AIRFRANCE KLM

Management Report

2009-10

Société anonyme with share capital of 2 551 863 863 euros
Registered offices: 2, rue Robert Esnault-Pelterie, 75007 Paris
Mailing address: 45, rue de Paris, 95747 Roissy CDG Cedex
Paris Trade and Company Register: 552 043 002

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Corporate governance 1.

The Board of Directors

In order to comply with the governance principles as presented in the AFEP-MEDEF Corporate Governance Code and adopt the conclusions of the evaluation of the functioning of the Board of Directors, the General Shareholders' Meeting of July 10, 2008, decided to reduce the duration of Board directors' terms of office from six to four years and to include the option of a staggered renewal process for mandates in the bylaws. A proposal will thus be submitted to the General Shareholders' Meeting on July 8, 2010 to set the duration of new or reappointed Board Directors' terms of office at two, three or four years to ensure the smooth renewal of the Board of Directors.

Composition of the Board of Directors at March 31, 2010

At March 31, 2010, the Board of Directors comprised 15 members:

- 10 directors appointed by the Shareholders' Meeting;
- 2 representatives of the employee shareholders appointed by the Shareholders' Meeting;
- 3 representatives of the French State appointed by ministerial order.

The functions exercised by the Board of Directors members within the specialized committees are detailed in the *Board of Directors Committees* section.

Directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta

*Chairman of the Board of Directors of Air France-KLM**

First appointed as a Board director: September 23, 1997.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 65,349 shares.

Other directorships and offices

French companies

- Chairman of the Board of Directors of Air France;
- Chairman of the Supervisory Board of Areva;
- Director of Saint-Gobain*;
- Director of Alcatel-Lucent*.

Non-French company

- Director of Alitalia CAI (Italy).

Others

- Member of the IATA (International Air Transport Association) Board of Governors (Canada);
- Member of the Board of Paris Europlace.

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Director (representing the French State) of GDF-Suez* until April 2009;
- Chairman and Chief Executive Officer of Air France-KLM* until December 2008;
- Chairman and Chief Executive Officer of Air France until December 2008;
- Director (representing the French State) of La Poste between August 2008 and April 2009.

Non-French companies

- Director of Unilever* (United Kingdom) until July 2007;
- Director of Alitalia (Italy) until January 2007.

Other

- Chairman of the IATA (International Air Transport Association) Board of Governors (Canada) until June 2005.

Born October 4, 1943, Mr Spinetta is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

* *Listed company.*

Pierre-Henri Gourgeon

*Chief Executive Officer of Air France-KLM**

First appointed as a Board director: January 20, 2005.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Number of shares held in the company's stock: 45,797 shares.

Other directorships and offices

French companies

- Chief Executive Officer of Air France and Permanent representative of Air France-KLM on the Board of Directors of Air France;
- Member of the Supervisory Board of Steria*.

Non-French company

- Vice-Chairman of the Board of Directors of Amadeus IT group (Spain).

Directorships and offices held in the last five years and having expired

French companies

- Deputy Chief Executive Officer of Air France-KLM* until December 2008;
- Deputy Chief Executive Officer of Air France until December 2008;
- Director of Autoroutes du Sud de la France until March 2006;
- Chairman of Amadeus GTD until September 2005.

Born April 28, 1946, Mr Gourgeon is a graduate of the École Polytechnique and the École Nationale Supérieure de l'Aéronautique. He is also a graduate of the California Institute of Technology.

Leo M. van Wijk

Vice-Chairman of the Board of Directors

First appointed as a Board director: June 24, 2004.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 3,565 shares.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Aegon* N.V. (Netherlands);
- Member of the Supervisory Board of Randstad Holding N.V. (Netherlands).

Directorships and offices held in the last five years and having expired

Non-French companies

- Member of the Supervisory Board of Martinair (Netherlands) until March 2008;
- Member of the Supervisory Board of Kennemer Gasthuis (Netherlands) until December 2007;
- Member of the Advisory Board of ABN Amro Holding (Netherlands) until December 2007;
- President of the KLM Management Board (Netherlands) until July 2007;
- Director of Northwest Airlines (USA) until May 2007.

Born October 18, 1946, Mr van Wijk, a Dutch national, holds a Masters degree in Economic Sciences.

Patricia Barbizet

Chief Executive Officer and Director of Artémis

First appointed as a Board director: January 3, 2003.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 2,270 shares.

Other directorships and offices

French companies

- Artémis/PPR group: Member of the Supervisory Board and Chief Executive Officer of Financière Pinault, Director of the Société Nouvelle du Théâtre Marigny, Artémis Permanent representatives on the Boards of Directors of Sebdo Le Point and L'Agefi, Member of the Management Board of Château Latour, Vice-Chairman of the Board of Directors of Pinault-Printemps-Redoute*, Director of FNAC, Member of the Supervisory Board of Yves Saint-Laurent;
- Within the Bouygues group: Director of Bouygues* and of TF1*;
- Director of Total*;
- Director of the Fonds Stratégique d'Investissement and Chairman of the Investment Committee.

Non-French companies

- Chief Executive Officer and Director of Palazzo Grassi (Italy);
- Chairman and Director of Christie's International Plc (United Kingdom);
- Director of Tawa* (United Kingdom);
- Member of the Supervisory Board of Gucci (Netherlands).

* *Listed company.*

Directorships and offices held in the last five years and having expired

French companies

- Director of Piasa until December 2008;
- Chairman of the Board of Directors of Piasa until May 2008;
- Chairman and Chief Executive Officer of Piasa until April 2007;
- Permanent representative of Artémis on the Bouygues Board of Directors until December 2005;
- Chairman of the Société Nouvelle du Théâtre Marigny until June 2005;
- Chairman of the Pinault-Printemps-Redoute* Supervisory Board until May 2005.

Non-French company

- Director of Afipa (Switzerland) until October 2006.

Born April 17, 1955, Ms Barbizet is a graduate of the École Supérieure de Commerce de Paris.

Frits Bolkestein

First appointed as a Board director: November 22, 2005.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

Number of shares held in the company's stock: 10 shares.

Other directorships and offices

Non-French company

- Member of the Supervisory Board of de Nederlandsche Bank (Netherlands).

Other

- Chairman of Telders Foundation (Netherlands).

Directorships and offices held in the last five years and having expired

Non-French company

- Advisor to PricewaterhouseCoopers (Netherlands) until December 2007.

Born April 4, 1933, Mr Bolkestein, a Dutch national, was a Member of the European Commission between 1999 and 2004.

Jean-François Dehecq

*Chairman of the Board of Directors of Sanofi-Aventis**

First appointed as a Board director: January 25, 1995.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 523 shares.

Other directorships and offices

French companies

- Director of Veolia Environnement*;
- Chairman of the Orientation Committee of the Fonds Stratégique d'Investissement.

Others

- Chairman of the National Committee of États Généraux de l'Industrie since November 2009;
- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers).

Directorships and offices held in the last five years and having expired

French companies

- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher until June 2007;
- Chairman and Chief Executive Officer of Sanofi-Aventis* until December 2006.

Non-French companies

- Chairman and Director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co. (Japan) until 2006;
- Director of Fujisawa Sanofi-Synthelabo Inc. (Japan) until June 2005.

Others

- Director of the French National Research Agency until 2009;
- Chairman of the National Association for Technical Research until 2009;
- Member of the French Foundation for Research into Epilepsy until 2009.
- Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations) (Belgium) until June 2008;
- Governor to the Board of the American Hospital of Paris until November 2008;
- Member of the Supervisory Board of the Agency for Industrial Innovation until December 2007;
- Director of UNIFEM, Finance Management until September 2006;
- Chairman of the Conservatoire National des Arts et Métiers until 2005;

Born January 1, 1940, Mr Dehecq is a graduate of the École Nationale des Arts et Métiers.

* *Listed company.*

Jean-Marc Espalioux

Chairman of Financière Agache Private Equity

First appointed as a Board director: September 14, 2001.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 601 shares.

Other directorships and offices

French companies

- Director of Veolia Environnement*;
- Member of the Supervisory Board of Flo group*;
- Member of the Supervisory Board of Homair Vacances;
- Member of the Supervisory Committee of Lyparis SAS;
- Member of the Supervisory Board of Paprec SAS.

Directorships and offices held in the last five years and having expired

French companies

- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Epargne until July 2009;
- Member of the Supervisory Board of Club Méditerranée until January 2006;
- Accor Permanent representative on the Supervisory Board of Lucien Barrière group until January 2006.

Non-French company

- Chairman of Accor UK until January 2006.

Born March 18, 1952, Mr Espalioux is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

Cornelis J.A. van Lede

Chairman of the Supervisory Board of Heineken (Netherlands);*

First appointed as a Board director: June 24, 2004.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 1,000 shares.

Other directorships and offices

French company

- Director of Air Liquide*.

Non-French companies

- Member of the Supervisory Board of Philips Electronics (Netherlands);
- Director of Sara Lee Corporation (US).

Other

- Member of the Board of Directors of INSEAD (Institute of Business Administration) (France).

Directorships and offices held in the last five years and having expired

Non-French companies

- Member of the Supervisory Board of Stork (Netherlands) until January 2008;
- Director of Reed Elsevier (United Kingdom/Netherlands) until May 2007;
- Director of Sara Lee Corp (Netherlands) until April 2007;
- Member of the Supervisory Board of Akzo Nobel N.V. until May 2007.

Other

- Chairman of the Board of Directors of INSEAD until January 2009.

Born November 21, 1942, Mr van Lede, a Dutch national, was Chairman of the Management Board of Akzo Nobel between 1994 and 2003 and Chairman of the Dutch Federation of Industries between 1984 and 1990.

Floris A. Maljers

First appointed as a Board director: June 24, 2004.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 500 shares.

Other directorships and offices

Non-French company

- Chairman of Roompot Recreatie B.V. (Netherlands).

Other

- Chairman of the Board of Directors of the Rotterdam School of Management (Netherlands).

Directorships and offices held in the last five years and having expired

Non-French companies

- Director of Het Concertgebouw N.V. (Belgium) until June 2005;
- Director of SHV Holdings N.V. (Netherlands) until May 2005;
- Director of BP Plc* (United Kingdom) until March 2005.

Other

- Director of Rand Europe until July 2007.

Born August 12, 1933, Mr Maljers, a Dutch national, was Chairman of Unilever* N.V. between 1984 and 1994.

* *Listed company.*

Pierre Richard

First appointed as a Board director: October 20, 1997.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements of the year ending March 31, 2010.

Number of shares held in the company's stock: 401 shares.

Other directorships and offices

French companies

- Director of Generali France Holding;
- Director of EDF Énergies Nouvelles*;
- Member of the Supervisory Board and Director of Le Monde group, Société Éditrice du Monde and Le Monde Investisseurs.

Non-French company

- Expert member of the Board of Directors of the European Investment Bank (Luxembourg).

Others

- Member of the Board of the Institut de l'Entreprise.

Directorships and offices held in the last five years and having expired

French companies

- Chairman of the Board of Directors of Dexia Crédit Local until September 2008;
- Director of Crédit du Nord until February 2007.

Non-French companies

- Chairman of the Board of Directors of Dexia* (Belgium) until September 2008;
- Vice-Chairman of the Board of Directors of Dexia Banque (Belgium) until September 2008;
- Director of Dexia Banque International (Luxembourg) until September 2008;
- Director of FSA (United States) until February 2006.

Born March 9, 1941, Mr Richard is a graduate of the École Polytechnique and of the École Nationale des Ponts et Chaussées.

Directors representing the French State

Bruno Bézard

Director of the French Treasury State Holdings Agency

First appointed as a Board director: March 14, 2007.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2013.

Other directorships and offices representing the French State

French companies and public institutions

- Director of the SNCF since January 2010;
- Director of La Poste;
- Director of EDF*;
- Director of Areva;
- Director of France Telecom*;
- Director of the Fonds Stratégique d'Investissement.

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Director of the Grand Port Maritime de Marseille until February 2010.
- Director of Thalès* until September 2009;
- Director of France Télévisions until April 2007;
- Director of the SNCF until April 2007.

Non-French company

- Director of Dexia* (Belgium) until November 2009.

Born May 19, 1963, Mr Bézard is a graduate of the École Polytechnique and of the École Nationale d'Administration.

Claude Gressier

Honorary General Public Works Engineer

First appointed as a Board director: June 24, 2004.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Other directorships and offices representing the French State

French companies and public institutions

- Director of the SNCF.

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Representative of the Counsel General for Public Works on the Board of Directors of the Établissement des Autoroutes de France until December 2008.

Born July 2, 1943, Mr Gressier is a graduate of the École Polytechnique, attended the Institut des Sciences Politiques de Paris and is qualified as a general public works engineer.

* *Listed company.*

Philippe Josse

Director of Budget, French Ministry of Economy, Finance and Industry

First appointed as a Board director: May 16, 2006.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2012.

Other directorships and offices representing the French State

French companies and public institutions

- Director of EDF*;
- Director of the SNCF.

Born September 23, 1960, Mr Josse holds a law degree and is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

Directors representing the employee shareholders

Didier Le Chaton

Representative of the flight deck crew

First appointed as a Board director: January 26, 2006.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 6,389 shares and 3,590 FCPE units.

Born February 3, 1951, Mr Le Chaton is a graduate of the École Nationale de l'Aviation Civile and a Boeing 747-400 Captain.

Christian Magne

Representative of the ground staff and cabin crews

First appointed as a Board director: September 14, 2001.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 56 shares and 287 FCPE units.

Born August 20, 1952, Mr Magne is a finance executive.

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

Experience of members of the Board of Directors

	Board of Directors experience			Professional experience	
Director	Age at March 31, 2010	Date appointed to the Group	Date appointed to the Air France-KLM Board	Sector	Principal position at March 31, 2010
Jean-Cyril Spinetta	66 years	September 23, 1997	September 15, 2004	Public Service, Air Transport (Air Inter and Air France)	Chairman of the Board of Directors of Air France-KLM and Air France
Pierre-Henri Gourgeon	63 years	January 20, 2005	January 20, 2005	Aeronautics and air transport	Chief Executive Officer of Air France-KLM and Air France
Leo van Wijk	63 years	June 24, 2004	September 15, 2004	Air Transport (KLM)	Vice-Chairman of the Air France-KLM Board of Directors
Patricia Barbizet*	54 years	January 3, 2003	September 15, 2004	Industry (Renault, Pinault group)	CEO and Director of Artémis
Bruno Bézard	46 years	March 14, 2007	March 14, 2007	Public Service	Director of the French Treasury State Holdings Agency
Frits Bolkestein*	76 years	November 22, 2005	November 22, 2005	Industry (Shell)/ Public (Dutch Parliament and European Commission)	Member of the Supervisory Board of de Nederlandsche Bank
Jean-François Dehecq*	70 years	January 25, 1995	September 15, 2004	Industry (SNPA and Sanofi)	Chairman of the Board of Directors of Sanofi-Aventis
Jean-Marc Espalioux*	58 years	September 14, 2001	September 15, 2004	Services (CGE, Accor)	Chairman of Financière Agache Private Equity
Claude Gressier	66 years	June 24, 2004	September 15, 2004	Public Service	Honorary General Public Works Engineer Director of the SNCF
Philippe Josse	49 years	May 16, 2006	May 16, 2006	Public Service	Director of Budget
Didier Le Chaton	59 years	January 26, 2006	January 26, 2006	Air Transport (Air France)	Flight Captain
Cornelis van Lede*	67 years	June 24, 2004	September 15, 2004	Industry (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	Chairman of the Heineken Supervisory Board
Christian Magne	57 years	September 14, 2001	September 15, 2004	Air Transport (Air France)	Finance executive
Floris Maljers*	76 years	June 24, 2004	September 15, 2004	Industry (Unilever)	Chairman of the Board of Directors of the Rotterdam School of Management
Pierre Richard*	69 years	October 20, 1997	September 15, 2004	Banking (CDC, Crédit Local de France, Dexia)	Director of Generali France Holding Expert advisor to the European Investment Bank

* *Directors considered to be independent.*

Missions of the Board of Directors

The Board of Directors determines the orientations of the company's activities and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the company and settles, in its deliberations, the matters which concern it. In addition, the Board undertakes the monitoring and verification it considers appropriate.

Organization of the Board of Directors

Separation of the functions of Chairman and Chief Executive Officer

In accordance with the proposal submitted by the Appointments committee, the Board of Directors decided, on September 25, 2008, to separate the functions of Chairman of the Board of Directors and Chief Executive Officer, effective January 1, 2009. Since that date, Jean-Cyril Spinetta (who had, until then, been Chairman and Chief Executive Officer) has remained Chairman of the Boards of Directors and Pierre-Henri Gourgeon (who had, until then, been Deputy Chief Executive Officer) has fulfilled the functions of Chief Executive Officer.

The Chairman of the Board of Directors organizes and directs the work of the Board and reports to the Shareholders' Meeting. He ensures the smooth operation of the governing bodies in compliance with the principles of sound governance and ensures, in particular, that the Board directors are in a position to fulfil their mission. He also ensures that the Board devotes the time necessary to issues affecting the future of the Group and particularly to its strategy.

The Chairman of the Board of Directors has no executive powers. He may, however, represent the Group in high-level discussions with, for example, the government, key customers and partners, both domestically and internationally, in close collaboration with the Chief Executive Officer. He devotes his best efforts to promoting the values and image of the Group on all occasions.

The Chief Executive Officer is appointed by the Board of Directors. He is invested with the broadest powers to act in the company's name in all circumstances within the limits set forth in the internal regulations of the Board of Directors, which stipulate that the Chief Executive Officer must obtain prior approval from the Board to perform the following operations when their amount exceeds €150 million:

- acquire or sell all interests in all companies formed or to be formed, participate in the formation of all companies, groups or organizations, subscribe to all issues of shares, units or bonds; and
- grant all exchanges, with or without balancing cash adjustments, on the company's assets, stocks or securities.

Internal regulations of the Board of Directors

On June 17, 2004, the Board of Directors adopted its internal regulations, inspired by the Bouton and Vienot reports. In addition to the limitations on the powers of the Chief Executive Officer, these internal regulations specify the terms for the organization and functioning of the Board and establish the prerogatives and duties of the Board directors in terms of the rules on reporting, disclosure, confidentiality and conflicts of interest. They also determine the powers of each of the specialized committees established within the Board.

The internal regulations are regularly updated; they were, in particular, modified by the Board of Directors meeting of March 26, 2009 in order, notably, to specify the roles and powers of the Chairman and the Chief Executive Officer following the separation of the functions of Chairman and Chief Executive Officer, effective January 1, 2009.

The internal regulations are available on the website http://www.airfranceklm-finance.com (Corporate Governance section).

Corporate governance principles and independence of the directors

The Board of Directors operates in accordance with the governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in 2008. However, given its ownership structure (notably the French State and employees) and the specific rules governing the appointment of a number of its Board directors, Air France-KLM does not comply in full with the AFEF-MEDEF Code guidelines with regard to the proportion of independent directors within the Board of Directors and the Audit committee.

In effect, after having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, the Board of Directors meeting of March 31, 2010 reiterated the position adopted in 2009 which is that:

- eight of the fifteen directors are either representatives of the French State, or representatives of the employee shareholders, or senior executives or former senior executives of Air France-KLM and KLM and, in this capacity, may not be considered to be independent;
- the seven remaining directors (Ms Barbizet, Mr Bolkestein, Mr Dehecq, Mr Espalioux, Mr van Lede, Mr Maljers and Mr Richard) can be considered independent in that:
  - none of these seven directors appointed by the Shareholders' Meeting has a relationship with the company, the Group or its management that is such as to color his or her judgement (aside from the fact that the candidature of some of these individuals had been proposed to the Shareholders' Meeting either by KLM or by the Dutch government pursuant to the agreements signed in October 2003),
  - Mr Dehecq and Mr Richard's terms of office are considered to start from 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group;

- given the above, the following can be considered independent:
  - three of the seven members of the Audit committee, and
  - all the members of the Appointments and Remuneration committees.

The Board considered that all the Board directors had competences and professional experience that are useful to the company, whether or not they are considered to be independent in the light of the AFEP-MEDEF criteria.

Compliance and ethics

The Board of Directors has adopted a Compliance Charter and a Financial Code of Ethics. The Compliance Charter, adopted by the Board of Directors on March 25, 2004, and amended on November 22, 2005, prohibits company officers, senior executives and some employees of the company in sensitive posts from trading in the company's shares during the month preceding annual results announcements and for a period of twenty-one days preceding the quarterly and half-year results. The Financial Code of Ethics defines the principles with which the principal executives of the company responsible for the disclosure of financial information must comply.

In the past five years, to the company's knowledge, no Board director has been subject to a fraud or other criminal conviction or to public sanction by the statutory or regulatory authorities, associated with a bankruptcy, a sequestration of goods or liquidation nor has, finally, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer.

Conflicts of interest

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. It should, however, be noted that the French State, which holds 15.7% of the Air France-KLM share capital as at March 31, 2010, also holds 52.4% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

With the exception of the agreements concluded in October 2003 between Air France, KLM and the Dutch government, there is no arrangement or agreement between the main shareholders, customers, suppliers or other parties, in accordance with which a member of the Board of Directors has been appointed.

There is no service level contract binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

Functioning of the Board of Directors

The minimum number of Board of Directors meetings is set at five per year. Prior to Board meetings, a file is sent to Board members containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and/or prior consideration. The matters raised in meetings are usually the subject of presentations, followed by discussion.

Board meetings are conducted in French, however each director may speak in French or in English with simultaneous interpretation.

Secretarial services for the Board of Directors are provided by the Legal Counsel.

Board activity during the 2009-10 financial year

During the 2009-10 financial year, the Board of Directors met nine times (ten meetings in 2008-09). The meetings lasted more than three hours on average and the attendance rate for directors was 89.6% (84.7% in 2008-09).

During these meetings the following matters were notably addressed:

- interim and annual financial statements;
- regular status reports on the Group's activity and financial situation;
- budget projections;
- fuel hedging strategy;
- consolidation in Europe;
- trans-Atlantic joint-venture with Delta;
- review of the situation of Alitalia and Amadeus;
- bond offerings;
- loss of flight AF447 and arrangements to support those close to the victims;
- psychosocial risk policy to support employees;
- compensation of the executive directors;
- evaluation of the functioning of the Board of Directors;
- qualification of independent Board directors.

As has been the case since 2006, an annual Board of Directors meeting was held in October 2009 devoted to the Group's strategy in its different businesses (passenger, cargo, maintenance).

Evaluation of the functioning of the Board of Directors

During the 2009-10 financial year, the Board of Directors commissioned an independent firm to evaluate its functioning.

A number of themes were addressed during this evaluation:

- organization and functioning of the Board of Directors;
- composition and involvement of the Board;
- areas in which the Board intervenes;

- relations between the Board and the Chairman and the company's executive management;
- organization and functioning of the committees.

The interviews with the Board directors were handled under the seal of anonymity and were the subject of a presentation and discussion during the Board of Directors meeting of March 31, 2010.

Generally speaking, the evaluation highlighted some very positive developments in the functioning of the Board since the last formal evaluation carried out in 2007: its functioning is now that of a Board of Directors of an international listed company and the separation of the functions of Chairman and Chief Executive Officer has been effectively implemented. A number of additional improvements were also suggested such as the retrospective analysis of the relevance of decisions taken by the Board of Directors, the Board directors to become better acquainted with the Group's principal executives and the Chairmen of the committees to present the work planned for them at the beginning of the year.

Regulated agreements and commitments

On June 18, 2009, pursuant to the approval granted by the Board of Directors meeting of June 17, 2009, Air France-KLM launched an issue of bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) for a nominal amount of €661 million, maturing on April 1, 2015 and with Air France and KLM as guarantors. To this end, the Board of Directors approved the signature between the companies Air France-KLM, Air France and KLM of a guarantee agreement, a compensation agreement for the guarantee, a credit facility and a contract covering the underwriting and placing of this issue.

On October 14, 2009, pursuant to the approval granted by the Board of Directors meeting of September 24, 2009, Air France-KLM launched a seven-year €700 million bond offering with Air France and KLM as guarantors. To this end, the Board of Directors approved the signature between the companies Air France-KLM, Air France and KLM of a guarantee agreement, a remuneration agreement for the guarantee, a credit facility and a contract covering the underwriting and placing of this issue.

The agreements and commitments approved during previous financial years which continued to apply during the 2009-10 financial year can be found in the Statutory Auditors' report on the regulated agreements and commitments.

The Board of Directors Committees

The Audit Committee

Composition

The committee comprises seven members: Pierre Richard (Chairman of the committee), Bruno Bézard, Jean-François Dehecq, Claude Gressier, Didier Le Chaton, Christian Magne and Floris Maljers.

The principal executives responsible for accounting, legal affairs, finance, internal control and audit of Air France-KLM and the subsidiaries Air France and KLM also attend the meetings.

The Statutory Auditors attended all meetings of the audit committee held during the financial year. At the request of the Chairman of the committee, they were able to consult with committee members outside the presence of the Group's senior executives.

Missions

The audit committee's principal missions are to review the interim and annual consolidated financial statements in order to inform the Board of Directors of their content, to ensure that they are reliable and exhaustive and that the information they contain is of high quality, including the forecasts provided to shareholders and the market.

It evaluates the consistency and effectiveness of the internal control procedures and examines the material risks in order to guarantee the quality of the financial information provided by the company.

It approves the fees of the Statutory Auditors and issues prior approval for some services provided by them.

The committee must also monitor the quality of procedures to ensure compliance with stock market regulations.

The audit committee reviews the interim and annual consolidated financial statements prior to their submission to the Board of Directors and, more specifically, the:

- consolidation scope;
- relevance and consistency of the accounting methods used to draw up the financial statements;
- principal estimates made by management;
- principal financial risks and material off-balance-sheet commitments;
- comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits.

The audit committee has access to the resources required to fulfil its mission and may, notably, be assisted by persons from outside the company.

Activity

During the 2009-10 financial year, the audit committee met four times (three times in 2008-09) with an attendance rate for members of 75% (67% in 2008-09). The meetings lasted an average of two hours and forty minutes.

The following matters were notably reviewed by the audit committee during the 2009-10 financial year.

