Management Report
2010-11

Société anonyme with share capital of 300 219 278 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

Corporate governance

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1.1 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.

The General Shareholders' Meeting of July 8, 2010 thus fixed the duration of the new or re-appointed Board directors' mandates at two, three and four years to ensure the smooth renewal of the Board of Directors. On this occasion, the Shareholders' Meeting decided to:

- renew the Board director mandates of Mr Jean-François Dehecq, Mr Cornelis van Lede and Mr Leo van Wijk for a term of two years;
- renew the Board director mandate of Mr Jean-Marc Espalioux for a term of three years;
- renew the Board director mandates of Ms Patricia Barbizet and Mr Jean-Cyril Spinetta for a term of four years; and
- appoint Ms Maryse Aulagnon and Mr Peter Hartman as Board directors for a term of three years, Mr Pierre Richard and Mr Floris Maljers not having sought the renewal of their mandates.

The mandates of the two Board directors representing the employee shareholders also expired at the end of the General Shareholders' Meeting of July 8, 2010. In accordance with the company's bylaws, the two candidates proposed to the General Shareholders' Meeting were selected by a ballot of employee shareholders held during March 2010. The candidates designated by the employee shareholders with an absolute majority of the votes cast and then appointed by the General Shareholders' Meeting were thus Mr Christian Magne and Mr Bernard Pédamon (replacing Mr Didier Le Chaton who did not seek the renewal of his mandate).

Lastly, Mr Jean-Dominique Comolli, representing the French State, was appointed as a Board director to replace Mr Bruno Bézard by order of the French Minister of Economy, Finance and Industry on December 14, 2010.

In order to facilitate their integration and the exercise of their mandates, the newly-appointed Board directors were able to visit a number of sites, meet with the company's senior executives and benefit from training offered, organized and paid for by the company. On their appointment, they were also sent a dossier including, amongst other documents, the company bylaws, the internal regulations of the Board, the Registration Document and the latest press releases issued by the company.

1.1.1 Composition of the Board of Directors

At March 31, 2011, the Board of Directors comprised 15 members:

- 12 directors appointed by the Shareholders' Meeting (including two representing the employee shareholders);
- 3 representatives of the French State appointed by ministerial order.

There are two women members of the Board of Directors, or a 13.3% percentage. In view of the Board director mandates expiring in 2012 and 2013, the Appointments Committee will propose candidates aimed at reinforcing the presence of women within the Board in order to comply with the AFEP-MEDEF recommendation of April 19, 2010 and the provisions of the law of January 27, 2011 relating to the equal representation of women and men within Boards of Directors.

The functions exercised by the Board 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, 2014**.

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 until April 2009.

Non-French companies

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

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.*

** *Or December 31 of the previous year in the event that the General Shareholders' Meeting of July 7, 2011 adopts the thirteenth resolution relating to the change in date for the end of the financial year.*

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: 44,097 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;

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 of Air France-KLM**

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, 2012**.

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 (United States) until May 2007.

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

* *Listed company.*

** *Or December 31 of the previous year in the event that the General Shareholders' Meeting of July 7, 2011 adopts the thirteenth resolution relating to the change in date for the end of the financial year.*

Maryse Aulagnon

*Chairman and Chief Executive Officer of Affine S.A.**

First appointed as a Board director: July 8, 2010.

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

Number of shares held in the company's stock: 1,500 shares.

Other directorships and offices

French companies

- Affine Group: director of Affiparis SA*, Chairman of Mab-Finances SAS and of Promaffine SAS, Chief Executive Officer of ATIT (SC) and of Transaffine SAS, Member of the Executive Committee of Concerto Development SAS, Representative of Affine, Mab-Finances and Promaffine within the employee representative bodies of the various Affine Group entities.
- Member of the B.P.C.E. Group (Banques Populaires Caisses d'Epargne) Supervisory Board since December 2010.

Non-French companies

- Affine Group: Chairman of Banimmo (Belgium), Chief Executive Officer of Affinvestor GmbH (Germany), and director of Holdaffine BV (Netherlands).

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

French companies

- Affine group: Member of the Executive Committee of Business Facility International SAS from 2005 to February 2010 and director of Abcd from 2006 to February 2008.

Non-French company

- Affine group: Chairman of GPBeta Holding (Luxembourg) from February 2006 to March 2007.

Born April 19, 1949, Ms Maryse Aulagnon is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a post-graduate 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, 2014**.

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 and Chief Executive Officer of the Société Nouvelle du Théâtre Marigny, Artémis Permanent representative 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

- Director (*Administratore Delegato*) of Palazzo Grassi (Italy);
- Chairman and director of Christie's International Plc (United Kingdom);
- Non-executive director of Tawa* (United Kingdom);
- Member of the Supervisory Board of Gucci (Netherlands).

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

French companies

- Chairman of the Board of Directors of Tallandier Editions until 2010;
- Chief Executive Officer of Misarte until 2009;
- Artémis representative on the Top Tickets Board of Directors until 2009;
- 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.

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

*Honorary Chairman 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, 2012**.

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;
- Director of Balmain since May 2010;
- Director of Pierre Balmain S.A. since April 2011.

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);
- Chairman of the Sanofi Espoir Corporate Foundation;
- Member of the French Foundation for Research into Epilepsy.

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

French companies

- Chairman of the Board of Directors of Sanofi-Aventis until May 2010;
- 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 company

- Chairman and director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co. (Japan) until 2006;

Others

- Director of the French National Research Agency until 2009;
- Chairman of the National Association for Technical Research 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.

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

* *Listed company.*

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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, 2013**.

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

Other directorships and offices

French companies

- Member of the Supervisory Board of Flo group*;
- Member of the Supervisory Board of Homair Vacances;
- Member of the Supervisory Board of Paprec SAS.

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

French companies

- Member of the Supervisory Committee of Lyparis SAS until July 2010;
- Director of Veolia Environnement* until May 2010;
- 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.

Peter Hartman

President and Chief Executive Officer of KLM

First appointed as a Board director: July 8, 2010.

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

Number of shares held in the company's stock: 2,960 shares.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Stork B.V. (Netherlands);
- Member of the Supervisory Board of Kenya Airways group (Kenya);
- Director of Alitalia CAI (Italy);
- Member of the Supervisory Board of Delta Lloyd N.V. (Netherlands);
- Member 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

- Member of the Supervisory Board of Amsterdam RAI B.V. (Netherlands) until December 2008;
- Member of the Supervisory Board of transavia.com (Netherlands) until March 2008.

Other

- Member of the Supervisory Board of the Netherlands Board of Tourism and Conventions (Netherlands) until June 2010.

Born April 3, 1949, Mr Hartman, a Dutch national, is a graduate of the Amsterdam Institute of Technology (mechanical engineering).

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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, 2012**.

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* (United States);

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;
- Member of the Supervisory Board of Akzo Nobel N.V. (Netherlands) until May 2007.

Others

- Member of the Board of Directors of INSEAD (Institute of Business Administration) (France) until 2010;
- 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 1991.

* *Listed company.*

** *Or December 31 of the previous year in the event that the General Shareholders' Meeting of July 7, 2011 adopts the thirteenth resolution relating to the change in date for the end of the financial year.*

Directors representing the French State

Pursuant to Article 2 of the Decree-Law of October 30, 1935, amended by the law of May 15, 2001, insofar as the French State owns more than 10% of the Air France-KLM share capital, the number of seats reserved for the State representatives within the Board is proportional to the State's shareholding.

These Board directors representing the French State are appointed by ministerial order.

Jean-Dominique Comolli

Commissioner for State Holdings

First appointed as a Board director: December 14, 2010.

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;
- Director of EDF*;
- Member of the Areva Supervisory Board;
- Director of France Telecom*;
- Director of the Fonds Stratégique d'Investissement;
- Director of the Établissement de l'Opéra Comique.

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

French companies and public institutions

- Chairman of the Board of Directors of Seita until September 2010;
- Director of Casino* until September 2010;
- Director of Pernod Ricard* until September 2010;
- Director of Crédit Agricole Corporate & Investment Bank until August 2010.

Non-French companies

- Chairman of the Board of Directors of Altadis (Spain) until September 2010;
- Chairman of the Supervisory Board of Altadis Maroc (Morocco) until September 2010;
- Vice-Chairman of the Imperial Tobacco* (United Kingdom) Board of Directors until September 2010;
- Director of Logista (Spain) until October 2008;
- Director of Aldeasa (Spain) until April 2008.

Born April 25, 1948, Mr Jean-Dominique Comolli is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a Masters degree in economic sciences.

* *Listed company.*

** *Or December 31 of the previous year in the event that the General Shareholders' Meeting of July 7, 2011 adopts the thirteenth resolution relating to the change in date for the end of the financial year.*

Claude Gressier

Honorary General Public Works Engineer, Managing Director, Infrastructures, Transport and Maritime Affairs at the Ministry of Ecology, Sustainable Development, Transport and Housing

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, 2014**.

Other directorships and offices representing the French State

Public institution

- Director of the SNCF.

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

Public institution

- 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.

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 d'Études Politiques de Paris and of the École Nationale d'Administration.

Directors representing the employee shareholders

Pursuant to Article L. 6411-9 of the Code of Transport and Article 17 of the bylaws, insofar as the employees of the subsidiaries of Air France-KLM own more than 2% of the Air France-KLM share capital, there are two representatives of the employee shareholders within the Board:

- one representative belonging to the technical flight crew category of staff;
- one representative belonging to the other employees category of staff.

These Board directors representing the employee shareholders are appointed by the General Shareholders' Meeting having been proposed by the shareholders referred to in Article L.225-102 of the French Commercial Code.

* *Listed company.*

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Bernard Pédamon

Representative of the flight deck crew

First appointed as a Board director: July 8, 2010.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2014**.

Number of shares held in the company's stock: 4,235 shares and 6,497 FCPE units.

Born July 10, 1961, Mr Bernard Pédamon, a Boeing 777 flight captain, is a graduate of the Science Faculty of Paris Orsay and holds a Masters degree in International Transport from the University of Paris I.

Christian Magne

Representative of the ground staff and cabin crew

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, 2014**.

Number of shares held in the company's stock: 56 shares and 252 FCPE units.

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

Directors whose mandates expired during the 2010-11 financial year

Bruno Bézard

Director of the Regional Economic Service in China

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

Expiration date of mandate: December 14, 2010.

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

French companies and public institutions

- Director of La Poste until October 2010;
- Director of the SNCF until September 2010;
- Director of EDF* until September 2010;
- Director of Areva until September 2010;
- Director of France Telecom* until September 2010;
- Director of the Fonds Stratégique d'Investissement until September 2010;
- Director of the Grand Port Maritime de Marseille until February 2010;
- Director of Thalès* until September 2009;
- Director of France Télévisions 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.

Didier Le Chaton

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

Expiration date of mandate: July 8, 2010.

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

* *Listed company.*

** *Or December 31 of the previous year in the event that the General Shareholders' Meeting of July 7, 2011 adopts the thirteenth resolution relating to the change in date for the end of the financial year.*

Floris Maljers

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

Expiration date of mandate: July 8, 2010.

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.

Pierre Richard

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

Expiration date of mandate: July 8, 2010.

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).

Other

- 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.

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

* *Listed company.*

Experience of members of the Board of Directors

	Board of Directors experience			Professional experience	
Director	**Age at March 31, 2011**	**Date appointed to the Group**	**Date appointed to the Air France-KLM Board**	**Sector**	**Principal current position**
Jean-Cyril Spinetta	67 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	64 years	January 20, 2005	January 20, 2005	Aeronautics and Air Transport	Chief Executive Officer of Air France-KLM and Air France
Leo van Wijk	64 years	June 24, 2004	September 15, 2004	Air Transport (KLM)	Vice-Chairman of the Air France-KLM Board of Directors
Maryse Aulagnon*	61 years	July 8, 2010	July 8, 2010	Industry (CGE) Property and Finance (Affine Group)	Chairman and CEO of Affine
Patricia Barbizet*	55 years	January 3, 2003	September 15, 2004	Industry (Renault, Pinault group)	CEO and director of Artémis
Frits Bolkestein*	77 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-Dominique Comolli**	62 years	December 14, 2010	December 14, 2010	Industry (Seita, Altadis) Public Service	Commissioner for State Holdings
Jean-François Dehecq*	71 years	January 25, 1995	September 15, 2004	Industry (SNPA and Sanofi)	Honorary Chairman of Sanofi-Aventis
Jean-Marc Espalioux*	59 years	September 14, 2001	September 15, 2004	Services (CGE, Accor)	Chairman of Financière Agache Private Equity
Claude Gressier	67 years	June 24, 2004	September 15, 2004	Public Service	Honorary General Public Works Engineer Director of the SNCF
Peter Hartman	61 years	July 8, 2010	July 8, 2010	Air Transport (KLM)	President and Chief Executive Officer of KLM
Philippe Josse	50 years	May 16, 2006	May 16, 2006	Public Service	Director of Budget
Cornelis van Lede*	68 years	June 24, 2004	September 15, 2004	Industry (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	Chairman of the Heineken Supervisory Board
Christian Magne	58 years	September 14, 2001	September 15, 2004	Air Transport (Air France)	Finance Executive
Bernard Pédamon	49 years	July 8, 2010	July 8, 2010	Air Transport (Air France)	Boeing 777 Flight Captain

* *Directors considered to be independent.*

** *Appointed by ministerial order on December 14, 2010, replacing Mr Bruno Bézard.*

1.1.2 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.

The Board deliberates on any matters falling within its legal and regulatory remit. In addition, the Board also approves:

- the Group's strategic orientations and reviews them as a whole at least once a year;
- the Group's significant investment projects;
- the significant operations that are liable to affect the Group's strategy and change its financial structure or scope of activity; the Chief Executive Officer is responsible for determining whether an operation is significant in nature.

1.1.3 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 Board of Directors also updated its internal regulations on July 8, 2010 to reflect the changes in the composition of the Appointments Committee.

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 2010 and available on the MEDEF website (www.medef.fr, corporate governance section). 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 AFEP-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 23, 2011 adopted the following position:

- nine 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 six remaining directors (Ms Aulagnon, Ms Barbizet, Mr Bolkestein, Mr Dehecq, Mr Espalioux and Mr van Lede) can be considered independent in that:
  - none of these six 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's term of office is 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 six members of the Audit Committee, and
  - all the members of the Appointments Committee and two of the three members of the Remuneration Committee.

However, 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, 2011, 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.

The directors have not accepted any restrictions concerning the sale of their shareholdings in Air France-KLM.

1.1.4 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 dossier 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 2010-11 financial year

During the 2010-11 financial year, the Board of Directors met nine times (nine meetings in 2009-10). The meetings lasted more than two and a half hours on average and the attendance rate for directors was 88.15% (89.6% in 2009-10); excluding extraordinary meetings (two during the financial year), this average attendance rate was 92.38%.

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;
- consequences of the closure of the European air space following a volcanic eruption (April 2010) and the exceptional snowfall (December 2010);
- fuel hedging strategy;
- consolidation in Europe;
- a status report on the debt;
- aviation safety and the conclusions of the Independent Safety Review Team;
- preventive measures implemented in terms of anti-competitive practices;
- trans-Atlantic joint-venture with Delta;
- review of the situation of Amadeus;
- compensation of the executive directors;
- evaluation of the functioning of the Board of Directors;
- qualification of independent Board directors;
- revised composition of the Board Committees.

As has been the case since 2006, an annual Board of Directors meeting was held in October 2010 devoted to the Group's strategy in its different businesses (passenger, cargo, maintenance). In April 2010, a special meeting was also held to review the cargo strategy.

Evaluation of the functioning of the Board of Directors

During the 2010-11 financial year, the members of the Board of Directors conducted a self-evaluation exercise on its functioning, addressing a number of themes:

- organization and functioning of the Board of Directors;
- effectiveness of the Board of Directors;
- principal changes and areas requiring improvement.

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 23, 2011.

Generally speaking, the self-evaluation highlighted some positive developments in the functioning of the Board since the last evaluation carried out by an independent firm in 2010: the debates are effectively focused, the meetings are properly conducted and there is a free discussion with a frank exchange of information and ideas. Some additional improvements were also suggested such as putting more emphasis on the future aspects, devoting more time to discussion and less to presentations and specifying ahead of the meeting the amount of time devoted to each agenda item. The self-evaluation was also the opportunity for the Board directors to suggest themes for potential deliberation by the Board during forthcoming meetings (e.g. the competitive environment, changes in the business and industrial model, alliances, etc.).

Regulated agreements and commitments

There were no regulated agreements approved during the 2010-11 financial year.

The commitments and agreements approved during previous financial years which continued to apply during the 2010-11 financial year are outlined in the Statutory Auditors' report on the regulated agreements and commitments.

1.1.5 The Board of Directors Committees

In view of the changes arising in the composition of the Board of Directors following the decisions taken by the General Shareholders' Meeting of July 8, 2010, the Board of Directors decided, based on a proposal submitted by the Appointments Committee, to change the composition of its committees.

The Audit Committee

Composition

Since July 8, 2010, the Audit Committee has comprised the following six members: Maryse Aulagnon (Chairman of the Committee), Jean-François Dehecq, Claude Gressier, Cornelis van Lede, Christian Magne and Bernard Pédamon.

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 in an advisory capacity.

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.

The Audit Committee is responsible for selecting the incumbent and deputy Statutory Auditors and submits the names of the proposed firms to the Board of Directors before their appointment by the General Shareholders' Meeting. It verifies the independence and the quality of their work, 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 2010-11 financial year, the Audit Committee met four times (four meetings in 2009-10) with an attendance rate for members of 79% (75% in 2009-10). The meetings lasted an average of two hours and thirty minutes.

The following matters were notably reviewed by the Audit Committee during the 2010-11 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 following matters:

- change in the financial situation of the KLM pension funds;
- financial structure;
- inquiries into anti-competitive practices;
- *Flying Blue* debt;
- damage to aircraft.

The Remuneration Committee

Composition

Since July 8, 2010, the Remuneration Committee has comprised the following three members: Jean-Marc Espalioux (Chairman of the Committee) Patricia Barbizet and Leo van Wijk.

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 in May 2010 (one meeting in 2009-10) and the attendance rate for members was 100%, as in 2009-10.

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 Appointments Committee

Composition

Since July 8, 2010, the Appointments Committee has comprised the following four members: Jean-François Dehecq (Chairman of the Committee), Patricia Barbizet, Jean-Marc Espalioux and Cornelis van Lede.

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

During the 2010-11 financial year, the Appointments Committee met four times (with an attendance rate for directors of 100%) to, amongst other things, submit to the Board of Directors proposals relating to its composition and the staggering of mandate expiries to avoid having to renew a substantial proportion of the Board "*en masse*". The mandates of eleven of the fifteen Board directors effectively expired at the end of the General Shareholders' Meeting held on July 8, 2010. In accordance with the company's bylaws, this General Shareholders' Meeting exceptionally decided to set Board directors' terms of office at two, three and four years in order to enable the staggered renewal of the mandates.

1.1.6 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 the following modalities for the payment of directors' fees:

- €20,000 as fixed compensation;
- €20,000 as variable compensation based on Board of Directors and Shareholders' Meeting attendance;
- €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 2010-11 and 2009-10 financial years were as follows. Note that, with the exception of Mr Hartman, no directors received any compensation other than directors' fees:

(In €)	**2010-11 financial year**	**2009-10 financial year**
Maryse Aulagnon[(1)]	26,000	N/A
Patricia Barbizet	41,000	43,000
Bruno Bézard[(2)]	32,000[(3)]	44,000[(3)]
Frits Bolkestein	43,000	45,000
Jean-Dominique Comolli[(4)]	8,000[(3)]	N/A
Jean-François Dehecq	52,250	47,000
Jean-Marc Espalioux	53,750	53,000
Claude Gressier	42,000[(3)]	44,000[(3)]
Peter Hartman[(1)]	1,376,906	N/A
Directors' fees	27,000[(6)]	N/A
Other compensation	1,349,906[(7)]	N/A
Philippe Josse	32,000[(3)]	38,000[(3)]
Didier Le Chaton[(5)]	24,000	48,000
Cornelis J.A. van Lede	54,500	50,000
Christian Magne	48,000	48,000
Floris Maljers	27,500	51,000
Bernard Pédamon[(1)]	24,000	N/A
Pierre Richard[(5)]	31,000	57,000
Leo van Wijk	47,000	45,000
Total	**1,962,906**	**613,000**
Of which Directors' fees	***613,000***	***613,000***
Of which other compensation	***1,349,906***	***0***

(1) Director since July 8, 2010.
(2) Director until December 14, 2010.
(3) Amount paid to the French Treasury.
(4) Director since December 14, 2010.
(5) Director until July 8, 2010.
(6) Amount paid to KLM.
(7) In his capacity as President and Chief Executive Officer of KLM, Mr Hartman received total compensation of €1,349,906 corresponding to a fixed portion of €674,953 and a variable portion of €674,953 in respect of the 2010-11 financial year.

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 were 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 operating income 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 would 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 2010-11 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 had 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.

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 2010-11 financial year

In respect of the 2010-11 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. **Given Mr Spinetta's subscription for 65,240 shares 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

(In €)	2010-11 financial year		2009-10 financial year	
	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	200,000	50,240	200,000	50,240
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**	**200,000**	**50,240**

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

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

(In €)	Fixed compensation		Variable compensation	Exceptional compensation	Directors' fees(1)	Benefits in kind	Total
	Before SSE*	After SSE*					
Amounts due in respect of the 2010-11 financial year	200,000	50,240	0	0	0	0	50,240
(Reminder of 2009-10)	*(200,000)*	*(50,240)*	*(0)*	*(0)*	*(0)*	*(0)*	*(50,240)*

* *"Air France-KLM shares-for-salary exchange".*
(1) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

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 paid during the 2010-11 financial year	50,240	0	0	0	0	50,240
(Reminder of 2009-10)	*(50,240)*	*(225,000)* in respect of 2008-09	*(0)*	*(29,091(3))* in respect of 2008-09	*(0)*	*(304,331)*

(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 in respect of the 2011-12 financial year

The Chairman again considered that, in the current environment, his compensation should not return to the level initially recommended.

