1.1	1.3		
Other	32.1	31.4	32.5	31.8
Total	**100**	**100**	**100**	**100**

(1) Personnel and former employees identified in funds or by a Sicovam code.

(2) The general shareholders meeting from September 28, 1999 has adopted a plan for purchasing its own shares in order to provide certain categories of its personnel with incentive plans. The number of shares maximum authorised to be purchased was 3,525,000 . Within this autorisation, the compagny purchased 1,249,464 of its own shares during the period ending March 31, 2000 that are classified as marketable securities. As of March 31, 2004, the Company also held 1,185,847 of its own shares (0.5% of common stock) in accordance with the share buyback program authorized by the General Meeting of September 25, 2002, which are classified as a reduction of shareholdres equity (see note 21.3).

Each share is entitled to one vote.

As of March 31, 2004 and 2003, the percentage of shares and voting rights owned by members of the Company s executive committee was to the best of our knowledge less than 0.5% of the outstanding shares.

Air France Group

21.3 Treasury stock

As of March 31, 2004, Air France held 1,185,847 of its own shares (0.5% of common stock) in accordance with the share buyback program authorized by the General Meeting of September 25, 2002.

21.4 Other securities giving access to common stock

As of March 31, 2004, there were no securities giving access to the common stock of Air France.

21.5 Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by the Company.

21.6 Retained earnings (accumulated deficit)

	In EUR millions	
As of March 31,	**2003**	**2002**
Distributable reserves	366	599
Accumulated deficit		
Other reserves	1,501	1,168
Treasury stock	(18)	(25)
Net income (loss)	93	120
Total	**1,942**	**1,862**

Distributable reserves mainly comprise that part of parent company reserves appropriated to reserves by annual stockholder meetings and special reserves of long-term capital gains taxed at reduced rates.

Other reserves include the aggregate results of consolidated subsidiaries and the Légale réserve of Air France SA.

French company law requires that Air France allocate 5% of its unconsolidated statutory net result (as determined on a parent company basis) for each year to its legal reserves before dividends may be paid with respect to that year. Net profits must be so allocated until the amount in the legal reserve is equal to 10% of the aggregate nominal value of the issued and outstanding share capital of Air France. This restriction on the payment of dividends also applies to each of our French subsidiaries on an individual unconsolidated basis. At March 2004, air France s legal reserve was 45.7 million euros, or 2.4% of the aggregate nominal value of issued and outstanding capital.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Air France Group

22. PROVISIONS FOR LIABILITIES AND CHARGES

	In EUR millions	
As of March 31,	**2004**	**2003**
Provisions for pensions and for termination payments on retirement	636	581
Provisions for restitution for aircraft under operating leases	275	307
Restructuring provisions	13	11
Provisions for third party litigations	23	39
Other provisions for liabilities and charges	92	157
Total	**1,039**	**1,095**
Of which short-term	*261*	*193*

Air France Group

The movement in the book value of the provisions for liabilities and charges are as follows :

	In EUR millions	
Year ended March 31,	**2004**	**2003**
Opening balance	**1,095**	**937**
Charges		
- Operating	248	206
- Financial		22
- Restructuring	10	8
Releases for consomption		
- Operating	(236)	(151)
- Financial		(1)
- Restructuring	(8)	(7)
- Tax	(17)	
Releases of provisions no longer required		
- Operating	(21)	(19)
- Financial	(9)	
- Tax	(16)	
Impact of changes in accounting policies[1]		82
Transfers	(7)	21
Change in group structure		(3)
Closing balance	**1,039**	**1,095**

(1) Represents the recognition at the opening balance sheet date of the provision for restitution for aircraft under operating leases (EUR270 million) and the cancellation of the provision for airframe maintenance operations as of March 31, 2002 (EUR 188 million).

22.1 - Pension schemes for employees in France

The Company previously maintained an independent pension plan for its ground staff administered by the Caisse de Retraite Air France (CRAF). This plan was terminated and incorporated into the AGIRC-ARCCO national retirement fund as at January 1, 1993. Upon incorporation, current pensions and entitlements were made subject to a formal company agreement, under whose terms:

Retirees as of December 31, 1992 continue to benefit from an overall guarantee of income, revalued in terms of Air France pension points, from which external pensions are deducted at actual value (social security, as well as ARCCO and AGIRC at their reconstituted values).

Employees and former employees in service as of December 31, 1992 were granted an additional pension benefit, expressed in terms of Air France pension points, independent from all other external pension plans.

CRAF is therefore still responsible for the benefits with respect to employees who contributed up to December 31, 1992. As the pension fund created by the Company was insufficiently funded, a top-up plan was introduced. This plan, administered by CRAF is jointly funded by the Company and CRAF, under the following terms:

From January 1, 1993 and until the existing pension fund is exhausted, CRAF bears 50% of the cost of any shortfall between pensions paid and fund revenues.

Air France undertakes to offer an identical contribution and, as soon as the existing pension fund has been used up, to bear the full cost of pensions payable under the initial CRAF pension plan.

The Company is under no additional obligation with regard to entitlements for the period after January 1, 1993.

Air France Group

The following table shows a reconciliation between the valuation of pension commitments of CRAF and the provisions recorded in the consolidated financial statements:

	In EUR millions	
As of March 31,	**2004**	**2003**
Defined benefit obligation	911	877
Fair value of plan assets	613	590
Projected benefit obligation in excess of plan assets	**(298)**	**(287)**
Unrecognized net actuarial gains (losses)	21	25
Provisions for pensions	**319**	**312**
Of which short-term	*18*	*17*

The charge with respect to obligations of the CRAF is EUR 13 million for the year ended March 31, 2004 (compared to EUR 10 million for the year ended March 31, 2003).

	In EUR millions	
As of March 31,	**2004**	**2003**
Interest cost on projected benefit obligations	(44)	(45)
Amortization of actuarial gains (losses)		3
Expected return on plan assets	30	32
Net charge	**(14)**	**(10)**

The effective return on the CRAF plan assets 13.2% for the year ended March 31, 2004 (0.7% for the prior year). Amounts paid by the Company to the CRAF totaled EUR 8 million for the year ended March 31, 2004 and 24 million euros for the prior year.

The assumptions used in the valuation of pension commitments are as follows:

As of March 31,	**2004**	**2003**
Gross discount rate	5.00%	5.25%

Rate of increase of CRAF points	1.70%	1.20%

22.2 - Foreign pension schemes and termination benefit schemes in France and abroad

In addition to defined benefit pension schemes for employees in France, the Company grants various defined pension benefits to its employees abroad and termination benefit schemes.

The major foreign employee benefit liabilities of the Company are located :

- in the USA, linked to two defined benefit pension plans which are overfunded;
- in the UK, where employees of the local representation office and local subsidiaries are granted a supplemental pension benefit administered through a specific pension fund;
- in Japan, where employees benefit from a supplemental pension plan and lump -sum termination payments.

