AIRFRANCE KLM

Reference Document

2009-10

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Air France-KLM

This Reference Document includes the annual financial report

AUTORITÉ
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This Reference Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on June 10, 2010, pursuant to article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM for the information and convenience of English-speaking readers and has not been reviewed or registered with the AMF. No assurances are given as to the accuracy or completeness of this translation, nor any responsibility assumed for any misstatement or omission that may be contained therein. The French Document de Référence may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French Document de Référence, the French version shall prevail.

Selected financial information

Pursuant to article 28 of Regulation (EC) no.809/2004 of April 29, 2004, the review of the financial situation and results for the financial year ended March 31, 2009 figuring on pages 2 and 3 of the 2008-09 Reference Document, and the review of the financial situation and results of the financial year ended March 31, 2008 figuring on pages 2 and 3 of the 2007-08 Reference Document are incorporated by reference in this document.

On January 1, 2009, KLM took control of the company Martinair. The latter is principally a cargo operator with small leisure and maintenance businesses. For the purposes of comparison, the 2008-09 financial year pro-forma consolidates Martinair over twelve months.

Revenues
(€ billion)

2009-10	2008-09		2007-08
	Pro-forma Martinair	Published	Restated*
20.99	24.69	23.97	24.12

** After restatement for the application of the IFRIC 13 interpretation: +€9 million*

Revenues were down by 15% in the 2009-10 financial year under the combined effect of a decline in traffic and unit revenues in both the passenger and cargo businesses.

Income/(loss) from current operations
(€ billion)

2009-10	2008-09		2007-08
	Pro-forma Martinair	Published	Restated*
(1.29)	(0.19)	(0.13)	1.41

** After restatement for the application of the IFRIC 13 interpretation: +€9 million*

The loss from current operations stood at €1.29 billion at March 31, 2010, of which a €648 million operating loss reflecting the effects of the crisis and a €637 million loss linked to the pre-2009 fuel hedges.

Information by business
(See also section 2 – Activity)

	2009-10		2008-09 pro-forma Martinair	
	Revenues *in €bn*	**Income/ (loss) from current operations** *in €m*	**Revenues** *in €bn*	**Income/ (loss) from current operations** *in €m*
Passenger	16.27	(918)	18.83	(21)
Cargo	2.44	(436)	3.38	(221)
Maintenance	0.96	81	1.0	98
Others	1.33	(12)	1.49	(42)

Net income/(loss), Group share
(in € billion)

2009-10	2008-09		2007-08
	Pro-forma Martinair	**Published**	**Restated***
(1.56)	(0.81)	(0.81)	0.76

** After restatement for the application of the IFRIC 13 interpretation: +€8 million*

Excluding non-recurring and non-cash items related to the hedging instruments, the 2009-10 net loss, Group share, would have been €1.23 billion (See section 5 – Key performance ratios, page 127).

Financial structure
(See also section 5 – Performance ratios, page 128)

In € billion	2009-10	2008-09 Published	2007-08 Restated
Net debt	6.22	4.44	2.69
Consolidated shareholders' equity	5.42	5.68	9.98*
Gearing ratio *(in %)*	1.15	0.78	0.27

** After restatement for the application of the IFRIC 13 interpretation: €(639) million*

Investment and financing
(in € billion)

	2009-10	2008-09 Published	2007-08
Gross investment in tangible and intangible assets	2.10	2.04	2.34
Financing	0.26	0.94	3.20

Financing corresponds to operating cash flow, the proceeds on disposals of tangible and intangible assets and, for the 2007-08 financial year, the net cash received on the transaction with WAM/ Amadeus.

Corporate governance

1.

The Board of Directors

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

Composition of the Board of Directors at March 31, 2010

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

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

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

Directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta

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

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

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

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

Other directorships and offices

French companies

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

Non-French company

- Director of Alitalia CAI (Italy).

Others

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

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

French companies and public institutions

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

Non-French companies

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

Other

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

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

* *Listed company.*

Pierre-Henri Gourgeon

*Chief Executive Officer of Air France-KLM**

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

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

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

Other directorships and offices

French companies

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

Non-French company

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

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

French companies

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

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

Leo M. van Wijk

Vice-Chairman of the Board of Directors

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

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

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

Other directorships and offices

Non-French companies

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

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

Non-French companies

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

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

Patricia Barbizet

Chief Executive Officer and Director of Artémis

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

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

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

Other directorships and offices

French companies

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

Non-French companies

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

* *Listed company.*

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

French companies

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

Non-French company

- Director of Afipa (Switzerland) until October 2006.

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

Frits Bolkestein

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

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

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

Other directorships and offices

Non-French company

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

Other

- Chairman of Telders Foundation (Netherlands).

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

Non-French company

- Advisor to PricewaterhouseCoopers (Netherlands) until December 2007.

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

Jean-François Dehecq

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

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

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

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

Other directorships and offices

French companies

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

Others

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

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

French companies

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

Non-French companies

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

Others

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

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

* *Listed company.*

Jean-Marc Espalioux

Chairman of Financière Agache Private Equity

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

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

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

Other directorships and offices

French companies

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

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

French companies

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

Non-French company

- Chairman of Accor UK until January 2006.

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

Cornelis J.A. van Lede

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

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

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

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

Other directorships and offices

French company

- Director of Air Liquide*.

Non-French companies

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

Other

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

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

Non-French companies

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

Other

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

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

Floris A. Maljers

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

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

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

Other directorships and offices

Non-French company

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

Other

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

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

Non-French companies

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

Other

- Director of Rand Europe until July 2007.

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

* *Listed company.*

Pierre Richard

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

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

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

Other directorships and offices

French companies

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

Non-French company

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

Others

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

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

French companies

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

Non-French companies

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

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

Directors representing the French State

Bruno Bézard

Director of the French Treasury State Holdings Agency

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

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

Other directorships and offices representing the French State

French companies and public institutions

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

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

French companies/public institutions

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

Non-French company

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

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

Claude Gressier

Honorary General Public Works Engineer

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

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

Other directorships and offices representing the French State

French company/public institution

- Director of the SNCF.

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

French company/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.

* *Listed company.*

Philippe Josse

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

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

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

Other directorships and offices representing the French State

French companies/public institutions

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

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

Directors representing the employee shareholders

Didier Le Chaton

Representative of the flight deck crew

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

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

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

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

Christian Magne

Representative of the ground staff and cabin crews

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

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

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

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

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

* *Listed company.*

Experience of members of the Board of Directors

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

* *Directors considered to be independent.*

Missions of the Board of Directors

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

Organization of the Board of Directors

Separation of the functions of Chairman and Chief Executive Officer

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

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

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

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

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

Internal regulations of the Board of Directors

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

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

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

Corporate governance principles and independence of the directors

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

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

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

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

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

Compliance and ethics

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

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

Conflicts of interest

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

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

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

Functioning of the Board of Directors

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

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

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

Board activity during the 2009-10 financial year

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

During these meetings the following matters were notably addressed:

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

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

Evaluation of the functioning of the Board of Directors

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

A number of themes were addressed during this evaluation:

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

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

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

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

Regulated agreements and commitments

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

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

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

The Board of Directors Committees

The Audit Committee

Composition

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

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

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

Missions

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

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

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

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

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

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

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

Activity

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

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

Review of the financial statements

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

Internal control and internal audit

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

Risk assessment

The audit committee also reviewed the:

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

The Remuneration Committee

Composition

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

Missions

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

Activity

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

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

The Appointments Committee

Composition

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

Missions

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

Activity

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

Compensation of the company officers

Compensation for directors

Board directors' fee modalities

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

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

Committee members receive additional fees:

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

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

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

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

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

(1) Amount paid to the French Treasury.

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

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

Compensation of the executive directors

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

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

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

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

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

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

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

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

Compensation in respect of the 2009-10 financial year

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

Compensation in respect of the 2010-11 financial year

At its meeting of May 19, 2010, the Board of Directors decided to maintain the annual fixed compensation of the Chairman of the Board of Directors at €200,000.

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

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

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

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

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

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

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

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

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

(1) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

(2) Mr Spinetta has foregone directors' fees in respect of his mandate on the Board of Directors of Air France.

(3) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2009-10 financial year amounted to €200,000.

(4) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2008-09 financial year amounted to €941,591.

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

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

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

(1) Amount after the "Air France-KLM shares-for-salary exchange".

(2) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

(3) Mr Spinetta has foregone directors' fees in respect of his mandate on the Board of Directors of the company Air France.

Compensation of Mr Gourgeon in his capacity as Chief Executive Officer

Compensation in respect of the 2009-10 financial year

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

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

Compensation in respect of the 2010-11 financial year

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other commitments made in respect of the executive directors

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

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

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

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

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

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

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

Loans and guarantees granted to company officers

None.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Composition of the Board of Directors following the Shareholders' Meeting of July 8, 2010

A proposal will be submitted to the General Shareholders' Meeting on July 8, 2010 to appoint or re-appoint ten Board directors with the duration of their mandates staggered over two to four years to ensure the smooth renewal of the Board. If all the resolutions are adopted, after this Meeting, the composition of the Board of Directors will be as shown in the following table. The curriculum vitae of the new members can be found in the convening notice for the Shareholders' Meeting which is available on the company website.

Board director	Re-appointment/ appointment	Expiry of mandate [(1)]	Professional experience	Current principal function
Jean-Cyril Spinetta	Re-appointment for 4 years	Financial year ended March 31, 2014	Public Service/Air Transport (Air Inter and Air France)	Chairman of the Boards of Directors of Air France-KLM and Air France
Pierre-Henri Gourgeon	-	Financial year ended March 31, 2011	Aeronautics/Air Transport	Chief Executive Officer of Air France-KLM and Air France
Leo van Wijk	Re-appointment for 2 years	Financial year ended March 31, 2012	Air Transport (KLM)	Vice-Chairman of the Air-France-KLM Board of Directors
Maryse Aulagnon *	Appointment for 3 years	Financial year ended March 31, 2013	Public Service/Industry/ Real Estate	Chief Executive Officer of Affine
Patricia Barbizet *	Re-appointment for 4 years	Financial year ended March 31, 2014	Industry (Renault, Pinault group)	Chief Executive Officer and director of Artémis
Bruno Bézard	-	Financial year ended March 31, 2013	Public Service	Director of the French Treasury State Holdings Agency
Frits Bolkestein *	-	Financial year ended March 31, 2011	Industry (Shell)/Public (Dutch parliament and European Commission)	Member of the Supervisory Board of de Nederlandsche Bank
Jean-François Dehecq *	Re-appointment for 2 years	Financial year ended March 31, 2012	Industry (SNPA and Sanofi)	Honorary Chairman of Sanofi-Aventis
Jean-Marc Espalioux *	Re-appointment for 3 years	Financial year ended March 31, 2013	Services (CGE, Accor)	Chairman of Financière Agache Private Equity
Claude Gressier	-	Financial year ended March 31, 2014**	Public Service	Honorary General Public Works Engineer Director of the SNCF
Peter Hartman	Appointment for 3 years	Financial year ended March 31, 2013	Air Transport (KLM)	President and CEO of KLM
Philippe Josse	-	Financial year ended March 31, 2012	Public Service	Director of Budget
Cornelis van Lede *	Re-appointment for 2 years	Financial year ended March 31, 2012	Industry (Shell, Akzo, Dutch Industry Federation) Consultancy (McKinsey & Company)	Chairman of the Supervisory Board of Heineken
Christian Magne	Re-appointment for 4 years	Financial year ended March 31, 2014	Air Transport (Air France)	Finance executive
Bernard Pédamon	Appointment for 4 years	Financial year ended March 31, 2014	Air Transport (Air France)	Flight captain

(1) Expiry date: Shareholders' Meeting called to approve the financial statements for the financial years mentioned in the table.

** Board directors considered to be independent.*

*** Board director representing the French State : awaiting publication of the decree.*

The Group Executive Committee

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

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

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

Stock market and shareholders

Air France-KLM shares in the stock market

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. In September 2009, the stock was transferred from the CAC 40 to the CAC Next20 index. It is a component of the Euronext 100 and DJ Eurostoxx 300 and also figures in the FTSE Cyclical Services and FTSE Airlines and Transports sector indices. Air France-KLM is the only airline to figure in the two leading sustainable development indices, the FTSE4Good and the DJSI Stoxx 2006. Lastly, the stock is also included in the French IAS employee shareholders index.

In February 2008, Air France-KLM was delisted from the NYSE and its American Depositary Receipt program transferred to the OTC Market (OTCQX) under the ticker AFLYY.

The Reuters code is AIRF.PA or AIRF.AS and the Bloomberg code AF PA *(See also section 6 – Other information, page 247).*

	2009-10 Financial year	2008-09 Financial year	2007-08 Financial year
Stock price high *(In €)*	13.080	21.150	39.40
Stock price low *(In €)*	6.485	6.215	15.20
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at March 31 *(In € billion)*	3.5	2.0	5.4

Dividend policy

During the most recent financial years, Air France-KLM paid the following dividends:

Financial year ended	Earnings per share (In €)	Dividend paid (In €)
2006-07	3.35	0.48
2007-08	2.63	0.58
2008-09	(2.76)	0

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.

In view of the difficult environment, the Board of Directors decided not to propose the payment of a dividend in respect of the 2009-10 financial year.

A regular dialogue with individual shareholders and investors

The Air France-KLM group informs the market on its activity through monthly traffic figures and quarterly on the trend in its results and strategic orientations. While the Group adapts its communication to the profile of its shareholders and investors, all the information is available on the financial website in French and English.

Relations with investors

The Investor Relations department maintains a dialogue with financial analysts and institutional investors. In addition to conference calls and information meetings scheduled at the time of results announcements, the Group's management organizes regular roadshows in order to meet financial analysts and institutional investors in Europe and the United States. The Investor Day is also an opportunity for the latter to meet the Group's operational management.

Relations with individual shareholders

The department dedicated to relations with individual shareholders has a pro-active approach towards engaging with private shareholders. Each quarter, a financial notice on the results is published in a wide range of press and on the internet in France. Every three months, the *Connecting* newsletter, with an update on the sector and the Group's activity, is sent by email or mail to the 7,000 members of the Shareholders' Club. This newsletter is also available in English on the website.

Air France-KLM also publishes an individual Shareholder's Guide covering all the practical information relating to the stock and the different forms of ownership in France and the Netherlands. This document is published in French, English and Dutch and an interactive version is available on the website or on request.

The Group regularly organizes and participates, in partnership with the business press, in information meetings reserved for its individual shareholders in the French regions. These are an opportunity for the Group to update them on its strategy, results and issues in the airline sector and to address shareholder concerns. Site visits are also organized for members of the Shareholders' Club.

The Shareholder Relations department can be reached on a dedicated number (+33 1 41 56 56 56) or by email.

Lastly, the Consultative Committee for Individual Shareholders (CCRAI), established in 2000, constitutes a forum for discussion and proposing ideas on Air France-KLM's relations with individual shareholders.

A dedicated website

The Group's financial website (www.airfranceklm-finance.com) posts all the information released by the Group (press releases, presentations, offering memoranda, speeches, etc.). Documents such as the Reference Document, the Annual Report and the Shareholder's Guide are available in interactive versions, enabling a targeted search for information. An email alert system enables everyone to be kept informed of the posting online of press releases and be reminded of any financial event in the Group's calendar. A simplified version of the website, giving access to press releases, the stock price and the financial calendar, is also available in PDA (personal digital assistant) form and from cell phones by logging into www.airfranceklm-finance.mobi.

Since November 2008, an *Island in the Sky* has welcomed individual shareholders in the Second Life universe at the following address: http://airfranceklm-sl.com/teleport. This island enables shareholders to learn more about Air France-KLM through dedicated spaces in which visitors can find the Group's publications, the Air France-KLM stock price in 3D, a sustainable development space, a virtual auditorium, corporate films, a room dedicated to information on the Alitalia partnership and the Air France Museum with scale models and posters from Air France and KLM.

In 2009, to coincide with the inaugural flight of Air France's Airbus A380, shareholders were able to discover a new Airbus A380 space with photographs, videos, a scale model and a specially-created Freebie.

Awards for financial communication

In January 2009, the Group won the award for the best investor relations in terms of sustainable development. This trophy, awarded by the *SFAF, Opinion Way, IR Intelligence* and the *Forum des Relations Investisseurs,* recognizes the Franco-Dutch Group's information provision in this area.

Disclosure Committee

In early 2009, the Group decided to simplify its organization and, consequently, to disband the Disclosure committee, its missions being covered by the internal control procedures, together with those of the finance and legal affairs divisions.

Activity

2.

Highlights of the 2009-10 financial year

April 2009

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

May 2009

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

June 2009

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

August 2009

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

September 2009

- Air France announces plans to redefine the medium-haul network and restructure the cargo business together with the implementation of a voluntary redundancy plan for ground staff involving around 1,700 people.
- Air France-KLM amends its fuel hedging strategy in reducing the time span of the hedges from four to two years and the absolute exposure from two years' consumption to 80% of a single year of consumption.
- Air France-KLM shares are transferred from the CAC 40 to the CAC Next20.

October 2009

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

November 2009

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

December 2009

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

March 2010

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

April 2010

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

Market and environment

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

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

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

The economic environment

An unprecedented economic crisis

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

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

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

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

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

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

The forecasts for 2010 are cautiously optimistic

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

The competitive environment

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

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

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

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

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

Industry responses to the crisis

An adaptation in capacity

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

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

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

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

A reduction in costs and investment and product adaptation

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

The development of ancillary revenues

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

Consolidation in the sector

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

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

Strategy

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

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

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

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

Fundamental strengths

A powerful, balanced network

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

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

Two coordinated hubs at developing airports

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

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

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

A balanced customer base

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

A global alliance that strengthens the network

Air France and KLM play a lead role in the SkyTeam alliance, the number two global alliance in terms of market share. Bringing together nine European, American and Asian airlines at March 31, 2010, SkyTeam enables the Group to respond to market needs and withstand competition in both passenger and cargo transportation. The alliance comprises Aeroflot, AéroMexico, Air France, Alitalia, China Southern, Czech Airlines, Delta merged with Northwest, KLM and Korean Airways. Air Europa (Spain), Copa Airlines (Panama) until November 2009 and Kenya Airways have joined them as associate airline members. Vietnam Airlines and Tarom, the Romanian carrier, should join the alliance in June 2010. Finally, in April 2010, China Eastern signed a Memorandum of Understanding confirming the airline's plans to join SkyTeam by mid-2011. *(See also section 2 – Passenger business, page 39.)*

A unique partnership on the North Atlantic

On April 1, 2009, Air France-KLM and Delta implemented their joint-venture agreement on the North Atlantic. The scope of this agreement is very extensive covering all the flights between North America, Mexico and Europe through integrated cooperation and the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination. This type of contract enables the sharing of revenues and costs. It should improve the economic performance of the Air France-KLM group's North Atlantic network by around €150 million in three years. *(See also section 2 – Passenger business, page 40.)*

A strategic partnership with Alitalia

Air France-KLM chose to step up its cooperation with Alitalia through an operational partnership agreement, cemented with a 25% equity stake in the Italian company. This operation that took place in January 2009 has significant advantages for the two groups. *(See also section 2 – Passenger business, page 40.)*

A modern fleet

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

Air France was the first European airline to operate the Airbus A380 which came into service on flights bound for New York in November 2009, followed by Johannesburg in February 2010 with Tokyo scheduled for late summer 2010 with the arrival of the fourth A380. *(See also section 2 – Activity, page 54.)*

An innovative product offer

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

A major mobilization to adapt to the new environment

A reduction in capacity

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

Adapting the businesses

To respond to the business trends and customer behavior, the Group has implemented a series of strategic measures in the passenger and cargo businesses. *(See also section 2 - Activity, pages 36 and 45.)*

Passenger business

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

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

Cargo business

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

Adjusting the fleet plan and investment

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

For the 2009-10 financial year, investment net of disposals was reduced from €1.4 billion (forecast in May 2009) to €1.0 billion (actual at March 31, 2010). For the 2010-11 financial year, net investment should be €1.1 billion (€1.8 billion forecast in March 2009). For the 2011-12 financial year, this figure should amount to €1.6 billion, some €100 million lower than the October 2009 forecast. Lastly, in the 2012-13 financial year, the amount will be €1.6 billion, subject to its updating during the coming financial years.

Reinforcing the cost-savings plan

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

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

Headcount adapted to the decline in activity

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

A rationalized organization

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

A new fuel hedging strategy

Air France-KLM decided to review its fuel hedging strategy. This new strategy, approved by the Audit Committee and the Board of Directors, reduces the time span of the hedges from four to two years and the absolute amount from two years of consumption to 80% of a single year of consumption. *(See also section 4 – Market risks and their management, page 104).*

Key performance indicators

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

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

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

The adjusted operating margin strips out the accounting impact of the different methods of fleet financing and makes it easier to compare the profitability of different airlines *(See also section 5 – Key performance ratios, page 127).*

Passenger business

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

The global economic crisis which gradually spread following the collapse of the US bank Lehman Brothers in September 2008 weighed heavily on activity during the 2009-10 financial year with traffic volumes and revenues both under pressure. In addition to the impact of the crisis, the implementation of highly restrictive corporate travel policies seriously affected the international business travel segment which makes a very major contribution to the profitability of the passenger business. Lastly, the crisis also led to a change in the behavior of passengers travelling in Europe. The Group consequently introduced a number of measures to adapt its offer to demand while continuing to leverage its fundamental strengths.

A strategy adapted to the new environment

The crisis affected both long and medium-haul operations although the impact on these two businesses was very different.

In long-haul, the crisis interrupted a decade of steady growth in unit revenues which fell sharply albeit to levels previously seen. The adaptation of the business model should suffice to contend with the new situation.

On the contrary, in medium-haul, the crisis significantly exacerbated the erosion in unit revenues witnessed over the past few years, seeing them reach hitherto unprecedented levels.

An adaptation will thus not suffice, and a series of structural changes together with an in-depth transformation of the business model will be required. This was the aim of the redefinition of the medium-haul business launched in April 2010 at Air France and to be introduced within a few months at KLM.

This strategy of adapting the long-haul and transforming the medium-haul businesses should generate, over a full year, i.e. in 2011-12, around €250 million of additional revenues and €410 million in cost savings. The investment required to implement this new strategy amounts to some €100 million, amortized over a ten-year period. For the current financial year, the Group expects between €130 million and €170 million in additional revenues and €200 million to €250 million in cost savings.

The adaptation of long-haul

Six major principles underpin the adaptation of the Group's long-haul business model: adapting capacity, optimizing fleet management, reinforcing the international presence, extending the product range, developing ancillary revenues and adapting the commercial approach.

Adapting capacity to demand

In long-haul, maintaining the balance between capacity and demand is a key factor in revenue quality. Since the beginning of the crisis, the Group has adapted its capacity with two aims: to respond to demand and reduce variable costs. When this balance between capacity and demand is respected, there is a positive impact on unit revenue per available seat-kilometer (RASK).

Following the successive adjustments in line with market trends, the Group opted for a modest capacity increase for the Summer 2010 season (+0.8%). The Group will, however, be able to draw on its responsiveness and flexibility in order to benefit from any eventual recovery in long-haul demand. The network balanced between the different world regions and its leadership position in terms of capacity, with 13.4% of long-haul capacity between Europe and the rest of the world versus 10.2% for the Lufthansa and Swiss group, are both strengths to be preserved *(source: Association of European Airlines AEA).*

Furthermore, the joint-venture partnership between Air France, KLM and Delta has significantly reduced the impact of the crisis on the results of the trans-Atlantic routes. With a coordinated offer representing nearly a quarter of total seat capacity, the coordination between the airlines has contributed to limiting the decline in unit revenues on this network.

Optimizing fleet management

Air France is the first European airline to operate the Airbus A380 following delivery of the first aircraft in November 2009. During this period of crisis, this aircraft, which is by nature a growth tool, also constitutes a tremendous opportunity by serving as a rationalization tool, enabling frequencies to be reduced on major destinations served by multiple daily flights without reducing seat capacity. In terms of capacity, the Airbus A380 effectively represents the equivalent of an A340-300 and a Boeing B777-200 put together, with a per-seat cost some 22% lower. Each Airbus A380 thus generates an annual cost saving of around €15 million. At the end of the Summer 2010 season, four aircraft will be operational, enabling the continued rationalization of certain services with a move to one daily flight to Johannesburg and two daily flights to Tokyo.

The ratio between the seats in the premium and economy classes is also key to improving profitability at a time when business traffic is the segment most affected by the crisis. Air France has consequently decided to reconfigure ten aircraft in its Boeing B777-200 fleet without a *La Première* class and with fewer Business class seats. This will be reflected in more seats on these aircraft and an attendant efficiency gain. On the predominantly leisure routes, profitability should be markedly improved. The Boeing B777-300 fleet configured for the Caribbean and Indian Ocean network will also be developed since it is a particularly effective tool in economic terms.

KLM has also launched a strategic review of the positioning of its long-haul leisure offer.

In addition to new aircraft and cabin refitting, it is important to note that the Air France-KLM group has one of the youngest fleets in the industry, enabling it to postpone certain investments without compromising the level of comfort offered to its customers.

Reinforcing the international presence

Through its SkyTeam alliance, the Group reinforces its presence on strategic markets which are highly competitive and particularly in emerging countries. The recent strengthening of the alliance with the arrival of the leading Chinese airlines is also a major advantage when it comes to competing with the other large alliances, Star Alliance and Oneworld.

The leading strategic market is the North Atlantic which, for IATA member airlines, represents more than a quarter of world-wide Premium revenues. Thanks to its joint-venture with Delta, the Air France-KLM group has a major strategic position on these routes. The other strategic markets are Asia and Latin America. The Chinese, Indian and Brazilian economies continue to enjoy strong growth rates. After China Southern and Vietnam Airlines, China Eastern's membership of SkyTeam, together with the strategic partnerships with Jet Airways and GOL, for example, have reinforced the Group's positioning on these emerging markets. This cooperation is increased by the joint-ventures currently in place or in negotiation with the Group's Asian partners.

In addition to the particular efforts in these two regions, the Group continues to expand its network based on all the agreements concluded at global level, principally in terms of code sharing.

Extending the product range

2009 was marked by the launch, within the Air France-KLM group, of new products to meet the needs of business passengers who usually fly economy or have switched to economy due to the recession and leisure customers who are looking for additional comfort at a fare lower than in Business class.

At Air France, all the relevant aircraft will be equipped with the new *Premium Voyageur* class, launched in October 2009 on the Paris-New York route, by the end of 2010, with the exception of the Airbus A380 which will be equipped in summer 2011. For its part, KLM offers the *Economy Comfort* seats in economy class, sold in option form. The fleet was fully equipped in December 2009.

Customer feedback on these products is very encouraging with 70% of *Premium Voyageur* passengers at Air France saying they will definitely choose this class again for their next trip. KLM has seen more-rapid-than-expected revenue growth.

Adapting the commercial approach

Corporate travel contracts currently represent more than half the Air France-KLM group's high contribution traffic. This segment has been the focus of a concerted effort with, notably, a new corporate policy known as *Class to Class,* which extends the number of reservation classes to which companies have access. Furthermore, a new policy has been developed, aimed at small and medium-sized firms. Such firms normally only have access to the publicly-available fares since their size does not enable them to establish a contract-based commercial relationship. A particular effort was also made to adjust pricing to make these fares more affordable. A new range of targeted tools has been developed such as, for example, the *SME Packet,* enabling small and medium-sized companies to regularly receive offers on destinations of interest to them. In parallel, the development of existing tools such as *VoyageurREWARDS,* the six-month season ticket on the domestic network and partnerships is being pursued and stepped up.

Developing ancillary revenues

In addition to traditional sources, the development of ancillary revenues constitutes a promising source of revenues: for example, at the level of the Group, the opportunity, subject to certain conditions, to access the many lounges in the Air France-KLM network by paying by bank card or air miles.

The transformation of medium-haul

The medium-haul network represents more than a third of Air France-KLM's passenger revenues. This network establishes the Group's commercial presence across Europe and plays a fundamental role in ensuring the power of its three marketing tools: the *Flying Blue* frequent flyer program, corporate travel contracts and contracts with the major travel agency networks. Furthermore, this network is a key contributor to the Group's hub strategy in that a large proportion of passengers departing from Roissy and Amsterdam on long-haul routes are connecting passengers. This network is, however, currently experiencing a large-scale crisis.

Prior to the crisis, there were two fundamental trends: firstly, the development of the TGV and the low cost airlines which compete head-on with the Group on its European point-to-point and domestic routes and, secondly, the trend for business travellers to seek cheaper products.

These two trends have been amplified by the recession which has seen a severe contraction in business traffic, something to which the Air France-KLM group has rapidly responded. Air France decided to transform its medium-haul product through a repositioning of the business model in terms of product and price, cost savings, productivity gains and network adjustments, aimed at a recovery in the results of this network within two years. KLM is also working on a redefinition of its medium-haul product which should be presented in the coming months.

A brand new commercial offer

Since the beginning of the Summer 2010 season, Air France's new service on its medium-haul network has been based on two clearly-differentiated offers: the economy cabin or *Voyageur* and the business cabin or *Premium.* Market research has shown that, over short distances, customers want reliable, efficient air transport with an appropriate level of service at the lowest possible price while retaining the Air France 'touch'.

The *Voyageur* class is designed for customers looking for a simple, inexpensive product, with all the essentials of the Air France service. Customers are offered innovative solutions such as the *Time to Think* option enabling them to keep their booking and the fare they have found for several days, boarding cards automatically sent by email and a choice of a window or aisle seat free of charge when a reservation is made.

The *Premium* class enables business travellers to benefit from more flexibility, enhanced service, even greater efficiency and time savings, at more affordable prices with an offer based on two products, *Premium Eco* and *Premium Affaires.* Particular attention has been paid to streamlining the ground service with dedicated check-in areas and security checkpoints at Roissy-CDG.

Air France continues to offer a single cabin class on its domestic network with a choice of newspapers and a free in-flight drink. Some of the innovative services introduced on the medium-haul network are also offered on the domestic network such as the *Time to Think* option, the choice of a window or aisle seat when a reservation is made and boarding passes automatically sent by email. The fare structure has been aligned with that of the European offer.

In January 2010, Air France also launched a new seat on its short-haul fleet offering passengers greater comfort and more space. Six thousand seats will be fitted on 37 aircraft in the Airbus A320 family with the rest of the relevant aircraft to be equipped by the end of 2010. These seats, which weigh 5.4 kg less than the previous version, represent an annual saving of 1,700 tons of fuel or the equivalent of more than 650 Paris-Marseilles flights together with an annual CO_2 reduction of 5,200 tonnes.

Cost savings and productivity gains

The review of the ground processes, the development of a fully-automatic check-in policy via e-services and the reorganization of catering logistics enabling increased one-shot loading of aircraft have all led to a reduction in costs. Furthermore, the introduction of the new seats on domestic flights has also increased cabin capacity with, on the Airbus A320s and A321s, room for six additional seats.

An adjustment in the flight schedule

The crisis showed that customers are becoming more sensitive to price than to flight frequencies. This led to major adjustments in the flight schedule at both Roissy-CDG and Amsterdam-Schiphol to rationalize the Group's medium-haul network. Some adjustments were made as early as the winter of 2009-10 and are already delivering positive results.

At Roissy-CDG, the schedule adjustments consist, on the destinations with the most flights, of adjusting the balance between flight frequencies and aircraft size to increase seat capacity and thus reduce unit costs while maintaining an attractive offer for high contribution passengers and preserving the efficiency of the hub. Thus, only six daily flights are required to cover all the time banks of the hub, with the exception of Amsterdam (12 flights) and Rome (eight flights) to also cover the time banks of the KLM and Alitalia hubs. Additional frequencies may nonetheless be maintained as a function of the specificities of each market provided they can be economically justified.

At Amsterdam-Schiphol, one of the seven hub waves is now dedicated exclusively to intra-European connections.

Customers remain at the heart of the strategy

At the same time as adapting the long-haul product and transforming its medium-haul product, the Group has continued to invest in enhancing the service for high contribution customers who remain its core target group.

An improvement in the *La Première* product

Air France's *La Première* product benefits from a new exclusive, personalized ground service at CDG, dedicated staff, new on-board cuisine, redesigned meal trays and a new seat design to be introduced with the seventh Airbus A380.

Flying Blue

Flying Blue, the frequent flyer program resulting from the merger between the Air France and KLM loyalty programs in 2005, now has 17 million members (+55% since its launch), of whom 48% are French or Dutch, 30% are from other European countries and 22% come from the rest of the world. Some 10% of members fly with both airlines. The monthly growth is stable on last year with 115,000 new members of whom 64% sign up online. The slight increase in the proportion of these new members coming from other Europe (32%) and the rest of the world (35%) as opposed to France and the Netherlands (33%) shows the strength of the combination between the two airlines. The size of the frequent flyer program is reflected in the fact that nearly 45% of the Group's revenues are generated with *Flying Blue* members. This is the reason why the Group regularly introduces innovative features in this program.

Innovation to simplify and enrich the customer relationship

Being its customers' carrier of choice by facilitating their travel and enriching the relationship remains a major aim for the Group. A number of technological innovations, introduced to save time at the airport, have been implemented and have been very well received. In March 2010, nearly two-thirds of Air France-KLM customers checked in using the internet (28%), self-service kiosks (37%) and mobile telephones (0.4%). Zero paper check-in by mobile is a further step in the Group's responsible growth approach. Adapted to all types of mobiles, this solution enables passengers to go directly to the boarding gate by the departure time.

Lastly, the Group launched the *Recovery* project to respond to unexpected events by helping passengers and keeping them as well-informed as possible. This project is aimed at transforming such malfunctioning into an opportunity to strengthen the relationship with customers. The Phoenix training programs also enable cabin crew to appreciate the cultural differences of customers and respond appropriately. The Group also takes into account different culinary preferences in adding a Chinese, Japanese or Indian touch to the service on board flights to these destinations.

Fundamental strengths

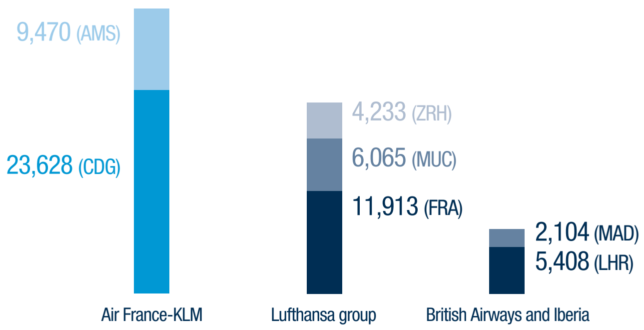
The Group's strategy is based on its fundamental strengths which have acted as shock absorbers during this crisis and will enable it to benefit from the rebound in air transport demand.

The hubs

This year the dual hub system once again acted as a shock absorber during the crisis. Since the Roissy and Schiphol intercontinental hubs function by pooling small traffic flows from and to every world region, they limit the decline in traffic thanks to the diversity of the transfer flows which are not all exposed to the crisis in the same way. Paris-CDG is a good example; while point-to-point traffic fell by 2.3% in 2009-10, connecting traffic declined by just 0.3%. This difference is even more marked in premium where the gap is ten points. Optimizing the dual hub structure thus remains a priority for the Air France-KLM group.

Paris-CDG and Amsterdam-Schiphol, the two powerful, coordinated hubs linked by twelve daily flights, offer some 33,000 weekly connecting opportunities in under two hours between European medium-haul and international long-haul flights. This is one and a half times more than Lufthansa and Swiss across their three platforms (Frankfurt, Munich and Zurich) and five times more than British Airways at Heathrow. The combination of the two CDG and Schiphol hubs, which is unique in Europe, enables the Air France-KLM group to offer a large number of frequencies by destination and a wide range of flight times. A passenger can thus choose between ten daily flights to New York, five flights to Tokyo, two flights to Johannesburg and five to Montreal.

➤ **The most flight connection opportunities within Europe**



Number of weekly medium-haul/long-haul flight connection opportunities in under two hours.

The SkyTeam alliance and strategic partnerships

In order to meet the needs of all their customers, the airlines supplement their offer with alliances and strategic partnerships. The three largest alliances, SkyTeam around Air France-KLM in Europe, Star Alliance around Lufthansa and Oneworld around British Airways, represent more than 65% of world-wide traffic. Of the 50 largest airlines including low cost carriers, only the latter, the Gulf Airlines and a few niche companies who prefer to work with all the airlines do not belong to an alliance. Furthermore, membership of an alliance is a major commitment given the required partial integration of IT and frequent flyer programs. Only two airlines have switched alliance although the latter have existed for more than a decade.

Partnerships with other airlines which may sometimes belong to another alliance supplement the airlines' offers based on bilateral cooperation through code sharing or loyalty programs.

Alliances and partnerships are effective tools when it comes to supporting airline growth without additional investment in the fleet and, thus, without adding to CO_2 emissions. Such agreements enable the frequency effect to be reinforced on the principal routes, capacity to be pooled on low-volume routes and international offers to be supplemented with flights operated by partners in their domestic markets.

SkyTeam: a global alliance

SkyTeam, created in 2000, is a global alliance bringing together European, American and Asian airlines. While retaining their separate identities and brands, the airlines work together on offering their customers an extended network and global services. Local partners such as JAL in Japan and Qantas in Australia also expand the offer.

The alliance comprises Aeroflot, AéroMexico, Air France, Alitalia, China Southern, Czech Airlines, Delta (merged with Northwest), KLM and Korean Airways. Air Europa in Europe, Copa Airlines in Panama until November 2009 and Kenya Airways have joined them as associate airline members. Vietnam Airlines and Tarom, the Romanian carrier, should join the alliance in June 2010. Finally, in April 2010, China Eastern signed a Memorandum of Understanding confirming its plans to become a member of SkyTeam by mid-2011.

The SkyTeam alliance has been strengthened by the mergers between Air France and KLM, and Delta and Northwest, and by Air France-KLM's acquisition of a 25% equity interest in Alitalia. Lastly, the implementation of joint-venture agreements such as those between Delta and Alitalia or KLM and China Southern supplemented by an agreement with Air France in the Winter 2010 season reinforces the cooperation between members.

Governance of the alliance

The alliance is managed by a Governing Board and a Steering Committee with the Governing Board comprising the Chairmen and Chief Executive Officers of the member airlines. It meets twice a year to define the major strategic orientations and appoints, for a two-year term of office, the Chairman and Vice-Chairman of the Steering Committee which is made up of the alliance directors.

In April 2009, a centralized management entity was created, reporting to a Managing Director. This central entity is responsible for marketing, sales, airport synergies, the transfer product, cargo, advertising and the brand as well as for the alliance finances and administration. In liaison with the Governing Board and the Steering Committee, it implements plans to support SkyTeam's development. The alliance budget is financed by the airlines on an apportionment basis.

Major advantages for alliance members

In order to become an alliance member, airlines must fulfil a number of prior conditions notably in terms of operations, technology and products. They must thus be linked by code sharing agreements and have signed agreements covering their loyalty programs and the sharing of lounges. They must also be able to offer products and services specific to the alliance.

Belonging to SkyTeam strengthens the reputation of the airlines by enabling them to extend their offer to all world regions, bolstering their commercial presence. As a member of the SkyTeam alliance, Air France-KLM thus has access to a global network offering more than 13,133 daily flights to 856 destinations in 169 countries.

In sharing their expertise and know-how and by pooling best practices, airlines improve the quality of their services to customers. Lastly, the alliance also enables synergies to be generated within the framework of co-located facilities in airports or cities, the coordination of teams, the reduction of aircraft handling charges or better use of lounges. One important step has been the regrouping of the SkyTeam airlines in co-located facilities at London Heathrow's Terminal 4 where they share self-service check-in kiosks and a passenger lounge in the alliance colors.

Significant benefits for alliance customers

The SkyTeam network is organized around major hubs enabling the alliance to offer a very large number of connecting flights and guarantee its 462 million annual passengers a seamless travel experience on flights with one or several airline members.

The alliance has developed specific products such as the new Passes that enable travel in the destination region at attractive fares, global contracts exclusively for large companies or contracts for the organizers and attendees of congresses and international events.

Passengers earn air miles on all SkyTeam flights that can be redeemed with several alliance airlines during the same journey.

Strategic partnerships

Alitalia

In January 2009, Air France-KLM stepped up its cooperation with Alitalia through an operational partnership agreement, cemented by a 25% stake in the Italian company. Air France-KLM gains access to the Italian market, the fourth-largest in Europe, thanks to a restructured and financially solid partner with a strong presence in its domestic market following the merger with competitor Air One. For its part, Alitalia has access to the leading network linking Europe to the rest of the world thanks to the dual hub system whose reach into southern Europe is extended by this partnership. The main common objectives of the two companies are to strengthen Alitalia's positioning in the business customer segment and to share best practices.

The two partners have estimated the potential synergies at €370 million as of the second or third year, of which €90 million at the operating level for Air France-KLM. Air France-KLM will also benefit, in proportion to its holding in the share capital, from the synergies generated by Alitalia. After a year of co-operation, Air France-KLM confirmed this objective.

The joint-venture with Delta

A new stage in the structuring of the North Atlantic market was reached, in May 2008, when the US Department of Transportation (DoT) granted antitrust immunity to Air France, KLM, Delta and Northwest, enabling the implementation of a joint-venture agreement by the end of 2009 at the latest. The joint-venture was launched on April 1, 2009 with the equal sharing of revenues and costs.