At its meeting of May 18, 2011, the Board of Directors thus decided to maintain the annual fixed compensation of the Chairman of the Board of Directors at €200,000.

There is no variable portion or directors' fees in addition to this fixed compensation.

Compensation of Mr Gourgeon in his capacity as Chief Executive Officer

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, 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 18, 2011, based on the work of the Remuneration Committee, the Board of Directors decided to grant the Chief Executive Officer, in respect of the 2010-11 financial year, a variable portion amounting to €562,500.

This amount corresponds to:

- 50% of the fixed compensation in respect of absolute performance, the Board of Directors having noted that the adjusted operating result was well ahead of the budget;
- 25% of the fixed compensation in respect of qualitative performance, evaluated in the light of the quality and responsiveness of management both internally and vis-à-vis externally within a particularly difficult environment.
  In respect of the 2009-10 financial year, the variable portion had been set at €150,000 in respect solely 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.

Summary of Mr Gourgeon's compensation in respect of the 2010-11 financial year

In respect of the 2010-11 financial year, Mr Gourgeon's total compensation thus amounted to €1,312,500 (€750,000 for the fixed portion and €562,500 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 Mr Gourgeon's subscription for 44,769 shares 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 €1,211,700 in respect of the 2010-11 financial year.**

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

	2010-11 financial year		2009-10 financial year	
(In €)	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	1,312,500	1,211,700	900,000	799,200
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	**1,312,500**	**1,211,700**	**900,000**	**799,200**

* *"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 2010-11 financial year	750,000	649,200	562,500	0	0	0	1,211,700 (2)
(Reminder of 2009-10)	*(750,000)*	*(649,200)*	*(150,000)*	*(0)*	*(0)*	*(0)*	*(799,200)(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 2010-11 financial year amounted to €1,312,500.

(3) 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.

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 paid during the 2010-11 financial year	649,200	150,000 in respect of 2009-10	0	0	0	799,200
(Reminder of 2009-10)	*(649,200)*	*(220,000)* in respect of 2008-09	*(0)*	*(29,091)* in respect of 2008-09	*(0)*	*(898,291)*

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

Compensation in respect of the 2011-12 financial year

The fixed annual compensation of the Chief Executive Officer in respect of the 2011-12 financial year was maintained at €750,000 for the third consecutive year; there are no directors' fees in addition.

For the evaluation of the variable component for the 2011-12 financial year, the Board of Directors opted to introduce a new quantitative performance criterion relating to the change in the Group's net debt, in line with the orientations established by the Board of Directors, and notably the budget.

As a result, the break down of the criteria for determining the variable component of the Chief Executive Officer's compensation is now as follows:

(In %)	Target	Maximum
Absolute performance *(Adjusted operating result relative to the budget)*	25	35
Absolute performance *(Change in net debt)*	15	25
Relative performance *(Comparison of the operational cash flow/revenues ratio relative to the principal European competitors)*	30	40
Qualitative performance	30	30
Total	**100**	**130**

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.

* *For indicative purposes, some 33 eligible senior executives at March 31, 2011.*

➤ Summary table of the situation of the executive directors in function at March 31, 2011

Executive directors	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	
	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.

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 17, 2005(2)	
Date of granting	July 26, 2005	July 26, 2006	July 27, 2007
Total number of options granted	390,609	411,105	428,850
Of which to Mr Hartman	*25,000*	*25,000*	*25,000*
Of which to Mr van Wijk	*25,000*	*25,000*	*25,000*
Available for exercise from	July 28, 2008	July 27, 2009	July 27, 2010
Expiration date	July 16, 2010	July 26, 2011	July 25, 2012
Exercise price per share	€13.11	€17.83	€34.21
Number of shares purchased at March 31, 2011	3,500	0	0
Of which purchased by Mr Hartman	*0*	*0*	*0*
Of which purchased by Mr van Wijk	*0*	*0*	*0*
Number of share options cancelled or lapsing on March 31, 2011	387,109	33,406	38,333
Outstanding stock options at March 31, 2011	0	377,699	390,517
Of which remaining to be exercised by Mr Hartman	*0*	*25,000*	*25,000*
Of which remaining to be exercised by Mr van Wijk	*0*	*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

None.

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 2010-11). 145,450 SARs, 136,569 SARs and 153,080 SARs were respectively granted by KLM on July 1, 2010, 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	October 5, 2010	Sale	10.99	8,879.92	Shares	Euronext Paris
Pierre-Henri Gourgeon, Chief Executive Officer of Air France-KLM	December 15, 2010	Sale	14.04	23,868.00	Shares	Euronext Paris

1.2 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, 2011	Professional experience Sector	Experience
Pierre-Henri Gourgeon Chief Executive Officer, Air France-KLM and Air France	64 years	Aeronautic and air transport	40 years
Peter Hartman President and Chief Executive Officer, KLM	61 years	Air transport (KLM)	38 years
Philippe Calavia Executive Vice President, Finance, Air France-KLM and Chief Financial Officer, Air France	62 years	Banking Air transport (Air France)	7 years 13 years
Alain Bassil Executive Vice President, Engineering and Maintenance, Air France-KLM and Chief Operating Officer, Air France	55 years	Air transport (Air France)	31 years
Christian Boireau Executive Vice President, French Sales, Air France	60 years	DDE – French Departmental Directorate for Equipment Air transport (Air Inter and Air France)	6 years 30 years
Frédéric Gagey Executive Vice President, Fleet Management, Air France-KLM and Managing Director and Chief Financial Officer, KLM	54 years	Air transport (Air Inter, Air France and KLM)	17 years
Bertrand Lebel Secretary to the Executive Committee in charge of strategic planning, Air France-KLM	58 years	Consultant Air transport (Air France)	16 years 13 years
Bruno Matheu Executive Vice President, Marketing, Revenue Management and Network, Air France-KLM and Chief Commercial Officer, Air France	47 years	Air transport (UTA and Air France)	25 years
Édouard Odier Executive Vice President, Information Systems, Air France-KLM and Air France	58 years	Air transport (Air France and Amadeus)	34 years
Frank de Reij Executive Vice President, Procurement, Air France-KLM	51 years	International transport Air transport (KLM)	10 years 13 years
Erik Varwijk Executive Vice President, International and The Netherlands, Air France-KLM and Managing Director, KLM	49 years	Air transport (KLM)	22 years
Michael Wisbrun Executive Vice President, Air France-KLM Cargo	59 years	Air transport (KLM)	33 years

On April 1, 2011, Mssrs. Camiel Eurlings, Executive Vice President, Air France-KLM Cargo and Managing Director, KLM and Wim Kooijman, Executive Vice President, Management Development, Air France-KLM, joined the Group Executive Committee, replacing Mssrs. Frank de Reij and Michael Wisbrun who became Managing Director of SkyTeam.

1.3 Share capital and shareholder structure

1.3.1 Share capital

At March 31, 2011, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares 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

The General Shareholders' Meeting of July 8, 2010 voted to reduce the nominal value from €8.5 to €1. The share capital was thus reduced from €2,551,863,863 to €300,219,278 and the amount of the capital reduction was allocated to additional paid-in capital.

Financial year ended	Total capital *(in €)*	Number of shares
March 31, 2009	2,551,863,863	300,219,278
March 31, 2010	2,551,863,863	300,219,278
March 31, 2011	300,219,278	300,219,278

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 8, 2010 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital.

Nature of the operation	Maximum amount of issuance	Balance available at March 31, 2011
Capital increase via the issue of shares and other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
Issue of bonds or other related securities conferring rights to the capital with preferential subscription rights	€1 billion	€1 billion
Capital increase through capitalization of reserves and/or additional paid-in capital	€120 million	€120 million
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

Furthermore, Air France-KLM has not used the authorizations to increase the capital voted by the General Shareholders' Meeting of July 9, 2009 which remain in force.

1.3.2 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. No bonds have been converted or exchanged into shares since that date.

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, 2011, 8,481 bonds had been converted into existing shares, of which 1,890 during the 2010-11 financial year, reducing the outstanding balance of bonds to 56,008,468.

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

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 8, 2010 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, 2011, Air France-KLM held 3,433,492 shares, of which 360,000 within the framework of the liquidity agreement and 114,181 for the balance of the 1998 Shares-for-Salary Exchange. Since July 9, 2010, the company has purchased 640,034 shares at an average price of €12.882 and sold 1,620,034 shares at an average price of €12.268. During the 2010-11 financial year, pursuant to this program and the program authorized by the Shareholders' Meeting of July 9, 2009, 720,034 shares were purchased at an average price of €12.579 and 1,620,034 shares sold at an average price of €12.268.

At March 31, 2011, KLM held 1,116,420 Air France-KLM shares in respect of its various stock option plans. In total, the Group held 4,549,912 of its own shares, or 1.5% of the share capital, for a portfolio value of €53.5 million.

Transactions realized between April 1, 2010 and March 31, 2011 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at April 1, 2010	1,260,000	2,961,201	4,221,7201
Shares purchased			
Number of shares	720,034	-	720,034
Average purchase price *(In €)*	12.579	-	12.579
Use			
Number of shares	1,620,034	1,890	1,621,924
Average sale price *(In €)*	12.268	11.655	12.267
Number of shares at March 31, 2011	**360,000**	**2,959,311**	**3,319,311**

1.3.4 Air France-KLM shareholder structure

Breakdown of the share capital and voting rights

	% of share capital			% of voting rights		
Financial year ended	March 31, 2011	March 31, 2010	March 31, 2009	March 31, 2011	March 31, 2010	March 31, 2009
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	295,669,366	294,488,804	294,329,817
French State	15.7	15.7	15.7	16.0	16.0	16.0
Employees	9.8	11.8	12.0	10.0	12.1	12.3
Treasury stock	1.4	1.9	2.0	-	-	-
Others	73.1	70.6	70.3	74.0	71.9	71.7

The number of shares has not changed since March 31, 2009.

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, 2011, 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 97.3% of the capital were identified and 107,973 shareholders listed including 92,245 individual shareholders. Based on the TPI analysis of March 31, 2011, 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			% of the share capital		
	March 31, 2011	March 31, 2010	March 31, 2009	March 31, 2011	March 31, 2010	March 31, 2009
French State	47,247,967	47,148,326	47,136,626	15.7	15.7	15.7
Employees	29,570,185	35,497,545	36,153,734	9.8	11.8	12.0
Individuals	45,603,974	41,807,898	42,500,125	15.2	13.9	14.2
Resident institutions	73,419,348	65,996,169	68,809,487	24.5	22.0	22.9
Non-resident institutions	104,377,804	109,769,340	105,619,306	34.8	36.6	35.2

Air France-KLM is 65.2% owned by French interests (63.4% at March 31, 2010) and more than 75% by European institutions, as at March 31, 2010. The principal European countries are the United Kingdom (4.8%), the Netherlands (4.6%), Germany (2.7%), Norway (1.1%), and Switzerland (1.1%). North American institutions hold 11.8% of the share capital (17.13% at March 31, 2010), of which 10.1 million in ADR form (9.4 million at March 31, 2010).

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	April 16, 2010	2,990,702	1.00	R
BNP Paribas AM	April 11, 2011	2,929,356	0.98	R
BNP Paribas Assurances	March 31, 2011	2,276,699	0.76	I
Capital Research & Mgt	December 23, 2010	14,844,469	4.94	R
CNP	September 20, 2010	1,728,075	0.58	I
Credit Suisse	March 8, 2011	2,917,585	0.97	R
DNCA Finance	April 14, 2010	2,664,300	0.89	R
Donald Smith	April 30, 2007	6,883,567	2.29	I
GLG Partners LP	February 10, 2011	1,548,699	0.52	I
Koweit Investment Office	October 8, 2010	2,240,000	0.75	I
Natixis	February 17, 2011	6,791,956	2.32	I
Norges Bank Investment Management	November 16, 2010	2,808,095	0.94	R
UBS London	March 22, 2011	2,834,911	0.94	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 €)*
2007-08	2.63	0.58
2008-09	(2.76)	-
2009-10	(5.30)	-

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 in 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.

For the 2010-11 financial year, the Board of Directors chose not to propose the payment of a dividend, preferring to continue to reduce the debt.

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Activity

2

2.1 Highlights of the 2010-11 financial year

April 2010

- The eruption of the Eyjafjallajoekull volcano in Iceland on April 15, 2010 grounds most European airlines for a period averaging six days. The Air France-KLM group estimates the revenue loss at €268 million with a €158 million negative impact at the operating level.
- On April 1, Air France launches its new medium-haul product which is well received by customers.
- On April 29, 2010, the company WAM is the subject of an IPO on the Madrid stock market under the name Amadeus. The Group realizes a €1.03 billion capital gain on this transaction corresponding to the sale of one third of its shareholding and the revaluation of the remaining interest of 15.2%. This transaction also generates cash proceeds of €193 million.

May 2010

- The voluntary departure plan at Air France closes, resulting in 1,900 departures.

June 2010

- Vietnam Airlines and Tarom join the SkyTeam alliance as it celebrates its tenth anniversary.

July 2010

- Italian company Alitalia joins Air France-KLM and Delta in the joint-venture on the North Atlantic.

September 2010

- The Air France Board of Directors announces the creation of a Flight Safety Committee.
- Air France and China Southern sign a joint-venture agreement in addition to the existing agreement between the Chinese company and KLM.
- Taiwanese company China Airlines announces plans to join the SkyTeam alliance.
- Air France-KLM is confirmed air transport leader in sustainable development for 2010 and remains in the two Dow Jones Sustainability indices, DJSI World and DJSI Europe, for the sixth consecutive year.

November 2010

- Aerolinas Argentinas and Garuda Indonesia annonce that they are joining the SkyTeam alliance.
- The European Commission imposes fines on 14 cargo operators including Air France, KLM and Martinair for anti-competitive practices in the air freight sector relating mainly to the period between May 2004 and February 2006. The total level of fines imposed on companies in the Air France-KLM group is €339.6 million. Considering this amount to be disproportionate, the Group files an appeal against the decision with the European Union Court of Justice.

December 2010

- A record level of snowfall significantly disrupts traffic in Europe and particularly at Paris-CDG and Amsterdam.
- Air France signs a code-sharing agreement with Saudi Arabian Airlines which requests SkyTeam membership.

February 2011

- Political crises in the Middle East and Africa weigh on the Air France-KLM group's traffic.
- Middle East Airlines announces plans to join SkyTeam.

March 2011

- An earthquake followed by a tsunami and a nuclear crisis in Japan leads the Group to reorganize its flights to Tokyo. The Group operates the Tokyo flights out of Seoul before resuming its direct flights in early April. The event also has a negative impact on the Group's traffic and continues to weigh on this destination.
- A profitable financial year with a €1.4 billion improvement in operating income to €122 million under the effect of the strategic measures implemented in 2009-10 underpinned by the economic recovery and despite an environment disrupted by numerous exceptional events.

April 2011

- The Board of Directors decides to submit a proposal to the General Shareholders' Meeting of July 7, 2011 that it adopt December 31 as the date for the accounting year end, in line with the majority of other air transport companies. Subject to the adoption of this resolution, the financial year starting April 1, 2011 will consequently be of nine months' duration.

2.2 Market and environment

Air transport is an innovative industry that constitutes a vector of economic and social progress. It builds bridges between individuals, economies and cultures across the world, facilitates access to global markets and promotes the development of trade and tourism. With 2.5 billion passengers and 43 million tons transported, air transport represents more than 9% of the global economy whose growth it also drives by playing a major role in the performance of other industries. It generates more than 32 million direct, indirect, induced and catalytic jobs *(Source 1)*. Furthermore, air transport contributes to improving the quality of life of populations by helping to develop isolated communities and enabling the deployment of humanitarian aid.

This industry is, however, highly cyclical since it is very sensitive to macro-economic trends. Furthermore, while consolidation is underway, the sector remains fragmented and is characterized by capital intensity, a significant labor rate, low margins and, therefore, a financial return (ROCE) limiting the value creation. The average net margin forecast for 2010 is thus 2.9% *(Source 2)*.

The industry's profitability is also influenced by external factors that are beyond its control such as the geopolitical crises arising this year in Tunisia, the Middle East and Africa or geophysical phenomena such as the eruption of the Icelandic volcano in April 2010 and the earthquake and tsunami in Japan in March 2011. However, beyond these temporary difficulties, the air transport industry is underpinned by structural growth of some 4% to 5% annually, a trend that has been confirmed over the past thirty years and should be maintained over the coming two decades, supported by the globalization of the economy (*Source: Boeing Current Market Outlook 2010; Airbus Global Market Forecast 2010-2029 December 2010*).

2.2.1 The economic environment

A return to growth in 2010

As of the third quarter of 2009, the largest world regions had emerged from the recession unleashed in 2008. In 2010, while the global economy enjoyed annual growth of +3.9%, there were significant regional differences in terms of both the level and the speed of this exit from crisis. The emerging countries (particularly Brazil, Russia, India and China) led the economic growth. In 2010, Asian countries benefited from strong GDP growth of +7.3% on average whereas the developed countries saw their growth average 2.8%. In Europe, Germany and France were the drivers of this economic growth while the peripheral economies weighed on the performance of the eurozone *(Source 3)*. In the United States, after a strong recovery during the second half of 2009 and early 2010, GDP growth declined as of the summer of 2010 largely due to the size of the budget deficit, a depressed real estate market and cautious household spending, accentuated by a high unemployment rate *(Source 4)*.

Air transport, which is closely linked to economic growth trends, saw a strong recovery in 2010. With 2.5 billion passengers carried (+6.3% relative to 2009) at global level and revenues of $552 billion (+14.4% relative to 2009), the air transport industry should generate net income of $16 billion in 2010 (a loss of $9.9 billion in 2009). International traffic effectively increased by 8.2% (-3.5% in 2009) for capacity growth of 4.4% (-3% in 2009). The load factor gained 2.7 points to a record 78.4% thanks to prudent capacity management over the Summer 2010 season *(Source 5)*. The magnitude of the recovery varied, however, depending on the market: supported by the growth in their domestic markets, the emerging countries surpassed pre-crisis levels (*e.g.* China, India) while the developed countries are still below this level. *(Source: IATA Premium Traffic Monitor, December 2010)*. The European airlines were particularly affected, not only by the 2009 economic slowdown but also by the closure of the European airspace following the eruption of the Icelandic volcano in April 2010. They saw their traffic increase by 2.6% in 2010 (-5.8% in 2009) for stable capacity, enabling a 1.9 point improvement in the load factor to 77.9% and a marked improvement in their profitability (€0.5 billion of operating income versus a €3.5 billion operating loss in 2009) (*Source: AEA European airline members February and March 2011*).

Sources: 1) ATAG The Economic and Social benefits of Air Transport 2008, Oxford Economics; IATA Industry Financial Forecast March 2011; Global Insight February 2011; 2) Financial outlook announcement Giovanni Bisignani March 2011; IATA Industry Financial Forecast March 2011; 3) Consensus Forecasts and Global Insight September and November 2010 and Global Insight February 2011; 4) Consensus and Global Insight May and July 2010; Consensus Forecasts and Global Insight March 2011; 5) IATA Financial Forecast March 2011; IATA Air Transport Market Analysis December 2010; ICA press release dated December 23, 2010.

The premium customer segment (Business and First class traffic) was the most affected by the crisis. Despite a positive trend in 2010, driven by the dynamism of global trade, the fall in traffic and revenues due to the crisis has yet to be made up. At the industry level, the volume of premium traffic, up by 9.1% in 2010, remains 10% below its pre-crisis level and premium revenues are 9% lower.

A number of unknowns for 2011

The geopolitical context

For 2011, global GDP growth forecasts call for +3.5% (+3.2% in 2010) with geographical differences likely to prevail. The GDP growth forecasts for the United States stand at +3.1% whereas the growth in the Asia Pacific region is estimated at +5.4%, led by China and India on a respective +9.5% and +8.3%. For Latin America, the GDP growth forecasts are also comfortably positive (+4.6%) particularly in Brazil (+4.9%). The eurozone should see growth limited to 1.5% due to unemployment weighing on consumer spending and the current difficulties in the peripheral economies (Source: Global Insight March 2011, Consensus Forecasts March 2011). The recent geopolitical and geophysical events could have non-structural macro-economic consequences in 2011 and currently constitute a factor of uncertainty.

Oil

One of the biggest unknowns for 2011 remains the direction in the oil price which started to rise strongly in late 2010. Based on an average price of $76.8 a barrel in 2010 *(Source 1)*, the fuel bill amounted to $139 billion for the industry, representing 26% of total operating expenses versus 24% in 2009 *(Source 2)*. This increase has accelerated since early 2011 under the effect of speculation surrounding events in the Middle East and Japan. In 2011, IATA forecasts a $10 billion increase in the fuel bill for the industry, *i.e.* a total of $166 billion or 29% of operating expenses, three percentage points higher than in 2010. Again according to IATA, a one dollar increase in the oil price would lead to a $1.6 billion rise in the fuel bill. *(Source 3)*. The main question mark is the ability of the airlines to pass on all or part of these increases to passengers. Since the beginning of 2011, the airlines have applied a number of fuel surcharges. Despite this, IATA has downgraded its forecasts for the year, reducing the operating margin objective from 2.9% in 2010 to 1.4% in 2011.