In addition to this, almost all other foreign representation offices grant termination benefits or lump -sum payments to their employees.

Employees in France benefit from 2 specific schemes :

- a retirement lump -sum scheme for all employees ;
- an additional retirement indemnity scheme.

For all schemes identified as material, an actuarial valuation as of March 31, 2003 was performed, using the projected unit credit method and :

- turn-over rates for active employees, mortality rates, salary increase scales;
- retirement age assumptions ranging from 51 to 65 for French employees, and depending on the various local economic and demographic contexts for employees of foreign entities;
- discount rates : 5% for French entities and ranging from 2% to 9% for foreign entities
- long term expected rates of return on pension plan assets ranging from 4% to 15%.

Air France Group

The following table shows the amounts recorded in the balance sheet :

	In EUR millions	
As of March 31,	**2004**	**2003**
Defined benefit obligation	738	650
Fair value of plan assets	(394)	(371)
Projected benefit obligations in excess (less) than plan assets	**344**	**279**
Unrecognized net actuarial gains (losses)	(33)	(37)
Unrecognized prior services cost	(24)	
Unrecognized surplus	18	18
Net obligation in the balance sheet of subsidiaries	12	9
Net obligation in the balance sheet	**317**	**269**

Retirement charges include the following components:

	In EUR millions	
As of March 31,	**2004**	**2003**
Current service cost	(35)	(29)
Interest cost	(35)	(35)
Amortization of actuarial gains (losses)	(1)	1
Amortization of prior services cost	(2)	
Expected return on plan assets	26	34
Net retirement charge of subsidiaries	(3)	(9)
Net retirement charge	**(50)**	**(38)**

The assumptions used in the valuation of retirement benefit obligations are as follows:

	Au 31 mars 2004		**31 mars 2003**	
As of March 31,	**France**	**Abroad**	**France**	**Abroad**
Gross discount rate	5.00%	2 to 9%	5.25%	2 to 10%
Gross rate of increase in salaries	1.5% to 4.5%	2 to 12%	2.8 to 5.1%	2 to 9%

The Company does not disclose details of balance sheet reconciliations or effective rates of return at the individual program level.

Air France Group

23. SHORT AND LONG-TERM DEBT AND CAPITAL LEASES

	In EUR millions	
As of March 31,	**2004**	**2003**
Perpetual subordinated loan stock	116	169
Bonds	18	187
Capital-lease obligations	1,453	1,413
Other long-term loans	2,461	1,914
Accrued interest not yet due	43	47
Bond redemption premiums		
Long-term debt and capital leases [1]	**4,091**	**3,730**
Borrowings with short-term original maturities		
Commercial paper		150
Short-term bank finance facilities and similar facilities	289	267
Short-term debts	**289**	**417**
Total short and long-term debt and capital leases	**4,380**	**4,147**
[1] *Less than one year*	*429*	*548*

Total secured debts totaled EUR 2,737 million as of March 31, 2004 (compared to EUR 2,724 million for the year ended March 31, 2003).

Various assets, principally aircraft, having an aggregate book value of 1,284 million euros and 1,311 million as of March 31, 2004 and 2003, respectively were pledged as security under various loan agreements.

On August 8, 2001, Air France signed the opening of a revolving, syndicated multi-currency credit line in the amount of EUR 1 billion for a period of five years, unused as of March 31, 2004. In addition, the Company benefits from a medium-term credit line in the amount of EUR 245 million (EUR 11 million drawn as of March 31, 2004), with repayment deadlines between April 2004 and October 2006.

23.1 - Perpetual subordinated loan securities (TDI)

The Company issued two of TDI perpetual subordinated loan securities, one in June 1989 and a second in May 1992, in the amounts of EUR 381 million and EUR 395 million respectively.

The first issuance was restructured in the year 1998/99: the original securities were bought back from their holders and were substituted by a perpetual non-subordinated loan issued under the same financial conditions (Euribor + 0.38 % for the first tranche of EUR 114 million and a fixed rate of 10% for the second tranche of EUR 267 million). Under the terms of issue, holders of the new securities will receive a nominal amount of interest from June 23, 2004. The lender securitized this loan in the form of units in a mutual debt fund of which the remaining units could be bought by Air France at any time.

The TDIs issued in 1992 bear interest at a fixed rate of 10.06%. Payment of interest is not subordinated, although the Board of Directors may decide to suspend payment thereof if net consolidated losses exceed 30% of stockholders equity and no dividend is paid. The securities were designated as subordinated financing following the conclusion of an issue agreement with certain trusts. The trusts thereby undertook, via a series of separate subscriber agreements, to buy back the securities after a period of 15 years, requiring an initial payment from the Company of EUR 94 million. The agreements also stipulate that the trusts will only receive a nominal interest from the sixteenth year onwards.

TDIs were recorded at the date of their issue under short and long-term debt net of amounts paid to the trusts, i.e. EUR 281 million for the 1989 issuance and EUR 301 million for the 1992 issuance. The perpetual loan which replaced the 1989 issuance is recorded in the same way.

Air France Group

Interest paid by the Company on the TDIs issued is recorded as an interest expense. Interest receivable on the zero-coupon bonds is credited to the interest charge and debited to the outstanding balance on the debts. The net balance of the loan is being written down over a period of 15 years.

The tax regime for perpetual subordinated loan stock was approved by the Tax Authorities and interest is henceforth deductible for the portion effectively received.

23.2 - Bonds

		In EUR millions	
As of March 31,	**Nominal**	**2004**	**2003**
Bonds denominated in EUR	EUR		
1993 bond at 7.5%	229		167
Other bonds		18	20
Total bonds denominated in EUR		**18**	**187**
Accrued interest payable			9
Bond redemption premiums			
Total bonds		**18**	**196**

23.3 - Analysis by maturity date

	In EUR millions	
As of March 31,	**2004**	**2003**
Matures in		
Y + 1	429	548
Y + 2	523	354
Y + 3	600	489
Y + 4	312	538
Y + 5	435	270
> 5 years	1,792	1,531
Total	**4,091**	**3,730**

23.4 - Analysis by currency

The breakdown of all long-term debt and capital leases taking into account the effects of derivative financial instruments is as follows:

	In EUR millions	
As of March 31,	**2004**	**2003**
Euro	3,720	3,252
USD	366	374
CHF		68
JPY		29
Other currencies	5	7
Total	**4,091**	**3,730**

Air France Group

24. INCOME TAX LIABILITY

	In EUR millions	
As of March 31,	**2004**	**2003**
Current tax	21	5
Deferred tax		
Total	**21**	**5**
Of which > 1 year		

25. ADVANCE TICKET SALES

	In EUR millions	
As of March 31,	**2004**	**2003**
Tickets	781	693
Frequent Flyer Program	80	90
Other	147	118
Total	**1,008**	**901**

26. OTHER PAYABLES

Other payables consist, for the most part, of salaries and other amounts owed to employees including corresponding social security contributions.