Review of the financial statements

The committee reviewed the quarterly, half-year and annual financial statements prior to their presentation to the Board of Directors. It conducted a detailed examination of the Statutory Auditors' report on the half-year and annual financial statements as well as the significant points noted in audits.

Internal control and internal audit

At each of its meetings, the committee reviewed the status of internal control and internal audit. Although the company is no longer required to comply with the obligations of the Sarbanes-Oxley Act, it continues to maintain high standards of financial disclosure and corporate governance and a rigorous level of internal control across the Group.

Risk assessment

The audit committee also reviewed the:

- impact of the crisis and the valuation of derivative instruments (particularly fuel hedges) on the Group's financial situation;
- change in the financial situation of the KLM pension funds;
- accounting treatment of the debt linked to the *Flying Blue* loyalty program and the accounting policy for tickets issued and not used;
- status of the antitrust authorities' investigations into the cargo sector.

The Remuneration Committee

Composition

The remuneration committee comprises three directors: Jean-Marc Espalioux (Chairman of the committee) Cornelis van Lede and Pierre Richard.

Missions

The remuneration committee is primarily responsible for submitting recommendations for the level of and changes to the remuneration of the executive directors. It may also be asked to comment on the compensation of the Group's senior executives, as well as on any possible stock subscription or purchase option plan policies.

Activity

The remuneration committee met once during 2009-10 (three meetings in 2008-09) and the attendance rate for members was 100% as in 2008-09.

The remuneration committee submitted a number of proposals to the Board of Directors, which were subsequently adopted by the Board, relating to the principles and the amounts of the fixed and variable compensation for the executive directors (see *Compensation of the Company Officers* section below). The remuneration committee called on the assistance of a specialized external consultancy to support its work.

The Appointments Committee

Composition

Comprised of three members: Jean-Marc Espalioux (Chairman of the committee), Patricia Barbizet and Jean-François Dehecq.

Missions

The appointments committee is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace the executive directors, particularly in the event of unforeseen vacancies.

Activity

The appointments committee met in March and May 2010, with an attendance rate for its members of 100%, to submit to the Board of Directors proposals relating to its composition and the organization of the staggered expiry of Board directors' terms of office to avoid the "wholesale renewal" of the Board of Directors. The mandates of eleven of the fifteen Board directors will effectively expire at the end of the General Shareholders' Meeting to be held on July 8, 2010. Pursuant to the bylaws, this General Shareholders' Meeting could exceptionally decide to set the duration of Board directors' terms of office at two, three or four years in order to enable the renewal of the mandates to be staggered over time.

Compensation of the company officers

Compensation for directors

Board directors' fee modalities

Board directors receive fees whose maximum amount was set at €800,000 by the General Shareholders' Meeting of June 24, 2004. On the recommendation of the Remuneration committee, the Board of Directors decided, at its meeting of June 27, 2007, to adopt new modalities for the payment of directors' fees as follows:

- €20,000 as fixed compensation;
- €20,000 as variable compensation based on Board of Directors and Shareholders' Meeting attendance; and
- €7,000 of additional directors' fees for each non-resident director.

Committee members receive additional fees:

- for the audit committee, the Chairman and members receive, respectively, fees of €12,000 and €8,000;
- for the other committees, the Chairman and members receive, respectively, €7,500 and €5,000.

In privatized companies, the representatives of the French State are entitled to directors' fees, which are paid directly to the French Treasury.

Modalities for the compensation paid to directors other than the executive directors

The directors' fees and other compensation paid in respect of the 2009-10 and 2008-09 financial years were as follows. Note that, with the exception of Mr van Wijk in 2008-09, no non-executive director received any compensation other than directors' fees:

(In €)	2009-10 financial year	2008-09 financial year
Patricia Barbizet	43,000	43,182
Bruno Bézard	44,000(1)	44,364(1)
Frits Bolkestein	45,000	43,364
Jean-François Dehecq	47,000	49,364
Jean-Marc Espalioux	53,000	45,909
Claude Gressier	44,000(1)	40,000(1)
Philippe Josse	38,000(1)	30,909(1)
Didier Le Chaton	48,000	46,182
Cornelis J.A. van Lede	50,000	44,727
Christian Magne	48,000	48,000
Floris Maljers	51,000	55,000
Pierre Richard	57,000	55,182
Leo van Wijk(2)		
Directors' fees	45,000	45,182
Other compensation	0	639,970(3)
Total	**613,000**	**1,231,335**
Of which Directors' fees	***613,000***	***591,365***
Of which other compensation	***0***	***639,970***

(1) Amount paid to the French Treasury.

(2) Mr van Wijk was President of the KLM Management Board until the end of the KLM Annual General Meeting held on July 5, 2007. He continued to be employed by KLM until December 2008 with responsibility for the alliances and the Group's IT development as well as being a member of the Group's Executive Committee. On January 1, 2009, Mr van Wijk opted to start receiving payment from his pension schemes.

(3) €532,869 of fixed compensation and €107,101 of variable compensation in respect of the period between April 1 and December 31, 2008.

Compensation of the executive directors

At its meeting of November 19, 2008, the Board of Directors reviewed the AFEP-MEDEF recommendations on the compensation of executive directors of listed companies, published on October 6, 2008. It considered that these recommendations were in line with the corporate governance practice of the company and confirmed that the thus-amended AFEP-MEDEF Corporate Governance Code would remain the reference code for Air France-KLM for the establishment of the Chairman's report.

Rules and principles decided by the Board to determine the compensation paid to the executive directors

In line with the recommendations of the remuneration committee, the Board of Directors decided, for the period beginning January 1, 2009:

- to grant the Chairman of the Board of Directors a fixed compensation, with no variable portion;
- to grant the Chief Executive Officer compensation comprising a fixed portion (taking into account notably the absence of long-term plans such as stock options or bonus shares) and a variable portion (a target amount of 100% of the fixed compensation and a maximum amount of 130% of this same compensation). This variable portion is determined based on three components whose relative proportions have been set as follows:
  - in equal proportions (i.e. 35% and, if applicable, rising to 50%) between the two quantitative components, which is to say Air France-KLM's absolute (assessed on the basis of adjusted EBIT whose target level is established annually according to the budget) and relative performance (compared with its main European competitors on the basis of an *operational cash flow/revenues* ratio),
  - capped at 30% for the qualitative component (assessed on the basis of various criteria such as, for example, the reconciliation of short and long-term objectives or the responsiveness of management to the economic situation);
- that the Chairman and the Chief Executive Officer will no longer receive directors' fees in addition to their compensation.

Note that the Air France-KLM executive directors do not receive additional compensation in respect of their functions within Air France.

The compensation of the Air France-KLM executive directors is invoiced to Air France based on the proportion of their time devoted to Air France, in line with the regulated agreement approved by the Board of Directors meeting of November 23, 2004 and confirmed on November 19, 2008.

Since January 1, 2009, this proportion has amounted to 50% of the compensation of the Chairman and 30% of that of the Chief Executive Officer.

Compensation of Mr Spinetta in his capacity as Chairman of the Board of Directors

Compensation in respect of the 2009-10 financial year.
At the request of the Chairman, who wished to take into account the impact of the economic environment on the company's situation, the Board of Directors decided, at its meeting on May 19, 2009, to reduce the annual fixed compensation of the Chairman of the Board of Directors from €500,000 to €200,000, effective April 1, 2009 with no variable portion or directors' fees in addition to this fixed compensation.

Compensation in respect of the 2010-11 financial year
At its meeting of May 19, 2010, the Board of Directors decided to maintain the annual fixed compensation of the Chairman of the Board of Directors at €200,000.

Summary of Mr Spinetta's compensation in respect of the 2009-10 financial year

In respect of the 2009-10 financial year, Mr Spinetta's total compensation thus amounted to €200,000.

In April 2005, Mr Spinetta subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. He subscribed for 65,240 shares whose sale is subject to the restrictions outlined in the AMF offering memorandum No. 05-055 of January 31, 2005. Given his participation in the *Air France-KLM shares-for-salary exchange offering,* his fixed compensation was €50,240.

➤ Summary table of the compensation, options and shares granted to Jean-Cyril Spinetta

	2009-10 financial year		2008-09 financial year	
(In €)	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	200,000	50,240	941,591	791,831
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**200,000**	**50,240**	**941,591**	**791,831**

* *Air France-KLM shares-for-salary exchange.*

➤ Summary table of the gross compensation due to Jean-Cyril Spinetta

(In €)	Fixed compensation Before SSE*	Fixed compensation After SSE*	Variable compensation	Exceptional compensation	Directors' fees(1)	Benefits in kind	Total
Amounts due in respect of the 2009-10 financial year	200,000	50,240	0	0	0	0	50,240(3)
(reminder of 2008-09)	*(687,500)*	*(537,740)*	*(225,000)*	*(0)*	*(29,091)(2)*	*(0)*	*(791,831)(4)*

** "Air France-KLM shares-for-salary exchange".*
(1) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.
(2) Mr Spinetta has foregone directors' fees in respect of his mandate on the Board of Directors of Air France.
(3) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2009-10 financial year amounted to €200,000.
(4) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2008-09 financial year amounted to €941,591.

In line with the recommendation of the *Autorité des Marchés Financiers* of December 22, 2008, the table below indicates the amounts paid during the financial year, the variable compensation and the directors' fees being due in respect of the previous financial year.

➤ Summary table of the gross compensation paid to Jean-Cyril Spinetta

(In €)	Fixed compensation(1)	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total(1)
Amounts due in respect of the 2009-10 financial year	50,240	225,000 *in respect of 2008-09*	0	29,091(3) *in respect of 2008-09*	0	304,331
(reminder of 2008-09)	*(537,740)*	*(1,050,000) in respect of 2007-08*	*(0)*	*(40,000)(3) in respect of 2007-08*	*(0)*	*(1,627,740)*

(1) Amount after the "Air France-KLM shares-for-salary exchange".
(2) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.
(3) Mr Spinetta has foregone directors' fees in respect of his mandate on the Board of Directors of the company Air France.

Compensation of Mr Gourgeon in his capacity as Chief Executive Officer

Compensation in respect of the 2009-10 financial year

At its meeting of May 19, 2009, the Board of Directors decided to maintain the annual fixed compensation of the Chief Executive Officer at €750,000. The criteria for establishing his variable compensation remain those set by the Board of Directors at its meeting on November 19, 2008, i.e. a variable portion (whose payment is subject to the achievement of the attribution criteria outlined above) representing up to 100% of his fixed compensation (target amount) or up to 130% of this compensation (maximum amount).

At its meeting of May 19, 2010, based on the work of the Remuneration Committee, the Board of Directors decided to grant the Chief Executive Officer, in respect of the 2009-10 financial year, a variable portion amounting to 20% of his fixed compensation, i.e. €150,000. This variable portion was determined solely on the basis of the qualitative component, the criteria used to determine the quantitative portion not having been fulfilled in view of the results for the financial year. In respect of the 2008-09 financial year, this qualitative portion had been set at its 30% maximum, i.e. €220,000.

Compensation in respect of the 2010-11 financial year

At its meeting of May 19, 2010, the Board of Directors decided to maintain the annual fixed compensation of the Chief Executive Officer at €750,000. The criteria for establishing his variable compensation remain those set by the Board of Directors at its meeting on November 19, 2008 (see above).

Summary of Mr Gourgeon's compensation in respect of the 2009-10 financial year

In respect of the 2009-10 financial year, Mr Gourgeon's total compensation thus amounted to €900,000 (€750,000 for the fixed portion and €150,000 for the variable portion).

In April 2005, Mr Gourgeon subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. He subscribed for 44,769 shares whose sale is subject to the restrictions outlined in the AMF offering memorandum No. 05-055 of January 31, 2005. Given his participation in the *Air France-KLM shares-for-salary exchange offering,* his fixed compensation was reduced from €750,000 to €649,200. Consequently, **Mr Gourgeon received total compensation of €799,200 in respect of the 2009-10 financial year.**

➤ Summary table of the compensation, options and shares granted to Pierre-Henri Gourgeon

	2009-10 financial year		2008-09 financial year	
(In €)	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	900,000	799,200	849,091	748,291
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**900,000**	**799,200**	**849,091**	**748,291**

** "Air France-KLM shares-for-salary exchange".*

➤ Summary table of the gross compensation due to Pierre-Henri Gourgeon

	Fixed compensation						
(In €)	Before SSE*	After SSE*	Variable compensation	Exceptional compensation	Directors' fees(1)	Benefits in kind	Total
Amounts due in respect of the 2009-10 financial year	750,000	649,200	150,000	0	0	0	799,200(2)
(reminder of 2008-09)	*(600,000)*	*(499,200)*	*(220,000)*	*(0)*	*(29,091)*	*(0)*	*(748,291)(3)*

** "Air France-KLM shares-for-salary exchange".*
(1) Since January 1, 2009, Mr Gourgeon has no longer received directors' fees.
(2) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2009-10 financial year amounted to €900,000.
(3) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2008-09 financial year amounted to €849,091.

In line with the recommendation of the *Autorité des Marchés Financiers* of December 22, 2008, the table below indicates the amounts paid during the financial year, the variable compensation and the directors' fees being due in respect of the previous financial year.

➤ Summary table of the gross compensation paid to Pierre-Henri Gourgeon

(In €)	Fixed compensation(1)	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total(1)
Amounts due in respect of the 2009-10 financial year	649,200	220,000 *in respect of 2008-09*	0	29,091 *in respect of 2008-09*	0	898,291
(reminder of 2008-09)	*(449,200)*	*(550,000) in respect of 2007-08*	*(0)*	*(40,000) in respect of 2007-08*	*(0)*	*(1,089,200)*

(1) Amount after the "Air France-KLM shares-for-salary" exchange.
(2) Since January 1, 2009, Mr Gourgeon has no longer received directors' fees.

Other commitments made in respect of the executive directors

As regards the “commitments of any nature made by the company to the benefit of its company officers” note that, in its deliberation of January 15, 2004, the Board of Directors decided to set up a separate collective pension scheme for Air France senior executives including the Chairman of the Board of Directors and the Chief Executive Officer.

This pension scheme aims to guarantee these executives*, once they fulfil the particular conditions for eligibility (notably 7 years’ service with Air France), an annual pension benefit of between 35% and 40% of their average annual compensation during the last three years of their functions, with the amount capped, on any assumption, at 40% of average compensation during the last three years.

The General Shareholders’ Meeting held on July 9, 2009 confirmed the benefit of this additional collective scheme to Mr Gourgeon in his new capacity as Chief Executive Officer as of January 1, 2009, under the same conditions as the other personnel concerned.

Mr Spinetta, who also benefits from this additional collective scheme, opted to start receiving payments from his pension schemes as of January 1, 2009.

No non-compete indemnity nor specific severance package is provided in the event of the departure of the Chairman of the Board of Directors or of the Chief Executive Officer.

➤ **Summary table of the situation of the executive directors in function at March 31, 2010**

	Employment contract		Additional pension scheme (see above)		Indemnities or benefits due or liable to be due on a cessation or a change in function		Indemnities relating to a non-compete clause	
Executive directors	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Jean-Cyril Spinetta		X	X			X		X
Pierre-Henri Gourgeon		X	X			X		X

Loans and guarantees granted to company officers

None.

** For indicative purposes, some 34 eligible senior executives at March 31, 2010.*

Stock options for new or existing shares granted to the company officers of Air France-KLM

Air France-KLM has not established a stock option scheme for new or existing shares for its company officers.

Stock subscription or purchase option schemes granted to the company officers of Air France-KLM and employees of the Air France-KLM group by the subsidiaries*

	KLM(1)			
Date of authorization	May 4, 2004		May 17, 2005(2)	
Date of granting	June 25, 2004	July 26, 2005	July 26, 2006	July 27, 2007
Total number of options granted	463,884	390,609	411,105	428,850
Of which to M. van Wijk	*28,686*	*25,000*	*25,000*	*25,000*
Available for exercise from	June 26, 2007	July 28, 2008	July 27, 2009	July 27, 2010
Expiration date	June 25, 2009	July 16, 2010	July 26, 2011	July 25, 2012
Exercise price per share	€13.19	€13.11	€17.83	€34.21
Number of shares purchased at March 31, 2010	149,858	3,500	0	0
Of which purchased by M. van Wijk	*0*	*0*	*0*	*0*
Number of share options cancelled or lapsing on March 31, 2010	314,026	23,143	27,906	32,833
Outstanding stock options at March 31, 2010	0	363,966	383,199	396,017
Of which remaining to be exercised by Mr van Wijk	*0*	*25,000*	*25,000*	*25,000*

* *The company Air France-KLM has not established a stock subscription or purchase option scheme for its employees and/or company officers.*

(1) *KLM plans for its senior executives and company officers. The number of options and acquisition prices mentioned take into account adjustments linked to the merger between Air France and KLM in 2004.*

(2) *The vesting conditions of the options granted by KLM in 2005, 2006 and 2007 provide for the vesting of one third of the options on the grant date, a second third at the end of the first year following the grant date, with the final third at the end of the second year. The vesting of these options is conditional on the achievement of pre-determined performance criteria which are not market dependent.*

Information on stock subscription or purchase option schemes granted to the employees of the Air France-KLM group and exercised by them during the financial year

During the 2008-09 financial year, KLM introduced Share Appreciation Rights or SARs, which are share-based plans paid for in cash. This scheme has replaced the option plans since 2008 although those granted until 2007 remain in force (no options having been exercised in 2009-10). 136,569 SARs and 153,080 SARs were respectively granted by KLM on July 1, 2009 and July 1, 2008 (see *Consolidated financial statements – note 28.4).*

Performance shares granted to the company officers of Air France-KLM

Air France-KLM and its subsidiaries have not established a performance shares scheme to the benefit of the Air France-KLM company officers.

Summary of operations in the shares of Air France-KLM realized during the financial year (art. 223-26 of the General Regulation of the *Autorité des Marchés Financiers*)

Individual concerned	Operation date	Nature of the operation	Unit price *(In €)*	Operation amount *(In €)*	Type of financial instrument	Market for the operation
Edouard Odier Executive Vice President, Information Systems, of Air France and the Air France-KLM group	January 14, 2010	Disposal	12.35	9,954.10	Shares	Euronext Paris

The Group Executive Committee

The Group Executive Committee, comprising 12 members, meets every two weeks, alternating between Amsterdam and Paris, in order to determine the Group's main orientations within the framework of the strategy approved by the Board of Directors.

The Group Executive Committee members fulfil responsibilities at the level of the Air France-KLM group while retaining their functions within each entity. They are thus remunerated by the company to which they belong.

Members	Age at March 31, 2010	Professional experience: Sector	Professional experience: Experience
Pierre-Henri Gourgeon Chief Executive Officer of Air France-KLM and of Air France	63 years	Aeronautic and air transport	39 years
Peter Hartman President and Chief Executive Officer of KLM	60 years	Air transport (KLM)	37 years
Philippe Calavia Senior Executive Vice President, Finance, of Air France-KLM and Chief Financial Officer of Air France	61 years	Banking Air transport (Air France)	7 years 12 years
Alain Bassil Executive Vice President, Maintenance, Air France-KLM group and Chief Operating Officer of Air France	54 years	Air transport (Air France)	30 years
Christian Boireau Executive Vice President, French sales, Air France	59 years	DDE – French Departmental Directorate for Equipment Air transport (Air Inter and Air France)	6 years 29 years
Frédéric Gagey Chief Financial Officer of KLM and Senior Vice President, Fleet and Purchasing of the Air France-KLM group	53 years	Air transport (Air Inter, Air France and KLM)	16 years
Bertrand Lebel Secretary to the Executive Committee in charge of strategic planning for the Air France-KLM group	57 years	Consultant Air Transport (Air France)	16 years 12 years
Bruno Matheu Executive Vice President, Revenue Management, Marketing, and Network, of Air France and of the Air France-KLM group	46 years	Air transport (UTA and Air France)	24 years
Édouard Odier Executive Vice President, Information Systems, of Air France and the Air France-KLM group	57 years	Air transport (Air France and Amadeus)	33 years
Frank de Reij Executive Vice President, Procurement, of the Air France-KLM group	50 years	International transport Air transport (KLM)	10 years 12 years
Erik Varwijk Executive Vice President, Commercial Passenger Business, KLM and Executive Vice President, International and The Netherlands of the Air France-KLM group	48 years	Air transport (KLM)	21 years
Michael Wisbrun Executive Vice President, Air France-KLM Cargo	58 years	Air transport (KLM)	32 years

Share capital and shareholder structure

Share capital

At March 31, 2010, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares with a nominal value of €8.50, held in registered or bearer form according to shareholder preference.

Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

Financial year ended	Total capital *(in €)*	Number of shares
March 31, 2008	2,551,863,863	300,219,278
March 31, 2009	2,551,863,863	300,219,278
March 31, 2010	2,551,863,863	300,219,278

There have been no changes in the share capital during the past three financial years.

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 9, 2009 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM's capital. The total amount of capital increases is limited to €500 million in nominal with the exception of capital increases reserved for members of an employee savings scheme.

Nature of the operation	Maximum amount of issuance	Balance available at March 31, 2010
Capital increase via the issue of shares and other securities conferring rights to the capital with preferential subscription rights	€500 million	€500 million
Capital increase via the issue of shares and other securities conferring rights to the capital without preferential subscription rights limited to the remuneration of shares tendered within the framework of a public exchange offer, the allocation of shares within the framework of an issue of bonds or other related securities conferring rights to the capital and the allocation of shares following an issue of any securities by a subsidiary giving rights to Air France-KLM shares	€500 million	€500 million
Increase in the amount of the initial issue in the event of a capital increase with or without preferential subscription rights	15% of the original issue subject to the authorized maximum	15% of the original issue subject to the authorized maximum
Capital increase through capitalization of reserves and/or additional paid-in capital	€500 million	€500 million
Capital increase to remunerate contributions in kind constituted of shares or securities conferring rights to the capital of another company	10% of the maximum authorized amount	10% of the maximum authorized amount
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of each issue	3% of the capital at the time of each issue
Issue of bonds or other related securities conferring rights to the capital with or without preferential subscription rights	€1 billion	€1 billion

Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) 2.75% 2020

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs), with a 15-year maturity, for a total amount of €450 million. These bonds have a nominal unit value of €20.50 and mature on April 1, 2020. The annual coupon is 2.75% paid annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020.

Further to the payment of dividends from the *other reserves* account in respect of the financial year ended March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-20 issue contract. The conversion/exchange ratio for holders of bonds convertible and/or exchangeable into Air France-KLM new or existing shares was thus changed to 1.03 shares for each 2.75% 2005-20 bond.

At March 31, 2008, 597 bonds had been converted, thus reducing the number of outstanding convertible bonds to 21,950,622.

At March 31, 2009 and 2010, no bonds had been converted or exchanged into shares.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) 4.97% 2015

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At March 31, 2010, 6,591 bonds had been converted into existing shares reducing the outstanding balance of bonds to 56,010,358.

Authorization to buy back Air France-KLM's own shares

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 9, 2009 authorized the Board of Directors, for a period of 18 months, to trade in the company's own shares with a maximum purchase price of €30.

Air France-KLM is authorized to buy back up to 5% of its share capital. The objectives of the buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees or senior executives and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition. Pursuant to this authorization, at March 31, 2010, Air France-KLM held 4,335,382 shares, of which 1,260,000 within the framework of the liquidity agreement and 114,181 for the balance of the 1998 Shares-for-salary exchange. Since July 10, 2009, the company has purchased 270,500 shares at an average price of €10.55 and sold 245,500 shares at an average price of €11.37. During the 2009-10 financial year, pursuant to this program and the program authorized by the Shareholders' Meeting of July 10, 2008, 365,500 shares were purchased at an average price of €10.32 and 245,000 shares sold at an average price of €11.37.

At March 31, 2010, KLM held 1,395,092 Air France-KLM shares in respect of its various stock option plans. In total, the Group held 5,730,474 of its own shares, or 1.9% of the share capital, for a net book value of €67.1 million.

Transactions realized between April 1, 2009 and March 31, 2010 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at April 1, 2009	1,140,000	2,967,792	4,107,792
Shares purchased			
Number of shares	365,500	-	365,500
Average purchase price *(In €)*	10.32	-	10.32
Use			
Number of shares	245,500	6,591	252,091
Average sale price *(In €)*	11.37	9.82	11.33
Number of shares at March 31, 2010	**1,260,000**	**2,961,201**	**4,221,201**

Air France-KLM shareholder structure

Breakdown of the share capital and voting rights

	% of share capital			% of voting rights		
Financial year ended	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2010	March 31, 2009	March 31, 2008
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	294,488,804	294,329,817	294,886,837
French State	15.7	15.7	15.7	16.0	16.0	15.9
Employees	11.8	12.0	11.2	12.7	12.3	11.4
Treasury stock	1.9	2.0	1.8	-	-	-
Others	70.6	70.3	71.3	71.9	71.7	72.7

There have been no changes in the share capital since March 31, 2008.

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification. This operation has been carried out every quarter since the French State's shareholding was reduced in December 2004.

The TPI (identifiable bearer shares) analysis as at March 31, 2010, was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 97.1% of the capital were identified and 109,499 shareholders listed including 92,219 individual shareholders. Based on the TPI analysis of March 31, 2010, restated pursuant to article 14 of the bylaws which defines French residence, Air France-KLM is more than 50% held by French shareholders and, consequently, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met, the majority of the company's voting rights being held by shareholders and foundations subject to Dutch law.

Financial year ended	Number of shares March 31, 2010	March 31, 2009	March 31, 2008	% of the share capital March 31, 2010	March 31, 2009	March 31, 2008
French State	47,148,326	47,136,626	46,995,047	15.7	15.7	15.7
Employees	35,497,545	36,153,734	33,626,539	11.8	12.0	11.2
Individuals	41,807,898	42,500,125	39,501,290	13.9	14.2	13.2
Resident institutions	65,996,169	68,809,487	90,595,816	22.0	22.9	30.2
Non-resident institutions	109,769,340	105,619,306	89,500,586	36.6	35.2	29.8

Air France-KLM is 63.4% owned by French interests (65% at March 31, 2009) and more than 75% by European institutions as at March 31, 2009. The principal European countries are the United Kingdom (4.5%), the Netherlands (4.1%), Norway (1.1%), Switzerland (1.0%), Germany (0.8%), and Luxembourg (0.5%). North American institutions hold 17.3% of the share capital (17.1% at March 31, 2009), of which 9.4 million in ADR form (10.3 million at March 31, 2009).