2.2.2 The competitive environment

The industry brings capacity back on stream

For 2011, the latest information on airline schedules shows capacity growth of 6% at global level relative to last year, of which 5% is linked to the arrival of 1,400 new aircraft and 1% to the increase in the utilization rate of the existing long-haul fleet *(Source: IATA press release March 2, 2011)*.

On the long-haul routes departing from Europe, the capacity brought on line for the Summer 2011 season is still being adjusted given the rapidly-evolving international context. Currently, long-haul capacity growth, principally driven by the European carriers, is some 7% enabling capacity to approach pre-crisis levels. However, there are some regional differences:

- the Europe-Latin America axis shows the highest growth (+18%), comfortably exceeding the pre-crisis levels;
- the Europe-Asia Pacific axis is seeing capacity growth of 11%, still driven by the European carriers;
- capacity on the Europe-Middle East axis continues to increase (+7%) under the influence of the Gulf airlines and Turkish Airlines which are looking to capture connecting traffic between Europe and Asia;
- the Europe-North America axis is experiencing capacity below pre-crisis levels despite a 6% increase in capacity;
- lastly, after strong growth, capacity on the Europe-Africa axis looks to be stabilizing (-1% relative to the previous year) impacted notably by a very sharp reduction in capacity to South Africa (-8.3% relative to the previous year).

In medium haul, in a competitive environment marked by the continued development of the TGV high-speed train in Europe and the low cost airlines, the legacy carriers are limiting the growth in their offer. In the French domestic market, now dominated by the TGV with a market share of some 82%, new high-speed routes are going to open or be extended by 2020 (Rhine-Rhône service, extension of the TGV Est to Strasbourg, the opening of services: Brest, Bordeaux, Montpellier, Biarritz, Toulouse). In Europe, the TGV is gaining ground, particularly in Italy with the coming into service of the Turin-Milan-Rome line and, in Spain, with the very fast growth in the high-speed network which reached 2,000 kms of track in 2010, more than the French network to which it should gradually be connected as of late 2012. As for the low cost airlines, their growth is slowing relative to previous years. This slowdown is linked, on one hand, to a refocusing on more qualitative growth for easyJet while, on the other hand, for Ryanair, it is linked to a commitment to positioning the company as a yield play and the ending of local subsidies prompting the closure of a number of routes.

Sources: 1) Reuters Brent and WTI January to December 2010; 2) IATA Financial Forecast March 2011; 3) IATA press release March 2, 2011; Financial outlook announcement Giovanni Bisignani March 2011.

Trend in customer behavior: increased sensitivity to the price element

In a world that is increasingly open and "connected", customers are looking for efficiency, autonomy of decision-making and transparent information when it comes to making their travel choices. They are becoming more and more sensitive to the value of the service offered and the service/price criterion is assuming an increasingly important role in their purchasing. This change is particularly visible in medium haul, especially at the level of passengers travelling for business reasons. Indeed, on the intra-European or intra-American markets, premium traffic has not returned to its pre-crisis level. This trend appears to be structural for the mature markets whereas, for intra-Asia, growth in this traffic segment was 21% in 2010.

In long-haul, however, premium traffic did return to its pre-crisis level in November 2010. For example, the premium segment increased on the Europe-Asia and Europe-South America axes by a respective 12% and 8.3% relative to the 2009 levels and the number of premium passengers on the Europe-North Atlantic axis increased by 5% in 2010. *(Source: IATA Premium Monitor December 2010, January and February 2011)*.

Evolving operational models in medium haul

The airlines are facing an uncertain environment with challenges that make it difficult to manage growth and margin. In this context, we are witnessing the emergence of new models, breaking the traditional boundaries of the past: in Europe, the low cost carriers are gradually integrating additional service elements and the legacy carriers are endeavoring to constantly improve both the competitiveness of their production costs and develop new revenues through paid-for options. easyJet has thus begun to roll out a strategy targeting customers travelling for business and the ending of local subsidies has prompted Ryanair to close a number of routes. Within this context of emerging *transmodels*, Iberia has developed a close cooperation with the low cost airline Vueling to help feed the Madrid hub. In its turnaround plan, Japan Airlines has decided to launch a low cost carrier with a dual-brand strategy.

The consolidation continues

In 2010, consolidation was a key factor in the improvement in the profitability of the air transport industry, which remains highly competitive. The airline landscape has principally been redrawn through closer cooperation whether via mergers, which remain limited due to the regulatory constraints for air transport, or the development of alliances and joint-ventures.

In 2010, mergers took place in Latin America between Avianca and TACA, in Asia between China Eastern and Shanghai Airlines, and in the United States between United Airlines and Continental Airlines. In January 2011, British Airways and Iberia created a new Group, IAG. Other mergers are expected in 2011 and 2012 between LAN and TAM in Latin America and Southwest and Air Tran in the United States.

Consolidation is also taking the form of new partnerships within the three major alliances. Seven new members based in Asia, Latin America and the Middle East either have joined or will join the SkyTeam alliance between 2010 and 2012. TAM and Aegean Airlines joined the Star Alliance in 2010. They are likely to be followed by Air India, Ethiopian, a merged Avianca-TACA as well as by Copa Airlines in 2011. In 2010 S7 Airlines became a member of the Oneworld alliance, and Kingfisher Airlines and Air Berlin should join them respectively in 2011 and 2012.

Joint-ventures have also been developed on the trans-Atlantic and trans-Pacific routes thanks to the *Open Sky* agreements. The trans-Atlantic axis is thus structured by three joint-ventures organized around three European majors, Air France-KLM, Lufthansa and IAG, based on the following groups: Air France-KLM with Delta Airlines and Alitalia, Lufthansa with United Airlines (merged with Continental Airlines), Air Canada and, since 2010, IAG and American Airlines have established a commercial cooperation. In 2011, All Nippon Airways and United Airlines are also planning to implement a trans-Pacific joint-venture once they obtain approval from the US Department of Transportation.

Conclusion

Air transport has successfully weathered the economic and financial crisis. Recent events have, however, increased the uncertainties that overhang the operational environment across the industry. The fragile recovery is threatened by new developments which are going to test the fundamentals. In addition to global economic uncertainty, the change in operational models, and the consolidation and redistribution of the competitive forces outlined above, the industry is also facing the following challenges:

- the restructuring of the airlines' balance sheets whose level of debt significantly increased during the crisis;
- the increasing pressure due to the introduction of new taxes and regulatory measures with, for example, the entry of the industry into the EU-ETS emissions trading system by 2012, which remains surrounded by numerous uncertainties as to the application scope and the risk of distorting competition to the detriment of the European airlines;
- the trend in the oil price and its volatility and the exchange rates of the principal currencies.

The growth fundamentals are clearly present, but success will be highly dependent on the industry's ability to adapt when confronted with an unstable and changing economic environment.

2.3 Strategy

The air transport industry has undergone a profound transformation. The new demand from rapidly-growing countries, tougher competition in mature markets, the emergence of the atypical business model of the Gulf State airlines and changes in consumer behavior have all been key factors in determining the Group's strategy. The instability of the environment also calls for a significant degree of responsiveness. Furthermore, taking into account the impact of the activities on society and the environment is also becoming a strategic priority.

It is in this changing world that the Air France-KLM group aims to remain a leading player in the global air transport industry.

2.3.1 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 accounted for 112, or 62% of the total, compared with 50% for IAG (British Airways + Iberia) and 52% for the Lufthansa group (Lufthansa + Swiss + Austrian Airlines + BMI + Brussels Airlines). Furthermore, the Group also offers 30 destinations which are served by neither IAG nor the Lufthansa group.

Given its presence in all the major air transport markets, the Group's network is balanced, with no single market representing more than a third of passenger revenues. These markets also behave differently, enabling the Group to partly offset the negative impact of any crises.

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 are organized in waves known as *banks* and combine connecting with point-to-point traffic, are based at airport platforms whose development potential will further strengthen the role of the large intercontinental hubs. Since 2007 Air France has benefited from the gradual opening of new airport infrastructure providing state-of-the-art facilities for passengers and making 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. The second wave at the Roissy-Charles de Gaulle hub, is organized around the arrival of 61 medium-haul flights and the departure of 28 long-haul flights, thus offering 1,797 possible combinations within a period of under two hours with only 89 aircraft.

This unique combination of hubs was even more important during this period of crisis at a time when the smallest airlines were cancelling direct flights, requiring their passengers to these destinations to use a transfer platform. The 2009-10 financial year is a good example of this strength at work with connecting traffic remaining virtually stable (-0.3%) at Roissy-CDG while 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. In 2010, 42% of passengers travelled for business purposes and 58% for personal reasons. The Group also benefits from a balanced breakdown between transfer (56%) and point-to-point passengers (44%). Furthermore, in 2010, 66% of revenues (53% in 2009) were generated by the Group's passenger loyalty strategy (frequent flyer program and corporate contracts).

A global alliance that strengthens the network

At March 31, 2011, the SkyTeam alliance, the number two global alliance in terms of market share with 17%, brought together thirteen European, American and Asian companies. SkyTeam enables the Group to respond to market needs and withstand competition in both passenger and cargo transportation. The alliance comprises Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Southern, Czech Airlines, Delta, Kenya Airways, Korean Airways, Tarom and Vietnam Airlines. Lastly, China Airlines, China Eastern, Aerolineas Argentinas, Garuda Indonesia, MEA (Lebanon) and Saudi Arabian Airlines have joined or are going to join the alliance in 2011 and 2012.

Strategic partnerships

Since April 2009, Air France-KLM and Delta have been working together within the framework of a 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 flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with 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.

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, which took place in January 2009, has significant advantages for the two groups.

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 by reducing noise disturbance for local residents and greenhouse gas emissions.

2.3.2 Air-France-KLM's strategy

The Group's strategy is to place the customer at the heart of its actions and this customer-centric focus is enshrined in the *Embark* corporate project. Taking into account the new requirements, analyzing the behavior of new customers and differentiating and personalizing the products and services are all key to securing the loyalty of customers who are better informed and increasingly autonomous. The Group is mobilized around multiple projects ranging from technological innovation, to improving products, harmonizing the partnership offers and using electronic distribution as a partial alternative to traditional distribution methods.

Accelerating our development

Passenger business

The Group's development strategy is based on leveraging its strengths in each region:

- In Europe, priority is given to connecting traffic within the framework of a restructured short- and medium-haul activity, organized around more efficient and attractive hubs and reinforced by European partnerships with players that are strong in their national markets.
- In North America, the Group's development is ensured by the joint-venture with Delta and Alitalia, enabling the coordination of commercial activities such as the network, revenue management, the sales and distribution forces and the frequent flyer program.
- In Latin America, the Group plans to reinforce its position by opening new destinations, reinforcing certain frequencies and signing partnerships;
- In Africa and the Middle East, the launch of new services and agreements such as those signed with Saudi Arabian Airlines and MEA will open up growth opportunities in these regions.
- In Asia, the Group has three strategic priorities: open new routes, reinforce partnerships and develop joint-ventures on key markets. Since 2010, the Group has accelerated its development in both China and South-East Asia within the framework of the SkyTeam alliance. In parallel, Air France-KLM has implemented or plans to sign joint-ventures with its Chinese partners aimed at establishing, within ten years, a position as strong in Asia as on the North Atlantic.

Cargo business

In response to the 2008 and 2009 economic crisis, the Group has taken measures to reduce its exposure to the cyclical downturns that are particularly pronounced in the cargo sector. The cargo business now prioritizes the use of bellies of passenger aircraft and combis. The significant capacity of the passenger network is supplemented, on certain markets, by a more flexible offer from the 14 full-freighter aircraft. Within the framework of this strategy, the cargo business is becoming a key factor in the profitability of the network and its development. The Group is also looking to reinforce the SkyTeam Cargo alliance and develop partnerships.

Maintenance business

The requirements of airline customers, changes in the competitive environment linked to the offer from aircraft and component manufacturers and the production cost differential between countries are all encouraging the Group to develop a global maintenance network supported by the expertise of the teams based in France and the Netherlands.

Regaining a value-creating level of profitability

The group has the following medium-term objectives :

- Annual capacity growth of around 4%, accompanied by a 2% annual increase, excluding currency, in unit revenue per available seat-kilometer;
- A 3% reduction in unit costs on a constant currency and fuel price basis;
- A significant reduction in the gearing ratio.

Growth in capacity and revenues

The Group plans to increase its capacity by around 4% annually, with higher growth in long-haul (+5%) particularly on rapidly-growing markets (+6.5%) and stable medium-haul capacity. This growth is shared between the use of larger/more densified aircraft, the opening of new routes and an increase in the number of flight hours and is consistent with the forecasts of aircraft manufacturers which look for some 5% annual growth in demand for long-haul air transportation over the next twenty years. In parallel, the Group expects a 2% annual increase in unit revenues excluding currency.

Reducing unit costs

The Air France-KLM group is committed to a permanent process to reduce costs. In addition to the *Challenge 12* cost-savings plan aimed at containing the increase in costs, the Group plans to improve productivity. Having adapted the number of employees to the level of activity (staff -10% since the beginning of the crisis in September 2008), the Group plans capacity growth on an unchanged level of staff. Each of the business lines is contributing to this process: the use of larger aircraft in long-haul, the recovery in medium-haul and the gradual establishment of French regional bases for the passenger business; in the cargo business, optimizing the bellies of passenger and combi aircraft to benefit from their lower unit cost; in the maintenance business, the transfer of labor-intensive activities to partners based in countries with lower production costs and the development of high value-added activities in France and the Netherlands. The Group is also reorganizing the support functions.

During the 2010-11 financial year, the Group generated €595 million of cost savings within the framework of the *Challenge 12* plan whose initial €510 million target had been increased to €590 million. Procurement represented 44% of the savings of which €114 million for central purchasing. Distribution costs represented 3% of the savings including €78 million by the commercial teams. The modernization of the fleet contributed 11% of these savings. The improvement in productivity and processes stood at €250 million (42% of the total).

Reinforcing the financial structure

Since the beginning of the crisis, the Air France-KLM group has adapted its investment plans in line with two objectives: limit the introduction of new capacity within a context of a reduction or low growth in the offering and preserve the Group's cash. Supported by a young and fuel-efficient fleet and despite a context of recovery, the Group has decided to continue to curtail its investment in order to generate cash flow to pay down debt and reduce the gearing ratio to 0.5.

Being the reference in sustainable development

Renewing the social pact

More than 100,000 people work for the Air France-KLM group, in the respect of diversity. Their expertise, know-how and commitment to the different business lines constitute one of the Group's major assets. Resulting from a contract-based policy and workplace dialogue, the social pact aims to preserve this asset while adapting to changes in the environment. Increasing productivity, modernizing the way the company is organized and increasing the level of employee qualifications are the drivers of the Group's development. Lastly, while respecting the diversity of the companies comprising the Group, the *Embark* strategic plan has launched a range of initiatives aimed at fostering the emergence of a Group corporate culture.

A model of excellence in corporate social responsibilty

The Air France-KLM group's sustainable development approach has won plaudits and awards on numerous occasions. Amongst these many awards, in 2010 the Group was named the airline sector leader in the DJSI indices for the sixth consecutive year. The Group intends to pursue this commitment aimed at consolidating the reputation of the brands with, amongst other objectives, a very high level of operational safety, establishing an ongoing dialogue with stakeholders such as customers, suppliers and local residents, contributing to combating climate change and applying the best corporate governance principles.

2.4 Passenger business

The passenger business is Air France-KLM's main activity, contributing some 77% of the Group's revenues.

During the 2010-11 financial year, the passenger business was dynamic, staging a strong recovery despite numerous exceptional events. Revenues amounted to €18.10 billion, up by 11.3% and, at the operating level, the business was close to break even with an improvement of some €900 million.

First half (April-September 2010)

First half activity saw contrasting trends with a first quarter significantly impacted by the closure of European airspace following the eruption of the Icelandic volcano and a dynamic second quarter, particularly in terms of unit revenues. Over the first six months of the financial year, traffic was slightly lower (-0.8%) for a 2.6% reduction in capacity, the load factor gaining 1.5 points to 83.3%. The number of passengers declined by 2.7% to 37.3 million. Unit revenues were up across the whole network. In total, unit revenue per available seat-kilometer (RASK) increased by 17.0% and revenues by 13.6% to €9.49 billion. Operating income stood at €311 million (a loss of €353 million at September 30, 2009). The impact of the closure of the European airspace was estimated at €226 million in revenues and €146 million at the operating level.

The redefinition of Air France's medium-haul commercial offering launched on April 1, 2010 with two clearly-differentiated products – the economy or *Voyageur* cabin for passengers seeking a simple product at attractive fares and the business or Premium cabin for passengers looking for more flexibility and services at affordable prices – contributed to the improvement in the profitability of this network. In long haul, the progressive deployment of the new *Premium Voyageur* class also contributed to the good first half results.

Second half (October 2010-March 2011)

The second half was also marked by a number of exceptional events: widespread industrial action by air traffic controllers in France, a record level of snowfall and, as of January 2011, geopolitical instability in Africa and the Middle East, then the earthquake followed by the tsunami in Japan in March. Traffic increased by 3.3% for capacity up by 2.7%, the load factor amounting to 79.9% (+0.4 of a point). Thirty-four million passengers (+2.9%) were carried on the Group's network, generating revenues of €8.61 billion. The increase in unit revenues (+6.3% in available seat-kilometers) was more limited than in the first half which benefited from a more favorable comparison base. The operating result was a loss of €355 million (a loss of €565 million one year earlier). The exceptional events had a negative impact of €150 million on revenues and €123 million at the operating level.

2010-11 financial year

Over the financial year as a whole, the passenger business saw a 1.1% increase in traffic for stable capacity (-0.1%), the load factor gaining 1.0 point to 81.6%. The Group carried 71.3 million passengers (-0.1%). Thanks to unit revenue per available seat-kilometer (RASK) up by 11.7%, revenues stood at €18.1 billion (+11.3% after a 2.9% positive currency effect), of which €17.29 billion in scheduled passenger revenues (+11.6%) and €813.7 million in ancillary revenues (+4.5%). The operating result saw a significant recovery, moving from a loss of €918 million at March 31, 2010 to a loss of €44 million at March 31, 2011, after €269 million of negative effects linked to the exceptional events.

➤ Key figures by network

	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)*	
At March 31	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	124	123	52,968	55,217	38,505	38,635	72.7	70.0	48,213	48,492	6,045	5,921
North America	24	23	51,542	51,495	44,196	44,440	85.7	86.3	6,501	6,835	2,925	2,407
Latin America	11	11	26,600	26,805	23,014	22,914	86.5	85.5	2,457	2,181	1,475	1,223
Asia-Pacific	25	22	55,867	54,185	48,012	46,165	85.9	85.2	5,586	5,397	3,070	2,393
Africa-Middle East	54	50	36,884	36,796	29,030	28,923	78.7	78.6	5,491	5,484	2,541	2,372
Caribbean-Indian Ocean	16	15	26,972	26,514	21,978	21,378	81.5	80.6	3,072	3,005	1,234	1,173
Total	**254**	**244**	**250,836**	**251,012**	**204,737**	**202,455**	**81.6**	**80.7**	**71,320**	**71,394**	**17,290**	**15,489**

The long-haul network

With a fleet of 168 aircraft in operation, the Group carried 23.1 million passengers (+0.9%) on the long-haul network to 121 destinations (Summer season: April-October 2010) in 69 countries. The dual hub (Paris and Amsterdam) gives access to the destinations offered by one or other airline. On the shared destinations, it enables a wide choice of flight times, particularly for transfer passengers who have the choice of transiting through either Paris or Amsterdam. The weight of the long-haul network was slightly higher than in the previous year, representing around 81% of traffic and 79% of capacity (80% and 78%, respectively, in 2009-10). Long-haul traffic rose by 1.5% and capacity by 1.1%, enabling a 0.3 point improvement in the load factor to 84.0%.

Long-haul scheduled passenger revenues amounted to €11.24 billion (+17.5% after a positive currency effect of 4.2%). This network contributed some 65% of scheduled passenger revenues, up by 3.2 points.

Despite the various crises, all the networks either maintained or slightly increased their load factors. The respective weights of each network saw no significant changes relative to the previous financial year.

The North and Latin American market remained the Group's first network in terms of both traffic (33%) and capacity (31%), carrying 8.9 million passengers (-0.7%) to 34 destinations in 10 countries. Traffic and capacity were stable (-0.2% for both), as was the load factor at 86.0%. Revenues amounted to €4.4 billion, up by 21.2% after a positive currency impact of 4.6%. This network accounted for 25% of scheduled passenger revenues (+2 points). On this market the Group benefits from 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 regained its dynamism with traffic up by 4% for a 3.1% increase in capacity, the already-very-high load factor of 85.9% rising by 0.9 of a percentage point. 5.6 million passengers (+3.5%) traveled on this network, generating revenues of €3.07 billion (+28.3% after a 5.8% positive currency impact) representing some 18% of total scheduled passenger revenues, 2.6 points higher than in the previous financial year.

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 2009-10 financial year (around 14% of capacity and traffic). It proved very resilient despite the crises with traffic increasing by 0.4% for stable capacity (+0.2%). The load factor stood at 78.7% (+0.1 of a point). The Group carried 5.5 million passengers (+0.1%) and generated revenues of €2.54 billion, a 7.1% increase after a 3.6% positive currency impact. The contribution of this network to total scheduled passenger revenues remained unchanged at around 15%.