In addition, during 1997 and 1998, the Company sold its investment in Amadeus Data Processing (a subsidiary had been consolidated) and 33% of its investment in Amadeus France (which remains a consolidated subsidiary of the Company) to Amadeus G.T.D., an equity affiliate. The gains on disposal of these investments have been eliminated to the extent of Air France s continuing investment in Amadeus G.T.D. These amount will continue to be deferred until such time as the Air France investment in Amadeus G.T.D. is reduced by sale or other means.

	In EUR millions	
As of March 31,	**2004**	**2003**

Employee-related liabilities	491	467
Tax liabilities	193	166
Other	516	425
Total	**1,200**	**1,058**
Of which > 1 year		*1*

27. FINANCIAL INSTRUMENTS

27.1 - Exposure to interest rate risk

In order to manage interest rate risk on short-and long-term borrowings, the Company uses instruments with the following nominal values as of the balance sheet date:

	In EUR millions	
As of March 31,	**2004**	**2003**
Fixed to variable-rate swaps	172	181
Variable to fixed-rate swaps	1,105	1,209

- 39 -

Air France Group

These instruments have different objectives:

Hedging price risk relating to fixed-rate short and long-term debt and capital leases: By contracting a fixed-rate debt, the company is exposed to an opportunity risk if the rate falls. Given the current position of market rates in comparison with fixed contractual rates on certain of its short and long-term debt and capital leases, société Air France entered into a number of fixed to variable-rate swaps.

Hedging of cash-flow risk relating to variable-rate short and long-term debt and capital leases: The Company has sought to fix the rate of certain variable-rate debts and thus entered into a number of variable to fixed-rate swaps.

Based on the above hedging arrangements, the Company s interest rate exposure can be presented as follows:

- Financial assets and liabilities at fixed rates:

			In EUR millions	
	Bases		**Average rate of interest**	
	2004	**2003**	**2004**	**2003**
Fixed-rate financial assets	**13**	**15**	**9.30%**	**7.02%**
Perpetual subordinated loan securities	97	144	10.04%	10.04%
Bonds		99	6.54%	6.88%
Other long-term debt and capital leases	1,800	1,628	5.18%	4.82%
Short-term bank finance facilities and similar facilities				
Fixed-rate financial liabilities	**1,897**	**1,871**	**5.46%**	**6.36%**

-Variable-rate assets and liabilities:

			In EUR millions	
	Bases		**Average rate of interest**	
	2004	**2003**	**2004**	**2003**
Variable-rate financial assets	**163**	**403**	**2.25%**	**2.84%**
Perpetual subordinated loan securities	19	25	2.70%	3.74%

Bonds	18	88	1.16%	1.57%
Other long-term debt and capital leases	2,114	1,699	3.12%	4.31%
Short-term bank finance facilities and similar facilities	289	417	2.04%	2.80%
Variable-rate financial liabilities	**2,440**	**2,229**	**2.93%**	**3.96%**

27.2 - Exchange rate risk

Current operations:

Although the Company s reporting currency is the EURO (EUR), part of its cash flow is denominated in other currencies, such as the dollar (USD), the yen (JPY), the pound sterling (GBP) and the Swiss franc (CHF). Commercial activities also generate and incur income and expenses in foreign currency. The Company s policy is to hedge against exchange risks relating to forecast cash surpluses or shortfalls in various currencies (USD, JPY, non-euro European currencies, etc.). Hedging takes the form of forward sales or purchases and/or option-based strategies.

Acquisitions of flight equipment :

Capital expenditure for flight equipment is denominated in US dollars. The Company hedges on the basis of projected fluctuations in the US dollar via forward sales and purchases and/or option-based strategies.

Long-term debt and capital leases:

A number of loans are denominated in foreign currency so as to diversify sources of funding and take into account cash surpluses generated in various currencies. In order to safeguard against the risk of exchange rate fluctuations on debt and capital leases currency swaps are used. This is a micro-hedging mechanism matched specifically to the borrowing to which it relates.

- 40 -

Air France Group

The nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging instrument used :

	Nominal amounts in EUR millions	
As of March 31,	**2004**	**2003**
Operating hedges :		
Forward sales		
- JPY	124	
- GBP	57	102
Maturity - min	April 2004	April 2003
- max	April 2006	October 2006
Forward purchases		
- USD		37
Maturity - min		April 2003
- max		September 2003
Exchange rate options		
- USD	206	
- GBP	45	106
- JPY		4
Maturity - min	April 2004	April 2003
- max	March 2005	September 2004
Flight equipment acquisition hedging :		
- forward purchases	1,274	30
- forward sales		
- put options		200
Maturity - min	April 2004	April 2003
- max	May 2008	November 2003
Hedging of long-term debt and capital leases :		
- currency swaps		276
Maturity - min		June 2003
- max		January 2004

27.3 - Commodity risk - fuel prices

In the normal course of its business, the Company conducts transactions on the petroleum products markets in order to effectively manage the risks related to its purchases of aircraft fuel.

The Company s commitments on the crude and refined oil markets are shown below (nominal amounts):

	In EUR millions	
As of March 31,	**2004**	**2003**

Petroleum swaps	25	202
Petroleum options	842	764
Maturity - min	April 2004	April 2003
- max	June 2007	March 2005

- 41 -

Air France Group

27.4 - Counterparty risk management

Transactions which potentially generate counterparty risk for the Company are as follows:

temporary financial investments,

derivatives,

trade receivables.

Financial investments are diversified investments in blue-chip securities negotiated with leading banks.

Company transactions in derivatives have the sole aim of reducing overall exposure to exchange rate and interest rate risks to which the Company is exposed in the normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties with no counterparty risk.

Counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of customers comp rising the trade receivables portfolio.

As of March 31, 2004, the Company had not identified any specific counterparty risks relating to trade receivables.

27.5 - Market value of financial instruments

Market values of financial instruments are estimated for the most part using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They are subject to the following inherent limitations:

market values do not take into consideration the effect of subsequent fluctuations in interest or exchange rates,

estimated amounts as of March 31, 2004 and 2003 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

Application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values shown.

The methods used are as follows:

Cash, trade receivables, other receivables, short-term bank finance, trade payables and other payables.

The Company believes that, due to the short-term nature of the above, net book value can be deemed a reasonable approximation of market value.

Marketable securities, investments and other securities.

The market value of securities is determined based on the market price or the prices available on other similar securities markets. Where no benchmark exists, net book value is used, which is deemed a reasonable approximation of market value in this instance.

Loans and other long-term debts and capital leases.