Based on the latest declarations, the following shareholders hold at least 0.5% of Air France-KLM's share capital.

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
Amundi Asset Management	January 5, 2010	4,027,074	1.34	I
Capital Research & Mgt	March 23, 2010	30,374,600	10.12	I
Credit Suisse	April 7, 2010	2,892,331	0.96	R
DNCA	April 14, 2010	2,664,300	0.89	R
Donald Smith & Co	April 30, 2007	6,883,567	2.29	I
Edmond de Rothschild	September 5, 2008	6,144,103	2.05	I
Federal Finance	June 11, 2009	2,809,585	0.94	R
Fintecna	March 31, 2008	4,395,618	1.46	I
Fonds de réserve des retraites	June 12, 2009	901,709	0.55	R
Natixis	February 12, 2010	4,716,170	1.57	I
Société Générale	November 24, 2009	1,558,474	0.52	I
UBS London	March 5, 2010	4,645,474	1.55	R

Shareholders' pacts

Air France-KLM is not aware of the existence of any shareholder pact or agreement whose implementation could lead to a change of control.

Dividend policy

Over the last three financial years, Air France-KLM paid the following dividends:

Financial year	Earnings per share *(in €)*	Dividend paid *(in €)*
2006-07	3.35	0.48
2007-08	2.63	0.58
2008-09	(2.76)	-

The Group's objective is to have a sustained dividend policy, subject to the growth in net income excluding exceptional items. The dividend is paid on the fifth trading day after the General Shareholders' Meeting approving the dividend.

Given the difficult economic environment which has prevailed over the past two years, the Board of Directors decided not to propose a dividend payment in respect of the 2008-09 and 2009-10 financial years.

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Activity

2.

Highlights of the 2009-10 financial year

April 2009

- Air France-KLM and Delta, now merged with Northwest, implement their trans-Atlantic joint-venture enabling the sharing of revenues and costs and a significant level of cooperation aimed at improving their economic performance on the largest global market.
- Air France takes delivery of its 54th Boeing 777-300, the 777th aircraft in this family. The aircraft is painted in the new Air France livery.
- Air France-KLM announces a 4.5% reduction in passenger capacity and an 11% reduction in cargo capacity.

May 2009

- Air France and KLM celebrate the fifth anniversary of their merger.

June 2009

- On June 1, the Group faces the tragic loss of Air France flight AF447 between Rio de Janeiro and Paris over the Atlantic with 216 passengers and 12 crew members on board.
- On June 26, the Group launches a €661 million issue of bonds convertible and/or exchangeable into new or existing Air France-KLM shares with a 4.97% coupon. These convertible bonds mature on April 1, 2015 and have a nominal unit value of €11.80.

August 2009

- Air France-KLM announces its withdrawal from the tender process for the privatization of Czech Airlines.

September 2009

- Air France announces plans to redefine the medium-haul network and restructure the cargo business together with the implementation of a voluntary redundancy plan for ground staff involving around 1,700 people.
- Air France-KLM amends its fuel hedging strategy in reducing the time span of the hedges from four to two years and the absolute exposure from two years’ consumption to 80% of a single year of consumption.
- Air France-KLM shares are transferred from the CAC 40 to the CAC Next 20.

October 2009

- KLM celebrates its 90-year anniversary.
- Air France-KLM launches a €700 million seven-year bond issue with a 6.75% annual coupon, redeemable at par.
- With a flight bound for New York, Air France launches a new cabin class on its long-haul flights. An intermediary proposition between Business and Economy, *Premium Voyageur* offers an alternative to customers who are price sensitive but are also seeking comfort. The entire long-haul fleet should be equipped with the new cabin by the end of 2010.
- Air France takes delivery of its first Airbus A380.

November 2009

- Air France operates its inaugural flight to New York with the Airbus A380.
- Air France-KLM announces a further capacity reduction of 2% in the passenger business and 5% in cargo for the 2009 Winter season.

December 2009

- Air France-KLM is awarded the 2009 sustainable development *Golden Marianne* in recognition of its commitment and best practice.

March 2010

- On March 23, Amadeus, in which Air France has a 22% stake, announces plans for an IPO during the 2010 first half. The company is floated on the Madrid stock exchange in April 2010.

April 2010

The eruption of the Eyjafjallajoekull volcano in Iceland on April 15, 2010 grounds most European airlines for a period averaging six days, resulting in revenue short-falls and significant operating losses.

Market and environment

The air transport industry plays a unique role in the global social and economic landscape, accounting for close to 8% of the global economy. Air transport is at the heart of modern-day, globalized economies with some 2.5 billion passengers and 50 million tons of cargo transported world-wide annually. More than 5.5 million people are directly employed by this industry *(Source: Oxford Economics)*. Aviation gives companies rapid and effective access to markets and boosts global trade. It also enables greater freedom of movement for merchandise, business people and tourists, thus generating an increase in international investment and stimulating growth. Furthermore, in addition to manifold economic benefits, air transport has radically changed the functioning and interaction between economies and societies.

This industry is, nonetheless, highly cyclical with significant sensitivity to overall economic trends. It is also characterized by low margins and a significant investment requirement. Additionally, the fluctuation in the oil price in recent years has resulted in a high degree of earnings volatility for the airlines.

External factors, over which the airlines have no control, also influence their profitability. They range from geopolitical crises such as the September 11 terrorist attacks, to health crises like the SARS epidemic in 2003 and natural phenomena like April's eruption of the Icelandic volcano. This requires the airlines to rapidly adjust their strategy in response to such events. Air transport demand has, however, always regained and even exceeded its level prior to each of these crises.

The economic environment

An unprecedented economic crisis

Although the 2008-09 global recession was undeniably the most severe of the past 60 years, it did, however, prove to be relatively short. Between the second quarter of 2008 and the end of the 2009 first quarter, global GDP declined by 3.5%. The deployment of aggressive budgetary and monetary policies together with bank bail-out programs and economic stimulus packages all enabled the avoidance of a depression similar to that of 1929. The Asian economies proved resilient with GDP growth of 1%, having underpinned the economic recovery as of the 2009 second quarter. By the third quarter, all the major world regions had started to recover. In the three last quarters of 2009, the global economy grew at an annualized rate of around 2.8% driven by the strong productivity in Asia, the Middle East, North Africa and sub-Saharan Africa. However, the recovery in the global economy has not been homogeneous. While the Asian countries enjoyed GDP growth of 1% in 2009, the developed economies saw their GDP fall by 3.3%. Overall, global GDP fell by 2% in 2009 *(Source: Global Insight Jan 2010).*

Transport was one of the first areas of spending to be reduced as a result of this economic crisis. In leisure, the recession encouraged the trend for customers to seek the lowest fares. They increasingly turned to promotional offers and the low cost airlines and reduced their number of trips. Business travel was, however, the most affected. Averaging, in normal periods, some 8% of passengers and 15% to 20% of airline revenues, Business travel was down by 15.8% in volume terms in 2009. Since December 2009, there has been some modest growth on 2008 *(IATA Premium monitor 2009).*

In 2009, international traffic declined by 3.5% overall (+1.6% in 2008) for capacity down by 3.0%. The load factor lost 0.3 of a point to 75.6%. Around 2.2 billion passengers (-4.3% versus 2008) were carried world-wide, generating revenues of $367 billion, 16% down on 2008 *(Source: IATA Financial forecast March 2010).*

At the same time and based on an average oil price of $73 a barrel *(Sources: Reuters Brent and WTI 2009),* the fuel bill amounted to $113 billion, or 24% of operating costs compared with 32% in 2008 *(Source: IATA Financial forecast March 2010).* The savings achieved on the fuel bill given the correction in the oil price were insufficient to offset the collapse in revenues.

The European airlines were particularly badly hit by the crisis with traffic down by 5.8% (+1.3% in 2008) for a 4.2% reduction in capacity (+3.0% in 2008) leading to a 0.3% decline in the load factor to 76%. This meant they had to contend with operating losses of some $3.9 billion *(Source: AEA European airline members Feb 2010).*

Despite the crisis, the airlines were able to raise more funding in the markets than in 2008 ($24.7 billion in 2009 versus $5.8 billion in 2008) although this was debt rather than equity, implying a risk weighing on their potential growth.

The forecasts for 2010 are cautiously optimistic

Forecasts for global GDP growth stand at 3.2% for 2010 with, however, some significant regional differences. In the United States, GDP is forecast to increase by 3.0% whereas the Asia Pacific region is expected to grow by 5.6%. In the United States growth will be driven by increased consumer confidence and higher exports. In the Asia-Pacific, having been relatively unscathed by the recession, China and India are driving the economic momentum with growth rates of +10.3% and +8.0%, respectively, in 2010. Growth of 30% is expected for the 2007-11 period. GDP growth forecasts are also positive for Latin America (+3.3%) and more particularly for Brazil (+4.7%). The euro zone remains a laggard with a growth forecast limited to 0.9% explained, in part, by a high unemployment rate which is weighing on household consumption and the difficulties encountered by Greece and, possibly, Spain and Portugal *(Source: Global Insight March 2010, Consensus Forecasts March 2010).*

The beneficiaries of this particular context are the strongest low cost carriers and the legacy airlines with efficient hubs. The factors determining a return to growth for the air transport industry remain, however, the recovery of long-haul Premium traffic and the direction in the oil price which both still look very uncertain currently. In the first months of 2010, the oil price had already traded at above $85 a barrel while 2010 forecasts stand at between $75 and $95 a barrel *(Source: Consensus Forecasts March 2010).*

The competitive environment

An upheaval in the operating environment calling for adaptation and structural changes

The competitive advantages built by the European airlines in recent years proved temporarily detrimental within the 2009-10 environment. Until the autumn of 2008, the best-positioned airlines were effectively those with a large business customer base and effective fuel hedging strategies. The sudden downturn caused by the crisis temporarily undermined these two strengths requiring the implementation of some major changes to adapt to the crisis.

The business customer segment has been the most affected by the crisis. In 2009, the number of Premium passengers was down by 15.8% globally. However, after a decline until November 2009, Premium traffic for the industry as a whole was up by 1.7% in December and 5.5% in January 2010 relative to its level of the previous year *(Source: IATA Premium monitor Dec 2009 and Jan 2010).* Intra-European Premium traffic was the worst hit, falling by 23.8% on average in 2009 with the trend remaining negative in early 2010 (-7% in January 2010) *(Source: IATA Premium monitor Dec 2009 and Jan 2010).* Between Europe and Asia, the trend turned negative as of June 2008 before collapsing in April 2009 (-26.4%). Since the end of 2009 there have been some signs of recovery in Premium traffic across the long-haul network as a whole: in December 2009, Europe/Asia +6.2%, Europe/South America +7.7%; in January 2010, Europe/North America +3.5%, Europe/South America +9.2% *(Source: IATA Premium monitors 2009).*

Lastly, the fall in the oil price has made fuel hedges inefficient, increasing rather than reducing fuel bills and requiring companies with too much fuel hedging to recognize significant operating and financial charges in their financial statements.

Industry responses to the crisis

An adaptation in capacity

While there are some positive signs in terms of demand growth and a slight improvement in unit revenues, these remain fragile. Consequently, the air transport industry is still very cautious on capacity. For the Summer 2010 season, long-haul capacity is virtually unchanged on its Summer 2009 level (+0.9%), with the European airlines even reducing their capacity by 0.4%. Within the Latin American region, Brazil is growing strongly while Mexico has been affected by a significant reduction in capacity. International capacity to and from China and India is stable. Note however that, on the Europe-China axis, it is the Chinese airlines which are growing faster than their European counterparts (+11%). The European airlines have transferred part of their capacity towards Africa. Only the Gulf airlines still plan a significant capacity increase (+10.5%) *(Source: OAG for June 2010).*

Following the drastic capacity cutbacks in medium-haul amounting to around 8% in 2009, capacity has been increased by 6.3% for Summer 2010 but with very different trends by company. While Ryanair and easyJet plan double-digit growth in their Summer 2010 capacity (respectively +29.1% and +11.6%), the rest of the industry, with the exception of Turkish and Norwegian, has growth limited to 2.0%. The market share of the low cost airlines will remain stable at 46% as in 2009.

Whereas the airlines are limiting their offer in medium-haul, the TGV high-speed train continues its development in Europe. Amsterdam is now only three hours and ten minutes away from Paris and, in the medium term, rail travel between Germany, Switzerland and Paris will become faster. In France, the number of high speed rail passengers from 98 million to 97 million in 2009 but the TGV's market share gained one point from 81% to 82%. Over the same period, the number of Air France-KLM domestic passengers declined from 19 million to 18 million, its market share thus falling by one point from 16% to 15%.

Lastly, the significant capacity reduction during 2009 was achieved by the grounding of aircraft and reduced use of the operating fleet, i.e. a reduction equivalent to between 7% and 8% of the global wide-bodied fleet, according to IATA. A significant increase in capacity over the next three years is, however, possible with an increase in the aircraft utilization rate and the delivery of more than 600 wide-bodied aircraft over the period.

A reduction in costs and investment and product adaptation

In the summer of 2008, the industry's main concern was to reduce costs in order to offset the very sharp rise in the fuel bill. Since the summer of 2009, despite the correction in the oil price, cost cutting has remained a priority to offset the collapse in revenues due to the crisis. For most European and American airlines, payroll expense is the main cost item. The significant cutback in capacity led the airlines to implement headcount reduction plans as of 2009 and these efforts are continuing. The British Airways *Fight for Survival* program plans 1,700 cabin crew departures by the end of the 2010 third quarter and a salary freeze. Lufthansa's *Climb 2011* plan foresees a 20% reduction in administrative staff and a 10% reduction in unit staff costs. Within the Air France-KLM group a voluntary redundancy plan involving some 1,700 employees is underway. Savings are also being sought in other cost items: reduction in commercial costs, renegotiation of contracts, etc. Products and production processes are also being reviewed: British Airways, for example, no longer serves meals in economy for flights lasting less than two and a half hours. Airlines have also responded by scaling back their investment plans notably by deferring aircraft deliveries to preserve cash. Lufthansa has reduced its investment by $2.1 billion while at Air France-KLM the reduction is €4.5 billion and, at SAS, $720 million. easyJet plans to save £190 million annually and has renegotiated its maintenance contract. Lastly, the European airlines are seeking new models. Iberia is going to set up a new medium-haul structure in Madrid with new staff to feed the hub at a competitive cost. Similarly, British Airways has unveiled a *new fleet* project with a simplified organization which would employ cabin crew on lower salaries.

The development of ancillary revenues

Ancillary revenues are already an integral part of the low cost model which is based on the lowest possible entry level price point corresponding to a minimal level of service, to which a whole range of supplements are added. They thus account for more than 20% of revenues at Ryanair and some 18% at easyJet. For the legacy carriers, however, this is a relatively new trend which is developing rapidly, initiated by the US airlines which were particularly badly affected by the soaring oil price and the financial crisis. Ancillary revenues include both charging for extras that are already part of the service such as excess baggage, in-flight sales (drinks, snacks, blanket and pillow), a choice of seat and access to lounges or new services offered by non-airline partners (car hire, hotels, insurance, etc.) and developed for airlines such as access to high-tech services (wifi or on-board telephony). Since the end of 2008, with the exception of low cost carrier Southwest, paying for baggage on a domestic flight in the United States has become the norm virtually everywhere. These additional revenues already represented 6% of the US airlines' total revenues during the 2009 fourth quarter, or around $2 billion *(Source: U.S Bureau of Transportation Statistics 2009).* In Europe and Asia, the trend emerged a little later but is also growing rapidly. British Airways, for example, charges for a choice of seat at the time a booking is made and All Nippon Airways has developed a *pay for value* product enabling passengers flying economy to purchase a Business class meal. Air France-KLM now charges certain classes of passenger for checking in a second item of baggage and offers the *Time To Think* option, launched in March 2009, enabling bookings and fares to be held for a given period.

Consolidation in the sector

The industry's last response consists of restructuring and mergers to gain competitiveness. In Europe, following the merger of airlines in their domestic markets like Vueling and Clickair in Spain or Alitalia and Air One in Italy, the multinational networks have become stronger. Lufthansa has acquired Brussels Airlines, BMI and Austrian Airlines, British Airways has confirmed its merger with Iberia and Air France-KLM has acquired a stake in Alitalia. The consolidation has seen the emergence of three major European groups organized around Air France-KLM, Lufthansa and British Airways and these three airlines are at the heart of the three largest alliances, namely SkyTeam, Star Alliance and oneworld. In the United States, Delta has merged with Northwest, while United and Continental have just announced merger plans. In Asia, the consolidation has taken the form of mergers between airlines in their domestic markets such as China Eastern and Shanghai Airlines. Financial difficulties have led other airlines, such as US regional airline Mesa Air and Japan Airlines in Japan, to file for bankruptcy protection.

Joint-ventures represent another form of consolidation enabling airlines to reduce their costs and generate additional revenues through an enhanced offer. Lastly, although the number of bankruptcies remains limited, a number of players suffering from a cash shortage have had to close down (Sky Europe, Air Comet, Flyglobespan).

Strategy

2008 and 2009 will certainly remain the most difficult years the air transport industry has encountered with longer-lasting consequences than the crises in 2001 and 2003. This crisis has wiped out more than three years of traffic growth with a particularly significant impact on both business and medium-haul traffic. The fall-off in business demand, which is key to profitability, has led to a significant deterioration in the results of the legacy airlines. This phenomenon has been even more marked in the medium-haul network, underlining a structural change in the behaviour of consumers who are becoming increasingly sensitive to price and the value for money of the service supplied.

The cargo business has also had to withstand the full force of the crisis. Global trade collapsed by 12% in 2009 with some very major repercussions *(Source: WTO).* The fall in volumes combined with overcapacity and the competition from shipping led to very significant pressure on prices. Air cargo industry revenues declined by around 25% in 2009 having been down by as much as 40% *(Source: ICAO, IATA).*

In 2009, while continuing to leverage the specific strengths stemming from the complementarities between Air France and KLM in their three principal businesses (passenger, cargo and maintenance), the Group implemented a number of strategic measures to adjust its activity to the new environment: the adaptation of long-haul and the transformation of medium-haul in the passenger business and restructuring in the cargo business. Some of these measures were implemented immediately while others will only bear fruit in the 2010-11 financial year. Finally, as in 2008-09, the Group continued to fine-tune its capacity to demand, redefine its operations, reduce investment and reinforce its cost-savings plans.

During this extremely difficult period for air transport, Air France-KLM demonstrated its ability to mobilize multiple operating levers while continuing to develop drivers of profitability and growth.

Fundamental strengths

A powerful, balanced network

The Air France-KLM group currently operates the largest network between Europe and the rest of the world. Of the 180 long-haul destinations served directly by AEA (Association of European Airlines) member airlines in the Summer 2010 season, Air France-KLM accounts for 111, or 62% of the total, compared with 42% for British Airways and 46% for the Lufthansa group (Lufthansa + Swiss + Austrian Airlines + BMI). Furthermore, the Group also offers 42 unique destinations which are served by neither British Airways nor the Lufthansa group.

Lastly, given its presence in all the major markets, the Group's network is balanced, with no one market representing more than a third of passenger revenues.

Two coordinated hubs at developing airports

The Group's network is coordinated around the two intercontinental hubs of Roissy-Charles de Gaulle and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. Their efficiency is supplemented in southern Europe by the airports of Rome and Milan where Alitalia, the Group's strategic partner since January 2009, operates. Furthermore, these hubs, which combine connecting with point-to-point traffic, are organized around airport platforms whose development potential will further strengthen the role of the large intercontinental hubs. Between June 2007 and 2012, Air France will benefit from the gradual opening of new airport infrastructure which will provide state-of-the-art facilities for passengers and make Roissy-CDG a model of excellence in Europe.

This large scale pooling of limited flows gives small markets world-wide access while optimizing the fleet and enabling the use of larger aircraft, thereby reducing noise and carbon emissions. For example, the second wave at the Roissy-Charles de Gaulle hub, organized around the arrival of 61 medium-haul flights and the departure of 28 long-haul flights, offers 1,797 possible combinations within a period of under two hours with only 89 aircraft.

During this period of crisis, this unique combination of hubs is a major strength at a time when the smallest airlines are cancelling some of their direct flights, requiring their passengers to such destinations to use a connecting flight. For the 2009-10 financial year, connecting traffic thus remained virtually stable (-0.3%) at Roissy-CDG whereas point-to-point traffic declined by 2.3%.

A balanced customer base

The Air France-KLM group's policy of meeting the expectations of all its customers in terms of networks, products and fares has enabled it to build a balanced customer base of whom half are traveling for leisure and half for business purposes. Revenues generated with business passengers saw a significant decline over the financial year with many either travelling less or switching to economy class. However, the Group still benefits from an equal balance between transfer (56%) and point-to-point passengers (44%). Furthermore, 53% of 2009 revenues (50% in 2008) were generated by the Group's passenger loyalty strategy (frequent flyer program and corporate contracts).

A global alliance that strengthens the network

Air France and KLM play a lead role in the SkyTeam alliance, the number two global alliance in terms of market share. Bringing together nine European, American and Asian airlines at March 31, 2010, SkyTeam enables the Group to respond to market needs and withstand competition in both passenger and cargo transportation. The alliance comprises Aeroflot, AéroMexico, Air France, Alitalia, China Southern, Czech Airlines, Delta merged with Northwest, KLM and Korean Airways. Air Europa (Spain), Copa Airlines (Panama) until November 2009 and Kenya Airways have joined them as associate airline members. Vietnam Airlines and Tarom, the Romanian carrier, should join the alliance in June 2010. Finally, in April 2010, China Eastern signed a Memorandum of Understanding confirming the airline's plans to join SkyTeam by mid-2011.

In its ten years of existence, the SkyTeam alliance has been strengthened by internal consolidation such as the mergers between Air France and KLM, and Delta and Northwest, and the acquisition, by Air France-KLM, of a 25% equity interest in Alitalia. This process has also been helped by the implementation of joint-ventures such as those between Air France-KLM and Delta, Alitalia and Air France-KLM, and KLM and China Southern supplemented by an agreement with Air France in the Winter 2010 season.

A unique partnership on the North Atlantic

On April 1, 2009, Air France-KLM and Delta implemented their joint-venture agreement on the North Atlantic. The scope of this agreement is very extensive covering all the flights between North America, Mexico and Europe through integrated cooperation and the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination. This type of contract enables the sharing of revenues and costs. It should improve the economic performance of the Air France-KLM group's North Atlantic network by around €150 million in three years.

A strategic partnership with Alitalia

Air France-KLM chose to step up its cooperation with Alitalia through an operational partnership agreement, cemented with a 25% equity stake in the Italian company. This operation that took place in January 2009 has significant advantages for the two groups. Air France-KLM gains access to the Italian market, the fourth-largest in Europe, thanks to a restructured and financially stronger partner with a strong presence in its domestic market following the merger with competitor Air One. For its part, Alitalia has access to the leading network linking Europe to the rest of the world thanks to the dual hub system whose reach into southern Europe is extended by this partnership. The main common objectives of the two companies are to strengthen Alitalia's positioning in the business customer segment, to share best practices and to develop the joint-ventures between Air France and Alitalia and Alitalia and KLM. The two partners have estimated the potential synergies at €370 million as of the second or third year, of which €90 million at the operating level for Air France-KLM. Air France-KLM will also benefit, in proportion to its holding in the share capital, from the synergies generated by Alitalia. After a year of cooperation Air France-KLM confirmed this objective.

A modern fleet

The Group makes an ongoing investment in new aircraft and currently operates one of the most efficient and modern fleets in the sector. Such investment has a triple advantage in that it enables the Group to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments in reducing noise disturbance for local residents and greenhouse gas emissions.

Air France was the first European airline to operate the Airbus A380 which came into service on flights bound for New York in November 2009, followed by Johannesburg in February 2010 with Tokyo scheduled for late summer 2010 with the arrival of the fourth A380.

An innovative product offer

Air France-KLM puts the customer at the heart of its strategy by offering not only one of the best networks world-wide in terms of destinations and frequencies but also in developing an innovative product offer. This innovation can be seen, specifically, in fare combinability, which multiplies the routing possibilities and gives access to attractive fares, in the joint frequent flyer program, *Flying Blue,* in e-services and in improved cabin services. New products and services are developed in keeping with the Group's environmental policy.

A major mobilization to adapt to the new environment

A reduction in capacity

In 2009-10, the Group pursued its strategy of adapting capacity to demand in both the passenger and cargo businesses with reductions of 4.3% and 16.5% respectively. Although the medium-haul network was restructured, the reduction in passenger capacity was done by reducing frequencies rather than through the closure of routes thus preserving the integrity of the global network. The reduction in cargo capacity was done through the grounding of the equivalent of six freighters together with the curtailment of passenger capacity. For the Summer 2010 season which started at the end of March, the passenger offer is virtually unchanged relative to the Summer 2009 season. Capacity in the long-haul network has been slightly increased (+0.8%) while the medium-haul network is down by 4.0%. Cargo capacity also remains unchanged on the 2009 Summer season.

Adapting the businesses

In view of the business trends and customer behavior, the Group has implemented a series of strategic measures in the passenger and cargo businesses.

Passenger business

Long-haul is subject to economic uncertainties but remains fundamentally a growth business. The long-haul business model, focused on passengers travelling for professional purposes with a network organized around the two hubs of Paris-CDG and Amsterdam Schiphol supplemented by the SkyTeam alliance, remains intact. However, a number of adaptations were necessary in order to meet customer expectations more effectively. Thus, at the end of 2009, the Group accelerated the launch of new products, reviewed its commercial approach vis-à-vis companies and, lastly, rationalized the network thanks to the joint-venture with Delta and the arrival of the Airbus A380.

Medium-haul has undergone a structural change in the past few years which has been amplified by the crisis. Furthermore, competition in this market segment is increasing with both low cost carriers and the TGV high speed train. As of April 1, 2010, Air France decided to transform the medium-haul product based on three key pillars: a repositioning in terms of products and prices, cost savings and productivity gains and, lastly, network adjustments. KLM is also working on the re-modelling of its medium-haul product which should be presented in the coming months.