This joint-venture, created to benefit the customers of the Air France-KLM and Delta groups, is the number one operator on the North Atlantic, the largest air transport market globally with a market share of 25%. More than 200 daily flights link the six principal hubs – Paris, Amsterdam, Atlanta, Detroit, Minneapolis and New York. The joint-venture is for a ten-year period and its governance bodies comprise an Executive Committee, a Management Committee and working groups.

The scope of this joint-venture is extensive and represents revenues of around $10 billion. It covers all the flights between North America, Mexico and Europe through integrated cooperation and all the flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with the flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination.

The joint-venture is based on four principles which have already been implemented or will be so during 2010. It involves reinforcing the hub to hub routes, adjusting capacity out of the American hubs towards secondary European destinations to avoid bypassing the Roissy-CDG and Amsterdam-Schiphol transfer platforms, the development of code sharing for connecting flights departing from the hubs and the extension of the joint-venture, notably with Alitalia in the summer of 2010. Furthermore, since October 2009, a single team comprising 60 revenue management experts from Air France, KLM and Delta has been managing all the flights of the three airlines on this network.

The Air France-KLM group expects a €150 million improvement in the economic performance of this network over three years. For the 2009-10 financial year, the Group estimated the gain linked to this joint-venture at some €50 million.

Results reflect the magnitude of the crisis

The 2009-10 financial year was characterized by a significantly adverse impact on activity during the first half followed by a slight improvement during the second half. However, the recovery at the end of the year started later and proved slower than expected, particularly at the revenue level.

First half (April-September 2009)

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

Second half (October 2009-March 2010)

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

2009-10 financial year

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

Key figures by network

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

The long-haul network

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

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

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

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

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

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

The medium-haul network

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

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

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

Key figures for the passenger business

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

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

Cargo business

The Cargo business is the second of the Group's activities, representing around 12% of total revenues. KLM has taken control of Martinair which has been fully consolidated since January 1, 2009 and is mainly involved in the cargo business. Furthermore, since April 2009, Air France-KLM has been gradually entrusted with marketing the holds of Alitalia aircraft and has implemented the joint-venture agreement between Air France, KLM and Delta including the transportation of freight in the bellies of passenger aircraft.

The air cargo industry profoundly affected by the global economic crisis

2009 was marked by one of most severe economic recessions the world has seen since the Second World War with an unprecedented collapse in international trade and GDP (-2.2%) after virtually-uninterrupted growth since 1945. While declines in world trade had already occured (-7% in 1975, -2% in 1982 and -0.2% in 2001), never before had they been of such magnitude (-12%).

The entire air cargo industry was affected with no airline or country left unscathed by the economic downturn and the fall-off in trade. While there are some signs of a gradual improvement in traffic, several years of growth have been wiped out: world-wide air cargo traffic fell by 19% during the first quarter of 2009-10 on the previous year and by 9% in the second quarter. Traffic, however, increased by 11% in the third quarter and saw year-on-year growth accelerate to 27.8% during the fourth quarter *(source: IATA),* driven by the growth of the Asian and Gulf airlines which benefited from the recovery in their local markets. These trends need, however, to be seen within the context of the very low comparison bases for late 2008 and early 2009, when the impact of the crisis was already being felt. At end March 2010, traffic for the IATA member airlines as a whole was still 1% down on the peak reached in early 2008. The regional differences are very marked. In the European region which remains down, traffic has returned to 2004 levels, or 16% below the pre-crisis level *(IATA estimate).*

In order to withstand the competitive pressure, airlines temporarily reduced capacity, leading to the grounding of full freighters and the cancellation of orders. At the height of the crisis, capacity was down by 12%. However, given the traffic improvement during the last quarter, capacity has been brought back on line. At end March, capacity was 3% below its pre-crisis level *(source: IATA).*

The structural world-wide overcapacity in air cargo contributed to driving prices lower which, in turn, led to respective declines of 20% and 40% in unit revenues and revenues for the industry as a whole during the 2009-10 first quarter. IATA estimates are of a 14% decline in unit revenue and a 23% fall in revenues for 2009 as a whole. Lastly, the integrators are maintaining constant pressure on prices by switching between different transport options.

Air France-KLM Cargo confirms its leadership position and remains the key player in global air cargo

Air France-KLM Cargo confirmed its position as the European and world-wide leader, excluding integrators. Its market share (including Martinair) amounted to 32.7% in 2009 (34.8% in 2008) amongst the AEA (Association of European Airlines) airlines and 8.4% at global level (9.3% in 2008). These declines in market share reflect the determination of the Group to prioritize unit revenue and refocus on the fastest-growing markets.

During the financial year, the Group transported more than 1.1 million tons of cargo of which 65% in the bellies of passenger aircraft and 35% in the dedicated cargo fleet, to a network of some 350 destinations in some 175 countries.

With its two major European hubs, Roissy-CDG and Amsterdam-Schiphol, Air France-KLM Cargo is well placed to offer its customers the benefit of access to major infrastructure in the European markets. Roissy-Charles de Gaulle is the leading European air cargo hub while Schiphol ranks number three.

The Group benefits to the full from its integrated organization which has been in place for the past four years. The Joint Cargo Team covers sales, distribution, marketing, network management and communication as well as strategy and development within one integrated structure, representing more than 2,600 of the 5,700 employees working for the cargo business.

Thanks to this organization, Air France-KLM Cargo can offer its customers a single contact point, a single contract and a unified network with the choice of two operational systems via Paris Charles-de-Gaulle or via Amsterdam-Schiphol, or a combination of both hubs.

Air France-KLM Cargo has a product range organized around four product families, Equation, Cohesion, Variation, Dimension, which is also offered by the members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo brings together Air France-KLM Cargo, AeroMexico Cargo, CSA Cargo, Delta Air Logistics now merged with Northwest Cargo and Korean Air Cargo with a network of 728 destinations.

The share of standard airport-to-airport shipping which does not require special handling is gradually declining in favor of other products with higher added value: Dimension represented 53% of revenues relative to 56% in the previous year.

A timely and organized response to the crisis

Faced with the collapse in traffic and unit revenue, Air France-KLM reacted with a robust response.

A rapid and significant reduction in capacity: in the Summer 2009 season, capacity was reduced by 17.4 % on the Summer 2008 level (-33.6% in full freighter) while, for the Winter 2009 season, the cut was -15.1% relative to the winter of 2008 (-32% in full freighter). Relative to its 2007-08 level, capacity was down by 22% overall, with -45% in full freighter and -11% in combi. The number of freighters in operation decreased from 25 in the Summer 2008 season (including Martinair) to 14 in Winter 2009.

A rationalization of the Group's schedule: a marked reduction in the number of destinations served by more than one operator. Since Winter 2009-10, some 70% of the exclusively-cargo destinations have been served by a single operator versus 40% at the time of the Martinair acquisition in January 2009.

A recovery in unit revenue: as of October 2009, the Group significantly increased its prices, by as much as 30% depending on the market.

A reduction in costs and strict cash management: the Group reduced its costs by around 14% relative to 2008-09 and adjusted its workforce to the level of production through, in particular, voluntary mobility. The total workforce was reduced by 7.5% (i.e. 450 jobs) between April 1, 2009 and March 31, 2010. Since the beginning of the crisis, the number of employees will have been reduced by a total of 13.5%, or 700 employees.

The development of new partnerships with Alitalia and the trans-Atlantic joint-venture: the acquisition of a 25% stake in Alitalia enabled the Group to step up its cooperation with the Italian carrier and its presence on the Italian market, the fourth largest in Europe. The Group is henceforth responsible for the marketing, revenue management, and supervision of Alitalia's cargo operations. Furthermore, the joint-venture agreement between Air France-KLM and Delta in April 2009, now allows the three companies to cover 25% of the total trans-Atlantic capacity and is reflected in the close coordination between the three airlines' commercial policies.

The definition of a new strategy: as of the summer of 2009, priority was given to the bellies of passenger aircraft and combis, with the support from a supplementary full freighter offer to improve the overall economic performance. This new strategy is underpinned by an exceptional long-haul network in terms of coverage, density and connectivity. It is based on the growing number of new-generation Boeing B777 passenger aircraft with much greater cargo capacity.

The environment: a major concern

In a difficult context, innovation remains one of the Group's priorities when looking to the future.

Within the air transport industry, Air France-KLM makes one of the greatest commitments to sustainable development and mitigating the impact of its activity on the environment remains a key consideration for Air France-KLM Cargo. It recently introduced the opportunity for customers looking to offset the CO_2 emissions involved in their flights with offsetting programs enabling, for example, the financing of carbon-free energy generation projects (wind, solar-powered, etc.).

Additionally, despite the crisis, the Group is pursuing the modernization of its cargo fleet with the phasing in of the Boeing B777-200Fs which enable a minimum reduction of 18% in carbon emissions per ton-kilometer transported. This aircraft is also the quietest in its category.

Other sustainable development initiatives have been launched such as the development of e-freight, which generates substantial savings on paper, the recycling of the batteries in refrigerated containers or the purchase of lighter equipment to be loaded on board aircraft.

2009-10: results in line with the environment

Like the passenger business, the cargo business saw different trends during the first and second halves, the latter benefiting from the economic improvement in terms of both traffic and revenues and the first effects of the restructuring implemented in November 2009.

First half (April-September 2009)

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

Second half (October 2009-March 2010)

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

2009-10 financial year

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

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

* *Pro-forma Martinair.*

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

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

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

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

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

Key figures for the cargo business

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

* *Pro-forma Martinair.*

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

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

Maintenance business

Aircraft maintenance is the Air France-KLM group's third business. In addition to the services provided to the Group fleets, one third of this activity is realized with third-party customers, generating revenues amounting to around 4% of the Group total.

In the aeronautics maintenance or MRO (Maintenance, Repair and Overhaul) market, Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) ranks number two globally amongst the multi-product players. AFI KLM E&M has a dual mission: to ensure the competitive support of the Air France and KLM fleets, and to be a leading MRO player contributing to the Group's results.

A market affected by the crisis

Made up of the spending on direct or sub-contracted aircraft maintenance and modification by the aircraft operators, the global MRO market is estimated at US$42.6 billion for 2009, down by 3.2% relative to 2008. Trends in this market closely follow those of the airline fleets globally and their usage patterns. Volumes in this market are more sensitive to variations in older-generation fleets than to those comprised of new-generation aircraft (technological advances and maturity effect).

The current economic crisis has not spared the aircraft maintenance market which has naturally been impacted, with a slight time lag, by the adaptation measures taken by most airlines: the scaling back of flight schedules, route closures and the withdrawal of the oldest aircraft from operation.

The number of parked aircraft thus increased by 50% between January 2008 (1,972 aircraft) and January 2010 (2,970 aircraft). Over the same period, the global operational fleet grew by 2% with the withdrawal of older-generation aircraft leading to a significant increase in the number of more fuel-efficient and economical new-generation aircraft on which AFI KLM E&M is particularly well positioned. (Airbus A320 +22%; Boeing B737NG +28%; Boeing BB777 +23% and Airbus A330/340 +16%) *(Source: ACAS).*

AFI KLM E&M well positioned but facing tougher competition

The recession has led to major changes in this market with a marked deterioration in the portfolios of some competitors due to the downsizing of older-generation fleets. Competitors are thus starting to aggressively position themselves in AFI KLM E&M's product market.

At the same time, airframe, engine and equipment manufacturers are significantly increasing their after-sales services on this market by offering customers increasingly integrated maintenance solutions. This positioning, which is partly being driven by the need to offset a declining revenue stream from crisis-hit original equipment sales, nevertheless corresponds to a long-term strategy based on leveraging intellectual property. The Group's suppliers are also its competitors and this trend is not limited to new aircraft programs such as Boeing's Goldcare 787 or to the activities of engine manufacturers.

In this environment, AFI KLM E&M managed to maintain its third-party revenues over the financial year, the business benefiting from some genuine competitive strengths: the scale effects afforded by the Group's own fleets together with those of its customers, an extensive range of services, the outstanding expertise of its teams and a policy of continuous improvement. All of these are decisive advantages when it comes to implementing the corporate strategy.

Two strategic focuses – three challenges

With its leading position as the global number two multi-product MRO by total revenue, AFI KLM E&M is pursuing its strategy of targeted growth, based on its specific strengths. This strategy is aimed at, firstly, lowering costs and improving performance levels and, secondly, developing the customer portfolio in high-value-added products and services.

AFI KLM E&M has thus set itself three key challenges aimed at achieving these strategic goals:

- shared development of its industrial capabilities;
- adapting its products and services to each business segment;
- continuing to expand its global network.

Shared development of industrial capabilities

AFI KLM E&M is developing its in-house capabilities and has launched an Industrial Development Plan (IDP) for the Component and Engine part repair activities. These industrial development plans for the workshops aim to rationalize the Group's production capacity (AFI KLM E&M, its subsidiaries and affiliates) by taking into account an equitable distribution of technology, the optimization of investment, and the sharing of cost increases among the different components.

AFI KLM E&M thus offers its customers leading-edge technology tailored to the needs of their new-generation aircraft, highly-trained teams and extensive capabilities to ensure a flexible response to their own scheduling needs.

Products and services tailored to each customer

More than 150 customers use AFI KLM E&M services and value the flexible, customized solutions it can offer. Every customer has their own unique set of specificities and requirements which the Group does its utmost to satisfy. Air Austral, for example, has signed a contract with AFI KLM E&M for the full support of its Boeing B777 fleet and, in so doing, benefits from the valuable economic advantages tailored to its fleet operations.

The renewal of customers' maintenance contracts helps AFI KLM E&M to develop new products and services in its various activities. The expertise acquired in MRO operations for the Group's own fleet and those of third-party customers means that AFI KLM E&M can offer a comprehensive range of solutions, from support to line maintenance, component support, engine overhaul and cabin modification.

Component Support: a service business par excellence

Component support covers repairs to a wide technology spectrum of aircraft components, the oversight of technical and reliability standards, and the management of physical flows to and from customers' operating bases. Development opportunities for this product are to be found in geographically far-flung markets. As a result, AFI KLM E&M customers tend to favor service integration, requiring access to a pool of spare parts. The Group is accordingly deploying a global support network based on local logistics units tailored to customer needs. Air Asia X has, for example, signed a contract with AFI KLM E&M covering component support on its fleet of 25 Airbus A330s. This Asian low-cost carrier wanted to work with a world-class partner to ensure that its fleet benefits from the very best maintenance and services.

In the case of Eagle Aviation Europe, AFI KLM E&M was chosen to provide component support for its Boeing B747-400s on the basis of its flawless response record, competitive pricing and access to a spares pool in Europe.

For some aircraft types, partnerships with manufacturers also deliver economies of scale. Examples include the CSP Component Support Program between Boeing and AFI for the Boeing B777, and KLM E&M for its Boeing B737 NGs.

As part of the investment program that has been underway for several years, AFI KLM E&M this year took delivery of a 7,000 m² logistics facility located at Orly, a key component in the logistics arrangements for its platforms. More generally, Logistics, an integral part of Component Support and customer service, is the focus of a multi-year Group *Supply Chain: Logistics* program aimed at improving the logistics performance for internal and third-party customers alike.

Engine support: a changing business

The Group's Engine Support activity continues to grow. AFI KLM E&M customers benefit from the world's largest CFMI and General Electric engine overhaul facility, divided between the Group's two ultra-modern engine shops located in Amsterdam and Paris.

CFM56: These two engine shops currently support the largest fleet of CFM56-5 powerplants in the world, with nearly 400 engines operated by a wide range of airlines. One of these customers, Thomas Cook, the world's second-largest tour operator, has also extended the coverage of its contracts with AFI KLM E&M to include maintenance of its CFM56-5B engines. Similarly, for the CFM 56-7, Moskovia Airlines chose to entrust the Group with the maintenance of its Boeing B737NG fleet.

CF6-80E1: With its full-service maintenance offer, AFI KLM E&M is currently responsible for maintaining 20% of the world's CF6-80E1-equipped aircraft. This engine, whose design is similar to that of the CF6-80C2, offers 60% component commonalty. By choosing AFI KLM E&M to maintain its CF6-80 E1 engines, Vladivostok Air opted for a partner that met its need for full-service maintenance at competitive prices.

Furthermore, since March this year, AFI KLM E&M has been the first European MRO to be certified by the Magellan group for repairs to CF6-80C2 ejector nozzles, the engine on which AFI KLM E&M has long been a leading player.

GE90: AFI KLM E&M provides an alternative to the manufacturer's services in terms of overhaul and services on this engine with its offering supported by cutting-edge infrastructure. The Group has expanded its MRO capability through ongoing investment in facilities and, after adding 5,500 m² of space to its workshops in 2006, a further 9,500 m² is planned for 2010. This investment will enable AFI KLM E&M to offer customers more Very Big Engines (VBE) capacity such as on the GE 90 and the GP7200, the powerplant equipping the A380. The Group will be able to service up to 100 VBEs a year (compared with 50 currently) and will develop overhauls for their low pressure modules, all of which will benefit from reliable engine processes and optimized working conditions.

The Group's Engines activities continue to control raw material costs via a range of initiatives designed to benefit both the Group and its customers. AFI KLM E&M is thus stepping up the expansion of engine part repair capabilities for the various models. Repairs are carried out at its Amsterdam-Schiphol engine shop and in AFI's CRMA subsidiary, specialized in repairs to new-generation engine parts and sub-assemblies. CRMA, which has already been selected by Engine Alliance (for the GP7200), was also this year chosen by General Electric as the primary repair shop for its combustion chambers and turbine center frames (the rear part of a High Pressure Turbine).

Ongoing change in the airframe business

As a result of new technologies, the Heavy Maintenance market continues to undergo profound change. Recent-generation aircraft (Boeing B777 and Airbus A330/340) require considerably less heavy maintenance labor input. AFI KLM E&M correctly predicted these changes and is adjusting its industrial base accordingly.

AFI KLM E&M is developing partnerships with entities in countries with low labor costs. For example, the Aerotechnic Industries joint-venture, set up in June 2009 with Royal Air Maroc and based at Casablanca airport, offers the market two heavy maintenance bays for medium-haul aircraft in the Airbus A320 family.

AFI KLM E&M expanding and re-branding its network

To take advantage of market opportunities in different geographies, AFI KLM E&M is densifying its network to enable it to capitalize on its leading position for new products.

Under the *AFI KLM E&M Network* brand name and associated logo, AFI KLM E&M is underscoring the development of its global network of partners comprising the Group's maintenance subsidiaries (AMG Group, CRMA, EPCOR, KLM UK Engineering, and Turbine Support International (TSI)) and its AMES, Aerotechnic Industries, and Spairliners joint-ventures.

Next May, EPCOR will celebrate its tenth anniversary. Since its creation, the Group's subsidiary has refocused its offer on auxiliary power unit (APU) maintenance for Boeing B737NGs, Boeing B777s and Airbus A318-A321s, A330s and A340s, along with the repair and overhaul of pneumatic systems (e.g. air conditioning units, pressurization systems, starter motors, and leading-edge slat motors) mainly used by commercial fleets. Based near Schiphol airport in Amsterdam, EPCOR guarantees an effective response to requests from customers all over the world.

In June 2009, an agreement was signed between AFI and Aircelle Safran group to set up a joint-venture, Aerostructures Middle East Services (AMES), for the maintenance and repair of aircraft engine nacelles in the Persian Gulf and Middle East region. The new engineering unit will benefit from the combined expertise of an international MRO and a reputed OEM (equipment manufacturer). Together, the two partners will jointly offer services to customers around the region covering all types of nacelle backed by a local presence meaning that the aircraft do not need to leave the region. AFI KLM E&M specializes in GE and CFM engine nacelles, and Aircelle those manufactured by Rolls-Royce and GE. This close proximity to future customers means that the new joint-venture can offer responsive, high-quality services to guarantee its success. On March 1, 2010, AMES officially inaugurated its new workshop based at Dubai in the Jebel Ali Free Zone.

Since last November, the Spairliners joint-venture between AFI and Lufthansa Technik has been providing component support for Air France's first two A380s. Its customer portfolio already includes the six A380s operated by Qantas, and the joint-venture will shortly take responsibility for Lufthansa's first three A380s. Spairliners maintains the same services to three flight simulators. Advance inventories have been positioned around the world in Johannesburg, Los Angeles (Qantas), Melbourne, Munich, New York, Paris and Singapore.

In short, the AFI KLM E&M network is underpinned by the development of local support units backed up by European bases, and the consolidation of a unique, high-performance Group logistics backbone.

A green contribution

Corporate Social Responsibility in all its forms is central to Air France-KLM's strategy. The Group has a common policy that both airlines apply, each using their own procedures and mobilizing all their resources.

AFI KLM E&M uses complementary approaches and the diversity of its teams' skills to contribute to furthering the Group's Corporate Social Responsibility priorities.

AFI KLM E&M has launched initiatives to control its impact on climate change. The *Engine Water Wash* procedure, for example, which is recommended for engine operations, is also a source of savings for the Group and its customers by extending the lifespan of engines, reducing fuel burn, and cutting CO_2 emissions. The new environmentally-friendly painting process developed by KLM E&M which is now part of the Group's product range is an innovative solution for third-party airlines concerned about minimizing their environmental impact.

In conjunction with General Electric, AFI KLM E&M also recycles used components from its aircraft. After transformation they are used to manufacture new engine parts in a process based on the *Cradle to Cradle* philosophy, in which everything is recycled and nothing thrown away.

As part of moves to upgrade its maintenance infrastructure, AFI KLM E&M now integrates High Environmental Quality (HQE) standards right from the inception of construction projects. The logistics building built at Orly, for example, is HQE certified, as will be the new Engines facility scheduled for delivery in June 2010.

Sustainable quality management

AFI KLM E&M has built sustainable development principles into its quality management system. This is why the ISO 14001 environmental standard has become the benchmark for all its activities. In France, the Group obtained Single Global Certification for its entire operational footprint. This includes ISO 14001 and seven other standards, including OHSAS 18001 for Occupational Health and Safety and ISO 15489 for document management.

Operational synergies

In addition to the structural changes designed to align procedures in procurement and sales on a permanent basis, operational synergies between AFI and KLM E&M can also be evaluated by the level of revenues exchanged between the Group's two MRO arms. For the 2009-10 financial year, this figure amounted to €200 million, compared with €173 million in the previous financial year.

Key figures for the maintenance activity

Year ended	March 31, 2010	March 31, 2009*
Aircraft handled	1,260	1,230
Total revenues *(In €m)*	2,947	2,914
Third-party revenues *(In €m)*	956	956
Income from current operations *(In €m)*	81	98

* *Pro-forma Martinair.*

Other businesses

The main businesses in this segment, which represents 6.3% of the Group's total revenues, are the catering and leisure activities which include Transavia and the Martinair leisure business, the latter being part of the Group since January 1, 2009. Consolidated revenues stood at €1.33 billion at March 31, 2010 compared with €1.49 billion pro-forma at March 31, 2009. This decline was due to the leisure business. The operating results of the other businesses improved over the financial year, moving from a loss of €42 million pro-forma at March 31, 2009 to a loss limited to €12 million at March 31, 2010.

Catering: a leading player

The catering business is organized around Servair, an Air France subsidiary, which contributes 93% of the revenues of this activity and KLM subsidiary, KLM Catering Services. Servair has 9,150 employees, including more than 100 head cooks and 40 experts in hygiene, microbiology and quality standards. KLM Catering Services is the leader in its domestic market.

A 97%-owned subsidiary of Air France, Servair is the leader in the French catering market and ranks number three amongst the airline catering companies globally. As the day-to-day partner of the airlines for on-board services and passenger comfort, Servair has three main activities:

- catering and logistics with the assembly of meal trays for passengers and crew and their loading, compliant with regulations specific to the air transport sector and the pre-preparation of meals;
- the cleaning and loading of cabins through its subsidiary ACNA. Through its other subsidiaries, Servair also offers its customers services such as assistance for passengers with reduced mobility, the management of on-board sales and the supply of newspapers and magazines. The company thus offers a range of services which are vital to the air transport industry and to passenger comfort;
- lastly, Servair offers consultancy based on a comprehensive range of customized services offering the airline world the best support both on the ground and in the air.

Some 25 of the Servair production sites are now ISO 9001 V2000 certified and two sites have ISO 14001 certification. One of these sites also has OSHAS 18001 certification. Furthermore, the Servair laboratory, which carries out 50,000 analysis operations annually, has obtained COFRAC accreditation.

Servair has operations at nearly 70 airports world-wide and has 43 subsidiaries located in France, Italy (Servair Air Chef), Africa, the Caribbean and the Indian Ocean. The company also has a number of equity interests in companies based in Europe (London, Madrid and Barcelona), the United States with Flying Food Group (Seattle, Chicago, Miami, San Francisco and New York), China and Africa.

Having strengthened its partnership with the US catering company Flying Food Group and inaugurated, in June 2009, the Flying Food Servair New York production site at JFK airport, Servair also marked its entry into Latin America by forming a partnership with the local operator Comissaria Rio. Lastly, the financial year saw the creation of the *Servair Culinary Studio* a laboratory for culinary innovation in cooperation with some of France's most outstanding chefs. Servair plans to use this culinary studio to broaden its product range and expertise so that it can continue to provide airline passengers with ever more creativity and enjoyment.

Key figures for the catering business

Year ended	March 31, 2010	March 31, 2009
Total revenues *(In €m)*	903	939
External revenues *(In €m)*	347	352
Income from current operations *(In €m)*	19	21

Leisure: a low cost offer

The Air France-KLM group's leisure offer is based on its Transavia subsidiary and the Martinair leisure business which has been significantly scaled back since its integration within the Group. During the 2009-10 financial year, its capacity was effectively reduced by 30.5% with its contribution to the leisure segment amounting to €133 million (€223 million at March 31, 2009).

Transavia, the Group's low cost subsidiary, has operations in the Netherlands, Denmark and France directed at medium-haul leisure customers as well as, via its charter flights, tour operators. The airline also leases its aircraft with or without crew.

During the financial year, Transavia Netherlands operated a fleet of some 30 Boeing B737-700 and 800 aircraft and offered, out of Amsterdam, Eindhoven and Rotterdam, scheduled flights to

30 destinations and charter flights to 63 destinations which can also be booked by individual passengers.

In late 2008, the company also introduced scheduled flights leaving from Copenhagen. In order to strengthen its operations out of Denmark, Transavia Denmark was created in early 2009. During this first year, this subsidiary operated three aircraft offering scheduled flights to eight destinations and charter flights to 16 sun or winter sports destinations.

The airline's growth in the winter sports market led it to launch flights from Denmark, Germany and Belgium bound for Innsbruck in Austria.

Transavia France, launched in May 2007, has developed a network of 30 scheduled and charter destinations with a fleet of seven Boeing B737-800s. The company has seen a significant increase in revenues and profitability although it remained modestly loss-making at March 31, 2010.

Key figures for the leisure business

Year ended	March 31, 2010	March 31, 2009*
Number of passengers *(In million)*	7,1	6.7
Total revenues *(In €m)*	918	1,052
Income/(loss) from current operations *(In €m)*	(23)	(28)

* *Pro-forma Martinair.*

Fleet

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

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

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

A pro-active fleet policy

The Air France-KLM group pursues a pro-active fleet policy whose objective is to ensure a fleet scaled in line with traffic growth and achieve technological consistency while reducing its environmental impact.

The fleet policy is established according to the following four key principles:

- to meet the need for fleet renewal and expansion;
- to remain compatible with the Group's financial capacity;
- to preserve the asset value of the fleet over the medium and long term;
- to retain an adequate level of flexibility in the fleet plan.

The analysis of requirements, whether in terms of renewal or expansion of the fleet, is based on the age curve of aircraft, the availability of replacement aircraft as well as the outlook in each market segment. Following this analysis, a target plan is established taking into account the forecast financial capacity of the Group.

In order to preserve the fleet's asset value, the choice of aircraft is based on models offering long-term operating potential and a potentially positive residual value. In addition, the Group favors aircraft specifications as close as possible to industry standards in order to facilitate their eventual replacement.

The merger between Air France and KLM enables the development of a joint approach to suppliers and the transfer of aircraft between subsidiaries.

An adjustment in the aircraft delivery plan and in investment

Flexibility in the management of the fleet enabling capacity to be fine-tuned to demand is an important optimization tool in a sector which is subject to considerable and rapid change. This flexibility is achieved either through contract clauses or operating lease contracts. In its contracts, the Group provides for clauses enabling, within the limits of contractual notice periods, the adjustment of delivery schedules and/or a change in the model delivered within a family of aircraft. The operating lease policy has been implemented progressively and concerns on average a third of the Group's fleet. This gives the Group a degree of leeway on around 5% of its capacity in returning aircraft or extending their contract periods.

In addition to this flexibility and to contend with the crisis, the Group has taken two major measures which have impacted the fleet plan: the rescheduling, over a four-year period, of the delivery of 17 aircraft under firm order initially planned for 2009-10 and 2010-11 and the deferral of the exercise of five options.

These measures also enable an adjustment in the investment plan. Furthermore, the Group has financed its investment in the fleet through secured bank loans, operating leases and sale and leaseback transactions on new aircraft and those already in the fleet. At March 31, 2010, aircraft acquisitions amounted to €1.1 billion including advance payments. Investment in flight equipment (including spare parts and maintenance) stood at €1.7 billion.

The environment: a key concern

Despite the decision to adapt the fleet plan to the crisis, the two companies continue to modernize their fleets and thus to reduce their carbon emissions, even if this plan involves extending the operation of the most-recent Boeing B747-400s at Air France. The Group thus took delivery of 17 new aircraft during the financial year.

The Air France group fleet

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

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

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

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

The Air France fleet

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

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

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

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

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

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

The fleet of the regional subsidiaries and Transavia

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

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

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

The Transavia France fleet, the low cost and charter subsidiary launched in May 2007, comprises seven Boeing B737-800s, all in operation and under operating lease. An eighth aircraft was sub-leased to Transavia Netherlands between June 2009 and March 2010.

The KLM group fleet

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

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

The KLM fleet

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

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

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

The subsidiaries' fleet

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

Other non-regional fleets

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

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

Regional fleet

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

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

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

Air France fleet

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

Regional fleet

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

Other fleet

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

KLM fleet

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

Regional fleet

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

Other fleet

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

Air France-KLM group fleet

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

Highlights of the beginning of the 2010-11 financial year

The 2010-11 financial year opened with the crisis linked to the closure of European airspace following the eruption of an Icelandic volcano. The Group's passenger, cargo and leisure businesses were virtually totally closed for four days, followed by a progressive reinstatement of the schedules over three further days. The Group estimated the loss of revenues at €260 million and the impact on the operating result at €160 million. The month of April, which had started with a traffic increase in the passenger and cargo businesses, recorded a 15.9% decline in passenger traffic and a 2.0% decline in cargo traffic. Unit revenues, however, were up relative to April 2009.

As of today, negotiations are ongoing concerning the eventual level of compensation. Furthermore, the Group is actively cooperating with the authorities to define a comprehensive and pragmatic approach to the management of the volcanic ash risk so as to avoid any further unnecessary flight operation stoppages in future.

May saw very dynamic activity. Passenger traffic increased by 4.3% while capacity remained flat (+0.1%), leading to a 3.3 point improvement in the load factor to 80.6%. All the long-haul networks, with the exception of the Caribbean and Indian Ocean network, showed strong growth in activity. The medium-haul network saw stable traffic for a 5.6% reduction in capacity, underpinning a 4.1 point increase in the load factor to 74.1%. Cargo traffic was also very robust (+8.7%) for a 3.2% reduction in capacity, the load factor increasing by 7.8 points to 70.6%. Unit revenues were markedly higher than their levels of the previous year.

For the current financial year, the Group has decided to limit capacity growth (+1% for the passenger business and zero for cargo) in order to restore unit revenues. It has also prioritized cost control, notably through a reduction in headcount (around -3%) to contend with the expected increase in the fuel bill. Based on the forward curve at May 14, 2009, i.e. $82 per barrel, the fuel bill should amount to $7.3 billion (after hedging) versus $6.6 billion in 2009-10. The volatility in the oil price is leading to that of the fuel bill which could be limited to $6.8 billion for a barrel at $70 or reach $8 billion for a barrel at $100.

The benefits of the measures launched in 2009-10 to adapt both the company's products and organization, outlined in the Strategy and Activity sections, will feed through.The Group expects these measures to lead to an improvement of between €900 million and €1 billion in the 2010-11 operating result driven by:

- additional revenues estimated at between €180 and €220 million
- around €700 to €750 million of cost savings, of which €510 million within the framework of the *Challenge 12* plan and €200 to €250 million through the adaptation of the businesses.

Lastly, the positive revenue performance seen since the beginning of the financial year and confirmed by the quality of the bookings for coming months underpins the objective of a significant rebound in revenues. This recovery in activity, combined with the restructuring measures, should enable, in particular, the cargo business to reduce its 2009-10 losses (€436 million) by some two thirds.

As a result, the Group maintains its objective of a return to operating break-even excluding the impact of the pre-2009 hedges, estimated at between €300 and €400 million based on the forward curve of May 14, 2010, subject to the final evaluation of the cost, after compensation, of the volcanic ash cloud crisis.

On April 29, 2010, the company WAM was the subject of an IPO on the Madrid stock market in Spain under the name Amadeus. On this occasion, the Group generated a €1.03 billion gain on the sale of around one third of its shareholding and the revaluation of its remaining stake (15.2%). This transaction also brought in €195 million of cash. The remaining shareholding will be valued at the market price at the end of each quarter. Based on the balance sheet at March 31, 2010, the Amadeus transaction lowers the Group's gearing ratio from 1.15 (excluding Amadeus) to 0.95.

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Social and environmental data

3.

Social data

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

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

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

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

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

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

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

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

Air France-KLM's human resources and employment policy

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

Differences between the social legislation in the two countries mean that the two companies have separate human resources policies. However, with the integration of the activities moving more rapidly given the economic context, the Group has implemented a series of rules enabling the two companies to work together and managers to reconcile the differences.

Lastly, the Group is preparing the executives who will become the managers of the future to enable a shared management culture to drive the Group's integration momentum. Specific joint training programs common to both companies are implemented for executives and senior executives, as well as for the management teams and joint project management.

Air France

Employment

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

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

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

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

Sub-contracting/temporary staff

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

Organization of working time

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

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

Professional gender equality

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

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

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

Promoting equality of opportunity and combating discrimination

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

Compensation and sharing the value created

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

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

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

Senior managers benefit from a variable compensation scheme: 30% based on the company's results, 40% on the achievement of targets linked to the position and 30% on the achievement of targets in terms of personal development. Given the losses made by the company in

2008-09 and 2009-10, no compensation was paid in respect of the profit-related portion.

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

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

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

Social dialogue

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

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

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

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

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

Health and safety in the workplace

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

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

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

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

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

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

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

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

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

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

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

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

Training

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

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

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

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

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

In 2009, the highlights were:

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

Diversity and corporate social responsibility

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

Integration through youth employment

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

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

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

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

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

Recruitment: equal opportunity

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

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

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

Policy on disability

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

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

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

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

Corporate Social Responsibility at local level

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

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

KLM

Workforce and employment

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

Maintaining employment/mobility

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

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

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

Organization of working time

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

Professional gender equality

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

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

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

Compensation policy

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

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

Social dialogue

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

Health and safety in the workplace

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

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

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

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

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

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

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

Training

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

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

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

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

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

Vocational integration of disabled persons

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

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

Corporate social responsibility at local level

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

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

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 Economiques*, NRE, May 15, 2001) and the European Regulation (EC 800/2004).

Since the 2007-08 financial year, the Group has chosen to have a selection of the principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √) in the tables on pages 74 and 75.

The nature of the work undertaken and its conclusions are presented on pages 92 and 93.

The level of assurance for the 2009 financial year is moderate[1].

Reporting scope

The Air France-KLM NRE 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 a significant number of employees are included in this NRE social reporting.

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

- For 2009, the Air France consolidated subsidiaries are: Bluelink, Brit Air, CityJet, VLM, CRMA, Regional, Servair Group (ACNA, Bruno Pegorier, OAT, Servair SA, CPA), Sodexi and Transavia France, representing 73% of the employees of the subsidiaries in the Air France group (average employees at the end of the calendar year in full time equivalent).
  In 2009, this scope was extended to three new subsidiaries: VLM, CPA (in the Servair group) and Transavia France.
- For 2009, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KES (KLM Equipment Services), KHS (KLM Health Services), KLM UK Engineering limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 97% of the employees in the subsidiaries of the KLM group (average employees at the end of the calendar year in full time equivalent).

In 2009, the reporting scope of the KLM subsidiaries was changed with:

- The inclusion of a new subsidiary: Martinair. Note that KLM's Cobalt Ground Solutions subsidiary is the result of the merger between the AFSL and KLM Ground Services Limited subsidiaries that were included in the NRE social reporting scope in 2008.
- The withdrawal of the CSC India subsidiary due to the reduction in KLM's shareholding which fell below the 50% threshold required to be included in the reporting scope.

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 complied 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 in the Osyris tool, available in both French and English. Consistency tests have also been implemented.

This year, a general reporting procedure was added which defines the process for compiling, calculating and consolidating the indicators. This procedure is based on an instruction memorandum issued 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 verification.

Details and methodology - Commentary on changes in the indicators

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.

The notes below refer to the references in the tables on pages 74 and 75.

Employees

Note 1: The number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) on the payroll at December 31 in the reference year.

The Group's reporting scope has been extended to include three new subsidiaries: VLM, Transavia France and Martinair, i.e. some 2,132 additional employees.

Note 2: In 2009, based on the 2008 scope, the number of Air France-KLM group employees stood at 105,957, i.e. a reduction of 3.7%. By employee category this fall was -4.2% for ground staff, -2.9% for cabin crew and -2.2% for flight deck crew.

The reduction in employees is the result of a series of measures implemented in response to the economic crisis such as the hiring freeze and the review of posts to establish whether or not replacements would be appointed in the event of departures.

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.

Departures

Note 4: The departures cover all reasons for departure, including at the end of fixed-term contracts, explaining the difference between the total number of departures and the departures detailed by reason.

In 2009, note the significant number of departures for other causes and, notably, due to the non-renewal of fixed-term contracts.

Percentage of women - Organization of working time

Note 5: The calculation of the indicators for the proportion of women in the workforce and the organization of working time is based on the number of employees on both permanent and fixed-term contracts at December 31 of the reference year.

Note 6: The increase in the number of part-time employees at KLM is explained by the increased flexibility in KLM's HR policy which enables those employees who so wish to move to part-time working and by the freeze on the recruitment of new employees who generally begin their careers on a full-time basis.

Table on *Other social data* for the Air France and KLM groups

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 below.

Health and safety - Absenteeism

Cases of barometric otitis and musculoskeletal disorders are recorded as work-related accidents in France and represent more than half the work-related accidents reported by Air France in 2009, whereas they are recorded as sick leave by KLM, consistent with Dutch law.

KLM and KLM subsidiaries

The system for monitoring days of absence implemented by KLM does not, at present, include the data relating to days of absence due to work-related accidents.

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 only reports accidents involving time off work, consistent with French law.

The frequency and severity rates are calculated based on:

- The theoretical hours worked by the ground staff from which hours of absence due to illness, maternity and workplace accidents are subtracted.
- The hours of commitment for the flying crew, corresponding to the number of hours of exposure to professional risks within the framework of their activity on the ground and in flight.

Note 1: Air France regrets 13 work-related fatalities during 2009, 12 of whom were the crew members on flight AF447 between Rio and Paris when it was lost on June 1, 2009.

Despite the context, the fall in the frequency and severity rates at Air France is the result of the ambitious action and prevention plans implemented by the company.

KLM and KLM subsidiaries

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

Note 1: Until 2008, KLM also reported work-related accidents not involving time off work as soon as they were qualified as accidents in the workplace. In 2009, this definition was changed to limit the reporting of work-related accidents solely to those involving time off work. This explains, for KLM and its subsidiaries, the very significant fall in work-related accidents and the frequency rate between 2008 and 2009.

Note 2: Despite a reduction in the number of work-related accidents involving time off work, the increase in the severity rate is explained by longer absences from work following work-related accidents.

Note 5: The health and safety data of the KLM subsidiaries are calculated without the Cobalt Ground Solutions subsidiary. KLM's Transavia and Martinair subsidiaries were included in the frequency and severity rates for the first time in 2009.

Training

Air France and Air France subsidiaries

The amounts taken into account for the calculation of the indicator showing the percentage of the total payroll dedicated to ongoing vocational training are reported in line with Declaration 2483 relating to company contributions to training.

Note 2: In 2009, 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.

Note 5: The training data for the Air France group's subsidiaries are calculated without the Transavia France subsidiary.

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 data is now reported. Note that the disclosure of this information is not required by Dutch law.

Number of disabled employees

Air France and Air France subsidiaries

For Air France, the number of disabled employees reported are 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 3: For Air France: the increase in the disabled employment rate is notably explained by significantly higher recourse to the protected sector. The number of employees with disabilities remained stable despite retirement departures; seven employees were recruited despite the external hiring freeze pursuant to the 2009-11 three-year agreement.

Note 3: 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 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 government benefits to compensate for the possible difference.

Note 3: Due to a change in Dutch law, the number of disabled employees working for KLM declined between 2008 and 2009.

Note 6: The reporting of disabled employees was extended to KLM's subsidaries in 2009 with the exception of Martinair.