The exchange and interest rate swaps are specifically hedged against long-term debt and capital leases. The market value of these long-term debt and capital leases and loans has been determined after having taken the hedged swaps into account. Variable-rate loans and other long-term debt and capital leases are recorded at net book value. The market value of fixed-rate loans and other long-term debt and capital leases is determined based on discounted future cash flows at market interest rates for instruments with similar features.

Off-balance sheet instruments.

The market value of off-balance sheet instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2004 and 2003 calculated using the year-end market rate.

Air France Group

Market values calculated in this way are shown in the table below:

	In EUR millions			
	2004		**2003**	
As of March 31,	**Net book value**	**Estimated market value**	**Net book value**	**Estimated market value**
Balance sheet				
Investment securities	81	76	104	90
Loans				
- fixed-rate	4	4	4	4
- variable-rate	36	36	11	11
Marketable securities	1,478	1,478	1,039	1,039
Bonds				
- fixed-rate			99	105
- variable-rate	18	18	88	88
Perpetual subordinated loan securities	116	155	169	182
Other loans and long-term debt and capital leases				
- fixed-rate	1,800	1,822	1,628	1,723
- variable-rate	2,114	2,114	1,699	1,697
Other short-term loans and long-term debt and capital leases	289	289	417	417
Off-balance sheet [1]				
Treasury management instruments				
- exchange rate options		5		(2)
- forward currency contracts		21		(14)
- currency swaps				28
commodity instruments				
- petroleum swaps		154		29

(1) For off-balance sheet financial instruments, the figures quoted as market values represent unrealized gains and losses as of March 31, 2004 and 2003.

Air France Group

28. LEASES

28.1 - Capital leases

	In EUR millions	
As of March 31,	**2004**	**2003**
Aircraft		
Minimum lease payments by maturity		
Y + 1	161	202
Y + 2	134	162
Y + 3	281	134
Y + 4	172	258
Y + 5	100	174
> 5 years	591	644
Total	**1,439**	**1,574**
Of which interest	185	229
Aircraft capital leases	**1,254**	**1,345**
Buildings		
Minimum lease payments by maturity		
Y + 1	20	11
Y + 2	21	11
Y + 3	22	11
Y + 4	21	11
Y + 5	19	10
> 5 years	127	21
Total	**230**	**75**
Of which interest	34	11
Building capital leases	**196**	**64**
Equipment capital leases	**3**	**4**
Total capital leases	**1,453**	**1,413**

28.2 - Operating leases

	In EUR millions	
As of March 31,	**2004**	**2003**
Aircraft		
Minimum lease payments by maturity		
Y + 1	502	465
Y + 2	467	466
Y + 3	388	404
Y + 4	319	328
Y + 5	241	257
> 5 years	370	439
Total	**2,287**	**2,359**

For practical reasons, it is not Company policy to disclose the schedule of minimum payments for other operating leases.

Air France Group

29. FLIGHT EQUIPMENT ORDERS

Due dates for commitments in respect of flight equipment orders are as follows:

	In EUR millions	
As of March 31,	**2004**	**2003**
Y + 1	779	661
Y + 2	839	1,065
Y + 3	332	849
Y + 4	375	530
Y + 5	590	301
> 5 years	261	740
Total	**3,176**	**4,146**

These commitments relate to the amounts in USD which are converted into Euros at the year-end exchange rate.

In the 2003-2004 financial year, changes in the number of Air France s orders primarily reflect moves to continue rolling out the delivery schedules in connection with existing orders. In this way, the Company received eight company-owned aircraft between April 1, 2003, and March 31, 2004: two A330-200s, one A320 and five A318s. Over this period, no new commitments or orders were made or options taken up, since the main decisions regarding the renewal of the passenger and cargo fleet had already been ratified and incorporated into contracts with manufacturers.

Medium-haul fleet

The main event over this period was the introduction of the A318, which began in October 2003. As of March 31, 2004, five planes have been delivered to Air France, with a sixth A318 to be delivered in April 2004, taking the fleet in operation up to six by the summer of 2004. In this way, the fleet is moving on to the last stage in its streamlining process centered on these four models from the A320 family. This process will end with the last of the B737s scheduled to be retired in the winter of 2006-2007. The last nine planes from the order are scheduled to be delivered over the next few financial years, in line with the B737 fleet retirement plan.

In connection with the A320 Family contract, Air France received one A320 in December 2003.

Furthermore, the last two firm orders as part of this contract, deliverable in April 2005 and March 2006 respectively, have been changed from A320s to A319s.

The four planes (two A320s, one A321 and one A319), included in the storage operation decided on in the fall of 2002, were still the property of the financing vehicle set up for this purpose as of March 31, 2004, although traffic forecasts have made it possible to begin taking them out of storage for the summer of 2004.

Long-haul fleet

In the fourth quarter, Air France received delivery of two company-owned A330-200s, one of which corresponded to the taking out of storage of one of the two planes included in the operation of deferral from fall 2002. In the summer of 2004, the fleet will be increased to thirteen A330-200s, with the introduction of one plane in connection with an operational leasing agreement at the end of March 2004. For this fleet, the number of orders pending as at March 31, 2004, included three aircraft: two new A330-200s to be delivered during the 2005-2006 financial year and a second stored plane, which is scheduled to enter into service in summer 2005.

Air France did not receive deliveries of any Boeing planes in the 2003-2004 financial year. At year-end, the orders placed with this manufacturer consisted primarily of the ten new long-haul 777-300ERs, which are scheduled to be brought into service in the 2004-2005 financial year, and the last 747-400ERF, which is to be delivered in June 2005.

Regional-company fleet

The regional companies received delivery of two CRJ 700s and two Embraer 145s.

Air France Group

Five planes (four A320 and one A330) were in storage as of March 31, 2004. The planes are owned by a financing company in which Air France has no equity interest. Had this company been consolidated, financial debt and flight equipment fixed assets would have increased by 171 million euros.

Company s commitments concern the following aircraft:

Aircraft type	As of	To be delivered in	Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	> 5 years
A 318	March 31, 2004	Firm orders	4	3	3			
		options			*5*	*2*		*3*
	March 31, 2003	Firm orders	5	3	4	3		
		options			*3*	*4*	*3*	
A 319	March 31, 2004	Firm orders	1	2				
		options						
	March 31, 2003	Firm orders	1					
		options		*6*	*4*	*1*		*6*
A 320	March 31, 2004	Firm orders	2					
		options		*1*	*2*	*1*		
	March 31, 2003	Firm orders	2	2	1			
		options						
A 321	March 31, 2004	Firm orders	1					
		options						
	March 31, 2003	Firm orders	1					
		options			*1*		*1*	
A 330	March 31, 2004	Firm orders		3				
		options		*1*	*2*	*2*		*1*
	March 31, 2003	Firm orders	3	1	1			
		options		*1*	*3*	*2*		
A 380	March 31, 2004	Firm orders				3	5	2
		options					*2*	*2*
	March 31, 2003	Firm orders				3	2	5
		options					*2*	*2*
B 747	March 31, 2004	Firm orders		1				
		options						
	March 31, 2003	Firm orders			1			
		options						
B 777	March 31, 2004	Firm orders	3	5	2			
		options			*2*	*4*	*3*	*1*
	March 31, 2003	Firm orders		4	6			
		options					*3*	*7*
Embraer 145	March 31, 2004	Firm orders	1	5	2			
		options						
	March 31, 2003	Firm orders	2	3	3	2		
		options						
CRJ 700	March 31, 2004	Firm orders	1	1				
		options						
	March 31, 2003	Firm orders	3	1				
		options						