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. Unlike the previous year, activity on this network was buoyant with traffic up by 2.8%. With capacity having been increased by only 1.7%, the load factor gained 0.9 of a point to 81.5%. The number of passengers rose by 2.2% to 3.1 million. Revenues reached €1.23 billion, up by 5.2% after a positive currency impact of 0.9%. This network's share of total scheduled passenger revenues remained stable at around 7%.

The medium-haul network

The medium-haul network is the Group's third network with 19% of traffic and 22% of capacity, as in 2009-10. It covers France, the other European countries and North Africa and offers 123 destinations in 36 countries (Summer 2010 season). 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, participate in the medium-haul business either by linking secondary French and European cities or by offering intra-domestic routes.

Over the financial year, traffic and capacity on the medium-haul network were down by 0.3% and 4.1% respectively. The load factor gained 2.7 points to 72.7%. In the European market, excluding France, the load factor increased by 2.9 points to 74.4% while, in the domestic market, it was up by 1.9 points to 68.0%.

With a fleet of 370 aircraft in operation, of which 181 regional aircraft, the Group carried 48.2 million passengers (-0.6%) and generated €6.04 billion of scheduled passenger revenues (+2.1% after a positive currency effect of 1.8%). This network represented 35% of total scheduled passenger revenues, down by 3 percentage points on the previous financial year.

Key figures for the passenger business

Year ended	March 31, 2011	March 31, 2010
Number of passengers (*In thousands*)	71,320	71,394
Total passenger revenues (*In €m*)	18,103	16,267
Scheduled passenger revenues (*In €m*)	17,290	15,489
Unit revenue per ASK (*In € cents*)	6.89	6.17
Unit revenue per RPK (*In € cents*)	8.44	7.65
Unit cost per ASK (*In € cents*)	6.82	6.46
Income/(loss) from current operations (*In €m*)	(44)	(918)

Unit revenue per available seat-kilometer (RASK) was up by 11.7% and by 8.6% on a constant currency basis. Unit revenue per revenue passenger-kilometer (RRPK) increased by 10.4% and by 7.3% on a constant currency basis. Unit cost per available seat-kilometer rose by 5.5% but was unchanged (-0.1%) on a constant currency and fuel price basis.

2.5 Cargo business

Cargo is the second of the Group's businesses, accounting for some 13% of total revenues.

International trade flows recovered strongly in 2010. With a record 14.5% increase in export volumes after the 12% decline in 2009, international trade flows regained their pre-crisis levels, underpinned by the 3.6% growth in global output (*Source: WTO*).

Unlike the passenger business, the cargo activity was relatively unscathed by the different crises arising over the course of the financial year. On the other hand, supported by the dynamism of international trade, the restructuring measures implemented as of late 2009 enabled the cargo business to return to growth and profitability earlier than planned.

First half (April-September 2010)

Traffic increased by 2.6% for a 3.6% reduction in capacity, enabling the load factor to gain 4.1 points to 67.7%. The Group carried 743,529 tons (+2.0%). The increase in traffic was accompanied by a very strong rise in unit revenues which, as of the beginning of this financial year, practically regained their pre-crisis levels. At September 30, 2010, unit revenue per available ton-kilometer was up by 45.7%, enabling a 39.9% increase in revenues to €1.56 billion. Income from current operations reached €18 million after an estimated €3 million negative impact from the volcanic eruption crisis versus a loss from current operations of €344 million one year earlier.

Second half (October 2010-March 2011)

The recovery in global trade having started during the 2009-10 second half, the comparison base was less favorable than during the first half. Traffic remained buoyant, however, rising by 2.5% for capacity up by 3.2%. The load factor slightly declined to 69.1% versus 69.6% one year earlier. Unit revenues remained positively oriented with unit revenue per available ton-kilometer (RATK) up by 16.7%. Revenues amounted to €1.6 billion (+20.6% after a 4.9% positive currency impact). Income from current operations improved by €143 million to €51 million versus a €92 million loss during the 2009-10 second half.

2010-11 financial year

Over the financial year, traffic increased by 2.5% for virtually unchanged capacity (-0.3%). The load factor gained 1.9 points to 68.4% with a very strong improvement of more than two points in the load factor in the bellies of passenger and combi aircraft which now represent 67% of capacity versus 65% in 2009 and 56% in 2008. Total revenues for the cargo activity amounted to €3.16 billion (+29.5% after a positive currency effect of 5.0%), of which €3 billion in cargo revenues (+29.5%) and €163 million in ancillary revenues thanks to the very strong increase in unit revenues (+29.9% in RATK). Income from operations saw a €505 million improvement, moving from a €436 million loss at March 31, 2010 to a €69 million positive at March 31, 2011.

	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	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	493	501	69	74	14.0	14.8	52	56	54	53
North and Latin America	6,423	6,375	4,478	4,241	69.7	66.5	557	527	1,133	790
Asia-Pacific	5,895	5,954	4,666	4,598	79.2	77.2	535	529	1,051	840
Africa-Middle East	2,837	2,821	1,775	1,765	62.6	62.6	289	288	600	476
Caribbean-Indian Ocean	1,068	1,115	450	477	42.1	42.7	59	64	158	154
Total	**16,716**	**16,766**	**11,438**	**11,155**	**68.4**	**66.5**	**1,492**	**1,464**	**2,996**	**2,313**

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

Like last year, the Asia-Pacific network represented 35% of capacity and 41% of traffic. The recovery that began during the last quarter of the 2009-10 financial year continued throughout the year. Traffic increased by 1.4% versus a 21.1% fall in 2009-10. With capacity down by 1.0% (-29.6% one year earlier), the load factor gained 1.9 points to 79.2%. The Group carried 535,000 tons in return for revenues of €1.05 billion (+25.1%).

The Americas, the second network, accounted for 38% of capacity and 39% of traffic. Traffic increased by 5.7% for a modest increase in capacity (+0.8%), the load factor improving by 3.2 points to 69.7%. The Group carried 557,000 tons (+5.7%) and generated revenues of €1.13 billion, up by 43.4%.

Africa-Middle East, the Group's third network, remained positively oriented with 0.6% growth in traffic and capacity. The load factor was stable at 62.6%. Tonnage transported amounted to 289,000 (+0.3%). Revenues also increased strongly (+26.1%) to €600 million.

The Caribbean-Indian Ocean network saw respective declines of 5.7% and 4.2% in traffic and capacity, the load factor amounting to 42.1% (-0.6 of a point). With 59,000 tons carried, revenues stood at €158 million (+2.6%).

Key figures for the cargo business

Year ending	March 31, 2011	March 31, 2010
Tonnage transported (*In thousands*)	1,492	1,464
Total cargo revenues (*In €m*)	3,159	2,439
Freight transport revenues (*In €m*)	2,996	2,313
Unit revenue per ATK (*In € cents*)	17.92	13.79
Unit revenue per RTK (*In € cents*)	26.20	20.74
Unit cost per ATK (*In € cents*)	17.25	16.14
Income/(loss) from current operations (*In €m*)	69	(436)

Unit revenue per available ton-kilometer (RATK) rose by 29.9% and by 23.8% on a constant currency basis. Unit revenue per revenue ton-kilometer (RRTK) increased by 26.3% and by 20.3% on a constant currency basis. Unit cost per available ton-kilometer was up by 6.9% but down by 1.1% on a constant currency and fuel price basis.

Since February 2006, the world-wide air cargo industry has been the subject of anti-trust proceedings. Those concerning the Group are detailed in Notes 29.2 and 29.3 to the consolidated financial statements.

2.6 Maintenance business

Aircraft maintenance is the Air France-KLM group's third business with third-party revenues accounting for some 4% of the Group total. These third-party revenues generated with external customers represent around one third of the total revenues from this activity.

2.6.1 Key figures for the maintenance business

Financial year ended	March 31, 2011	March 31, 2010
Total revenues (*In €m*)	3,083	2,947
Third-party revenues (*In €m*)	1,029	956
Income from current operations (*In €m*)	143	81

Revenues for the financial year stood at €1.03 billion (+7.6%). The high value-added engine and component support activities were dynamic and the airframe business, while remaining in the red, nonetheless reduced its losses. Income from current operations amounted to €143 million (€81 million at March 31, 2010).

2.7 Other businesses

The main activities in this sector are the catering business and Transavia's leisure activities, the Martinair leisure business having been significantly scaled back. Total revenues from these other businesses amounted to €1.32 billion (-0.6%) and the loss from current operations stood at €46 million (a loss of €12 million at March 31, 2010).

The leisure business generated revenues of €915 million (-0.3%). This virtual stability represented a good performance since, early in the financial year, Transavia was negatively impacted by the closure of European airspace which led to a revenue loss of around €24 million and, at the end of the financial year, by political instability in a number of countries in the Mediterranean basin. This business generated a €54 million loss from current operations of which some €10 million was due to the impact of the crises (versus a €23 million loss at March 31, 2010).

The catering business generated total revenues of €897 million (€903 million at March 31, 2010) including €340 million of third-party revenues (€347 million at March 31, 2010). Despite this slight decline, income from operations remained stable at €18 million (€19 million at March 31, 2010).

2.8 Highlights of the beginning of the 2011-12 financial year

The Group reported traffic for April 2011. The changes relative to the previous year (+23.1% in passenger traffic for +21.2% in capacity) were not significant in that April 2010 had been impacted by the closure of the European airspace following the eruption of the Icelandic volcano. However, it should be noted that the load factor gained 1.2 points to 81.2%.

The Board of Directors will submit to the General Shareholders' Meeting of July 7, 2011 a proposed change in the date for the accounting year end from March 31 to December 31. The Air France-KLM group would thus have the same closing date as the majority of air transport companies and, in particular, its partners including Delta.

If this resolution is adopted, the financial year starting April 1, 2011 will consequently be of nine months' duration.

2.9 Fleet

At March 31, 2011, the Air France-KLM group fleet comprised 609 aircraft, of which 593 were operational compared with, respectively, 625 and 594 aircraft at March 31, 2010.

The main fleet consists of 418 aircraft (426 aircraft at March 31, 2010), of which 168 long-haul aircraft including four at Martinair (168 at March 31, 2010), 22 cargo aircraft including 11 at Martinair and 228 medium-haul aircraft (232 at March 31, 2010), including 38 aircraft in the transavia.com fleet (36 aircraft at March 31, 2010). The regional fleet comprises 191 aircraft (199 at March 31, 2010).

At March 31, 2011, 274 aircraft were fully owned (45% of the fleet compared with 47% one year earlier), 117 aircraft were under finance lease representing 19% of the fleet (18% at March 31, 2010) and 218 under operating lease representing 36% of the fleet (35% at March 31, 2010). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €1.79 billion. Disposals of flight equipment stood at €976 million, of which €741 million related to sale and leaseback transactions.

There were firm orders for 56 aircraft at March 31, 2011, including 13 orders for regional aircraft, while options stood at 53 of which 21 for regional aircraft. At March 31, 2010, orders had amounted to 76, of which 21 for regional aircraft, with options on 58 aircraft, of which 18 regional aircraft.

2.9.1 The Air France group fleet

The Air France group fleet totaled 398 aircraft at March 31, 2011, of which 250 aircraft in the main fleet and 148 in the subsidiaries. Firm orders amounted to 39 aircraft and options to 35 aircraft versus, respectively, 55 and 30 at March 31, 2010.

Over the financial year, the Group took delivery of 16 aircraft, cancelled three options, took out options on 8 aircraft and transferred one firm order to KLM.

The Air France fleet

The Air France fleet comprised 250 aircraft at March 31, 2011, with 247 in operation. The fleet includes 142 medium-haul, 101 long-haul and seven cargo aircraft and has an average age of 9.2 years, including 8.9 years for the long-haul, 9.5 years for the medium-haul and 5.6 years for the cargo fleet.

Within the fleet, 120 aircraft are fully owned (48%), 23 are under finance lease (9%) and 107 under operating lease (43%).

Investment in aircraft amounted to €1.04 billion over the year (including advance payments on orders, spare parts and ground-based maintenance operations).

During the 2010-11 financial year seven aircraft joined the fleet and 18 were withdrawn. In the long-haul fleet, one Boeing B777-300ER and two Airbus A380s were added and three Boeing B747-400s and two Airbus A340-300s were withdrawn. In the cargo fleet, four Boeing B747-200s and 400s were withdrawn from the fleet while there were no new additions. The renewal of the medium-haul fleet continued with the withdrawal of eleven Airbus A320s replaced by three A320s.

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, 2011, the total fleet of these four companies comprised 139 aircraft, with a seat capacity of up to 100, of which 133 in operation. Nine aircraft joined the regional fleet (3 Embraer 170s and 6 CRJ 1000s) and 21 were withdrawn (six aircraft at Brit Air and 15 at Régional).

The average age of the fleet in operation was 10.6 years at March 31, 2011: 9.7 years for the Brit Air fleet, 7.7 years for Régional, 12.0 years for CityJet and 21.3 years for the VLM fleet. Investment in flight equipment amounted to €190 million for the financial year.

The transavia.com France fleet comprises nine Boeing B737-800s, all operated and owned under operating lease (7 aircraft at March 31, 2010). The average age of this fleet is 5.4 years.

Of a total fleet of 148 aircraft, 79 are fully owned (53%), 29 are under finance lease (20%) and 40 are under operating lease (27%). At March 31, 2011, the order book stood at eight firm orders and 15 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.

2.9.2 The KLM group fleet

The KLM group fleet totalled 211 aircraft at March 31, 2011 (205 aircraft at March 31, 2010) of which 115 in the KLM fleet (113 at March 31, 2010), 15 in the Martinair fleet, 52 in the regional fleet and 29 in the Transavia fleet. The average age of the fleet is 12.1 years.

The KLM fleet

The KLM fleet comprises 115 aircraft all in operation, of which 63 are long-haul, four are cargo freighters and 48 are medium-haul aircraft. Thirty-five aircraft are fully owned (30%), 41 are under finance lease (36%) and 39 are under operating lease (34%). The aircraft in the fleet have an average age of 11.7 years, with 11.7 years for the long-haul fleet, 11.6 years for the medium-haul fleet and 7.7 years for the cargo fleet.

During the financial year, seven aircraft joined the fleet and five were withdrawn. One Boeing B777 and one Airbus A330 joined the long haul fleet. In the medium-haul fleet, four Boeing B737-700s and one Boeing B737-800 were added while one Boeing B737-400 and four Boeing B737-300s were withdrawn. Investment in flight equipment over the year amounted to €480 million (including advance payments on orders, spare parts and ground-based maintenance operations).

At March 31, 2011, firm orders amounted to 17 aircraft with options on a further eighteen.

The subsidiaries' fleet

Investment in flight equipment amounted to €70 million during the financial year.

Other non-regional fleets

The transavia.com Netherlands fleet comprises 29 aircraft (29 at March 31, 2010), of which ten Boeing B737-700s and 19 Boeing B737-800s. Ten per cent of the fleet is fully owned, 28% is under finance lease and 62% under operating lease. The average age of the aircraft in the fleet is 8.2 years.

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 15.1 years.

Regional fleet

The KLM Cityhopper fleet comprises 52 aircraft, of which 48 in operation. During the financial year, four Embraer 190s joined the fleet. The average age of the aircraft in the regional fleet is 11.3 years.

Thirty-two aircraft are fully owned (62%), 16 are under finance lease (31%) and four aircraft are under operating lease (7%).

At March 31, 2011, the order book amounted to five firm orders and six options.

Air France fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
B747-400	6	3	-	-	7	7	13	10	9	10
B777-200/300	32	31	4	4	19	21	55	56	55	56
A380-800	1	2	-	-	1	2	2	4	2	4
A340-300	11	10	2	2	5	4	18	16	18	16
A330-200	5	3	1	2	9	10	15	15	15	15
Long-haul	**55**	**49**	**7**	**8**	**41**	**44**	**103**	**101**	**99**	**101**
B747-400	5	2	-	-	3	3	8	5	4	3
B747-200	1	-	-	-	-	-	1	-	-	-
B777-F Cargo	-	-	2	2	-	-	2	2	2	2
Cargo	**6**	**2**	**2**	**2**	**3**	**3**	**11**	**7**	**6**	**5**
A321	12	11	1	1	11	12	24	24	23	24
A320	35	24	2	3	24	29	61	56	58	55
A319	22	21	4	4	19	19	45	44	45	44
A318	18	13	-	5	-	-	18	18	18	18
Medium-haul	**87**	**69**	**4**	**13**	**54**	**60**	**148**	**142**	**144**	**141**
Total	**148**	**120**	**16**	**23**	**98**	**107**	**262**	**250**	**249**	**247**

Regional fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
Brit Air										
Canadair Jet 1000	-	6	-	-	-	-	-	6	-	6
Canadair Jet 900	-	-	-	-	2	1	2	1	2	1
Canadair Jet 700	6	6	9	9	-	-	15	15	15	15
Canadair Jet 100	8	11	5	2	2	2	15	15	14	15
F100-100	3	3	-	-	8	3	11	6	11	6
Total	**17**	**26**	**14**	**11**	**12**	**6**	**43**	**43**	**42**	**43**
CityJet										
BAE146-200/300	1	-	-	-	-	-	1	-	-	-
AVRO RJ 85	15	15	-	-	12	12	27	27	23	22
Total	**15**	**15**	**-**	**-**	**12**	**12**	**27**	**27**	**23**	**22**
Régional										
EMB190	4	4	-	-	6	6	10	10	10	10
EMB170	6	8	1	2	-	-	7	10	7	10
EMB145-EP/MP	8	9	14	13	6	5	28	27	28	27
EMB135-ER	4	4	3	3	2	-	9	7	8	6
EMB120-ER	3	-	-	-	-	-	3	-	-	-
F100-100	1	-	-	-	6	-	7	-	7	-
F70-70	-	-	-	-	-	-	-	-	-	-
Total	**26**	**25**	**18**	**18**	**20**	**11**	**64**	**54**	**60**	**53**
VLM Airlines										
Fokker 50	13	13	-	-	3	4	18	17	18	15
Total	**13**	**13**	**-**	**-**	**3**	**4**	**18**	**17**	**18**	**15**
Total regional fleet	**71**	**79**	**32**	**29**	**48**	**31**	**151**	**139**	**140**	**133**

Other fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
Transavia France										
B737-800	-	-	-	-	7	9	7	9	7	9
Total	**-**	**-**	**-**	**-**	**7**	**9**	**7**	**9**	**7**	**9**
Total Air France group	**219**	**199**	**48**	**52**	**153**	**147**	**420**	**398**	**396**	**389**

KLM fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
B747-400	11	13	6	4	5	5	22	22	22	22
B777-300	-	-	4	5	-	-	4	5	4	5
B777-200	-	-	6	6	9	9	15	15	15	15
MD11	8	8	-	1	2	1	10	10	10	10
A330-200	-	-	6	6	4	5	10	11	10	11
Long-haul	**19**	**21**	**22**	**22**	**20**	**20**	**61**	**63**	**61**	**63**
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	5	12	8	8	9	21	22	21	22
B737-700	-	-	6	6	-	4	6	10	6	10
B737-400	6	6	-	-	3	2	9	8	9	8
B737-300	7	3	-	-	3	-	7	3	7	3
Medium-haul	**14**	**14**	**20**	**16**	**14**	**18**	**48**	**48**	**483**	**48**
Total	**33**	**35**	**45**	**41**	**35**	**39**	**113**	**115**	**113**	**115**

Regional fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
KLM Cityhopper										
F100	5	5	-	-	-	-	5	5	5	5
F70	23	23	3	3	-	-	26	26	26	26
F50	4	4	-	-	-	-	4	4	-	_
EMB 190	-	-	-9	13	4	4	13	17	13	17
Total	**32**	**32**	**12**	**16**	**6**	**4**	**48**	**52**	**44**	**48**

Other fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
Transavia Netherlands										
B737-800	2	3	5	3	12	13	19	19	19	19
B737-700	-	-	5	5	5	5	10	10	10	10
Total	**2**	**3**	**10**	**8**	**17**	**18**	**29**	**29**	**29**	**29**
Martinair										
B767-800	3	-	-	-	4	4	4	4	4	4
Long-haul	**3**	**-**	**-**	**-**	**4**	**4**	**4**	**4**	**4**	**4**
B747-400 BCF	-	-	-	-	4	4	4	4	1	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**	**8**	**8**
Total	**5**	**5**	**-**	**-**	**10**	**10**	**15**	**15**	**12**	**12**
Total other fleet	**7**	**8**	**10**	**8**	**27**	**28**	**44**	**44**	**41**	**41**
Total KLM group	**72**	**75**	**67**	**65**	**66**	**71**	**205**	**211**	**198**	**204**

Air France-KLM group fleet

	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
Total	**291**	**274**	**115**	**117**	**219**	**218**	**625**	**609**	**594**	**593**

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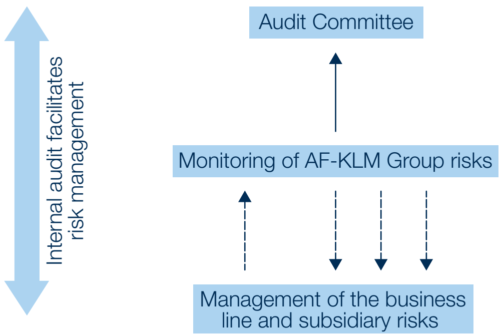
Risks and risk management

3

3.1 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.

Within the framework of the process to establish the Air France-KLM group's strategy (Group Strategic Framework), the management evaluates the strategic risks (competition, economic growth, etc.) and determines the related action plans. These risks and action plans are the subject of a presentations and discussion during the yearly meeting of the Board of Directors devoted to the Group's strategy.