Collective agreements signed

In 2009, the reporting of KLM and KLM's subsidiaries was extended to include the collective agreements signed during the calendar year.

(2) Déclaration annuelle Obligatoire d'Emploi des Travailleurs Handicapés or annual mandatory declaration on the employment of disabled persons.

Social indicators for the Group

Social indicators for the Air France-KLM group

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

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

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

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

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

(1) ***The reporting perimeter for the Air France-KLM group's NRE social data concerns*** *the employees defined as "headcount" who were on the payroll at the end of the year.*
Changes in reporting scope for 2009:
- *Inclusion of the VLM (CityJet group subsidiary), CPA (Servair group subsidiary) and Transavia France subsidiaries within the Air France group scope.*
- *Inclusion of the Martinair and Cobalt Ground Solutions (result of the merger between Air France subsidiary AFSL and KLM subsidiary KLM Ground Services Limited) subsidiaries within the KLM group scope.*
- *Removal of the KLM subsidiary CSC India.*

Note that the employees shown within Air France and KLM include local staff employed internationally.
Note that the indicator "scope of NRE social reporting" is calculated on the average of group employees based on full time equivalent in December.

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

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

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

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

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

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

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

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

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

Air France subsidiaries[4]

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

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

N.A.: not available.

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

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

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

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

(5) Excluding Transavia France.

Other social data for KLM (according to local legislation)

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

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

** KLM: data concerns KLM without international staff.*

N.A.: not applicable

N.C.: not comparable

KLM Subsidiaries(4)

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

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

N.A.: not applicable.

N.C.: not comparable.

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

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

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

(4) Changes in reporting scope 2009:

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

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

(5) Excluding Cobalt Ground Solutions.

(6) Excluding Martinair.

Environmental data

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

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

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

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

Organization and responsibilities

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

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

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

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

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

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

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

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

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

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

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

Environmental management/ISO 14001 certification

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

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

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

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

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

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

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

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

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

Environmental reporting

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

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

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

Environmental risk management

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

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

Greenhouse gas emissions

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

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

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

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

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

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

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

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

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

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

Soil use conditions

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

Measures taken to reduce water consumption

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

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

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

Measures taken to limit noise pollution

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

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

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

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

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

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

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

Measures taken to improve energy efficiency

Air operations

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

Ground operations

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

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

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

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

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

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

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

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

Environmental risk provisions and guarantees

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

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

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

Indemnities paid and actions carried out to repair environmental damage

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

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

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

Environmental expenditure and investment

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

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

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

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 Régulations 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 the 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 environmental reporting consolidation scope is identical to last year and covers all flights operated by Air France and its Brit Air, Régional and CityJet subsidiaries and those operated by KLM and its KLM Cityhopper (KLC) subsidiary. KLM's Transavia and Martinair subsidiaries, have not been included.
- **For the ground operations**, the environmental reporting consolidation scope is identical to last year and covers more than 90% of the sites in France and the Netherlands:
  - the international outstations are not taken into account;
  - for Air France, indicators in the regional outstations are not reported when the fixed charges invoiced by airports do not enable their individual contribution to be determined. The contribution of the regional outstations affected by this issue is, however, marginal relative to the published data.

  The Air France consolidated subsidiaries are Brit Air, Régional, CRMA, Sodexi, Servair and its subsidiaries. For Servair and its subsidiaries, reported environmental data only include the activities in France. Transavia France is excluded from the Air France reporting scope.

  The KLM consolidated subsidiaries are KLC, KES, KCS and KHS. Transavia (NL) and Martinair have been excluded from the KLM reporting scope.
- **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, unlike the financial statements which are 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, in 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 are also implemented.

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

Details and methodology, commentary on changes

At Air France-KLM group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document known as 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.

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 significant reduction in the Group's CO_2 emissions between 2008 and 2009 is proportional to the decrease in Jet Fuel consumption due the lower level of activity as a result of the unfavorable economic environment.

(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.

SO_2 emissions

The calculation of SO_2 emissions from the air operations is based on the average sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms, applied to all fuel used during the year by KLM and Air France.

The decrease in SO_2 emissions from Air France's air operations between 2008 and 2009 is explained by the fall in Jet Fuel consumption and a lower average sulphur content in the fuel supplied in 2009 on the Paris platform.

The increase in SO_2 emissions from KLM's air operations between 2008 and 2009 is explained by the higher average sulphur content of fuel supplied on the Amsterdam platform in 2009.

Global noise energy

This indicator was implemented by the Air France-KLM group to manage the evolution in the noise footprint of its activity. The global noise energy indicator is calculated according to the methodology defined by the DGAC. It applies to all flights with the Air France or KLM code, operated, franchised and chartered, excluding code share.

The change in noise energy and traffic is determined by comparing global noise energy calculated for the calendar year with that of 2000.

NOx and HC emissions

Air France:

For Air France, a specific tool was developed in 2009 to calculate the total emissions of NOx and HC more precisely. The methodology is based on the Boeing [1] *fuel flow 2* methodology. The latter enables the calculation of the emissions for each flight based on various parameters recorded during the flight (temperature, mach, fuel flow, pressure, etc.) and engine certification information (ICAO data). For 68% of the flights, which corresponds to more than 90% of the aircraft in the Air France fleet, recorded data has been used to calculate the emissions specific to each flight. Emissions for other flights were estimated from the calculated average flight emissions.

Only the emissions for the flights operated by the aircraft in the Air France fleet are currently included in this tool. The Brit Air, Régional and CityJet subsidiaries in which had been included in the tool's scope in 2008, were excluded in 2009. Since the methodology and scope changed in 2009, the 2008 and 2009 data are not comparable.

KLM:

For KLM, two different methodologies are applied to calculate total NOx and HC emissions depending on the aircraft: the *fuel flow* methodology and the *P3T3* methodology (developed by General Electric).

The methodology used for the calculation of low altitude emissions is common to Air France and KLM. It is based on the LTO cycle and on engine data communicated by the ICAO. Taxiing time used is the actual taxiing time.

In-flight fuel jettison

An exceptional operation (approximately one flight in 10,000 in 2009) 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).

Ground operations

Water consumption

The consumption of drinking water is taken into account for all ground activities. Water used on board flights is not included.

The decrease for this year is due to a lower level of activity and the measures taken to reduce consumption.

Consumption of gas

The consumption of cooking gas in the catering activity of Servair, an Air France subsidiary, and its subsidiaries is included.

The natural gas consumption in the buildings of KLM and its subsidiaries (excluding Martinair and Transavia) is included.

The conversion of the quantity of gas used as energy is carried out taking into account the quality of gas specific to France and the Netherlands.

The increase in consumption for Air France this year is mainly due to a change in the scope for one entity which now includes a gas power plant.

Consumption of superheated and iced water for climate comfort

For Air France, superheated and iced water is supplied by ADP *(Aéroports de Paris)* in Orly and Roissy and used, respectively, for heating and cooling.

The decrease in superheated water consumption this year is mainly due to a reporting error in 2008 and the closure of a building. The decline is also due to a seasonal effect between 2008 and 2009.

(1) 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.

The decrease in iced water consumption this year is due to a change in equipment at an Orly freight hangar which no longer uses this source.

Consumption of DFO for climate comfort

Fuel oil consumption in power generators, vehicles and ground support equipment is not included in the indicator because it is not used for heating and cooling. This data is reported separately.

Emissions from ground operations (CO_2, SO_2 and NOx)

The reporting scope for CO_2, SO_2 and NOx emissions includes fuel oil and gas for heating, as well as vehicles and ground support equipment emissions (except those of Servair and its subsidiaries), and emissions related to power generators, cooking gas consumption and engine test runs.

The change in CO_2 and SO_2 emissions between 2008 and 2009 is linked to an error related to fuel oil consumption for ground support equipment being double counted for one site in 2008. Based on the corrected value, the 2009-08 changes are +9.4% for CO_2 and +58.5% for SO_2.

For Air France, NOx emissions related to engine testing are based on a theoretical factor. The emission factor was based on the average NOx emissions from all engine types regulated by the ICAO within the operational LTO cycle averaged on the flight phases. The contribution of NOx emissions related to engine testing is equal to 3% of the reported data.

VOC Emissions

The reporting covers the direct emissions of solvents contained in products. VOC emissions are calculated from the actual quantities of products which have been used; VOCs in evacuated waste are excluded.

For Air France, the reporting scope was extended to include third party orders as well as paint kits.

HC Emissions

In 2009, in addition to the industrial VOC emissions, hydrocarbon (HC) emissions from vehicles and ground support equipment, test benches and aircraft fueling were also calculated.

Effluents

Both Air France and KLM entities are required to comply with the French and Dutch regulations on effluents. Each site has requirements in terms of limits on effluents and the frequency of measurement.

Due to the fact that the limits and measurement frequency requirements vary from site to site and from country to country, and given that the values varied significantly between measurements, the definition of the indicator has been changed. The number of times the regulatory limits for heavy metals and phosphorous and nitrate compounds are exceeded is now reported and published.

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Environmental indicators for the Group

Air France-KLM air operations

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

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

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

Air France-KLM ground operations

Environmental indicators			Unit
Consumption			
Water consumption[3] √			000 m³
Energy consumption	Electricity consumption √		MWh
	Energy consumption for heating and cooling	Super heated water √	MWh
		Iced, water √	MWh
		DFO[4] √	MWh
		Gas √	MWh
Emissions			
Greenhouse gas emissions	CO_2 √		tonnes
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC √		tonnes
	Emissions of HC[7]		tonnes
Emissions of substances contributing to acidification and eutrophication	NO_x √		tonnes
	SO_2 √		tonnes
Waste			
Waste production	Quantity of non-hazardous industrial waste √		tonnes
	Quantity of hazardous industrial waste √		tonnes
	% of hazardous industrial waste recycled √		%
Effluents			
Number of times regulatory limits exceeded[8]	Nitrogen compounds		number
	Phosphorus compounds		number
	Heavy metals[9] √		number

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

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

na: not applicable

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

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

(3) Water consumption in aircraft not included.

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

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

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

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

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

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

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

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

One of the Statutory Auditors' Report on a selection of Environmental and Social indicators of Air France-KLM Group for the Year ended December 31, 2009

In accordance with the assignment entrusted to us and in our capacity as statutory auditors of Air France-KLM Group, we performed a review which enables us to provide:

- a reasonable assurance on the indicator related to fuel consumption and resulting CO_2 emissions from the Air France-KLM Group flight operations during the year ended December 31, 2009. Such indicators are identified by the sign √√,
- a limited assurance on the environmental and social indicators ("the data") selected by the Air France-KLM Group and identified by the sign √ for the year ended December 31, 2009.

Such data are disclosed in the table entitled "environmental and social information of Air France-KLM Group" both in the 2009-10 Reference Document and in the 2009-10 Corporate Social Responsibility Report.

The conclusions presented below relate solely to these data and not to the Corporate Social Responsibility Report taken as a whole.

The data have been prepared under the responsibility of the CSR Department of the Air France-KLM Group, in accordance with the internal environmental and social reporting protocols of the Group ("the protocols"), available at Air France-KLM headquarters.

It is our responsibility to express an opinion on these indicators, based on our review.

Nature and Scope of the Review

We conducted our review in compliance with the professional standards applicable in France.

We performed a review to provide the assurance that the selected data are free of material misstatement. The work performed on the data identified by the sign √ enables us to provide a limited level of assurance. The work performed on the data identified by the sign √√ is more extensive and enables us to provide a reasonable level of assurance.

- We assessed the protocols relevance, reliability, neutrality, understandability and completeness.
- We interviewed the people in charge of the reporting process at the parent company level as well as at the selected entities(1) level.
- We carried out detailed test work at the selected entities. Such selected entities represent from 48 to 100% of the consolidated environmental data and 83% of the Group total headcount for social indicators. For the selected entities, we ensured that the protocols were understood and implemented; on a sample basis, we verified the calculations, performed consistency checks and reconciled the data with the supporting documentation.
- We audited the source data used in the calculation of CO_2 emissions from the Group's flight operations.
- We verified that the data used in the calculation of CO_2 emissions from flight operations were properly derived from Air France and KLM information systems.
- We also verified, on a sample basis, the calculations and the consolidation of the data at Air France-KLM Group level.

When carrying out our procedures, we used the assistance of our Environment and Sustainable Development experts.

Comments relating to the reporting procedures of the Group and their implementation

- Both environmental and social protocols of the Air France-KLM Group are prepared on a calendar year basis, consistently with the requirements for French companies to establish their social annual reports ("Bilans Sociaux") and their annual greenhouse gases national inventories as of December 31 of each year whilst the Group's financial information is prepared as of and for the year ended March 31 of each year.

(1) ***Environment:*** *Direction Générale Industrielle Air France (Roissy and Orly), Direction Générale de l'Exploitation Air France (Roissy and Orly), Air France Cargo Roissy, Direction du Siège Air France (Roissy, Vilgénis), Servair (Servair 1, Acna Roissy), KLM Schiphol* ***for ground operations.***
Air France and its affiliates (CityJet, BritAir, Regional), KLM and KLM CityHopper ***for flight operations****.*
Social: *Air France in France, Servair S.A., KLM, Transavia, Martinair.*

- The Group continued to improve the reliability of the data reporting process in 2009. KLM report from now on information related to training and Air France has fine-tuned its calculation method regarding flight emissions (HC[2] and NO_x).
- The Group used an automated reporting tool to collect and consolidate the social and environmental data of the Group, enhancing the reliability and the consistency of the data collected. The functionalities in terms of controls of the reporting tool should nevertheless be further developed, especially in relation to the consolidation phase.

We have the following matters to report regarding the procedures related to reporting protocols for the verified environmental data:

- During our review at entity level, we observed that the protocols had been properly understood and applied. However:
  - Internal control procedures regarding the reported data should be implemented more stringently, especially for indicators related to ground emissions;
  - Procedures to determine the reporting scope should be followed more stringently in order to ensure that the reporting scope is updated prior to the reporting campaign. KLM subsidiaries Martinair and Transavia in particular should be included in the reporting scope for ground operations and air operations.

We have the following matters to report regarding the procedures related to reporting protocols for the verified social data:

- Due to different legal framework, certain social indicators for Air France and KLM are presented individually and their definitions cannot be compared.
- During our review at entity level, we observed that protocols had been properly understood and applied. However:
  - The calculation methods for indicators related to safety might be improved even further; the corresponding definitions in the protocols would benefit from further clarification;
  - The reliability of the reporting process at entity level could be strengthened with higher involvement of the management team in validating the reported data.

Conclusion

Reasonable assurance

Based on the procedures carried out both at Air France and KLM headquarters, we consider that our test work on the calculation of fuel consumption and resulting CO_2 emissions from flight operations of the Air France-KLM Group gives a reasonable basis for the following opinion.

In our opinion, the data identified by the sign √√ has, in all material respects, been prepared in accordance with the above-mentioned protocols.

Limited assurance

Based on our review, nothing has come to our attention that causes us to believe that the environmental and social data identified by the sign √ have not, in all material respects, been prepared in accordance with the above-mentioned protocols.

Paris La Défense, May 27, 2010

KPMG Audit
Department de KPMG S.A.

Valérie Besson	Michel Piette
Partner	*Partner*

(2) Hydrocarbons.

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Risks and risk management

4.

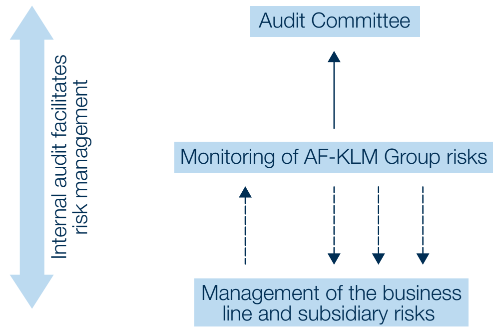
Risk management process

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 Group Executive Committee and the Audit Committee.

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



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

Risk factors and their management

Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

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

Risks linked to the cyclical nature of the air transport industry

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

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

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

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

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

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

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

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

Risks of loss of flight slots

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

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

At the preventive level, two months before the beginning of a season, the Group analyzes the reductions to be considered for commercial reasons (holidays, long weekends and bank holidays, for example). As a result, it does not request flight slots corresponding to these flights in order to avoid the under-utilization of this portfolio of flight slots. At the operational level, the Group uses tools shared by the schedule regulation unit and by the operations control center which warn of any under-utilization risk. (*See also Section 6 – Other information, Legislative and regulatory environment, page 257*).

Risks linked to the consumer compensation regulations

Passenger rights in the European Union are defined by regulations, established in 2005, which apply to all flights, whether scheduled or unscheduled, departing from an airport located in a Member State of the European Union. The regulations establish common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading. (*See also Section 6 – Other information, Legislative and regulatory environment, page 256*).

Risks relating to the environment

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

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

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

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

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

The Group takes every opportunity to reduce its fuel consumption and CO_2 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 for research into the development and use of new more environmentally-friendly fuels (biofuels).

The Group also acts with the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Energy and Sustainable Development) and participates in the work of the airline industry (AEA, ICAO, IATA) to promote effective solutions for the environment which are also balanced in terms of competition *(See also Section 3 – Environmental data, page 80 and the 2009-10 Corporate Social Responsibility Report).*

Risks linked to the oil price

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

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

The Air France-KLM group has a policy in place to manage this risk *(See also section 4 – Market risks and their management – fuel price risk, page104).*

Operating risks

Natural phenomena

Air transport depends on meteorological conditions which can lead to flight cancellations, delays and diversions. Generally speaking, the duration of such adverse climate conditions tends to be short and their location limited but they may require the temporary closure of an airport or airspace. They can represent a significant economic cost (repatriation and passenger accommodation, 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, can have very major commercial, human and financial consequences for the airlines and their passengers. (*See also section 2 – Activity, Highlights of the beginning of the 2010-11 financial year, page 61*).

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 AOC (Air Operator Certificate) which is valid for three years.

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

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

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

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

Risks linked to the Group's activity

Risks linked to competition from other air and rail transport operators

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

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

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

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

To respond to the competition from other airlines or railway networks, the Group adapts its network strategy, capacity and commercial offers *(See also section 2 – Strategy and Passenger business, pages 32 and 36)*. Furthermore, the Group regularly raises with the French, Dutch and European authorities the need to establish and maintain fair competition regulations.

Risks linked to the commercial alliance

In June 2006, the European Commission expressed a certain number of objections concerning the SkyTeam alliance. Air France and its partners responded to these objections in October 2006. In the event that the European Commission were to maintain its position, Air France and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at certain airports. The Commission having decided to undertake an overall review of all the alliances, no position has, to date, been adopted.

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

For the European Commission to authorize Air France's business combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to the possibility of making landing and takeoff slots available at certain airports to competitor airlines who have yet to request them.

Risks linked to labor disruptions and the negotiation of collective agreements

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

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

Risks linked to the use of third-party services

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

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

Insurance risks

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

Insurance policies taken out by Air France

In connection with its air transport activities, Air France has taken out an airline insurance policy on behalf of itself and its French and European airline subsidiaries, covering damage to aircraft from incidents or accidents 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 that its activities, employees and assets are better safeguarded, Air France has taken out a number of policies to insure its industrial sites in the event of material damage and, consequently, loss of income and its property portfolio and activities ancillary to air transportation, with different levels of cover depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

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

Insurance policies taken out by KLM

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

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

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

Legal risks and arbitration procedures

In connection with the normal exercise of their activities, the company and its subsidiaries are involved in disputes which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities (*See also notes 29.2 and 29.3 to the consolidated financial statements, pages 184 and 185*).

Market risks and their management

Organisation of the Air France-KLM group

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

The RMC meets each quarter to review Group reporting of 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 these targets and, potentially, the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the cash management and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the market risks of its subsidiaries.

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

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

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

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

Market risks and their management

Currency risk *(See also note 32 to the consolidated financial statements, page 191.)*

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

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

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

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

Operations

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

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

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

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

* *These results cannot be extrapolated.*

Investment

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

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

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

Exposure on the debt

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

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

Interest rate risk *(See also note 32 to the consolidated financial statements, page 191.)*

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

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

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

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

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

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

Fuel price risk *(See also note 32 to the consolidated financial statements, page 192.)*

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

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

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

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

At March 31, 2010, Air France-KLM's fuel exposure, based on the forward curve at March 29, 2010, was as follows.

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

Counterparty risk *(See also note 32 to the consolidated financial statements, page 192.)*

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

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

Equity risk

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

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

Liquidity risks

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing risks

Financing strategy

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

In view of its investment program, particularly in the fleet, the Air France-KLM group is active in the financing market. Since 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 collateralized 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 has existing commitments from the export credit agencies for the financing of a number of aircraft deliveries amounting to €300 million for the 2010-11 financial year.

Air France group

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

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

KLM group

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

Air France-KLM holding company

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

Investment risks *(See also note 32 to the consolidated financial statements, page 192.)*

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

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

Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management for the 2009-10 financial year

(article L. 225-37 of the *Code of commerce*)

For the establishment of this report, the Chairman consulted the Director of Internal Control and Internal Audit and tasked the latter with obtaining all the information required for the aforementioned report from the different entities of the Air France-KLM group. This report was then commented on by the Audit Committee before being approved by the Board of Directors.

I - Conditions for preparing and organizing the work of the Board of Directors

See Section 1 – Corporate Governance – Board of Directors.

II - Modalities for shareholder participation in the Shareholders' Meeting

Pursuant to article 30 of the company's bylaws, the modalities for shareholder participation in Shareholders' Meetings are those foreseen by the regulation in force.

III - Internal control

Definition and goal of internal control

Air France-KLM uses the COSO (Committee Of Sponsoring Organisation of the Treadway Commission) standards to define the internal control for the Group and the two sub-groups, Air France and KLM.

According to this standard, internal control is a system defined and implemented by the Group's general management, executives and employees, designed to provide a reasonable level of assurance that the following objectives are achieved:

- the performance and optimization of operations;
- the reliability of the accounting and financial information;
- the compliance with the laws and regulations in force.

The standards are based on the following principal components:

- the control environment;
- the assessment of risks;
- the control operations;
- the information and communication;
- the monitoring of internal control.

The standards correspond to a specific set of actions, tasks, practices and controls for each of the company's functions.

One of the objectives of the internal control system is to prevent and control the risks linked to the company's activity, as well as the risks of error or fraud, notably in the areas of accounting, finance and revenue management.

As with any control system, it is unable to provide an absolute guarantee that such risks have been totally eliminated.

Control environment

Internal control network

An Internal Control and a Group Internal Audit division have been operational since April 2005. Internal Control Coordinators have also been appointed in each Air France-KLM group entity considered to be significant by virtue of its impact on the Group's financial statements. There are eight employees working within the Internal Control divisions and there are 40 Internal Control Coordinators.

Overall internal control structure

The structure described below is a summary of the organization in place in each of the two sub-groups as outlined in the Chairman's reports on internal control by Air France and KLM. At the request of the Air France-KLM holding company, the Dutch company KLM has established a report on internal control in accordance with the French Financial Security Law.

This organization takes into consideration the structure of the Group's two companies, characterized by the existence of three principal businesses (passenger transportation, cargo and maintenance), the subsidiaries of these companies representing only a minority percentage of activity and revenues. Due to the interdependence of each of the businesses, this organization involves numerous transverse processes (sale of space in the bellies of passenger aircraft to the cargo business, maintenance services relating to the aircraft of the passenger and cargo activities, IT services, etc).

♦ **The Board of Directors** is the corporate body that directs and oversees the management of the Group; to this end, the Board works with the Group Executive Committee to ensure the successful operation of the Air France-KLM group, supported by advice from the specialist committees described in Section I – Corporate governance.

♦ **The Group Executive Committee** is tasked with defining the joint strategic decisions on commercial, financial, technical and operational issues for the two companies; the organization and operations of the Committee are described in Section I – Corporate governance.

♦ **The finance functions** are performed by each of the two companies within the framework of the organization that was in place at the time of the merger and they report to the Group Executive Committee.

In April 2005, a finance division was created within the holding company. This division is responsible for consolidation operations (accounting rules and principles and consolidation of Air France-KLM results), financial disclosure (management reporting, estimates, budgets, investment plans, medium-term plan), and financial communication (preparation of annual reports, quarterly announcements, press releases, relations with investors and market authorities).

Some operations relating to the Air France-KLM holding company are entrusted to Air France, via a management mandate (notably cash managment).

♦ **Insurance functions**

The insurance departments are responsible for identifying risk sectors of the Group that might impact the operations and financial results in order to reduce or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms.

They also manage the claims and advise the Group's entities on reducing and controlling their risks.

An aviation insurance policy for the entire Air France-KLM group was contracted at the end of 2004 covering civil liability, damage to aircraft and risks of war, which are the major financial and legal risks of any airline.

♦ **Legal functions**

The legal departments of both companies perform a consulting mission for their management and for decentralized organizations in legal matters, transport law, corporate law and insurance law.

They systematically draw up an inventory of the disputes in process in order to assess the corresponding provisions booked as liabilities.

In April 2005, a Legal Affairs division was created within the holding company.

♦ **Internal audit**

The management of a group such as Air France-KLM is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies stronger internal control functions in order to provide the Group's management with the reasonable assurance that this autonomy is being used correctly by each entity. Internal control is vital for effective governance, both at the Board of Directors level and at the level of the Group's different businesses.

In order to strengthen internal control, Air France-KLM has established an internal audit division which is characterized by its independence. The very presence of such a division is a strong impetus to effective risk management and internal control.

Internal audit is an independent function intended to improve the Group's various processes. It helps the Group to achieve its stated goals by providing a systematic and formal approach with which to evaluate and strengthen the effectiveness of the following processes: decision-making, risk management, internal control, and governance. The internal audit function objectively reviews the reliability of the overall internal control procedures implemented by the Group, as well as the controls implemented for the specific processes of each business.

Under the Group's governance rules, each company has retained its internal audit department; the coordination of internal audit at Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Internal Audit Director has overall responsibility and provides the coordination, reporting directly to the Chief Executive Officer. Both internal control departments use identical methodologies (Group mapping, Group audit manual, etc.).

The internal audit function carries out audits at the level of the holding company, its subsidiaries (Air France and KLM) and its sub-subsidiaries. Audits are conducted in collaboration with the internal auditors of the two airlines.

There are 37 auditors (excluding management structure).

The Internal Audit division reports on its work to the Group Executive Committee and to the Audit Committee of Air France-KLM in a summary report presented quarterly.

In order to carry out its mission, Internal Audit, which operates within the framework of the internal audit charter established by the Audit Committee of the parent company Air France-KLM, either acts on its own initiative or intervenes at the request of the Group Executive Committee, the Audit Committee or the Board of Directors.

An annual program of missions is established and submitted to the Group Executive Committee and to the Audit Committee of the holding company for approval.

The different types of audit missions undertaken are:

- operational audits to review the effectiveness of the Group's internal control procedures;
- thematic audits dedicated to a theme common to several functions or entities or centered around the company's projects;
- specific audit missions undertaken at the request of the general management or the heads of operational units to ascertain that internal control is properly implemented in the entities;
- ICT audits following the creation of a new IT audit team within internal audit;
- consultancy missions.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including the risks with corresponding recommendations.

The audited entities then establish corrective action plans and a follow-up is conducted in the next few months.

The Internal Audit division of the Air France-KLM group has been awarded professional certification by the IFACI. This body certified that, for the Group Internal Audit activities, all the procedures required to comply with the 2009 version of the Internal Audit Professional Practices Framework (PPF) and thus respect the international standards for Internal Audit have been implemented.

Organization of responsibilities

The organization of each company has been defined to ensure compliance with the principles of secure and effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations, ground operations, engineering and maintenance as well as catering and safety.

The managers of the entities and subsidiaries concerned are required to apply these principles and organization at their level, and ensure that the organizational charts, job descriptions and the procedures defined by business process are up to date. They must ensure their consistency and adequacy and that these are taken into account in the main information systems and appropriately integrated within the organization.

Reference standards

♦ Charters and manuals

Air France, KLM and their respective subsidiaries have a Social Rights and Ethics Charter that enshrines their commitment to corporate social responsibility. This charter's corporate and ethical policy is based on respect for individuals at the professional, social and citizenship levels.

The Air France group has also published a charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements signed for the benefit of employees. The legal purpose of this charter is to set forth the principles of prevention, define the actions, stress the legal and human responsibility of everyone and establish internal prevention procedures.

For its part, the KLM group has published a code of conduct which should be applicable for the forthcoming financial year addressing, in particular, compliance with laws and regulations, conflicts of interest, confidentiality, the safeguarding of assets, environmental protection, corporate social responsibility and intellectual property.

KLM has also implemented a code of ethics intended for employees in the finance department.

♦ Internal audit charter

The terms of the Air France-KLM group's internal audit charter were determined by the Audit Committee of the Air France-KLM holding company in November 2005, then revised within the framework of the work carried out for Internal Audit certification.

The internal audit charter defines the mission, objectives and responsibilities of the Audit division and guarantees its independence as well as the conditions under which the division functions.

In accordance with the national and international professional code of ethics, it formalizes the position of audit within the business and defines its sphere of operation.

It also specifies the operating methods and the different phases of the missions carried out together with the summary reports on their execution.

♦ Procurement Quality Manual

The Common Working Platform document of January 2007 serves as the basis for the organization of the joint Air France-KLM purchasing function *(see Procurement)* which is outlined in the Procurement Quality Manual.

The joint purchasing functions regularly update their Quality reference system. This system comprises, notably, the purchasing Code of Ethics for Employees, which defines the rules of conduct for all employees when dealing with suppliers or service providers, and informs all those involved in the process of the limits that must not be exceeded.

♦ **Quality reference system**

The Air France and KLM quality systems are based on the following principal external and internal standards:

External standards

Regulations: national regulations (based on European regulations) and applicable general laws, international standards (ICAO, IATA, etc.),

Passenger service: European commitments of the Association of European Airlines (AEA), service commitments of those involved in air transportation (airports)

Management and the environment: ISO series 9000 and 14000 standards and other standards relating to more specific application scopes (ISO 22000 for food safety, for example).

Internal standards

These represent the application of the external standards, adapted to the processes of each company.

Regulations: operating, maintenance and security manuals and the related general procedures, which are mostly subject to formal approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.),

Management systems: the QSE (Quality, Safety, Environment) manual of Air France or quality manual of KLM and related general procedures.

Passenger service: seven standards relating to services covering the entire passenger service chain form the basis of the Air France-KLM group's ambition in terms of service quality.

Risk assessment

Risk analysis process

A process for the management and reporting of strategic and operational risks has been in place for the last four years. It enables the different divisions and principal subsidiaries on one hand and the Group Executive Committee and the Audit Committee on the other to monitor the principal risks, their evolution over time and the measures taken to manage them.

The operational risk management procedures are based on a 'bottom-up' approach starting in the various Air France and KLM divisions and the five main sub-subsidiaries. Every quarter, the Internal Control Coordinators designated by the different businesses, entities and subsidiaries establish the risk sheets and send them to Internal Audit which is responsible for overseeing the consolidation process at company and Group level. The risk sheets detail the inherent material risks faced by each Group entity and the action plans implemented to mitigate or neutralize them together with an evaluation of their probability and the resulting impact (net risks). Those responsible for the risks and for managing the action plans are specifically named. In order to ensure the reliability of the process and avoid any errors, the risk sheets for each entity are systematically reviewed during quarterly meetings between Internal Audit and the Internal Control Coordinators.

The strategic risk sheet is established once a year after the Group Strategic Framework meeting.

The Group risk sheets, together with the accompanying documentation detailing the new risks, the main developments and risks that have been removed, are the subject of a presentation to the Group Executive Committee which approves them prior to their presentation to the Audit Committee.

The overall risk management procedure also serves as a basis for the Reference Document and for establishing the annual audit program.

Internal Audit has also conducted a review of the risk management and reporting process whose conclusions were presented to the Group Executive Committee and the Audit Committee.

Control activities

Operational procedures and processes

Management of the quality system

Both the Air France (QSE management system manual) and KLM quality manuals outline all the general provisions of the quality system implemented in each of the two companies, i.e. the overall organization, management processes, and the procedures and resources required to implement quality management and meet customer expectations.

In each department of the two companies, a quality review takes stock of the operation of the quality management systems and measures the performance of the main processes overseen by the management.

In addition to the regulatory approvals which enable each company to carry out its activities, progress is recognized in the achievement of certification from independent bodies, notably, for example:

- IOSA certification (IATA Operational Safety Audit) obtained in 2009 and valid through to 2011;
- ISO 9001 (2008 version) and QualiAF certification for the effectiveness of management systems;
- ISO 14001 (2004 version) certification for the validation of environmental management systems.

Quality assurance

The control of the operational processes is based primarily on three supervision methods:

Internal monitoring: carried out by the quality assurance departments and based on:

- an audit program (covering, in particular, the areas of organization and management, flight operations, flight preparation, ground and freight handling, hazardous goods, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- pro-active prevention processes.

External monitoring: carried out by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, which takes the form of audits of the operating principles and of the specific internal monitoring system. Air France and KLM are also regularly audited by their customers and their partners.

Monitoring of partners

The monitoring of partners, whether they be sub-contractors or suppliers, is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities.

Code share partnerships are subject to additional IOSA certification performance requirements, the recognition by the profession of flight safety standards. However, if the partner airline is not IOSA certified, Air France and KLM implement a special technical monitoring process aimed at providing a reasonable assurance of an equivalent level.

In terms of the control of the monitoring process, the supervision of the effective implementation of preventive/corrective actions resulting from this overall monitoring is ensured by the quality assurance departments, coordinated within each airline.

Information systems

The control processes cover the information and telecommunication systems. These processes were reviewed within the framework of the Sarbanes-Oxley Act for the 2006-07 financial year. For the financial year ended March 31, 2010, this review was carried out within the framework of the French Financial Security Law and the work on internal control decided by the Group after the deregistration with the SEC.

The procedures put in place aim to ensure:

- the reliability of the IT and telecommunications systems;
- Data integrity through appropriate resources, infrastructure and controls;
- the continuity of IT services and the availability of data on the production sites through a local contingency strategy, secure architecture and a security system covering external access points;
- the confidentiality of information based on national laws and the security of IT infrastructure through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the IT systems to meet defined strategic objectives are developed.

Project management and software application development tools are also deployed: the so-called Symphony method for common Air France-KLM projects was based on the Tempo (Air France) and Prince2/Stemband (KLM) methods.

The work carried out in connection with internal control projects and the ongoing project to gradually establish a coordinated and optimized organization led to the launch of action plans designed to strengthen internal control, particularly as regards risks such as business continuity.

Finally, in 2005-06, Air France and KLM published the Security Information Manual (ISM – ISO 17799 standard), thus defining a common security policy for information systems.

Procurement

Launched in December 2007, the joint Air France-KLM Procurement division organization has been officially operational since September 1, 2008. It is headed by a Group Chief Procurement Officer from KLM (permanent member of the Group Executive Committee), seconded by an Air France Executive Vice-President, Procurement and is structured around ten procurement teams. The procurement teams act in a transverse and coordinated manner for each of the Air France and KLM companies as well as, when required, for a number of the Group's airline subsidiaries. Their objective is to optimize the Group's external resources.

The activity of the Procurement function is aimed at supplying the entities with suitable products and services at the required time and at the best possible cost of ownership.

This is achieved by applying a procurement policy focused on the expertise of the buyers, with separate responsibilities (buyer, referrer, supplier), the establishment of contracts and the use of internet technologies.

The CPO Board, comprised of the Group Chief Procurement Officer and Air France's Executive Vice-President, Procurement, manages the procurement teams through regular meetings and presents the key performance indicators for combined procurement.

A Procurement coordination committee comprising the heads of procurement meets every two months (DPO Day) to develop joint programs and share best practice.

Prevention of ticketing fraud

The Internal Audit division includes a Fraud Prevention unit that acts to prevent risks relating to the fraudulent use of stolen, falsified or illegally paid tickets and improperly acquired *Flying Blue* miles.

Financial procedures and processes and the year end

Finance process

- Investments are managed by each company in accordance with its own procedures. Major investments, particularly in aircraft, are submitted for approval to the Group Executive Committee (fleet, acquisitions, disposals, etc.).
- Risk management:

The management of Air France-KLM's market risks is overseen by the Risk Management Committee (RMC), which comprises the Chief Executive Officer and the Chief Financial Officer for Air France and the Chief Executive Officer and the Chief Financial Officer for KLM.

This committee meets each quarter and decides, after examining the Group reporting, on the hedges to be set up during the forthcoming quarters: the hedging ratios to be achieved, the time period for meeting these targets and, potentially, the preferred type of hedging instrument.

These decisions are then implemented in each company by the Cash Management and Fuel Purchasing departments in compliance with the procedures for the delegation of powers.

Regular meetings are organized between the Fuel Purchasing departments of the two companies, as well as between the Cash Management departments, in order to exchange information on, for example, the hedging instruments, the strategies planned and the counterparties.

A summary of the cash positions of Air France, KLM and Air France-KLM is circulated weekly to the executive management.

The Air France and KLM cash positions are monitored daily and are the subject of a monthly report to the finance departments of the two groups. These reports include interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a capital rationing tracking statement by counterparty. Since 2008, the Risk Management Committee has set minimum thresholds in terms of the financial quality of counterparties, determined the maximum amount to be allocated to any one counterparty and monitored the quarterly positions.

Fuel hedges are covered in a weekly report forwarded to the executive managements of Air France and KLM.

The hedge strategies aim to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless expressly authorized by the Chief Financial Officer of Air France or the Chief Financial Officer of KLM. Generally speaking, no trading or speculation is authorized.

Any substantive change in the hedging strategy is the subject of a presentation to the Audit Committee; this was the case during the autumn of 2009 with the Air France-KLM group's new fuel hedging strategy.

Accounting and financial statements process

The consolidated financial statements of the Air France-KLM group are prepared on the basis of the data provided by the finance departments of the Air France-KLM parent company and its subsidiaries.

The Group is principally comprised of the two operational sub-groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

The accounting information reported by the various departments of the company and subsidiaries must comply with the Group's accounting rules, methods and standards defined by the parent company, and the presentation of the financial statements must comply with the format circulated by the Group.

All companies within the Group refer to the Accounting Procedures Manual which is based on the international financial reporting standards governing the establishment of the financial statements of European listed companies applicable for financial years starting January 1, 2005.

As part of their legal mission, the parent company's Statutory Auditors conduct a comprehensive review of the information reported by the principal consolidated entities. The consolidated and parent company financial statements are submitted to the management, then reviewed by the auditors (half-year and annual financial statements only) prior to their closing. They are then presented to the Audit Committee, which meets every quarter for the closure of the financial statements.

Process for reporting passenger and cargo revenues

This process is performed in each of the companies and enables weekly revenue figures to be communicated to management. Air France has also established a procedure known as the progressive revenue process that makes it possible to know the estimated amount of passenger revenues with only a two-day time lag for its own operations and those of franchisee subsidiary airlines.

In addition, departments for passenger and cargo activities in each company analyze the results by market and by route (unit revenues per passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer, etc.).

Management reporting process

The management control departments coordinate the reporting process and, at the beginning of month m+1, establish a management estimate based on the available information.

In liaison with the Group's principal divisions and subsidiaries, they then analyze the past month's economic performance and estimate the results for the coming months (forecast adjustment process) through to the end of the current financial year.

Once the accounting result for the month is known, they produce a monthly document (management report) that summarizes the monthly key business and financial data, both actual and for the coming months, in order to determine the outcome for the current financial year.

This monthly Group management report is presented to the Group Executive Committee.

In April 2005, a Group management reporting function was created.

Information and communication

The Group's information and telecommunication systems are based on the separate systems of the two companies Air France and KLM, which permanently seek to optimize resources and maximize synergies. A single Group manager oversees the two IT and telecoms departments, facilitating their convergence.

Communication within the Group is organized to ensure the effective circulation of information in all directions, whether from the bottom up, top down or horizontal.

Internal communication supports the implementation of internal control and risk management in providing objectives, instructions and information at all the levels of the Group's operational and support entities and in informing the managers of the results. It uses all the technical resources of the information systems and telecommunications function ranging from the internet to the different production and management applications.

Management

Management procedures and processes

These procedures are based on the organization and structure of the Group's companies.

The following activities are common to the two Air France and KLM sub-groups:

- the passenger activity, covering all operations involved in the transportation of passengers, including the network, marketing, sales and production departments that provide the services required for air and ground operations;
- the cargo activity that conducts cargo marketing and operations;
- the engineering and maintenance activity responsible for maintenance and engineering operations for the airframes, components and engines;
- the leisure activity comprising the charter and low cost businesses of Transavia Netherlands and Transavia France.

Finally, the central support functions of Human Resources, Finance in the broad sense and Information Systems are specific to each of the companies.

Strategic decisions in the commercial, financial, technical and operational areas are coordinated by the Group Executive Committee, which is the principal governance body described in Section 1. This governance body is supported by divisions at the holding company level in the areas of finance, legal/secretarial services for the Board of Directors, internal control/internal audit, relations with the European bodies and coordination of the SkyTeam alliance.

Air France and KLM respectively control 91 and 70 subsidiaries and sub-subsidiaries. Only five of the Air France subsidiaries and two KLM subsidiaries generate third-party revenues in excess of €100 million.

The companies Air France and KLM alone represent more than 88% of the Group's revenues and 76% of the total Group balance sheet.