Air France Group

30. OTHER COMMITMENTS

30.1 - Commitments provided

	In EUR millions	
As of March 31,	**2004**	**2003**
Call on investment securities	13	9
Put on investment securities	(2)	(2)
Total	**11**	**7**
Warranties, sureties and guarantees	16	35
Morgaged or secured assets	1,284	1,311
Other purchase	215	189

30.2 - Commitments received

	In EUR millions	
As of March 31,	**2004**	**2003**
Warranties, sureties and guarantees	106	151
Other	9	6

Warranties, sureties and guarantees are comprised primarily of letter of credit received from financial institutions.

30.3 - Litigation and court action

To the company s knowledge, there is no litigation, arbitration or exceptional event likely to have or have had in the recent past a significant impact on the financial position, net income, and assets of the company or the group.

39th hour litigation

Before it was reduced to 35 hours, the legal working week of ground staff as set by regulation in January 1995 was increased from 38 to 39 hours in connection with the Reconstruire Air France plan.

Beginning in 1999, more than 4,000 employees contested the modified working week before the courts, claiming payment for the 39th hour worked each week.

In September 2002, the Court of Cassation rendered several rulings in favor of the company, which should put an end to the current proceedings.

There are currently no risks to report. This dispute has now been settled.

Hall litigation

In June 2000, several travel agents residing in the state of North Carolina, USA, as well as the professional association to which they belonged (Association of Retail Travel Agents), launched a suit before a federal court of the state against several major US airlines for collusion, following a reduction in 1999 of commissions paid to the agents by these companies for the issue of tickets.

During 2002, these same travel agents gradually drew three major European airlines, including Air France, into the proceedings.

The suit initiated by the travel agents was recognized as a class action suit by the court hearing the case.

The amount of damages claimed jointly and severally against the airlines, for the alleged losses, totals USD 17,500,000,000. The amount could be tripled should the US legislation governing collusion be applied.

Air France believes the collusion charge is without merit and will seek its dismissal before the ruling court.

In its decision of October 30, 2003, the Court dismissed the travel agents claims and cleared all the US and European airlines involved in the suit.

The plaintiffs have appealed this decision before the Court of Richmo nd (Virginia).

Air France Group

No provision has been recorded in this regard.

TAM Travel litigation

A certain number of travel agents, who were initially plaintiffs in the Hall case, decided to sue individually before the Court of the State of California. This litigation is identical to the Hall case. Certain defendants have requested that the Tam Travel case be stayed until the appeal in the Hall case is decided. The judge rejected this request on May 3, 2004. As the consequence, the procedure is still pending.

No provision has been recorded in this regard.

Litigation between Servair and its employees

During 2000 and at the start of 2001, a considerable number of Servair employees launched a suit before the Labor Court for payment of backdated wages. The plaintiffs stated that the time spent when dining in the company restaurant constituted a period during which the employee is under the authority of the employer and should therefore be paid as for normal working hours. Conversely, Servair considered that the time spent on meals constituted an interruption in working time that is not entitled to remuneration.

In a definitive ruling on November 8, 2001, the Court of Appeal sided with the position argued by Servair.

Other suits representing a total of 471 individual claims initiated by Servair employees over this same issue are still before the courts. The Company has not recorded any provisions with respect to these disputes.

Security lawsuit in U.S

Certain beneficiaries of victims of the terrorist attacks on September 11, 2001, filed a lawsuit in New York at the end of 2003 against the airport authorities responsible for running the Newark, Washington and Boston airports, from which the planes used for the attacks took off.

As part of this case, all the subcontractors and airlines working at these airports have also been summoned, including Air France, which at the time of the attacks operated flights out of these three hubs.

The plaintiffs allege that the airport authorities, their subcontractors and the airlines in question are guilty of negligence, notably with regard to the choice of companies appointed to manage security at the aforementioned hubs.

Air France, which has an aviation policy covering its third-party liability up to 2 billion dollars, believes that the claim against it in this lawsuit is totally unfounded.

31. CASH FLOW STATEMENT

31.1 - Cash and cash equivalents

	In EUR millions	
As of March 31,	**2004**	**2003**
Cash at bank	330	193
Cash equivalents (note 20)	1,364	746
Short-term bank finance and similar facilities (note 23)	(289)	(267)
Cash and cash equivalents	**1,405**	**672**

31.2 - Acquisition of subsidiaries and affiliates

In the 2003/2004 financial year, 6 million euros were invested in the acquisition of additional Servair securities and 4 million euros on the Opodo capital increase.

In the 2002/2003 financial year, investments corresponded primarily to the acquisition of a 2% equity interest in Alitalia for 23 million euros and 21 million euros as part of the ongoing program to invest in Opodo.

Air France Group

32. SUBSEQUENT EVENTS REVIEW

On April 5, 2004, Air France proposed a public exchange offer to holders of KLM ordinary shares. The exchange ratio was set at 11 Air France shares and 10 warrants for 10 KLM shares and 11 Air France American Depositary Shares (ADS), and 10 Air France American Depositary Warrants (ADW) for 10 KLM New York Registry Shares. Three Air France warrants would entitle holders to acquire and/or subscribe to two Air France shares at an exercise price of 20 euros per Air France share. The warrants have a maturity of three and a half years as of May 6, 2004, and may be exercised beginning on November 6, 2005. The ADWs will be subject to the same strike price and conditions for conversion into Air France shares or ADSs as the Air France warrants.

At the end of the offer period (May 3, 2004), KLM s shareholders submitted 41,762,597 ordinary shares, including 7,708,460 New York Registry Shares. Accordingly, Air France issued 45,938,857 new shares and 41,762,597 warrants. The new breakdown of Air France s capital is as follows: French government 44.7%, Air France employees 10.5%, Public 44.8%. Air France is a privatized company and its shares are listed on the Paris, Amsterdam and New York stock exchanges.

Air France has decided to launch a supplementary offer period, under the same conditions, which started on May 4, 2004, and is scheduled to end on May 21, 2004.

No material events were noted in this respect.