Cargo business

The economic crisis, with the resulting overcapacity in both air cargo and shipping, has had a very adverse effect on the cargo business. As of November 2009, the Group announced a restructuring of this business based on a significant reduction in capacity with the grounding of cargo aircraft, optimizing the bellies in passenger and combi aircraft and rationalizing the network in leveraging the complementarities between Air France, KLM and Martinair, the principally cargo operator of which KLM took control on January 1, 2009.

Adjusting the fleet plan and investment

As a result of the reduction in capacity, the Group has revised its fleet plan. While continuing to take delivery of new aircraft to pursue the modernization of the fleet aimed at enhanced passenger comfort and respecting its environmental commitments, the Group had negotiated a deferral in the delivery of 11 aircraft between 2009 and 2011 during the 2008-09 financial year. During 2009-10, the Group continued to scale back its investment plan, and principally investment in the fleet.

For the 2009-10 financial year, investment net of disposals was reduced from €1.4 billion (forecast in May 2009) to €1.1 billion (actual at March 31, 2010). For the 2010-11 financial year, net investment should be €1.1 billion (€1.8 billion forecast in March 2009). For the 2011-12 financial year, this figure should amount to €1.6 billion, some €100 million lower than the October 2009 forecast. Lastly, for the 2010-13 financial year, the figure is €1.6 billion subject to its updating during the coming financial years.

Reinforcing the cost-savings plan

The *Challenge 12* cost-savings plan has regularly been reinforced since the beginning of the crisis in 2008. Thus, for the 2008-09 financial year, the initial target of €430 million of cost savings was increased to €675 million. For the 2009-10 financial year, the annual target of €600 million of savings was progressively increased to €700 million. For the 2010-11 financial year, the initial target of €420 million has been increased to €510 million plus an additional €200 to €250 million of savings linked to the adaptation of the cargo and passenger businesses.

For the 2009-10 financial year, the Group beat its target by achieving €718 million of savings. This enabled a 4.4% reduction in unit costs per EASK (equivalent available seat-kilometer) and a 0.5% reduction on a constant currency and fuel price basis whereas Group production measured in EASK fell by 6.7%. The two main sources of savings were procurement (44% of the total) and the improvement in productivity and processes (43%), followed by fleet renewal (6%) and distribution costs (7%).

Headcount adapted to the decline in activity

Since the summer of 2008, the Group has adapted its headcount to the decline in activity. The first measures were a freeze on hiring and temporary workers, assistance with retirement and an increase in professional and geographical mobility initiatives. This policy enabled a 2.5% reduction in the number of employees (full time equivalent including temps) at March 31, 2009. These measures were stepped up in 2009-10 with the opportunities extended to personal leave and the development of part-time working, leading to a 4.4% reduction in headcount at March 31, 2010. Finally, in September 2009, Air France announced a voluntary redundancy plan for ground staff involving 1,684 employees. Launched early in 2010, the plan closed on May 14, 2010 having met with the expected success. At March 31, 2010, the Group constituted a €152 million provision for restructuring charges, of which €148 million for this plan.

A rationalized organization

During the 2008-09 financial year, a series of Group initiatives were created whose aim is to rationalize the organization to generate additional revenues and/or reduce costs. These Group initiatives, of which there are 22, are either cross-cutting or concern the Group's three businesses. Each project reports to one of the Group's senior executives and a project head and a regular status report is presented to the Group Executive Committee.

A new fuel hedging strategy

Air France-KLM decided to review its fuel hedging strategy. This new strategy, approved by the Audit Committee and the Board of Directors, reduces the time span of the hedges from four to two years and the absolute amount from two years of consumption to 80% of a single year of consumption. *(See section 3 – Market risks and their management).*

Key performance indicators

Air France-KLM has chosen the following key performance indicators:

- return on capital employed, the relevant indicator for an industry which is investing heavily; and
- adjusted operating margin.

Return on capital employed measures the return on invested capital by expressing operating income as a percentage of average capital employed. The comparison of this ratio with the cost of capital shows whether the Group is creating value for its shareholders.

The adjusted operating margin strips out the accounting impact of the different methods of fleet financing and makes it easier to compare the profitability of different airlines *(See section 5 – Key performance ratios)*.

Passenger business

The passenger business is the Air France-KLM group's main activity and represented some 80% of 2009-10 revenues.

The global economic crisis which gradually spread following the collapse of the US bank Lehman Brothers in September 2008 weighed heavily on activity during the 2009-10 financial year with traffic volumes and revenues both under pressure. The first half was particularly badly affected and, although the environment was slightly better during second half, the recovery, particularly in terms of revenues, started later and proved slower than expected. The introduction of highly restrictive corporate travel policies seriously affected the international business segment which makes a significant contribution to profitability in the passenger business. Lastly, the crisis has also led to a change in the behavior of passengers travelling in Europe and the Group has consequently introduced a number of measures to adapt its offer to demand.

First half (April-September 2009)

The Group pursued its capacity reduction strategy introduced as of the beginning of 2009. Over the first six months of the year, capacity was down by 4.5%, in line with the 4.3% fall in traffic. The load factor was stable at 81.7% relative to the first half of the previous year. The Group carried 38.4 million passengers (-5.3%). The crisis left no network unscathed. Unit revenue per available seat-kilometer (RASK) was down by 15.9% excluding currency. This fall was fairly evenly balanced between long-haul (-15.9%) and medium-haul (-16.1%). As a result, revenues declined by 17.9% after a 2.1% positive currency impact to €8.36 billion. The loss from current operations stood at €353 million (versus income of €473 million in the previous year). The result from current operations was also penalized by the pre-2009 fuel hedges. Excluding this negative €352 million impact, the passenger business broke even at September 30, 2009.

Second half (October 2009-March 2010)

Second half activity saw an improvement in traffic relative to the first half, particularly as of the fourth quarter which recorded a traffic rise of 0.9%. Overall, the traffic decline was limited to 1.7% whereas the Group maintained its policy of capacity reductions (-4.1%). The load factor thus gained 1.9 points to 79.5%. The Group carried 33 million passengers (-2.6%). Unit revenues also improved relative to the first half albeit remaining at a lower level than in the previous year. The decline in unit revenue per available seat-kilometre (RASK) and unit revenue per revenue passenger kilometre (RRPK) excluding currency were, respectively, 3.5% and 5.9%. Revenues fell by 8.4% to €8.36 billion. The loss from current operations amounted to €565 million (€-494 million one year earlier). Excluding a €178 million negative impact linked to the pre-2009 fuel hedges, the passenger business would have generated a €390 million operating loss.

2009-10 financial year

Overall, the passenger business saw a traffic decline of 3.2% for a capacity reduction of 4.3%. The load factor gained one point to 80.7%. The Group carried 71.4 million passengers (-4.1%). Revenues amounted to €16.27 billion (-13.6% after a positive currency effect of 0.6%), of which €15.49 billion in scheduled passenger revenues and €778 million in ancillary revenues. At the operating level, a loss of €918 million was recorded (versus a €21 million loss in the previous year). Excluding the pre-2009 fuel hedges, the loss from current operations would have been lower at €389 million.

Key figures by network

At March 31	Destinations (Summer season)		Capacity in ASK (In million)		Traffic in RPK (In million)		Load factor (In %)		No. of passengers (In thousands)		Scheduled passenger revenues (In € million)	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Europe	123	134	55,217	58,983	38,635	41,225	70.0	69.9	48,492	51,044	5,921	6,983
North America	23	23	51,495	55,208	44,440	45,955	86.3	83.2	6,835	6,799	2,407	2,784
Latin America	11	11	26,805	28,328	22,914	24,014	85.5	84.8	2,181	2,556	1,223	1,407
Asia/Pacific	22	24	54,185	56,865	46,165	48,070	85.2	84.5	5,397	5,574	2,393	2,863
Africa-Middle East	50	50	36,796	36,432	28,923	28,831	78.6	79.1	5,484	5,462	2,372	2,618
Caribbean/ Indian Ocean	15	16	26,514	27,092	21,378	21,725	80.6	80.2	3,005	3,017	1,173	1,282
Total	**244**	**258**	**251,012**	**262,356**	**202,455**	**209,060**	**80.7**	**79.7**	**71,394**	**74,447**	**15,489**	**17,937**

The long-haul network

With a long-haul fleet of 160 aircraft in operation, the Group carried 22.9 million passengers (-2.1%) on the long-haul network to 121 destinations (Summer season: April to October 2009) in 69 countries. The dual hub (Paris and Amsterdam) gives access to 42 unique destinations offered by the Group. For the shared destinations, it enables a wide choice of flight times, particularly for the transfer passenger who has the choice of transiting through either Paris or Amsterdam. As in 2008-09, this network represented around 80% of traffic and 78% of capacity. Scheduled passenger revenues amounted to €9.57 billion (-12.7%) after a positive currency effect of 1.1%. This network contributed nearly 62% of scheduled passenger revenues (+0.7 of a point), confirming the Group's international dimension.

All the sectors, with the exception of the Africa-Middle East network, saw traffic decline by less than the reduction in capacity, resulting in a one point increase in the load factor which remained at a high 83.7%. The respective weight of each network showed no significant change on the previous year.

The ***North and Latin American*** market is the Group's first network in terms of both traffic (33%) and capacity (31%). Nine million passengers (-3.6%) traveled to the 34 destinations in 10 countries. Traffic was down by 3.7% for a capacity reduction of 6.3%, taking the load factor to 86%, an increase of 2.3 points on the previous year. Revenues amounted to €3.63 billion, down by 13.4% after a positive currency impact of 1.5%. Its contribution to scheduled passenger revenues remained stable at 23%. During the year the Group implemented the joint-venture agreement with Delta which enables the coordination of capacity and revenue management on the North American network as well as on flights to and from a number of countries in northern Latin America.

The Group served 22 destinations in 11 countries in the **Asia-Pacific** region. This second-largest long-haul network represented 23% of traffic and 22% of capacity as in the previous year. This long-haul network was significantly affected by the crisis with the largest decline in traffic (-4%). With capacity having been reduced by 4.7%, the load factor gained 0.7 of a point to a very high 85.2%. 5.4 million passengers (-3.2%) were carried on this network, generating revenues of €2.39 billion (-16.4% after a positive currency impact of 1.5%) representing around 15.4% of total scheduled passenger revenues, down by 0.6 of a point.

With 50 destinations in 40 countries, ***Africa-Middle East*** remains the Group's third long-haul network. The share of this network was unchanged on the 2008-09 financial year (around 14% of capacity and traffic). It proved very resilient to the crisis with traffic increasing by 0.3% for a capacity increase of 1%. The load factor was slightly down (-0.5%) at 78.6%. The Group carried 5.5 million passengers (+0.4%) and generated revenues of €2.37 billion, a decline of 9.4% after a 0.5% positive currency impact. The contribution of this network to total scheduled passenger revenues increased by 0.7 of a point to 15.3%.

The ***Caribbean and Indian Ocean*** network offers 15 destinations in five countries. With around 11% of traffic and capacity, this network is the Group's fourth long-haul network. Traffic fell by 1.6% for a 2.1% reduction in capacity meaning the load factor gained 0.4 of a point to 80.6%. The number of passengers was stable year on year at 3 million (-0.4%). Revenues stood at €1.17 billion, down by 8.5% after a negative currency impact of 0.3%. Its share of total scheduled passenger revenues increased by half a point to 7.6%.

The medium-haul network

The medium-haul network is the Group's third network with 19% of traffic and 22% of capacity. It covers France, the other European countries and North Africa and totals 123 destinations in 36 countries. This network mainly links Europe with the rest of the world thanks to the Group's two hubs. The French domestic market is mostly served out of Orly, with the *La Navette* shuttle service which links Paris to the main French regional capitals. The Group's regional subsidiaries, Brit Air, Régional, CityJet, VLM and KLM Cityhopper, contribute to the medium-haul activity either in linking secondary French and European cities or in offering intra-domestic routes.

Over the year, traffic and capacity on the medium-haul network were down by 4.5% and 5.5% respectively. The load factor stood at 70% (+0.7 of a point). In the French domestic market, traffic declined by 4.5% for a capacity reduction of 7.3%. The load factor thus gained 1.6 points to 66.1%.

With a fleet of 376 aircraft in operation, of which 184 regional aircraft, the Group carried 48.5 million passengers (-5%) and generated €5.92 billion of scheduled passenger revenues, down by 15.2%. This network represented 38% of total scheduled passenger revenues, down by 0.7 of a point on the previous financial year.

Key figures for the passenger business

Year ended	March 31, 2010	March 31, 2009
Number of passengers (*In thousands*)	71,394	74,447
Total passenger revenues (*In €m*)	16,267	18,832
Scheduled passenger revenues (*In €m*)	15,489	17,937
Unit revenue per ASK (*In € cents*)	6.17	6.84
Unit revenue per RPK (*In € cents*)	7.65	8.58
Unit cost per ASK (*In € cents*)	6.46	6.78
Income/(loss) from current operations (*In €m*)	(918)	(21)

Unit revenue per available seat-kilometer (ASK) was down by 9.7% and by 10.3% on a constant currency basis. Unit revenue per revenue passenger-kilometer (RPK) declined by 10.8% and by 11.4% on a constant currency basis. Unit cost per available seat-kilometer declined by 4.6% and by 1.5% on a constant currency and fuel price basis.

Cargo business

Cargo is the second of the Group's businesses, accounting for 12% of total revenues. In January 2009, KLM took control of Martinair whose main activity is air cargo. All the figures for the 2008-09 financial year are on a constant scope for the purposes of comparison.

The 12% fall in international trade in 2009 *(Source: WTO)* had very significant repercussions. The decline in volumes combined with overcapacity and competition from shipping led to very strong pressure on prices. In 2009, revenues for the air cargo industry as a whole declined by around 25%.

Like the passenger business, the cargo activity experienced differing trends in the first and second halves, the latter benefiting from the economic improvement in terms of both traffic and revenues as well as from the first effects of the restructuring implemented in November 2009.

First half (April-September 2009)

The challenging environment which characterized the end of the 2008-09 financial year continued during the first half. To contend with this situation, the Group significantly scaled back its cargo capacity by grounding six dedicated cargo aircraft. Capacity was thus reduced by 17.3%, less than the fall in traffic (-19.3%) leading to a 1.6 point decline in the load factor to 63.9%. Unlike the 2008-09 first half, the decline in traffic was not partially offset by the trend in unit revenues. On the contrary, the fall in the oil price led to the removal of fuel surcharges in addition to a fall in revenues linked to the weakness in traffic. Unit revenue per available ton-kilometer (ATK) fell by 28.9%. This combination of weak unit revenues and traffic led to a 41% decline in revenues after a negative currency impact of 4.9%. The loss from current operations stood at €344 million versus income of €26 million in the previous year. Excluding the negative impact of the pre-2009 fuel hedges evaluated at €64 million, the loss from current operations was €280 million.

Second half (October 2008-March 2009)

Some signs of a recovery in trade emerged during the final quarter of 2009, driven by company restocking but also, since the beginning of 2010, an economic improvement. This was reflected in a more limited decline in traffic (-7.4%) for the half as a whole but with very different trends for the two quarters: a 14.4% decline in traffic for the third quarter and a 1.3% traffic increase during the fourth quarter. The 15.6% reduction in capacity during the second half underpinned a 6.2 point improvement in the load factor to 69.4%. Unit revenue per available ton-kilometer (RATK) increased by 6.3%. Revenues were down by 11% to €1.32 billion. The loss from current operations stood at €92 million versus a loss of €247 million in the previous year. Excluding the negative impact of the pre-2009 fuel hedges, the loss from current operations would have been limited to €68 million.

2009-10 financial year

Over the financial year, traffic declined by 13.7% for capacity down by 16.5%. The load factor rose by 2.2 points to 66.5%. Total revenues for the cargo activity amounted to €2.44 billion (-27.8% after a positive currency effect of 1.3%), of which €2.31 billion in cargo revenues and €126 million in ancillary revenues. The operating result was a loss of €436 million (compared with a €221 loss at March 31, 2009). Excluding the negative impact of the pre-2009 fuel hedges, the loss from operations would have been €348 million.

	Capacity in ATK *(In million)*		**Traffic in RTK** *(In million)*		**Load factor** *(In %)*		**No. of tons** *(In thousands)*		**Cargo revenues** *(In € million)*	
At March 31	**2010**	**2009***	**2010**	**2009***	**2010**	**2009***	**2010**	**2009***	**2010**	**2009***
Europe	501	523	74	77	14.8	14.7	56	57	53	117
North and Latin America	6,375	7,110	4,241	4,675	66.5	65.8	527	588	790	1,064
Asia-Pacific	5,954	8,456	4,598	5,826	77.2	68.9	529	669	840	1,258
Africa-Middle East	2,819	2,782	1,765	1,795	62.6	64.5	288	292	476	564
Caribbean-Indian Ocean	1,115	1,202	477	549	42.7	45.7	64	73	154	188
Total	**16,764**	**20,073**	**11,155**	**12,923**	**66.5**	**64.4**	**1,464**	**1,680**	**2,313**	**3,191**

* *2008-09 financial year pro-forma with Martinair.*

While the Asia-Pacific network remains the Group's first network in terms of traffic, it is closely followed by the Americas network.

The Asia-Pacific network represents 41% of capacity and 35% of traffic. This network suffered particularly badly from the crisis at the beginning of the financial year (first half traffic -28.1%) before seeing a marked recovery during the second half (traffic -12.2% with +1.5% in the last quarter). Total traffic was down by 21.1% for a capacity reduction of 29.6%, enabling the load factor to gain 8.3 points to 77.2%. Revenues stood at €840 million, down by 33.2%.

The Americas, the second network, saw its proportion of capacity and traffic increase to 38% compared with around 35% one year earlier. The decline in traffic was 9.3% for a capacity reduction of 10.3%. The load factor stood at 66.5% (+0.8 of a point). This network also saw an improvement during the second half with traffic down by just 4.4% after a decline of 13.9% in the first half. Revenues declined by 25.8% to €790 million.

Africa-Middle East, the Group's third network, remained dynamic with a traffic decline limited to 1.7%. With capacity having been increased by 1.3%, the load factor lost 1.9 points to 62.6%. Revenues stood at €476 million, down by 15.6%.

The Caribbean-Indian Ocean network saw a traffic decline of 13.1% for a capacity reduction of 7.2%. The load factor lost three points to 42.7%. Revenues fell by 18.1% to €154 million.

Key figures for the cargo business

Year ending	March 31, 2010	March 31, 2009*
Tonnage transported (*In thousands*)	1,464	1,680
Total cargo revenues (*In €m*)	2,439	3,378
Freight transport revenues (*In €m*)	2,313	3,191
Unit revenue per ATK (*In € cents*)	13.79	15.91
Unit revenue per RTK (*In € cents*)	20.74	24.66
Unit cost per ATK (*In € cents*)	16.14	16.83
Income/(loss) from current operations (*In €m*)	(436)	(221)

* *Pro-forma Martinair.*

Revenue per available ton-kilometer (ATK) fell by 13.3% and by 14.4% on a constant currency basis. Unit revenue per revenue ton-kilometer (RTK) declined by 15.9% and by 17% on a constant currency basis. Unit cost per available ton-kilometer was down by 4.1% and increased by 3.3% on a constant currency and fuel price basis.

Since Febuary 2006, the world-wide air cargo industry has been the subject of anti-trust proceedings. Those concerning the Group are detailed in note 29.2 to the consolidated financial statements.

Maintenance business

Aircraft maintenance is the Air France-KLM group's third business line with third-party revenues accounting for around 5% of the Group total. These third-party revenues, generated with external customers, contribute around one third of the revenues from this activity.

In January 2009, the Group took control of Martinair, which has a small maintenance business. All the figures for the 2008-09 financial year are on a constant scope for the purposes of comparison.

Key figures for the maintenance business

Financial year ended	March 31, 2010	March 31, 2009*
Total revenues (*In €m*)	2,947	2,914
Third-party revenues (*In €m*)	956	996
Income from current operations (*In €m*)	81	98

* *Pro-forma Martinair.*

Revenues for the financial year stood at €956 million versus €996 million pro-forma one year earlier under to the combined effects of slightly weaker activity and increased competition. Furthermore, the previous year had registered non-recurring events. Income from current operations amounted to €81 million (€98 million pro-forma at March 31, 2009).

Other businesses

The main businesses in this segment are the catering and leisure activities comprising the Transavia group and the Martinair leisure business, the latter becoming part of the Group on January 1, 2009. For the purposes of comparison, the 2008-09 figures are pro-forma. Total revenues from these other businesses amounted to €1.33 billion (-10.4%) and the loss from current operations stood at €12 million (a loss of €42 million at March 31, 2009).

The leisure business generated revenues of €918 million (-12.3%). This revenue fall is explained by the reduction in capacity at Transavia Netherlands and the scaling back of Martinair's leisure activity (capacity reduction of 30.5%). The Transavia group had a satisfactory year with results unchanged on the previous period, principally due to a significant improvement at Transavia France. Martinair's leisure activity, on the other hand, contributed a €26.4 million loss. In total, this business made a €23 million loss from current operations, an improvement on the previous year (loss of €28 million at March 31, 2009). Excluding the negative impact of the pre-2009 fuel hedges, the leisure business would have been close to break even at the operating level (€3 million loss).

The catering business generated revenues of €347 million (€352 million at March 31, 2009) and income from operations of €19 million (€21 million at March 31, 2009).

Highlights of the beginning of the 2010-11 financial year

On April 29, 2010, the company WAM was the subject of an IPO on the Madrid stock exchange in Spain under the name Amadeus. This transaction was realized in two parts:

- a capital increase reserved to the market, to which the Group did not subscribe;
- the simultaneous sale of around a third of the Group's shareholding.

The impacts of the transaction are detailed in the consolidated financial statements *(See note 2.2 to the consolidated financial statements).*

The 2010-11 financial year also began with the crisis linked to the closure of European airspace following the eruption of an Icelandic volcano. The Group's passenger, cargo and leisure businesses were virtually totally closed for four days, followed by a progressive reinstatement of the schedules over three further days. The Group estimated the loss of revenues at €260 million and the impact on operating income at €160 million. As of today, negotiations are ongoing with the relevant authorities concerning the eventual level of compensation. Furthermore, the Group is actively cooperating with the authorities to define a comprehensive and pragmatic approach to the management of the volcanic ash risk so as to avoid any further unnecessary flight operation stoppages in future.

Fleet

At March 31, 2010, the Air France-KLM group fleet comprised 625 aircraft, of which 594 were operational compared with, respectively, 641 and 621 aircraft at March 31, 2009.

The main fleet consists of 426 aircraft (429 aircraft at March 31, 2009), of which 168 long-haul aircraft including four at Martinair (164 at March 31, 2009), 26 cargo aircraft including 11 at Martinair and 232 medium-haul aircraft (236 at March 31, 2009), including 36 aircraft in the Transavia group fleet (35 aircraft at March 31, 2009). The regional fleet comprises 199 aircraft (212 at March 31, 2009).

At March 31, 2010, 291 aircraft were fully owned (47% of the fleet compared with 51% one year earlier), 115 aircraft were under finance lease representing 18% of the fleet (17% at March 31, 2009) and 219 under operating lease representing 35% of the fleet (32% at March 31, 2009). There were firm orders for 76 aircraft at March 31, 2010, including 21 orders for regional aircraft, while options stood at 58 of which 18 for regional aircraft. At March 31, 2009, orders had amounted to 102, of which 33 for regional aircraft, with options on 58 aircraft, of which 18 regional aircraft.

The Air France group fleet

The Air France group fleet totaled 420 aircraft at March 31, 2010, of which 262 aircraft in the main fleet and 158 in the subsidiaries. Firm orders amounted to 55 aircraft and options to 30 aircraft.

The ongoing crisis has led to successive downward revisions in the fleet plan since late 2008. After negotiating a deferral in the delivery of 14 long-haul, five cargo and three medium-haul aircraft in the 2008-09 financial year, additional deferrals were negotiated this year with manufacturers concerning the delivery of two Boeing B777-300ERs planned for 2011 and one planned for 2012 together with the postponement to 2014 of one Airbus A380-800 originally scheduled for delivery in 2012. In the medium-term, to complete these adjustments and as a function of the trend in traffic and major economic factors such as the fuel price, Air France is studying the possibility of extending the operation of the Boeing B747-400, which would enable the smoothing of the investment in fleet renewal without sacrificing capacity growth.

A specific initiative was introduced during the financial year to adapt the level of the cargo fleet to the new target of five freighters. Air France concluded two agreements which made a significant contribution to the achievement of this objective:

- the leasing to Russian cargo operator, Air Bridge Cargo, of two Boeing B747-400ERFs for a five-year period, the first having been delivered in October 2009, with the delivery of the second taking place in early April 2010;
- the sale to Fedex of two Boeing B777-200Fs in late March 2010.

The Air France fleet

The Air France fleet comprised 262 aircraft at March 31, 2010, with 249 in operation. The fleet includes 148 medium-haul, 103 long-haul and 11 cargo aircraft and has an average age of 9 years, including 8.1 years for the long-haul, 9.7 years for the medium-haul and 4.6 years for the cargo fleet.

Within the fleet, 148 aircraft are fully owned (56%), 16 are under finance lease (6%) and 98 under operating lease (37%).

Investment in aircraft amounted to €1.03 billion over the year (including advance payments on orders, spare parts and ground-based maintenance operations). At March 31, 2010, the order book comprised 38 firm orders and 23 options.

During the 2009-10 financial year, 17 aircraft joined the fleet and 17 were withdrawn. In the long-haul fleet, four Boeing B777-300ERs were added, including two aircraft to reinforce the fleet aimed at business customers and two for the leisure fleet. Two Airbus A380s joined the fleet in October 2009 and February 2010. For the long-haul fleet this aircraft is a valuable anti-crisis tool enabling the rationalization of the offer on multi-frequency routes due to the fact that it has as many seats as a Boeing B777-200ER and an Airbus A340-300 put together. Withdrawals from the fleet included the loss of the Airbus A330 in June 2009 and the return of an Airbus A340-300 at the end of the operating lease.

In the cargo fleet, two Boeing B777-200Fs were sold, one which had joined the fleet in autumn 2009 and the other delivered directly to the buyer by Boeing. A Boeing B747-400BCF was returned to its owner and one B747-200F was sold to an operator in the Middle East.