The forward-looking management of the Air France-KLM group is organized on the basis of the following three key procedures:

- the broad strategic orientations of the Air France-KLM group are defined and prioritized within the context of a Group Strategic Framework (GSF) that brings together the senior executives of Air France and KLM at a fall seminar;
- the Medium Term Target (MTT), which represents the expression of this vision, covers a three-year time horizon for each of the two companies and their respective principal subsidiaries in terms of growth, investment and the related human resources. The Medium Term Target must enable each business to prepare and submit their financial performance objectives within the framework of the orientations defined by the Group Strategic Framework in terms of the development of the business (growth, strategic priorities), operational targets (unit revenues, action plan for revenues and costs), investment and the related human resources.
  The action plans together with comprehensive financial figures are presented to and discussed by the Group Executive Committee in February and March each year with the definition of plans on revenues and costs.
- The budgets for the IATA year, which include the first year of the MTT, are established by cost center and consolidated at the level of each company, and then at the level of the Air France-KLM group.

IV - Summary of the evaluation of internal control relating to accounting and financial information

In addition to the need to comply with French internal control regulations as required by the French Financial Security Law (*Loi de Sécurité Financière*), the Air France-KLM group also had to comply with the provisions of the US Sarbanes-Oxley Act since the stock was listed on the New York Stock Exchange until February 7, 2008. In order to satisfy the provisions of the Act's article 404, which applied for the first time to Air France-KLM for the financial year ended March 31, 2007, a range of initiatives were launched as of 2004 within the different Air France-KLM entities designed to generate the momentum to effectively mobilize those involved in internal control to achieve the three objectives of carrying out and optimizing operations, generating reliable accounting and financial information, and complying with the laws and regulations in force.

The internal control project designed to satisfy the requirements of the Sarbanes-Oxley Act was structured around the following key components: the annual evaluation of the Air France-KLM group control environment, and a detailed evaluation of the controls carried out on accounting and financial information at significant process level.

Evaluation of the control environment

Each Group division or department has been evaluated on the basis of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and effectiveness tests.

Air France and KLM have also established whistle blower procedures and formalized the anti-fraud program together with a procedure for identifying and testing the effectiveness of the control environment.

Similarly, overall control of the information systems has been the subject of a formalized evaluation.

Detailed evaluation of key controls on financial and accounting information at significant process level

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of risks, the Group has identified the significant companies and, within these entities, the processes that make a significant contribution to the establishment of the financial statements.

For each of these significant processes, process and key control documentation has been established, followed by existence and effectiveness testing.

At the time of the delisting from the New York Stock Exchange and its deregistration with the SEC (Securities and Exchange Commission) Air France-KLM's Group Executive Committee and Audit Committee decided to maintain high standards and to capitalize on the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act, in order to enshrine its principles within the framework of the Group's day-to-day management.

The Group's different major divisions and subsidiaries had thus evaluated the effectiveness of internal control over financial information as at March 31, 2010.

The SOA approach being mainly orientated towards financial disclosure, the new internal control framework may be extended to other processes and activities within the framework of the transposition into French law of the 8th European directive and as a function of the decisions of the general management.

Jean-Cyril Spinetta
Chairman of the Air France-KLM Board of Directors

Statutory Auditors' report

prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Air France-KLM S.A.

Year ended March 31, 2010

To the Shareholders,

In our capacity as Statutory Auditors of Air France-KLM S.A. and in accordance with article L. 225-235 of the French commercial law (*Code de Commerce*), we hereby report on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French commercial law (*Code de Commerce*) for the year ended March 31, 2010.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L. 225-37 of the French commercial law (*Code de Commerce*), particularly in terms of the corporate governance measures.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information; and
- to attest that this report contains the other disclosures required by article L. 225-37 of the French commercial law (*Code de Commerce*), it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control procedures and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L. 225-37 of the French commercial law (*Code de Commerce*).

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L. 225-37 of the French commercial law (*Code de Commerce*).

Paris La Défense and Neuilly-sur-Seine, May 27, 2010

The Statutory Auditors

KPMG Audit
Division of KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

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Financial Report 5.

Investments and financing

The Air France-KLM group's capital expenditure on tangible and intangible assets together with the acquisitions of subsidiaries and equity interests amounted to €2.11 billion at March 31, 2010 compared with €2.39 billion one year earlier, of which €330 million for the acquisition of the 25% stake in Alitalia. Operating cash flow stood at a negative €798 million given a €555 million negative change in working capital requirement essentially due to the early unwinding of fuel hedges (€389 million). This negative operating cash flow and proceeds from the disposal of property, plant and equipment amounting to €1.05 billion did not enable the financing of these investments. As a result, free cash flow stood at a negative €1.8 billion.

The Group's cash position amounted to €4.28 billion, including €343 million of investment securities immobilized for between 3 and 12 months and €297 million of Triple A deposits. In addition, the Group has principal credit facilities of €1.99 billion subscribed by Air France, KLM and Air France-KLM, of which €1.2 billion was available at March 31, 2010 (€1.1 billion as of April 2010).

Shareholders' equity amounted to €5.42 billion after a negative impact of €325 million relating to the fair value of hedging instruments versus a €1.5 billion negative impact at March 31, 2009. Net debt stood at €6.22 billion (€4.44 billion at March 31, 2009). The gearing ratio was 1.15, and 1.08 excluding the valuation of hedging instruments against a respective 0.78 and 0.62 at March 31, 2009 *(See also the reconciliation table in section 5 – Key performance ratios, page 128).*

Investments

(In € million)	**2009-10**	**2008-09**
Acquisition of intangible assets	(113)	(115)
Investment in flight equipment	(1,736)	(1,539)
Other property, plant and equipment	(246)	(389)
Acquisition of subsidiaries	(18)	(348)
Proceeds on disposals of subsidiaries and equity interests	3	16
Proceeds on disposals of property, plant and equipment and intangible assets	1,053	141
Dividends received	5	6
Net decrease (increase) in investments over 3 months to 1 year	87	(246)
Net cash used in investing activities	(967)	(2,474)

Investment in tangible and intangible assets amounted to €2.11 billion (€2.04 billion at March 31, 2009), of which €1.74 billion in flight equipment. The acquisition of aircraft (*See also section 2 – Activity – Fleet, page 54*) and advance payments amounted to €1.1 billion while other investment in flight equipment also included the capitalization of overhaul costs in line with IAS 16 and the capitalization of certain aircraft spare parts. Ground investment amounted to €246 million and included various industrial facilities and equipment. Intangible investment, amounting to €113 million, related to the purchase of software and capitalized IT development.

Investment in the acquisition of subsidiaries and equity interests stood at €18 million (€348 million at March 31, 2009). The disposal of subsidiaries and equity interests generated €3 million of cash.

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €1.05 billion (€141 million at March 31, 2009) including €315 million on the sale of aircraft and €735 million on the sale and leaseback of aircraft.

The dividends received from unconsolidated subsidiaries amounted to €5 million compared with €6 million during the previous year. Lastly, income on investments over periods of between 3 months and one year fell by €87 million compared with a €246 million increase one year earlier.

Overall, cash flows used in investing activities showed a net disbursement of €0.97 billion versus €2.47 billion during the 2008-09 financial year.

Investments net of disposals planned for the next two financial years are covered on page 54.

Financing

(In € million)	**2009-10**	**2008-09**
Capital increase	-	-
Issuance of new debt	2,704	1,899
Reimbursement of debt	(326)	(312)
Reimbursement of debt on finance lease liabilities	(522)	(573)

The Group's debt principally serves to finance the investment in flight equipment.

During the year, the Group issued €2.7 billion of new debt (€1.9 billion in 2008-09) including €700 million of bonds and €661 million of convertible bonds.

The other financing operations principally corresponded to the financing of assets: Air France financed 18 long and medium-haul aircraft for a total of €767 million, largely through bank debt contracted with European and Asian lending institutions. For its part, KLM notably financed three long-haul, two medium-haul and nine regional aircraft.

In parallel, the Group repaid €326 million of borrowings (€312 million in 2008-09) and €522 million of debt relating to finance lease liabilities (€573 million in 2008-09).

At March 31, 2010, €6.01 billion of long-term debt was guaranteed by pledged or mortgaged assets amounting to €8.1 billion, representing 51.75% of the net book value of the assets concerned (*See also note 35.1 to the consolidated financial statements, page 207*).

Property, plant and equipment

Property, plant and equipment of the Air France-KLM group

Net book value at 31 March *(In € million)*	**2009-10**	**2008-09**
Flight equipment	***11,349***	***12,125***
Other property, plant and equipment		
Land and buildings	1,375	1,343
Equipment and machinery	476	432
Assets in progress	122	237
Others	279	301
Total other property, plant and equipment	**2,252**	**2,313**

Information on flight equipment is provided in the Activity-Fleet section of this document and orders for flight equipment are covered in note 34 to the consolidated financial statements. After the fleet, land and buildings is the second largest category of tangible assets for the Air France-KLM group and is the only item to be described in detail below.

The Air France-KLM group's land and buildings

Breakdown of surface area by business unit

Approximate surface area m²	**Air France group**		**KLM group**		**Air France-KLM group**	
At March 31	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Passenger	422,481	459,500	120,450	127,090	542,931	586,600
Cargo	318,027	320,030	97,456	97,385	415,483	417,400
Maintenance	625,960	649,960	255,247	240,745	881,207	890,700
Support	417,694	445,695	117,228	125,735	534,922	571,450
Total	**1,784,162**	**1,875,185**	**590,381**	**590,955**	**2,374, 543**	**2,466,150**

Air France group

Only the Air France buildings (85% of the property, plant and equipment of the Air France group) are the subject of commentary, of which 86% is situated in continental France.

The main changes were the coming into service of a 6,200 m² logistics shop for the maintenance business, a cargo building at CDG amounting to 4,350 m² and a 4,500 m² extension to the simulator building. In parallel, a number of buildings were demolished (10,250 m²), returned (4,100 m²) or withdrawn from operation (66,300 m²). The Group disposed of 2,800 m².

KLM group

The KLM group did not record any significant changes during the 2009-10 financial year.

Financing

	Air France group	KLM group	Total
Fully owned	46%	86%	58%
Finance lease	6%	-	8%
Operating lease	48%	14%	34%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.95 billion at March 31, 2010 (*See also note 33.2 to the consolidated financial statements, page 204*).

Most of the Air France group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Only 9% of the fully owned or finance leased premises belong to the real estate portfolio controlled by Air France.

Geographical breakdown of the sites

Sites	Approximate surface area in m^2	Type of financing
Air France group		
Roissy-CDG airport	688,000	Ownership, finance lease, rental
Orly airport	363,000	Ownership, rental
Toulouse	70,000	Ownership, rental
Vilgénis	25,000	Ownership
Le Bourget	41,000	Ownership, rental
Montreuil	23,000	Rental
Valbonne	17,000	Ownership
KLM group		
Schiphol airport	40,600	Operating lease
Schiphol Centrum	135,000	Ownership
Schiphol Oost	325,000	Ownership, operating lease
Schiphol Rijk	23,000	Ownership, operating lease
Schiphol Noord	22,000	Ownership
Amstelveen	29,000	Ownership
Others	15,000	Operating lease

Main rental contracts

Sites	Approximate surface area in m^2	Type of financing
Air France group		
Commercial head office, Montreuil	23,000	Commercial lease
Hangar H4 at CDG	35,000	Agreement
Hangar H8N6 at Orly	45,000	Agreement
KLM group		
Schiphol	37,500	Commercial lease

Assets in progress

The main construction projects in progress for the Air France group are a €23 million investment in a 10,000 m^2 engine maintenance facility at Orly and a 3,100 m^2 extension to the Paray simulator building involving a €10 million investment. The KLM group currently has no outstanding commitments to large-scale construction projects.

Comments on the financial statements

Consolidated results for the financial year to March 31, 2010

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

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

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

The scope comprises 153 fully consolidated entities and 25 equity affiliates. The two main subsidiaries, Air France and KLM, represent 86% of revenues and 72% of the balance sheet. The other subsidiaries are principally involved in air transport (Brit Air, Régional, CityJet, VLM, KLM Cityhopper, Martinair), maintenance, catering (Servair group and KLM Catering Services) and aircraft financing. No subsidiary or sub-subsidiary represents a specific risk whose nature is likely to influence the Group's activity and financial situation.

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

B: Published.
C: Pro-forma Martinair.

Reconciliation table for the 2008-09 financial year

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

Revenues

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

Operating expenses

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

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

The breakdown of external expenses was as follows:

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

B: Published.
C: Pro-forma Martinair.

The main changes were as follows:

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

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

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

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

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

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

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

Income/(loss) from operating activities

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

Net cost of financial debt

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

Other financial income and charges

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

The breakdown was as follows:

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

Net income/(loss) – Group share

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

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

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

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

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

Air France-KLM parent company results

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

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

Information on the maturity of accounts payable

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.

Key performance ratios

Restated net income

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

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

* *Pro-forma Martinair.*

** *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities (See also note 10 to the consolidated financial statements, page 155).*

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

Adjusted operating margin

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

(In € million)	**March 31, 2010**	**March 31, 2009***
Income/(loss) from current operations	(1,285)	(186)
Portion of operating leases considered to be financial charges	245	231
Adjusted income/(loss) from current operations	(1,040)	45
Revenues	20,994	24,693
Adjusted operating margin	(5.0)%	0.2%

* *Pro-forma Martinair.*

Gearing ratio

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

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

Return on Capital Employed (RoCE)

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

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

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

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

* *Pro-forma Martinair.*

Cost of capital

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

Consolidated financial statements

Consolidated income statement

Period from April 1 to March 31, *(In € millions)*	**Notes**	**2010**	**2009**
Sales	***5***	***20,994***	***23,970***
Other revenues		5	5
Revenues		***20,999***	***23,975***
External expenses	6	(13,243)	(14,930)
Salaries and related costs	7	(7,388)	(7,317)
Taxes other than income taxes		(216)	(250)
Amortization and depreciation	8	(1,640)	(1,604)
Provisions	8	(35)	(115)
Other income and expenses	9	238	112
Income from current operations		***(1,285)***	***(129)***
Sales of aircraft equipment	10	(21)	5
Negative goodwill	4	-	17
Other non-current income and expenses	10	(326)	(86)
Income from operating activities		***(1,632)***	***(193)***
Cost of financial debt		(410)	(368)
Income from cash and cash equivalents		106	268
Net cost of financial debt	***11***	***(304)***	***(100)***
Other financial income and expenses	11	(193)	(911)
Income before tax		***(2,129)***	***(1,204)***
Income taxes	12	586	439
Net income of consolidated companies		***(1,543)***	***(765)***
Share of profits (losses) of associates	20	(17)	(42)
Net income from continuing operations		***(1,560)***	***(807)***
Net income for the period		**(1,560)**	**(807)**
♦ ***Group***		***(1,559)***	***(814)***
♦ Minority interests		(1)	7
Earnings per share – Group *(in euros)*	14.1		
♦ basic		(5.30)	(2.76)
♦ diluted		(5.30)	(2.76)

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

Consolidated statement of recognized income and expenses

(In € millions)	**March 31, 2010**	**March 31, 2009**
Net income for the period	***(1,560)***	***(807)***
Fair value adjustment on available-for-sale securities		
Change in fair value recognized directly in equity	6	(13)
Change in fair value transferred to profit or loss	-	-
Cash flow hedges		
Effective portion of changes in fair value hedge recognized directly in equity	1,159	(3,631)
Change in fair value transferred to profit or loss	532	(1,180)
Items of the recognized income and expenses of equity shares	***10***	***-***
Currency translation adjustment	***4***	***7***
Tax on items taken directly to or transferred from equity		
Income/(expense) recognized directly in equity	(518)	1,494
Total of other comprehensive income included in the recognized income and expenses	**1,193**	**(3,323)**
Recognized income and expenses	***(367)***	***(4,130)***
♦ ***Group***	***(370)***	***(4,130)***
♦ Minority interest	3	**-**

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

Consolidated balance sheet

Assets *(In € millions)*	**Notes**	**March 31, 2010**	**March 31, 2009**
Goodwill	15	401	400
Intangible assets	16	612	559
Flight equipment	18	11,349	12,125
Other property, plant and equipment	18	2,252	2,313
Investments in equity associates	20	446	446
Pension assets	21	2,733	2,499
Other financial assets *(including €630 million of deposits related to financial leases as of March 31, 2010 and €740 million as of March 31, 2009)*	22	840	938
Deferred tax assets	12.5	942	811
Other non-current assets	25	180	629
Total non-current assets		***19,755***	***20,720***
Assets held for sale	13	93	93
Other short-term financial assets *(including €482 million of deposits related to financial leases and investments between 3 months and 1 year as of March 31, 2010 and €538 million as of March 31, 2009)*	22	517	580
Inventories	23	537	527
Trade accounts receivable	24	2,142	2,038
Income tax receivables		1	2
Other current assets	25	979	1,065
Cash and cash equivalents	26	3,751	3,748
Total current assets		***8,020***	***8,053***
Total assets		**27,775**	**28,773**

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

Liabilities and equity *(In € millions)*	**Notes**	**March 31, 2010**	**March 31, 2009**
Issued capital	27.1	2,552	2,552
Additional paid-in capital	27.2	719	765
Treasury shares	27.3	(106)	(124)
Reserves and retained earnings	27.4	2,198	2,429
Equity attributable to equity holders of Air France-KLM		***5,363***	***5,622***
Minority interests		55	54
Total Equity		***5,418***	***5,676***
Provisions and retirement benefits	29	1,432	1,334
Long-term debt	30	9,222	7,864
Deferred tax	12.5	418	339
Other non-current liabilities	31	818	2,170
Total non-current liabilities		***11,890***	***11,707***
Liability related to assets held for sale	13	10	7
Provisions	29	696	480
Current portion of long-term debt	30	1,825	1,353
Trade accounts payable		2,032	1,887
Deferred revenue on ticket sales		2,340	2,131
Frequent flyer programs		840	917
Current tax liabilities		11	11
Other current liabilities	31	2,597	4,322
Bank overdrafts	26	116	282
Total current liabilities		***10,467***	***11,390***
Total liabilities		**22,357**	**23,097**
Total liabilities and equity		**27,775**	**28,773**

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

Consolidated statement of changes in stockholders' equity

(In € millions)	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Minority interests	Total equity
March 31, 2008	***300,219,278***	***2,552***	***765***	***(119)***	***6,702***	***9,900***	***75***	***9,975***
Fair value adjustment on available for sale securities	-	-	-	-	(13)	(13)	-	(13)
Gain/(loss) on cash flow hedges	-	-	-	-	(3,309)	(3,309)	(8)	(3,317)
Currency translation adjustment	-	-	-	-	6	6	1	7
Net income for the year	-	-	-	-	(814)	(814)	7	(807)
Total of income and expenses recognized	-	-	-	-	***(4,130)***	***(4,130)***	**-**	***(4,130)***
Stock based compensation (ESA) and stock option	-	-	-	-	28	28	-	28
Dividends paid	-	-	-	-	(171)	(171)	(6)	(177)
Treasury shares (Note 27.3)	-	-	-	(5)	-	(5)	-	(5)
Change in consolidation scope	-	-	-	-	-	-	(15)	(15)
March 31, 2009	***300,219,278***	***2,552***	***765***	***(124)***	***2,429***	***5,622***	***54***	***5,676***
Fair value adjustment on available for sale securities	-	-	-	-	6	6	-	6
Gain/(loss) on cash flow hedges	-	-	-	-	1,179	1,179	4	1,183
Currency translation adjustment	-	-	-	-	4	4	-	4
Net income for the year	-	-	-	-	(1,559)	(1,559)	(1)	(1,560)
Total of income and expenses recognized	-	-	-	-	***(370)***	***(370)***	***3***	***(367)***
Stock based compensation (ESA) and stock option	-	-	-	-	24	24	-	24
Dividends paid	-	-	-	-	-	-	(1)	(1)
OCEANE	-	-	-	-	69	69	-	69
Treasury shares (Note 27.3)	-	-	-	18	-	18	-	18
Change in consolidation scope	-	-	-	-	-	-	(1)	(1)
Other	-	-	(46)	-	46	-	-	-
March 31, 2010	***300,219,278***	***2,552***	***719***	***(106)***	***2,198***	***5,363***	***55***	***5,418***

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

Consolidated statements of cash flows

Period from April 1 to March 31, *(In € millions)*	**Notes**	**2010**	**2009**
Net income for the period – Group		(1,559)	(814)
Minority interests		(1)	7
Amortization, depreciation and operating provisions	8	1,675	1,719
Financial provisions	11	7	14
Gain on disposals of tangible and intangible assets		61	(22)
Loss/(gain) on disposals of subsidiaries and associates		-	(13)
Reversal of provision for cargo investigation		-	(225)
Derivatives – non monetary result	11	(8)	333
Unrealized foreign exchange gains and losses, net		13	6
Negative goodwill	4	-	(17)
Share of (profits) losses of associates	20	17	42
Deferred taxes	12	(591)	(340)
Other non-monetary items		143	(188)
Subtotal		**(243)**	**502**
(Increase)/decrease in inventories		(28)	8
(Increase)/decrease in trade receivables		(89)	676
Increase/(decrease) in trade payables		126	(401)
Change in other receivables and payables		(564)	13
Net cash flow from operating activities		***(798)***	***798***
Acquisitions of subsidiaries and investments in associates, net of cash acquired	37	(18)	(348)
Purchase of property, plant and equipment and intangible assets	19	(2,097)	(2,043)
Proceeds on disposal of subsidiaries and investments in associates	37	3	16
Proceeds on disposal of property, plant and equipment and intangible assets		1,053	141
Dividends received		5	6
Decrease/(increase) in investments, net between 3 months and 1 year		87	(246)
Net cash used in investing activities		***(967)***	***(2,474)***
Increase in capital		-	1
Issuance of long-term debt		2,704	1,899
Repayments on long-term debt		(326)	(312)
Payment of debt resulting from finance lease liabilities		(522)	(573)
New loans		(73)	(58)
Repayments on loans		151	149
Dividends paid		(3)	(177)

Consolidated statements of cash flows (continued)

Period from April 1 to March 31, *(In € millions)*	**Notes**	**2010**	**2009**
Net cash flow from financing activities		***1,931***	***929***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		3	4
Change in cash and cash equivalents and bank overdrafts		***169***	***(743)***
Cash and cash equivalents and bank overdrafts at beginning of period	26	3,466	4,209
Cash and cash equivalents and bank overdrafts at end of period	26	3,635	3,466
Income tax (paid)/reimbursed (flow included in operating activities)		(3)	89
Interest paid (flow included in operating activities)		(357)	(372)
Interest received (flow included in operating activities)		79	224

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

Notes to the consolidated financial statements

Note 1 Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM SA, a limited liability company organized under French law excluding its consolidated subsidiaries.

The Group is headquartered in France and is one of the largest airlines in the world. The Group's core business is passenger transportation. The Group's activities also include cargo, aeronautics maintenance and other air-transport related activities, including principally catering and charter services.

The limited company Air France-KLM SA, domiciled at 2 rue Robert Esnault-Pelterie 75007 Paris – France, is the parent company of the Air France-KLM group. Air France-KLM is listed for trading in Paris (Euronext), Amsterdam (Euronext).

The presentation currency used in these financial statements is the euro, which is also the Group's functional currency.

Note 2 Significant events

2.1 Arising during the account period

On June 26, 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) for a total of €661 million.

On October 14, 2009, Air France-KLM launched a €700 million bond issue.

The characteristics of these two bonds are described in Note 30.

The Group has launched a voluntary redundancy plan for its subsidiary Air France. The period during which applications for the plan will be made opened at the beginning of the 2009-10 fourth quarter and will close on May 14, 2010. The Group estimates that the provision necessary to cover the net cost before tax of departures amounts to €148 million.

2.2 Subsequent events

On April 29, 2010, the company WAM was the subject of an Initial Purchase Offer (IPO) in Spanish stock exchange.

This operation has been done in two steps:

1. a capital increase reserved to the market. The Group did not subscribe to it;
2. the concomitant sold of a part of the shares held by the Group.

After the operation the percentage of interest has decreased from 22% to 15%. At the same time, the governance of WAM has been changed. These two items have involved for the Group the loss of significant influence and also a change in the valuation method of the shares held.

As a consequence, according to IFRS, since April 29, 2010, date of the IPO, share held by the Group will valued at their market value (market price).

The global profit recorded in the income statement for an amount of €1,031 million will be analyzed as follow:

- gain on disposal of shares: €282 million, including €195 million of cash received;
- valuation of shares held by the Group: €749 million.

In April 2010, the airspace has been closed or strongly disturbed because of the ash cloud involved by the volcanic blast in Iceland.

The cost generated by this event will be recorded at the closing of the first quarter 2010-11.

Note 3 Accounting policies

3.1 Accounting principles

Accounting principles used for consolidated financial statements

Pursuant to the European Regulation 1606/2002, July 19, 2002, the consolidated financial statements as of March 31, 2010 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Commission ("EU") and applicable on the date these consolidated financial statements were established.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially had the Group applied IFRS as published by the IASB.

The consolidated financial statements were approved by the Board of Directors on May 19, 2010.

Change in accounting principles

The rules, interpretations and amendments which must be obligatorily applied to consolidated accounts from March 31, 2010 are as follows:

- the standard IFRS 8 "Operating Segments" was applied for the first time for the account period 2009-10. The application of this rule has no impact on the Group's consolidated financial statements, the segments previously presented according to IAS 14 being compliant with the definition of operating segments identified and grouped according to IFRS 8. The Group presents its segment information based on "passenger", "cargo", "maintenance" and "other" segments. Moreover it has been considered useful to maintain information by geographical area;
- the revised standard IAS 1 "Presentation of financial statements" was also applied for the first time for the account period 2009-10. The Group opted to present the performance in two statements: a consolidated income statement and a consolidated statement of recognized income and expenses. Information on the previous period presented has been restated in order to be compliant with the revised standard;
- the revised standard IAS 23 "Cost of Borrowings": as the Group has already opted for the capitalization of borrowing costs in fixed asset costs, this amendment has no impact on the Group consolidated accounts;
- the amendments to the standard IFRS 7 "Improvement of information supplied relating to financial instruments" have been applied for the 2009-10 financial year and, in particular, the presentation of fair value hierarchy for financial assets and liabilities (cf. Note 3.10).

The interpretations IFRIC 13 "Customer Loyalty Programs" and IFRIC 14 "IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which must be applied from January 1, 2009, were early adopted for periods 2008-09 and 2007-08. Consequently, its mandatory introduction has had no impact on the Group consolidated accounts as of March 31, 2010.The other texts for which the application is now mandatory have had no impact on the Group consolidated accounts relating to the period ending March 31, 2010.

The other texts adopted by the European Union as of March 31, 2010 described below, and which came into force for accounting periods starting July 1, 2009, have not been early applied by the Group for the establishment of the consolidated financial statements when this arrangement was possible:

- the revised standard IFRS 3 "Business Combination", mandatory application from July 1, 2009;
- the revised standard IAS 27 "Individual and Consolidated Financial Statements", mandatory application from July 1, 2009;
- amendments to IAS 39 "Eligible Hedged Items", mandatory application from July 1, 2009;
- amendments to IAS 32 "Classification of subscription rights", mandatory application from February 1, 2010;
- the standard IFRS 9 "Financial instruments"*, phase 1 "classification and measurement", is applicable for annual periods beginning on or after January 1, 2013;
- the revised standard IAS 24 "Related party disclosures", applicable for annual periods beginning on or after January 1, 2011. The Group does not expect any significant impact from the application of this revised standard;
- IFRIC 16 "Hedges of a net investment in a foreign operation", mandatory application for annual periods beginning on or after July 1, 2009;
- IFRIC 17 "Distribution of non cash assets to owners", mandatory application for annual periods beginning on or after July 1, 2009. The Group does not distribute non-cash assets, so this interpretation is not applicable to the consolidated financial statements.
- IFRIC 18 " Transfers of assets from customers", mandatory application for annual periods beginning on or after July 1, 2009;
- IFRIC 19 "Extinguishing financial liabilities with equity instruments"*, early adoption applicable for annual periods beginning on or after July 1, 2010.

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

3.2 Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main estimates are described in the following notes:

- Note 3.6 – Revenue recognition related to deferred revenue on ticket sales;
- Notes 3.13 and 3.12 – Tangible and intangible assets;
- Note 3.10 – Financial assets;
- Note 3.21 – Deferred tax assets;
- Note 3.7 – Flying Blue frequent flyer program;
- Notes 3.17, 3.18 and 3.19 – Provisions.

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

The consolidated financial statements for the financial year have thus been established taking into account the current economic and financial crisis which has developed since 2008 and on the basis of financial parameters available at the closing date. The immediate effects of the crisis have been taken into account, in particular the valuation of current assets and liabilities. Concerning the longer-term assets, i.e. the non-current assets, the assumption was that the crisis would be of limited duration.

The actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

* *Those texts have not been adopted by the European Union.*

3.3 Consolidation principles

3.3.1 Subsidiaries

Companies in which the Group exercises control are fully consolidated. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

Minority interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income, under the line "minority interest".

3.3.2 Interest in associates and joint ventures

Companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are accounted for using the equity method; the ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

In addition, companies in which the Group exercises joint control by virtue of a contractual agreement are accounted for using the equity method.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates and joint ventures from the date the ability to exercise significant influence commences to the date it ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's profit or loss. The investor's share of those changes is recognized directly in the Group's equity.

The Group's share of losses of an associate that exceed the value of the Group's interest and net investment (long term receivables) in this entity are not accounted for, unless:

- the Group has incurred contractual obligations; or
- the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer consolidated and are valued at the carrying value on the date of withdrawal from the consolidation scope.

3.3.3 Intragroup operations

All intragroup balances and transactions, including income, expenses and dividends are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.

Gains and losses realized on internal sales with associates and jointly controlled entities are eliminated, to the extent of the Group's interest in entity, providing there is no impairment.

3.3.4 Closing date

With the exception of a few non-significant subsidiaries and equity affiliates with a December 31 closing date, all Group companies are consolidated based on financial statements for the year ended March 31.

3.4 Translation of foreign companies' financial statements and transactions in foreign currencies

3.4.1 Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- with the exception of the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting foreign exchange adjustment is recorded in the "Translation adjustments" item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign currency rate in effect at the closing date.

3.4.2 Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the rates in effect on the balance sheet date or at the rate of the related hedge for assets resulting from firm commitments documented in fair value hedge relationships.

The corresponding exchange rate differences are recorded in the Group's consolidated income statement. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in Note 3.10. "Financial instruments, valuation of financial assets and liabilities".

3.5 Business combinations

Business combinations are accounted for using the purchase method in accordance with IFRS 3. In accordance with this standard, all assets, liabilities assumed and contingent liabilities are measured at fair value at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Assets meeting the criteria of IFRS 5, as described in Note 3.22, are recorded at the lower of their net book value and their fair value less costs to sell.

Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control on the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, the resulting negative goodwill is recognized immediately in the income statement.

3.6 Sales

Sales related to air transportation operations are recognized when the transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Upon issuance, both passenger and cargo tickets are recorded as "Deferred revenue on ticket sales".

Sales relating to the value of tickets that have been issued, but which will never be used, are recognized as revenues. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales on third-party maintenance contracts are recorded based on the stage of completion.

3.7 Loyalty programs

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

In accordance with the IFRIC 13, these "miles" are considered distinct elements from a sale with multiple elements and one part of the price of the initial sale of the airfare is allocated to these "miles" and deferred until the Groups commitments relating to these "miles" has been met.

The deferred amount due in relation to the acquisition of miles by members is estimated:

- according to the fair value of "miles", defined as the amount at which the benefits can be sold separately;
- after taking into account the redemption rate, corresponding to the probability that the miles will be used by members, using statistical method.

With regards to the invoicing of other partners in the program, the margins realized on sales of "miles" by sub-groups Air France and KLM to other partners is recorded immediately in the income statement.

3.8 Distinction between income from current operations and income from operating activities

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

Such elements can be divided into three categories:

- elements that are both very infrequent and significant, such as the recognition in the income statement of negative goodwill;
- elements that have been incurred for both periods presented and may recur in future periods but for which amounts have varied from period to period, the Group believes that amounts to be incurred in future periods will continue to vary materially in amount and nature such as sales of aircraft equipment and disposals of other assets;
- elements that are by nature unpredictable and non-recurring, if they are significant such as restructuring costs or gains/(losses) resulting from specific transactions. The Group considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to the other.

3.9 Earnings per share

Earnings per share are calculated by dividing net income attributable to the equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to the equity holders of Air France-KLM adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially dilutive ordinary shares.

3.10 Financial instruments, valuation of financial assets and liabilities

3.10.1 Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value, then subsequently using the amortized cost method less impairment losses, if any. The purchases and sales of financial assets are accounted for as of the transaction date.

3.10.2 Investments in debt and equity securities

Investments in debt and equity securities qualifying as assets available for sale are stated at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price. For other securities, if the fair value cannot be reliably estimated, it equals the acquisition cost less impairment, if any.

Potential gains and losses, except for impairment charges, are recorded in a specific component of equity "Derivatives and available for sale securities reserves". If there is an indication of impairment of the financial asset, the amount of the loss is recorded in the income statement for the period.

3.10.3 Derivative financial instruments

The Group uses various derivative financial instruments to hedge its exposure to the risks of exchange rates, changes in interest rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to interest rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39.

These derivative instruments are recorded on the Group's consolidated balance sheet at their fair value. The method of accounting for changes in fair value depends on the classification of the derivative instruments. There are three classifications:

- *derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as earnings;
- *derivatives classified as cash flow hedge*: the changes in fair value are recorded in equity for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or financial losses;
- *derivatives classified as trading*: changes in the derivative fair value are recorded as financial income or losses.

3.10.4 Convertible bonds

Convertible bonds are financial instruments comprised of two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Group's equity is calculated by the difference between such value and the bond's nominal value at issue. The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

3.10.5 Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

Financial assets are made up of financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, treasury bills, certificates, etc.) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group opted not to designate any asset at fair value through the income statement.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.10.6 Long-term debt

Long-term debt is recognized initially at fair value. Subsequent to the initial recognition, long-term debt is recorded at amortized cost calculated using the effective interest rate. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

3.10.7 Fair value hierarchy

The table that presents a breakdown of financial assets and liabilities categorized by value (see Note 32.4) meets the amended requirements of IFRS 7. The fair values are classed using a scale which reflects the nature of the market data used to make the valuations. This scale has three levels of fair value:

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

3.11 Goodwill

Goodwill represents the excess of the cost of a business combination over the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 was not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1.

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset in the balance sheet.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. As discussed in Note 3.14, once recorded the impairment may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the acquisition cost, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary, an equity affiliate or a jointly controlled entity, the amount of the goodwill attributable to the entity sold is included in the calculation of the income from the sale.

3.12 Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Software development costs are capitalized and amortized over their useful lives. The Group has the necessary tools to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful life from the date they are available for use.

Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in Note 3.14 is recorded.

Intangible assets with a finite useful life are amortized on a straight line basis over the following periods:

Software	1 to 5 years
Customer relationships	5 to 12 years

3.13 Property, plant and equipment

3.13.1 Principles applicable

Property, plant and equipment are recorded at the acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Insofar as investment installments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

3.13.2 Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value.

During the operating cycle, in developing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframes and engines (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components enable the use of the fleet to be ensured are recorded as fixed assets and are amortized on a straight-line basis over the estimated residual life time of the aircraft/engine type on the world market. The useful life is a maximum of 30 years.

3.13.3 Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

♦ Buildings	20 to 50 years
♦ Fixtures and fittings	8 to 15 years
♦ Flight simulators	10 to 20 years
♦ Equipment and tooling	5 to 15 years

3.13.4 Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long-term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related profit or losses are accounted for as follows:

- they are recognized immediately when it is clear that the transaction is established at fair value;
- if the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used;
- if the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as financial income over the lease term. No loss is recognized unless the asset is impaired.

3.14 Impairment

In accordance with the standard IAS 36 "Impairment of Assets", fixed assets, intangible fixed assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at east once a year on December 31.

For this test, the Group determines the recoverable value of the asset to be the higher of market value less cost of disposal and its value in use. The latter is determined according to the method of future value of present cash flows, estimated from budgets validated by management, from an actuarial rate which corresponds to the weighted average cost of group capital and from a growth rate which reflects the market hypothesis for the appropriate activity.

The depreciation tests are carried out individually for each asset, except for those assets to which it is not possible to attach independent cash flows. In this case, these assets are regrouped within the CGU to which they belong and it is this which is tested. The CGU relates to different activity sectors of the Group: Passenger business, cargo, maintenance and others (see sector information).

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is realised. The impairment of a CGU is charged in the first instance to goodwill, the remainder being charged to the other assets which comprise the CGU, prorated to their net book value.

3.15 Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

3.16 Treasury shares

Air France-KLM shares held by the Group are recorded as a deduction from the Group's consolidated equity at the acquisition cost. Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

3.17 Employee Benefits

The Group's obligations in respect of defined benefit pension plans and termination indemnities on retirement are calculated, in accordance with IAS 19, using the projected units of credit method, factoring in the specific economic conditions in the various countries concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

Actuarial gains or losses are recognized in the Group's income statement only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan assets at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plan.

Specific information related to the recognition of some pension plan assets

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR") that can involve pension surplus recognition.

These pension surplus constituted by the KLM sub group are recognized in the balance sheet according to the IFRIC 14 interpretation "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

3.18 Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft to a defined level of potential.

The Group accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess in "Flight equipment" caption. Such amounts are subsequently amortized on a straight line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

3.19 Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.

The effect of the time value of money is presented as a component of financial income.

Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties concerned.

3.20 Equity and debt issuance costs

Debt issuance costs are amortized as financial expenses over the term of the loans using the actuarial method.

The cost of increase in capital is deducted from paid-in capital.

3.21 Deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for exceptions described in IAS 12.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets related to temporary differences and carry forwards are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

A deferred tax liability is also recognized for the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly as equity. In such a case, they are recorded directly in equity.

3.22 Non-current assets held for sale and discontinued operations

Non-current assets or groups of assets intended for sale meet the criteria of such a classification if their carrying amount will be recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the Group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets was classified as a non-current asset held for sale.

The Group determines on each closing date whether any assets or group of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to these assets are also presented on a separate line in liabilities on the balance sheet.

Non-current assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

3.23 Share-based compensation

Pursuant to the transitional provisions of IFRS 2, only the share based plans awarded after November 7, 2002, for which the rights did not vest by April 1, 2004, were valued and recorded as salaries and related costs. The other plans are not valued and remain unrecognized. For the Group, the latter only affects the Shares-for-Salary Exchange realized in 1998.

Stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option schemes is determined using the Black-Scholes model. This model takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is the fair value of the services rendered by the employees in consideration for the options received. It is recognized as salary cost with a corresponding increase to equity over the period for which the rights vest. This compensation cost is adjusted, if applicable, to take into account the number of options effectively vested.

Note 4 Changes in the scope of consolidation

4.1 Acquisitions

Alitalia Compagnia Aero Italiana Spa

On January 12, 2009, Air France-KLM and Alitalia Compagnia Aero Italiana Spa (“Alitalia”) concluded an agreement to reinforce their strategic partnership. This partnership was realized by Air France-KLM taking a minority holding in the Italian company. On March 25, 2009, Air France-KLM subscribed to a reserved capital increase for €323 million. After this operation, Air France-KLM holds 25% of the Alitalia share capital. Alitalia shares have been consolidated by the equity method in the Group’s consolidated financial statements since March 31, 2009.

Alitalia, consistent with IFRS 3, has been recorded according to the acquisition method.

Acquisition price

Additional costs directly linked to the acquisition of Alitalia have been included in the acquisition price. They mainly correspond to fees paid for accounting, legal, banking and valuation missions.

The Alitalia acquisition price breaks down as follows:

Compensation *(In € millions)*	
Subscription to the reserved capital increase	323
Costs linked to the transaction	7
Total acquisition price	**330**

Calculation of the goodwill on the acquisition of Alitalia shares

(In € millions)	
Alitalia equity adjusted to the Air France-KLM group rules	719
Acquired percentage	25%
Acquired equity	***180***
Acquisition price	***330***
Goodwill	**150**

The goodwill is recorded in “Investments in equity associates”.

Martinair

Martinair is a Dutch company specialized mainly in the cargo business.

On December 17, 2008, the Group bought a further 50% of Martinair, taking its shareholding to 100%. Consequently, until December 31, 2008, Martinair was consolidated by the equity method. Starting January 1, 2009, it has been fully consolidated in the Group’s financial statements.

The acquisition price for the additional 50% amounted to €10 million. This amount is almost equal to the acquired net asset.

Martinair’s contribution to revenue and income over a three-month period (from January to March 2009) amounted, respectively, to €170 million and €(20) million.

The consolidated income statement for the financial year ended March 31, 2009 included the consolidation by the equity method of 50% of Martinair Group until December 31, 2008.

Following to the acquisition of the additional 50% on December 31, 2008, the consolidated income statement for the financial year to March 31, 2010 includes 100% of Martinair Group.