Air France Group

33. SCOPE OF CONSOLIDATION AT MARCH 31, 2004

	Address	Siren	Stock	% Interest	% control	Method	Year end
AIR FRANCE SERVICES LTD	Room 229 -Terminal 2 Office Block London Heathrow Airport -Hounslow MDDX TW6 1RR -GREAT BRITAIN	Foreign	7,000,000abc	100	100	Fully consolidated	Dec-31
AMADEUS FRANCE	2-8 avenue du Bas Meudon 92445 Issy les Moulineaux	348 702 457	1,600	74	66	Fully consolidated	Mar-31
AMADEUS FRANCE SERVICES	2-8 avenue du Bas Meudon 92445 Issy les Moulineaux	356 305 326	2,880,016	42	57	Fully consolidated	Mar-31
AMADEUS GLOBAL TRAVEL DISTRIBUTION	Salvador de Madariaga 1 28046 Madrid - SPAIN	Foreign	27,898,000	23	43	Equity method	Dec-31
CRMA	ZA de la Clef de Saint-Pierre BP 10F 78996 Elancourt	312 139 215	1,300,000	100	100	Fully consolidated	Mar-31
GIE ITAB 320	45, rue de Paris 95747 Roissy CDG Cedex	347 907 636		100	100	Fully consolidated	Mar-31
HEATHROW CARGO HANDLING	Building 558-Shoreham road West Heathrow Airport -Hounslow MDDX TW6 3RN -GREAT BRITAIN	Foreign	800,000gbp	50	50	Equity method	Dec-31
SODEXI	14 rue des Voyelles - BP 10301 Bat. AFE 3512 - Zone Fret 4 95703 Roissy CDG Cedex	347 960 825	2,400,000	60	60	Fully consolidated	Mar-31
REENTON DEVELOPMENT LTD sub group							
REENTON DEVELOPMENT LIMITED	Room 901, 9th Floor, Tien Cheung Hong Building - 77-81 Jervois Street - Sheung Wan - Hong Kong	Foreign	10,000hkd	51	51	Fully consolidated	Dec-31
HANGXIN HITECH RESOURCES HOLDING LTD	Room 901, 9th Floor, Tien Cheung Hong Building - 77-81 Jervois Street - Sheung Wan - Hong Kong	Foreign	77,984hkd	41	80	Fully consolidated	Dec-31
HARBIN HANGXIN AVIONICS CO. LTD	N°8, Bohaiyi Road, Jizhongqu, Hapin Road Harbin Economic Development Zone Harbin 150060 - China	Foreign	1,283,865cny	41	80	Fully consolidated	Dec-31
GUANGZHOU HANGXIN AVIONICS CO. LTD	N° 2, Kexin Road, TIANHE, 510630 Guangzhou - China	Foreign	26,944,758cny	41	80	Fully consolidated	Dec-31
SHANGHAI HANGXIN AERO MECHANICS CO. LTD	N° 12-C, Jinwen Road, Zhuqiao, Nanhui District, 201323 Shanghai - China	Foreign	3,476,424cny	41	80	Fully consolidated	Dec-31
SINGAPORE HANGXIN AVIATION ENG. PTE	N° 66, Loyang Way Singapore 508756	Foreign	16,000sgd	12	30	Equity method	Dec-31
SHANGDONG XIANGYU AERO-TECHNOLOGY	Yaoqiang International Airport, Jinan 250107, Shandong - China	Foreign	3,380,000cny	8	20	Equity method	Dec-31

SERVICES LTD							
UILEAG HOLDING COMPANY sub group							
UILEAG HOLDING COMPANY LTD	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
O FIONNAGAIN HOLDING COMPANY LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 1 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 2 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 3 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 4 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 5 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 6 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 7 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 8 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 9 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 10 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 11 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 12 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 13 LIMITED	5 Harbourmaster Place, International	Foreign	1	100	100		Mar-31

	Financial Services Center, Dublin 1, Ireland					Fully consolidated	
TAKEOFF 14 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 15 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31
TAKEOFF 16 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1	100	100	Fully consolidated	Mar-31

Air France Group

SCOPE OF CONSOLIDATION AT MARCH 31, 2004 (continued)

	Address	Siren	Stock	% Interest	% Control	Method	Year end
AIR FRANCE FINANCE sub group							
AIR FRANCE FINANCE	45, rue de Paris 95747 Roissy CDG Cedex	341 178 697	200,000,000	100	100	Fully consolidated	Mar-31
AIR AUSTRAL	BP 611 97473 Saint Denis de la Réunion	323 650 945	1,984,000	30	30	Equity method	Mar-31
AIR FRANCE FINANCE IRELAND	69/71 st Stephen s Green Dublin 2 IRELAND	Foreign	3,502,508usd	100	100	Fully consolidated	Dec-31
AIR FRANCE PARTNAIRS LEASING NV	130 Schottegativeg Oost Curaçao - DUTCH WEST INDIES	Foreign	39,209,180usd	45	45	Equity method	Dec-31
ALL AFRICA AIRWAYS	Les Cascades, Edith Cavell Street Port-Louis - Mauritius	Foreign	6,697,487usd	51	51	Fully consolidated	Dec-31
BRIT AIR	Aéroport BP 156 29204 Morlaix	927 350 363	23,483,376	100	100	Fully consolidated	Mar-31
CITY JET	Swords Campus, Balheary Road Swords Co. Dublin - IRLANDE	Foreign	5,079,968	100	100	Fully consolidated	Mar-31
FREQUENCE PLUS SERVICES	51/59 avenue Ledru Rollin 94 200 Ivry sur Seine	347 944 259	2,288,000	100	100	Fully consolidated	Mar-31
FPSEA	57 rue Ledru Rollin 94 200 Ivry sur Seine	449 171 222	1,000,000	49	49	Proportionally consolidated	Dec 31
GIE JEAN BART	260 Bd Saint Germain 75007 Paris	430 337 766		10	10	Fully consolidated	Dec 31
GIE SURCOUF	260 Bd Saint Germain 75007 Paris	432 655 785		100	100	Fully consolidated	Mar-31
ICARE	Aéroport BP 156 29204 Morlaix	380 582 346	1,035,488	100	100	Fully consolidated	Mar-31
PROTEUS DEVELOPPEMENT	Aéroport de Dijon Bourgogne 21600 Longvic	399 132 554	5,559,063	100	100	Fully consolidated	Mar-31
PROTEUS FINANCE	Zone industrielle La Plaine - BP 134	428 865 141	40,000	100	100	Fully consolidated	Mar-31