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

3.2 Risk factors and their management

3.2.1 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 and second halves 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 or post-crisis, such as the one being traversed currently with an unstable economic environment, are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions The Group also monitors demand closely so as to adjust capacity thanks to flexible management of the fleet.

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 notably due to a fall in demand and to higher insurance and security costs. Certain aircraft also saw a decline in their value. 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. Since early 2011, the geopolitical situation resulting from the natural disasters in Japan and political problems (Middle Eastern and African countries) have had a significant impact on air transport activity to these regions.

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 also developed emergency plans and procedures enabling it to adapt to changing environments and 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 remain highly regulated, particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (standards on safety, aircraft noise, CO_2 emissions, airport access and the allocation of time slots). Within this context, the community institutions notably adopt regulations which may be restrictive for airlines and are liable to have a significant organizational and/or financial impact. The European Commission has published its White Paper entitled *Roadmap to a Single European Transport Area* which emphasizes the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development. In terms of its content, the main positive measure is the Commission's commitment to developing bio-fuels as well as the implementation of the Single European Sky. The White Paper also, however, envisages introducing a tax on air transportation, levying VAT on international flights, stepping up initiatives in the passenger rights area, pursuing a pro-active policy on rail development and reviewing the regulation governing the allocation of time slots in the European platforms. These initiatives could increase the Group's operating expenses or reduce its revenues. 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. Pursuant to 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 can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots as was recently the case in 2009.

In 2010, the European coordinators accepted that the closure of the airspace following the volcanic eruption constituted, in respect of the community regulation, an exceptional circumstance justifying the suspension of the "use it or lose it" regulation at the airports concerned.

As a general rule, the Group manages this risk at the 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, so as to avoid the under-utilization of this portfolio of flight slots, it does not request the slots corresponding to these flights. 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

Within the European Union, passenger rights are defined by a regulation which came into force in 2005, applying to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union. The European regulations establish common rules for compensation and assistance on denied boarding, substantial delay flight cancellation and 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.

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. On December 31, 2010, for the first time, air transport operators were thus required to declare their CO_2 emissions together with their traffic data (revenue ton-kilometers) for 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 conferences held in Copenhagen in December 2009 followed by Cancun in 2010 did not result in the expected world-wide agreement. However, consistent with the proposals for an overall sector approach supported by the air transport industry, a global response looks to be taking shape under the aegis of the United Nations with the adoption of an International Civil Aviation Organization resolution during its meeting in October 2010.

The Air France-KLM group is constantly seeking ways to reduce its fuel consumption and carbon 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.

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 since early 2011, 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.

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 also market risks)*. The Group also makes a consistent effort to reduce its fuel consumption and is developing a series of procedures and innovative solutions enabling fuel consumption to be optimized. Air France-KLM also supports research to develop alternative solutions such as bio-fuels.

Operating risks

Natural phenomena leading to exceptional situations

Air transport depends on meteorological conditions which can lead to flight cancellations, delays and diversions. Generally speaking, the duration of such adverse climate conditions tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace. They can represent a significant economic cost (repatriation and passenger accommodation, schedule 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, has very major commercial, human and financial consequences for the airlines and their passengers. Similarly, the bad weather at the end of 2010 at many European airports had significant operational and financial repercussions for the activity of the Air France-KLM group, given the regulations requiring the company to assist passengers in the European Union territory.

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

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 comprising eight independent and internationally-recognized experts reviewed all the internal functioning procedures, decision-making processes and practices potentially having an impact on flight safety by combining a systematic vision of the safety and practical experience of managing operations in airlines of a similar size to Air France. On this basis, following an inquiry that continued throughout 2010, the experts made a number of recommendations combining the best practices observed in other airlines globally. Given its commitment to the highest possible standards of flighty safety, Air France immediately implemented these recommendations by, for example, establishing the Flight Safety Committee within the Air France Board of Directors and the launch of an in-flight observations campaign, the LOSA (Line Operations Safety Audit), a practice already used by other airlines in the United States, Asia and Australia but implemented for the first time by a major European airline.

Risk of failure of a critical IT system and IT risks

The IT and telecommunications systems are of primordial importance when it comes to the Air France-KLM group's day-to-day operations. They comprise the IT applications operated in the production centers and used through the networking of tens of thousands of micro-computers.

The IT systems and the information that they contain can be exposed to risks concerning continuity of functioning, security and regulatory compliance. These risks have diverse origins both inside and outside the Group.

The Air France-KLM group consistently ensures the allocation of the resources required to ensure the secure operation of the IT systems. Dedicated help centers and redundant networks guarantee the accessibility of data and IT processing in the event of major incidents.

The access controls to IT applications and to the computer files at each work station together with the control over the data exchanged outside the company all comply with rules in line with international standards. Campaigns to raise the awareness of all staff are regularly carried out. Specialized companies, external auditors and the IT specialists within internal audit regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Air France-KLM group, particularly when it comes to protecting data of a personal nature and complying with the laws and regulations regarding strict confidentiality.

3.2.2 Risks linked to the Group's activities

Risks linked to non-respect of the competition rules

Following the inquiries conducted by the anti-trust authorities in a number of States concerning alleged anti-competitive agreements or concerted actions involving 25 companies in the air freight sector including the Air France-KLM group, Air France-KLM has reinforced its procedures to prevent any breach of competition law (new training module, awareness raising and poster campaign, dedicated telephone hot line, *e-learning* training).

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. Furthermore, the *Open Skies* agreement between the European Commission and the United States has been in force since end-March 2008 meaning that European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentiallly opens the way to increased 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, particularly within the framework of the implementation of a trans-Atlantic joint-venture with their partners Delta and Alitalia.

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 and railway networks, the Group constantly adapts its network strategy, capacity and commercial offer. 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 regulatory authorities' inquiry into the commercial cooperation agreements between carriers (Alliances)

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 to competitors at certain airports. The fulfilment of these commitments should not have a material negative impact on the activities of Air France and KLM. Note that no request for slots has, to date, been made.

Risks linked to financing

Air France and KLM finance their capital requirements by contracting bank loans using aircraft as collateral which constitutes an attractive guarantee for lenders and by issuing plain vanilla or convertible bonds.

Any long-term obstacle to its ability to raise capital would reduce the Group's borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the Group's activity and financial results.

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.

Risk linked to pension plans

Some of the Group's commitments are the subject of overfunding determined both by local legislation and the various collective agreements. Any change in legislation and/or collective agreements could have an impact on the required levels of solvability ratios for the pension funds.

The revised IAS 19 on pension obligations is liable to have an impact on the Group's net asset value. This impact can only be determined on the application of the revised standard whose conditions and application date are not yet definitive.

The sensitivity analysis on changes in returns on assets is presented in Note 29.1 to the consolidated financial statements.

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.

3.2.3 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.

3.2.4 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 also Notes 29.2 and 29.3 to the consolidated financial statements*).

3.3 Market risks and their management

3.3.1 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 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 on the hedging instruments used, 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. 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 a rolling 24 months. 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.

3.3.2 Market risks and their management

Currency risk

(See also Note 32 to the consolidated financial statements)

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, 2011)*	US Dollar (USD)	Sterling (GBP)	Yen (JPY)
Net position before management	(5,150)	700	60,200
Currency hedge	2,550	(200)	(31,350)
Net position after management	(2,600)	500	28,850

The maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table. These results cannot be extrapolated due to the use of option-based contracts.

(In € million)	US Dollar	Sterling	Yen
10% increase relative to the euro	(258)	68	38
10% fall relative to the euro	182	(29)	(29)

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, 2011.

(In $ million)	2010-11	2011-12	2012-13
Investments	(817)	(805)	(475)
Currency hedge	744	591	144
Hedge ratio	91%	73%	30%

Exposure on the debt

The exchange rate risk on the debt is limited. At March 31, 2011, 84% 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

(See also Note 32 to the consolidated financial statements)

At both Air France and KLM, debt is generally contracted in floating-rate instruments. However, given the level of interest rates, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates in order to limit its volatility. After swaps, the Air France-KLM group's debt contracted at fixed rates represents 71% of the overall total.

The average cost of the Group's debt after swaps stood at 3.87% at March 31, 2011 (3.64% at March 31, 2010).

Exposure to interest rates *(In € million at March 31, 2011)*	One year*	>1 year**
Financial assets	4,072	434
Financial liabilities	1,821	4,219
Net exposure before hedging	2,251	(3,785)
Hedging	(50)	1,995
Net exposure after hedging	2,201	(1,790)

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

Taking into account the fixed rate position to be renewed at less than one year, the Group's net interest rate exposure amounts to €411 million, the cash invested at floating rates amounting to more than the debt at floating rates. A 1% variation in interest rates over twelve months would have a positive accounting impact of €4.1 million.

Fuel price risk

(See also Note 32 to the consolidated financial statements)

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 hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months), the total volume hedged over this time span representing around 85% of a year of consumption. The quarter underway and the next two quarters are hedged at 60% to ensure a substantial level of short-term hedging. The following quarters are hedged at 50%, 40%, 30%, 20%,10% and 0%, knowing that, in order to maintain this hedging configuration on a rolling basis, an additional 10% is added to these ratios over the course of each quarter. At least 30% of the volume in distillates must be hedged and 20% in Jet fuel. The hedging is based on the use of simple instruments that are either un-capped (collars, swaps, calls) or capped (four ways, call spread, etc.) limited to 20% of a year of consumption. These hedging instruments must also be compatible with IAS 39.

Within the framework of a dynamic approach, the Group has implemented the monitoring of indicators capping the potential maximum loss and the potential maximum gain (value of the portfolio prompting its restructuring). Lastly, an indicator enabling the extreme risk of the portfolio to be measured has been deployed. The level of this *Value at Risk* indicator is calculated and analyzed every week and may also trigger a restructuring of the portfolio.

At April 1, 2011, the Air France-KLM group's fuel exposure, based on futures prices on March 31, 2011 ($115.77 a barrel for 2011-12 and $111.57 a barrel for 2012-13), was as follows:

(In $ million)	2011-12	2012-13
Gross expenditure before hedging	10,503	10,694
Hedge percentage	57%	24%
Gain on hedging	768	83
Net expenditure	9,735	10,611

Counterparty risk

(See also Note 32 to the consolidated financial statements)

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.

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of A or above (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their ratings. The RMC also monitors the trend in the respective share of each counterparty in the total hedging portfolio (fuel, currency and interest rate). 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 or in equity mutual funds. However, at March 31, 2011, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies worth a net €970 million, principally comprising Amadeus shares. An overall fall of 1% would represent an equity risk of €9.7 million.

Liquidity risks

At March 31, 2011, Air France had a credit facility of €1.11 billion, of which €500 million drawn down at that date was reimbursed on April 1, 2011. On April 4, 2011, Air France replaced this line with a new five-year credit facility (maturing April 4, 2016) amounting to €1.06 billion negotiated with an expanded pool of 14 banks.

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 40% 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 define certain conditions for the interest payments on the loan.

KLM has a fully available €530 million credit facility maturing in July 2012, negotiated with a consortium of international banks. 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 40% 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, 2011.

For its part, the Air France-KLM holding company put in place a ten-year financing facility of €250 million in October 2007, undrawn at March 31, 2011. This credit facility is reduced by €50 million per year as of 2013.

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, 2011.

Given the conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €4.36 billion at March 31, 2011 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 to support the financing of a number of aircraft deliveries.

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 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, by issuing €450 million of bonds convertible into new or existing shares (OCEANEs) in April 2005 and, in September 2006, €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

(See also Note 32 to the consolidated financial statements)

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 debt securities and term deposits 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

4.1 Social data

The average number of full time equivalent employees (FTE) in the Air France-KLM group was more than 102,012 in the 2010-11 financial year, a 2.6% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France-KLM			Air France group			KLM group		
Financial year	**2008-09**	**2009-10**	**2010-11**	**2008-09**	**2009-10**	**2010-11**	**2008-09**	**2009-10**	**2010-11**
Ground staff	75,310	73,273	70,851	53,995	51,814	50,224	21,315	21,459	20,627
Cabin crew	22,903	22,593	22,498	15,069	14,897	14,753	7,834	7,696	7,745
Flight deck crew	8,720	8,855	8,663	5,523	5,432	5,316	3,197	3,422	3,347
Total	**106,933**	**104,721**	**102,012**	**74,587**	**72,143**	**70,293**	**32,346**	**32,578**	**31,719**

Taking into account external labor, respectively 2,894 in full time equivalent during the 2009-10 financial year and 3,374 in full time equivalent for 2010-11, this reduction in employees for the Air France-KLM group as a whole, expressed in full time equivalent, amounted to 2.1%.

The number of employees in the Air France and KLM groups was impacted by scope effects with, notably, the integration of the NAS Airport Service subsidiary in Kenya within the Air France group as of October 2010 (989 FTE).

For the KLM group, the reporting scope was changed with the withdrawal of two subsidiaries, KES (KLM Equipment Services) and KHS (KLM Health Services), due to the reduction in the number of employees in these subsidiaries to below the 300 required threshold for reporting.

At December 31, 2010, Air-France-KLM had employment contracts in force with 109,551 people, of whom 68% working for the Air France group and 32% for the KLM group.

The NRE social reporting 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 tables of indicators below and covers 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 limited degree of assurance.

4.1.1 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.

The differences in employment legislation between France and the Netherlands require separate human resources policies however, with the integration of the businesses moving more rapidly due to the economic context, the Group has implemented a series of rules and principles enabling the combined entities to work together and managers to reconcile any differences. Lastly, the Group is training the executives destined to become tomorrow's managers in 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 common management teams and joint project management.

4.1.2 Air France

Employment

As of the beginning of the economic crisis which had significant repercussions for the air transport industry, Air France mobilized to withstand this impact while preserving its competitiveness and maintaining a responsible policy in terms of human resources management.

The company pursued a policy based on rigor and prudence, leading to a progressive 8.63% reduction in the number of employees between March 2008 and March 2011 to contend with the crisis and respond to the overall decline in activity.

A number of adaptation measures were implemented during 2009 and 2010 such as tight control over recruitment, the development of part-time working and temporary secondments to reinforce teams during peak periods. The company also promoted professional and geographical mobility and teleworking.

Air France also implemented a reorganization enabling the rapid mobilization of the required productivity gains. With natural departures alone insufficient to achieve the targeted headcount reduction, a Vloluntary Redundancy Plan was implemented in 2010 within the framework of a transparent approach.

In addition to the redundancy compensation package, 1,834 employees volunteered, notably, for redeployment leave lasting up to nine months involving personalized support in formalizing their personal or professional projects from two external specialist consultancies.

At March 31, 2011, nearly 600 of these employees had brought their projects to fruition (including more than 100 business start-ups).

The economic context led to a very significant reduction in the number of temporary workers with expenditure declining from €34.7 million in 2008 to €20.5 million in 2010. Recourse to sub-contractors was maintained in the usual areas like airport services, handling, gardiennage, cleaning and the development of special IT applications.

Despite the particularly difficult economic context prevailing since the summer of 2008, Air France maintained its commitment to preserving jobs and developing the employability of its staff.

The adaptation of staffing levels prompted Air France to review the effectiveness of its organization, opening up new opportunities for existing employees.

In order to facilitate the professional mobility required by economic, technological and commercial change, Air France is developing a qualitative Human Resources and Skills Planning process, including tools to support career planning and mobility such as the Mobility Space and the Jobs Exchange which saw its volume of offers double in 2010. In 2010, more than 1,500 ground staff changed jobs within Air France, of whom 75 became cabin crew after training. There were 327 examples of geographical mobility, 600 employees transferred between divisions while 86 ground staff gained executive status.

Furthermore, starting in the spring of 2011, employees will have access to the *Observatoire des Métiers*, an electronic tool offering information on occupations that are developing and in decline, the possible bridges between occupations and the skills required for a successful transfer to a new role, enabling employees to plan a career path jointly with their line and human resources managers.

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 2010, the percentage of employees working part time in France stood at 14.58% for ground staff, 36.01% for cabin crew and 15.48% for flight deck crew (respectively 14.7%, 35.9% and 18% in 2009).

The absentee rate for illness, maternity or work-related accidents amounted to 4.65% in 2010 for ground staff (4.11% in 2009) and 8.46% (6.43% in 2009) for cabin and flight deck crew.

The increase in the rate of absenteeism is mostly linked to a more detailed calculation of the hours worked by flight crew from which, as of 2010, statutory holidays have been deducted.

Compensation and sharing the value creation

In accordance with the salary agreement signed in 2010 concerning all categories of employee (ground staff, cabin crew and flight deck crew), the general measures at Air France represented an average increase of 0.86% for 2010, plus individual salary increases in respect of merit, promotion and seniority (or an average increase of 3.0% for the ground staff and cabin crew present in 2009 and 2010). In 2010, flight deck crew salaries were affected by the decline 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.

The 2010 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 incentive payment for the 2009-10 financial year, the achievement of qualitative punctuality and service quality objectives enabled the payment of €8.24 million (€8.34 million in respect of the 2008-09 financial year) while, for the second year running, no profit-share was paid in respect of this financial year.

In order to give all 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 2010.

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

An Individual Employee Report accessible via the company intranet was introduced, offering every employee on a long-term contract in France a unique, confidential document setting out all the components of the overall employee compensation package provided by the company and showing the trend in their individual compensation and the amounts paid in respect of social security benefits.

Social dialogue

Air France is well aware of the constraints and risks to which the company is exposed and the need to accelerate its adaptation to change while preserving cohesion by fostering a high-quality workplace dialogue and pursuing a policy based on respect for individuals.

The Air France Voluntary Redundancy Plan was thus the subject of extensive consultation with the Corporate Works Council and the unions, and a widespread information campaign for employees.

Discussions were also held throughout the year on subjects ranging, notably, from the prevention of psychological and social risks to professional gender equality, teleworking and the role of seniors. Lastly the negotiations on the 2010 salary agreement resulted in its signature by a majority of the unions.

Health and safety

Protecting the safety of employees

Air France-KLM has made health and safety in the workplace a key priority which is supported by the top management and its importance emphasised in every sector of activity.

Despite a decline in the results this year representing a short-fall on the objectives (the frequency co-efficient standing at 4.6 at end 2010), Air France reaffirmed its commitment to reducing the frequency of work-related accidents in 2011.

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

Managing the reduction in work-related accidents

The company's top management renewed its commitment to reducing work-related accidents through the establishment of a series of detailed contractual targets for which individual entities are made accountable. Performance in terms of safety in the workplace is also a criterion for the variable portion of operational manager compensation. Projects are monitored by each of the Management Committees and regular status reports reviewed by Air France's Executive Committee.

Training and sharing experience to ensure better risk control

The deployment of best practices in terms of workplace health and safety is at the heart of the initiatives launched by Air France based on preventive procedures involving analytical tools and in-field management and support.

The management collectively attended the annual Health and Safety at Work convention during which 12 trophies for safety performance were awarded to the managers of operating entities, recognizing successful initiatives: an approach focused on at-risk sectors, safety initiatives spear-headed by safety point-people in the teams and regular safety briefings.

Particularly emphasis has been put on the feedback from experience across the company with the formalization of a lessons learnt process.

The process for managing workplace safety continued to be rolled out in flight operations and services, as well as the international commercial operations.

Additionally, training in the prevention of musculoskeletal disorders adapted to the operating activity is deployed in sectors such as logistics operations, freight, engine maintenance and baggage loading. These initiatives were highlighted at a special *Preventing Musculoskeletal Disorders at Air France* symposium organized in 2010.

Improving the quality of life and health in the workplace

The three-year agreement on the method and prevention of psychological and social risks and promoting quality of life in the workplace, unanimously signed by the unions in 2010, encourages a multi-disciplinary, interactive, localized approach mobilizing all the players from employees and managers to the human resources network, company medical teams, social assistants, union bodies and workplace health and safety committees (CHSCTs).

In 2010, a major campaign was launched for the prevention of psychological and social risks that took a number of forms ranging from an employee forum to a benchmark symposium and training program. Between May 2010 and February 2011, some 570 individuals thus benefited from training.

Training

Continuously increasing the level of skills across the company is a major priority. Training not only helps fill any shortages of people with the required skills but also enables the career-long capitalization of expertise and supports professional changes.

In response to the economic crisis impacting the air transport industry since 2008, Air France has increasingly put the emphasis on developing the employability of its employees.

In 2010, Air France continued to adapt its training offer to support changes in products, the company's organization and professional roles while focusing on building increasingly-personalized career paths.

The company managed to maintain a high level of investment in training representing some 8.35% of the payroll, with an access to training rate of more than 90% for all its employees.

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*).

The e-learning offer is deployed, in particular, through management training and joint Air France-KLM programs.

In 2010, the highlights were:

- more than €215 million invested in training: some €79 million for ground staff, over €89 million for flight deck crew and around €47 million for cabin crew;
- a volume of 1,743,993 hours of training, of which 939,861 for ground staff, 457,523 for cabin crew and 346,609 for flight deck crew;
- a DIF access rate of more than 10% for employees as a whole (7.5% en 2009) and 15% for ground staff;
- the mobilization of human resources in support of some 21 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), leading to more than 173 individuals working towards VAEs since 2007 including 94 approved in full;
- a continued high level of vocational training to support ongoing employability, with 1,273 new applications made in 2010, of which 1,106 ground staff, 105 cabin crew and 62 flight deck crew.

At the end of 2010, the ISO 9001 certification of the Training Campus was renewed, testifying to Air France's commitment to the quality of these activities.