For the purposes of comparison, a pro forma consolidated income statement for the financial year ended March 31, 2009 including Martinair Group for a 12 month period, is presented below:

Period from April 1 to March 31, *(In € millions)*	**2009 (pro forma)**
Revenues	***24,698***
External expenses	(15,540)
Salaries and related costs	(7,423)
Taxes other than income taxes	(250)
Amortization and depreciation	(1,667)
Provisions	(116)
Other income and expenses	112
Income from current operations	***(186)***
Sales of aircraft equipment	5
Negative goodwill	17
Other non-current income and expenses	(93)
Income from operating activities	***(257)***
Net cost of financial debt and other financial income and expenses	(1,020)
Income before tax	***(1,277)***
Income taxes	457
Net income of consolidated companies	***(820)***
Share of profits (losses) of associates	18
Net income from continuing operations	***(802)***
Net income for the period	**(802)**
♦ ***Group***	***(811)***
♦ Minority interest	9

KLM

During the second quarter of the financial year ended March 2009, the Group acquired an additional 0.35% of the share capital of KLM. After this acquisition, Air France-KLM held 99.10% of the common shares representing 49% of KLM voting rights. This operation involved negative goodwill amounting to €16 million that was recognized directly as operating income in the line "negative goodwill".

Based on the Air France-KLM ownership not only of voting shares but also of a financial interest and the functioning mode of the Group's Executive Committee, Air France-KLM has the power to decide the Group's financial and operational strategies and controls KLM. KLM is thus fully consolidated in Air France-KLM's consolidated financial statements.

4.2 Disposals

No significant disposal of subsidiaries occurred during the years ended March 31, 2010 and 2009.

Note 5 Information by activity and geographical area

Business segments

The Group is organized around the following segments:

Passenger: Passenger operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code, including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third party airlines and services linked to IT systems.

Cargo: Cargo operating revenues come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally.

Other: The revenues from this segment come primarily from catering supplied by the Group to third-party airlines and to charter flights operated primarily by Transavia.

The results, assets and liabilities of the business segments are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond:

- as far as the income statement is concerned, to the current operating income;
- as far as the balance sheet is concerned, to intangible assets, flight equipment and other property, plant and equipment, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits.

Other elements of the income statement and of the balance sheet are presented in the "non allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

Geographical segments

The Group's activities are broken down into six geographical regions:

- Metropolitan France
- Europe except France and North Africa
- Caribbean, French Guiana and Indian Ocean
- Africa, Middle East
- Americas, Polynesia
- Asia and New Caledonia

Only segment revenue is allocated by geographical sales area.

The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the Group's assets (flight equipment) cannot be allocated to a geographical area.

5.1 Information by business segment

Year ended March 31, 2010

(In € millions)	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	17,137	2,455	2,947	1,938	-	24,477
Intersegment sales	(870)	(16)	(1,991)	(606)	-	(3,483)
External sales	***16,267***	***2,439***	***956***	***1,332***	***-***	***20,994***
Income from current operations	(918)	(436)	81	(12)	-	(1,285)
Income from operating activities	(918)	(436)	81	(12)	(347)	(1,632)
Share of profits (losses) of associates	-	-	-	-	(17)	(17)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(497)	(497)
Income taxes	-	-	-	-	586	586
Net income from continuing operations	***(918)***	***(436)***	***81***	***(12)***	***(275)***	***(1,560)***
Depreciation and amortization for the period	(1,066)	(112)	(279)	(183)	-	(1,640)
Other non monetary items	(230)	(2)	(7)	(46)	(669)	(954)
Total assets	**13,426**	**1,380**	**2,543**	**4,719**	**5,707**	**27,775**
Segment liabilities	5,802	219	608	495	4,070	11,194
Financial debt, bank overdraft and equity	-	-	-	-	16,581	16,581
Total liabilities and equity	**5,802**	**219**	**608**	**495**	**20,651**	**27,775**
Purchase of property, plant and equipment and Intangible assets	***1,543***	***147***	***250***	***157***	***0***	***2,097***

External sales include the sales of Martinair Group amounting to €589 million. This is breaks down into €442 million in the cargo business, €5 million in the maintenance business, and € 142 million in the other business.

Income from current operations includes the income from current operations of Martinair Group amounting to €(64) million. This breaks down into €(39) million in the cargo business and €(25) million in the other business.

Income from operating activities includes the income from operating activities of the Martinair Group amounting to €(126) million. This breaks down into €(39) million in the cargo business and €(25) million in the other business, an amount of €(62) million being “non allocated”.

Non-allocated assets amounting to €5.7 billion are mainly financial assets held by the Group, comprising marketable securities of €3.3 billion, deferred tax of €0.9 billion, cash of €0.5 billion and derivatives of €0.5 billion.

Non-allocated liabilities amounting to €4.1 billion, mainly comprise a portion of provisions and retirement benefits of €1.1 billion, tax and employee-related liabilities of €1.2 billion and derivatives of €1.2 billion.

Financial debts, bank overdrafts and equity are not allocated.

Year ended March 31, 2009

(In € millions)	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	19,762	2,874	2,896	1,950	-	27,482
Intersegment sales	(930)	(17)	(1,922)	(643)	-	(3,512)
External sales	***18,832***	***2,857***	***974***	***1,307***	***-***	***23,970***
Income from current operations	(21)	(207)	95	4	-	(129)
Income from operating activities	(21)	(207)	95	4	(64)	(193)
Share of profits/(losses) of associates	-	-	-	-	(42)	(42)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(1,011)	(1,011)
Income taxes	-	-	-	-	439	439
Net income from continuing operations	***(21)***	***(207)***	***95***	***4***	***(678)***	***(807)***
Depreciation and amortization for the period	(1,062)	(109)	(259)	(174)	-	(1,604)
Other non monetary items	(133)	6	-	(51)	(80)	(258)
Total assets	**13,742**	**1,313**	**2,546**	**5,160**	**6,012**	**28,773**
Segment liabilities	5,171	200	611	893	6,723	13,598
Financial debt, bank overdraft and equity	-	-	-	-	15,175	15,175
Total liabilities and equity	**5,171**	**200**	**611**	**893**	**21,898**	**28,773**
Purchase of property, plant and equipment and Intangible assets	***1,522***	***135***	***229***	***157***	***-***	***2,043***

Non-allocated assets amounting to €6.0 billion are mainly financial assets held by the Group and mostly comprise marketable securities of €3.4 billion, deferred tax of €0.8 billion, cash of €0.3 billion and derivatives of €1.0 billion.

Non-allocated liabilities amounting to €6.7 billion, mainly comprise a portion of provisions and retirement benefits of €1.1 billion, tax and employee-related liabilities of €1.4 billion and derivatives of €3.7 billion.

Financial debts, bank overdrafts and equity are not allocated.

5.2 Information by geographical area

Sales by geographical area

Year ended March 31, 2010

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,242	5,241	328	1,046	2,393	1,239	15,489
Other passenger sales	312	270	10	56	53	77	778
Total passenger	***5,554***	***5,511***	***338***	***1,102***	***2,446***	***1,316***	***16,267***
Scheduled cargo	405	661	25	204	390	628	2,313
Other cargo sales	36	18	4	10	31	27	126
Total cargo	***441***	***679***	***29***	***214***	***421***	***655***	***2,439***
Maintenance	553	362	-	-	41	-	956
Others	350	933	24	25	-	-	1,332
Total	**6,898**	**7,485**	**391**	**1,341**	**2,908**	**1,971**	**20,994**

The breakdown of the Martinair Group's sales by geographical origin in the cargo business was €185 million in the "Europe except France, North Africa" area, €1 million in the "Caribbean, French Guiana, Indian Ocean" area, €56 million in the "Africa, Middle East" area, €117 million in the "Americas, Polynesia" area and €83 million in the "Asia, New Caledonia" area.

The breakdown of the Martinair Group's sales by geographical area in the maintenance business was €5 million in the "Europe, North Africa" area.

The breakdown of the Martinair Group's sale by geographical area in the others business was €142 million in the "Europe except France, North Africa" area.

Year ended March 31, 2009

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	5,924	6,348	371	1,147	2,708	1,439	17,937
Other passenger sales	380	312	29	39	52	83	895
Total passenger	***6,304***	***6,660***	***400***	***1,186***	***2,760***	***1,522***	***18,832***
Scheduled cargo	375	883	32	186	409	789	2,674
Other cargo sales	77	28	4	8	35	31	183
Total cargo	***452***	***911***	***36***	***194***	***444***	***820***	***2,857***
Maintenance	549	412	-	-	-	13	974
Others	345	918	23	21	-	-	1,307
Total	**7,650**	**8,901**	**459**	**1,401**	**3,204**	**2,355**	**23,970**

Traffic sales by geographical area of destination

Year ended March 31, 2010

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,985	3,936	1,173	2,372	3,630	2,393	15,489
Scheduled cargo	4	49	154	476	790	840	2,313
Total	**1,989**	**3,985**	**1,327**	**2,848**	**4,420**	**3,233**	**17,802**

The breakdown of the Martinair Group's traffic sales by geographical area of destination included under "scheduled cargo" €6 million in the "Caribbean, French Guiana, Indian Ocean" area, €133 million in the "Africa, Middle East" area, €213 million in the "Americas, Polynesia" area and €79 million in the "Asia, New Caledonia" area.

Year ended March 31, 2009

(In € millions)	Metropolitan France	Europe except France, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	2,167	4,816	1,282	2,618	4,191	2,863	17,937
Scheduled cargo	6	111	183	415	843	1,116	2,674
Total	**2,173**	**4,927**	**1,465**	**3,033**	**5,034**	**3,979**	**20,611**

Note 6 External expenses

Year ended March 31, *(In € millions)*	2010	2009
Aircraft fuel	4,725	5,703
Chartering costs	487	624
Aircraft operating lease costs	721	646
Landing fees and en route charges	1,707	1,793
Catering	472	483
Handling charges and other operating costs	1,281	1,353
Aircraft maintenance costs	1,065	1,123
Commercial and distribution costs	854	1,010
Other external expenses	1,931	2,195
Total	**13,243**	**14,930**
Excluding aircraft fuel	*8,518*	*9,227*

The external expenses of the Martinair Group for the year ended March 31, 2010 amounted to €432 million including €199 million of aircraft fuel cost.

Note 7 Salaries and number of employees

Salaries and related costs

Year ended March 31, *(In € millions)*	2010	2009
Wages and salaries	5,406	5,421
Net periodic pension cost	308	143
Social contributions	1,768	1,743
Expenses related to share-based compensation	27	30
Other expenses	(121)	(20)
Total	**7,388**	**7,317**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This plan is accounted for as a defined contribution plan in “social contributions”.

The “other expenses” comprise the capitalization of salary costs on aircraft and engine overhaul.

The salaries and related costs of the Martinair Group for the year ended March 31, 2010 amounted to €135 million.

Average number of employees

Year ended March 31,	2010	2009
Flight deck crew	8,855	8,720
Cabin crew	22,593	22,903
Ground staff	73,273	75,310
Total	**104,721**	**106,933**

The average number of employees of the Martinair Group for the year ended March 31, 2010 is 1,758 full time equivalents.

Note 8 Amortization, depreciation and provisions

Year ended March 31, *(In € millions)*	2010	2009
Amortization and depreciation		
Intangible assets	55	47
Flight equipment	1,296	1,277
Other property, plant and equipment	289	280
	1,640	**1,604**
Provisions		
Inventories	3	2
Trade receivables	9	25
Risks and contingencies	23	88
	35	**115**
Total	**1,675**	**1,719**

A description of changes in amortization is included in Notes 16 and 18.

The detail of changes in inventory and trade receivables impairment is included in Notes 23, 24 and 25.

The movements in provisions for risks and charges are detailed in Note 29.

The amortization, depreciation and provisions of the Martinair Group for the year ended March 31, 2010 amounted to €60 million.

Note 9 Other income and expenses

Year ended March 31, *(In € millions)*	2010	2009
Joint operation of routes	59	(31)
Operations-related currency hedges	156	103
Other	23	40
Total	**238**	**112**

Note 10 Other non-current income and expenses

Year ended March 31, *(In € millions)*	2010	2009
Sales of aircraft equipment	***(21)***	***5***
Disposal of subsidiaries and affiliates	1	13
Restructuring costs	(152)	(14)
Compensation on slot swaps	-	14
Loss on aircraft held for sale	(113)	(54)
Other	(62)	(45)
Other non-current income and expenses	***(326)***	***(86)***

Disposal of subsidiaries and affiliates

No significant disposal of subsidiaries or affiliates occurred during the years ended March 31, 2010 and 2009.

Restructuring costs

Year ended March 31, 2010

The Group has launched a voluntary redundancy plan of 1,700 employees for its subsidiary Air France. The period during which applications for the plan will be made opened at the beginning of the 2009-10 fourth quarter and is closed on May 14, 2010. The Group estimates that the provision necessary to cover the net cost before tax of departures amounts to €148 million. The departures will mainly take place in 2010.

Year ended March 31, 2009

During the last quarter of the 2008-09 financial year, Martinair implemented a voluntary departure plan, within the context of a fleet reduction.

These redundancies took place during the 2009-10 financial year. The provision is recorded on the balance sheet under “other creditors – current”.

Loss on aircraft held for sale

As of March 31, 2010, this line includes the impact of the fair value adjustments of ten B747 amounting to €(62) million. Seven of this aircraft are held for sale, the three others, which in a first time were supposed to be sold, are actually kept in service. Moreover, this line includes the impact of the fair value adjustments of 15 Fokker 100s amounting to €(15) million and a €35 million provision corresponding to the indemnities due on two cargo aircraft having been withdrawn from service.

As of March 31, 2009, this line comprises the impact of depreciation to fair value of aircraft held for sale amounting to €(54) million (see Note 13).

Other

As of March 31, 2009, this line comprised the impact of the change in French law concerning pensions amounting to €(17) million.

Note 11 Net cost of financial debt and other financial income and expenses

Year ended March 31, *(In € millions)*	2010	2009
Income from marketable securities	21	106
Other financial income	85	162
Financial income	***106***	***268***
Loan interest	(271)	(236)
Lease interest	(122)	(143)
Capitalized interest	35	58
Other financial expenses	(52)	(47)
Cost of financial debt	***(410)***	***(368)***
Net cost of financial debt	***(304)***	***(100)***
Foreign exchange gains/(losses), net	(26)	(179)
Change in fair value of financial assets and liabilities	(160)	(715)
Net (charge) release to provisions	(7)	(14)
Other	-	(3)
Other financial income and expenses	***(193)***	***(911)***
Total	**(497)**	**(1,011)**

The net cost of financial debt and other financial income and expenses of the Martinair Group for the year ended March 31, 2010 amounted to €(11) million.

The interest rate used in the calculation of capitalized interest is 3.81% for the year ended March 31, 2010 and 4.85% for the year ended March 31, 2009.

The financial income mainly comprises interest income and gains on sale of financial assets at fair value through profit and loss.

By a decision made on January 8, 2010, the Venezuela decided the depreciation of its currency, the Venezuelan Bolivar. The measure took place on January 11, 2010. Based on its monetary outstanding in Venezuela, the Group recorded a foreign exchange loss of €17 million as of March 31, 2010.

The change in fair value of financial assets and liabilities recorded as of March 31, 2010 arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(181) million, together with the change in value of derivative instruments no longer qualified as hedging amounting to €23 million.

The change in fair value of financial assets and liabilities recorded as of March 31, 2009 arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(333) million, together with from the change in value of derivative instruments no longer qualified as hedging amounting to €(382) million.

As of March 31, 2009, the net charge to provisions includes an impairment on the shares in the former Alitalia amounting to €12 million, the latter having filed for bankruptcy protection. This additional provision took the total write-down to 100% of the shares owned.

Note 12 Income taxes

12.1 Income tax charge

Current and deferred income taxes are detailed as follows:

Year ended March 31, *(In € millions)*	2010	2009
Current tax (expense)/income	***(5)***	***99***
(Charge)/income for the year	(5)	99
Deferred tax income/(expense) from continuing operations	***591***	***340***
Change in temporary differences	(264)	13
Change in tax rates	-	-
CAVE impact	31	-
(Use)/recognition of tax loss carryforwards	824	327
Income tax (expense)/income from continuing operations	**586**	**439**

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

During the years ended March 31, 2010 and 2009, the Group recognized a deferred tax asset amounting to €824 million and €327 million respectively given the gains previously realized and the prospects of recoverability.

Impact of the reform of the business tax

The 2010 Finance Law voted on December 30, 2009, has removed the business tax liability for French fiscal entities from January 1, 2010 and replaced it with, the new TEC (Territorial Economic Contribution/ *Contribution Économique Territoriale* – CET) which is formed by two contributions: the LDE (land tax of enterprises/*Cotisation Foncière des Entreprises* – CFE) and the CAVE (Contribution on Added Value of Enterprises/*Côtisation sur la Valeur Ajoutée des Entreprises* – CVAE). This one is calculated by the application of a rate to the added value generated by the company during the year. As the added value is a net amount of income and expenses, the CAVE meets the definition of a tax on profits as set out in IAS 12.2. Consequently the expense relating to the CAVE will be presented uder the line "tax".

With the period ending March 31, 2010 and conforming to the measures set out in IAS 12, the qualification of the CAVE as a tax on profits has lead the Group to account for the CAVE expense of €37 million, which corresponds to:

- a CAVE deferred charge relating to the temporary differences in existence at December 31, 2009. This deferred tax liability will be recovered as the temporary difference are reduced;
- a CAVE current charge which will be paid in 2010 based on the added value generated during the period ended March 31, 2010.

12.2 Deferred tax recorded directly in equity

Year ended March 31, *(In € millions)*	2010	2009
Cash flow hedge	(518)	1,494
OCEANE	(36)	-
Total	**(554)**	**1,494**

12.3 Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

Year ended March 31, *(In € millions)*	2010		2009	
Income before tax		***(2,129)***		***(1,204)***
Theoretical tax calculated with the standard tax rate in France	34.43%	(733)	34.43%	(414)
Differences in French/foreign tax rates		86		26
Negative goodwill		-		(4)
Non deductible expenses		11		14
Non-taxable income		-		(2)
Impact of tax loss carryforwards		19		(58)
CAVE impact		37		-
Other		(6)		(1)
Income tax expenses	**27.54%**	**(586)**	**36.46%**	**(439)**

The tax rates applicable in France and in the Netherlands were set at respectively 34.43% and 25.5%, unchanged relative to the previous financial year.

12.4 Unrecognized deferred tax assets (basis)

Year ended March 31, *(In € millions)*	2010	2009
Temporary differences	95	85
Tax losses	401	294
Total	**496**	**379**

As of March 31, 2010, unrecognized deferred tax assets mainly correspond to a portion of the tax loss carry forwards of Air France group subsidiaries, as well as tax loss carry forwards in certain subsidiaries in the United Kingdom.

In France, tax losses can be carried forward for an unlimited period. In the Netherlands, tax losses can be carried forward until their ninth birthday.

12.5 Deferred tax recorded on the balance sheet

(In € millions)	April 1, 2009	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassi-fication	March 31, 2010
Intangible assets	117	12	-	-	-	129
Flight equipment	812	174	1	(1)	53	1,039
Other property, plant and equipment	178	2	-	-	(24)	156
Investments in equity associates	-	-	-	-	-	-
Other non-current financial assets	(63)	13	-	1	-	(50)
Pension assets	623	59	-	-	-	683
Other non-current assets	228	(142)	(42)	-	-	44
Other short term financial assets	(3)	(2)	-	-	-	(5)
Other current assets	(66)	126	(20)	-	(1)	39
Provisions and retirement benefits – non-current	54	(18)	-	-	(27)	9
Long-term debt	(407)	(45)	36	-	-	(416)
Other non-current liabilities	(730)	250	300	-	(21)	(201)
Provisions – current	(4)	(71)	-	-	-	(75)
Deferred revenue on ticket sales	(209)	3	-	-	-	(206)
Short term portion of long-term debt	(35)	(2)	-	-	-	(37)
Other current liabilities	(181)	(274)	279	2	(12)	(186)
Others	(187)	150	-	-	42	5
Deferred tax corresponding to fiscal losses	(599)	(826)	-	(1)	(26)	(1,452)
Deferred tax (Asset)/Liability	**(472)**	**(591)**	**554**	**1**	**(16)**	**(524)**

(In € millions)	April 1, 2008 (adjusted)	Amounts recorded in income	Amounts recorded in equity	Business combination	Currency translation adjustment	Reclassi-fication	March 31, 2009
Intangible assets	102	13	-	2	-	-	117
Flight equipment	873	56	(119)	(9)	-	11	812
Other property, plant and equipment	169	12	-	(1)	(2)	-	178
Investments in equity associates	-	-	-	-	-	-	-
Other non-current financial assets	98	(161)	-	-	-	-	(63)
Pension assets	562	61	-	-	-	-	623
Other non-current assets	416	71	(204)	-	-	(55)	228
Other short term financial assets	(5)	2	-	-	-	-	(3)
Other current assets	542	(76)	(557)	-	-	25	(66)
Provisions and retirement benefits – non-current	88	(32)	-	(2)	-	-	54
Long-term debt	(414)	1	(16)	-	-	22	(407)
Other non-current liabilities	(325)	73	(500)	-	-	22	(730)
Provisions – current	(15)	11	-	-	-	-	(4)
Deferred revenue on ticket sales	(225)	16	-	-	-	-	(209)
Short term portion of long-term debt	(52)	17	-	-	-	-	(35)
Other current liabilities	(92)	48	(117)	-	-	(20)	(181)
Others	(78)	(125)	19	-	2	(5)	(187)
Deferred tax corresponding to fiscal losses	(257)	(327)	-	(18)	3	-	(599)
Deferred tax (Asset)/ Liability	**1,387**	**(340)**	**(1,494)**	**(28)**	**3**	**-**	**(472)**

Note 13 Assets held for sale and liabilities related to assets held for sale

Year ended March 31, 2010

During the 2009-10 financial year, three of the seven aircraft classified as “assets held for sale” last year, have been sold, dismantled or restituted for one of them which was under operational lease. Four additional aircraft have been classified as “assets held for sale”.

The fair value of these 8 aircraft classified in this line as of March 31, 2010 amounts to €93 million.

As of March 31, 2010, the line “liabilities related to assets held for sale” includes pre-payment received for the sale of 4 aircraft classified as “assets held for sale”.

The line “other non-current income and expense” (See Note 10) includes a charge of €48 million. It corresponds to the impact of the fair value adjustment of aircraft.

Year ended March 31, 2009

During the 2008-09 financial year, within the context of the global financial crisis and the sharp decline in traffic, the Group decided to ground seven aircraft, of which six held for sale and one operated under an operating lease.

The fair values of these six aircraft amounted to €93 million and were reclassified on the balance sheet as “assets held for sale”.

The provision for future lease payments on the aircraft under operating lease amounting to €7 million was reclassified as “liabilities related to assets held for sale”.

The impact on the income statement recorded in “other non-current income and expense” (See Note 10) amounted to €(54) million and mainly comprised an additional €(47) million write-down, and the provision for lease payments of €(7) million.

Note 14 Earnings per share

14.1 Income for the period – Group share per share

Reconciliation of income used to calculate earnings per share

Year ended March 31, *(In € millions)*	2010	2009
Income for the period – Group share	**(1,559)**	**(814)**
Dividends to be paid to priority shares	-	-
Income for the period – Group share *(used to calculate basic earnings per share)*	***(1,559)***	***(814)***
Impact of potential ordinary shares:		
♦ interest paid on convertible bonds (net of tax)	-	-
Income for the period – Group share *(used to calculate diluted earnings per share)*	***(1,559)***	***(814)***

Reconciliation of the number of shares used to calculate earnings per share

Year ended March 31,	2010	2009
Weighted average number of:		
♦ Ordinary shares issued	300,219,278	300,219,278
♦ Treasury stock held regarding stock option plan	(1,679,287)	(1,727,705)
♦ Treasury stock held in stock buyback plan	(1,199,292)	(812,635)
♦ Other treasury stock	(2,965,348)	(2,968,679)
Number of shares used to calculate basic earnings per share	***294,375,351***	***294,710,259***
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	***294,375,351***	***294,710,259***

14.2 Non dilutive instruments

As of March 31, 2010
Given the trend in the average Air France-KLM stock price during the 2008-09 financial year, non-dilutive instruments related to all the stock option plans described in Note 28 and also to the two OCEANE described in Note 30.

As of March 31, 2009
Given the trend in the average Air France-KLM stock price during the 2008-09 financial year, non-dilutive instruments related to all the stock option plans described in Note 28 and also to the OCEANE described in Note 30.

14.3 Instruments issued after the closing date

No instruments were issued after the closing date.

Note 15 Goodwill

Detail of consolidated goodwill

Year ended March 31, *(In € millions)*	2010			2009		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
UTA	112	-	112	112	-	112
Régional	60	-	60	60	-	60
Brit Air	18	-	18	18	-	18
Cityjet	11	-	11	11	-	11
VLM	168	-	168	168	-	168
Aeromaintenance Group	21	-	21	21	-	21
Others	11	-	11	10	-	10
Total	**401**	**-**	**401**	**400**	**-**	**400**

The goodwill concerns mainly the ”Passenger“ business.

Movement in net book value of goodwill

Year ended March 31 *(In € millions)*	2010	2009
Opening balance	***400***	***377***
Acquisitions	1	15
Reclassification	-	8
Closing balance	**401**	**400**

During the year ended March 31, 2009, the Group acquired additional shares in Aeromaintenance Group, from the percentage held increasing from 39.47% to 81.79% as of March 31, 2009. Aeromaintenance Group was consolidated by the equity method in the Group's consolidated financial statements until March 31, 2009 and from this date integrated globally. The historical goodwill, amounting to €8 million, was thus transferred from "Investments in equity associates" to "goodwill" and €13 million of goodwill on the acquisition of the additional shareholding was recorded.

Note 16 Intangible assets

(In € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of March 31, 2008	***309***	***107***	***343***	***759***
Additions	-	-	115	***115***
Change in scope	7	-	13	***20***
Disposals	-	-	(2)	***(2)***
Transfer	-	-	1	***1***
Amount as of March 31, 2009	***316***	***107***	***470***	***893***
Additions	-	-	113	***113***
Change in scope	-	-	-	***-***
Disposals	(1)	-	(10)	***(11)***
Transfer	-	-	1	***1***
Amount as of March 31, 2010	***315***	***107***	***574***	***996***
Depreciation				
Amount as of March 31, 2008	***-***	***(64)***	***(220)***	***(284)***
Charge to depreciation	-	(17)	(30)	***(47)***
Releases on disposal	-	-	-	***-***
Transfer	-	-	(3)	***(3)***
Amount as of March 31, 2009	***-***	***(81)***	***(253)***	***(334)***
Charge to depreciation	-	(12)	(43)	***(55)***
Releases on disposal	-	-	7	***7***
Transfer	-	-	(2)	***(2)***
Amount as of March 31, 2010	***-***	***(93)***	***(291)***	***(384)***
Net value				
As of March 31, 2009	316	26	217	***559***
As of March 31, 2010	315	14	283	***612***

The amounts recorded under "change in scope" during the 2008-09 financial year correspond to the inclusion of Martinair (see Note 4). The Martinair brand was acquired by the Group as part of the Martinair acquisition.

Intangible assets are mainly composed of the KLM and Transavia brands and slots (takeoff and landing) acquired by the Group as part of the acquisition of KLM. The intangible assets have an indefinite useful life as the nature of the assets means they have no time limit.

Note 17 Impairment

With regards to the methodology followed to test impairment, the Group has allocated each goodwill and intangible fixed asset with an indefinite useful life to Cash Generating Units (CGU), which corresponds to their trade Group. (see “Rules and Accounting Methods”).

As of March 31, 2010, goodwill and intangible fixed assets with an indefinite useful life are attached principally to the CGU “Passenger” for €369 million and €350 million respectively.

The recoverable value of the assets of CGUs has been determined by reference to the value used at December 31, 2009 (no change with regards to December 31, 2008). The tests have been realized for all the CGUS on the basis of a three year group plan, passed by the management, and which integrates the effects of the slowdown in the economy as well as a recovery hypothesis allowing medium term forecasts made by the Group before the crisis occurred, to be achieved.

An annual growth rate of 5% has been applied to the 4th and 10th year of the test then a rate of 2% has been applied to the 11th year (rate retained to determine the terminal value). This rate remains the same as those retained for the tests realized at March 31, 2009.

The current rate of 7% at March 31, 2010 and 2009 corresponds to the weighted average equity cost of the Group.

A discount rate superior to 10.5% would involve an impairment booking.

Note 18 Tangible assets

	Flight equipment					Other tangible assets					
(In € millions)	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	Total
Gross value											
Amounts as of March 31, 2008	***8,946***	***4,287***	***1,814***	***1,637***	***16,684***	***2,274***	***1,034***	***221***	***878***	***4,407***	***21,091***
Additions	253	6	1,127	224	1,610	142	64	114	69	389	***1,999***
Disposals	(278)	(12)	(5)	(184)	(479)	(17)	(28)	-	(38)	(83)	***(562)***
Changes in consolidation scope	235	-	-	-	235	19	3	14	1	37	***272***
Fair value hedge	-	-	(473)	-	(473)	-	1	-	-	1	***(472)***
Transfer	1,691	(161)	(1,108)	177	599	38	43	(114)	37	4	***603***
Assets held for sale	(139)	-	-	-	(139)	-	-	-	-	-	***(139)***
Currency translation adjustment	(18)	(5)	-	-	(23)	-	-	2	(3)	(1)	***(24)***
Amounts as of March 31, 2009	***10,690***	***4,115***	***1,355***	***1,854***	***18,014***	***2,456***	***1,117***	***237***	***944***	***4,754***	***22,768***
Additions	502	1	1,161	110	1,774	71	62	56	28	217	***1,991***
Disposals	(1,306)	(15)	(116)	(177)	(1,614)	(47)	(35)	(1)	(77)	(160)	***(1,774)***
Changes in consolidation scope	-	-	-	-	-	-	-	-	(4)	(4)	***(4)***
Fair value hedge	-	-	(6)	-	(6)	-	-	1	-	1	***(5)***
Transfer	456	552	(1,481)	149	(324)	96	62	(171)	23	10	***(314)***
Assets held for sale	-	-	-	-	-	-	-	-	-	-	***-***
Currency translation adjustment	6	-	-	-	6	-	-	-	1	1	***7***
Amounts as of March 31, 2010	***10,348***	***4,653***	***913***	***1,936***	***17,850***	***2,576***	***1,206***	***122***	***915***	***4,819***	***22,669***
Depreciation											
Amounts as of March 31, 2008	***(2,548)***	***(1,151)***	***-***	***(705)***	***(4,404)***	***(993)***	***(624)***	***-***	***(597)***	***(2,214)***	***(6,618)***
Charge to depreciation	(872)	(250)	-	(205)	(1,327)	(123)	(83)	-	(74)	(280)	***(1,607)***
Releases on disposal	177	16	-	184	377	16	27	-	36	79	***456***
Changes in consolidation scope	-	-	-	-	-	-	7	-	-	7	***7***
Transfer	(922)	359	-	(41)	(604)	(13)	(12)	-	(9)	(34)	***(638)***
Assets held for sale	49	-	-	-	49	-	-	-	-	-	***49***
Currency translation adjustment	16	4	-	-	20	-	-	-	1	1	***21***

(In € millions)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equipment and machinery	Assets in progress	Other	Total	Total
Amounts as of March 31, 2009	*(4,100)*	*(1,022)*	-	*(767)*	*(5,889)*	*(1,113)*	*(685)*	-	*(643)*	*(2,441)*	*(8,330)*
Charge to depreciation	(855)	(298)	-	(210)	(1,363)	(133)	(88)	-	(68)	(289)	***(1,652)***
Releases on disposal	293	12	-	196	501	40	32	-	76	148	***649***
Changes in consolidation scope	-	-	-	-	-	-	-	-	3	3	***3***
Transfer	157	132	-	(34)	255	5	11	-	(3)	13	***268***
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-
Currency translation adjustment	(5)	-	-	-	(5)	-	-	-	(1)	(1)	***(6)***
Amounts as of March 31, 2010	*(4,510)*	*(1,176)*	-	*(815)*	*(6,501)*	*(1,201)*	*(730)*	-	*(636)*	*(2,567)*	*(9,068)*
Net value											
As of March 31, 2009	6,590	3,093	1,355	1,087	***12,125***	1,343	432	237	301	***2,313***	***14,438***
As of March 31, 2010	5,838	3,477	913	1,121	***11,349***	1,375	476	122	279	***2,252***	***13,601***

Note 35 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in Notes 34 and 35.

The net book value of tangible assets financed under capital lease amounted to €3,820 million as of March 31, 2010 against €3,399 million as of March 31, 2009.

As of March 31, 2010, the Group has recorded an additional write-down amounting to €(67) million in "Other non-current income and expenses" (see Note 10).

As of March 31, 2009, the Group has recorded an additional write-down amounting to €(47) million in "Other non-current income and expenses" (see Note 13).

Note 19 Capital expenditure

The detail of capital expenditures for tangible and intangible assets presented in the consolidated cash flow statements is as follows:

Year ended March 31, *(In € millions)*	2010	2009
Acquisition of tangible assets	1,991	1,999
Acquisition of intangible assets	113	114
Accounts payable on acquisitions and capitalized interest	(7)	(70)
	2,097	**2,043**

Note 20 Equity affiliates

Movements over the period

The table below presents the movement in equity affiliates:

(In € millions)	WAM Acquisition (Amadeus GTD)	Martinair	Kenya Airways	Alitalia	Other	Total
Value of share in investment as of March 31, 2008	**-**	***60***	***62***	**-**	***55***	***177***
Share in net income of equity affiliates	-	(48)	5	-	1	(42)
Distributions	-	-	-	-	(2)	(2)
Change in consolidation scope	-	(12)	-	330	(3)	315
Other variations	-	-	-	-	5	5
Currency translation adjustment	-	-	(7)	-	-	(7)
Carrying value of share in investment as of March 31, 2009	**-**	**-**	***60***	***330***	***56***	***446***
Share in net income of equity affiliates	-	-	(5)	(13)	1	(17)
Distributions	-	-	(1)	-	-	(1)
Change in consolidation scope (Note 4)	-	-	-	-	4	4
Fair value adjustment	-	-	(10)	21	-	11
Other variations	-	-	-	-	-	-
Currency translation adjustment	-	-	3	-	-	3
Carrying value of share in investment as of March 31, 2010	**-**	**-**	***47***	***338***	***61***	***446***
Market value for listed companies			68			

As of March 31, 2010, the ownership structure of WAM Acquisition was as follows: 22.11% Air France, 11.06% Iberia, 11.06% Lufthansa, 50.42% Amadelux Investments and 5.35% management.

KLM holds 26% of the capital of Kenya Airways.

Air France-KLM holds 25% of the capital of Alitalia.

The “share of profits (losses) of associates” for the year ended March 31, 2010 includes mainly the share of Alitalia Group losses amounting to €(13) million. The latter corresponds to the activity from April 1 to December 31, 2009, the company being including in the consolidation scope since March 31, 2009 and its annual closing date being December 31.

As of March 31, 2009, the ownership structure of WAM Acquisition was as follows: 22.09% Air France, 11.05% Iberia, 11.05% Lufthansa, 50.39% Amadelux Investments and 5.42% management.

On December 17, 2008, KLM bought a further 50% of the company Martinair, increasing its holding to 100% of the share capital. Thus, until December 31, 2008, Martinair was consolidated by the equity method and starting January 1, 2009, it has been fully consolidated in the Group financial accounts.

KLM holds 26% of the capital of Kenya Airways.

On March 25, 2009, Air France-KLM subscribed to a reserved capital increase of the company Alitalia. Following this operation, Air France-KLM holds 25% of the Alitalia share capital. The Alitalia shares have been consolidated by the equity method in the Group’s consolidated financial statements as of March 31, 2009. Alitalia’s other shareholders are 16 Italian entrepreneurs.

The share of profits (losses) of associates includes, notably, the negative contribution from Martinair amounting to €48 million. This corresponds mainly to the loss on fuel derivatives recorded before the acquisition of 100% of the shares by the Group. It also comprises a new provision for risk concerning the European Commission inquiry into an alleged conspiracy to fix the price of air shipping services.

Simplified financial statements of the main equity affiliates

The equity affiliates as of March 31, 2010 mainly concern the following companies, in which the Group has a significant influence:

- **WAM Acquisition**
  WAM Acquisition is the holding company of the Amadeus group. The Amadeus group develops booking tools and technology solutions dedicated to business and leisure travel. This expertise makes it the global partner of choice for travel agents, rail and airline operators, hotel chains and car rental companies. Furthermore, the Amadeus group also partners businesses involved in the reservation and management of business travel.
- **Kenya Airways**
  Kenya Airways is a Kenyan airline based in Nairobi.
- **Alitalia**
  Alitalia Compagnia Aero Italiana Spa comprises the passenger business of the former Alitalia and the assets acquired with the acquisition of Air One. This company started trading on January 12, 2009 and will serve 74 destinations.

The financial information for the principal equity affiliates for the years ended March 31, 2010 and 2009 (excluding consolidation adjustments) is presented below.

(In € millions)	WAM Acquisition (Amadeus GTD)	Kenya Airways	Alitalia
	12/31/2008	03/31/2008	12/31/2008
% holding as of March 31, 2009	22%	26%	25%
Operating revenues	2,505	553	N/A
Operating income	557	61	N/A
Net income/loss	184	35	N/A
Stockholders' equity	(539)	235	728
Total assets	**5,505**	**760**	**2,149**
Total liabilities and stockholders' equity	**5,505**	**760**	**2,149**
	12/31/2009	03/31/2009	12/31/2009
% holding as of March 31, 2010	22%	26%	25%
Operating revenues	2,461	657	2,951
Operating income	550	37	(274)
Net income/loss	272	(37)	(327)
Stockholders' equity	(278)	157	723
Total assets	**5,562**	**707**	**2,980**
Total liabilities and stockholders' equity	**5,562**	**707**	**2,980**

Other information

The share of WAM Acquisition's income not recorded in the Group's consolidated financial statements amounts to €60 million for the year ended March 31, 2010 (€41 million for the year ended March 31, 2009). Given the negative net equity after neutralization of the sum reinvested by the Air France-KLM group, its contribution to the consolidated financial statements is nil.

Note 21 Pension assets

Year ended March 31, *(In € millions)*	2010	2009
Opening balance	***2,499***	***2,245***
Net periodic pension (cost)/income for the period	(123)	(10)
Contributions paid to the funds	356	255
Reclassification	1	4
Currency translation adjustment	-	5
Closing balance	**2,733**	**2,499**

The detail of these pension assets is presented in Note 29.1.

Note 22 Other financial assets

Year ended March 31, *(In € millions)*	2010		2009	
	Current	Non current	Current	Non current
Financial assets available for sale				
Shares	-	54	-	46
Assets at fair value through profit and loss				
Marketable securities	343	-	430	-
Loans and receivables				
Financial lease deposit (triple A)	101	197	92	260
Financial lease deposit (others)	38	433	16	480
Loans and receivables	21	212	13	207
Miscellaneous financial assets	14	-	29	-
Gross value	***517***	***896***	***580***	***993***
Impairment at opening	***-***	***(55)***	***-***	***(56)***
New impairment charge	-	(1)	-	-
Use of provision	-	-	-	1
Impairment at closing	***-***	***(56)***	***-***	***(55)***
Total	**517**	**840**	**580**	**938**

Financial assets available for sale are as follows:

(In € millions)	Fair Value	% interest	Stockholder's equity	Net income	Stock price *(in euros)*	Closing date
As of March 31, 2010						
Club Med*	9	2.00%	492	(53)	13,615	October 2009
Voyages Fram	9	8.71%	ND	ND	NA	December 2009
Others	36	-	-	-	-	-
Total	**54**					
As of March 31, 2009						
Club Med*	4	2.00%	494	2	9.05	October 2008
Voyages Fram	9	8.71%	125	7	NA	December 2008
Others	33	-	-	-	-	-
Total	**46**					

** Listed company.*

Assets at fair value through profit and loss mainly comprises shares in mutual funds that do not meet the "cash equivalents" definition.

Loans and receivables mainly include deposits on flight equipment made within the framework of operating and capital leases.

Note 23 Inventory and work in progress

Year ended March 31, *(In € millions)*	2010	2009
Aeronautical spare parts	556	552
Other supplies	137	135
Production work in progress	7	6
Gross value	***700***	***693***
Opening valuation allowance	***(166)***	***(172)***
Charge to allowance	(12)	(10)
Use of allowance	9	12
Releases of allowance no longer required	-	-
Reclassification	6	4
Closing valuation allowance	***(163)***	***(166)***
Net value of inventory	***537***	***527***

Note 24 Trade accounts receivable

Year ended March 31, *(In € millions)*	2010	2009
Airlines	489	473
Other clients:		
♦ Passenger	1,004	1,005
♦ Cargo	324	269
♦ Maintenance	276	296
♦ Other	138	81
Gross value	***2,231***	***2,124***
Opening valuation allowance	***(86)***	***(81)***
Charge to allowance	(22)	(31)
Use of allowance	13	18
Reclassification	6	8
Closing valuation allowance	***(89)***	***(86)***
Net value	***2,142***	***2,038***

Note 25 Other assets

Year ended March 31, *(In € millions)*	2010		2009	
	Current	Non current	Current	Non current
Suppliers with debit balances	74	-	51	-
French State receivable	89	-	113	-
Derivative instruments	339	170	398	626
Prepayments	242	9	233	2
Other debtors	239	1	276	1
Gross value	***983***	***180***	***1,071***	***629***
Opening valuation allowance	***(6)***	***-***	***(4)***	***-***
Charge to allowance	(1)	-	(2)	-
Use of allowance	1	-	-	-
Reclassification	2	-	-	-
Closing valuation allowance	***(4)***	***-***	***(6)***	***-***
Net realizable value of other assets	***979***	***180***	***1,065***	***629***

The derivative instruments do not comprise any currency hedges on financial debt as of March 31, 2010. As of March 31, 2009, they comprised currency hedges on financial debt amounting to €3 million including a current portion of €2 million.