	42163 Andrezieux						
REGIONAL COMPAGNIE AERIENNE EUROPEENNE	Aéroport de Nantes Atlantique 44340 Bouguenais	335 351 920	100,000,000	100	100	Fully consolidated	Mar-31
SOCIETE D EXPLOITATION AERONAUTIQUE	45,rue de Paris 95747 Roissy CDG Cedex	379 316 276	38,112	100	100	Fully consolidated	Mar-31
SOCIETE NOUVELLE AIR IVOIRE	Place de la République - Abidjan Côte d Ivoire	Foreign	3,600,000,000xof	39	76	Fully consolidated	Dec-31
TEAM TRACKERS	Olivova 4/2096 - 11000 Praha 1 Czech republic	Foreign	17,500,000czk	49	49	Proportionally consolidated	Dec-31
SERVAIR sub group							
SERVAIR (Cie d exploitation des services auxiliaires aériens)	4 place de Londres Roissypole 95726 Roissy CDG Cedex	722 000 395	52,386,208	94	94	Fully consolidated	Dec-31
ACNA	Bat. 3416 Modules 100 et 200 BP 10605 95724 Roissy CDG Cedex	382 587 558	250,000	94	100	Fully consolidated	Dec-31
ACSAIR	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	437 568 702	1,500,000	48	51	Fully consolidated	Dec-31
AEROFORM	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	448 568 702	8,000	94	100	Fully consolidated	Dec-31
AEROSUR	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	432 219 940	40,000	94	100	Fully consolidated	Dec-31
AFRIQUE CATERING	4 place de Londres Roissypole BP 10701 95726 Roissy CDG Cedex	403 236 714	450,000	48	51	Fully consolidated	Dec-31
AIR CHEF	Via Venezia Guilia 5/a Milano ITALY	Foreign	2,000,000	30	25	Equity method	Dec-31
ALPHA AIRPORTS GROUP PLC	Europa House - 804 Bath road Cranford Middlesex TW5 9US GREAT BRITAIN	Foreign	17,068,000gbp	26	27	Equity method	Jan-31
BRUNEAU PEGORIER	15 rue de la Grande Borne 77 990 Le Mesnil Amelot	572 129 377	1,365,500	90	95	Fully consolidated	Dec-31
CARBAG	12 chemin des glirettes 95000 Le Thillay	382 587 558	10,000	94	100	Fully consolidated	Dec-31
CENTRE DE PRODUCTION ALIMENTAIRE	16 rue de la Grande Borne 77990 Le Mesnil Amelot	380 885 129	1,500,000	94	100	Fully consolidated	Dec-31
CULIN AIR PARIS	8 rue des acacias 77230 Villeneuve sous Dammartin	430 048 959	914,760	53	56	Fully consolidated	Dec-31

Air France Group

SCOPE OF CONSOLIDATION AT MARCH 31, 2004 (continued)

	Address	Siren	Stock	% Interest	% Control	Method	Year end
DAKAR CATERING	PO Box 8431 Aéroport de Dakar Yoff Dakar - SENEGAL	Foreign	215,000,000cfa	48	51	Fully consolidated	Dec-31
EUROPEAN CATERING SERVICES	The Corporation Trust Company 1209 Orange Street Wilmington DE 19801 USA	Foreign	4,860,000usd	94	100	Fully consolidated	Dec-31
FLYING FOOD CATERING	1209 Orange Street - City of Wilmington 400 - State of Delaware USA	Foreign	920,000usd	46	49	Equity method	Dec-31
FLYING FOOD MIAMI	1650 N.W - 70 th Avenue Miami, Florida 33299 USA	Foreign	6,000,000usd	46	49	Equity method	Dec-31
FLYING FOOD SAN FRANCISCO	810 Malcom Road Burlingame California 94010 USA	Foreign	3,000,000usd	42	44	Equity method	Dec-31
FLYING FOOD SERVICES	1209 Orange Street - City of Wilmington 400 - State of Delaware USA	Foreign	450,000usd	46	49	Equity method	Dec-31
JET CHEF	Zone d aviation d affaires 93350 Aéroport du Bourget	382 587 541	380,000	94	100	Fully consolidated	Dec-31
LOGAIR	4 place de Londres Roissypole 95726 Roissy CDG Cedex	443 014 527	40,000	47	50	Proportionally consolidated	Dec-31
LOME CATERING SA	Aéroport de Lomé BP 3688 TOGO	Foreign	100,000,000cfa	17	35	Equity method	Dec-31
MACAU CATERING SERVICES	Catering Building Macau International Airport	Foreign	16,000,000mop	16	34	Equity method	Dec-31

	Pac On Taipa - MACAU						
MALI CATERING	Aéroport de Bamako Sénou BP E3803 - Bamako MALI	Foreign	350,000,000cfa	68	99	Fully consolidated	Dec-31
ORLY AIR TRAITEUR	1 rue du Pont des Pierres 91320 Wissous	384 030 680	5,700,000	95	100	Fully consolidated	Dec-31
PASSERELLE	Route du Midi Bat. 3441 - BP 10605 95724 Roissy CDG Cedex	433 032 828	7,500	94	100	Fully consolidated	Dec-31
PRESTAIR	1 rue du Pont de Pierre BP 61 - Wissous 91422 Morangis Cedex	429 723 737	7,500	94	100	Fully consolidated	Dec-31
PMAIR	Bat. 3416 - Route du Midi 93290 Tremblay	437 927 882	8,000	48	51	Fully consolidated	Dec-31
SEREP	PO Box 8431 Aéroport de Dakar Yoff Dakar - SENEGAL	Foreign	30,600,000cfa	32	33	Equity method	Dec-31
SERVAIR EUREST	Avenida 11 de Septiembre Poligono Mas Blau 08820 El Prat de Llobregat Barcelona - SPAIN	Foreign	710,797	33	35	Equity method	Dec-31
SERVAIR SATS	PO Box 3 Singapoure Changi Airport 918141 SINGAPORE	Foreign	1,040,000sgd	48	51	Fully consolidated	Dec-31
SERVANTAGE	12 chemin des glirettes 95000 Le Thillay	424 657 179	37,500	94	100	Fully consolidated	Dec-31
SESAL	Aéroport Léon Mba PO Box 20303 Libreville - GABON	Foreign	250,000,000cfa	38	40	Equity method	Dec-31
SOCIETE IMMOBILIERE AEROPORTUAIRE	4 place de Londres Roissypole BP 10701 95726 Roissy CDG Cedex	722 003 795	1,905,000	94	100	Fully consolidated	Dec-31
SKYCHEF	International Airport PO Box 450 Victoria - Point Larue Mahé - SEYCHELLES	Foreign	312,500scr	52	55	Fully consolidated	Mar-31
SKYLOGISTIC	BP 121 69125 Lyon St Exupéry Aéroport	423 049 089	547,500	94	100	Fully consolidated	Dec-31
SOGRI	Aéroport de Cayenne Rochambeau 97351 Matoury	320 750 763	225,000	92	97	Fully consolidated	Dec-31
SORI	Zone de fret Nord Aéroport Pôle Caraïbes 97139 Abymes	322 055 187	50,000	47	50	Fully consolidated	Dec-31
SPECIAL MEALS CATERING	16 rue de la Grande Borne 77990 Le Mesnil Amelot	429 627 474	7,622	94	100	Fully consolidated	Dec-31