Fostering equal opportunity and combating discrimination

Fostering equal opportunity and promoting diversity

Consistent with the commitments made in the Air France-KLM group's Social Rights and Ethics Charter, Air France pursues an employment policy based on vocational integration, respecting equal opportunity, preventing discrimination and promoting diversity to reflect that of society.

As a testament to this commitment, the French airline announced plans to apply for the Diversity Label which is awarded to companies setting exemplary standards in this area. Within this framework, an audit was launched 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.

Recruitment: equal opportunity and a commitment to internship

This equal opportunity commitment 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 liable to use the selection tools, consult job application files or access confidential information is required 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 practices for the profession. In 2008, it was extended to internal selection personnel.

In November 2010, to ensure the management and quality of the recruitment processes, the ISO 9001 certification was renewed for a three-year period and extended to the internal selection activities. The guarantee provided by this certification ensures, in particular, that the compliance guidelines are respected.

Despite the crisis, Air France continues to assume its responsibility vis-à-vis young entrants to the employment market.

The company effectively chose to maintain its cooperation with the French Department of Education through, notably, its internship policy. On November 1, 2010, there were 253 interns, mostly based in the Maintenance and Logistics areas.

The implementation of the 5th Internship Charter for the 2008-11 period resulted in the recruitment of 272 people on apprenticeship and internship contracts in 2010 despite the challenging context.

The recruitment program for young executives was also pursued (33) and the link between the company and the educational world maintained through partnerships with schools and universities. Partnering the *New Careers* Chair at Rouen Business School has offered Air France the opportunity to learn more about career issues as workers retire later in life, the diversity of the jobs it offers, employee demographics and the development of internal mobility.

Professional gender equality

Professional equality between men and women is a issue on which Air France would like to make progress by way of a constructive workplace dialogue.

The third three-year Gender Equality Agreement, unanimously signed by all the unions representing employees across the company, has been in force since January 1, 2011.

This agreement continues the action launched some ten years ago to make workplace gender equality a key priority for the company and an area requiring progress in terms of human resources management.

It is organized around three main objectives: define a shared methodology to quantify professional and salary equality, guarantee equality of opportunity and treatment in human resources practices and submit concrete proposals in terms of the interaction between employees' professional/personal lives. The Agreement also provides for employee access via the intranet to information from the annual report on the relative situation of men and women. The pay equalization measures which concerned 543 women in 2010 were again applied. Support for associations promoting equal opportunity was also reaffirmed, as were a number of measures enabling employees with young children to organize their professional lives more effectively around their family responsibilities.

Furthermore, to ensure respect of equal treatment for men and women, a series of male-female comparative indicators have been built into the monitoring of human resources policies and management processes (training, careers, occupational safety, remuneration, etc.).

In 2010, women represented some 45% of the total workforce in France.

Policy on disability

With a twenty-year commitment to an ambitious policy on disability and despite the various measures implemented to withstand the unprecedented economic crisis impacting the air transport industry, Air France actively pursued its efforts on the integration and maintained employment of disabled persons. Despite the natural departures of employees with disabilities (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 increased (1,572 in 2010 versus 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 employees with disabilities over three years, with 25 employees with disabilities having been recruited in 2010.

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 2010, spending amounted to €12 million, or the equivalent of 560 indirect jobs. All these elements contributed to increasing the regulatory disabled employment quota in France from 3.58% in 2009 to 3.92% in 2010.

In 2010, Air France also invested €2.5 million of the budget earmarked in its disability agreement, of which 58% in programs aimed at maintained employment and 6% in awareness raising initiatives.

Corporate Social Responsibility and the vocational integration of young people

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 by contributing to the development of skills.

Through a network of associations that it has established, Air France pursues initiatives to promote equal opportunity around a regional dynamic for access to employment:

- *AirEmploi*, an association offering information about career openings and training courses in the air transport and aeronautical professions, in 2009 launched a program specifically addressed at young women to raise their awareness of opportunities in the maintenance professions
- *JEREMY* or *Jeunes en Recherche d'Emploi à Roissy et Orly*, promotes the vocational integration of unskilled young people who are excluded from the workplace through a scheme combining training with professional experience and social support.

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

Furthermore, 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.

Air France is active in developing the regions in which it has operations. For example, 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.

4.1.3 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. KLM is constantly adapting to the new constraints and challenges of the air transport sector and this policy of change management implies a culture of mobility. Geographical and professional mobility and recourse to additional vocational training are all ways for employees to acquire new skills and develop their employability.

Maintaining employment and mobility

Throughout 2010, employees mobilized around the common solidarity goal of *keeping the family together* to avoid any compulsory redundancies.

The freeze on external hiring remained intact for much of the year with job openings being filled by internal transfers, thus limiting the need to hire from outside the company. Over 2010 as a whole, 254 posts were successfully filled with internal candidates amongst existing employees within KLM and its subsidiaries.

In order to contend with peak periods in certain areas of operations, KLM pursued its policy of temporary internal transfers, enabling employees to become more familiar with other roles within the company. Given the positive results, KLM decided to maintain this *Solidair* initiative offering employees the opportunity for internal secondments throughout the year and, particularly, during times of operational crises such as during the volcanic crisis of April 2010 and the period of heavy snowfall in December.

Organization of working time

In the Netherlands, part-time working is very widespread. In 2010, the proportion of employees working part time increased slightly to 40.6 per cent. Working part time was encouraged as a way to both secure employment and reduce costs.

Compensation policy

With the economic situation remaining uncertain, KLM and the unions once again opted for a collective labor agreement lasting just 18 months to October 2011. The agreement includes a commitment by KLM to avoiding redundancies as far as possible in return for modest salary increases. On April 1, 2011, salaries were increased by 1.25% to be followed by an additional 0.5% in September 2011.

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

In 2010, KLM's constructive relations with the unions were symbolized by the presentation, by Mr Evert van Zwol, head of the Dutch airline pilots' union, of a tulip tree to Mr Peter Hartman, President and CEO of KLM, who stressed how cooperation with the unions is a deeply-rooted part of the company's culture.

With the existing collective labor agreements being limited in scope, new negotiations took place on other matters considered important by both the unions and KLM, resulting in a number of proposals on, for example, training and rostering.

Health and safety in the workplace

KLM has had *Safety Champions* (managers tasked with promoting safety in the workplace) in place since last year and this year prizes were awarded for the most original safety ideas. Five employees were thus awarded a 2010 Safety Award for outstanding achievements or innovative ideas that contributed to improving safety. The KLM *Never Compromise on Safety* campaign remained fully operational in 2010.

The Safety and Quality Board, chaired by Mr Van Dorst, Executive Vice President of Flight Operations, requested the modification of data reports on safety and accidents, which now include data on outstations and the number of hours worked.

In cooperation with KLM Health Services, KLM's Commercial Division launched a *Dealing with Stress* workshop for employees in the Netherlands and based internationally. Similar approaches have also been adopted by other divisions.

The company's commitment to promoting healthy life styles continued in 2010 via support for the 1,100 KLM employees taking part in the Amsterdam to Zaandam 16-kilometer run and the sports centers based within KLM.

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 projects have yet to be completed, the program has so far received some very positive feedback from participants and other employees.

Professional equality

The Air France-KLM group's commitments to equal opportunity for all employees, promoting diversity and combating all forms of discrimination are outlined in the Social Rights and Ethics Charter.

In 2010, KLM set up a network for homosexual, bisexual and transgender employees to promote the integration of these employees and enable their specific needs to be taken into account through a dialogue with human resources and a communication campaign. The network is also linked to the networks of other Dutch companies through the *Company Pride Platform*.

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 potential 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 the Netherlands, companies are financially responsible for their employees who become disabled for a two-year period and, since 2010, KLM has extended this period to twelve years.

In keeping with Dutch legislation, the number of employees with disabilities declined to 641 in 2010 compared with 713 in 2009 due to the new narrower legal definition of disability. KLM renewed its policy of supporting employees returning to work after sick leave in close cooperation with the Works Council.

An Advisory Committee was also set up to support the monitoring of these measures and propose improvements.

Corporate social responsibility at local level

- Alders Table: KLM is committed to maintaining a regular dialogue with local inhabitants and representatives at Alderstafel meeting and through its involvement in the Schiphol Regional Review Board (CROS). On August 18, 2010, within the Alderstafel framework, an agreement was reached with local inhabitants, Dutch Ministry representatives and air transport professionals on development that takes into account both the change in aircraft movements and a commitment to reducing noise disturbance.
- 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).
- RCO: KLM continues to invest in education programs through Regional Education Centers (ROC). ROC Amsterdam and the Engine Services Division jointly offer gas turbine mechanic and sheet metalwork training while KLM also assists by certifying skills and offering internships. KLM provides professional training for careers in aircraft maintenance at two schools with a two-year contract as a mechanic at the end of the course. At Global Start, an organization offering support to young people who drop out of school, training is offered in Information and communication technologies.
- Landschap Noord-Holland: In 2010 KLM started a 3 year partnership with Landschap Noord-Holland Foundation as part of the KLM Destination Nature Program. Destination Nature actively supports nature conservation and biodiversity in the territories served by KLM. This partnership aims to contribute to the sustainable development of the Schiphol, Noord Holland region. Amongst the Foundation's many projects, KLM has specifically 'adopted' Ilperveld. This beautiful area of reclaimed land, which has existed since the eleventh century, is a stunning example of Dutch water management as well as being rich in bird and plant life.

4.2 Social indicators for the Group

4.2.1 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM group's social performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 800/2004).

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √ in the tables on pages 86 to 91. They are the subject of verification with a limited level of assurance[(1)].

Reporting scope

The Air France-KLM group's social reporting consolidation scope is based on the number of employees (expressed as headcount) on the payroll at the end of the calendar year.

The NRE reporting scope covers 96% of the average employees in the Air France-KLM group at the end of the calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group has at least 50% control, whose acquisition dates back at least one full year and which have at least 300 employees are included in this NRE social reporting scope.

Note that the number of employees for Air France and KLM comprises their entire workforce including staff employed internationally.

The number of employees for the subsidiaries of Air France and KLM comprise only all their employees located respectively in France and the Netherlands, with the exception of CityJet and VLM all of whose employees are included.

- For 2010, the Air France consolidated subsidiaries are: BlueLink, Brit Air, CityJet, VLM, CRMA, Régional, Servair group (ACNA, Bruno Pegorier, OAT, Servair SA, CPA, Passerelle and Base Handling), Sodexi and Transavia France, representing 76% of the employees of the subsidiaries in the Air France group (average employees in full time equivalent).
  In 2010, this scope was extended to two new subsidiaries: Base Handling and Passerelle (in the Servair group).
- For 2010, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 93% of the employees in the subsidiaries of the KLM group (average employees in full time equivalent).
  In 2010, the reporting scope of the KLM subsidiaries was changed with the withdrawal of two subsidiaries, KES (KLM Equipment Services) and KHS (KLM Health Services) due to the fall in the number of employees in these subsidiaries to below the 300 threshold required for the reporting of the NRE social data.

The reporting period for the Group's social data is based on the calendar year to ensure consistency with the social performance indicators of other French companies. Note that the reporting of financial information is based on the IATA year (April 1 to March 31).

Reporting tools

The indicators are compiled and consolidated using the Osyris software package developed by the company Enablon and deployed across the entire reporting scope. The reliability of the reporting process is supported by precise definitions of each indicator and user guides for contributors to the Osyris tool, available in both French and English. Consistency tests have also been incorporated within the tool. The data is verified and approved locally at the level of each subsidiary by a local verifier who is responsible for the HR statistical data.

This system is supplemented by a general reporting procedure which defines the process for compiling, calculating and consolidating the indicators, based on an instruction memorandum circulated by the Air France-KLM group's Finance Division.

The consolidation of the Air France-KLM group's social data is carried out by Air France's Sustainable Development department.

(1) The review work was conducted in accordance with the International Standard on Assurance Engagements (ISAE 3000), specific to the verification of extra-financial data.

Details and methodology/Commentary on changes in the indicators

The notes below refer to the references in the tables on pages 86 to 81.

Consolidated NRE social data for the Air France-KLM group table

This table presents the indicators relating to employees, recruitment, departures, the proportion of women employees and those working part time. These indicators are consolidated at the level of the Air France-KLM group.

Employees

Note 1: Number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) at December 31 in the reference year. In 2010, the Group's reporting scope was extended to include two new subsidiaries in the Servair group: Base Handling and Passerelle, *i.e.* 611 FTE employees (Full Time Equivalent). Two KLM subsidiaries were withdrawn from the reporting scope due to the fall in the number of employees to below the 300 threshold: KES (KLM Equipment Services) and KHS (KLM Health Services), *i.e.* 432 FTE employees (Full Time Equivalent).

Note 2: Expatriate staff are included in the total number of employees.

The number of Air France-KLM group employees fell by 2.3%, the result of all the measures taken in response to the economic crisis such as the hiring freeze or the review of posts to establish whether or not replacements would be appointed in the event of departures. A voluntary redundancy plan for Air France ground staff was also deployed across the French scope.

The number of KLM employees declined in 2010 given the ongoing measures aimed at freezing recruitment. There were no new hires to fill the posts falling vacant due to retirement departures or resignations, unless required for reasons of departmental continuity. In certain cases, permanent contracts were offered to employees having reached the end of a second fixed contract within KLM.

Note 3: Employees on permanent contracts are calculated excluding expatriate staff.

Recruitment on permanent contracts

The indicator concerns only employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on a fixed-term contract transferring to a permanent contract during the year.

For KLM, only employees recruited directly on a permanent contract are taken into account.

Recruitment on fixed-term contracts

This indicator was added to the reporting in 2010. At KLM, some of the recruitment on fixed-term contracts was justified by the fact that, in certain cases, the occupancy of the post was vital but the financial situation did not enable the company to guarantee employment on a permanent contract.

Departures

Note 4: The other departures indicator has been added for the 2010 reporting and notably includes expected retirement departures, the non-renewal of contracts during the trial period and departures linked to the voluntary redundancy plan.

For Air France, a significant number of departures for other reasons is linked to the voluntary redundancy plan for ground staff across the French scope.

For KLM, the employment situation looks to be stabilizing given the economic environment and the specific situation of air transport.

Percentage of women; Organization of working time

Note 5: The indicators linked with the proportion of women and the organization of working time include both permanent and fixed-term contracts at December 31 of the reference year.

Other social data tables

The indicators reported in the other social data tables are subject **to different qualification and legal reporting obligations in France and the Netherlands**, which means they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the reporting scope section above.

Health and safety in the workplace – Absenteeism

Cases of barometric otitis and musculoskeletal disorders are recorded as work-related accidents in France and represent a significant number of the work-related accidents reported by Air France in 2010, whereas they are recorded as sick leave by KLM, pursuant to Dutch law.

Air France

The absenteeism rates are calculated via a ratio based on the hours of absence divided by the hours theoretically worked.

Note 1: The increase in the rate of absenteeism is mostly linked to a more detailed calculation of the hours worked by flight crew from which, as of 2010, statutory holidays have been deducted.

KLM

Note 1: The calculation method was changed in 2010 in order to come into line with that of the government body responsible for recording the national rate of absenteeism (Centraal Bureau voor de Statistiek) and includes the monitoring procedures to protect the quality of recorded data, which led to a slight increase in the rate of absenteeism.

A calculation error was also noticed in the rate of absenteeism in the previous years: the data prior to 2010 should be around 17% higher than the reported figures.

Health and safety – work-related accidents

There are significant differences in reporting methods for work-related accidents between France and the Netherlands (see paragraph on absenteeism).

Air France

Air France's definition of workplace accidents with days lost is in line with the definition under French law (at least one day of absence from work).

After a significant decline in work-related accidents in recent years, there was an increase in 2010.

In 2011, the future results will be supported by a major managerial initiative including the deployment of a safety in the workplace status report in the Management Committees, team meetings and briefings, together with an action plan based on the sharing of best practices in the prevention of work-related accidents.

Note 2: The frequency and severity rates are calculated based on:

- For ground staff, the actual paid hours worked.
- For flight crews, the hours of *commitment*, corresponding to the number of hours of exposure to occupational risks within the framework of their activity on the ground and in flight.

The increase in the frequency and severity rates between 2009 and 2010 is mostly explained by the change in reporting methodology for the hours worked by ground staff (theoretical hours worked in 2009 versus paid hours worked in 2010).

KLM and KLM subsidiaries

The frequency and severity rates are calculated based on the theoretical hours worked.

KLM subsidiaries

Note 3: Linked to the lack of homogeneity in the process for monitoring the data, the health and safety data of the KLM subsidiaries are calculated without the Cobalt Ground Solutions subsidiary.

Training

Air France and Air France subsidiaries

Note 3: The *Percentage of payroll devoted to training* indicator corresponds to the overall costs linked to professional training (payroll relating to staff immobilized by training, fixed functioning costs, external costs, accommodation, mandatory payments, etc.) as a proportion of the total payroll. These estimated costs are reported in the 2483 French Regulatory Declaration relating to company contributions to training.

The *Number of training hours by employee* and *Participation rate* indicators are calculated based on all the training sessions, independently of whether or not their nature requires them to be included in the 2483 French Regulatory Declaration.

In 2010, following the hiring freeze, the reduction in the number of employees and the optimization of the training offer, the need for internal training was reduced.

The number of ground staff transferring to cabin crew positions also declined (200 hours of training per transfer).

For flight deck crew, each change of aircraft type involves specific training. The fall in recruitment and internal mobility led to a reduction in new aircraft qualifications meaning a significant fall in training hours.

Due to an increase in the level of activity in production centers such as call centers linked to a several instances of major operating disruption (volcanic eruption in April 2010, heavy snowfall in December 2010, etc.) some of the training foreseen in the training plan could not be carried out.

Note 5: the data for the Air France subsidiaries have been calculated without Transavia France.

KLM and KLM subsidiaries

KLM does not currently have a centralized reporting system solely for the costs of training in KLM and its subsidiaries although this indicator is now reported. Note that the disclosure of this information is not required by Dutch law.

Note 4: KLM and its subsidiaries have reported data on the costs relating to professional training since 2009. This year, the *Percentage of total payroll devoted to training* indicator has been added to the training indicators reported.

Over 2010 as a whole, the cost of vocational training increased, showing that KLM has not sought to save money in this area.

Disabled staff

Air France and Air France subsidiaries

For Air France, the number of disabled employees reported corresponds to those for whom a valid certificate, pursuant to French law (DOETH [2]), is available, whatever their ability to perform the tasks involved in their position. Note that the data for international employees is reported based on local legislation.

Note 4: For Air France: the increase in the number of employees with disabilities and the disabled employment rate at Air France is notably explained by significantly higher recourse to the protected sector. The number of employees with disabilities remained stable despite the retirement departures; thirty employees were recruited despite the external hiring freeze in application of the 2009-11 three-year agreement.

Note that the number of employees with disabilities corresponds to the number of permanent and fixed-term contracts signed during the year; an employee recruited on a fixed-term contract who then transfers to a permanent contract during the year will be reported twice.

Note 6: For the Air France subsidiaries: The increase in the number of employees with disabilities in the subsidiaries is explained by the increase in the reporting scope and by a pro-active policy on the hiring of persons with disabilities, particularly at the Servair group which has signed a specific agreement in this regard.

KLM and KLM subsidiaries

For KLM, an individual is considered to be disabled if unable to carry out his or her work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to State benefits to compensate for the possible difference.

Note 2: Due to a change in Dutch law, the number of disabled employees working for KLM declined between 2009 and 2010.

The data for the KLM subsidiaries have been calculated without Martinair.

Collective agreements signed

The agreements signed were verified for the first time in 2010.

In 2010, KLM signed a protocol covering three new collective agreements which will expire in September 2011.

(2) Déclaration annuelle Obligatoire d'Emploi des Travailleurs Handicapés or annual declaration mandatory under French law.

4.2.2 Consolidated social data for the Air France-KLM group

NRE social data (1)	Air France-KLM group				Air France group*				KLM group**			
Headcount at 12/31 (permanent contracts and fixed-term contracts)	**2008**	**2009**	**2010**	**2010-09**	**Total Air France group 2009**	**Total Air France group 2010**	**Of which Air France 2009**	**Of which Air France 2010**	**Total KLM group 2009**	**Total KLM group 2010**	**Of which KLM 2009**	**Of which KLM 2010**
Scope of NRE social reporting √	**96%**	**96%**	**96%**	**0.0%**	**95%**	**95%**	**100%**	**100%**	**99%**	**98%**	**100%**	**100%**
Total staff √ (2)	110,878	108,367	105,928	-2.3%	72,191	70,722	60,686	58,485	36,176	35,206	28,700	28,383
Ground staff	75,668	73,015	70,747	-3.1%	50,333	48,979	41,333	39,228	22,682	21,768	17,668	17,236
Cabin crew	26,308	26,121	26,144	0.1%	16,290	16,297	15,081	15,083	9,831	9,847	8,325	8,491
Flight deck crew	8,902	9,231	9,037	-2.1%	5,568	5,446	4,272	4,174	3,663	3,591	2,707	2,656
Staff under permanent contract √ (3)	104,601	104,425	102,045	-2.3%	70,342	68,727	59,506	57,336	34,083	33,318	27,700	27,392
Recruitment under permanent contract												
Ground staff	2,594	1,315	1,202	-9%	819	901	440	453	499	301	169	143
Cabin crew	995	111	124	12%	99	52	99	7	12	72	12	70
Flight deck crew	691	136	57	-58%	133	57	114	37	3	0	3	0
Total √	**4,280**	**1,562**	**1,383**	**-11%**	**1,051**	**1,010**	**653**	**497**	**514**	**373**	**184**	**213**
Recruitment under fixed-term contract √	**N.A.**	**N.A.**	**3,084**		**N.A.**	**2,432**	**N.A.**	**623**	**N.A.**	**652**	**N.A.**	**248**
Departures												
Ground staff	4,804	6,232	6,826	10%	4,303	5,448	2,665	3,533	1,929	1,378	1,089	765
Cabin crew	1,047	1,435	1,709	19%	737	880	628	678	698	829	189	251
Flight deck crew	355	246	281	14%	181	211	151	168	65	70	50	50

*√ **Indicators verified by KPMG for 2010 (limited level of assurance).***

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

Air France subsidiaries: *Brit Air, BlueLink, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and Servair group: ACNA, Bruno Pegorier, OAT, Servair SA, CPA, Passerelle, Base Handling.*

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

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

N.A.: Not available.