Note 26 Cash, cash equivalents and bank overdrafts

Year ended March 31, *(In € millions)*	2010	2009
Negotiable debt securities (assets at fair value through profit and loss)	-	48
Mutual funds (SICAV) (assets at fair value through profit and loss)	3,171	2,635
Bank deposits (assets at fair value through profit and loss)	123	735
Cash in hand	457	330
Total cash and cash equivalents	***3,751***	***3,748***
Bank overdrafts	(116)	(282)
Cash, cash equivalents and bank overdrafts	***3,635***	***3,466***

Note 27 Equity attributable to equity holders of Air France-KLM SA

27.1 Issued capital

As of March 31, 2010, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares. Each share is entitled to one vote. The nominal value of each share amounts to €8.50.

The change in the number of issued shares is as follows:

As of March 31, *In number of shares*	2010	2009
At the beginning of the period	***300,219,278***	***300,219,278***
Issuance of shares for BASA exercise	-	-
Issuance of shares for OCEANE conversion	-	-
At the end of the period	***300,219,278***	***300,219,278***
Of which:		
♦ number of shares issued and paid	300,219,278	300,219,278
♦ number of shares issued and not paid	-	-

The shares comprising the issued capital of Air France-KLM are not subject to any restrictions nor priority concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Extraordinary Shareholders' Meeting of July 9, 2009, authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM capital limited to a total maximum nominal amount of €500 million.

Breakdown of share capital and voting rights

The breakdown of share capital and voting rights is as follows:

Year ended March 31,	% of capital		% of voting rights	
	2010	2009	2010	2009
French State	16%	16%	16%	16%
Employees and former employees	12%	12%	12%	12%
Treasury shares	2%	2%	-	-
Other	70%	70%	72%	72%
Total	**100%**	**100%**	**100%**	**100%**

The item "Employees and former employees" includes shares held by employees and former employees identified in funds or by a Sicovam code.

Other securities giving access to common stock

OCEANE

Please refer to Note 30.2.

27.2 Additional paid-in capital

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

Year ended March 31, *(In € millions)*	2010	2009
Equity part of hybrid instruments	-	46
Other paid-in capital	719	719
Total	**719**	**765**

27.3 Treasury shares

	Treasury shares	
	Number	In € millions
March 31, 2008	***5,332,441***	***(119)***
Change in the period	557,020	(5)
March 31, 2009	***5,889,461***	***(124)***
Change in the period	(158,987)	18
March 31, 2010	***5,730,474***	***(106)***

As of March 31, 2010, Air France-KLM held 4,335,382 shares of its own stocks (including 1,260,000 within the framework of the liquidity agreement), acquired according to the annual authorizations given by the Shareholders' Meeting. As of March 31, 2010, the Group also held 1,395,092 shares of its own stocks for KLM stock option programs. All these treasury shares are classified as a reduction of equity.

27.4 Reserves and retained earnings

Year ended March 31, *(In € millions)*	2010	2009
Legal reserve	70	67
Distributable reserve	1,064	1,005
Derivatives and available for sale securities reserves	(318)	(1,503)
Other reserves	2,941	3,674
Net income (loss) – Group share	(1,559)	(814)
Total	**2,198**	**2,429**

As of March 31, 2010, the legal reserve of €70 million represented 3% of Air France-KLM's issued capital. French company law requires that a limited company (*société anonyme*) allocates 5% of its unconsolidated statutory net income each year to this legal reserve until it reaches 10% of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year.

This restriction on the payment of dividends also applies to each of the French subsidiaries on an individual statutory basis.

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

Note 28 Share-based compensation

28.1 Outstanding share-based compensation plans and other plans as of March 31, 2010

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price *(euros)*	Number of options exercised as of 03/31/2010
Stock-option plans						
KLM	06/25/2004	463,884	06/30/2004	06/25/2009	13.19	149,858
KLM	07/26/2005	390,609	07/31/2005	07/16/2010	13.11	3,500
KLM	07/26/2006	411,105	07/31/2006	07/26/2011	17.83	-
KLM	07/27/2007	428,850	07/31/2007	07/25/2012	34.21	-

Other plans

Plans	Grant date	Number of shares granted	Date of expiry	Exercise price *(euros)*	Number of shares exercised as of 03/31/2010
Air France – ESA* 1998 pilots	05/01/1999	15,023,251	05/31/1999	14.00	15,023,251
Air France-KLM – ESA* 2003	02/01/2005	12,612,671	02/21/2005	14.00	12,612,671

* *ESA: Shares-for-salary exchange.*

28.2 Changes in options

	Average exercise price *(euros)*	Number of options
Options outstanding as of March 31, 2008	**19.96**	**1,548,558**
Of which: options exercisable at March 31, 2008	*19.96*	*1,548,558*
Options forfeited during the period	19.60	(36,812)
Options exercised during the period	9.59	(46,060)
Options granted during the period	-	-
Options outstanding as of March 31, 2009	**20.30**	**1,465,686**
Of which: options exercisable at March 31, 2009	*20.30*	*1,465,686*
Options forfeited during the period	14.25	(322,504)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of March 31, 2010	**22.00**	**1,143,182**
Of which: options exercisable at March 31, 2010	*22.00*	*1,143,182*

28.3 Price range of available options as of March 31, 2010

Range of exercise prices per share	Number of options	Weighted average remaining life *(years)*	Weighted average exercise price per share *(in euros)*
From 10 to 15 euros per share	363,966	0.29	13.11
From 15 to 20 euros per share	383,199	1.32	17.83
From 20 to 35 euros per share	396,017	2.34	34.21
Total	**1,143,182**	**1.35**	**22.00**

28.4 Plans description

KLM stock-option plans

Prior to the combination with Air France, members of the Management Board and the key executives of KLM had been granted KLM stock options. Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004, so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares. The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

Stock-option plans granted by KLM between 2003 and 2004 had a vesting period of three years. The vesting conditions of the options granted by KLM on July 2007, 2006 and 2005 are such that one third of the options vest at grant date with a further one third after one and two years, respectively. Vesting is conditional on KLM achieving predetermined non-market-dependent performance criteria.

Air France 1998 Shares-for-Salary Exchange for pilots

On October 28, 1998, Air France signed an agreement granting Air France shares to pilots in return for a reduction in salary (these shares being granted by the French State, the major shareholder at the time). The offer was launched on May 1, 1999 and closed on May 31, 1999. By the end of the offer, 15,023,251 shares were allocated to pilots. Payment for these shares, priced at €14, was to be made through a reduction in salary spread over (i) a 7-year period for 10,263,001 shares and (ii) the remaining career of pilots for the remaining 4,760,250 shares.

In accordance with the transitional provisions of IFRS 2, only plans granted after November 7, 2002 and not yet vested as of April 1, 2004 have been valued and recorded as salary expense. IFRS 2 is therefore not applicable to this plan.

Air France 2003 Shares-for-salary exchange

On February 1, 2005, the Group launched a Shares-for-Salary Exchange scheme, in which all Air France employees residing in France were offered the opportunity to purchase Air France-KLM shares at a price of €14 per share in exchange for wage concessions over a 6-year period. The offer was limited to a maximum of 13,186,853 ordinary shares. At the date the offer was closed, i.e. February 21, 2005, Air France employees had acquired 12,612,671 Air France-KLM shares.

These shares were granted by the French State, the largest Air France-KLM shareholder, subject to a €110 million payment made by the Group in April 2007.

The wage concessions cover the period from May 2005 to May 2011.

In the event an employee leaves the Group prior to the end of the 6-year period, the unvested and irredeemable shares are returned to Air France which, in turn, returns them to the French State. The fair value of the services provided under the Shares-for-Salary Exchange scheme was calculated on the basis of the market price of the Air France-KLM share on the date the offer was closed, namely €14.30 and amounts to €180 million. The corresponding salary expense covers the acquisition period of voting rights from May 2005 to May 2011. Each installment, corresponding to the annual decrease of salary, is treated as a separate award. The Shares-for Salary Exchange 2003 plan share-based payment is therefore recognized on a straight-line basis over the requisite service period for each separately vested portion.

KLM SARs plan

During the periods ending March 31, 2010 and 2009, Share Appreciation Rights (SARs) were granted by KLM, corresponding to shares-based plans and paid in cash.

Plans	Grant date	Number of SARs granted	Start date for SARs exercise	Date of expiry	Number of SARs exercised as of 03/31/2010
KLM	07/01/2008	153,080	07/01/2008	07/01/2013	-
KLM	07/01/2009	136,569	07/01/2009	07/01/2014	-

The changes in SARs were as follows:

	Number of SARs
SARs outstanding as of March 31, 2008	**-**
Of which: SARs exercisable at March 31, 2008	-
SARs forfeited during the period	(1,200)
SARs exercised during the period	-
SARs granted during the period	153,080
SARs outstanding as of March 31, 2009	***151,880***
Of which: SARs exercisable at March 31, 2009	*49,826*
SARs forfeited during the period	(45,389)
SARs exercised during the period	-
SARs granted during the period	136,569
SARs outstanding as of March 31, 2010	***243,060***
Of which: SARs exercisable at March 31, 2010	*104,638*

The vesting conditions of the SARs granted by KLM on July 1, 2009 and 2008 are such that one third of the options vest at grant date, with a further one third after one and two years, respectively. Vesting is conditional on KLM achieving predetermined non-market-dependent performance criteria.

The fair value of the services provided under the SARs plan has been determined according to the market value of the Air France-KLM share at the closing date concerned:

- for the July 2008 plan: a market value of €11.70, and a fair market value of €1.5 million;
- for the July 2009 plan: a market value of €11.70, and a fair market value of €1.4 million.

28.5 Salary expenses related to share-based compensation

Year ended March 31, *(In € millions)*	Note	2010	2009
Shares-for-Salary Exchange 2003		25	26
Stock option plan		2	4
Salary expense	***7***	***27***	***30***

Note 29 Provisions and retirement benefits

(In € millions)	Retirement benefits Note 29.1	Restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of March 31, 2008	***740***	***402***	***8***	***608***	***122***	***1,880***
Of which:						
♦ *non-current*	*740*	*273*	*-*	*310*	*116*	*1,439*
♦ *current*	*-*	*129*	*8*	*298*	*6*	*441*
New provision	150	215	5	21	25	416
Use of provision	(110)	(120)	(3)	(248)	(38)	(519)
Reversal of unnecessary provisions	-	-	-	(1)	-	(1)
Currency translation adjustment	15	5	-	-	2	22
Change in scope	-	48	-	52	4	104
Discount impact	-	-	-	-	-	-
Reclassification	4	(9)	-	(73)	(10)	(88)
Amount as of March 31, 2009	***799***	***541***	***10***	***359***	***105***	***1,814***
Of which:						
♦ *non-current*	*799*	*368*	*-*	*67*	*100*	*1,334*
♦ *current*	*-*	*173*	*10*	*292*	*5*	*480*
New provision	149	201	191	30	80	651
Use of provision	(44)	(180)	(3)	(20)	(46)	(293)
Reversal of unnecessary provisions	-	(14)	(3)	(3)	-	(20)
Currency translation adjustment	1	-	-	-	-	1
Change in scope	-	-	-	-	-	-
Discount impact	-	-	-	-	-	-
Reclassification	14	(32)	-	(7)	-	(25)
Amount as of March 31, 2010	***919***	***516***	***195***	***359***	***139***	***2,128***
Of which:						
♦ *non-current*	*919*	*345*	*1*	*38*	*129*	*1,432*
♦ *current*	*-*	*171*	*194*	*321*	*10*	*696*

Movements in provisions for retirement benefits which have an impact on the income statement are recorded in “salaries and related costs”.

As of March 31, 2010, the impact of the voluntary redundancy plan of Air France on “retirement benefits” has been recorded in “Other non-current income and expenses” (see Note 10).

As of March 31, 2009, the impact of change in French pension legislation has been recorded in “Other non-current income and expenses” (see Note 10).

Movements in provisions for restructuring which have an impact on the income statement are recorded in “other non-current income and expenses” when the plans concerned have a material impact.

Movements in provisions for restitution of aircraft which have an impact on the income statement are recorded in “provisions” except for the discount impact which is recorded in “other financial income and expenses”.

Movements in provisions for litigation and in provisions for other risks and charges which have an impact on the income statement are recorded, depending on their nature, in the different lines of the income statement.

29.1 Retirement benefits

The Group has a large number of retirement and other long-term benefits plans for its employees. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located. Several of the plans are defined benefit plans.

Pension fund surplus

For a certain number of pension obligations, the Group funds pension funds.

The obligations of KLM group are, for the most part, funded in accordance with Dutch regulation and the Group's collective agreement. With regard to the level of coverage of the commitments, particularly for the pilots' program as well as that for the ground staff, significant "safeguard" constraints force the Group to be always in a position of "over-funding".

Actuarial assumptions used

Actuarial valuations of the Group's benefit obligation were computed as of March 31, 2010 and 2009. These calculations include:

- assumptions on staff turnover, life expectancy and salary inflation;
- a retirement age of 55 to 65 depending on localization and the applicable laws;
- discount rates used to determine the actuarial present value of the projected benefit obligations. The discount rates for each geographical area are determined according to the duration of each plan and applying the average of the main indices published. The main part of the Group obligation is in the Euro zone.

Year ended March 31,	2010	2009
Euro zone	Between 3.0% and 5.0%	Between 4.5% and 5.5%

The sensitivity of the annual cost and the obligation to variations in the discount rate is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended March 31, 2010	Sensitivity of the assumptions for the year ended March 31, 2009
0.25% increase in the discount rate		
♦ Impact on the cost	(19)	(32)
♦ Impact on the obligation	(473)	(386)
0.25% decrease in the discount rate		
♦ Impact on the cost	30	38
♦ Impact on the obligation	473	386

- the expected long-term rates of return for plan assets are as follows:

Year ended March 31,	2010	2009
Euro zone	Between 3.2% and 6.8%	Between 4.0% and 7.0%

The expected average long-term rates of return for plan assets have been determined based on the expected long-term rates of return of the different asset classes: equities, bonds, real estate or other, weighted according to the asset allocation strategy in these schemes.

- assumption on increase in healthcare costs:

Year ended March 31,	2010	2009
USA-Canada	Between 9.5% and 10.0%	Between 9.5% and 10.0%

The sensitivity of the annual cost and the obligation to variations in the healthcare costs of the schemes is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended March 31, 2010	Sensitivity of the assumptions for the year ended March 31, 2009
1% increase in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	4	4
1% decrease in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	(4)	(4)

♦ On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

	Pension benefits		Other benefits	
Year ended March 31,	**2010**	**2009**	**2010**	**2009**
Discount rate	4.79%	5.54%	5.91%	6.97%
Salary inflation rate	2.60%	2.65%	-	-
Expected long-term rate of return on plan assets	6.19%	6.20%	-	-

Changes in benefit obligations

The following table details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended March 31, 2010 and 2009.

	Pension benefits		Other benefits	
(In € millions)	**2009-10**	**2008-09**	**2009-10**	**2008-09**
Benefit obligation at beginning of year	***11,060***	***10,873***	***35***	***36***
Service cost	299	307	-	-
Interest cost	617	606	2	2
Employees' contribution	52	38	-	-
Plan amendments	(18)	15	-	-
Change of scope	(1)	-	1	-
Settlements/curtailments	(51)	(9)	-	-
Benefits paid	(543)	(487)	(3)	(2)
Actuarial loss/(gain)	1,643	(253)	4	(5)
Currency translation adjustment	24	(30)	1	4
Benefit obligation at end of year	***13,082***	***11,060***	***40***	***35***
Including benefit obligation resulting from schemes totally or partly financed	*12,918*	*10,891*	-	-

(In € millions)	Pension benefits 2009-10	Pension benefits 2008-09	Other benefits 2009-10	Other benefits 2008-09
Including not-financed benefit obligation	*164*	*169*	*40*	*35*
Fair value of plan assets at beginning of year	***11,031***	***13,176***	-	-
Actual return on plan assets	2,536	(2,027)	-	-
Employers' contributions	377	350	-	-
Employees' contributions	52	38	-	-
Change of scope	-	-	-	-
Settlements/curtailments	(4)	-	-	-
Benefits paid	(525)	(474)	-	-
Currency translation adjustment	20	(32)	-	-
Fair value of plan assets at end of year	***13,487***	***11,031***	**-**	**-**
Funded status	405	(29)	(40)	(35)
Unrecognized prior service cost	182	242	-	-
Unrecognized actuarial (gains)/losses	1,264	1,524	3	(2)
Prepaid (accrued) pension cost	***1,851***	***1,737***	***(37)***	***(37)***
Amounts recorded in the balance sheet*				
Pension asset (Note 21)	2,733	2,499	-	-
Provision for retirement benefits	(882)	(762)	(37)	(37)
Net amount recognized	***1,851***	***1,737***	***(37)***	***(37)***
Net periodic cost				
Service cost	299	307	-	-
Interest cost	617	606	2	2
Expected return on plan assets	(682)	(762)	-	-
Settlement/curtailment	(36)	(10)	-	-
Amortization of prior service cost	21	36	-	-
Amortization of unrecognized actuarial (gain) loss	40	(19)	-	-
Other	8	-	-	-
Net periodic cost	***267***	***158***	***2***	***2***

* *Except for those pension plans for which the balance is a net asset fully recorded as a non-current asset, all the obligations are recorded as non-current liabilities.*

The benefit obligation, fair value of plan assets and experience adjustments are as follows:

(In € millions)	Benefit obligation	Fair value of plan assets	Funded status	Experience adjustments on	
				Benefit obligation	Plan asset
As of March 31, 2007	11,636	13,404	1,768	230	207
As of March 31, 2008	10,909	13,176	2,267	(95)	(989)
As of March 31, 2009	11,095	11,031	(64)	(133)	(2,788)
As of March 31, 2010	13,122	13,487	365	95	1,854

Asset allocation

The weighted average allocation of the funds invested in Group pension plans as of March 31, 2010 and 2009 is as follows:

Year ended March 31,	Funds invested	
	2010	2009
Equities	38%	34%
Bonds	52%	55%
Real estate	8%	9%
Insurer assets	1%	1%
Short-term investments	1%	1%
Other	-	-
Total	**100%**	**100%**

Expected cash outflows

The table below shows the expected cash outflows on pensions and other post-employment benefits, as of March 31, 2010, over the next ten years:

(In € millions)	Pensions and similar benefits
Estimated contribution to be paid in 2010-11	***390***
Estimated benefit payments as of March 31:	
2011	489
2012	493
2013	502
2014	522
2015	547
2016-2020	3,188

29.2 Other provisions

Provision for litigation with third parties

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions have been recorded whenever circumstances rendered it necessary.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

In the normal course of its activities, Air France-KLM group and its subsidiaries Air France and KLM (and their subsidiaries) are involved in litigations some of which may be significant.

Provision for restructuring

The provision for restructuring as of March 31, 2010 mainly includes the provision for the Air France voluntary redundancy plan (see Note10).

Litigations concerning anti-trust laws

a) In the air-freight industry

a.1) Investigation by the anti-trust authorities

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with twenty-five other airlines in investigations initiated by the anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted action in the air-freight industry.

The proceedings initiated in the United States, Australia and Canada resulted, during financial year 2008-09, in Plea Agreements made with the appropriate agencies, and the payment of fines putting an end to those proceedings:

- the Group (exclusive of Martinair) accordingly paid a total fine of USD 350 million (€221 million) in the United States, Australian dollars 6 million (€3.6 million) in Australia, and Canadian dollars 9 million (€5.7 million) in Canada;
- Martinair also entered into Plea Agreements, first in the United States in an amount of USD 42 million (€28.4 million), partially paid to the extent of US dollar 14 million, then in Australia for Australian dollars 5 million (€2.5 million), and last in Canada for Canadian dollars 1 million (€0.7 million).

The three group affiliates are still exposed to investigations proceedings in Europe, in South Korea, in Switzerland, in Brazil and in South Africa:

- as the Group's parent, Air France-KLM is considered by the European Commission as being jointly and severally liable for any unlawful practices of which the companies Air France, KLM and Martinair may be found guilty. The European Commission decision is expected in autumn 2010;
- in South Korea, Air France and KLM received in late 2009, with twenty-six other airlines, notices of charges from the Korean anti-trust authority (KFTC) for allegations of anti-competitive agreements on the fuel surcharge. The two companies have disputed these allegations, pointing out that the practices concerned were consistent with their obligations under the bilateral air-traffic agreements between France and South Korea, and between the Netherlands and South Korea, and under the South Korean civil-aviation code;
- the proceedings in Switzerland, Brazil and South Africa are still pending as of March 31, 2010. They have not been provided against, as the Group is unable, in the current state of the proceedings, to evaluate its exposure. Having regard to the revenues involved, these risks are not individually significant.

a.2) Civil suits

Pursuant to the initiation in February 2006 of the various competition authorities' investigations, class actions were brought by forwarding agents and air-freight shippers in the United States and Canada against Air France, KLM and Martinair, and the other freight carriers.

The plaintiffs allege the existence of an unlawful agreement among air-freight carriers since February 1, 2000 in the setting of freight charges, including various surcharges collected by such carriers. They accordingly claim from those carriers, in addition to the reimbursement of attorneys' fees, damages in an amount not specified to date, and indemnities of three times those damages.

In the United States, the proceedings have been centralized before the Eastern District Court of New York.

In August 2009, the District Judge dismissed the plaintiffs' claims based on breach of EU competition law. He also dismissed the claims from the "indirect purchasers" (i.e., the freight shippers having acquired air-carriage services from the forwarding agents and not directly from the airlines).

However, he held the direct purchasers' claims based on breach of US federal anti-trust law to be admissible.

The judge also permitted the initiation of discovery proceedings, requiring the parties to collect and exchange data to be used in evidence.

The provision recorded in the books as of March 31, 2010 represent the best estimation of the risk supported by the Group as of this date.

b) In the air-transport industry (passengers)

b.1) Investigation of the European Commission of the air-transport industry (passengers) between Europe and Japan

Air France and KLM, like other air carriers, were subjected on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission of possible anti-competitive agreements or concerted practices in the area of air-transport services (passengers) between the States parties to the agreement on the European Economic Area and Japan.

On February 13, 2009, Air France and KLM replied to a questionnaire from the Commission pointing out the background of air-traffic relations between France and the Netherlands, on the one hand, and Japan on the other hand. These relations are governed by bilateral agreements requiring the approval of fares by the civil-aviation authorities in the States concerned after agreement among the air carriers designated pursuant to such agreements.

A second questionnaire was sent to the Group by the European Commission on October 1, 2009. To date, the Group is unable to state an opinion regarding the action that will be taken in connection with such enquiries by the European Commission.

b.2) Civil actions

During 2008, two class actions were brought in the United-States against several air carriers including Air France and KLM for damage caused by an alleged anti-competitive agreement with respect to surcharges and fares on routes between Europe and Japan and on transatlantic routes.

The two class actions were dismissed respectively in October 2009 by the judge of the Eastern District Court of Pennsylvania and on April 5, 2010 by the judge of the Eastern District Court of New York.

During 2009, Air France and KLM were subpoenaed in a class action involving all the airlines working transpacific routes between the United-Sates and Asia/Oceania, on the basis of allegations of price fixing on such routes.

As in the earlier cases, Air France and KLM strongly deny these allegations. Both airlines accordingly filed motions to dismiss in February 2010.

Other provisions

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group).

29.3 Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not necessarily been recorded in the financial statements.

a) Pretory

Société Air France, as a legal entity, was placed under investigation on July 20, 2006 on charges of concealed employment and as an accessory to misuse of corporate assets in connection with a judicial investigation initiated against the officers of Pretory, a company with which Air France, pursuant to the 9/11 attacks, had entered into an agreement for the provision of safety officers on certain flights.

The airline immediately filed a motion with the Paris Court of Appeal for annulment of the implication in the investigation notified to it. Though that motion was denied, Société Air France intends to challenge its implication in this case.

b) KLM minority shareholders

The Group Verening van Effectenbezitters (VEB) and a minority shareholder of KLM have brought action against Air France-KLM (in its capacity as a holder of shares of preferred stock) and KLM for a court ruling acknowledging the minority shareholders' entitlement to payment of a higher dividend. Those minority shareholders consider that the dividend paid is unfair and inequitable, and that their rights have not been observed. These minority shareholders have accordingly brought action before the Amsterdam Court. Plea hearings are scheduled for June 2010. To date, the consequences cannot be evaluated.

c) Rio-Paris AF447 flight

Pursuant to the crash of the Rio-Paris AF 447 flight in the South Atlantic, various legal actions have been brought in the USA and Brazil by the victims' heirs.

In the USA, individual claims in tort have been brought against Air France, Airbus, Honeywell, Rockwell, Intel and Thalès.

In Brazil, similar claims have been brought against Air France.

All these proceedings are aimed at collecting damages as reparation for the losses suffered by the heirs of the passengers deceased in the crash. The civil consequences of the crash are covered by Air France's third-party-liability insurance policy.

To the best of the knowledge of Air France-KLM, there is no other dispute, arbitration or non-recurring event that could have or has had in the recent past a significant impact on the Group's financial position, earnings or assets and liabilities.

Except for the matters specified under the paragraphs 29.2 and 29.3, the company is not aware of any governmental, judicial or arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the issuer's and/or Group's financial position or profitability, during a period including the past twelve months at least.

Note 30 Financial debt

Year ended March 31, *(In € millions)*	2010	2009
Non current financial debt		
Perpetual subordinated loan stock in Yen	232	228
Perpetual subordinated loan stock in Swiss francs	296	277
OCEANE (convertible bonds)	964	393
Bonds	1,450	750
Capital lease obligations (non current portion)	3,421	3,381
Other debt (non current portion)	2,859	2,835
Total	**9,222**	**7,864**
Current financial debt		
Capital lease obligations (current portion)	579	512
Other debt (current portion)	1,131	761
Accrued interest	115	80
Total	**1,825**	**1,353**

30.1 Perpetual subordinated loan stock

30.1.1 Perpetual subordinated loan stock in Yen

The perpetual subordinated loan stock in Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, i.e. €232 million as of March 31, 2010.

The perpetual subordinated loan stock in Yen is subject to the payment of a coupon considered to be fixed-rate (5.065% on a JPY 10 billion portion, and 4.53% on a JPY 20 billion portion) after swaps.

The debt is perpetual and reimbursable at nominal value at the Group's discretion; the reimbursement date is expected to be August 28, 2019. The reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the yen. The borrower would also have to reimburse the issuer for all reasonable legal fees.

This debt is subordinated to all other existing and future KLM debts.

30.1.2 Perpetual subordinated loan stock in Swiss francs

The perpetual subordinated loan stock in Swiss francs was issued by KLM in two installments in 1985 and 1986 for a total original amount of CHF500 million. Following the reimbursements made by KLM, the outstanding subordinated loan amounts to CHF420 million, i.e. €296 million as of March 31, 2010.

The loan is reimbursable at any time by the Group at nominal value.

This loan is subject to the payment of a coupon considered to be fixed-rate (5 $^{3/4}$ % on a CHF270 million portion and 2 $^{7/8}$ % on a CHF 150 million portion) for the years ended March 31, 2010 and 2009.

This debt is subordinated to all other existing and future KLM debts.

30.2 OCEANE (Convertible bonds)

30.2.1 OCEANE issued in 2005

On April 22, 2005, the company Air France, a subsidiary of the Air France-KLM group, issued convertible bonds maturing in 15 years. The conversion option allows for conversion and/or exchange at any time into new or existing Air France-KLM shares (OCEANE). 21,951,219 bonds were issued for a total amount of €450 million. Each bond has a nominal value of €20.50. As of March 31, 2010, the conversion ratio is 1.03 Air France-KLM shares for one bond.

The maturity date for this convertible bond is April 1, 2020. Bonds holders may ask for reimbursement as of April 1, 2012 and April 1, 2016.

Air France holds a call option triggering early cash reimbursement which can be exercised starting April 1, 2010 under certain conditions prompting OCEANE holders to convert into Air France-KLM shares. The annual coupon is 2.75% payable in arrears at the end of each period ended April 1.

The conversion period of these bonds runs from June 1, 2005 to March 23, 2020, except early reimbursement.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €379 million, corresponding to the present value of future payments of interest and nominal discounted at the rate of a similar bond without a conversion option. As of March 31, 2010, the debt value amounts to €397 million.

The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €450 million) and was recorded in equity.

30.2.2 OCEANE issued in 2009

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million. Each bond has a nominal value of €11.80. The annual coupon amounts to 4.97%.

The conversion period of these bonds runs from August 6, 2009 to the seventh working day before the normal of early reimbursement.

Air France-KLM can force the cash reimbursement of these bonds by a call exercise starting April 1, 2013 and under certain conditions moving OCEANE owners to convert their bonds into Air France-KLM shares.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €556 million, corresponding to the present value of future payments for interest discounted at the rate of a similar bond without a conversion option. As of March 31, 2010, the debt value amounts to €567 million.

The option value was evaluated by deducting this debt value from the total nominal amount (i.e. €661 million) and was recorded in equity.

30.3 Bonds

3.3.1 Bonds issued in 2006 and 2007

On September 11, 2006 and April 23, 2007, the company Air France, a subsidiary of the Air France-KLM group, issued bonds for a total amount of €750 million, maturing on January 22, 2014 and bearing annual interest rate of 4.75%.

3.3.2 Bonds issued in 2009

As of October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and bearing annual interest of 6.75%.

30.4 Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

As of March 31, *(In € millions)*	**2010**	**2009**
Aircraft		
Future minimum lease payments – due dates		
Y+1	677	609
Y+2	772	587
Y+3	410	597
Y+4	476	366
Y+5	457	425
Over 5 years	1,503	1,644
Total	**4,295**	**4,228**
Including:		
♦ Principal	3,665	3,534
♦ Interests	630	694

As of March 31, (In € millions)	2010	2009
Buildings		
Future minimum lease payments – due dates		
Y+1	35	33
Y+2	34	33
Y+3	31	33
Y+4	31	32
Y+5	31	30
Over 5 years	107	132
Total	**269**	**293**
Including:		
♦ Principal	202	217
♦ Interests	67	76
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	30	27
Y+2	12	14
Y+3	12	14
Y+4	12	14
Y+5	12	14
Over 5 years	150	191
Total	**228**	**274**
Including:		
♦ Principal	133	142
♦ Interests	95	132

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in Note 22.

30.5 Other debt

Other debt breaks down as follows:

Year ended March 31, (In € millions)	2010	2009
Reservation of ownership clause and mortgage debt	1,366	1,170
Other debt	2,624	2,426
Total	**3,990**	**3,596**

Other debt corresponds mainly to bank borrowings.

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge), the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

30.6 Maturity analysis

The maturities of financial debts break down as follows:

Year ended March 31, *(In € millions)*	2010	2009
Maturities in		
Y+1	2,188	1,657
Y+2	1,357	1,326
Y+3	1,575	1,050
Y+4	1,786	1,381
Y+5	1,394	1,778
Over 5 years	4,724	3,781
Total	**13,022**	**10,973**
Including:		
♦ Principal	11,047	9,217
♦ Interest	1,975	1,756

As of March 31, 2010, expected financial costs amount to €363 million for 2010-11, €1,192 million for the periods from 2011-12 until 2014-15, and €420 million thereafter.

As of March 31, 2010, it has been considered that the perpetual subordinated loan stocks, the OCEANEs and the bonds would be reimbursed according to their most probable maturity:

- date of probable call on unlimited loan stock;
- first date of the period of the put on investment being April 1, 2012 for the OCEANE first issued in 2005;
- maturity date for OCEANE contract issued in 2009 and the repayable bond issued in 2006, 2007 and 2009.

30.7 Currency analysis

The breakdown of financial debt by currency after impact of derivative instruments is as follows:

Year ended March 31, *(In € millions)*	2010	2009
Euro	9,535	7,953
US dollar	985	851
Swiss franc	296	278
Yen	292	152
Other	(61)	(17)
Total	**11,047**	**9,217**

The “Other” line mainly comprises the fair value of a “cross currency swap” hedging perpetual loans in Yen and Swiss francs.

30.8 Credit lines

The Group had credit lines amounting to €2,180 million as of March 31, 2010. The three main credit lines amounted respectively, to €1,200 million, €540 million and €250 million.

On October 17, 2008, Air France drew €500 million, with a 6-month maturity, of the €1.2 billion credit facility. The maturity of this credit line has been extended until April 17, 2010. The company Air France-KLM drew down €250 million on March 24, 2009 with a maturity as of June 24, 2010.

Air France's credit facility, which amounts to €1,200 million (which fall to €1,115 million as of April 7, 2010, €1,105 million as of April 7, 2011 and zero as of April 7, 2012), is subject to the respect of the following financial covenants calculated based on the Air France consolidated financial statements:

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

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

KLM's credit facility, which amounts to €540 million with a maturity in 2012, is subject to the respect of the following financial covenants calculated based on the KLM consolidated financial statements:

- EBITDAR must not be lower than two and a half times the sum of the net interest charges and one third of operating lease payments;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to 1.25 times the unsecured net debts.

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

Air France-KLM's credit facility, which amounts to €250 million, with a maturity as of October 4, 2017 and reduced by €50 million by year starting 2013, is subject to respect of the following financial covenants calculated based on the Air France-KLM consolidated financial statements:

- the EBITDAR added to operating lease payments must be at least equal to one time and an half net interest charges added to one third of operating lease payments;
- non-current assets in the balance sheet, not pledges as collateral, must be at least equal to unsecured debts.

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

Note 31 Other liabilities

Year ended March 31, *(In € millions)*	2010		2009	
	Current	Non current	Current	Non current
Tax liabilities	388	-	497	-
Employee-related liabilities	834	-	925	-
Non current assets' payables	26	-	54	-
Derivative instruments	524	651	1,673	2,001
Deferred income	74	87	47	87
Other	751	80	1,126	82
Total	**2,597**	**818**	**4,322**	**2,170**

Derivative instruments comprised €39 million of currency hedges on financial debts as of March 31, 2010, including a current portion of €13 million (€48 million as of March 31, 2009 including a current portion of €3 million).

The "other" debts as of March 31, 2009 include an amount of €167 million corresponding to early unwinding of loss-making fuel hedges. Consistent with IAS 39, the effective portion is recycled in the income statement when the hedged item (future fuel purchase) will affect the income statement.

Note 32 Financial instruments

32.1 Risk management

Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Executive Officer and the Chief Financial Officer of Air France, the Chief Executive Officer and the 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 and interest rates, and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument. The aim is to reduce the exposure of Air France-KLM and, thus, to preserve budgeted margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. In-house procedures governing risk management prohibit speculation.

Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The cash management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are swaps and options.

The policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current fiscal year and the two following ones, is supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels and the resulting net prices, as well as market commentary. 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 to physical cost. The instruments used are swaps and options.

Currency risk

Most of the Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the euro may have an impact on the Group's financial results.

With regard to the US dollar, since expenditures such as fuel, operating leases or component costs exceed the level of revenue, the Group is a net buyer. This means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, Air France-KLM is a net seller of the yen and of sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the Group's activity and financial results

In order to reduce its currency exposure, the Group has adopted hedging strategies.

Both companies hedge progressively their net exposure over a rolling 24 month period.

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

The exchange rate risk on the Group's financial debt is limited. At March 31, 2010, 87% of the Group's gross debt, after taking into account derivative instruments, was issued in or converted into euros, thereby sharply reducing the risk of currency fluctuations on the debt.

Despite this active hedging policy, not all exchange rate risks are covered. The Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the Group's business and financial results.

Interest rate risk

At both Air France and KLM, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, Air France and KLM have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. After swaps, the Air France-KLM group's gross debt contracted at fixed rates represents 63% of the overall total.

Given this policy, the Group has a neutral net exposure to interest rates.

Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of the Air France-KLM group. This strategy was suspended in November 2008: no new positions, unwinding of some of the hedges already in place in order to significantly reduce the risk of downside and to benefit from the current market levels.

Following the completion of this portfolio restructuring, in September 2009 a new hedge strategy was defined and presented to the Audit Committee and the Board of the Air France-KLM group. The main changes were to reduce the time span of the hedges from four to two years and the overall hedged volume from two years to one year of consumption.

Main characteristics of the hedge strategy

- *Hedge horizon:* 2 years.
- *Minimum hedge percentage:*
  - quarter underway: 60% of the volumes consumed,
  - quarter 1 to quarter 3: 60% of the volumes consumed,
  - quarter 4: 50% of the volumes consumed,
  - quarter 5: 40% of the volumes consumed,
  - quarter 6: 30% of the volumes consumed,
  - quarter 7: 20% of the volumes consumed,
  - quarter 8: 10% of the volumes consumed.
- *Underlyings:* Brent, Gasoil and Jet CIF.
  At least 25% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (Jet Fuel and Gasoil).
- *Instruments:*
  Swap, call, call spread, four ways and collar.
- *IAS 39 rule:*
  The instruments and underlyings used within the framework of the strategy must be compliant with IAS 39.

Investment risks

The cash resources of Air France, KLM and Air France-KLM are currently invested in short term, primarily money market mutual funds and certificates rated A1 or P1. However a small portion of the surplus has been invested in two-years EMTNs from high-grade issuers in order to increase the overall returns on of the cash.

Lastly, 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.

Counterparty risk management

Transactions which can lead to counterparty risk for the Group are as follows:

- financial investments;
- derivative instruments;
- trade receivables.
  - Counterparty risk linked to financial investments and derivative instruments is managed by the Risk Management Committee which establishes limits by counterparty, for all instruments except placements in the monetary OPCVM for which the risk of counterparty is deemed non significant. The Group's counterparty risk reporting is circulated each month to the executive managements, the risk being measured at the fair market value of each instrument. The exceeding of any limit immediately results in the implementation of corrective measures.
  - Counterparty risk relating to trade receivables is limited due to the large number and geographical diversity of customers comprising the trade receivables portfolio.

The Group has identified the following exposure to counterparty risk:

	Total exposure *(in € millions)*	
LT Rating (Standards & Poors)	**As of March 31, 2010**	**As of March 31, 2009**
AAA	286	352
AA	109	25
AA-	126	6
A+	592	644
A	119	246
BBB+	25	-
Total	**1,257**	**1,273**

32.2 Derivative instruments

Year ended March 31, 2010

Book value *(In € millions)*	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Currency exchange risk (operating and financial operations)				
Fair value hedge	49	32	25	31
Cash flow hedge	41	90	19	28
Fair value through profit and loss	-	2	-	1
Interest rate risk (financial operations)				
Cash flow hedge	-	-	92	2
Fair value hedge	11	4	22	13
Fair value through profit and loss	-	-	12	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	69	211	481	445
Fair value through profit and loss	-	-	-	4
Total	**170**	**339**	**651**	**524**

The expected maturity of the fair market value of derivative instruments is as follows:

(In € millions)		Total	Y+1	Y+2	Y+3	Y+4	Y+5	> Y+5
Commodities derivative instruments	Asset	280	211	68	1	-	-	-
	Liability	(930)	(449)	(333)	(148)	-	-	-
Interest rate derivative instruments	Asset	15	4	7	3	-	1	-
	Liability	(141)	(15)	(8)	(6)	(9)	(40)	(63)
Currency exchange derivative instruments	Asset	214	124	58	25	3	2	2
	Liability	(104)	(60)	(21)	(22)	-	-	(1)
Total	**Asset**	**509**	**339**	**133**	**29**	**3**	**3**	**2**
	Liability	**(1,175)**	**(524)**	**(362)**	**(176)**	**(9)**	**(40)**	**(64)**

Year ended March 31, 2009

Book value *(In € millions)*	**Assets** Non-current	**Assets** Current	**Liabilities** Non-current	**Liabilities** Current
Currency exchange risk (operating and financial operations)				
Fair value hedge	62	24	13	33
Cash flow hedge	36	70	34	62
Fair value through profit and loss	-	8	1	2
Interest rate risk (financial operations)				
Cash flow hedge	-	-	57	2
Fair value hedge	13	-	34	2
Fair value through profit and loss	-	-	13	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	515	296	1,837	1,350
Fair value through profit and loss	-	-	12	222
Total	**626**	**398**	**2,001**	**1,673**

Exposure to interest rate risk

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

Year ended March 31, 2010

(In € millions)	**Nominal**	**Maturity below 1 year**	**Maturity between 1 and 5 years** 1-2 years	2-3 years	3-4 years	4-5 years	**+ 5 years**	**Fair value**
Operations qualified as cash flow hedging								
Interest rate swaps	2,418	260	343	322	326	380	787	(87)
Other	250	-	-	-	113	137	-	(7)
Operations qualified as fair value hedging								
Interest rate swaps	495	182	126	61	34	36	56	(20)
Operations qualified as fair value through profit and loss	385	100	150	22	-	-	113	(12)
Total	**3,548**	**542**	**619**	**405**	**473**	**553**	**956**	**(126)**

Year ended March 31, 2009

(In € millions)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging								
Interest rate swaps	2,672	358	274	348	291	257	1,144	(59)
Operations qualified as fair value hedging								
Interest rate swaps	528	123	176	119	54	27	29	(23)
Operations qualified as fair value through profit and loss	***160***	***29***	***-***	***-***	***29***	***-***	***102***	***(13)***
Total	**3,360**	**510**	**450**	**467**	**374**	**284**	**1,275**	**(95)**

These instruments have different purposes:

- hedging fair value risk relating to fixed-rate financial debt:
  In contracting a fixed-rate debt, the Group is exposed to an opportunity risk if the rate decreases. Given the current level of market rates compared with the fixed contractual rates on part of its debt, the Group entered into a number of fixed to floating-rate swaps;
- hedging of cash-flow risk relating to floating-rate financial debt:
  The Group has sought to fix the rate of certain floating-rate loans and has thus entered into a number of floating to fixed-rate swaps. Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization date of hedged items.