The renewal of the medium-haul fleet, launched with the order placed in 2007, was stepped up with the withdrawal of eleven first-generation Airbus A320s which were replaced by seven Airbus A320s and three Airbus A321s with more efficient engines. Furthermore, three aircraft which were no longer operational at March 31, 2010 are currently in the sale process.

The fleet of the regional subsidiaries and Transavia

The fleet of the regional subsidiaries is organized around four aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family common to Brit Air, Régional and VLM and the AVRO fleet operated by CityJet. At March 31, 2010, the total fleet of these four companies comprised 151 aircraft, with a seat capacity of up to 100, of which 140 in operation. The average age of the fleet in operation was 12.7 years at March 31, 2010: 11.1 years for the Brit Air fleet, 8.6 years for Régional, 10.9 years for CityJet and 20.3 years for the VLM fleet.

Of a total fleet of 158 aircraft, 71 are fully owned (45%), 32 are under finance lease (20%) and 55 are under operating lease (35%).

Investment in aircraft amounted to €129 million over the financial year. At March 31, 2010, the order book stood at 17 firm orders and seven options, including a portion of the first grouped order placed by two Group companies, Régional and KLM Cityhopper, for the acquisition of Embraer Ejets. This grouped order has significantly improved the purchasing conditions on these aircraft.

The Transavia France fleet, the low cost and charter subsidiary launched in May 2007, comprises seven Boeing B 737-800s, all in operation and under operating lease. An eighth aircraft was sub-leased to Transavia Netherlands between June 2009 and March 2010.

The KLM group fleet

The KLM group fleet totalled 205 aircraft at March 31, 2010 (219 aircraft at March 31, 2009) of which 113 in the KLM fleet (115 at March 31, 2009), 15 in the Martinair fleet, 48 in the regional fleet and 29 in the Transavia fleet. The average age of the fleet is 11 years.

Within the framework of the adaptation of the investment plan, KLM has deferred the delivery of three long-haul aircraft, one for six months and two for a year. Furthermore, a new plan for advance payments was negotiated for six medium-haul aircraft.

The KLM fleet

The KLM fleet comprises 113 aircraft all in operation, of which 61 are long-haul, four are cargo freighters and 48 are medium-haul aircraft. Thirty-three aircraft are fully owned (29%), 45 are under finance lease (40%) and 35 are under operating lease (31%). The aircraft in the fleet have an average age of 11.2 years, with 11.1 years for the long-haul fleet, 11.3 years for the medium-haul fleet and 6.7 years for the cargo fleet.

Investment in the fleet amounted to €394 million (including advance payments on orders, spare parts and ground-based maintenance operations). At March 31, 2010, firm orders stood at 11 aircraft with options on a further fourteen.

During the financial year, four aircraft joined the fleet and six were withdrawn. Two Boeing B777-300 aircraft joined the long-haul fleet and no aircraft were withdrawn. In the medium-haul fleet, two Boeing B737-700s were added to the fleet while three Boeing B737-400s and three Boeing B737-300s were withdrawn.

The subsidiaries' fleet

Investment in flight equipment amounted to €181 million during the financial year.

Other non-regional fleets

The Transavia Netherlands fleet comprised 29 aircraft (28 at March 31, 2009), of which ten Boeing B737-700s and 19 Boeing B737-800s. Seven per cent of the fleet is fully owned, 34% is under finance lease and 59% under operating lease. The average age of the aircraft in the fleet is 8.2 years. Transavia has firm orders outstanding for six aircraft with a further three under option.

Martinair has a fleet of 15 aircraft, of which 11 are cargo aircraft, the transportation of freight being its main activity, and four long-haul aircraft. Five aircraft are fully owned (33%) and ten are under operating lease (67%). The average age of this fleet is 14.1 years.

Regional fleet

The KLM Cityhopper fleet comprises 48 aircraft, of which 44 in operation. During the financial year, 23 Fokker aircraft were withdrawn and two joined the fleet together with ten Embraer 190 aircraft. The average age of the aircraft in the regional fleet is 11.4 years.

Thirty-two aircraft are fully owned (67%), 12 are under finance lease (25%) and four aircraft are under operating lease (8%).

At March 31, 2010, the order book amounted to four firm orders and eleven options.

Air France fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft	**03/31/09**	**03/31/10**	**03/31/09**	**03/31/10**	**03/31/09**	**03/31/10**	**03/31/09**	**03/31/10**	**03/31/09**	**03/31/10**
B747-400	6	6	-	-	7	7	13	13	13	9
B777-200/300	32	32	4	4	15	19	51	55	51	55
A380-800	-	1	-	-	-	1	-	2	-	2
A340-300	10	11	3	2	6	5	19	18	19	18
A330-200	6	5	1	1	9	9	16	15	16	15
Long-haul	**54**	**55**	**8**	**7**	**37**	**41**	**99**	**103**	**99**	**99**
B747-400	5	5	-	-	4	-	9	5	6	4
B747-200	3	1	-	-	-	3	3	4	-	-
B777-F Cargo	2	-	-	2	-	-	2	2	2	2
Cargo	**10**	**6**	**-**	**2**	**4**	**3**	**14**	**11**	**8**	**6**
A321	12	12	-	1	9	11	21	24	21	23
A320	48	35	-	2	17	24	65	61	65	58
A319	20	22	4	4	21	19	45	45	45	45
A318	18	18	-	-	-	-	18	18	18	18
Medium-haul	**98**	**87**	**4**	**7**	**47**	**54**	**149**	**148**	**149**	**144**
Total	**162**	**148**	**12**	**16**	**88**	**98**	**262**	**262**	**256**	**249**

Regional fleet

Aircraft	Owned 03/31/09	Owned 03/31/10	Finance lease 03/31/09	Finance lease 03/31/10	Operating lease 03/31/09	Operating lease 03/31/10	Total 03/31/09	Total 03/31/10	In operation 03/31/09	In operation 03/31/10
Brit Air										
Canadair Jet 900	-	-	-	-	-	2	-	2	-	2
Canadair Jet 700	6	6	9	9	-	-	15	15	15	15
Canadair Jet 100	5	8	8	5	2	2	15	15	15	14
F100-100	5	3	-	-	8	8	13	11	13	11
Total	**16**	**17**	**17**	**14**	**10**	**12**	**43**	**43**	**43**	**42**
CityJet										
BAE146-200/300	1	-	-	-	-	-	1	-	-	-
AVRO RJ 85	15	15	-	-	12	12	27	27	25	23
Total	**16**	**15**	**-**	**-**	**12**	**12**	**28**	**27**	**25**	**23**
Régional										
EMB190	2	4	-	-	6	6	8	10	8	10
EMB170	2	6	1	1	-	-	3	7	3	7
EMB145-EP/MP	5	8	17	14	6	6	28	28	28	28
EMB135-ER	4	4	3	3	2	2	9	9	9	8
EMB120-ER	5	3	-	-	-	-	5	3	-	-
F100-100	3	1	-	-	6	6	9	7	8	7
F70-70	2	-	-	-	-	-	2	-	2	-
Total	**23**	**26**	**21**	**18**	**20**	**20**	**64**	**64**	**58**	**60**
VLM Airlines										
Fokker 50	15	13	-	-	3	4	18	17	18	15
Total	**15**	**13**	**-**	**-**	**3**	**4**	**18**	**17**	**18**	**15**
Total regional fleet	**70**	**71**	**38**	**32**	**45**	**48**	**153**	**151**	**144**	**140**

Other fleet

Aircraft	Owned 03/31/09	Owned 03/31/10	Finance lease 03/31/09	Finance lease 03/31/10	Operating lease 03/31/09	Operating lease 03/31/10	Total 03/31/09	Total 03/31/10	In operation 03/31/09	In operation 03/31/10
Transavia France										
B737-800	-	-	-	-	7	7	7	7	7	7
Total	**-**	**-**	**-**	**-**	**7**	**7**	**7**	**7**	**7**	**7**
Total Air France group	**232**	**219**	**50**	**48**	**140**	**153**	**422**	**420**	**407**	**396**

KLM fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10
B747-400	15	11	7	6	-	5	22	22	22	22
B777-300	-	-	2	4	-	-	2	4	2	4
B777-200	-	-	6	6	9	9	15	15	15	15
MD11	8	8	-	-	2	2	10	10	10	10
A330-200	-	-	6	6	4	4	10	10	10	10
Long-haul	**23**	**19**	**21**	**22**	**15**	**20**	**59**	**61**	**59**	**61**
B747-400	-	-	3	3	1	1	4	4	4	4
Cargo	**-**	**-**	**3**	**3**	**1**	**1**	**4**	**4**	**4**	**4**
B737-900	-	-	2	2	3	3	5	5	5	5
B737-800	-	1	13	12	8	8	21	21	21	21
B737-700	1	-	3	6	-	-	4	6	4	6
B737-400	6	6	-	-	6	3	12	9	12	9
B737-300	7	7	-	-	3	-	10	7	10	7
Medium-haul	**14**	**14**	**18**	**20**	**20**	**14**	**52**	**48**	**52**	**48**
Total	**37**	**33**	**42**	**45**	**36**	**35**	**115**	**113**	**115**	**113**

Regional fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10
KLM Cityhopper										
F100	20	5	-	-	-	-	20	5	16	5
F70	21	23	3	3	-	-	24	26	23	26
F50	6	4	-	-	6	-	12	4	12	-
EMB 190	3	-	-	9	-	4	3	13	3	13
Total	**50**	**32**	**3**	**12**	**6**	**4**	**59**	**48**	**54**	**44**

Other fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10
Transavia Netherlands										
B737-800	-	2	7	5	11	12	18	19	18	19
B737-700	-	-	5	5	5	5	10	10	10	10
Total	**-**	**2**	**12**	**10**	**16**	**17**	**28**	**29**	**28**	**29**
Martinair										
B767-800	3	-	-	-	3	4	6	4	6	4
Long-haul	**3**	**-**	**-**	**-**	**3**	**4**	**6**	**4**	**6**	**4**
B747-400 BCF	-	-	-	-	4	4	4	4	4	1
MD-11-CF	3	3	-	-	1	1	4	4	4	4
MD-11-F	2	2	-	-	1	1	3	3	3	3
Cargo	**5**	**5**	**-**	**-**	**6**	**6**	**11**	**11**	**11**	**8**
Total	**8**	**5**	**-**	**-**	**9**	**10**	**17**	**15**	**17**	**12**
Total other fleet	**8**	**7**	**12**	**10**	**25**	**27**	**45**	**44**	**45**	**41**
Total KLM group	**95**	**72**	**57**	**67**	**67**	**66**	**219**	**205**	**214**	**198**

Air France-KLM group fleet

	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10	03/31/09	03/31/10
Total	**327**	**291**	**107**	**115**	**207**	**219**	**641**	**625**	**621**	**594**

Risks and risk management

3.

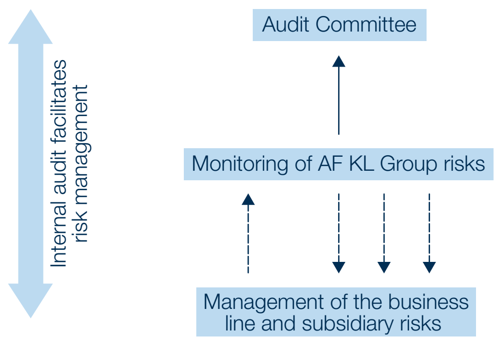
Risk management process

The Air France-KLM group is exposed to the general risks associated with air transport and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operating risk mapping processes have been established by all the relevant entities, supervised by internal audit. These risk maps are regularly updated and consolidated by subsidiary (Air France and KLM) and for the Air France-KLM group. Market risks (fuel, currencies and interest rates) are managed by the Risk Management Committee *(See Market risks and their management).*

Every three months, each Group entity updates the scope of its major operating risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, the senior executives concerned at the level of the general management are responsible for reviewing the measures implemented to control these risks.

On a quarterly basis, a presentation on the most significant operating and market risks is made by internal audit to the Executive Committee and the Audit Committee.

Strategic risks (competition, economic growth, etc.) and the related action plans are presented and discussed once a year by the strategy meeting of the Board of Directors.



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

Risk factors and their management

Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months. Consequently, the operating results for the first (April to September) and second halves (October to March) of the financial year are not comparable.

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis such as being experienced currently are likely to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to accept delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions.

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

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs principally due to a fall in demand and to higher insurance and security costs. Certain aircraft also saw their value drop. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated in Asia. Any attack, threat of an attack, military action, epidemic or perception that an epidemic could occur (e.g. Influenza A/H1N1), could have a negative impact on the Group's passenger traffic.

In terms of safety, the airlines in the Group comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures deployed.

The Group has developed emergency plans and plans enabling it to adapt to changing environments to ensure that it can respond effectively to different situations were an epidemic, geopolitical or other type of event to occur. The aim of these plans is the effective protection of passengers and staff, operational and service continuity and the preservation of the long-term viability of the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

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

Air transport activities are highly regulated, particularly with regard to traffic rights and operating standards (the most important of which relate to safety, aircraft noise, CO_2 emissions, airport access and the allocation of time slots). Additional laws and regulations and tax increases (aeronautical and airport) could lead to an increase in operating expenses or reduce the Group's revenues. The ability of carriers to operate international routes is liable to be affected by amendments to agreements between governments. As such, future laws or regulations could have a negative impact on the Group's activity.

The Air France-KLM group actively defends its positions with the French and Dutch governments and European institutions directly or through industry bodies such as the Association of European Airlines (AEA) regarding both changes in European and national regulations and a reasonable and balanced allocation of traffic rights to non-European airlines.

Risks of loss of flight slots

Due to the saturation at major European airports, all air carriers must obtain flight slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Under this regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The regulation does not provide for any exemptions for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission did, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots following September 11, the war in Iraq and the SARS epidemic. Finally, on May 5, 2009, given the economic crisis, the European Parliament and the European Council of Ministers of Transport agreed to suspend the application of the airport slot utilisation provisions for the Summer 2009 season enabling the European airlines to retain their grandfather rights to such slots. The European Commission did not take the initiative enabling the suspension to be extended to the Winter 2009 and the Summer 2010 seasons. The European coordinators, however, will allow airlines to retain their grandfather rights to slots unused following the closure of European airspace linked to the eruption of the Icelandic volcano.

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

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

Risks linked to the consumer compensation regulations

Passenger rights in the European Union are defined by regulations, established in 2005, which apply to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union. The regulations establish common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading.

Risks relating to the environment

The air transport industry is subject to numerous environmental regulations and laws relating, amongst other things, to aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste products and contaminated sites. Over the last few years, the French, Dutch, European and US authorities have adopted various regulations, notably regarding noise pollution and the age of aircraft, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

In December 2006, the European Commission proposed to include air transportation in the Emissions Trading Scheme (EU ETS). The draft directive was adopted by the European Parliament in July 2008 and its application is planned as of January 2012. However, all the rules have yet to be defined for 2013 (2013-20 period known as post-Kyoto).

The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual quota or allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of each year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances (exchangeable quotas). Furthermore, they can earn credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs). For the aviation sector, the reference in terms of CO_2 emissions will be the average emissions produced by the industry as a whole between 2004 and 2006. The breakdown between operators will be based, pro-rata, on revenue ton-kilometers (RTK) produced in 2010.

The European directive applies to all European and non-European airlines flying into and out of Europe, which has raised numerous objections from non-European countries and their airlines. A first legal challenge was filed in the UK at the end of 2009.

The United Nations climate change conference held in Copenhagen in December 2009 did not result in the expected world-wide agreement but the proposals for a more global approach will again be supported by the international aviation sector during the next meeting in December 2010 in Cancun.

The Group is constantly seeking ways to reduce its fuel consumption and fuel emissions:

- at its own initiative: modernization of the fleet and engines, improved fuel management, fuel savings plan, reduction in weight carried, improved operating procedures;
- in cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), operating procedures. The Group supports and calls on research into the development and use of new more environmentally-friendly fuels (biofuels).

The Group also acts with the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Energy and Sustainable Development) and participates in the work of the airline industry (AEA, ICAO, IATA) to promote effective solutions for the environment which are also balanced in terms of competition *(See Section 4 – Environmental data and the 2009-10 Corporate Social Responsibility Report).*

Risks linked to the oil price

The fuel bill is the second largest cost item for airlines. The volatility in the oil price thus represents a risk for the air transport industry. In effect, a sharp increase in the oil price, such as seen until the summer of 2008 when the oil price reached a record high, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies. A rapid fall in the oil price such as witnessed in the autumn of 2008 can also have a negative impact on the profitability of airlines with a significant level of hedging, both in terms of volume and duration, by not enabling them to benefit from the fall in the oil price.

Lastly, for the European airlines, any appreciation in the dollar relative to the euro results in an increased fuel bill.

The Air France-KLM group has a policy in place to manage this risk *(See Market risks and their management – fuel price risks).*

Operating risks

Natural phenomena

Air transport depends on meteorological conditions which can lead to flight cancellations, delays and diversions. Generally speaking, the duration of such adverse climate conditions tends to be short and their location limited but they may require the temporary closure of an airport or airspace. They can represent a significant economic cost (repatriation and passenger accommodation, program modifications, diversions, etc.). However, the closure of an airspace for several days, as was the case in April 2010 in Europe following the eruption of a volcano, can have very major commercial, human and financial consequences for the airlines and their passengers.

Risk of food poisoning

The in-flight service policy provides for food to be served to passengers during most long and medium-haul flights. These meals are prepared in catering facilities belonging either to the Group entities responsible for airline catering or to independent service providers.

As with all food preparation, there is a risk of food poisoning. In order to limit this, preventive measures have been implemented requiring suppliers, whether internal or external, to contractually guarantee the respect of regulatory obligations (granting of the relevant approvals, traceability, ISO 9001 Quality Management certification, etc). Furthermore, bacteriological analysis based on random sampling carried out by approved laboratories and audits of compliance are regularly conducted at service provider premises.

Airline accident risk

Accident risk is inherent to air transport. It is heavily regulated by a range of regulatory procedures issued by the national or European civil aviation authorities.

Compliance with these regulations governs whether an airline is awarded the CTA (Certificate of Air Transport) which is valid for three years.

The civil aviation authority carries out a series of checks on a continuous basis covering notably the:

- appropriate organization of flight operations;
- designation of a senior executive and managers responsible for the principal operating functions;
- adoption of a prevention program;
- implementation of a quality system.

In addition to this regulatory framework, the IATA member airlines have defined and comply with the IATA Operational Safety Audit certification which is renewed every two years.

In September 2009, Air France launched a new initiative within the framework of the continuous improvement in the safety management system by commissioning an external evaluation mission. This Independent Safety Review Team comprises eight independent and internationally-recognized experts. It is reviewing all the internal functioning procedures, decision-making processes and practices liable to have an impact on flight safety in combining a systematic vision of the safety and practical experience of managing operations in airlines of a similar size to Air France. At the end of the evaluation process, proposals will be made as to how safety can be improved.

Risks linked to the Group's activities

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalization of the European market on April 1, 1997 and the resulting competition between carriers has led to a reduction in airfares and an increase in the number of competitors.

The *Open Skies* agreement between the European Commission and the United States has been in force since end-March 2008. European airlines are thus authorized to operate flights to the United States from any European airport. While this agreement could increase competition for Roissy-Charles de Gaulle and Schiphol, it has also enabled Air France and KLM to extend their networks and strengthen cooperation within the SkyTeam alliance.

At the end of an 18-month period the European Union and the United States had been expected to review the progress made on negotiating a so-called *second stage* agreement and, were no agreement to be forthcoming after an additional ten-month period, each party could, after having given twelve months notice, call into question all or some of the rights acquired during stage one. Following the eight rounds of negotiation between the representatives of the European Commission and the United States, a so-called *second stage* agreement was reached on March 25, 2010. This agreement has been signed but still needs to be approved by the Transport Council meeting in June 2010 and by the European Parliament. If this agreement is endorsed, it will definitively eliminate the risk of a suspension of the rights acquired in 2007 which could have transpired in November 2010 without the materialization of a *second stage agreement* before that date.

On its short and medium-haul flights to and from France, the Netherlands and other European countries, the Group competes with alternative means of transportation. In particular, the high-speed TGV rail network in France competes directly with the Air France *Navette,* a shuttle service between Paris and the major French cities. Air France and KLM's flights to London are in direct competition with the Eurostar train service. An extension of high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results. Air France and KLM also face competition from low-cost airlines for some European point-to-point traffic.

To respond to the competition from other airlines or railway networks, the Group adapts its network strategy, capacity and commercial offers *(See Strategy and Passenger business)*. Furthermore, the Group regularly raises with the French, Dutch and European authorities the need to establish and maintain fair competition regulations.

Risks linked to the commercial alliance

In June 2006, the European Commission expressed a certain number of objections concerning the SkyTeam alliance. Air France and its partners responded to these objections in October 2006. In the event that the European Commission were to maintain its position, Air France and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at certain airports.

The Commission having decided to undertake an overall review of the alliances as a whole, no position has, to date, been adopted.

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

For the European Commission to authorize Air France's business combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to the possibility of making landing and takeoff slots available at certain airports to competitor airlines who had not requested this.

Risks linked to labor disruptions and the negotiation of collective agreements

Personnel costs account for around 30% of the operating expenses of Air France-KLM. As such, the level of salaries has an impact on operating results. The profitability of the Group could be affected if it were unable to conclude collective labor agreements under satisfactory conditions. Furthermore, any strike or cause for work to be stopped could have a negative impact on the Group's activity and financial results.

Air France and KLM prioritize social dialogue and employee agreements in order to prevent the emergence of any conflict. Air France and its subsidiaries have signed right to unionization protocols with the main professional organizations providing for an alert system prior to the outbreak of any strike action in order to enable negotiations to take place.

Risks linked to the use of third-party services

The Group's activities depend on services provided by third parties, such as air traffic controllers and public security officers. The Group also uses sub-contractors over which it does not have direct control. Any interruption in the activities of these third parties (as a result of a series of strikes or any increase in taxes or prices of the services concerned) could have a negative impact on the Group's activity and financial results.

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

Insurance risks

Since December 1, 2004, Air France and KLM have pooled their airline risks on the insurance market in order to capitalize on the scale effect. There are no material risks within the Air France-KLM group that are not insured.

Insurance policies taken out by Air France

In connection with its air transport activities, Air France has taken out an airline insurance policy on behalf of itself and its French and European airline subsidiaries, covering accidental or incidental damage to aircraft and the resulting costs, liability in relation to passengers and general liability to third parties in connection with its activity.

In accordance with French legislation, this policy was taken out with Axa, a leading French underwriter and with co-insurers with international reputations.

The policy covers the civil liability of Air France for up to $2.2 billion as well as specific cover against terrorist acts for damage caused to third parties for up to $1 billion.

Additionally, Air France participates in the payment of claims for damage to its aircraft through a captive reinsurance company whose maximum liability is limited to $2.5 million annually.

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

Air France has also taken out a number of specific or local policies in order to comply with the regulations in force in the countries in which it has a representative office.

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy to cover its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activity. It covers KLM's civil liability for up to $2.2 billion and also includes specific cover against terrorist acts for damage caused to third parties for up to $1 billion.

In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC) whose maximum liability is limited to $3.6 million annually.

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

Legal risks and arbitration procedures

In connection with the normal exercise of their activities, the company and its subsidiaries are involved in disputes which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities (*See notes 29.2 and 29.3 to the consolidated financial statements*).

Market risks and their management

Organisation of the Air France-KLM group

The aim of Air France-KLM's risk management strategy is to reduce the Group's exposure to these risks and their volatility. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of Air France and the President and Chief Financial Officer of KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates, interest rates and counterparties and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the cash management and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the market risks of its subsidiaries.

Regular meetings are held between the fuel purchasing and cash management departments of the two companies in order to exchange information concerning matters such as the hedging instruments used, the strategies planned and counterparties. In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used so long as it is qualifies as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, trading and speculation is prohibited.

The cash management departments of each company circulate information daily on the level of cash and cash equivalents to their respective general managements. The level of Air France-KLM consolidated cash is communicated on a weekly basis to the Group's general management.

Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the general managements.

The policy on fuel hedging is the responsibility of the fuel purchasing departments which are also in charge of purchasing fuel for physical delivery at Air France. This is the responsibility of the financial departments at KLM. The general managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of all the positions, the percentages hedged as well as the breakdown of instruments and underlyings used, the average hedge levels and the resulting net prices. All this data covers the current and next four financial years. Furthermore, a weekly Air France-KLM group report (known as the GEC Report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

Market risks and their management

Currency risk

Most of the Air France-KLM group's revenues are generated in euros. However, because of its international activities, the Group incurs a currency risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company.

The principal exposure relates to the US dollar followed, to a lesser extent, by sterling and the yen.

Since expenditure on items such as fuel or aircraft operating leases and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars, which means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results. Conversely, Air France-KLM is a net seller of the yen and of sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results.

The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

Operations

For each currency hedged, the time span of the hedging is a rolling 24-month period. The first four quarters have more hedging than the next four. The RMC sets the hedging targets for the dollar, sterling and the yen.

2010-11 operating exposure *(In million of currencies at March 31, 2010)*	**US Dollar (USD)**	**Sterling (GBP)**	**Yen (JPY)**
Net position before management	(3,741)	550	54,333
Currency hedge	1,897	(167)	(27,850)
Net position after management	(1,844)	383	26,483

The maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table.

(In € million)	**US Dollar***	**Sterling**	**Yen**
10% increase relative to the euro	(152)	53	28
10% fall relative to the euro	163	(44)	(26)

* *These results cannot be extrapolated.*

Investment

Aircraft and spare parts are purchased in US dollars, meaning that the Group is exposed to a rise in the dollar relative to the euro in terms of its investment in flight equipment. The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The net investments figuring in the table below reflect the contractual commitments at March 31, 2010, that are currently in the renegotiation process.

(In $ million)	**2010-11**	**2011-12**	**2012-13**
Investments	(1,168)	(1,114)	(1,013)
Currency hedge	813	668	532
Hedge ratio	69%	60%	52%

Exposure on the debt

The exchange rate risk on the debt is limited. At March 31, 2010, 87% of the Group's net debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt.