NRE social data (1)	Air France-KLM group				Air France group*				KLM group**			
					Total Air France group		Of which Air France		Total KLM group		Of which KLM	
Headcount at 12/31 (permanent contracts and fixed-term contracts)	2008	2009	2010	2010-09	2009	2010	2009	2010	2009	2010	2009	2010
Total Departures √ (4)	**6,206**	**7,913**	**8,816**	**11%**	**5,221**	**6,539**	**3,444**	**4,379**	**2,692**	**2,277**	**1,328**	**1,066**
of which resignations √	3,011	1,795	1,728	-4%	736	744	534	525	1,059	984	662	439
of which redundancies (incl. Economic) √	1,208	1,177	662	-44%	631	448	374	263	546	214	89	52
of which retirement √	1,852	1,644	1,583	-4%	1,286	1,186	1,099	1,132	358	397	326	370
of which deaths √	135	155	129	-17%	114	95	100	85	41	34	34	27
of which other departures √	N.A.	N.A.	4,714		N.A.	4,066	N.A.	2,374	N.A.	648	N.A.	178
Percentage of women at 12/31 √ (5)	**42.9%**	**42.6%**	**42.5%**	**-0.1%**	**43.0%**	**43.0%**	**44.4%**	**44.6%**	**41.6%**	**41.6%**	**42.0%**	**42.7%**
Ground staff	37.0%	36.8%	36.4%	-1.0%	39.9%	39.6%	40.9%	40.8%	29.9%	29.2%	28.7%	28.8%
Cabin crew	72.2%	71.8%	71.9%	0.2%	65.4%	65.5%	64.7%	64.8%	82.3%	82.4%	82.3%	82.7%
Flight deck crew	5.5%	5.5%	5.6%	1.3%	6.2%	6.4%	6.7%	6.8%	4.5%	4.4%	4.2%	4.2%
Part time employment at 12/31 (5)												
Percentage of female part-time employees √	39.9%	42.2%	42.6%	1.0%	32.7%	33.2%	35.2%	35.7%	61.6%	62.0%	64.5%	64.5%
Percentage of male part-time employees √	10.1%	10.3%	10.9%	5.2%	7.0%	7.5%	7.5%	8.0%	16.8%	17.4%	16.7%	17.2%
Percentage of part time employees √	**22.9%**	**23.9%**	**24.4%**	**2.2%**	**18.1%**	**18.6%**	**19.8%**	**20.3%**	**35.4%**	**36.0%**	**36.7%**	**37.4%**

√ ***Indicators verified by KPMG for 2010 (limited level of assurance).***

* ***Air France group:*** *Air France and Air France subsidiaries.*
Air France subsidiaries: *Brit Air, BlueLink, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and Servair group: ACNA, Bruno Pegorier, OAT, Servair SA, CPA, Passerelle, Base Handling.*

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

N.A.: Not available.

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

Air France (100% of the staff headcount, registered and paid at the end of the calendar year)*

	2009	2010	2010-09
Absenteeism (1)			
Due to illness			
Ground staff √	*2.9%*	*3.3%*	13%
Cabin crew √	*4.6%*	*5.8%*	28%
Flight deck crew √	*1.8%*	*2.3%*	27%
Due to work accidents			
Ground staff √	*0.5%*	*0.5%*	17%
Cabin crew √	*0.7%*	*0.8%*	27%
Flight deck crew √	*0.3%*	*0.2%*	-28%
Maternity leave			
Ground staff √	*0.7%*	*0.8%*	12%
Cabin crew √	*2.5%*	*3.5%*	42%
Flight deck crew √	*0.3%*	*0.4%*	32%
Health and safety			
Total workplace accidents √	2,388	2,454	3%
Number of fatal workplace accidents √	13	2	-85%
Frequency rate of workplace accidents √ (2)	*26.62*	*29.14*	9%
Severity rate of workplace accidents √ (2)	*0.95*	*1.05*	11%
Training (3)			
Percentage of total payroll devoted to training √	***8.7%***	***8.4%***	**-4%**
Ground staff √	*5.6%*	*5.6%*	0%
Cabin crew √	*9.2%*	*8.8%*	-4%
Flight deck crew √	*15.3%*	*14.2%*	-7%
Number of training hours by employee √	**34**	**31**	**-10%**
Ground staff √	27	25	-6%
Cabin crew √	37	31	-17%
Flight deck crew √	96	82	-15%
Participation rate (number of agents trained/workforce) √	**92%**	**90%**	**-2%**
Ground staff √	88%	86%	-2%
Cabin crew √	100%	100%	0%
Flight deck crew √	100%	100%	0%
Disabled staff (4)			
Total staff with disabilities √	1,447	1,602	11%
Ratio of disabled staff (under French law) √	*3.58%*	*3.92%*	9%
Total staff with disabilities recruited during year √	*7*	30	329%
Collective agreements √	**16**	**19**	

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

Air France subsidiaries

	2009	2010	2010-09
Scope of reporting for Air France subsidiaries	**73%**	**76%**	**4%**
Health and safety			
Total workplace accidents √	931	944	1%
Training (3) (5)			
Participation rate (number of agents trained/workforce) √	**90%**	**96%**	**7%**
Ground staff √	88%	96%	9%
Cabin crew √	92%	97%	5%
Flight deck crew √	99%	98%	-1%
Number of training hours by employee √	**25**	**24**	**-2%**
Ground staff √	19	19	0%
Cabin crew √	30	31	3%
Flight deck crew √	60	55	-8%
Disabled staff (6)			
Total staff with disabilities √	385	434	13%
Total staff with disabilities recruited during the year √	38	47	24%
Collective agreements √	**35**	**25**	

√ Indicators verified by KPMG for 2010 (limited level of assurance).

4.2.4 Other data for KLM (according to local legislation)

KLM (100% of the staff headcount, registered and paid at the end of the calendar year)*

Absenteeism (1)	2009	2010	2010-09
Due to illness			
Ground staff √	4.9%	6.7%	37%
Cabin crew √	5.8%	7.1%	22%
Flight deck crew √	3.6%	4.0%	11%
Maternity leave			
Ground staff √	0.2%	0.3%	40%
Cabin crew √	1.5%	1.7%	15%
Flight deck crew √	0.1%	0.1%	40%
Health and safety			
Total workplace accidents √	252	225	-11%
Number of fatal workplace accidents √	0	0	0%
Frequency rate for workplace accidents √	5.40	4.90	-9%
Severity rate of workplace accidents √	0.19	0.24	26%
Disabled staff			
Total staff with disabilities √ (2)	713	641	-10%
Training (4)			
% of wage bill devoted to training	N.A.	3.2%	
Total training costs in K€ √	***60,847***	***62,667***	3%
Total training costs in € per full time equivalent √	2,500	2,645	6%
Collective agreements √	**3**	**3**	

* *KLM: data concerns KLM without international staff.*
N.A.: Not available.

KLM Subsidiaries

	2009	2010	2010-09
Scope of reporting for KLM subsidiaries	***97%***	***93%***	***-4%***
Health and safety (3)			
Total workplace accidents √	149	199	34%
Number of fatal workplace accidents √	0	0	0%
Frequency rate for workplace accidents √	10.34	27.64	167%
Severity rate of workplace accidents √	0.16	0.19	19%
Disabled staff			
Total staff with disabilities √ (2)	76	66	-13%
Training (4)			
% of wage bill devoted to training	N.A.	4.2%	
Total training costs in K€ √	18,054	22,584	25%
Total training costs in € per full time equivalent √	2,143	2,782	30%
Collective agreements √	**6**	**11**	

√ Indicators verified by KPMG for 2010 (limited level of assurance).

N.A.: not available.

4.3 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 [(1)].

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, aimed at pursuing and increasing the efforts towards air transportation that is increasingly respectful of the environment.

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 closely coordinate their activities, collectively establishing the Group's environmental strategy and working together on a wide range of issues. In particular, they carry out a common environmental reporting process through the Group's Corporate Social Responsibility Report.

Air France's Environment and Sustainable Development Division 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 division of the company is responsible for applying the environmental policy thus defined and for regulatory compliance, supported by the Quality-Safety-Environment network.

The Environment and Sustainable Development Division ensures the consistency of the action plans in the entities and coordinates the environment network in which the Air France subsidiaries participate.

Each division 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.

For KLM, the Executive Committee (EXCOM) approves the company's environmental policy and the related environmental action plans.

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

In view of the ISO 14001 certification, every KLM department reports on regulatory compliance and the environmental impact of its activities through the CSR program during meetings organized by the Corporate Social Responsibility and Environmental Strategy department.

All the departments have their own environmental coordinators who report to the Quality Managers and EXCOM members who are themselves members of the Operational Safety & Environment Board which is responsible for controlling environmental compliance and performance.

Environmental management/ISO 14001 certification

Air France and KLM have established their own Environmental Management Systems based on the ISO 14001 standard, itself based on the principle of continuous improvement (Deming total quality model): plan the objectives, do (implement), check and management review. For each entity of the company, the processes are identified, planned, monitored and verified. There are also a series of internal and external audits to monitor the effectiveness of the Environmental Management System.

In July 2008, Air France obtained ISO 14001 certification for all its Continental France ground operations and all its flight operations for a three-year period.

(1) For more details please see the Air France-KLM group's Corporate Social Responsibility Report at http://corporate.airfrance.fr.

KLM has deployed its 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 while those of Martinair and Transavia.com are also partly included.

Managing environmental risks

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 database) which records environmental incidents, enabling risk prevention plans to be established and implemented at Group level.

See also *Risks relating to the environment* in Section 3 *Risk factors and their management*.

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

The monitoring of environmental regulations is covered by a specialized tool. Every division has a clear vision of the regulatory texts that are applicable in their individual cases. Any cases of non-compliance arising from the evaluation questionnaires are formalized and dealt with by an action plan. The CRMA, Régional and Brit Air subsidiaries have their own tools but may join the company's system in the future.

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, verification 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.).

KLM manages and reports its sustainable development indicators (including the environmental indicators) using the CaeSar database which is widely deployed across the company.

Since 2008, 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 indicators that are the most significant for air transport namely CO_2 emissions and fuel consumption in the air operations) and a limited level of assurance for the other indicators.

The environmental reporting procedure is outlined in an environmental instruction memorandum that is common to both Air France and KLM and is forwarded to the Group's Financial Communication department.

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 in which the aviation sector would make an ambitious, just and equitable contribution to the collective effort. The company continues to modernize its fleet, support aeronautics research and promote energy efficiency and the reduction in CO_2 emissions across the entire supply chain. It encourages employees to propose sustainable solutions to, for example, save fuel and mitigate 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. 2010 was the year for which the first mandatory declaration was made and verified for data on activity and emissions.

Activity (expressed in revenue ton-kilometers) reported by each operator in 2010 will serve as the calculation base for the allocation of their aviation quotas.

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

This regulation provides for an exemption for the use of sustainable biofuels[(1)]. Biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon footprint while guaranteeing supply security. They will be key to achieving Air France-KLM's reduction targets and those of the airline sector as a whole, which has no alternative to liquid fuel. Air France is thus partnering the demonstration project to produce biofuels from forestry waste being conducted by the CEA (French Atomic and Alternative Energies Commission). As of 2014, part of its production (2,000 tons/year) could power aircraft engines. Air France will also participate in Syndiese, the company responsible for the industrialization of this production.

On October 8, 2010 in Montreal, 190 member countries of the International Civil Aviation Organization (ICAO) adopted a resolution on the reduction in the sector's emissions, constituting a first at global level. This agreement includes a target to improve the energy efficiency of international aviation by an annual 2% through to 2050 and commits the sector to stabilizing its net emissions and to establishing a regulatory offsetting framework based on the market. Air France-KLM welcomes the adoption of this resolution which finally recognizes the need for a overall sector commitment to combating global warming.

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 the equality of treatment between operators in the Chicago Convention.

Air France-KLM activity participates in the work of the International Air Transport Association aimed at proposing operational solutions enabling the environmental targets adopted by the general assembly in 2009:

- by 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures);
- 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.

The clean-up phase at the Montaudran site is now over for Air France, its completion having been formally recognized by the regional commission for the environment, landscaping and housing (DREAL) in the Haute Garonne in the minutes of its meeting of November 17, 2009.

Measures taken to reduce water consumption

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

KLM has reduced its water consumption in recent years thanks to a series of similar measures.

The action undertaken to reduce water consumption includes 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.

(1) For further details see the Air France-KLM group Corporate Social Responsibility Report at http://corporate.airfrance.fr

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 to reduce fuel consumption. The company is also constantly 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 34% in 2007 and 60% by 2020. At end 2010, some 45% 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 participation alongside other major French companies in a common call to tender for the acquisition of registered electric vehicles will enable Air France to replace its light vehicles in the Ile de France with 600 electric vehicles between 2012 and 2014.

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 all these new buildings.

Air France has deployed a company travel plan in the Ile de France, which proposes solutions aimed at contributing to the reduction in pollutant emissions arising from the journeys employees make between their homes and workplaces. This year the plan took on a new dimension with the signature of an Inter-Company Travel Plan at Roissy.

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 KLM buildings in the Netherlands, 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.

Measures taken to reduce the impact on the biological equilibrium

The effluents released from the Air France and KLM maintenance operations are the subject of regular checks in order to ensure that the thresholds defined by the prefectural decrees are fully respected for each of their sites. The main effluents monitored are pH, nitrogen, phosphorus, metals, COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand).

Training and information for employees

The Air France-KLM group's in-house communication on its environmental information is ensured through a number of different channels:

- The Group has launched a company project based on a series of sustainable development commitments with all levels of the company mobilized around this initiative in order to ensure that employees are kept fully informed.
- During its sustainable development week, Air France also organizes conferences and workshops on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs.
- A newsletter on sustainable development issues is regularly circulated within the company to keep employees in touch with the latest environmental news concerning Air France.
- An eco-design training module has been deployed within the company to develop this new skill in the target professions.
- For several years KLM has had a Corporate Social Responsibility café, where employees can cooperate on sustainable development matters.
- The environmental management system in the different Air France and KLM divisions and subsidiaries also raises the awareness of employees across the board on the need to reduce their environmental footprints.

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. The continuous descent approach has already been deployed at Marseilles and Orly and Air France will participate in the implementation at Roissy-CDG airport planned for 2011 in fulfilment of a commitment made at the French National Conference on the Environment.
- 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.

Air France has continued its investment effort by integrating its fourth A380 aircraft in the fleet. The A380 is currently the most advanced aircraft in terms of acoustic quality and it already meets the noise standards that will become mandatory as of 2020/25.

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 routes.

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.

Indemnities paid and actions carried out to repair environmental damage

In 2010, Air France paid €16.61 million in Airport Noise Tax (TNSA). The TNSA is a tax paid to the State for each departure from the ten largest French airports including Charles de Gaulle (€8.3 million) and Orly (€6.3 million), whose proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise.

Air France is committed to an ongoing dialogue with stakeholders.

Most French airports have established Environmental Advisory Committees (*Commissions Consultatives de l'Environnement* – CCE) that constitute a forum for dialogue on environmental and airport policies. Air France is supported by a network of regional representatives who take part in CCE meetings and regularly meet with all the different stakeholders.

In addition, Air France is actively involved in Advisory Committees for Resident Assistance (*Commissions Consultatives de l'Environnement* – CCAR) at airports subject to the noise tax, the CCARs being the bodies responsible for supervising the use of noise tax proceeds.

In 2010, KLM paid €25 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 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.

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).

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 section above. KLM's other significant expenditure is on waste (€3 million).

Amount of environmental indemnities paid as a result of legal rulings

Air France and KLM paid no environmental indemnities.

4.4 Environmental indicators for the Group

4.4.1 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

As of the 2007-08 financial year, the Group chose to have a selection of environmental indicators (indicated by the symbols √ and √√ verified by one of the Statutory Auditors, KPMG Audit, with the highest level of assurance, reasonable assurance[1], for fuel consumption and related CO_2 emissions for air operations (√√) and a limited level of assurance[1] for the other verified indicators (√).

Scope

Scope covered and scope N-1

For the air operations, the scope is identical to last year and covers:

- All the Air France commercial flights operated by Air France and its subsidiaries Brit Air, Régional and CityJet. The flights operated by Transavia France have been excluded;
- All the KLM commercial flights operated by KLM and its subsidiary KLM Cityhopper (KLC). In 2010, flights operated by subsidiaries Transavia and Martinair have been included in the indicators of total fuel consumed, and for CO_2 and SO_2 air emissions, excluding low altitude emissions;

For the ground operations, the consolidation scope for the environmental reporting includes:

- all the entities of Air France and KLM located, respectively, in France and the Netherlands. The international outstations are not taken into account.

For Air France, indicators in the domestic outstations are not reported when there is no detail available on the fixed charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data.

- Air France consolidated subsidiaries are: BritAir, Régional, CRMA, Sodexi and Servair and its subsidiaries (only the activities in France). VLM, BlueLink, Transavia France and CityJet are not included in the consolidation scope.

Concerning the Air France group, the reporting scope is based on worldwide premises representing 88% of the Group.

- KLM consolidated subsidiaries are KLC (KLM CityHopper), KES (KLM Equipment Services), KCS (KLM Catering Services) and KHS (KLM Health Services). Transavia (NL) and Martinair have been excluded from the KLM reporting scope for most of the indicators.

The reporting period for the Group's environmental data is based on the calendar year to ensure consistency with national figures for greenhouse gas emissions and French law, unlike financial reporting which is based on the IATA year (April 1 to March 31).

Reporting tools

The environmental indicators are assembled at local level via two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, which are available respectively at each Air France and KLM subsidiary.

The reliability of the reporting process is supported by definitions of each indicator and user guides for contributors available in both French and English. Consistency tests have also been implemented.

The consolidation of the Air France-KLM group's environmental data is carried out by the Air France Sustainable Development department.

(1) The review work was conducted in accordance with the International Standard on Assurance Engagement (ISAE 3000) specific to the verification of extra-financial data.

Details and methodology, comments on variations

At Air France-KLM group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document entitled the *Instruction Memo Environment*, which is updated annually. The assembly of data, calculation methodologies and operational consolidation are defined in procedures which are specific to Air France and KLM, but which are harmonized, insofar as local regulations permit.

Within the framework of an approach based on continuous improvement, the methodologies used for certain performance indicators have been more precisely defined. When these changes have a significant impact on the data, comparison with the figures for previous years is not relevant.

Air operations

CO_2 emissions

The decrease for the Group between 2009 and 2010 is proportional to the decrease in Jet Fuel consumption which is a consequence of the unfavorable economic context and the lower level of activity, as in 2009.

Note that the increase for the KLM group relates to the inclusion of the Transavia and Martinair subsidiaries in the 2010 emissions.

Note that there are differences between the scope of the CO_2 emissions and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), which do not enable a comparison.

SO_2 emissions

The calculation is based on the average sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms, which is applied to all fuel used during the year by KLM and Air France.

The decrease in SO_2 emissions for the Group between 2009 and 2010 is mainly due to a lower average sulphur content in the fuel supplied in 2010 compared to 2009.

NO_x and HC emissions

Total Emissions

Air France:

In 2009, a specific tool was developed to calculate the emissions of NO_x and HC more precisely.

Only emissions for Air France have been reported; the subsidiaries, included in the previous tool in 2008, will be included in the new tool in future.

The calculation methodology is based on the fuel flow 2 methodology by Boeing[(2)]. For more than 75% of the flights, recorded data has been used to calculate emissions specific to each flight. Emissions for other flights were estimated from the calculated average flight emissions. For these flights, a less precise estimation method was used in 2010 than in 2009. However, the impact on the published data is not significant.

The A380 and B777-300 leisure aircraft, which represent less than 0.5% of the Air France flights, are not currently taken into account in the tool.

KLM:

Two distinct methodologies are applied to calculate NO_x and HC emissions depending on the aircraft: the fuel flow methodology and the P3T3 methodology developed by General Electric. In previous years, KLM also reported jettisoned fuel in the HC emissions. With the increased harmonization of the Air France and KLM definitions, the 2008 and 2009 figures for HC emissions now exclude fuel jettison.

(2) Baughcum, S. L., et al. "Scheduled Civil Aircraft Emissions Inventories for 1992: Database Development and Analysis, Appendix D: Boeing Method 2 Fuel Flow Methodology Description". Report NASA CR 4700, The Boeing Company, April 1996.

Low altitude Emissions
The methodology used for the calculation of low altitude emissions is based on the LTO (Landing-Takeoff) cycle and on engine data communicated by the ICAO[3]. Taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology.

In-flight fuel jettison
An exceptional operation (approximately one flight in 10,000 in 2010) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded plane on landing whenever a flight is aborted. Each operation is effected in close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 2,000 meters).