Based on the hedging arrangements, the Group's exposure to interest rate risks breaks down as follows:

Year ended March 31, *(In € millions)*	2010				2009			
	Before hedging		After hedging		Before hedging		After hedging	
	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate	Base	Average interest rate
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	***1,688***	***3.0%***	***1,688***	***3.0%***	***2,800***	***3.9%***	***2,800***	***3.9%***
Perpetual subordinated loans	528	4.6%	536	4.6%	505	4.9%	507	4.8%
OCEANE (convertible bond)	964	4.0%	964	4.6%	393	2.8%	393	4.2%
Bonds	1,450	5.3%	1,150	5.2%	750	4.8%	750	4.8%
Other financial debts	2,178	5.2%	4,565	4.3%	2,126	5.5%	4,292	4.4%
Fixed-rate financial liabilities	***5,120***	***4.9%***	***7,215***	***4.5%***	***3,774***	***5.0%***	***5,942***	***4.4%***
Floating-rate financial assets and liabilities								
Floating-rate financial assets	***3,420***	***3.1%***	***3,420***	***3.1%***	***2,466***	***4.3%***	***2,466***	***4.3%***
Bonds	-	-	300	6.4%	-	-	-	-
Other financial debts	5,927	2.4%	3,532	2.6%	5,443	4.4%	3,275	4.4%
Bank overdraft	116	0.1%	116	0.3%	282	-	282	-
Floating-rate financial liabilities	***6,043***	***2.4%***	***3,948***	***2.8%***	***5,725***	***4.4%***	***3,557***	***4.4%***

Exposure to exchange rate risk

Current operations:
Although the Group's reporting currency is the euro, some of its revenues and costs are denominated in other currencies, such as the US dollar, the yen, the pound sterling and the Swiss franc.

The Group's policy is to reduce the exchange risks by hedging. Hedging is achieved through forward sales or purchase contracts and/or option-based strategies.

Acquisition of flight equipment:
Capital expenditure on flight equipment is denominated in US dollars. The Group hedges this exchange risk via forward purchases and/or option-based strategies.

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

Nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging transaction.

Year ended March 31, 2010

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	***3,297***	***2,380***	***818***	***50***	***28***	***15***	***6***	***83***
Exchange rate options								
US Dollar	1,523	1,033	490	-	-	-	-	62
Yen	155	100	55	-	-	-	-	(5)
Other currencies	126	100	26	-	-	-	-	-
Forward purchases								
US Dollar	858	642	132	35	28	15	6	34
Forward sales								
US Dollar	33	33	-	-	-	-	-	-
Yen	165	102	57	6	-	-	-	(2)
Pound sterling	156	121	35	-	-	-	-	1
Norwegian Krone	107	107	-	-	-	-	-	(2)
Swiss Franc	36	36	-	-	-	-	-	(1)
Other currencies	102	102	-	-	-	-	-	(3)
Others								
US Dollar	36	4	23	9	-	-	-	(1)
Exchange risk (Fair value hedging of flight equipment acquisition)	***2,129***	***850***	***573***	***405***	***45***	***53***	***203***	***26***
Forward purchases US Dollar	2,077	825	546	405	45	53	203	23
Exchange rate options US Dollar	52	25	27	-	-	-	-	3
Exchange risk (trading)	***163***	***84***	***7***	***-***	***-***	***-***	***72***	***1***
Forward purchases US Dollar	49	42	7	-	-	-	-	-
Exchange rate options US Dollar	42	42	-	-	-	-	-	1
Other US Dollar	72	-	-	-	-	-	72	-
Total	**5,589**	**3,314**	**1,398**	**455**	**73**	**68**	**281**	**110**

Year ended March 31, 2009

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	***1,643***	***1,159***	***288***	***153***	***20***	***11***	***12***	***10***
Exchange rate options								
US Dollar	74	47	27	-	-	-	-	2
Yen	220	122	64	34	-	-	-	(20)
Other currencies	102	90	12	-	-	-	-	5
Forward purchases								
US Dollar	323	179	68	41	12	11	12	5
Forward sales								
US Dollar	143	109	34	-	-	-	-	(16)
Yen	207	74	79	54	-	-	-	(4)
Pound sterling	225	225	-	-	-	-	-	21
Norwegian Krone	111	111	-	-	-	-	-	5
Swiss franc	49	49	-	-	-	-	-	-
Other currencies	110	110	-	-	-	-	-	7
Others								
US Dollar	40	4	4	24	8	-	-	7
Yen	39	39	-	-	-	-	-	(2)
Exchange risk (Fair value hedging of flight equipment acquisition)	***2,070***	***960***	***658***	***178***	***51***	***8***	***215***	***40***
Forward purchases								
US Dollar	1,972	922	626	150	51	8	215	33
Exchange rate options of US Dollar	98	38	32	28	-	-	-	7
Exchange risk (trading)	***204***	***204***	**-**	**-**	**-**	**-**	**-**	**5**
Forward purchases US Dollar	130	130	-	-	-	-	-	3
Exchange rate options US Dollar	51	51	-	-	-	-	-	3
Other US Dollar	23	23	-	-	-	-	-	(1)
Total	**3,917**	**2,323**	**946**	**331**	**71**	**19**	**227**	**55**

Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of the hedged items.

Commodity risk linked to fuel prices

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

The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

➤ Year ended March 31, 2010

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)	***5,214***	***3,252***	***1,242***	***720***	***-***	***-***	***-***	***(646)***
Swap	92	92	-	-	-	-	-	3
Options	5,122	3,160	1,242	720	-	-	-	(649)
Commodity risk (trading)	***32***	***32***	***-***	***-***	***-***	***-***	***-***	***(4)***
Swap	-	-	-	-	-	-	-	-
Options	32	32	-	-	-	-	-	(4)
Total	**5,246**	**3,284**	**1,242**	**720**	**-**	**-**	**-**	**(650)**

➤ Year ended March 31, 2009

(In € millions)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)	***6,214***	***2,548***	***1,329***	***1,480***	***857***	***-***	***-***	***(2,376)***
Swap	106	103	3	-	-	-	-	(33)
Options	6,108	2,445	1,326	1,480	857	-	-	(2,343)
Commodity risk (trading)	***232***	***203***	***29***	***-***	***-***	***-***	***-***	***(234)***
Swap	105	105	-	-	-	-	-	(76)
Options	127	98	29	-	-	-	-	(158)
Total	**6,446**	**2,751**	**1,358**	**1,480**	**857**	**-**	**-**	**(2,610)**

Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

32.3 Market value of financial instruments

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

- estimated market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates,
- estimated amounts as of March 31, 2010 and 2009 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

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

The methods used are as follows:

- *Cash, trade receivables, other receivables, short-term bank facilities, trade payables and other payables:*
  The Group believes that, due to their short-term nature, net book value can be deemed a reasonable approximation of market value.
- *Marketable securities, investments and other securities:*
  The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Where no comparable exists, the Group uses their book value, which is deemed a reasonable approximation of market value in this instance.
- *Borrowings, other financial debts and loans:*
  The market value of fixed and floating-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.
- *Off balance-sheet instruments:*
  The market value of off-balance-sheet instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2010 and 2009 calculated using the year-end market rate.

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

	March 31, 2010		March 31, 2009	
(In € millions)	Net book value	Estimated market value	Net book value	Estimated market value
Financial assets				
Financial assets available for sale				
Shares	54	54	46	46
Assets at fair value through profit and loss				
Marketable securities	343	343	430	430
Loans and receivables				
Loans				
Fixed-rate	299	323	353	392
Floating-rate	115	113	99	98
Interest rate derivative instruments				
Interest rate swaps	15	15	13	13
Exchange rate derivative instruments				
Exchange rate options	88	88	52	52
Forward currency contracts	126	126	142	142
Currency swaps	-	-	6	6
Commodity derivative instruments				
Petroleum swaps and options	280	280	811	811
Trade accounts receivables	2,142	2,142	2,038	2,038
Other assets (except derivatives instruments)	650	650	676	676
Cash and cash equivalents				
Cash equivalents	3,294	3,294	3,418	3,418
Cash in hand	457	457	330	330

(In € millions)	March 31, 2010 Net book value	Estimated market value	March 31, 2009 Net book value	Estimated market value
Financial liabilities				
Debt measured at amortized cost				
Bonds*				
Fixed-rate	2,414	2,859	1,143	1,037
Perpetual subordinated loans	528	536	505	507
Other borrowings and financial debt				
Fixed-rate	2,178	2,123	2,090	2,034
Variable-rate	5,927	5,818	5,479	5,377
Derivatives				
Interest rate derivative instruments				
Interest rate swaps	141	141	108	108
Exchange derivative instruments				
Exchange rate options	27	27	55	55
Forward currency contracts	76	76	87	87
Currency swaps	1	1	3	3
Commodity derivative instruments				
Petroleum swaps and options	930	930	3,421	3,421
Other debt				
Trade accounts payable	2,032	2,032	1,887	1,887
Deferred revenue on ticket sales	2,340	2,340	2,131	2,131
Frequent flyer programs	840	840	917	917
Other liabilities (except derivatives instruments)	2,240	2,240	2,818	2,818

* *The fixed rate bonds comprise the OCEANE (convertible bonds) issued in April 2005 and in June 2009, as well as €750 million of bonds issued in September 2006 and April 2007 by Air France and of €700 million of bonds issued in October 2009 by Air France-KLM.*

OCEANE issued in April 2005: the market value of €467 million, was determined based on the bond's market price as of March 31, 2010. This market value includes the fair value of the debt component (amount of €397 million in the financial statements as of March 31, 2010) as well as the fair value of the conversion option recorded in equity for €53 million.

OCEANE issued in June 2009: the market value of €886 million, was determined based on the bond's market price as of March 31, 2010. This market value includes the fair value of the debt component (amount of €567 million in the financial statements as of March 31, 2010) as well as the fair value of the conversion option recorded in equity for €94 million.

Bond issued in September 2006 and April 2007: the characteristics of this bond are described in Note 30.3. The market value is €760 million.

Bond issued in October 2009: the characteristics of this bond are described in Note 30.3. The market value is €746 million.

32.4 Valuation methods for financial assets and liabilities at their fair value

As of March 31, 2010, the breakdown of the Group's financial assets and liabilities is as follows based on the three classification level (see Note 3.10.7):

(In € millions)	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Shares	15	39	-	54
Assets at fair value through profit and loss				
Marketable securities	-	343	-	343
Cash equivalents	3,294	-	-	3,294
Derivatives instruments asset				
Interest rate derivatives	-	15	-	15
Currency exchange derivatives	-	214	-	214
Commodity derivatives	-	280	-	280

Financial liabilities at fair value comprise negative values of derivative instruments of interest rates, foreign exchange and commodities as well as the debt revalued in accordance with fair value hedge, valuations classified of level 2.

32.5 Sensitivity

The sensitivity is calculated solely on the valuation of derivatives at the closing date of each period presented.

The shock range has been judged reasonable and realistic by the Group management. The shock hypotheses used are coherent with those applied in the prior period.

The impact on equity corresponds to the sensitivity of effective fair value variations for instruments documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the income statement corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments.

For fuel and currency, the downward and upward sensitivities are not symmetrical when taking into account the utilization, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

Fuel hedge sensitivity

The impact on "income before tax" and on the "gains/(losses) taken to equity" of a +/- USD 10 variation in the price of a barrel of Brent is presented below:

	March 31, 2010		March 31, 2009	
(In € millions)	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent
Income before tax	(121)	122	(147)	25
Gains/(losses) taken to equity	586	(582)	746	(626)

Currency hedge sensitivity

The value in euros of all monetary assets and liabilities is presented below:

	Monetary assets		Monetary liabilities	
(In € millions)	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
US dollar	464	537	1,307	1,248
Pound sterling	33	17	-	5
Yen	10	2	298	239
Swiss franc	7	2	293	279
Canadian dollar	11	7	1	2

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedged.

The impact on “income before tax” and on “gains/(losses) taken to equity” of a 10% strengthening of the foreign currencies relative to the euro is presented below:

At March 31	US dollar		Pound sterling		Yen	
(In € millions)	2010	2009	2010	2009	2010	2009
Income before tax	(54)	(31)	2	3	(35)	(22)
Gains/(losses) taken to equity	327	18	(18)	(21)	(24)	(28)

The impact of the change in fair value of currency derivatives on “income before tax” and on “gains/(losses) taken to equity” of a 10% weakening of the foreign currencies relative to the euro is presented below:

At March 31	US dollar		Pound sterling		Yen	
(In € millions)	2010	2009	2010	2009	2010	2009
Income before tax	4	33	(2)	(3)	30	19
Gains/(losses) taken to equity	(209)	(3)	16	20	21	26

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. A 100 basis point variation in interest rates would have an impact of €3 million on the financial charges for the year ending March 31, 2010 versus €7 million for the year ending March 31, 2009.

Note 33 Lease commitments

33.1 Capital leases

The debt related to capital leases is detailed in Note 30.

33.2 Operating leases

The minimum future payments on operating leases are as follows:

Year ended March 31, *(In € millions)*	Minimum lease payments	
	2010	**2009**
Flight equipment		
Due dates		
Y+1	848	775
Y+2	735	686
Y+3	635	517
Y+4	512	447
Y+5	441	369
Over 5 years	1,441	1,152
Total	**4,612**	**3,946**
Buildings		
Due dates		
Y+1	203	217
Y+2	191	218
Y+3	185	216
Y+4	179	218
Y+5	159	220
Over 5 years	1,036	349
Total	**1,953**	**1,438**

The expense relating to operating leases for flight equipment amounted to €721 million for the year ended March 31, 2010 and to €646 million for the year ended March 31, 2009.

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

Note 34 Flight equipment orders

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

Year ended March 31, *(In € millions)*	**2010**	**2009**
Y+1	1,065	1,391
Y+2	1,279	1,426
Y+3	640	1,128
Y+4	401	456
Y+5	101	-
Total	**3,486**	**4,401**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate. Furthermore these amounts are hedged.

The number of aircraft on firm order as of March 31, 2010 decreased by 27 units compared with March 31, 2009 to 76 units. The number of options is stable in comparison with March 31, 2009 to 58 units. These movements can be explained by:

- the delivery of 26 aircraft over the period;
- one new order.

Long-haul fleet

Passenger
The Group took delivery of 6 Boeing B777s. Concerning this same aircraft type, the Group did not place any firm order.

The Group has also placed a new firm order for A330. Lastly, the Group took delivery of 2 A380s.

Cargo
The Group took delivery of 2 Boeing B777F.

Medium-haul fleet

The Group took delivery of 3 Boeing B737s and 1 Airbus A321. It converted 4 firm orders for A321s into A320s.

Régional fleet

The Group took delivery of 4 Embraer 170 and 8 Embraer 190. It also converted one firm orders for Embraer 190 into Embraer 170.

The Group's commitments concern the following aircraft:

Aircraft type		To be delivered in	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger									
A380	***As of March 31, 2010***	***Firm orders***	***2***	***2***	***2***	***3***	***1***	***-***	***10***
		Options	*-*	*-*	*-*	*1*	*1*	*-*	*2*
	As of March 31, 2009	Firm orders	3	4	3	2	-	-	12
		Options	-	-	1	1	-	-	2
A330	***As of March 31, 2010***	***Firm orders***	***1***	***-***	***-***	***-***	***-***	***-***	***1***
		Options	*-*	*1*	*1*	*-*	*-*	*-*	*2*
	As of March 31, 2009	Firm orders	-	-	-	-	-	-	-
		Options	-	-	*1*	*1*	-	-	*2*
B777	***As of March 31, 2010***	***Firm orders***	***3***	***3***	***7***	***2***	***-***	***-***	***15***
		Options	*-*	*1*	*4*	*4*	*3*	*-*	*12*
	As of March 31, 2009	Firm orders	6	5	6	4	-	-	21
		Options	-	-	*4*	*6*	*2*	-	*12*
Long-haul fleet – cargo									
B777F	***As of March 31, 2010***	***Firm orders***	***-***	***1***	***-***	***-***	***-***	***-***	***1***
		Options	*-*	*-*	*1*	*2*	*-*	*-*	*3*
	As of March 31, 2009	Firm orders	2	1	-	-	-	-	3
		Options	-	-	-	*1*	*2*	-	*3*
Medium-haul fleet									
A320	***As of March 31, 2010***	***Firm orders***	***1***	***12***	***1***	***-***	***-***	***-***	***14***
		Options	*-*	*-*	*2*	*5*	*3*	*-*	*10*
	As of March 31, 2009	Firm orders	-	1	9	-	-	-	10
		Options	-	-	-	*8*	*2*	-	*10*
A321	***As of March 31, 2010***	***Firm orders***	***-***	***1***	***-***	***-***	***-***	***-***	***1***
		Options	*-*	*-*	*-*	*-*	*-*	*-*	*-*
	As of March 31, 2009	Firm orders	1	2	3	-	-	-	6
		Options	-	-	-	-	-	-	-
B737	***As of March 31, 2010***	***Firm orders***	***6***	***5***	***2***	***-***	***-***	***-***	***13***
		Options	*-*	*1*	*3*	*5*	*2*	*-*	*11*
	As of March 31, 2009	Firm orders	3	7	4	2	-	-	16
		Options	-	-	*1*	*3*	*4*	*3*	*11*
Regional fleet									
Emb 170	***As of March 31, 2010***	***Firm orders***	***3***	***-***	***-***	***-***	***-***	***-***	***3***
		Options	*-*	*3*	*3*	*4*	*-*	*-*	*10*
	As of March 31, 2009	Firm orders	4	2	-	-	-	-	6
		Options	-	*2*	*7*	*1*	-	-	*10*
Emb 190	***As of March 31, 2010***	***Firm orders***	***4***	***-***	***-***	***-***	***-***	***-***	***4***
		Options	*-*	*2*	*2*	*2*	*-*	*-*	*6*
	As of March 31, 2009	Firm orders	8	5	-	-	-	-	13
		Options	-	*1*	*3*	*2*	-	-	*6*
CRJ 1000	***As of March 31, 2010***	***Firm orders***	***6***	***4***	***4***	***-***	***-***	***-***	***14***
		Options	*-*	*-*	*-*	*1*	*1*	*-*	*2*
	As of March 31, 2009	Firm orders	2	4	4	4	-	-	14
		Options	-	*2*	-	-	-	-	*2*

Note 35 Other commitments

35.1 Commitments made

Year ended March 31, *(In € millions)*	2010	2009
Call on investment securities	1	1
Put on investment securities	(2)	(2)
Warranties, sureties and guarantees	79	92
Mortgaged or secured assets	6,076	5,546
Other purchase commitments	148	229

The restrictions and pledges as of March 31, 2010 were as follows:

(In € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	612	-
Tangible assets	December 1999	December 2021	7,289	13,601	53.59%
Other financial assets	September 1986	April 2020	768	1,357	56.60%
Total			**8,057**	**15,570**	**51.75%**

35.2 Commitments received

Year ended March 31, *(In € millions)*	2010	2009
Warranties, sureties and guarantees	215	219

Warranties, sureties and guarantees are principally comprised of letters of credit from financial institutions.

Note 36 Related parties

36.1 Transactions with the principal executives

Directors and their relatives hold less than 0.05% of the voting rights.

Advantages granted to the two principal executives are detailed as follows:

Year ended March 31, *(In € millions)*	2010	2009
Short term benefits	1.2	2.4
Post employment benefits	0.9	7.9
Total	**2.1**	**10.3**

Directors' fees paid during the year ended March 31, 2010 in respect of attendance at Board meetings during the year ended March 31, 2009, amounted to €0.6 million.

36.2 Transactions with other related parties

The total amounts of transactions with related parties for the financial years ended March 31, 2010 and 2009 are as follows:

Year ended March 31, *(In € millions)*	2010	2009
Assets		
Net trade accounts receivable	176	111
Other current assets	10	2
Other non-current assets	5	17
Total	**191**	**130**
Liabilities		
Trade accounts payable	171	119
Other current liabilities	51	44
Other long-term liabilities	48	53
Total	**270**	**216**

Year ended March 31, *(In € millions)*	2010	2009
Net sales	258	144
Landing fees and other rents	(473)	(609)
Other selling expenses	(111)	(125)
Passenger service	(62)	(131)
Other	(46)	(46)
Total	**(434)**	**(767)**

As a part of its normal business, the Group enters into transactions with related parties including transactions with State-owned and governmental entities such as the Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP") and the French civil aviation regulator ("DGAC"). Air France-KLM considers that such transactions are concluded on terms equivalent to those of transactions with third parties. The most significant transactions are described below:

Aéroports de Paris (ADP)

- Land and property rental agreements;
- Airport and passenger related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the above mentioned arrangements amounted to €456 million and €648 million for the periods ended March 31, 2010 and 2009.

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry to maintain certain aircraft of the French Air Force. The net revenue derived from such arrangements amounted to €55 million for the year ended March 31, 2010 and €63 million for the year ended March 31, 2009.

DGAC

The civil aviation regulator is the French State service organization, which manages security and safety in French air space. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services amounting to €108 million for the year ended March 31, 2010 and €123 million for the year ended March 31, 2009.

Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned WAM Acquisition (ex Amadeus GTD). For the year ended March 31, 2010, total transactions with WAM Acquisition amounted to a revenue of €100 million (compared with €101 million for the year ended March 31, 2009) and a cost of €184 million (compared with €199 million for the year ended March 31, 2009).

The Group also conducted business with Martinair until December 31, 2008. The revenues resulting from this activity with Martinair amounted to €12 million for the year ended March 31, 2009. Moreover, the Group contracted Martinair's services whose total cost until December 31, 2008 amounted to €13 million for the year ended March 31, 2009.

The amount of transactions made with Alitalia represents for the Group a revenue of €106 million and a cost of €10 million for the year ended March 31, 2010.

Note 37 Cash flow statement

37.1. Acquisition of subsidiaries and investments

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

Year ended March 31, *(In € millions)*	**2010**	**2009**
Cash disbursement for acquisitions	(16)	(376)
Cash from acquired subsidiaries	(2)	28
Net cash disbursement	**(18)**	**(348)**

Year ended March 31, 2010

During the year ended March 31, 2010, there is no significant acquisition of subsidiaries and investments.

Year ended March 31, 2009

The cash disbursement relating to acquisitions corresponds mainly to the purchase of 25% of the Alitalia share capital for €330 million and 50% of the Martinair shares for €10 million.

37.2 Disposal of subsidiaries

Net proceeds from the disposal of subsidiaries can be analyzed as follows:

Year ended March 31, *(In € millions)*	**2010**	**2009**
Proceeds from disposals	3	17
Cash of disposed subsidiaries	-	(1)
Net proceeds from disposals	**3**	**16**

Year ended March 31, 2010

During the year ended March 31, 2010, there is no significant disposal of subsidiaries.

Year ended March 31, 2009

Net proceeds from disposals mainly correspond to the sale of Reenton shares in return for €4 million and Opodo shares for €5 million.

37.3 Non cash transactions

During the years ended March 31, 2010 and 2009, there were no significant non-cash transactions.

Note 38 Fees of statutory auditors

As of March 31, *(In € millions)*	KPMG			
	2010		2009	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.8	97%	4.3	98%
♦ *Air France-KLM SA*	*0.8*		*0.8*	
♦ *Consolidated subsidiaries*	*3.0*		*3.5*	
Other accessory services and other audit services	-	-	-	-
♦ *Air France-KLM SA*	-	-	-	-
♦ *Consolidated subsidiaries*	-	-	-	-
Sub-total	**3.8**	**97%**	**4.3**	**98%**
Other services				
Legal, tax and corporate	0.1	3%	0.1	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**3.9**	**100%**	**4.4**	**100%**

As of March 31, *(In € millions)*	Deloitte & Associés			
	2010		2009	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	4.0	100%	4.0	98%
♦ *Air France-KLM SA*	*1.1*		*0.7*	
♦ *Consolidated subsidiaries*	*2.9*		*3.3*	
Other accessory services and other audit services	-	-	-	-
♦ *Air France-KLM SA*	-	-	-	-
♦ *Consolidated subsidiaries*	-	-	-	-
Sub-total	**4.0**	**100%**	**4.0**	**98%**
Other services				
Legal, tax and corporate	-	-	0.1	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**4.0**	**100%**	**4.1**	**100%**

Note 39 Consolidation scope as of March 31, 2010

The scope includes 153 fully consolidated entities and 25 equity affiliates.

39.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KLM N.V.	Netherlands	Multisegment	99	49
MARTINAIR	Netherlands	Multisegment	99	49
AIR FRANCE SERVICES LTD	United Kingdom	Passenger	100	100
AIR FRANCE GROUND HANDLING INDIA PVT LTD	India	Passenger	51	51
BLUE LINK (EX-FREQUENCE PLUS SERVICES)	France	Passenger	100	100
BLUELINK INTERNATIONAL AUSTRALIA	Australia	Passenger	100	100
BRIT AIR	France	Passenger	100	100
CITY JET	Ireland	Passenger	100	100
CYGNIFIC (UK) LIMITED	United Kingdom	Passenger	99	49
CYGNIFIC B.V.	Netherlands	Passenger	99	49
IAS ASIA INCORPORATED	Philippines	Passenger	99	49
IASA INCORPORATED	Philippines	Passenger	99	49
ICARE	France	Passenger	100	100
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES OFFSHORE LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED LIABILITY COMPANY	United States	Passenger	99	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	99	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	99	49
COBALT (ex-KLM GROUND SERVICES LIMITED)	United Kingdom	Passenger	99	49
KLM LUCHTVAARTSCHOOL B.V.	Netherlands	Passenger	99	49
LYON MAINTENANCE	France	Passenger	100	100
RÉGIONAL COMPAGNIE AÉRIENNE EUROPÉENNE	France	Passenger	100	100
SOCIÉTÉ D'EXPLOITATION AÉRONAUTIQUE	France	Passenger	100	100
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Netherlands	Passenger	99	49
TEAMTRACKERS SA	France	Passenger	100	100
TEAMTRACKERS SRO	Czech Rep.	Passenger	100	100
VLM AIRLINES NV	Belgium	Passenger	100	100

Entity	Country	Segment	% interest	% control
BLUE CROWN B.V.	Netherlands	Cargo	99	49
MEXICO CARGO HANDLING	Mexico	Cargo	100	100
SODEXI	France	Cargo	75	75
AIR FRANCE INDUSTRIE US	United States	Maintenance	100	100
CRMA	France	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Netherlands	Maintenance	99	49
KLM UK ENGINEERING LIMITED	United Kingdom	Maintenance	99	49
AEROMAINTENANCE GROUP	United States	Maintenance	82	82
TURBINE SUPPORT INTERNATIONAL LLC	United States	Maintenance	60	60
ACNA	France	Other	98	100
ACSAIR	France	Other	50	51
AEROFORM	France	Other	98	100
AFRIQUE CATERING	France	Other	50	51
AIDA	Mauritius	Other	77	77
AIR CHEF	Italy	Other	49	50
AIR FRANCE FINANCE	France	Other	100	100
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE PARTNAIRS LEASING NV	Dutch Antilles	Other	45	45
AIR UK LEASING LIMITED	United Kingdom	Other	99	49
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	79	39
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	79	39
ALL AFRICA AIRWAYS	Mauritius	Other	80	80
AMSTERDAM-SCHIPHOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	59	29
AMSTERDAM-SCHIPHOL PIJPLEIDING C.V.	Netherlands	Other	72	49
BASE HANDLING	France	Other	98	100
BLUE YONDER IX B.V.	Netherlands	Other	99	49
BLUE YONDER X B.V.	Netherlands	Other	99	49
BLUE YONDER XII B.V.	Netherlands	Other	99	49
BLUE YONDER XIII B.V.	Netherlands	Other	99	49
BLUE YONDER XIV B.V.	Netherlands	Other	99	49
BLUE YONDER XV	Netherlands	Other	99	49
BRUNEAU PEGORIER	France	Other	98	100
CARI	France	Other	98	100
CATERING FDF	France	Other	98	100
CATERING PTP	France	Other	98	100
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0

Entity	Country	Segment	% interest	% control
CENTRE DE PRODUCTION ALIMENTAIRE	France	Other	98	100
CULIN'AIR PARIS	France	Other	98	100
DAKAR CATERING	Senegal	Other	64	65
ETS EQUIPMENT TECHNO SERVICES	Netherlands	Other	99	49
EUROPEAN CATERING SERVICES	United States	Other	98	100
GIE JEAN BART	France	Other	10	10
GIE SERVCENTER	France	Other	98	100
GIE SURCOUF	France	Other	100	100
HANDICAIR	France	Other	98	100
HEESWIJK HOLDING B.V.	Netherlands	Other	99	49
JET CHEF	France	Other	98	100
KES AIRPORT EQUIPMENT FUELLING B.V.	Netherlands	Other	99	49
KES AIRPORT EQUIPMENT LEASING B.V.	Netherlands	Other	99	49
KLM AIRLINE CHARTER B.V.	Netherlands	Other	99	49
KLM CATERING SERVICES SCHIPHOL B.V.	Netherlands	Other	99	49
KLM EQUIPMENT SERVICES B.V.	Netherlands	Other	99	49
KLM FINANCIAL SERVICES B.V.	Netherlands	Other	99	49
KLM FLIGHT CREW SERVICES GMBH	Germany	Other	99	49
KLM HEALTH SERVICES B.V.	Netherlands	Other	99	49
KLM INTERNATIONAL CHARTER B.V.	Netherlands	Other	99	49
KLM INTERNATIONAL FINANCE COMPANY B.V.	Netherlands	Other	99	49
KLM OLIEMAATSCHAPPIJ B.V.	Netherlands	Other	99	49
KLM UK HOLDINGS LIMITED	United Kingdom	Other	99	49
KLM UK LIMITED	United Kingdom	Other	99	49
KROONDUIF B.V.	Netherlands	Other	99	49
LYON AIR TRAITEUR	France	Other	98	100
MALI CATERING	Mali	Other	70	99
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Netherlands	Other	99	49
MARTINIQUE CATERING	France	Other	91	93
MAURITANIE CATERING	Mauritania	Other	25	51
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49
ORLY AIR TRAITEUR	France	Other	98	100
OUAGADOUGOU CATERING SERVICES	Burkina	Other	98	100
PASSERELLE	France	Other	98	100
PASSERELLE CDG	France	Other	64	66

Entity	Country	Segment	% interest	% control
PELICAN	Luxembourg	Other	100	100
PMAIR	France	Other	50	51
PRESTAIR	France	Other	98	100
PYRHELIO-STAETE B.V.	Netherlands	Other	99	49
QUASAR-STAETE B.V.	Netherlands	Other	99	49
RIGEL-STAETE B.V.	Netherlands	Other	99	49
ROSC LIMITED	United Kingdom	Other	99	49
SAVEUR DU CIEL	France	Other	98	100
SENCA	Senegal	Other	32	51
SEREP	Senegal	Other	57	59
SERVAIR (Cie d'exploitation des services auxiliaires aériens)	France	Other	98	98
SERVAIR ABIDJAN	Ivory Coast	Other	74	76
SERVAIR SATS	Singapore	Other	50	51
SERVANTAGE	France	Other	98	100
SERVASCO	Macao	Other	59	60
SERVCLEANING	France	Other	98	100
SERVLING	France	Other	98	100
SESAL	Gabon	Other	54	55
SKYCHEF	Seychelles	Other	54	55
SKYLOGISTIC	France	Other	98	100
SOCIETE D'INVESTISSEMENT AEROPORTUAIRE	France	Other	98	100
SOGRI	France	Other	95	97
SORI	France	Other	49	50
SPECIAL MEALS CATERING	France	Other	98	100
SPICA-STAETE B.V.	Netherlands	Other	99	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Netherlands	Other	99	49
SYSTAIR	France	Other	98	100
TAKEOFF 1 LIMITED	Ireland	Other	100	100
TAKEOFF 2 LIMITED	Ireland	Other	100	100
TAKEOFF 3 LIMITED	Ireland	Other	100	100
TAKEOFF 4 LIMITED	Ireland	Other	100	100
TAKEOFF 5 LIMITED	Ireland	Other	100	100
TAKEOFF 6 LIMITED	Ireland	Other	100	100
TAKEOFF 7 LIMITED	Ireland	Other	100	100
TAKEOFF 8 LIMITED	Ireland	Other	100	100
TAKEOFF 9 LIMITED	Ireland	Other	100	100

Entity	Country	Segment	% interest	% control
TAKEOFF 10 LIMITED	Ireland	Other	100	100
TAKEOFF 11 LIMITED	Ireland	Other	100	100
TAKEOFF 12 LIMITED	Ireland	Other	100	100
TAKEOFF 13 LIMITED	Ireland	Other	100	100
TAKEOFF 14 LIMITED	Ireland	Other	100	100
TAKEOFF 15 LIMITED	Ireland	Other	100	100
TAKEOFF 16 LIMITED	Ireland	Other	100	100
TOULOUSE AIR TRAITEUR	France	Other	98	100
TRANSAVIA AIRLINES BV	Netherlands	Other	99	49
TRANSAVIA AIRLINES C.V.	Netherlands	Other	99	49
TRANSAVIA DENMARK APS	Denmark	Other	99	49
TRANSAVIA France	France	Other	99	100
TRAVEL INDUSTRY SYSTEMS B.V.	Netherlands	Other	99	49
UILEAG HOLDING COMPANY LIMITED	Ireland	Other	100	100
WEBLOK B.V.	Netherlands	Other	99	49

39.2. Equity affiliates

Entity	Country	Segment	% interest	% control
AEROLIS	France	Passenger	50	50
ALITALIA	Italy	Passenger	25	25
FINANCIÈRE LMP	France	Passenger	40	40
HEATHROW CARGO HANDLING	United Kingdom	Cargo	50	50
CSC INDIA	India	Cargo	49	24
SPAIRLINERS	Germany	Maintenance	50	50
DOUAL'AIR	Cameroon	Other	25	25
FLYING FOOD CATERING	United States	Other	48	49
FLYING FOOD MIAMI	United States	Other	48	49
FLYING FOOD SAN FRANCISCO	United States	Other	43	44
FLYING FOOD SERVICES	United States	Other	48	49
GUANGHOU NANLAND CATERING COMPANY	China	Other	24	25
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	20	10
KENYA AIRWAYS LIMITED	Kenya	Other	26	13
LOGAIR	France	Other	49	50
LOME CATERING SA	Togo	Other	17	35
MACAU CATERING SERVICES	Macao	Other	17	34
MAINPORT INNOVATION FUND N.V.	Netherlands	Other	25	12
NEWREST SERVAIR UK LTD	United Kingdom	Other	39	40
PAVILLON D'OC TRAITEUR	France	Other	98	100
PRIORIS	France	Other	33	34
SCHIPHOL LOGISTICS PARK CV	Netherlands	Other	52	26
SERVAIR EUREST	Spain	Other	34	35
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25
WAM	Spain	Other	22	22

Statutory Auditors' report on the consolidated financial statements

Year ended March 31, 2010

To the Shareholders,

In accordance with the assignment entrusted by your Annual General Meetings, we hereby report to you, for the year ended March 31, 2010, on:

- the audit of the accompanying consolidated financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, and of the financial position of the Group as of March 31, 2010 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

Without qualifying the above opinion, we draw your attention to note 3.1 to the consolidated financial statements which describes the change in accounting policies relating to the first-time application of IFRS 8 "Operating Segments" and IAS 1 revised "Presentation of Financial Statements", effective April 1, 2009.

2. Justification of assessments

The accounting estimates used in the preparation of the consolidated financial statements as at March 31, 2010 were made in a context of a high volatility of the markets and a lack of visibility concerning economic prospects. These conditions are described in note 3.2 to the consolidated financial statements. Such is in the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French commercial law *(Code de commerce)*:

- notes 3.2 and 3.14 to the consolidated financial statements describe the estimates and assumptions that Air France-KLM's management was required to make regarding the impairment tests of tangible assets. We have examined the data and assumptions on which these impairment tests were based as well as the procedures for implementing impairment tests, as described in the notes;
- Air France-KLM's management is required to make estimates and assumptions relating to the recognition of revenue arising from issued but unused tickets and its Frequent Flyer Program, in accordance with the terms and conditions described in notes 3.2, 3.6 and 3.7 to the consolidated financial statements. Our procedures consisted in analyzing the data used, assessing the assumptions made and reviewing the calculations performed;
- notes 3.17 and 29.1 to the consolidated financial statements specify the accounting policies for employee benefits. These benefits and obligations were evaluated by external actuaries. Our procedures consisted in examining the data used, assessing the assumptions made and verifying that the information included in note 29.1 to the consolidated financial statements was appropriate. In addition, note 3.17 to the consolidated financial statements outlines the accounting policies applied for the recognition of the pension fund surplus. We verified that this accounting treatment was appropriate;
- note 29.2 to the consolidated financial statements describes the anti-trust litigations to which the Company is exposed and the amount of the related provision accounted for. Our procedures consisted in analyzing the method used to determine these provisions, examining the data used and the assumptions made, based on information available to date, and verifying that the information as disclosed in note 29.2 to the consolidated financial statements was appropriate.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific procedures

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, May 27, 2010

The Statutory Auditors

KPMG Audit

Department of KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of the Statutory Auditors' reports on the consolidated financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such report, whether qualified or not. This information is presented below the audit opinion on consolidated financial statements and includes explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. This report also includes information relating to the specific verification of information given in the Group's management report. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

Statutory financial statements

Year ending March 31, 2010

Income statement

Period from April 1 to March 31 *(In € million)*	**Notes**	**2010**	**2009**
Expenses capitalization	3	13	-
Other income	2	15	20
Total operating income		**28**	**20**
External expenses	3	(27)	(20)
Taxes and related payments		-	(1)
Salaries and related costs	4	-	(3)
Other expenses		-	(1)
Total operating expenses		**(27)**	**(25)**
Income from current operations		***1***	***(5)***
Financial income		32	120
Financial expenses		(68)	(56)
Net financial income	***5***	***(36)***	***64***
Earnings before tax and extraordinary items		***(35)***	***59***
Non-recurring income		-	3
Non-recurring expenses		(3)	(6)
Extraordinary income (loss)	***6***	***(3)***	***(3)***
Income tax	7	6	7
Net earnings		**(33)**	**63**

Balance sheet

Assets *(In € million)*	Notes	March 31, 2010	March 31, 2009
Long-term investments	8	4,234	4,221
Loan & receivable linked to long term investment	11-16	786	-
Fixed assets		***5,020***	***4,221***
Trade receivables	11	10	12
Miscellaneous receivables	11	8	14
Marketable securities	9	898	427
Cash		100	-
Prepaid expenses		1	1
Current assets		***1,017***	***454***
Capitalized expenses to amortize		12	-
Bond redemption premium		5	-
Total Assets		**6,054**	**4,675**

Liabilities & equity *(In € million)*	Notes	March 31, 2010	March 31, 2009
Capital	10.1	2,552	2,552
Additional paid-in capital		719	719
Legal reserve		70	67
Reserves		1,065	1,005
Income for the year		(33)	63
Shareholders' equity	***10.2***	***4,373***	***4,406***
Financial debt	16	1,656	250
Accounts payable:		20	15
including trade payables and related accounts		19	13
Other accounts payable		1	2
Miscellaneous debts		5	4
Liabilities	***11***	***1,681***	***269***
Total Liabilities & equity		**6,054**	**4,675**

Notes

The information hereafter constitutes the notes to the financial statements for the year ended March 31, 2010.

It is an integral part of the financial statements.

The financial period covered 12 months from April 1, 2009 to March 31, 2010.

Air France-KLM is listed in France and in the Netherlands.

Air-France-KLM establishes consolidated financial statements.

1. Accounting policies and procedures

Generally accepted accounting policies were applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and the basic assumptions in order to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial periods;

and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

Main methods used

Long-term investments

Companies' equity investments are presented on the balance sheet at their acquisition cost net of impairment, if any. A provision for impairment is constituted as soon as the fair value is below the acquisition value. The fair value of securities corresponds to the value in use for the Company. It is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference.

Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

Treasury shares are not allocated to employees or to a capital decrease and are shown at the lower of their acquisition cost and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Accounts receivable

Accounts receivable are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares invested as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Foreign currency transactions

Current expense and income transactions in foreign currencies are recognised at the average exchange rate for each month concerned.

Accounts payable and receivable in foreign currencies are valued at the exchange rate in effect at March 31, 2010.

Unrealised losses and gains are recognised as assets and liabilities on the balance sheet. Provisions are established for unrealised losses, except for the following cases:

- transactions where the currency and the term contribute to a global positive exchange position and,
- exchange hedging contracts involving the payment of future investment deliveries.

Debts

Debts are valued at their nominal amount.