- 52 -

Air France Group

FLEET AS OF 31 MARCH 2004

AIR FRANCE FLEET

Aircraft	Owned	Finance lease	Operating lease	TOTAL 31/03/04	In operation 31/03/04
B747-400	9	1	5	15	15
B747-300/200	7		2	9	9
B777-200	14	2	9	25	25
A340-300	8	6	8	22	22
A330-200	3	1	9	13	12
B767-300	1			1	
Long-haul fleet	**42**	**10**	**33**	**85**	**83**
B747-400	1		2	3	3
B747-200	5	1	4	10	10
Cargo	**6**	**1**	**6**	**13**	**13**
A321	8	2	2	12	12
A320	44	5	17	66	65
A319	17	4	18	39	39
A318	5			5	5
B737-300/500	6	3	16	25	23
Medium-haul fleet	**80**	**14**	**53**	**147**	**144**
Total Air France fleet	**128**	**25**	**92**	**245**	**240**

REGIONAL FLEET BRIT AIR

Aircraft	Owned	Finance lease	Operating lease	TOTAL 31/03/04	In operation 31/03/04
Canadair Jet 100	2	11	6	19	19
Canadair Jet 700	1	9		10	10
F100-100	1		9	10	10
Total	**4**	**20**	**15**	**39**	**39**

CITY JET

Aircraft	Owned	Finance lease	Operating lease	TOTAL 31/03/04	In operation 31/03/04
BAE146-200	1		14	15	15

Total	**1**		**14**	**15**	**15**

REGIONAL

Aircraft	Owned	Finance lease	Operating lease	TOTAL 31/03/04	In operation 31/03/04
BEECH1900	6	1	1	8	
EMB120-ER	3	3	8	14	12
EMB135-ER	3	2	4	9	9
EMB145-EU/MP	1	9	17	27	27
F100-100			6	6	6
F70-70			3	3	3
SAAB 2000			6	6	6
Total	**13**	**15**	**45**	**73**	**63**
Total Regional fleet	**18**	**35**	**74**	**127**	**117**
TOTAL Air France Group	**146**	**60**	**166**	**372**	**357**

AIR FRANCE

CONSOLIDATED INCOME STATEMENT

(In EUR million)	Fourth quarter ended 03.31.2004	Fourth quarter ended 03.31.2003 Pro forma		Year ended 03.31.2004	Year ended 03.31.2003 Pro forma	
Operating revenues						
Scheduled passenger	2,292	2,284	0,4%	9,465	9,713	-2,6%
Other air transport operations	209	195	7,2%	795	814	-2,3%
Total Passenger	*2,501*	*2,479*	*0,9%*	*10,260*	*10,527*	*-2,5%*
Cargo	308	315	-2,2%	1,264	1,314	-3,8%
Other cargo revenues	33	39	-15,4%	148	165	-10,3%
Total Cargo	*341*	*354*	*-3,7%*	*1,412*	*1,479*	*-4,5%*
Maintenance	128	131	-2,3%	508	540	-5,9%
Others	42	36	16,7%	157	141	11,3%
Total operating revenues	**3,012**	**3,000**	**0,4%**	**12,337**	**12,687**	**-2,8%**
Operating charges						
Aircraft fuel	(328)	(333)	-1,5%	(1,302)	(1,369)	-4,9%
Chartering costs	(113)	(101)	11,9%	(414)	(415)	-0,2%
Aircraft operating lease costs	(108)	(123)	-12,2%	(458)	(522)	-12,3%
Landing fees & en route charges	(226)	(225)	0,4%	(913)	(934)	-2,2%
Catering	(67)	(76)	-11,8%	(296)	(319)	-7,2%
Handling charges & other operating costs	(185)	(196)	-5,6%	(756)	(768)	-1,6%
Aircraft maintenance costs	(101)	(110)	-8,2%	(381)	(477)	-20,1%
Commercial & distribution costs	(253)	(271)	-6,6%	(1,051)	(1,157)	-9,2%
Other external expenses	(301)	(307)	-2,0%	(1,183)	(1,213)	-2,5%
External expenses	**(1,682)**	**(1,742)**	**-3,4%**	**(6,754)**	**(7,174)**	**-5,9%**
Salaries & related costs	(1,031)	(957)	7,7%	(4,079)	(3,856)	5,8%
Taxes other than income tax	(45)	(45)	0,0%	(186)	(187)	-0,5%
Gross operating result before aircraft operating lease costs	**362**	**379**	**-4,5%**	**1,776**	**1,992**	**-10,8%**
Gross operating result	**254**	**256**	**-0,8%**	**1,318**	**1,470**	**-10,3%**
Charge to depreciation/amortization, net	(297)	(297)	0,0%	(1,184)	(1,195)	-0,9%
Charge to operating provisions, net	(7)	(90)	-92,2%	(46)	(115)	-60,0%
Other income and charges, net	34	(10)	-440,0%	44	2	2100,0%
Total operating charges	**(3,028)**	**(3,141)**	**-3,6%**	**(12,205)**	**(12,525)**	**-2,6%**
E.B.I.T	**(16)**	**(141)**	**-88,7%**	**132**	**162**	**-18,5%**

Gain on disposal of flight equipment, net	6	10	-40,0%	7	30	-76,7%
Operating income	**(10)**	**(131)**	**-92,4%**	**139**	**192**	**-27,6%**
Restructuring costs	**(5)**	**0**	**N.A.**	**(22)**	**(13)**	**69,2%**
Financial income	9	12	-25,0%	38	50	-24,0%
Financial expenses	(34)	(42)	-19,0%	(139)	(161)	-13,7%
Foreign exchange gain (loss)	3	6	-50,0%	35	62	-43,5%
Net (charge) release to provisions	(8)	(13)	-38,5%	6	(36)	-116,7%
Net financial charges	**(30)**	**(37)**	**-18,9%**	**(60)**	**(85)**	**-29,4%**
Gain on disposals of subsidiaries and affiliates	4	0	N.A.	5	4	25,0%
Pretax income (loss)	**(41)**	**(168)**	**-75,6%**	**62**	**98**	**-36,7%**
Share in net income of equity affiliates	19	(3)	-733,3%	53	29	82,8%
Amortization of goodwill	(4)	(4)	0,0%	(15)	(16)	-6,3%
Income (loss) before income tax and minority interests	**(26)**	**(175)**	**-85,1%**	**100**	**111**	**-9,9%**
Income tax	41	74	-44,6%	(2)	13	-115,4%
Income (loss) before minority interests	**15**	**(101)**	**-114,9%**	**98**	**124**	**-21,0%**
Minority interests	(2)	(2)	0,0%	(5)	(4)	25,0%
NET INCOME (LOSS)	**13**	**(103)**	**-112,6%**	**93**	**120**	**-22,5%**