Despite this pro-active hedging strategy, not all currency risks are covered, notably in the event of a major fluctuation in currencies in which the debt is denominated. In this situation, the Group and its subsidiaries might encounter difficulties in managing currency risks, which could have a negative impact on the Group's financial results.

Interest rate risk

At both Air France and KLM, debt is generally contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, Air France and KLM have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates in order to reduce interest expenses and limit their volatility.

After swaps, the Air France-KLM group's net debt contracted at fixed rates represents 63% of the overall total.

The average cost of the Group's debt after swaps stood at 3.64% at March 31, 2010 (3.92% at March 31, 2009).

Exposure to interest rates *(In € million at March 31, 2010)*	**One year***	**>1 year****
Financial assets	3,731	416
Financial liabilities	1,827	4,399
Net exposure before hedging	1,904	(3,983)
Hedging	0	1,788
Net exposure after hedging	1,904	(2,195)

* *Fixed rate <1 year + floating rate <1 year.*

** *Floating rate >1 year.*

Taking into account the position to be renewed at less than one year, the Group's net interest rate exposure amounts to €291 million, the cash invested at floating rates being less than the debt at floating rates. A 1% variation in interest rates over twelve months would have an accounting impact of €2.9 million.

Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM group.

The marked downturn in commodity prices during the autumn of 2008 prompted the Group to review its hedging strategy to reduce its exposure. The Group had covered around two years of consumption with a time span for the hedges of four years. The amount of the portfolio was, consequently, too high for a period of significant oil price volatility. Although the Group had unwound some of these positions in early 2009, this strategy continues to have an impact.

In September 2009, the Group decided to adopt a more conservative strategy in terms of both volume and time span. This new strategy, approved by the Board of Directors, reduced the time span of the hedges from four to two years and the absolute exposure from two years of consumption to 80% of a single year of consumption. The three first quarters are hedged at 60% to ensure a substantial level of short-term hedging while the following quarters are hedged at, respectively, 50%, 40%, 30%, 20% and 10%. The total volumes hedged must always be in line with these ratios. At least 30% of the volume in distillates must be hedged and 20% in Jet fuel. Lastly, the hedging instruments used must be compatible with IAS 39.

Within the framework of a dynamic approach, the Group has implemented maximum loss and maximum gain targets. Finally, an indicator enabling the portfolio risk to be measured has been deployed. The level of this *Value at risk* indicator is calculated and analyzed every week and may lead to a restructuring of the portfolio.

At March 31, 2010, Air France-KLM's fuel exposure, based on futures prices on March 29, 2010, was as follows:

(In $ million except average purchase price in $)	**2010-11**	**2011-12**	**2012-13**
Gross expenditure before hedging	6,866	7,285	7,609
Hedge percentage	55%	17%	9%
Gain on hedging	(488)	(345)	(163)
Net expenditure	7,354	7,630	7,772

Counterparty risk

The Group applies rules for managing counterparty risk under the authority of the RMC which reviews the Group's counterparty portfolio quarterly and, if necessary, issues new guidelines.

The Group only deals with counterparties with a minimum rating of A or above (S&P) with the exception of mutual funds where the risk is negligible. The commitments by counterparty are limited to 15% of the total hedging portfolio volume (fuel, currencies and interest rates) with a maximum variable amount based on the quality of the rating. The positions of both Air France and KLM are taken into account in the assessment of the overall exposure. A quarterly report is established and circulated to the members of the RMC. It is supplemented by real-time information in the event of any real risk of a rating downgrade for counterparties.

Equity risk

Air France and KLM cash resources are not directly invested in the equity market nor in equity mutual funds.

However, at March 31, 2010, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies worth a net €14.2 million. An overall fall of 1% would represent a risk of €0.1 million.

Liquidity risks

At March 31, 2010, Air France had a credit facility of €1.2 billion negotiated with an expanded pool of 19 banks, of which €85 million matures in April 2010, €10 million in April 2011 and €1.11 billion in April 2012 following the application of an extension clause. At March 31, 2010, the company had drawn down €500 million. In February 2010, the Group had opened negotiations with the banking pool to extend the duration of this credit facility. Given the conditions proposed by the pool and the easing in the financial markets, the Group decided not to proceed.

This credit facility is subject to the Air France group respecting the following financial covenants:

- net interest charges added to one third of operating lease payments must not represent more than one third of adjusted EBITDAR based on the accounting rules applied in the Group since 2005 ;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at March 31, 2010.

KLM has a fully available €540 million credit facility maturing in July 2010, negotiated with a consortium of international banks. In July 2009, KLM negotiated with its banks an agreement to extend this facility from July 2010 to July 2012 for an amount of €530 million. This credit facility can be extended for another year subject to certain conditions.

This credit facility is subject to the KLM group respecting the following financial covenants:

- net interest charges added to one third of operating lease payments must not represent more than one third of adjusted EBITDAR;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to 1.25 times the unsecured net debts.

These ratios are calculated every six months and were respected at March 31, 2010.

For its part, the Air France-KLM holding company put in place a ten-year financing facility of €250 million in October 2007, drawn down at March 31, 2010.

This credit facility is subject to the Air France-KLM group respecting the following financial covenants:

- net interest charges added to one third of operating lease payments must not represent more than two-thirds of adjusted EBITDAR;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at March 31, 2010.

Given the conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €4.3 billion at March 31, 2010 and the available credit facilities, the Group considers that it incurs no liquidity risk.

Financing risks

Financing strategy

The two subsidiaries are responsible for their own financing policies. This strategy effectively enables each company to take full advantage of its relationships with partner banks. Furthermore, this segmentation enables KLM to benefit from export credit financing. This does not stop the two companies exchanging information on their financing strategies and the type of operations planned.

In view of its investment program, particularly in the fleet, the Air France-KLM group plans to be active in the financing market. Since the current conditions in the financial markets do not call into question the access to long-term financing for aircraft, the Group plans to finance new aircraft using collaterialized debt and to refinance certain unsecured assets (aircraft and real estate). These financing or refinancing operations will, as usual, be the subject of requests for proposals. Furthermore, the Group already has commitments from the export credit agencies for the financing of a number of aircraft deliveries amounting to €300 million for the 2010-11 financial year.

Air France group

The Air France group prioritizes long-term resources for its investment by financing new aircraft with conventional bank debt and, since 2008, by Brazilian export credit for the aircraft of its Régional and Brit Air subsidiaries whenever possible.

It also diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003 and the issuance of bonds convertible into new or existing shares, OCEANEs, in April 2005. Finally, in September 2006, Air France issued €550 million of euro-denominated bonds, with a 4.75% coupon, maturing on January 22, 2014. An additional €200 million was raised in April 2007, fully fungible with the first tranche.

KLM group

To finance its aircraft, KLM is able to access the export credit system, which enables the company to take advantage of guarantees from the leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. KLM has also concluded several financing deals in the banking market for the refinancing of existing aircraft.

Air France-KLM holding company

The Air France-KLM holding company launched two successful bond issues in 2009, with its subsidiaries Air France and KLM as guarantors, comprising €661 million of convertible bonds with a six-year maturity in June 2009 and €700 million of plain vanilla bonds in October 2009, maturing in October 2016.

Investment risks

The cash resources of Air France, KLM and Air France-KLM are invested so as to maximize the return for a very low level of risk. They are thus invested in money market mutual funds and in certificates of deposit with highly-rated banks.

A portion of KLM's liquid assets is invested in foreign-currency AAA-rated bonds, in order to reduce the currency risk on the debt.

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Social and environmental data

4.

Social data

The average number of full time equivalent employees in the Air France-KLM group was more than 104,700 in the 2009-10 financial year, a reduction of 2.0% relative to the previous year.

The Group's scope, however, significantly changed with the integration of the Martinair subsidiary into the KLM group as of January 1, 2009.

The pro-forma change in employees, expressed in full time equivalent, after the integration of Martinair and other changes to the Group scope in 2008-09, showed a 3.3% reduction in the average number of employees on a constant scope.

Employees, full time equivalent	Air France-KLM			Air France group			KLM group		
Financial year	**2007-08**	**2008-09**	**2009-10**	**2007-08**	**2008-09**	**2009-10**	**2007-08**	**2008-09**	**2009-10**
Ground staff	74,795	75,310	73,273	54,204	53,995	51,814	20,590	21,315	21,459
Cabin crew	21,605	22,903	22,593	14,153	15,069	14,897	7,452	7,834	7,696
Flight deck crew	8,259	8,720	8,855	5,310	5,523	5,432	2,949	3,197	3,422
Total	**104,659**	**106,933**	**104,721**	**73,667**	**74,587**	**72,143**	**30,992**	**32,346**	**32,578**

Taking into account temporary workers, respectively 4,037 in full time equivalent in the 2008-09 financial year and 2,894 full time equivalent in 2009-10, this reduction in employees for the Air France-KLM group as a whole, expressed in full time equivalent, amounted to 3.0% (a 4.2% pro-forma change on the 2009-10 scope).

The changes in the number of employees in the Air France and KLM groups were affected by scope effects with, notably, the integration of Martinair in the KLM group as of January 1, 2009 and, less significantly, by the disposal of the subsidiaries Reenton, Aerolis and the integration of TSI and AMG within the Air France group with, for the KLM group, the integration of the Cobalt Ground Solutions subsidiary, the result of the merger between Air France and KLM subsidiaries AFSL and KLM Ground Services Limited.

In terms of employment, at December 31, 2009, the Group had contracts in force with 113,051 people, of whom 67% working for the Air France group and 33% for the KLM group.

The NRE social reporting relating to employees to comply with the requirements of the French New Economic Regulations law of May 31, 2001 (NRE) and the European Prospectus Directive (EC 809/2004) is shown in the three indicator tables that follow and covers some 96% of the Group's employees. Virtually all the reported indicators are the subject of verification by one of the Group's Statutory Auditors based on the ISAE 3000 audit standard with a moderate degree of assurance.

Air France-KLM's human resources and employment policy

Air France and KLM share a number of common values in terms of both social matters and corporate social responsibility which are enshrined in the Social Rights and Ethics Charter, signed in February 2008. This Charter forms the shared foundation of the Group's commitments by reaffirming the values and fundamental rights that guide the Group's social, ethical and environmental policy.

While the human resources policies, regulations and cultures are different in France and the Netherlands, the Group has implemented a series of rules and principles enabling the two companies to work together and harmonize, notably, the working conditions of local staff employed in countries where the operations have been combined.

Training courses are deployed in order to train employees on the tools and services common to Air France and KLM, but also to enable a shared management culture to drive the Group's integration momentum. Specific joint training programs common to both companies are implemented for executives and senior executives, as well as for the management teams and joint project management.

Air France

Employment

Despite the particularly difficult economic environment prevailing since the summer of 2008, Air France has maintained its commitment to preserving the jobs and developing the employability of its employees. The measures adapted to this context that were taken as of the start of the crisis have been pursued. The tight control over recruitment was maintained in 2009 and will continue throughout 2010. The other measures concerned the development of part-time working, temporary secondment to reinforce teams during peak periods, the promotion of professional and geographical mobility and developing teleworking, etc.

While these measures have borne fruit and will be pursued, Air France must also reinforce its competitiveness and implement reorganization enabling the rapid mobilization of the necessary productivity gains. With natural departures alone insufficient to achieve the targeted headcount reduction, a plan targeting 1,684 voluntary redundancies was implemented for ground staff in 2010.

This proposed voluntary redundancy plan for ground staff was the subject of extensive discussions with the unions during the negotiation of the forward planning of jobs and skills agreement for the 2009-2012 period.

Having peaked during the summer of 2008, employment within Air France started to decline in autumn 2008. The 2009-10 financial year thus saw the number of Air France employees fall by around 3% in response to the overall downturn in activity.

Sub-contracting/temporary staff

The economic context has led to a very marked reduction in the need for temporary workers with costs falling from €34.7 million in 2008 to €15.7 million in 2009. Recourse to sub-contractors was maintained in the usual areas like airport services, handling, gardiennage, cleaning and the development of special IT applications.

Organization of working time

The average length of the working week applied within the company is consistent with that stipulated by the law in force. In 2009, the percentage of employees working part time in France stood at 14.7% for ground staff, 35.9% for cabin crew and 18% for flight deck crew (respectively 15.3%, 33.3% and 13.7% in 2008).

The absentee rate for illness, maternity or work-related accidents remained stable in 2009 at 4.11% for ground staff (3.77% in 2008) and 6.43% (6.12%) for cabin and flight deck crew.

Professional gender equality

Professional gender equality is a priority that Air France seeks to promote through constructive employee dialogue. Negotiation on the company's third 3rd Gender Equality Agreement is underway. The annual report on the comparative status of men and women now includes additional indicators adapted to the reality of each company based on proposals submitted by the Professional Equality commissions of the various Works Councils.

Furthermore, in order to ensure equal treatment for men and women, comparative indicators for men and women have been introduced in the monitoring of human resources policies and management processes (training, careers, security in the work place, compensation, etc.). Finally, pursuant to the provisions of the French law of March 23, 2006 on equal wages for men and women, the 2009 salary agreement for the second consecutive year included provision for pay increases concerning 251 women employees.

In 2009, women amounted to 43% of the total employees in France.

Promoting equality of opportunity and combating discrimination

Air France pursues an employment policy based on preventing discrimination and promoting equal opportunity and respect for diversity. As a testament to this commitment, the French airline announced plans to apply for the Diversity Label which is awarded to companies achieving exemplary standards in this area. Within this framework, a diagnostic has been launched in order to ensure that the HR procedures do not lead to any discrimination and that the principle of equal treatment for equal skills is respected in terms of both recruitment and career progression.

Compensation and sharing the value created

In accordance with the salary agreement signed in 2009 and concerning all categories of staff (ground staff, cabin crew and flight deck crew), the general measures at Air France represented an average increase of 0.8% for 2009, plus individual measures in respect of merit, promotion and seniority (or an average increase of 3.1% for the ground staff and cabin crew present in 2008 and 2009). The salaries of flight deck crew in 2009 were affected by the fall in the volume of activity.

These measures effectively positioned the salary increases for Air France ground staff and cabin crew above the level of inflation.

Furthermore, the 2009 salary agreement also introduced a minimum increase mechanism intended to help those on entry-level salaries.

Senior managers benefit from a variable compensation scheme: 30% based on the company's results, 40% on the achievement of targets linked to the position and 30% on the achievement of targets in terms of personal development. Given the losses made by the company in 2008-09 and 2009-10, no compensation was paid in respect of the profit-related portion.

In respect of the 2008-09 financial year, the incentive payment amounted to €8.34 million (€98.1 million in respect of the 2007-08 financial year) while no profit-share was paid in respect of this financial year (€25.2 million in respect of the 2007-08 financial year).

In order to give all its employees access to a retirement savings product, Air France set up a *PERCO* collective retirement scheme through a collective agreement in October 2008. No voluntary contributions were made to the *PEE* and *PERCO* schemes in 2009.

This scheme is in addition to the supplementary pension schemes *(Article 83 and P.E.R.E – Plan d'Épargne Retraite d'Entreprise)* established by the collective agreement in May 2006 for ground staff executives, cabin crew and flight deck personnel.

Social dialogue

Air France pursued its policy on employee agreements with the signature of 16 new collective agreements or clauses to existing agreements.

Thus despite the difficult economic backdrop, a salary agreement was signed by a majority of the unions in 2009.

The company's commitment to corporate social responsibility and respect for diversity was pursued with the implementation of the agreement on the vocational integration of staff with disabilities, whose 7th version was signed for a further three-year period.

The implementation of the gender equality agreement was pursued and its renewal is currently the subject of discussions with the unions.

A three-year agreement on the method and prevention of psychosocial risks and the development of a work-life balance was signed in April 2010.

Health and safety in the workplace

Air France renewed its commitment to a three-year program aimed at a 30% reduction in accidents in the work place in 2009, 2010 and 2011. This approach based on target-based contracts concerns all the entities situated in France and the French overseas departments.

The first results at the end of 2009 showed that 200 work-related accidents had been avoided and that the average reduction in the accident frequency coefficient was 5% for this first year, amounting to 4.27 for 100 employees.

In 2009, the International and the Netherlands division saw the greatest reduction in the accident frequency coefficient (-40% in one year). Cargo also achieved a significant 11% reduction, as did Maintenance which also achieved its objectives with a 7.6% reduction in its frequency coefficient. Amongst the entities in the tertiary sector, Commercial France also reached its objectives with -22%.

The action taken to enable the reduction in work-related accidents concerned:

- long-term preventive measures: setting of targets, improvement in working conditions, communication and training in prevention;
- lessons learnt and the introduction of management systems for safety in the work place;
- development of synergies between the different functions: project teams and QSE-HR-Medical Services teams, in order to reinforce risk prevention;
- collective upstream work on changes mobilizing the social partners (CHSCT members) around initiatives to prevent all professional risks.

These initiatives were supplemented by an extensive in-field mobilization of all the management around the real causes of accidents in the work place.

In 2009, Air France regrets the deaths of 12 flight crew on board flight AF447 on June 1, 2009 and one fatality involving a member of cabin crew suffering a cardiac incident while on duty.

Over the years, Air France has developed a monitoring system and a crisis operating procedure to respond to emergency situations that are likely to significantly disrupt the company's functioning and that require the specific, temporary coordination of a number of internal and/or external bodies.

Based on the lessons learnt from the SARS epidemic in 2003, the bird flu outbreak in 2006 and the work accomplished across the Group on a cross-cutting and multidisciplinary basis and in line with the instructions of the French authorities, a Business Continuity Plan was established at company level then deployed in each of the company's entities to outline the scenarios likely to have an impact on Air France operations and the measures foreseen were they to transpire.

As of April 25, 2009 a crisis unit was set up at Air France, comprising the managers from all areas of operations and the commercial departments with the assistance of the company's medical teams, to monitor the development of the threatened H1N1 influenza epidemic.

Air France's general management and all the employees were kept regularly informed on the day-to-day developments and the measures implemented by the airline.

Equipment and items of individual personal protection (masks, antibacterial gel, protection kits for flight personnel) were made available in all the entities and outstations and distributed to staff when required. Other hygiene measures were taken for both flight personnel and ground staff. Furthermore, a website dedicated to the pandemic, aimed at centralizing all the information was planned. Lastly, with the authorization of the authorities, Air France introduced a vaccination program for employees in-house as of January 2010.

Training

In 2009, in a context marked by a significant slowdown in growth, Air France continued to invest the equivalent of nearly 9% of the payroll in training, with an access to training rate of more than 90% for all its employees.

The commitment to prioritizing internal human resources, the need to respond to changes in the businesses, together with the need to ensure a high level of personal and flight safety explains this particularly high level. In addition to training of a technical and regulatory nature, the company is resolutely focused on the development of its employees' skills in order to anticipate professional changes and increase its competitiveness.

Consistent with the commitments made within the framework of a collective agreement relating to professional training for ground staff to foster the quality of social dialogue, a special training program on the application of this agreement was offered to members of the Works Council and Corporate Works Council vocational training commissions and to human resources personnel (120 HR staff and 50 commission members trained in 2009).

In order to facilitate access to information on career-long vocational training and make employees the prime movers in their professional development, a training website is now available on the employee intranet and a guidebook for managers has been produced.

Furthermore, the deployment of e-services-type HR intranet tools has contributed to simplifying access to training programs and particularly requests to use personal training entitlements (so-called DIF or *Droits Individuels à la Formation*).

In 2009, the highlights were:

- a DIF access rate of more than 7% for employees as a whole and 11% for ground staff;
- the continued mobilization of human resources in support of some sixty employees working, on an individual or collective basis, towards formal recognition of their work experience in the form of a professional diploma or certification (*Validation des Acquis de L'Expérience* – VAE); a total of 40 diplomas were awarded to the previous year's candidates;
- a sustained high level of vocational training in order to support continued employability, with around 3,000 new applications made in 2009.

Diversity and corporate social responsibility

In line with the commitments made within the Air France-KLM Corporate Social Responsibility statement, Air France is pursuing its employment policy founded on social integration through employment, the respect of equal opportunity, the prevention of discrimination and the promotion of diversity to reflect that of society as a whole.

Integration through youth employment

The implementation of the 5th Internship Charter for the 2008-11 period resulted in the recruitment of 317 people on apprenticeship and internship contracts in 2009 despite the difficult context.

Through a network of associations established by the company, Air France is pursuing its equal opportunity initiatives aimed at creating a regional momentum for access to employment: for example, through *AirEmploi,* an association that provides information on the air transport professions, and *JEREMY,* an association which promotes the hiring of young local job-seekers for the airport professions.

The partnership with the IPE school engineers association, launched following the signature of the framework agreement for the 2007-12 period with the French Education Ministry, enabled the secondment of seven Air France engineers to the French Department of Education to strengthen cooperation between business and education.

All these initiatives are implemented in partnership with the region, the French Department of Education, the Apprenticeship Training Centers (CFA), and local institutions and associations.

Air France is active in developing the regions in which it operates. Thus, at Roissy, the company established and supports the *Pays de Roissy-CDG* association which, in bringing together companies, local elected representatives and residents, enables projects concerning economic development, housing, transportation, culture, training and research to come to fruition.

Recruitment: equal opportunity

This equal opportunity requirement applies, in particular, to the collective recruitment and internal selection processes. Since June 2006, for its external recruitment, Air France has used a web-based software application enabling candidates to submit their applications online using a universal CV. Furthermore, any individual likely to use the selection tools, consult job application files or have access to confidential information is obliged to respect the ethical and moral obligations set out in the Ethics Charter of the Recruitment, Selection and Redeployment department.

This Charter is updated annually as a function of any regulatory changes and in the light of best practice for the profession. In 2008, it was rolled out to internal selection personnel.

In order to ensure the management and quality of the recruitment process, the ISO 9001 certification was renewed in November 2007 for a three-year period and there are plans to extend it to the internal selection activities in November 2010. The guarantee provided by this certification ensures, in particular, that the ethical guidelines are respected.

Policy on disability

With a twenty-year commitment to an ambitious policy on disability, Air France is pursuing its efforts on the integration and maintained employment of disabled persons. Despite the natural departures of disabled employees (retirement) and the restrictions linked to the number of regulated professions within the company for which it is difficult to employ disabled persons (pilots, air hostesses and stewards, etc.) the number of disabled employees remained stable (1,422 in 2009).

Despite the freeze on recruitment, the 7th version of the agreement for the Social and Vocational Integration of Staff with Disabilities which came into force in 2009 continues to target the recruitment of 85 disabled employees over three years.

The company's commitment is also reflected in the increase in sub-contracting to the adapted and protected sector (companies employing workers whose disabilities prevent them from working in a so-called *ordinary* environment). For 2009, the expenditure amounted to €11 million, or the equivalent of 480 indirect jobs. All these factors contributed to increasing the regulatory disabled employment quota in France from 3.14% in 2008 to 3.58% in 2009.

The agreement also provides for a €9 million budget devoted to disability for the 2009-11 period; in 2009, some €3 million was thus invested, of which 46% in the financing of maintained employment and 7% in employee awareness raising initiatives.

Corporate Social Responsibility at local level

As the leading private-sector employee in the Ile de France with 50,000 employees in the region, Air France generates economic activity and direct and indirect jobs locally. The company also contributes to economic and social progress in the regions where it has operations in contributing to the development of skills. It is a founder member of four organizations:

- *AirEmploi,* an association that provides information on training courses on the air transport and aeronautics professions, in 2009 launched a program specifically addressed at young women in order to make them aware of opportunities in the maintenance professions;
- *Association pour la Formation aux Métiers de l'Aérien,* an association that, via its CFA qualification, trained nearly 400 young people in 2009-10, including 149 apprentices at Air France Industries. Some 61% of the young people trained in 2008 were recruited on permanent contracts in 2009;
- *JEREMY,* the association of French airport companies, promotes the vocational integration of young people without qualifications who are excluded from the work place through a scheme combining training with professional experience and support. In 2009, a training program for job-seekers with disabilities was developed in partnership with Servair;
- the *Pays de Roissy-CDG* association, that brings together companies, local elected representatives and residents, promotes a regional development dynamic in the Roissy area in supporting projects addressing economic development, housing, transportation, culture, training and research.

KLM

Workforce and employment

KLM pursues a sustainable employment policy for all employees, based on developing their skills and qualifications, encouraging professional mobility and promoting healthy lifestyles. Given that the air transport sector is subject to constant change which has repercussions for KLM's activity and its employees, professional mobility is a key component of KLM's human resources management.

Maintaining employment/mobility

Throughout 2009, KLM's CEO stressed the company's solidarity goal of *keeping the family together* and avoiding any compulsory redundancies as in 2003-04. The Group introduced a freeze on external hiring. Posts left vacant by departures at the end of fixed-term or temporary contracts were reviewed by the *regietafel*, and this review was accompanied by an intensive search for candidates within KLM and its subsidiaries which led to more than 350 successful matches during the financial year. In addition, a large number of job vacancies were filled by voluntary candidates from within the business units themselves.

The *Solidair* initiative was also launched to explain the need for all employees to help in combating the crisis. Administrative staff were encouraged to volunteer for operational duties to reduce the cost of hiring temporary staff during peak periods. In 2009, around 1,000 ground staff volunteered as part of this program. In addition, around a hundred 100 flight crew were temporarily employed in KLM's Transavia subsidiary, some of whom saw their base transferred from Schiphol to Billund in Denmark. Furthermore, some 380 flight captains and co-pilots volunteered to help out in KLM's ground handling operations and in implementing projects at Engineering & Maintenance. The experience proved very beneficial since ground staff and pilots were able to share their experiences and get to know one other while the latter gained a more detailed knowledge of the ground operations. KLM also focused on reducing outstanding leave. All these voluntary measures received the support of the unions and the Works Council.

KLM Cargo was particularly badly hit by the economic recession and staff were encouraged, something that is ongoing, to transfer to positions elsewhere within the company. The newly-created Cargo Navigation Center offers information on vacant positions, help in drafting CVs and covering letters and interview and career counseling, tailored to the needs of KLM Cargo staff.

Organization of working time

Since part-time working is a legal right in the Netherlands, it is very widespread. Since 2008-09, KLM has implemented measures to promote the transition to part-time working and more than one third of KLM employees currently work part time, with a greater proportion of women.