Total noise energy
This indicator was implemented by the Air France-KLM group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[4]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

The figures are determined by comparing total noise energy calculated for the calendar year with that of 2000. The KLM figures for 2008 and 2009 have been updated following a correction in the calculation of the Global Noise Energy indicator.

Ground operations

Water consumption
The consumption of water is taken into account for all ground activities. Water used on board flights is not included. In previous years, KLM included part of the water taken on board but this was excluded in 2010.

Consumption of other energies
Only the energy consumption for heating and cooling was published in previous years. To be as exhaustive as possible, a new indicator was reported in 2010, including the different sources of energy consumed:

- Natural gas for heating buildings and cooking (catering activity in particular). The conversion factor of the quantity of gas used as energy is calculated by taking into account the quality of gas specific to France and the Netherlands. The consumption of gas increased by 25% between 2009 and 2010 for the Air France group, due to the cold winter and the inclusion of the Le Bourget entity for the first time in 2010.
- Superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) at the Orly and Roissy sites and is used, respectively, for heating and cooling. KLM is not concerned.
- Jet fuel A1 for testing engines.
- Domestic Fuel Oil (DFO) for power generators and ground support equipment.
- Petrol and diesel fuel for vehicles and coaches as well as for ground support equipment.

The increase between 2009 and 2010 is mainly due to the inclusion of these energy sources.

For now, the indicator for KLM group only includes energy consumption for heating and cooling but the scope of this indicator will be expanded in future to include other sources of energy in line with the new definition.

(3) International Civil Aviation Organization.

(4) French Civil Aviation Authority (Direction Générale de l'Aviation Civile).

Emissions from ground operations (CO_2, SO_2 and NO_X)

CO_2, SO_2 and NO_X emissions and their trends are relative to the energy consumption listed above.

For Air France, the sharp decrease in SO_2 emissions is due to a more precise calculation of the fuel consumed in power generators.

NO_X emissions related to engine testing are based on a similar methodology as the one used for flight operations which reflects the actual testing conditions.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used; VOCs contained in removed waste are excluded.

For Air France, the reporting scope has been extended to include third-party orders as well as paint kits. The increase between 2009 and 2010 is mainly due to a more precise estimation methodology to calculate the VOC contained in waste.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fuelling.

Hazardous industrial waste

The quantity of hazardous waste which has not been communicated by service providers at the end of the reporting campaign is not taken into account. This is, however, estimated to be marginal.

The nature of recovered hazardous waste is determined based on European regulation.

For Air France, the rate of hazardous waste recovered in 2009 has been updated due to a correction in a figure from a subsidiary.

For KLM, the percentage mentioned reflects hazardous waste that has been recovered for continued use of the substances. The sharp increase between 2009 and 2010 is due to a waste stream following an incident when extinguisher water was identified as hazardous by the waste contractor.

Effluents

Both Air France and KLM entities are required to comply with the regulations on effluents in each country. Each site has regulatory limits on effluents and the frequency of measurement.

Given the different thresholds and frequencies of measurement between one site or country and another, and due to the very variable readings depending on the measurement, the definition of the indicators has been modified. Since 2009, the number of times regulatory thresholds were exceeded relative to the number of measurements has been taken into account for each type of effluent.

Note that the reported data covers only the industrial activities of Air France and KLM. The subsidiaries are excluded.

For 2010, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements were, respectively:

- For Air France, 0/10 for Nitrogen compounds, 0/100 for Phosphorus compounds and 0/692 for metals.
- For KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 0/364 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.4.2 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
	NO_x low altitude (< 3,000 ft) √	000 tonnes
	SO_2 √	000 tonnes
	SO_2 low altitude (< 3 000 ft) √	000 tonnes
In-flight fuel jettison	Occurences of fuel jettison √	Number
	Fuel jettisoned √	tonnes
Other emissions	HC √	000 tonnes
	HC low altitude (< 3,000 ft) √	000 tonnes
Noise impact		
Global noise energy indicator √		10^{12} kJ

√ Figures verified by KPMG for 2010 (limited level of assurance).

√√ Figures verified by KPMG for 2010 (reasonable level of assurance).

(1) Perimeter Air France group: all flights under AF Code operated by Air France, Brit Air, Régional and CityJet. Flights operated by Transavia France are excluded.

(2) Perimeter KLM group: all flights operated by KLM and KLM Cityhopper. Transavia and Martinair are excluded for HC and NO_x emissions. They are included for the first time in 2010 for fuel consumption, CO_2 and SO_2 emissions (exception of low altitude emissions).

(3) The figures have been updated to enable some comparison between Air France and KLM (fuel jettisoned excluded from this category).

(4) The figures have been updated due to a mistake found in the Noise Energy calculation module.

Air France-KLM group				Air France group[1]				KLM group[2]			
2008	2009	2010	10/09	2008	2009	2010	10/09	2008	2009	2010	10/09
8,732	8,021	8,534	6.4%	5,511	5,036	4,860	-3.5%	3,221	2,985	3,674	23.1%
27,506	25,269	26,879	6.4%	17,360	15,865	15,308	-3.5%	10,146	9,404	11,571	23.0%
143.5	130.8	130.5	-0.2%	93.6	82.3	82.0	-0.4%	49.9	48.5	48.5	0.0%
8.9	8.9	8.7	-2.2%	6.5	6.2	6.1	-1.6%	2.4	2.7	2.6	-3.7%
14.925	12.902	10.158	-21.3%	10.108	7.720	6.551	-15.1%	4.817	5.182	3.607	-30.4%
1.084	1.089	0.712	-34.6%	0.794	0.741	0.521	-29.7%	0.290	0.348	0.191	-45.1%
47	51	39	-23.5%	32	33	27	-18.2%	15	18	12	-33.3%
1,804	1,979	1,679	-15.6%	1,184	1,381	1,180	-14.6%	620	595	491	-17.5%
2.8	3.6	3.3	-8.3%	1.6	2.6	2.4	-7.7%	1.2[3]	1.0[3]	0.9	-10.0%
1.1	1.0	0.8	-20.0%	0.8	0.7	0.6	-14.3%	0.3	0.3	0.2	-33.3%
1.87	1.74	1.65	-5.2%	1.27	1.18	1.10	-6.8%	0.60[4]	0.56[4]	0.55	-1.8%

4.4.3 Air France-KLM ground operations

Environmental indicators		Unit
Consumptions		
Water consumption √		000 m³
Electricity consumption √		MWh
Other energies consumption[4] √		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	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 recovered √	%
Effluents		
Compliance rate of effluents with regulatory limits	Nitrogen compounds √	%
	Phosphorus compounds √	%
	Metals[7] √	%

√ Figures verified by KPMG for 2010 (limited level of assurance).
na: not available.
nc: not comparable.
(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi and CRMA. CityJet, BlueLink, VLM and Transavia France are not included.
(2) KLM and its subsidiaries: KLM Cityhopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS) and KLM Health Services (KHS). Transavia and Martinair are partially included.
(3) KLM water consumption included onboard drinking water in previous years. This has now been excluded.
(4) In 2008 and 2009, energy consumption for cooling and heating was included: natural gas, fuel oil, iced water and superheated water. In 2010, Air France group also reported natural gas and fuel oil consumption other than for heating and cooling, gasoline and diesel for vehicles and ground support equipment, and jet A1 for testing engines. KLM group remained in line with the 2008 - 2009 scope.
(5) The data was updated as a result of adjustments made to a subsidiary.
(6) Quantities discharged in effluents in kg.
(7) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

	Air France-KLM group				Air France group[1]				KLM group[2]			
	2008	2009	2010	10/09	2008	2009	2010	10/09	2008	2009	2010	10/09
	1,145	979	951	-2.9%	865	742	749	0.9%	281	237	202[3]	-14.8%
	417,990	421,581	416,149	-1.3%	320,991	327,094	321,818	-1.6%	97,000	94,487	94,331	-0.2%
	336,761	327,150	470,552	nc	242,782	232,172	367,748	nc	93,979	94,978	102,804	8.2%
	89,833	84,290	92,569	9.8%	43,357	37,396	47,850	28.0%	46,476	46,894	44,719	-4.6%
	142	127	167	31.5%	92	85	132	55.3%	50	42	35	-16.7%
	na	166	161	-3.0%	na	112	106	-5.4%	na	54	55	1.9%
	889	917	879	-4.1%	610	639	605	-5.3%	279	278	274	-1.4%
	26.5	18.7	13.2	-29.4%	21.2	13.2	9.8	-25.8%	5.3	5.5	3.3	-40.0%
	61,054	61,067	58,756	-3.8%	43,237	42,664	42,309	-0.8%	17,817	18,403	16,447	-10.6%
	6,084	5,961	5,914	-0.8%	5,006	4,839	4,569	-5.6%	1,078	1,122	1,345	19.9%
	48%	45%[5]	47%	2pp	40%	36%[5]	36%	0pp	84%	84%	84%	0pp
	7,030[6]	93%	100%	+7pp	6,890[6]	90%	100%	+10pp	140[6]	96%	100%	+4pp
	1,659[6]	100%	100%	0pp	1,658[6]	100%	100%	0pp	1.24[6]	100%	100%	0pp
	144[6]	99%	100%	+1pp	141[6]	99%	100%	+1pp	2.9[6]	100%	100%	0pp

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Comments on the financial statements

5

5.1.1 Consolidated results for the financial year to March 31, 2011

There were no significant changes in the consolidation scope in the year to March 31, 2011.

The consolidation scope comprised 156 fully consolidated companies and 30 companies consolidated by the equity method. The two main subsidiaries, Air France and KLM, represented 86% of revenues and 73% of the balance sheet. The other subsidiaries are principally involved in air transport (Brit Air, Régional, CityJet, VLM, KLM Cityhopper and Martinair), maintenance, catering (Servair group and KLM Catering Services) and aircraft financing. No subsidiary or sub-subsidiary presents any specific risks whose nature is likely to influence the Group's activity and financial situation.

	March 31		
(In € million)	**2011**	**2010**	**% Change**
Revenues	23,615	20,994	12.5
EBITDAR*	2,629	1,111	2.4
Income/(loss) from current operations	122	(1,285)	N/A
Income/(loss) from operating activities	886	(1,632)	N/A
Net income/(loss) from continuing operations	612	(1,560)	N/A
Net income/(loss), Group share	613	(1,559)	N/A
Basic earnings/(loss) per share, Group (*In €*)	2.08	(5.30)	N/A

N/A: not applicable.

* *Operating income before depreciation provisions and operating leases.*

Revenues

Consolidated revenues amounted to €23.61 billion for the period, up by 12.5% on the previous year. Driven by the economic recovery which dynamized demand for air transport, passenger revenues rose by 11.3% while cargo revenues increased by 29.5%. Revenues for the maintenance business were 7.6% higher and those of the other activities saw a modest decline (-0.6%).

Operating expenses

Operating expenses rose by 5.4% to €23.49 billion. Excluding fuel, the increase was limited to 1.2% thanks to €595 million of cost savings realized within the framework of the *Challenge 12* plan whose original target of €510 million was revised up to €590 million over the course of the year.

Unit cost per EASK (equivalent available seat-kilometer) was up by 5.3% but declined by 0.5% on a constant currency and fuel price basis for stable production measured in EASK (-0.1%). Excluding the exceptional events (closure of the European airspace in April 2010, industrial action by air traffic controllers and the heavy snowfall in late 2010, the political crises in the Middle East and Africa and the earthquake and tsunami followed by a nuclear crisis in Japan in March 2011) the unit cost would have been down by 1.3%.

External expenses increased by 10.3% to €14.56 billion versus €13.20 billion one year earlier. Excluding fuel, this increase would have been 4.3%.

The breakdown of external expenses was as follows:

(In € million)	Financial year to March 31		
	2011	2010	% Change
Aircraft fuel	5,720	4,725	21.1
Chartering costs	513	487	5.3
Aircraft operating lease costs	831	721	15.3
Landing fees and en route charges	1,747	1,707	2.3
Catering	554	562	(1.4)
Handling charges and other operating costs	1,303	1,281	1.7
Aircraft maintenance costs	1,139	1,072	6.3
Commercial and distribution costs	896	854	4.9
Other external charges	1,852	1,788	3.6
Total	**14,555**	**13,197**	**10.3**

The main changes were as follows:

- **Aircraft fuel:** fuel expense increased by €995 million due to the increase in the oil price, particularly in the last quarter. This increase was the combined result of a volume effect of 1%, a negative currency impact of 7% and a 12% rise in the fuel price after hedging, which turned positive in the fourth quarter;
- **Chartering costs** incurred through leasing aircraft capacity from other airlines saw a slight increase (+€26 million) in line with the recovery in activity;
- **Operating lease costs** increased by €110 million after a negative impact from currency of €47 million and the financing of eleven additional aircraft;
- **Landing fees and en route charges** relating to air navigation services and the use of airports rose by 2.3%, largely due to negative currency effects;
- **Catering** costs relating to in-flight services fell by 1.4%. 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 cost of looking after passengers for the Group and, to a lesser extent, third-party customers. They increased in line with activity;
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. They rose by 6.3%, in line with the growth in the maintenance business;
- **Commercial and distribution costs** rose by €42 million due to the recovery in activity;
- **Other external charges,** principally comprising rental charges, telecommunications costs, insurance and fees, increased by €64 million.

Salaries and related costs amounted to €7.33 billion versus €7.43 billion at March 31, 2010, *i.e.* a fall of 1.4%. The average headcount declined by 2.6% to 102,012 employees notably due to the implementation of the voluntary departure plan at Air France. On a constant scope, the number of employees declined by 3.1% to 101,515.

Taxes other than income taxes stood at €179 million versus €216 million at March 31, 2010. This 17.1% reduction mostly corresponded to the classification within income taxes of the new French tax on the added value of enterprises (CAVE) applicable in France since January 1, 2010 replacing the professional tax.

Amortization, depreciation and provisions amounted to €1.62 billion versus €1.64 billion at March 31, 2010.

Income/(loss) from current operations

The **result from current operations** was positive to the tune of €122 million versus a loss of €1.28 billion at March 31, 2010, an improvement of some €1.4 billion. This improvement was due to the strategic measures implemented in 2009-10 principally in the passenger and cargo businesses and to the economic recovery.

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

	March 31, 2011		March 31, 2010	
(In € million)	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger	18,103	(44)	16,267	(918)
Cargo	3,159	69	2,439	(436)
Maintenance	1,029	143	956	81
Others	1,324	(46)	1,332	(12)
Total	**23,615**	**122**	**20,994**	**(1,285)**

Income/(loss) from operating activities

The result from operating activities was a positive €886 million versus a loss of €1.63 billion at March 31, 2010. This figure includes, notably, the €1.03 billion capital gain on the sale of one third of the shareholding in Amadeus which was the subject of an IPO in the Madrid stock market in April 2010 and the revaluation of the remaining 15.2% stake. It also includes an additional €127 million provision relating to the fines imposed by the European Commission on the companies Air France, KLM and Martinair for anti-competitive practices in the air freight sector. At March 31, 2010, it had included, notably, the €148 million provision for the voluntary departure plan initiated at Air France as well as the cost of fair value adjustments on aircraft held for sale or withdrawn from service totaling €135 million.

Net cost of financial debt

The net cost of financial debt stood at €371 million versus €304 million at March 31, 2010, under the effect of an increase in the cost of gross debt (+€45 million) and a reduction in interest income due to the reduced returns on investment products (-€22 million).

The ratio of EBITDAR to net interest costs adjusted for the portion of operating leases corresponding to financial costs (34%) was 4.0x at March 31, 2011.

Other financial income and expenses

Net financial expenses amounted to €78 million compared with a net expense of €193 million at March 31, 2010.

The breakdown was as follows:

- Foreign exchange losses of €33 million (losses of €26 million at March 31, 2010).
- A negative change in the fair value of financial assets and liabilities amounting to €48 million compared with a negative change of €160 million at March 31, 2010. These losses were principally due to the change in the inefficient portion of fuel hedges.
- Provision write-backs of €3 million versus a €7 million net allocation to provisions at March 31, 2010.

Net income/(loss) – Group share

Income taxes amounted to a €196 million positive versus €586 million at March 31, 2010, giving an effective tax rate of -44.8% compared with 27.5% in the previous year. The effective tax rate at March 31, 2011 is notably explained by the tax exoneration of most of the capital gain relating to the Amadeus transaction.

Associates contributed a loss of €21 million at March 31, 2011 compared with a negative contribution of €17 million at March 31, 2010. This essentially comprised the negative contribution from the Alitalia group amounting to €31 million (€13 million at March 31, 2010).

Net income, Group share stood at a positive €613 million at March 31, 2011 versus a loss of €1.56 billion in the year to March 31, 2010.

The contributions to the net result by quarter were, respectively, €736 million at June 30, 2010, €290 million at September 30, 2010, €(46) million at December 31, 2010 and €(367) million at March 31, 2011.

Basic earnings per share, Group share, amounted to €2.08 at March 31, 2011 versus a loss of €(5.30) at March 31, 2010.

5.1.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €2.12 billion versus (€2.1 billion at March 31, 2010) of which €1.1 billion of investment in the fleet, €545 million in maintenance, €144 million in components and €344 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €977 million versus €1.05 billion at March 31, 2010.

Operating cash flow was positive to the tune of €1.35 billion (a negative of €798 million at March 31, 2010) given a €514 million positive change in working capital requirement. This change was principally due to the €171 million reduction in account receivables, the €245 million increase in trade payables and the €94 million increase in tickets issued but not used.

Net cash stood at €4.36 billion at the close date. In addition, the Group has unused credit lines amounting to €1.4 billion.

Net debt amounted to €5.89 billion at March 31, 2011, down by €330 million (€6.22 billion at March 31, 2010). Stockholders' equity stood at €6.91 billion versus €5.42 billion at March 31, 2010.

The difference was principally due to:

- the fair value adjustment on the derivative instruments used to hedge future cash flows amounting to €700 million;
- the fair value adjustment on available-for-sale securities amounting to €166 million;
- net income of €612 million.

The Group's gearing ratio stood at 0.85 at March 31, 2011 versus 1.15 at March 31, 2010. Excluding the impact of derivatives (€374 million), gearing stood at 0.90 versus 1.08 at March 31, 2010.

Net debt adjusted for the capitalization of operating leases (7x the annual charge) amounted to 4.5 times the EBITDAR at March 31, 2011.

5.1.3 Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and its expenses comprise financial communication expenses, Statutory Auditors' fees and expenses linked to the compensation of company officers. At March 31, 2011, the operating result was thus positive to the tune of €3.4 million.

The net result was a €69.3 million loss, mainly due to the financial costs on the bond issues during the 2009-10 financial year. No dividend was paid in respect of 2009-10.

Pursuant to the provisions of Article 39.5 and Article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, note that no amount was recognized during the financial year. Pursuant to the provisions of Article 39.4 and Article 223 quatar of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

At March 31, 2011, accounts payable stood at €0.6 million of which €0.3 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At March 31, 2010, 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.

5.1.4 Key financial indicators

Restated net income

The Group presents a restated net income figure when:

- non-recurrent operations are significant relative to the net result;
- oil price volatility has an impact on the value of the fuel hedging portfolio, particularly on the non-cash portion of the change in the fair value of hedging instruments.

(In € million)	**March 31, 2011**	**March 31, 2010**
Net income/(loss), Group share	613	(1,559)
Income taxes	(196)	(586)
Net income/(loss), Group share before income tax	417	(2,145)
Non-recurrent items*	(764)	346
Non-cash portion of the change in fair value of hedging instruments**	(25)	(8)
Restated net income/(loss), Group share before income tax	(372)	(1,807)
Tax impact	138	575
Restated net income/(loss)	(234)	(1,232)

* *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities. (See also Note 10 to the consolidated financial statements).*

** *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, 2011**	**March 31, 2010**
Income/(loss) from current operations	122	(1,285)
Portion of operating leases considered to be financial charges	283	245
Adjusted income/(loss) from current operations	405	(1,040)
Revenues	23,615	20,994
Adjusted operating margin	1.7%	-5.0%

Gearing ratio

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

(In € million)	March 31, 2011	March 31, 2010
Current and non-current financial debt	10,778	11,047
Accrued interest	(119)	(115)
Deposits on leased aircraft	(455)	(471)
Debt currency and hedging instruments	36	39
Gross financial debt	**10,250**	**10,500**
Cash and cash equivalents	3,717	3,751
Investments over three months	574	343
Triple A deposits	197	298
Bank overdrafts	(129)	(116)
Net cash	**4,359**	**4,276**
Net debt	**5,891**	**6,224**
Consolidated stockholders' equity	6,906	5,418
Net debt/consolidated stockholders' equity	**0.85**	**1.15**
Net debt/consolidated stockholders' equity excluding fair value of hedging instruments ***(see statement of changes in stockholders' equity)***	**0.90**	**1.08**

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 normative tax rate of 31%) as a percentage of capital employed.

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

- capital employed: consolidated stockholders' equity net of the valuation of hedging instruments (€374 million) 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, 2011	March 31, 2010
Stockholders' equity excluding the KLM pension fund surplus and derivatives	5,604	4,815
Net debt	5,891	6,224
Operating leases x7	5,817	5,047
Capital employed	**17,312**	**16,086**
Adjusted income/(loss) from current operations after taxation	**279**	**(718)**
RoCE	**1.6%**	**-4.5%**

Cost of capital

	March 31, 2011	March 31, 2010
Cost of stockholders' equity	13.0%	13.0%
Marginal cost of debt, post tax	3.7%	3.7%
Percentage of stockholders' equity/target debt		
♦ Stockholders' equity	35%	35%
♦ Debt	65%	65%
Weighted average cost of capital	**7.0%**	**7.0%**

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