Professional gender equality

In line with the Air France-KLM group's commitment to promoting diversity and guaranteeing equal opportunities for all employees enshrined in the Group's Social Rights and Ethics Charter, the two companies pursue this aim within the respect of local employment legislation.

At KLM, women executives are offered mentorship aimed at helping them to achieve positions with a high degree of responsibility. Positive discrimination is not applied when filling vacant positions.

KLM has long been combating acts of discrimination, violence and sexual harassment.

Compensation policy

KLM's previous collective agreements ended on March 31, 2009 and, due to the economic crisis, the unions and the company opted for an agreement applicable for just one year. The agreement includes a commitment to avoiding redundancies as far as possible in return for salary restraint. On January 1, 2010, all salaries were increased by 1.25% in respect of inflation.

KLM's retirement provision is based on pension funds that are open to all employees. These funds, to which employees and the company both contribute, are managed by the Blue Sky group. A committee comprising members of the KLM management and unions is responsible for taking decisions on indexation and other pension-related issues.

Social dialogue

KLM has a history of constructive relations with the trade unions that it wishes to continue. In 2009, an internet application was introduced to facilitate balloting during the 2010 Works Council elections.

Health and safety in the workplace

In November 2009, the World Health Organization announced that the threat of the new Influenza (H1N1) epidemic had receded. With hindsight it is clear that none of the initial scenarios effectively transpired and the impact on Air France and KLM operations was limited despite the fact that, at the start of the epidemic, forecasts had pointed to a significant operational impact. At KLM, a crisis center was immediately set up comprising managers from all areas of operations, assisted by company doctors, which monitored day-to-day changes in the situation. Through daily information bulletins, a weekly update in the KLM-wide newsletter and status reports to the Board of Directors, KLM was kept informed of the current situation and the measures taken by the company. A manual was produced outlining the scenarios likely to have an impact on KLM operations with the relevant measures to be taken if they transpired. Antibacterial hand gels were dispensed to all employees and additional hygiene measures were taken by flight crews, especially for destinations with a large number of cases. All the specific measures introduced to combat the new Influenza A H1N1 were discontinued as of November 2009.

KLM has appointed divisional *safety champions* to focus on flight and occupational safety, a role fulfilled by senior managers. Their aim is to raise the awareness of other managers and encourage them to promote safety in the work place and report any previously-undetected or new safety issues. A communication campaign targeting ground staff to inform them of KLM's *Never Compromise on Safety* position was just one of the initiatives introduced by these safety managers in 2009.

In order to implement improvements aimed at preventing the recurrence of accidents, a safety incident protocol was drafted giving employees having caused or reported an accident protection from any disciplinary action unless deliberate intent is proven. The protocol's inclusion in all three collective labor agreements was proposed to the unions.

A sports center inaugurated at the KLM Cargo site in 2008 continued to be regularly used by both office staff and those involved in shift-working.

In 2009, a second sports center was opened for KLM Ground Services staff offering physiotherapy to employees temporarily suffering from illness or injury. Other staff members can also work out to maintain their fitness.

Engineering & Maintenance introduced *ergo coaches,* or employees specially trained to advise colleagues on the optimum posture and working methods from an ergonomic point of view. The effectiveness of the program is currently being scientifically studied by researchers at Amsterdam's VU University.

A number of communication campaigns were launched on health and well-being issues specific to flight crew. These included tips on, for example, how to deal with jet lag more effectively and focused on raising awareness of medicine, alcohol, and drug abuse (MAD).

Training

Every employee has the opportunity to define, in cooperation with his or her line manager, a personal development plan (Dutch acronym: *POP*) enabling the development of new and existing skills. Employee and manager then agree on the relevant training or other forms of development support.

The KLM Academy, an in-house training center for executives, has developed *Career and Leadership* sessions for high potentials and management programs for all executives and specialist staff within KLM. For more individual training needs, the KLM Academy has opted for open programs on management skills, project management, general management and personal effectiveness.

In 2009, KLM launched the *KLM Improving Leadership Skills* program to provide management pointers for executives in operations with three or more years' experience. KLM's Works Council supports the program and helped tailor it to the needs of participants. Given the success of the pilot project, the program is now available to all executives.

Investing in employability remains a priority for KLM. The economic crisis has shown the importance of mobility when it comes to responding to changing professional requirements and KLM considers that, with the right training, this quality can be developed.

Two pilot projects were introduced to offer employees with a limited initial education a program to acquire a formal diploma. The program to formally acknowledge their professional experience, supported by the government, charted for each employee the skills acquired during their careers with points awarded for skills meeting the educational requirements of the desired diploma. These points were then deducted from the total points required, meaning fewer classes needed to be awarded the diploma. Although the formal evaluation has yet to take place due to the fact that the pilot project has yet to be completed, the program has so far received some very positive feedback from participants and other employees.

Vocational integration of disabled persons

Within the framework of Dutch legislation, KLM is committed to furthering the integration of disabled persons and to maximizing their contribution. This represents a common goal for both KLM and its employees. An employee is considered to be disabled if he or she is unable to perform their duties or accept a position at a comparable salary level. Based on government guidelines, company doctors evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and the employees on the adjustment in working hours, types of work and workstation adaptation that are required to maximize the potential of employees with disabilities.

In 2009, after two years of continuous absence from work, 80 KLM employees had not been able to perform their own duties or to find a job at a comparable salary level due to their disability. These employees will receive State benefits based on their income and the results of an evaluation verifying whether the employer and the employee have respected their obligations. KLM, like all Dutch employers, contributes to these benefits through a yearly contribution proportional to the number of disabled employees.

Corporate social responsibility at local level

KLM participates in a number of local and regional development projects such as:

- *Alders Table:* The Alderstafel on September 30, 2008 provided extensive consultative input on the development of Schiphol Airport and its surrounding area for the period between 2010 and 2020;
- *CROS:* KLM has been investing for several years in dialogue and cooperation with residents in the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS);
- *Cooperation between KLM and the Local Education Center:* A pro-active contribution to professional expertise and job application training to encourage young people to learn, prepare for their future careers and avoid educational difficulties.

Social indicators for the Group

Social indicators for the Air France-KLM group

NRE social data[1]	Air France-KLM group				Air France group*				KLM group**			
					Total Air France group		from which Air France		Total KLM group		from which KLM	
Headcount at 31/12 (permanent contracts and fixed-term contracts)	**2007**	**2008**	**2009**	**2009-08**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Scope of NRE social reporting		**96%**	**96%**		**94%**	**95%**	**100%**	**100%**	**99%**	**96%**	**100%**	**100%**
Total staff √[2]	110,369	110,878	108,367	-2.3%	74,320	72,191	63,010	60,686	36,558	36,176	30,266	28,700
Ground staff	76,177	75,668	73,015	-3.5%	52,592	50,333	43,529	41,333	23,076	22,682	18,700	17,668
Cabin crew	25,545	26,308	26,121	-0.7%	16,209	16,290	15,106	15,081	10,099	9,831	8,794	8,325
Flight deck crew	8,647	8,902	9,231	3.7%	5,519	5,568	4,375	4,272	3,383	3,663	2,772	2,707
Staff under permanent contract √[3]	103,772	104,601	104,425	-0.2%	71,586	70,342	61,002	59,506	33,015	34,083	28,390	27,700
Recruitments under permanent contract												
Ground staff	3,012	2,594	1,315	-49%	1,927	819	1,356	440	667	499	483	169
Cabin crew	931	995	111	-89%	834	99	797	99	161	12	141	12
Flight deck crew	566	691	136	-80%	435	133	310	114	256	3	200	3
Total √	**4,509**	**4,280**	**1,562**	**-64%**	**3,196**	**1,051**	**2,463**	**653**	**1,084**	**514**	**824**	**184**
Departures												
Ground staff	5,161	4,804	6,232	30%	2,920	4,303	2,366	2,665	1,884	1,929	1,114	1,089
Cabin crew	1,121	1,047	1,435	37%	323	737	253	628	724	698	202	189
Flight deck crew	342	355	246	-31%	295	181	191	151	60	65	43	50
Total Departures √[4]	**6,624**	**6,206**	**7,913**	**28%**	**3,538**	**5,221**	**2,810**	**3,444**	**2,668**	**2,692**	**1,359**	**1,328**
of which resignations √	2,611	3,011	1,795	-40%	1,250	736	877	534	1,761	1,059	961	662
of which redundancies (incl. Economic) √	1,118	1,208	1,177	-3%	650	631	367	374	558	546	73	89
of which retirement √	2,018	1,852	1,644	-11%	1,540	1,286	1,484	1,099	312	358	295	326
of which deaths √	143	135	155	15%	98	114	82	100	37	41	30	34

NRE social data[(1)] Headcount at 31/12 (permanent contracts and fixed-term contracts)	Air France-KLM group				Air France group*				KLM group**			
					Total Air France group		from which Air France		Total KLM group		from which KLM	
	2007	2008	2009	2009-08	2008	2009	2008	2009	2008	2009	2008	2009
Percentage of women at 31/12 √[(5)]	**42.7%**	**42.9%**	**42.6%**	**-0.8%**	**43.0%**	**43.0%**	**44.4%**	**44.4%**	**42.6%**	**41.6%**	**42.5%**	**42.0%**
Ground staff	37.1%	37.0%	36.8%	-0.7%	40.0%	39.9%	41.1%	40.9%	30.4%	29.9%	29.1%	28.6%
Cabin crew	72.3%	72.2%	71.8%	-0.6%	65.5%	65.4%	64.8%	64.7%	82.9%	82.3%	82.9%	82.3%
Flight deck crew	5.3%	5.5%	5.5%	0.4%	6.0%	6.2%	6.4%	6.7%	4.7%	4.5%	4.3%	4.2%
Part time employment at 31/12[(5)(6)]												
Percentage of female part-time employees √	39.7%	39.9%	42.2%	5.6%	31.4%	32.7%	33.6%	35.2%	57.3%	61.6%	60.7%	64.5%
Percentage of male part-time employees √	9.5%	10.1%	10.3%	2.2%	7.7%	7.0%	8.2%	7.5%	14.9%	16.8%	15.0%	16.7%
Percentage of part time employees √	22.2%	22.9%	23.9%	4.1%	17.9%	18.1%	19.5%	19.8%	33.0%	35.4%	34.4%	36.7%

√ ***Indicators verified by KPMG for 2009 (moderate level of assurance).***

* ***Air France group:*** *Air France and Air France subsidiaries.*

Air France subsidiaries: *Brit Air, Blue Link, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and Servair group: ACNA, Bruno Pegorier, OAT, Servair SA, CPA.*

** ***KLM group:*** *KLM and KLM subsidiaries.*

KLM subsidiaries: *Cygnific, Cobalt Ground Solutions, KES, KHS, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schipol B.V., KLM UK Engineering Limited, Martinair.*

(1) ***The reporting perimeter for the Air France-KLM group's NRE social data concerns*** *the employees defined as "headcount" who were on the payroll at the end of the year.*

Changes in reporting scope for 2009:

- *Inclusion of the VLM (CityJet group subsidiary), CPA (Servair group subsidiary) and Transavia France subsidiaries within the Air France group scope.*
- *Inclusion of the Martinair and Cobalt Ground Solutions (result of the merger between Air France subsidiary AFSL and KLM subsidiary KLM Ground Services Limited) subsidiaries within the KLM group scope.*
- *Removal of the KLM subsidiary CSC India.*

Note that the employees shown within Air France and KLM include local staff employed internationally.

Note that the indicator "scope of NRE social reporting" is calculated on the average of group employees based on full time equivalent in December.

(2) In 2009, the number of Air France-KLM employees based on the 2008 reporting scope amounted to 105,957, i.e. a -3.7% fall year on year. By employee category, this reduction amounted to -4.2% for ground staff, -2.9% for cabin crew and -2.2% for flight deck crew.

(3) The indicator "staff under permanent contract" does not include expatriates.

(4) In 2009, the total number of departures is higher than the figures shown under the reasons for departure owing to a significant number of departures due to the non-renewal of fixed-term contracts.

(5) Calculation based on fixed-term and permanent contracts at December 31.

(6) The increase of part-time employees in KLM is accounted for by a change in part-time policy. Also, it is common for most people to start their career on a full time contract and subsequently transfer to part-time working. Combined with a hiring freeze, the percentage of employees working part-time increases.

Other social data for the Air France group (according to local legislation)

Air France (100% of the staff headcount, registered and paid)*

	2008	2009	2009-08*
Absenteeism			
Due to illness			
Ground staff √	2.6%	2.9%	11%
Cabin crew √	4.5%	4.6%	2%
Flight deck crew √	1.8%	1.8%	-1%
Due to work accidents			
Ground staff √	0.4%	0.5%	12%
Cabin crew √	0.8%	0.7%	-20%
Flight deck crew √	0.2%	0.3%	32%
Maternity leave			
Ground staff √	0.7%	0.7%	0%
Cabin crew √	2.0%	2.5%	22%
Flight deck crew √	0.2%	0.3%	47%
Health and safety			
Total workplace accidents √	2,586	2,388	-8%
Number of fatal workplace accidents √[1]	2	13	
Frequency rate of workplace accidents √	27.62	26.62	-4%
Severity rate of workplace accidents √	0.98	0.95	-3%
Training[2]			
Percentage of total payroll devoted to training √	**10.4%**	**8.7%**	**-16%**
Ground staff √	6.4%	5.6%	-13%
Cabin crew √	10.4%	9.2%	-12%
Flight deck crew √	19.1%	15.3%	-20%
Number of training hours by employee √	**45**	**34**	**-23%**
Ground staff √	34	27	-21%
Cabin crew √	40	37	-8%
Flight deck crew √	177	96	-45%
Participation rate (number of agents trained/workforce) √	**94%**	**92%**	**-2%**
Ground staff √	92%	88%	-4%
Cabin crew √	100%	100%	
Flight deck crew √	100%	100%	
Disabled staff[3]			
Total staff with disabilities √	1,444	1,147	0%
Ratio of disabled staff (under French law) √	3.14%	3.58%	14%
Total staff with disabilities recruited during year √	31	7	-77%
Collective agreements	***23***	***16***	

* *Data in italics concerns only Air France in Continental France and the French overseas territories.*

Air France[4] subsidiaries

	2008	2009	2009-08
Scope of reporting for Air France subsidiaries	**70%**	**73%**	
Health and safety			
Total workplace accidents √	897	931	4%
Disabled staff[3]			
Total staff with disabilities √	290	385	33%
Total staff with disabilities recruited during year √	18	38	111%
Training[2][5]			
Participation rate (number of agents trained/workforce) √	**85%**	**90%**	**6%**
Ground staff √	89%	88%	-1%
Cabin crew √	94%	92%	-2%
Flight deck crew √	99%	99%	0%
Number of training hours by employee √	**26**	**25**	**-7%**
Ground staff √	19	19	-2%
Cabin crew √	42	30	-28%
Flight deck crew √	81	60	-25%
Collective agreements	***NA***	***35***	

*√ **Indicators verified by KPMG for 2009 (moderate level of assurance).***

N.A.: not available.

(1) Including the 12 crew members lost with flight AF447 from Rio to Paris on June 1, 2009.

(2) In 2009, following the hiring freeze, the reduction in staff and the optimization of the training offer, the internal training needs were reduced. There was also a reduction in the number of ground staff converting to cabin crew (involving 200 hours of training per transfer). For flight deck crew, each change of aircraft requires specific training. The fall in recruitment and internal mobility led to a reduction in new aircraft qualifications meaning a significant fall in training hours.

(3) The increase in the employment rate of disabled persons by Air France comes from a significant increase in recourse to the protected sector. The number of disabled employees remained stable despite the retirement departures; 7 employees were recruited despite the external hiring freeze, consistent with the triennial agreement for 2009-11. The increase in the number of disabled employees in the subsidiaries is explained by the increase in the reporting scope and by a pro-active recruitment policy, notably at Servair group, which has signed a specific agreement regarding disabled employees.

*(4) **Reporting scope for Air France subsidiaries.** The increase in the reporting scope for Air France subsidiaries in 2009 (inclusion of VLM, CPA and Transavia France) has an impact on the variation between 2008 and 2009. **Air France subsidiaries:** Brit Air, Blue Link, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and in the Servair group: ACNA, Bruno Pegorier, OAT, Servair SA, CPA.*

(5) Excluding Transavia France.

Other social data for KLM (according to local legislation)

KLM (100% of the staff headcount, registered and paid)*

Absenteeism	2008	2009	2009-08
Due to illness			
Ground staff √	5.3%	4.9%	-8%
Cabin crew √	6.1%	5.8%	-5%
Flight deck crew √	3.8%	3.6%	-5%
Maternity leave			
Ground staff √	0.2%	0.2%	0%
Cabin crew √	1.5%	1.5%	0%
Flight deck crew √	0.1%	0.1%	0%
Health and safety			
Total workplace accidents √(1)	1,067	252	N.C.
Number of fatal workplace accidents √	1	0	
Frequency rate for workplace accidents √(1)	21.66	5.4	N.C.
Severity rate of workplace accidents √(2)	0.12	0.19	58%
Disabled staff			
Total staff with disabilities √(3)	755	713	-6%
Collective agreements	***0***	***3***	
Training			
Total training costs in € √	N.A.	60,847,429	
Total training costs in € per full time equivalent √	N.A.	2,500	

* *KLM: data concerns KLM without international staff.*
N.A.: not applicable
N.C.: not comparable

KLM Subsidiaries[4]

	2008	2009	2009-08
Scope of reporting for KLM subsidiaries	***96%***	***97%***	
Health and safety[5]			
Total workplace accidents √[1]	166	149	N.C.
Number of fatal workplace accidents √	0	0	
Frequency rate for workplace accidents √[1]	22.33	10.34	N.C.
Severity rate of workplace accidents √[2]	0.07	0.16	129%
Disabled staff[6]			
Total staff with disabilities √	N.A.	76	
Collective agreements	N.A.	6	
Training			
Total training costs in € √	***N.A.***	***18,053,671***	
Total training costs in € per full time equivalent √	N.A.	2,143	

√ Indicators verified by KPMG for 2009 (moderate level of assurance).

N.A.: not applicable.

N.C.: not comparable.

(1) The definition of workplace accident was changed in 2009 to take into account only those accidents resulting in absenteeism. The result is a big decrease in workplace accidents and the frequency rate.

(2) Even though the number of accidents diminished, among those resulting in absenteeism a few resulted in long periods of absenteeism due to workplace accidents.

(3) Decrease is partially due to changes in Dutch legislation.

(4) Changes in reporting scope 2009:

- *Inclusion of the Martinair and Cobalt Ground Solutions (result of the merger between Air France subsidiary AFSL and KLM subsidiary KLM Ground Services Limited) subsidiaries within the KLM group scope.*
- *Removal of the KLM subsidiary CSC India.*

KLM subsidiaries: *Cygnific, Cobalt Ground Solutions, KES, KHS, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schipol B.V., KLM UK Engineering Limited, Martinair.*

(5) Excluding Cobalt Ground Solutions.

(6) Excluding Martinair.

Environmental data

For some years the Air France-KLM group has been committed to a growth strategy that respects the environment and these environmental concerns are now at the heart of an ambitious, common strategy across the Group.

The Air France-KLM group is aware of the impact of its activity on climate change and is seeking to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan.

Within the framework of the *Grenelle de l'Environnement*, the French National Conference on the Environment, Air France signed, in January 2008, the Air Transport Sector Agreement with the French State continuing the modernization of its fleet.

KLM has subscribed to the *Dutch Knowledge and Innovation Agenda,* defining the environmental and sustainable development visions and targets for the airlines in the Netherlands. The company is also committed to the *Dutch National Agreement on Sustainability* (sector agreement on Transport, Logistics and Infrastructure for 2008-2020).

Organization and responsibilities

Air France and KLM each have their own environmental management systems however the two environment divisions work together on a wide range of issues and carry out, notably, a common environmental reporting process through the Group's Corporate Social Responsibility Report.

Air France's Environment and Sustainable Development department is responsible for formulating proposals on the company's environmental policies and priorities to be submitted to the general management and to the Executive Committee.

Each department is responsible for applying the environmental policy thus defined and for regulatory compliance, supported by the Quality-Safety-Environment network.

Environment and Sustainable Development ensures the consistency of the action plans in the entities and coordinates the environment network.

The Air France subsidiaries participate in the Group's environmental management process and attend Environmental Management System monitoring meetings organized by the Environment and Sustainable Development department.

Each department has an environmental coordinator, generally reporting to the Quality-Safety-Environment manager, who is responsible for:

- promoting the company's environmental policy in their entity through multiple strategic, training and communication initiatives;
- coordinating the departments' environmental initiatives and action plans;
- establishing control panels, analyzing the results and identifying preventive and corrective measures.

Within KLM, the Executive Committee approves the company's environmental policy and the related environmental action plans.

The Corporate Social Responsibility and Environmental Strategy department drafts this policy and is responsible for the proper functioning of the Environmental Management System.

Every KLM department, within the scope of the ISO 14001 certification, reports on regulatory compliance and the environmental impact of its activities through the CSR program during six-weekly meetings organized by the Corporate Social Responsibility and Environmental Strategy department.

Departments have their own environmental coordinators who generally report to the Quality Managers, who are themselves members of the Operational Safety & Environment Board that meets every quarter and is chaired by the Executive Vice President, Operations.

Environmental management/ISO 14001 certification

Air France and KLM have established separate but harmonized environmental management systems based on the ISO 14001 standard.

The ISO 14001 certification policy is part of a strategy focused on integrated environmental management systems. This international standard is based on the Deming total quality model: plan, do (implement), check and management review. For each entity of the company, the processes identified are planned, monitored and verified notably by internal and external audits in order to ensure their conformity with environmental regulations.

In July 2008, Air France obtained ISO 14001 certification for all its Continental France ground operations and its flight operations.

KLM has deployed an ISO 14001-compliant environmental management system since 1999. Within the framework of its commitment to developing its environmental policy, KLM has implemented an extensive annual program aimed at ensuring a continuous improvement in environmental performance, guaranteeing environmental management and actively developing internal and external communication.

The environmental results of KLM Cityhopper, KLM Catering Services, KLM Equipment Services and KLM Health Services are included in KLM's environmental performance indicators. Martinair and Transavia.com are also partially included.

Measures taken to guarantee the Air France-KLM group's compliance with legal and regulatory requirements relating to the environment

A monitoring tool for regulatory compliance is currently deployed by the company with the help of Huglo-Lepage, a consultancy specialized in environmental law, enabling each Air France entity to keep up to date with any relevant legislative changes. The CRMA, Régional and Brit Air subsidiaries also have access to a similar tool.

This tool will be replaced by an integrated tool to monitor compliance with environmental regulations, enabling each entity to monitor its own operations and conduct a self-evaluation of its compliance. The new tool will be operational in 2011.

In order to ensure compliance with the legal and regulatory requirements relating to KLM's ground operations outside the Netherlands, KLM has also established an environmental code of best practice in its outstations (GEP = Good Environmental Practices).

Environmental reporting

The Air France group produces environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application, enabling the population, approval and consolidation of the data for all the ground operations. For the air operations, a calculation tool similar to OSYRIS enables emissions to be calculated based on actual flight data (consumption, speed, altitude, etc.) guaranteeing the greater accuracy of the data.

KLM monitors and reports its CSR data (of which the environmental indicators are a part) using the new user-friendly CaeSar database which is widely deployed across the company.

Since the 2007-08 financial year, a selection of Air France-KLM's environmental indicators have been verified by one of the Group's statutory auditors with the highest level of assurance known as reasonable assurance for the CO_2 emissions and fuel consumption of the air operations and a moderate level of assurance for the other indicators.

Environmental risk management

The identification and management of environmental risks is an integral part of the ISO 14001 management system. Within the framework of these systems, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the action plans of the different entities.

A feedback system has been established in all the Air France and KLM operational divisions (Sentinel application), which records environmental incidents, enabling prevention plans to be established and implemented for risks at Group level.

Greenhouse gas emissions

The Air France-KLM group's contribution to combating climate change is based on its Climate Action Plan.

The Air France-KLM group actively supports international efforts to reach a global climate agreement by which the aviation sector would make an ambitious, just and equitable contribution to the collective effort. The company continues to modernize its fleet, supports aeronautics research and promotes energy efficiency and the reduction in CO_2 emissions across the entire supply chain. It encourages employees to propose sustainable solutions, including those aimed at saving fuel and mitigating the emissions of the ground operations while supporting renewable energy research programs, such as biofuels destined for aviation. It also supports environmental protection research programs developed by NGOs. The company also gives its customers access to transparent, reliable information on the CO_2 emissions linked to their journeys using a calculator based on actual operating data and offers them the opportunity to offset this.

Applicable to fixed industrial sources as of 2005, the European Emissions Trading Scheme (EU-ETS) was revised in 2008 in order to extend it to the aviation sector as of 2012. In 2009 the Group began actively gearing up to prepare for the application of the directive involving the filing of monitoring, verification and reporting plans to register the company's CO_2 emissions and activities. The plans of Air France-KLM and its subsidiaries were approved in late 2009. The activity (expressed in revenue ton-kilometres) generated by each operator in 2010 will serve as the calculation base for the allocation of aviation quotas.

Air France-KLM is in favor of a European ETS which is effective and affordable, and creates no competitive distortion.

The European system is, however, the subject of a legal challenge by the airlines in third party countries.

Although COP15 (fifteenth session of the Conference of the Parties bringing together 192 member countries of the United Nations at Copenhagen in December 2009) did not result in an agreement, given that climate change is such a massive challenge, more such summits will be required. The aviation sector is preparing for the next conference, COP16, in December 2010 in Cancun.

Air France-KLM has actively contributed to the establishment of initiatives to demonstrate the feasibility of a just and equitable involvement of international aviation in mitigating greenhouse gas emissions, either through the AEA (Association of European Airlines) or a specially-convened group of other deeply committed partners (Aviation Global Deal Group). These initiatives aim to propose an overall sector approach for international aviation, reconciling the principle of *common but differentiated responsibilities* of the Rio Summit with that of equality of treatment between operators of the Chicago Convention.

On behalf of all its airline members, IATA undertook at the Copenhagen conference to make its rightful contribution to combating climate change. Air France-KLM has worked very hard, together with IATA, to achieve this sector mobilization.

Airlines, airports, air navigation service providers and manufacturers thus decided, collectively and at global level, to commit to a number of specific targets for reducing carbon emissions:

- by 2020, a 1.5% annual improvement in energy efficiency;
- from 2020, stabilization and neutral growth in CO_2 emissions;
- by 2050, a 50% reduction in CO_2 emissions relative to the 2005 level.

Soil use conditions

Consistent with the rules and regulations, Air France collects or commissions sub-soil samples prior to any new construction at a site in order to check their compliance with safety standards. Air France is continuing to oversee the clean up at the Montaudran industrial site.

Measures taken to reduce water consumption

Air France has considerably reduced its water consumption through better control over its processes, the accountability of its teams and by the integration of environmental criteria in the design and realization of its tools and work stations.

These initiatives include the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

For its part, Servair, continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

Measures taken to limit noise pollution

The entire Air France fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm in terms of the acoustic quality of civil aircraft.

In addition to renewing its fleet, Air France implements the following measures to reduce the noise impact of its operations:

- application of *less noise* procedures, such as continuous descent approaches in collaboration with the DGAC, the French civil aviation authority (in place at Orly and plans to extend this procedure to a number of outstations). During 2010, Air France will again work in partnership with the DGAC to implement the CDA plan at Roissy-CDG airport pursuant to a French National Conference on the Environment commitment;
- reduction of night traffic: at CDG, Air France has given up 725 of the 818 annual slots abandoned by the airlines as a whole since 2003.

KLM uses the higher-altitude operational approach procedure at night.

Furthermore, KLM has implemented a number of route optimizations which have led to a reduction in noise pollution for 18,000 people.

After a trial lasting two years, an innovative fixed radius turn has been successfully introduced on a Standard Instrument Departure (SID) to reduce the noise around the departure route.

KLM's Boeing B737 aircraft are the first to use this navigation technique to reduce noise. The extension of this procedure to other aircraft types and other airlines is currently being studied.

Measures taken to improve energy efficiency

Air operations

For Air France-KLM, the main drivers of energy efficiency in the air operations are the renewal of its aircraft (to maintain a modern fleet with some of the best performance standards in the market) and the continuous improvement of operational procedures linked to aircraft and ground vehicles in order to reduce fuel consumption. The company is also always seeking to reduce the weight of cabin equipment and supplies.

Ground operations

As regards the ground operations, Air France is renewing its vehicle fleet and runway equipment to increase the share of electrical propulsion, the aim being to increase the proportion of electrically-powered engines to 36% in 2007 and 60% by 2020. At end 2009, some 44% of Air France's vehicle fleet was powered by electricity. The company has also introduced the monitoring, via an IT system, of the fuel consumption of registered vehicles.

The half-year reporting of energy consumption in the company's different divisions and employee awareness initiatives on energy saving are also important.

The commitment to the HQE approach/certification with the inclusion of energy saving at the design stage for new buildings and facilities also testifies to a focus on energy saving. Air France also implements an HQE approach/certification for the operation of these new buildings.

Air France has deployed a company travel plan in the Ile de France, which includes a diagnostic of the journeys employees make between their homes and workplaces. This plan proposes solutions aimed at contributing to the reduction in pollutant emissions generated by these journeys.

For its part, KLM has equipped its Amstelveen headquarters with a sustainable energy facility, using 90% less gas and 30% less power.

Since 1989, KLM has deployed a range of electricity-saving measures in the Dutch KLM buildings, enabling an average annual reduction of around 2% in its energy consumption. In 2008, KLM signed a third multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020.

KLM participated in the Dutch Mobility Task Force and consequently signed the regional multi-party Mobility Convention, aimed at a 10% reduction in employee-car-kilometers between 2008 and 2012.

Both KLM and Air France encourage their employees to support initiatives to reduce energy consumption.

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risk up to a sum of €50 million per claim and per year, with lower specific limits depending on location and/or the activities. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries with airline operations (Régional, Brit Air, Transavia France, CityJet, VLM).

As for risk prevention, the main Air France divisions and subsidiaries exposed to environmental risk have in-house QSE (Quality Safety Environment) units, which regularly participate in site sensitivity studies, particularly when these are required by insurers.

KLM's aviation insurance covers environmental damage due to an aircraft crash, fire, explosion or collision. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable. The only exception is the provision made within the framework of the agreement between KLM and the WWF-NL on CO_2-neutral growth between 2007 and 2011.

Indemnities paid and actions carried out to repair environmental damage

In 2009, Air France paid €17.4 million in Airport Noise Tax (TNSA). The TNSA is a tax paid to the State for each departure from the ten largest French airports, whose proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise.

In addition, Air France is actively involved in Advisory Committees for Resident Assistance (CCARs) at airports subject to the noise tax, the CCARs being the bodies responsible for supervising the use of noise tax proceeds.

In 2009, KLM paid €23.4 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

Environmental expenditure and investment

Air France-KLM's policy is to fully integrate environmental management within the business operations. This means that it is difficult to identify environmental expenditure and investment exactly since the investment is not made exclusively for environmental purposes (fleet renewal, for example).

Air France has, however, launched an initiative to identify and collect information on environmental expenditure and investment for three divisions (Air France Industries, Air France Cargo and Operations).

KLM does itemize a list of the most significant expenditures that can be directly linked to environmental legislation or management. This concerns expenditure relating to noise disturbance and the sound-proofing mentioned in the above section.

Environmental indicators for the Group

Air France-KLM air operations

Environmental indicators		Unit
Consumptions		
Consumption of raw materials: fuel √√		000 tonnes
Emissions		
Greenhouse gas emissions	CO_2 √√	000 tonnes
Emissions of substances contributing to acidification and eutrophication	NO_x √	000 tonnes
	Of which low altitude (< 3,000 ft) √	000 tonnes
	SO_2 √	000 tonnes
	Of which low altitude (< 3 000 ft)	000 tonnes
In-flight fuel jettison	Occurences of fuel jettison √	Number
	Fuel jettisoned √	tonnes
Other emissions	HC √	000 tonnes
	Of which low altitude (< 3,000 ft) √	000 tonnes
Noise impact		
Global noise energy indicator √		10^{12} kJ

√ Figures verified by KPMG for 2009 (limited level of assurance).
√√ Figures verified by KPMG for 2009 (reasonable level of assurance).
(1) Perimeter Air France Group: all AF flights operated by Air France, Brit Air, Régional and CityJet.
(2) Perimeter KLM Group: Flights operated by KLM and KLM Cityhopper. Transavia and Martinair are excluded.
(3) Variation 2009/2008 according to the 2009 method.
(4) The data has been corrected due to aligment of the KLM figure with AF KLM formulas.
(5) Modification of the calculation method used in 2009.
** Air France only.*
*** All flights with AF code operated, franchised and chartered, code share excepted.*

	Air France-KLM group				Air France group[1]				KLM group[2]			
	2007	2008	2009	2009-08	2007	2008	2009	2009-08	2007	2008	2009	2009-08
	8,589	8,732	8,021	-8.1%	5,504	5,511	5,036	-8.6%	3,085	3,221	2,985	-7.3%
	27,075	27,506	25,269	-8.1%	17,336	17,360	15,865	-8.6%	9,739	10,146	9,404	-7.3%
	135.0	143.5	130.8	-7.6%[3]	91.6	93.6	82.3[5]	-10.2%[3]	43.4	49.9	48.5	-2.8%
	8.5	8.9	8.9	0.0%	6.4	6.5	6.2	-4.6%	2.1	2.4	2.7	12.5%
	11.072	14.925	12.902	-13.6%	9.549	10.108	7.720	-23.6%	1.523	4.817	5.182	7.6%
	0.836	1.084	1.089	0.5%	0.747	0.794	0.741	-6.7%	0.089	0.290	0.348	20.0%
	42	47	51	8.5%	23*	32*	33*	3.1%	19	15	18	20.0%
	1,443	1,804	1,979	9.7%	809*	1,184*	1,381*	16.6%	634	620	595	-4.0%
	3.6	3.4	4.2	-11.8%[3]	1.9	1.6	2.6[5]	-12.2%[3]	1.7	1.8	1.6	-11.1%
	1.1	1.1	1	-9.1%	0.8	0.8	0.7	-12.5%	0.3	0.3	0.3	0.0%
	1.70	1.93	1.79	-7.3%	1.30**	1.27**	1.18**	-7.1%	0.40[4]	0.66	0.61	-7.6%

Air France-KLM ground operations

Environmental indicators			Unit
Consumptions			
Water consumption[3] √			000 m^3
Energy consumption	Electricity consumption √		MWh
	Energy consumption for heating and cooling	Super heated water √	MWh
		Iced, water √	MWh
		DFO[4] √	MWh
		Gas √	MWh
Emissions			
Greenhouse gas emissions	CO_2 √		tonnes
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC √		tonnes
	Emissions of HC[7]		tonnes
Emissions of substances contributing to acidification and eutrophication	NO_x √		tonnes
	SO_2 √		tonnes
Waste			
Waste production	Quantity of non-hazardous industrial waste √		tonnes
	Quantity of hazardous industrial waste √		tonnes
	% of hazardous industrial waste recycled √		%
Effluents			
Number of times regulatory limits exceeded[8]	Nitrogen compounds		number
	Phosphorus compounds		number
	Heavy metals[9] √		number

√ *Figures verified by KPMG for 2009 (limited level of assurance).*

nc: not comparable (change in scope or in calculation method).

na: not applicable

(1) Air France and subsidiaries: Régional, Brit Air, Servair Group, Sodexi, CRMA.

(2) KLM and its subsidiaries: KLC, KES, KCS, KHS. Transavia and Martinair are partially included.

(3) Water consumption in aircraft not included.

(4) Fuel oil consumption for power generators, vehicles and ground support equipment not included because not used for heating and cooling.

(5) This variation comes from an error related to fuel oil consumption for ground support equipment being counted twice for one site in 2008. Based on the corrected value, 2009-08 variation is +9.4% for CO_2 and +58.5% for SO_2.

(6) The scope for CO_2, SO_2 and NO_x emissions in 2007 includes fuel oil and gas for heating, as well as vehicles and ground support equipment. Emissions related to power generators, cooking gas consumption and engine test runs are included as of 2008.

(7) New indicator in 2009. Emissions of HC are coming from different sources such as: fueling, ground support equipment, engine test runs.

(8) The definition of indicators has changed for a better consistency. In 2007 and 2008, data were reported as quantities discharged in effluents in kg.

(9) Heavy metals monitored in 2007 and 2008 are: Cr, Cd, Ni, Cu, Pb, Sn, Zn.

(10) Effluents cannot be compared between KLM and Air France since the regulatory thresholds and frequency of measurements are different.

	Air France-KLM group				Air France group[1]				KLM group[2]			
	2007	2008	2009	2009-08	2007	2008	2009	2009-08	2007	2008	2009	2009-08
	1,074	1,145	979	-14.5%	809	865	742	-14.2%	265	281	237	-15.7%
	425,502	417,990	421,581	0.9%	326,561	320,991	327,094	1.9%	98,941	97,000	94,487	-2.6%
	145,056	164,110	149,353	-9.0%	145,056	164,110	149,353	-9.0%	na	na	na	na
	16,065	12,947	11,738	-9.3%	16,065	12,947	11,738	-9.3%	na	na	na	na
	2,074	1,728	1,870	8.2%	2,074	1,728	1,870	8.2%	na	na	na	na
	171,407	157,975	164,189	3.9%	81,520	63,997	69,211	8.1%	89,887	93,979	94,978	1.1%
	79,388	89,833	84,290	-6.2%	36,211[6]	43,357[6]	37,396[6]	-13.7%[5]	43,176	46,476	46,894	0.9%
	123	142	127	-10.6%	71	91.7	85	nc	52	50	42	-16.0%
	na	na	166	nc	na	na	112	nc	na	na	54	nc
	784	889	917	3.1%	521[6]	610[6]	639[6]	4.8%	263	279	278	-0.4%
	14.0	26.5	18.7	-29.4%	12.4[6]	21.2[6]	13.2[6]	-37.7%[5]	1.6	5.3	5.5	3.8%
	69,176	61,054	61,067	0.0%	50,720	43,237	42,664	-1.3%	18,455	17,817	18,403	3.3%
	5,520	6,084	5,961	-2.0%	4,455	5,006	4,839	-3.3%	1,065	1,078	1,122	4.1%
	54%	48%	58%	20.8%	47%	40%	52%	30.0%	84%	84%	84%	0.0%
	268	7,030	nc[10]	nc	52	6,890	1	nc	217	140	2	nc
	121	1,659	nc[10]	nc	109	1,658	0	nc	12.3	1.24	0	nc
	22	144	nc[10]	nc	19	141	1	nc	2.47	2.9	0	nc

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Comments on the financial statements

5.

Consolidated results for the financial year to March 31, 2010

There were no significant changes in the consolidation scope in the year to March 31, 2010.

However, due to the full consolidation of Martinair as of January 1, 2009, i.e. three months of activity for the previous financial year, the information for the previous year has been restated for the purposes of comparison (cf. pro-forma column and note 4.1 to the consolidated financial statements).

All the comments and changes are expressed based on this pro-forma information.

	March 31			
(In € million)	**2010 A**	**2009 B**	**2009 pro-forma C**	**% Change (A-C/C)**
Revenues	20,994	23,970	24,693	(15.0)
Income/(loss) from current operations	(1,285)	(129)	(186)	n/a
Income/(loss) from operating activities	(1,632)	(193)	(257)	n/a
Net income/(loss) from continuing operations	(1,560)	(807)	(802)	n/a
Net income/(loss), Group share	(1,559)	(814)	(811)	n/a
Basic earnings/(loss) per share, Group (*In €*)	(5.30)	(2.76)	(2.75)	n/a

B: Published.
C: Pro-forma Martinair.

Reconciliation table for the 2008-09 financial year

(In € million)	March 31, 2009
Published revenues	23,970
Martinair impact	723
Restated pro-forma revenues	24,693
Published operating expenses	24,099
Martinair impact	780
Pro-forma operating expenses	24,879
Published income/(loss) from current operations	(129)
Martinair impact	(57)
Restated pro-forma income/(loss) from current operations	(186)
Published pretax income/(loss) of consolidated companies	(1,204)
Martinair impact	(73)
Restated pro-forma pretax income/(loss) of consolidated companies	(1,277)
Published income taxes	439
Martinair impact	18
Restated pro-forma income taxes	457
Published net income/(loss), Group share	(814)
Martinair impact	3
Restated pro-forma net income/(loss), Group share	(811)

Revenues

Consolidated revenues amounted to €21 billion for the period, down by 15.0% on the previous year pro-forma. Given the impact of the crisis, passenger revenues declined by 13.6% while cargo revenues fell by 27.8%.

Operating expenses

Operating expenses declined by 10.5% to €22.3 billion principally due to the fall in the fuel bill (-21.8%) and €718 million of cost savings realized within the framework of the *Challenge 12* plan. Unit cost per EASK declined by 4.4% and by 0.5% on a constant fuel price and currency basis despite a 6.7% fall in production measured in EASK.

External expenses declined by 14.8% to €13.2 billion versus €15.5 billion pro-forma one year previously. Excluding fuel, they were down by 10.3%.

The breakdown of external expenses was as follows:

	Financial year to March 31			
(In € million)	2010 A	2009 B	2009 pro-forma C	% Change (A-C/C)
Aircraft fuel	4,725	5,703	6,044	(21.8)
Chartering costs	487	624	641	(24.0)
Aircraft operating lease costs	721	646	678	6.3
Landing fees and en route charges	1,707	1,793	1,834	(6.9)
Catering	472	483	490	(3.7)
Handling charges and other operating costs	1,281	1,353	1,408	(9.0)
Aircraft maintenance costs	1,065	1,123	1,170	(9.0)
Commercial and distribution costs	854	1,010	1,023	(16.5)
Other external charges	1,931	2,195	2,252	(14.3)
Total	**13,243**	**14,930**	**15,540**	**(14.8)**

B: Published.
C: Pro-forma Martinair.

The main changes were as follows:

- **Aircraft fuel:** fuel expense declined by €1.32 billion pro-forma. This fall was the combined result of a 9% reduction in volumes due to the impact of the economic slowdown, a negative currency impact of 2%, a decline in the oil price limited to 15% due to the €637 million negative impact of the pre-2009 fuel hedges.
- **Chartering costs** incurred within the framework of leasing aircraft capacity from other airlines were down by €154 million versus the previous year pro-forma. This decline was the result of the overall reduction in capacity;
- **Operating lease costs** increased by €43 million, pro-forma, due to a negative currency effect and the leasing, particularly, of four wide-bodied aircraft;
- **Landing fees and en route charges** paid by airlines for en route air navigation services and the use of airports, fell by €127 million pro-forma, again due to the downturn in activity;
- **Catering** costs which relate to services supplied on board aircraft fell by €18 million pro-forma. These expenses comprise the expenses incurred for services provided on board the Air France-KLM group's own aircraft and those incurred by its catering subsidiary for third-party customers;
- **Handling charges and other operating costs** principally cover aircraft handling on the ground and the costs of looking after passengers for the Group and, to a lesser extent, third-party customers. They declined by €127 million pro-forma in line with activity;
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. They fell by €105 million versus the previous financial year pro-forma;
- **Commercial and distribution costs** fell by €169 million pro-forma due to the reduction in advertising expenditure and the fall in the number of travellers;
- **Other external charges,** principally comprising rental charges, telecommunications costs, insurance and fees, declined by €321 million pro-forma.

Salaries and related costs amounted to €7.39 billion versus €7.42 billion at March 31, 2009 pro-forma, i.e. a fall of 0.5%. On a constant scope, the average headcount declined by 3.4% to 104,721 employees. Salaries and related costs included €155 million of additional costs linked to the Air France and KLM pension funds.

Taxes other than income taxes stood at €216 million versus €250 million at March 31, 2009 pro-forma.

Amortization, depreciation and provisions amounted to €1.68 billion versus €1.78 billion at March 31, 2009 pro-forma.

The loss from current operations amounted to €1.28 billion versus a loss of €186 million in the previous period pro-forma.

The contribution to revenues and income from current operations by sector of activity was as follows:

	March 31, 2010		March 31, 2009		March 31, 2009 pro-forma	
(In € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger	16,267	(918)	18,832	(21)	18,832	(21)
Cargo	2,439	(436)	2,857	(207)	3,378	(221)
Maintenance	956	81	974	95	996	98
Others	1,332	(12)	1,307	4	1,487	(42)
Total	**20,994**	**(1,285)**	**23,970**	**(129)**	**24,693**	**(186)**

Income/(loss) from operating activities

The loss from operating activities amounted to €1.63 billion versus a loss of €257 million at March 31, 2009 pro-forma. This figure includes, notably, the net charge relating to the voluntary redundancy plan initiated at Air France amounting to €148 million and the costs of the mark-to-market adjustment in the value of aircraft held for sale or withdrawn from service totalling €113 million.

Net cost of financial debt

The net cost of financial debt stood at €304 million versus €103 million at March 31, 2009 pro-forma, due mostly to the reduction in financial income on the back of the fall in interest rates and the returns on investment products.

Other financial income and charges

The net financial charge amounted to €193 million compared with a net charge of €917 million at March 31, 2009 pro-forma.

The breakdown was as follows:

- foreign exchange losses of €26 million;
- negative change in the fair value of financial assets and liabilities amounting to €160 million compared with a negative change of €707 million at March 31, 2009. These losses were principally due to the change in the inefficient portion of fuel hedges;
- a net allocation to provisions of €7 million.

Net income/(loss) – Group share

Income taxes amounted to a €586 million positive versus €457 million at March 31, 2009 pro-forma, giving an effective tax rate of 27.5% compared with 35.8% in the previous year pro-forma. The net proceeds registered at March 31, 2010 include a tax charge relating to the new French CAVE tax on the added value of enterprises applicable for the Air France group and amounting to €37 million.

Associates contributed a loss of €17 million at March 31, 2010 compared with income of €18 million at March 31, 2009 pro-forma. This essentially comprised the negative contribution from the Alitalia group amounting to €13 million.

The net loss, Group share stood at €1.56 billion at March 31, 2010 versus a loss of €811 million in the year to March 31, 2009 pro-forma.

The contributions to the net result by quarter were, respectively, €(426) million at June 30, 2009, €(147) million at September 30, 2009, €(295) million at December 31, 2009 and €(691) million at March 31, 2010.

Basic earnings/(loss) per share, Group share, amounted to €(5.30) at March 31, 2010 versus a loss of €(2.75) at March 31, 2009 pro-forma.

Investments and financing of the Group

Capital expenditure on tangible and intangible assets net of disposals amounted to €1.04 billion versus €1.9 billion at March 31, 2009. This mainly comprised the net investment of €703 million in the fleet together with €228 million for the ground operations.

Operating cash flow was negative to the tune of €798 million (a positive of the same amount at March 31, 2009) given a €555 million negative change in working capital requirement. €389 million of this negative change was down to the early unwinding of fuel hedges.

Net cash stood at €4.28 billion at the close date. In addition, the Group had undrawn credit facilities totaling €1.2 billion at March 31, 2010 (€1.1 billion in April 2010 after the reimbursement of €85 million).

Net debt amounted to €6.22 billion at March 31, 2010, €1.78 billion higher than its level on March 31, 2009 (€4.44 billion). Shareholders' equity amounted to €5.42 billion compared with €5.68 billion at March 31, 2009, the difference mainly being due to the mark-to-market of the derivative instruments used to hedge future cash flows which, however, did not fully absorb the loss for the financial year.

The Group's gearing ratio increased to 1.15 at March 31, 2010 versus 0.78 at March 31, 2009. Excluding the impact of hedging instruments, gearing stood at 1.08 versus 0.62 at March 31, 2009 *(See reconciliation table in section 5 – Key performance ratios).*

Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity and its proceeds comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo, net of financial communication expenses, statutory auditors' fees and expenses linked to the compensation of company officers. At March 31, 2010, the operating result was thus positive to the tune of €0.5 million.

The net result was a €32.7 million loss, mainly due to the financial costs on the bond issues launched this year.

Information on trade accounts payable periods

At March 31, 2010, trade accounts payable stood at €16 million of which €0.7 million outside the Group, mostly not yet due within 45 days as of the end of the month.

Key performance ratios

Restated net income

The marked oil price volatility having had a significant impact on the value of the hedging portfolio together with the significant nature of non-recurrent operations led the Group to restate the net result as follows:

(In € million)	**March 31, 2010**	**March 31, 2009***
Net income/(loss), Group share	(1,559)	(811)
Income taxes	(586)	(457)
Net income/(loss), Group share before income tax	(2,145)	(1,268)
Non-recurrent items**	346	71
Non-cash portion of the change in fair value of hedging instruments***	(8)	333
Restated net income/(loss), Group share before income tax	(1,807)	(864)
Tax impact	575	286
Restated net income/(loss)	(1,232)	(578)

* *Pro-forma Martinair.*

** *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities.*

*** *See consolidated statements of cash flow.*

Adjusted operating margin

In accordance with generally accepted practice for analysing the air transport sector, operating leases are capitalized at seven times for the capital employed and gearing ratio calculations. Consequently, income from current operations is adjusted by the portion of operating leases considered to be financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, in stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

(In € million)	**March 31, 2010**	**March 31, 2009***
Income/(loss) from current operations	(1,285)	(186)
Portion of operating leases considered to be financial charges	245	231
Adjusted income/(loss) from current operations	(1,040)	45
Revenues	20,994	24,693
Adjusted operating margin	(5,0)%	0,2%

* *Pro-forma Martinair.*

Gearing ratio

The gearing ratio expresses net debt as a percentage of shareholders' equity. Net debt is the result of deducting cash (cash and cash equivalents and investments) from short and long-term debt.

(In € million)	March 31, 2010	March 31, 2009
Current and non-current financial debt	11,047	9,217
Accrued interest (*note 30 to the consolidated financial statements*)	(115)	(80)
Deposits on leased aircraft (*note 22 to the consolidated financial statements*)	(471)	(496)
Debt currency and hedging instruments	39	51
Gross financial debt	**10,500**	**8,692**
Cash and cash equivalents	3,751	3,748
Investments over three months (*note 22 to the consolidated financial statements*)	343	430
Triple A deposits (*note 22 to the consolidated financial statements*)	298	352
Bank current accounts	(116)	(282)
Cash	**4,276**	**4,248**
Net debt	**6,224**	**4,444**
Consolidated shareholders' equity	5,418	5,676
Net debt/consolidated shareholders' equity	**115%**	**78%**
Net debt/consolidated shareholders' equity excluding fair value of hedging instruments *(see consolidated statements of cash flow)*	**108%**	**62%**

Return on Capital Employed (RoCE)

Return on capital employed measures the return on invested capital by expressing adjusted income from current operations (after the application of a weighted average tax rate of 31% for the Group) as a percentage of capital employed.

It is calculated from the following aggregates to be found in the consolidated financial statements:

- capital employed: consolidated shareholders' equity net of the valuation of hedging instruments and the badwill linked to the KLM pension fund surplus (€928 million) recognized on the adoption of IFRS. Net debt and annual operating leases capitalized at seven times in accordance with the rule used by analysts following the air transport sector and the rating agencies are then added to this figure ;
- adjusted income from current operations after income taxes.

(In € million)	**March 31, 2010**	**March 31, 2009**
Shareholders' equity excluding the KLM pension fund surplus and derivatives	4,815	6,251
Net debt	6,224	4,444
Operating leases x7	5,047	4,746*
Capital employed	**16,086**	**15,441**
Adjusted income/(loss) from current operations after taxation	**(718)**	**31***
RoCE	**(4.5)%**	**0.2%**

* *Pro-forma Martinair.*

Cost of capital

	March 31, 2010	**March 31, 2009**
Cost of shareholders' equity	13.0%	12.4%
Marginal cost of debt, post tax	3.7%	4.0%
Percentage of shareholders' equity/target debt		
♦ Shareholders' equity	35%	35%
♦ Debt	65%	65%
Weighted average cost of capital	**7.0%**	**7.0%**

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Designed & published by Labrador +33 (0)1 53 06 30 80

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at ISO 14001/EMAS and PEFC/FSC certified Condat plants.