Dividends received

Dividends are recognised as earnings when they are approved by the companies' competent bodies (i.e.; the Board of Directors or the General Shareholders' Meeting depending on the local regulations).

2. Other income

This primarily involves royalties of €13 million paid by Air France and KLM at March 31, 2010 to use the "Air France-KLM" brand.

3. External expenses

Period from April 1 to March 31, *(In € million)*	2010	2009
Lawyers & advisors fees (1)	1	7
Capitalized bonds issuing expenses	13	
Statutory auditor fees	2	1
Insurance	2	2
Subcontracting re-invoiced by Air France and KLM	5	5
Financial communication expenses	3	4
Other (less than 1 million euros)	1	1
Total	**27**	**20**

(1) Including acquisition costs of Compagnia Aerea Italiana Shares on March 31, 2009.

4. Salaries and related costs

Salaries and related costs of the fiscal year include wages and the variable compensation provision for the period. On March 31, 2009, salaries and related costs included a variable compensation provision that was not fully paid due to net earning as at March 31, 2009.

5. Financial income

This section groups interest paid or received, exchange losses and gains, and allocations and write-backs of financial provisions. It breaks down as follows below.

Variation between March 31, 2009 and March 31, 2010 is mainly due to interests due on the OCÉANE and on the bond whose funds were lent to Air France and KLM at the end of the fiscal year (see note 16)

Period from April 1 to March 31, *(In € million)*	2010	2009
Interests on loans (1)	(67)	(3)
including related companies	*(14)*	*(1)*
Financial income from equity investments		95
including related companies		*95*
Other financial income (2)	14	22
including related companies	*7*	*7*
Allocations to provisions (3)		(52)
Reversal of provisions (4)	18	
Deficit on treasury shares sale	(1)	(1)
Total	**(36)**	**64**

(1) Interests on OCÉANE (25) million, on bond (20) million, on credit line (6) million and commission on guaranty delivered by Air France and KLM (14) million.
(2) Including €7 million generated from the investment in mutual funds and deposit certificates (see note 9).
(3) (40) million for treasury shares and (12) million for Alitalia shares at March 31, 2009.
(4) Reversal of provisions on treasury shares 18 million.

6. Extraordinary income

Extraordinary income at March 31, 2010 amounted to €(3) million mainly for the expenses on survey of possible long term investments .

7. Income tax

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002.

The consolidation scope, where Air France-KLM is the parent company, primarily includes Air France-KLM, Air France, regional French companies and, since January 1, 2005, Servair and its subsidiaries.

The tax consolidation agreement is based on the so-called neutrality method and places each member company of the tax Group in the situation that it would have been in without consolidation.

The tax consolidation Group benefits from tax losses that can be infinitely carried forward.

The subsidiaries that are beneficiaries of the tax consolidation scope paid Air France-KLM a tax consolidation bonus of €6 million for the financial year ended March 31, 2010.

8. Long-term investments

8.1 Gross value

Gross value *(In € million)*	Beginning of year	Acquisitions Capital increases	Transfers or sales	End of year
Equity investments	4,242			4,242
Loan & receivable linked to long term investment		786	-	786
Other long term investments	75			75
Total	**4,317**	**786**		**5,103**

Loan & receivable linked to long term investment are loans granted, at market interest rate, to Air France for €400 million and KLM for €386 million (see note 16)

8.2. Equity investments

Companies *(In € million)*	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Air France	3,060	-	-	3,060
KLM	817		-	817
Alitalia	42	-		42
Compagnia Aerea Italiana SpA	323			323
Total	**4,242**			**4,242**

Former Alitalia shares are no longer listed. Furthermore this company being in liquidation process, the shares have been fully depreciated since March 31, 2009.

Companies *(In € million)*	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Alitalia	42			42
Impairment	***42***			***42***
Net Value	**4,200**			**4,200**

8.3. Other financial investments

(In € million)	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	75	-	-	75
	Provision at beginning of year	**Allocation**	**Reversal**	**Provision at beginning of year**
Impairment on treasury shares	54		13	41
Net Value	**21**		**13**	**34**

9. Marketable securities

	March 31, 2010		March 31, 2009	
(In € million)	Net carrying amount	Market value	Net Carrying amount	Market value
Treasury shares invested as part of the liquidity agreement subscribed with a bank	14	14	8	8
Mutual funds & deposit certificates (1)	880	880	415	415
Money market fund (2)	4	4	4	4
Total	**898**	**898**	**427**	**427**

(1) The amount increases due to investment of OCÉANE and bond funds (see note 5).
(2) Cash invested as part of a liquidity agreement, subscribed with a bank.

10. Shareholders' equity

10.1. Distribution of share capital and voting rights

At March 31,	% of capital 2010	% of capital 2009	% of voting rights 2010	% of voting rights 2009
French government	16%	16%	16%	16%
Employees and former employees [(1)]	12%	12%	12%	12%
Shares held by the Group	2%	2%	-	-
Public	70%	70%	72%	72%
Total	**100%**	**100%**	**100%**	**100%**

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

On March 31, 2010 the share capital distributed above is fully paid-up and comprised of 300,219,278 shares with a nominal value of €8.50. Each share confers one voting right.

In April 2005, Air France issued a 15 years – €450 million "*Obligation à Option de Conversion et/ou d'Échange en actions Air France-KLM Nouvelles ou Existantes*" (OCÉANE). During the financial year, no OCÉANE were converted. Between April 2007 and March 2008 510 OCÉANE were converted into 525 shares. As of March 31, 2010, the conversion ratio is 1.03 Air France-KLM shares for one bond.

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCÉANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million (see note 16). As of March 31, 2010, 6,591 OCÉANE were converted into 6,591 existing shares, the conversion ratio being one Air France-KLM shares for one bond.

10.2. Statement of changes in shareholders' equity

Source of movements *(In € million)*	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At March 31, 2008	***2,552***	***719***	***1,046***	***198***	***4,515***
Allocation of earnings			26	(26)	-
Dividends distributed				(172)	(172)
Earnings for the period				63	63
At March 31, 2009	***2,552***	***719***	***1,072***	***63***	***4,406***
Allocation of earnings	-	-	63	(63)	-
Dividends distributed	-	-			
Earnings for the period	-	-	-	(33)	(33)
At March 31, 2010	***2,552***	***719***	***1,135***	***(33)***	***4,373***

11. Maturity of accounts receivable and accounts payable

At March 31, 2010 *(In € million)* Accounts receivable	Gross amount	Up to one year	More than one year	Related companies
Non current assets				
Loans and receivable linked to long term investment	786	400	386	786
Current assets				
Trade receivables and related accounts	10	10	-	10
Miscellaneous receivables (including tax receivables)	8	8		7
Total	**804**	**418**	**386**	**803**

Accounts payable *(In € million)*	Gross amount	Up to one year	More than one year	Related companies
Financial debt (1)	1,656	295	1,361	
Trade payables and related accounts	19	19	-	16
Taxes and social contributions due	1	1	-	-
Miscellaneous payables	5	5	-	4
Total	**1,681**	**320**	**1,361**	**20**

(1) The credit line subscribed with a bank in October 2007 for €250 million has been fully drawn to subscribe to Compagnia Aerea Italiana SpA capital increase. Maturity of the credit line is June 2010. Issuing of a €661 million OCÉANE and a €700 million bond (see note 5 and 16). This amounts includes €45 million of accrued interests

12. Commitments

KLM shares

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government will sell its cumulative A preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer occurs during the first three years following the business combination.

In the latter case, the foundation will issue, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates will confer to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France-KLM exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (for a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

Derivative instruments

Air France-KLM uses derivative instruments such as fixed rate hedge on its long term debt.

They are interest rate swaps that transform fixed rate into variable rate with €300 million notional and less than 1 year maturity. They are qualified as fair value hedge.

Other

Since January 2009, Air France-KLM guaranties Societe Air France commitments towards Aéroport de Paris regarding civil leases.

The guaranty has an absolute limitation of €18 million.

13. List of subsidiaries and equity investments

(In € million) Companies or Groups of companies	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held Gross	Net	Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for last financial year	Net profit or loss for last financial year	Dividends cashed during the past financial year
Detailed information about each investment whose gross value exceeds €15 million										
1. Subsidiaries (held at more than 50%)										
Société Air France (France) [(1)]	1,901	271	100%	3,060	3,060	400	-	12,491	(1,774)	-
KLM (Netherlands) [(1)]	94	2,144	99.1%	817	817	386	-	7,469	(383)	-
2. Equity investments (held at less than 50%)										
Alitalia (Italy) [(2)]			1.86%	42	0	-	-			-
Compagnia Aerea Italiana SpA [(3)]	668		25%	323	323			2,918	(305)	-

(1) Statutory financial statements at March 31, 2010.
(2) In process of liquidation.
(3) Consolidated financial statements at December 31, 2009.

14. Estimated value of the portfolio

(In € million)	Amount at beginning of year			Amount at end of year		
	gross carrying amount	net carrying amount	estimated value	gross carrying amount	net carrying amount	estimated value (1)
Portfolio fractions valued						
Alitalia						
based on the net equity	42	0	0	42	0	0
Air France						
at cost	3,060	3,060	3,737	3,060	3,060	2,172
KLM						
at cost	817	817	2,080	817	817	2,218
Compagnia Aerea Italiana SpA						
at cost	323	323	NA	323	323	188

(1) Estimated value is based on :
Air France and KLM : net equity share in statutory financial statements at March 31, 2010;
Compagnia Aerea Italiana : net equity share in consolidated financial statements at December 31, 2009.

15. Items concerning related companies

(In € million)	Amount
Trade receivables & related accounts	10
including Air France	*9*
KLM	*1*
Miscellaneous receivables	8
including Air France	*6*
SIA	*1*
Other	*1*
Trade payables and related accounts	16
including Air France	*9*
KLM	*7*
Miscellaneous payables	4
including Orly Air Traiteur	*1*
Jet Chef	*1*
CPA	*1*
Other	*1*

16. Debt

As of June 26, 2009, Air France-KLM issued a bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCÉANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million. Each bond has a nominal value of €11.80. The annual coupon amounts to 4.97%.

As of October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an interest rate of 6.75%.

A part of the bonds was lent, at the end of March 2010 at market interest rate, to Air France for €400 million and to KLM for €386 million.

Debt also includes the credit line subscribed in October 2007 with a bank for €250 million and that was fully drawn (see note 11)

17. Litigation

Litigation concerning anti-trust laws

a) In the air-freight industry

a.1) Investigation by the anti-trust authorities

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with twenty-five other airlines in investigations initiated by the anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted action in the air-freight industry.

The proceedings initiated in the United-States, Australia and Canada resulted, during financial year 2008-09, in Plea Agreements made with the appropriate agencies, and the payment of fines putting an end to those proceedings:

- the Companies Air France and KLM accordingly paid a total fine of US dollars 350 million (€221 million) in the United-States, Australian dollars 6 million (€3.6 million) in Australia, and Canadian dollars 9 million (€5.7 million) in Canada;
- the Company Martinair also entered into Plea Agreements, first in the United-States in an amount of US dollars 42 million (€28.4 million), partially paid to the extent of US dollar 14 million, then in Australia for Australian dollars 5 million (€2.5 million), and last in Canada for Canadian dollars 1 million (€0.7 million).

The three group affiliates Air France, KLM and Martinair are still exposed to investigations proceedings in Europe, in South Korea, in Switzerland, in Brazil and in South Africa:

- as the Group's parent, Air France-KLM is considered by the European Commission as being jointly and severally liable for any unlawful practices of which the companies Air France, KLM and Martinair may be found guilty. The European Commission decision is expected in autumn 2010;
- in South Korea, Air France and KLM received in late 2009, with twenty-six other airlines, notices of charges from the Korean anti-trust authority (KFTC) for allegations of anti-competitive agreements on the fuel surcharge. The two companies have disputed these allegations, pointing out that the practices concerned were consistent with their obligations under the bilateral air-traffic agreements between France and South Korea, and between the Netherlands and South Korea, and under the South Korean civil-aviation code;
- the proceedings in Switzerland, Brazil and South Africa are still pending as of March 31, 2010. They have not been provided against, as the Group is unable, in the current state of the proceedings, to evaluate its exposure. Having regard to the revenues involved, these risks are not individually significant.

a.2) Civil suits

Pursuant to the initiation in February 2006 of the various competition authorities' investigations, class actions were brought by forwarding agents and air-freight shippers in the United-States and Canada against Air France, KLM and Martinair, and the other freight carriers.

The plaintiffs allege the existence of an unlawful agreement among air-freight carriers since February 1, 2000 in the setting of freight charges, including various surcharges collected by such carriers. They accordingly claim from those carriers, in addition to the reimbursement of attorneys' fees, damages in an amount not specified to date, and indemnities of three times those damages.

In the United-States, the proceedings have been centralized before the Eastern District Court of New York.

In August 2009, the District Judge dismissed the plaintiffs' claims based on breach of EU competition law. He also dismissed the claims from the "indirect purchasers" (i.e., the freight shippers having acquired air-carriage services from the forwarding agents and not directly from the airlines).

However, he held the direct purchasers' claims based on breach of US federal anti-trust law to be admissible.

The judge also permitted the initiation of discovery proceedings, requiring the parties to collect and exchange data to be used in evidence.

The provisions recorded in the books of Air France, KLM and Martinair as of March 31, 2010 represent the best estimation of the risk supported by these companies as of this date.

b) In the air-transport industry (passengers)

b.1) Investigation of the European Commission of the air-transport industry (passengers) between Europe and Japan

Air France and KLM, like other air carriers, were subjected on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission of possible anti-competitive agreements or concerted practices in the area of air-transport services (passengers) between the States parties to the agreement on the European Economic Area and Japan.

On February 13, 2009, Air France and KLM replied to a questionnaire from the Commission pointing out the background of air-traffic relations between France and the Netherlands, on the one hand, and Japan on the other hand. These relations are governed by bilateral agreements requiring the approval of fares by the civil-aviation authorities in the States concerned after agreement among the air carriers designated pursuant to such agreements.

A second questionnaire was sent to the Group by the European Commission on October 1, 2009. To date, the Group is unable to state an opinion regarding the action that will be taken in connection with such enquiries by the European Commission.

b.2) Civil actions

During 2008, two class actions were brought in the United-States against several air carriers including Air France and KLM for damage caused by an alleged anti-competitive agreement with respect to surcharges and fares on routes between Europe and Japan and on transatlantic routes.

The two class actions were dismissed respectively in October 2009 by the judge of the Eastern District Court of Pennsylvania and on April 5, 2010 by the judge of the Eastern District Court of New York.

During 2009, Air France and KLM were subpoenaed in a class action involving all the airlines working transpacific routes between the United-Sates and Asia/Oceania, on the basis of allegations of price fixing on such routes.

As in the earlier cases, Air France and KLM strongly deny these allegations. Both airlines accordingly filed motions to dismiss in February 2010.

Contingent liabilities

The Group is involved in a number of governmental, legal and arbitrage procedures for which provisions have not necessarily been recorded in the financial statements.

a) KLM minority shareholders

The group Verening van Effectenbezitters (VEB) and a minority shareholder of KLM have brought action against Air France-KLM (in its capacity as a holder of shares of preferred stock) and KLM for a court ruling acknowledging the minority shareholders' entitlement to payment of a higher dividend. Those minority shareholders consider that the dividend paid is unfair and inequitable, and that their rights have not been observed. These minority shareholders have accordingly brought action before the Amsterdam Court. Plea hearings are scheduled for June 2010. To date, the consequences cannot be evaluated.

b) Rio-Paris AF447 flight

Pursuant to the crash of the Rio-Paris AF447 flight in the South Atlantic, various legal actions have been brought in the USA and Brazil by the victims' heirs.

In the USA, individual claims in tort have been brought against Air France, Airbus, Honeywell, Rockwell, Intel and Thalès.

In Brazil, similar claims have been brought against Air France.

All these proceedings are aimed at collecting damages as reparation for the losses suffered by the heirs of the passengers deceased in the crash. The civil consequences of the crash are covered by Air France's third-party-liability insurance policy.

To the best of the knowledge of Air France-KLM, there is no other dispute, arbitration or non-recurring event that could have or has had in the recent past a significant impact on the Group's financial position, earnings or assets and liabilities.

Except for the matters specified under the former paragraphs, the company is not aware of any governmental, judicial or arbitration proceedings (including any proceedings of which the issuer is aware, or that are pending or threatened against it) that could have or have recently had a significant impact on the issuer's and/or Group's financial position or profitability, during a period including the past twelve months at parties to collect and exchange data to be used in evidence.

18. Subsequent events

None.

Five-year financial summary

Year ended March 31,	2010	2009	2008	2007	2006
1. Share capital at year end					
Share capital *(In €)*	2,551,863,863	2,551,863,863	2,551,863,863	2,374,608,509.5	2,289,759,903
Number of ordinary shares outstanding	300,219,278	300,219,278	300,219,278	279,365,707	269,383,518
Number of shares with a priority dividend					
Maximum number of shares that may be created:					
- By bond conversion	78,619,501	22,609,143	22,609,143	22,609,756	21,951,219
- By exercise of subscription rights	-	-	-	21,064,433	30,060,411
2. Transactions and results for the year *(In € thousand)*					
Net revenues	-	-	-	-	-
Net income/(loss) before income tax, employee profit-sharing, net depreciation, amortization and provisions	(56,167)	105,885	228,076	158,721	(4,031)
Income tax	(5,601)	(6,767)	(5,496)	(4,465)	(997)
Employee profit-sharing for the year	0	0	0	0	0
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(32,671)	62,639	198,183	157,744	(1,506)
Distributed net income	-	-	171,835	134,095	80,783
3. Per share data *(In €)*					
Net income/(loss) after income tax and employee profit-sharing but before net depreciation, amortization and provisions	(0.17)	0.37	0.78	0.58	0.02
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(0.11)	0.21	0.66	0.56	(0.01)
Dividend per share	-	-	0.58	0.48	0.30
4. Employees					
Average number of employees during the year					
Total payroll costs					
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.)					

Statutory Auditors' report on the financial statements

Year ended March 31, 2010

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended March 31, 2010, on:

- the audit of the accompanying financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the Company as at March 31, 2010 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2. Justification of our assessments

The accounting estimates used in the preparation the financial statements as at March 31, 2010 were made in a context of a high volatility of the markets and a lack of visibility concerning economic prospects. Such is in the context in which we made our own assessments that we bring to your attention in accordance with the requirements of Article L. 823-9 of the French commercial law (*Code de Commerce*):

- Note 1 to the financial statements outlines the accounting rules and methods relating to the recognition and measurement of long-term investments. As part of our assessment of the Company's accounting policies, we verified the appropriateness of the aforementioned accounting methods and the information provided in Notes 8, 13 and 14 of the financial statements and satisfied ourselves as to their correct application.
- Note 17 to the financial statements describes the nature of the anti-trust litigations to which Air France-KLM is exposed. Our work consisted in verifying that the information disclosed in this note was appropriate.

These assessments were made as part of our audit of the financial statements of Air France-KLM as at March 31, 2010, taken as a whole and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3. Specific verifications and information

We have also performed the specific verifications required by French law in accordance with professional standards applicable in France.

We have no matters to report regarding the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French commercial law (*Code de Commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, when applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the management report.

Paris La Défense and Neuilly-sur-Seine, May 27, 2010

The Statutory Auditors

KPMG Audit
Division of KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

Deloitte & Associés

Dominique Jumaucourt
Partner

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in the French language and is provided solely for the convenience of English speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were made for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verifications of information given in the management report and in the document addressed to the shareholders. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Statutory Auditors' report on regulated agreements and commitments

Year ended March 31, 2010

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on regulated agreements and commitments.

Agreements and commitments authorized during the current year

In accordance with Article L. 225-40 of the French commercial law (*Code de Commerce*), we have been advised of agreements and commitments which have been previously authorized by your Board of Directors.

The terms of our engagement do not require us to identify such agreements and commitments, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article R. 225-31 of the French commercial law (*Code de Commerce*), to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

We conducted our work in accordance with the professional standards applicable in France. These standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

a) Agreement relating to the issuance by Air France-KLM of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

Person concerned:
Jean-Cyril Spinetta and Pierre-Henri Gourgeon, senior company officers of Air France-KLM and Air France.

Nature, purpose, terms and conditions:
Pursuant to the authorization granted by your Board of Directors, in its Meeting on June 17, 2009, Air France-KLM launched on June 18, 2009, an issue of bonds convertible and/or exchangeable for new or existing Air France-KLM shares (OCEANEs) for a nominal amount of €661 million, maturing on April 1, 2015. To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Air France and KLM jointly, unconditionally and irrevocably guarantee the payment of all monetary amounts due by Air France-KLM in respect of these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Air France, KLM and a banking syndicate.

At the end of March 2010, Air France billed your company a €5,228,287 guarantee commission.

Air France drew €200,000,000 during fiscal year 2009-10 under the secondary credit facility agreement. As this transaction was performed at the end of March 2010, no interest was billed in the fiscal year.

b) Agreement relating to the issuance by Air France-KLM of bonds

Person concerned:
Jean-Cyril Spinetta and Pierre-Henri Gourgeon, senior company officers of Air France-KLM and Air France.

Nature, purpose, terms and conditions:
Pursuant to the authorization granted by your Board of Directors, in its Meeting on September 24, 2009, Air France-KLM launched on October 14, 2009, a seven-year €700 million bond issue. To this effect, the Board of Directors approved the signature of:

- an agreement under the terms of which Air France and KLM severally, unconditionally and irrevocably guarantee the payment of all monetary amounts due by Air France-KLM in respect of these bonds;
- a secondary agreement organizing the terms of remuneration paid by Air France-KLM to Air France and KLM in consideration for the grant of this guarantee;
- a secondary agreement organizing the terms and conditions of the credit facility granted by Air France-KLM to Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Air France, KLM and a banking syndicate.

At the end of March 2010, Air France billed your company a €1,762,159 guarantee commission.

Air France drew €200,000,000 during fiscal year 2009-10 under the secondary credit facility agreement. As this transaction was performed at the end of March 2010, no interest was billed in the fiscal year.

Agreements and commitments authorized during previous years and having continuing effect during the year

In addition, pursuant to the French commercial law (*Code de Commerce*), we have been advised that the following agreements and commitments authorized in previous years have had continuing effect during the fiscal year.

a) Commitment relating to the pension plan of the Chief Executive Officer of Air France-KLM

In its deliberation of January 15, 2004, your Board of Directors approved a separate collective pension scheme for Air France principal executives, including executive officers.

This pension scheme aims to guarantee these executives, once they fulfill 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 remuneration during the last three years of employment, with the amount capped, on any assumption, at 40% of average remuneration during the last three years.

On November 19, 2008, in an express decision taken in application of the "Breton" law of July 26, 2005, your Board of Directors confirmed that Mr Pierre-Henri Gourgeon, in his new capacity as Chief Executive Officer as of January 1, 2009, would benefit from this defined benefit pension scheme under the same terms and conditions as the other beneficiary executives.

b) Agreement between Air France-KLM and Société Air France (Aéroports de Paris guarantee)

On November 21, 2007, your Board of Directors authorized an agreement under which Société Air France agreed to compensate Air France-KLM for guaranteeing rental payments granted by the latter to Aéroport de Paris for the benefit of Société Air France.

On November 19, 2008, your Board of Directors renewed the authorization of this agreement which was agreed on March 30, 2009.

No amounts were invoiced for fiscal year 2009-10 with respect to this agreement.

c) Agreement entered into by Air France-KLM and Société Air France with respect to the issuance by Air France of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

Air France-KLM and its subsidiary Société Air France entered into an agreement for the purpose of organizing the financial and legal relations between the two companies with respect to the issuance by Air France of bonds convertible and/or exchangeable for new or existing Air France-KLM shares.

The terms of this agreement stipulate:

- the remuneration paid by Société Air France to Air France-KLM in consideration for the option granted to bondholders to request the conversion of their bonds into Air France-KLM shares;
- should this option be exercised by a bondholder, the conditions in which Air France-KLM shall hand over new or existing shares (or a combination of both), and deliver to the centralizing agent the corresponding number of shares;
- the terms and conditions covering the payment by Société Air France to Air France-KLM of the amount corresponding to the value of the bonds that are to be converted or exchanged.

This agreement was authorized by your Board of Directors on April 13, 2005.

During fiscal year 2009-10, your Company collected €6,494,034.05 with respect to this agreement.

d) Trademark licensing agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into a licensing agreement for the "Air France-KLM" trademark.

This agreement was authorized by your Board of Directors on September 1, 2005.

During fiscal year 2009-10, your Company collected €9,085,599 with respect to this agreement.

e) Agreement relating to a portion of the remuneration paid to executive officers invoiced to Société Air France by Air France-KLM

The remuneration of Air France-KLM executive officers is invoiced to Société Air France based on the percentage of activity devoted to Société Air France.

This agreement was authorized by your Board of Directors on November 23, 2004.

On November 19, 2008, your Board of Directors renewed the authorization to invoice Société Air France for the remuneration paid to executive officers with a view to the separation of the Chairman and Chief Executive Officer functions as of January 1, 2009.

During fiscal year 2009-10, your Company collected €731,377.50 with respect to this agreement.

f) Service agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement for the purpose of defining the conditions under which Air France will provide, at the request of Air France-KLM, technical and administrative support services to Air France-KLM. These accounting, administrative, legal and IT related services are invoiced at cost. They include a portion of the obligation relating to the supplementary collective pension scheme for the Chief Executive Officer based on the percentage of activity devoted to Air France-KLM, in accordance with your Board of Directors' decision on November 19, 2008.

This agreement was authorized by your Board of Directors on September 15, 2004.

During fiscal year 2009-10, your Company received invoices for an amount of €3,044,408 with respect to this agreement.

g) Cash agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement in order to provide Air France-KLM with a credit line. This cash agreement bears interest at EONIA + 60 points.

This agreement was authorized by your Board of Directors on September 15, 2004.

As of March 31, 2010, the amount payable by your Company to Société Air France in respect of this cash agreement totaled €0.

During fiscal year 2009-10, your Company recorded no interest expenses with respect to this agreement.

h) Domiciliation agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement for the domiciliation and use of the premises of the Air France-KLM registered office.

This agreement was authorized by your Board of Directors on September 15, 2004.

During fiscal year 2009-10, your Company was invoiced €261,912.72 with respect to this agreement.

Paris La Défense and Neuilly-sur-Seine, May 27, 2010

The Statutory Auditors

KPMG Audit *Division of KPMG S.A.*		Deloitte & Associés
Valérie Besson *Partner*	Michel Piette *Partner*	Dominique Jumaucourt *Partner*

This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements and commitments reported on are only those provided by the French commercial law (Code de Commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

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Other information

6.

History

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its colonies.

October 7, 1933

Air France is born from the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

First KLM trans-Atlantic flight from Amsterdam to Curaçao in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

Air France is nationalized.

KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights to New York in DC-4s, from Paris with Air France and from Amsterdam with KLM. At this time, the flight takes nearly 24 hours.

Air France and KLM are equipped with Constellations and engage in mutual assistance.

1958

Air France and KLM inaugurate the polar route, flying from Paris and Amsterdam to Tokyo via the North Pole.

1959-60

Arrival of the jet era: Air France brings the first Caravelles and Boeing 707s into service, reducing the duration of the Paris-New York flight to eight hours. KLM brings its first Douglas DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-71

The Boeing 747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Roissy-Charles de Gaulle, then to CDG 2 in 1982.

1976

Concorde is brought into service, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes then, in 1977, on Paris-New York, connecting the two cities in 3 hours 45 minutes.

Development of the two majors

1989

Conclusion of an alliance, the first in the history of air transportation, between KLM and the US company Northwest Airlines.

1990

Air France acquires UTA *(Union des Transports Aériens),* founded in 1963.

1991

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and Netherlines and increases its shareholding in transavia from 40% to 80%.

1992

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own interest in that company with that of UTA.

KLM establishes the first European medium-haul/long-haul transfer platform at Schiphol airport.

First *Open Sky* agreement between the Netherlands and the United States.

1993

All KLM and Northwest Airlines flights between Europe and the United States are operated by a joint-venture.

1996

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul/long-haul transfer platform at Roissy-Charles de Gaulle.

1997
Air France Europe is merged with Air France.

1999
Air France is listed for trading on the Monthly Settlement Market of the Paris Stock Exchange for the first time on February 22, 1999.

2000
Air France, Aeromexico, Delta Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

2001
Open Sky agreement signed between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

2002
SkyTeam is the only alliance in the world to benefit from antitrust immunity on its trans-Atlantic and trans-Pacific routes.

Creation of Air France-KLM, the leading European air transport group

2003
September 30: Air France and KLM announce their intention to merge through a public exchange offer.

2004
April 5: Air France launches its public exchange offer for KLM shares.

May 5: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange.

May 6: Privatization of Air France with the transfer of the majority of its shares to the private sector involving the dilution of the French State's shareholding.

September 15: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries, Air France and KLM.

KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December 9: The French State reduces its shareholding from 44% to 23% by selling shares in the market.

2005-06
The French State reduces its shareholding in Air France-KLM from 23% to 18.6% by selling shares within the framework of the share offer reserved to Air France employees.

First-time adoption of IFRS.

Air France issues 21,951,219 convertible bonds (OCEANEs), convertible at any time into Air France-KLM shares, raising €450 million.

2006-07
Creation of the solidarity tax paid on departure from French airports.

An attempted terrorist attack at Heathrow airport leads to the introduction of new security measures for flights departing from European hubs.

Signature of the Open Skies agreement between Europe and the United States to come into force in March 2008.

2007-08
Air France-KLM is delisted from the New York Stock Exchange and trading in its ADR program transfers to the OTC Market (OTCQX).

Air France-KLM enters the CAC 40.

Successful launch of the leisure subsidiary, Transavia France, operating out of Paris Orly.

Emergence of the sub-prime crisis in the United States. The increasing severity of the crisis leads to a crisis of confidence in the banking sector and turbulence in the financial markets.

The warrants for new or existing shares (BASAs) issued at the time of the share exchange offer for KLM and arriving at maturity are converted, leading to the creation of 19.6 million new shares. In total, 99.3% of the warrants are converted, raising a total of €597 million.

Having unveiled its offer for Alitalia in December 2007, Air France-KLM notes the breakdown of negotiations in April 2008.

2008-09
The US Department of Transportation grants Air France, KLM, Delta and Northwest anti-trust immunity with the obligation to establish a sole trans-Atlantic joint-venture between these four airlines before the end of 2009.

The Air France-KLM Board of Directors decides to separate the functions of Chairman of the Board of Directors and Chief Executive Officer effective January 1, 2009.

The oil price reaches a record high of $146.08 a barrel.

The collapse of the US bank Lehman Brothers unleashes the financial crisis in September 2008.

Air France-KLM acquires a 25% equity interest in Alitalia.

General information

Corporate name
Air France-KLM

Registered office
2, rue Robert-Esnault-Pelterie, 75007 Paris

Mailing address
45, rue de Paris, 95747 Roissy-CDG Cedex
Tel: +33 1 41 56 78 00

Legal status
French public company *(Société Anonyme)* with a Board of Directors

Legislation
French law.

Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003, relating to air transport companies and notably Air France. The law of April 9, 2003 introduced a provision in the Civil Aviation Code designed to safeguard the nationality of air transport companies whose shares are listed for trading on a regulated market.

Incorporation and expiry dates
Incorporated on: April 23, 1947.
Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the bylaws)
The primary purpose of Air France-KLM is to hold direct or indirect interests in the capital of air transport companies and, more generally, in any companies in France or elsewhere whose purpose is related to the air transport business.

Trade register
Paris Trade and Company Register: 552 043 002
APE Code: 6420Z

Consultation of legal documents
Air France-KLM legal and corporate documents may be consulted at 45, rue de Paris, 95747 Roissy-CDG Cedex, or on request by calling +33 1 41 56 88 85.

Financial year
The financial year runs from April 1 to March 31 of the following year.

Appropriation of income
After approving the financial statements and taking due note of the income available for distribution, the shareholders vote in the General Shareholders' Meeting on the total or partial distribution of such income (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable income to one or more reserve accounts.

Relations between Air France-KLM and its subsidiaries
Air France-KLM and its subsidiaries Air France and KLM have signed agreements whose aim is to define the conditions under which Air France and KLM, at the request of Air France-KLM, will provide technical and administrative support services to Air France-KLM. These accounting, administrative, legal and IT services are invoiced at cost price. These agreements were approved by previous Shareholders' Meetings *(See also section 5 – Statutory Auditors' special report on regulated agreements and commitments).*

Information relating to the share capital

Share capital

At March 31, 2010, the share capital of Air France-KLM comprised 300,219,278 shares with a nominal value of €8.50. This level of nominal value, one of the highest of the companies in the SBF 120, may make it impossible to implement the financial authorizations granted by the General Shareholders' Meeting should the share price fall below the nominal value. During this period of high share price volatility, the company thus decided to submit to the General Shareholders' Meeting of July 8, 2010 a proposed reduction in the nominal value to one euro.

If this resolution is adopted, the resulting capital reduction, i.e. €2,251,644,585, will be allocated to the share premium account. Following the final realization of the operation, the share capital will be €300,219,278 divided into 300,219,278 shares.

The shares are fully paid up and can be held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

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

There were no changes in the share capital during the last three financial years.

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 9, 2009 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM's capital.

The total amount of capital increases is capped at €500 million in nominal with the exception of capital increases reserved for members of an employee savings scheme.

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

The General Shareholders' Meeting of July 8, 2010 will be asked to vote on the following authorizations:

Nature of the operation submitted to the Shareholders' Meeting of July 8, 2010	Maximum amount of issuance in nominal
Capital increase via the issue of shares or other securities giving rights to the capital with preferential subscription rights	€120 million if the nominal value is reduced to €1 €1.02 billion if the nominal value remains €8.50
Capital increase via the issue of shares or other securities giving rights to the capital without preferential subscription rights	€45 million if the nominal value is reduced to €1 €382.5 million if the nominal value remains €8.50
Capital increase via the issue of shares or other securities giving rights to the capital without preferential subscription rights by way of a private placing with qualified investors	€45 million if the nominal value is reduced to €1 €382.5 million if the nominal value remains €8.50
Increase the amount of the initial issue in the event of a capital increase with or without preferential subscription rights	15% of the initial issue
Capital increase through capitalization of reserves and/or premiums	€120 million if the nominal value is reduced to €1 €1.02 billion if the nominal value remains €8.50
Capital increase to remunerate contributions in kind constituted of shares or securities conferring rights to the capital of another company	10% of the share capital of the maximum authorized amount
Capital increase reserved for members of an employee savings scheme	3% of the share capital at the time of the issue
Issues of bonds or other related securities giving rights to the capital with or without preferential subscription rights	€1 billion

Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANEs) 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 (OCÉANEs), 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 OCÉANE 2.75% 2005-20 issue contract. The allocation ratio for holders of bonds convertible and/or exchangeable into Air France-KLM new or existing shares was thus changed to 1.03 shares for each 2.75% 2005-20 bond.

At March 31, 2008, 597 bonds had been converted, thus reducing the number of outstanding convertible bonds to 21,950,622. At March 31, 2009 and 2010, no bonds had been converted or exchanged into shares.

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

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

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

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

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

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

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

Air France-KLM shareholder structure

Breakdown of the share capital and voting rights

Financial year ended	% of share capital			% of voting rights		
	March 31, 2010	March 31, 2009	March 31, 2008	March 31, 2010	March 31, 2009	March 31, 2008
Number of shares and voting rights	**300,219,278**	**300,219,278**	**300,219,278**	**294,488,804**	**294,329,817**	**294,886,837**
French State	15.7	15.7	15.7	16.0	16.0	15.9
Employees	11.8	12.0	11.2	12.1	12.3	11.4
Treasury stock	1.9	2.0	1.8	-	-	-
Others	70.6	70.3	71.3	71.9	71.7	72.7

Shareholder analysis

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

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

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

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

No declaration of an interest in the issuer's capital by a person belonging to an administrative or management body which is notifiable under the issuer's national law has been made to the company.

The members of the Board of Directors hold less than 0.5% of the share capital.

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.

Legal and statutory investment thresholds

Pursuant to article L.233-7 of the French Commercial Code, article 13 of the Air France-KLM bylaws stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof, must notify Air France-KLM by registered mail with acknowledgement of receipt within 15 days of the date on which the threshold is exceeded.

Notice must be given under the same conditions each time a further 0.5% of the capital and voting rights is acquired up to 50%.

These obligations are also applicable when any shareholder's interest in the capital falls below one of these thresholds. The aforementioned obligations under the bylaws do not replace the legal obligation to inform Air France-KLM and the French securities regulator, the *Autorité des marchés financiers* or AMF, within five trading days if the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 10% and 20% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF of its intentions for the next 12 months within 15 days. This notification is subject to the conditions and sanctions set forth in article L.233-14 of the Commercial Code.

In addition, in the event of failure to comply with this notification obligation and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Furthermore, any shareholder acquiring more than 2% of Air France-KLM's voting rights is required to transfer these securities to registered form within 15 days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

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

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

Identification of shareholders and statutory provisions concerning shareholders

Identification of holders of bearer shares

The Shareholders' Meeting of September 25, 1998 authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at Shareholders' Meetings. Pursuant to the new articles L.360-1 to L.360-4 of the Civil Aviation Code, as amended by the French law of April 9, 2003, listed French air transport companies are authorized to include a provision in their bylaws allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM bylaws set the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. However, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors must decide to reduce this 2% threshold to 10,000 shares.

When Air France-KLM has published a notice informing the shareholders and the public that non-French shareholders own, directly or indirectly, 45% of Air France-KLM's capital or voting rights, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form.

Article 10 of the Air France-KLM bylaws specifies the information that must be provided to Air France-KLM by shareholders, whether they be private individuals or corporate bodies, subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder. Article 11 of the bylaws specifies the conditions under which the Board of Directors may exercise its right to approve new shareholders.

Formal notice to sell and mandatory sale of shares

Article 15 of the Air France-KLM bylaws stipulates the information that Air France-KLM must publish and circulate to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality. Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to safeguard its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the Civil Aviation Code. The terms for setting the sale price (market price) are foreseen by this same code.

Information on trading in the stock

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. It is a CAC Next20 component.

Air France-KLM's ADR program (American Depositary Receipt) is traded on the OTC Market (OTCQX) under the ticker AFLYY.

The Reuters code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF PA.

The OCÉANE 2.75% 2020 is listed for trading under the ISIN code FR0010185975 and the OCÉANE 4.97% 2015 is listed for trading under the ISIN code FR0010771766 on Euronext Paris.

Transactions in Air France-KLM shares over the last 18 months

Air France-KLM shares

Euronext Paris Shares	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume	Amount *(In €m)*
2008						
October	23	13.178	16.150	10.270	81,706,578	1,076.5
November	20	10.636	12.940	9.010	47,546,318	503.0
December	21	9.669	10.250	9.170	37,885,404	370.9
2009						
January	21	8.737	10.245	6.906	57,553,153	490.1
February	20	7.675	8.450	6.915	48,518,720	372.3
March	22	6.922	7.516	6.215	58,635,344	408.0
April	20	8.443	9.239	6.485	59,548,999	494.1
May	20	10.314	11.600	8.520	62,479,540	644.4
June	22	9.794	11.700	8.620	65,682,159	643.6
July	23	8.724	9.254	8.220	63,358,265	553.4
August	21	10.246	11.190	8.800	53,603,537	543.3
September	22	11.469	13.080	9.802	86,614,005	1,007.1
October	22	11.747	12.800	10.080	57,189,972	668.3
November	21	10.989	11.580	10.070	46,233,868	505.3
December	22	11.169	11.625	10.605	34,968,676	389.5
2010						
January	20	12.050	12.725	11.055	44,534,756	537.1
February	20	10.727	12.495	9.660	71,776,407	759.2
March	23	10.992	12.050	9.730	48,277,313	527.7

Source: Euronext.

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

	Trading days	Average price (In €)	Trading range (In €) High	Low	Volume
2008					
October	23	17.723	19.450	16.800	1,432
November	20	17.500	18.000	16.900	35,626
December	21	18.450	19.250	17.550	12,704
2009					
January	21	19.815	20.980	18.150	5,137
February	20	18.688	18.940	18.500	4,759
March	22	19.363	19.600	18.700	256
April	20	19.160	19.520	19.000	10,235
May	20	19.700	19.900	19.500	1,700
June	22	19.253	19.510	19.000	450
July	23	18.993	19.450	18.470	7,164
August	21	21.270	21.270	21.270	100
September	22	20.630	21.700	19.870	2,071
October	22	20.683	20.900	20.500	357
November	21	21.000	21.000	21.000	300
December	22	20.283	21.450	19.700	413
2010					
January	20	21.025	21.900	20.500	205
February	20	20.925	21.000	20.850	209
March	23	21.050	21.500	20.000	21,231

Source: Sungard/GL Trade

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

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2009					
June	22	12.327	12.500	12.000	62,367
July	23	12.774	13.350	12.050	266,936
August	21	13.701	14.250	13.000	90,432
September	22	14.846	16.700	13.250	121,433
October	22	15.340	16.800	14.200	73,449
November	21	14.785	15.340	14.150	42,941
December	22	14.966	15.460	14.210	16,107
2010					
January	20	16.058	16.870	15.050	45,852
February	20	14.975	16.000	14.500	17,340
March	23	15.492	16.050	14.750	176,325

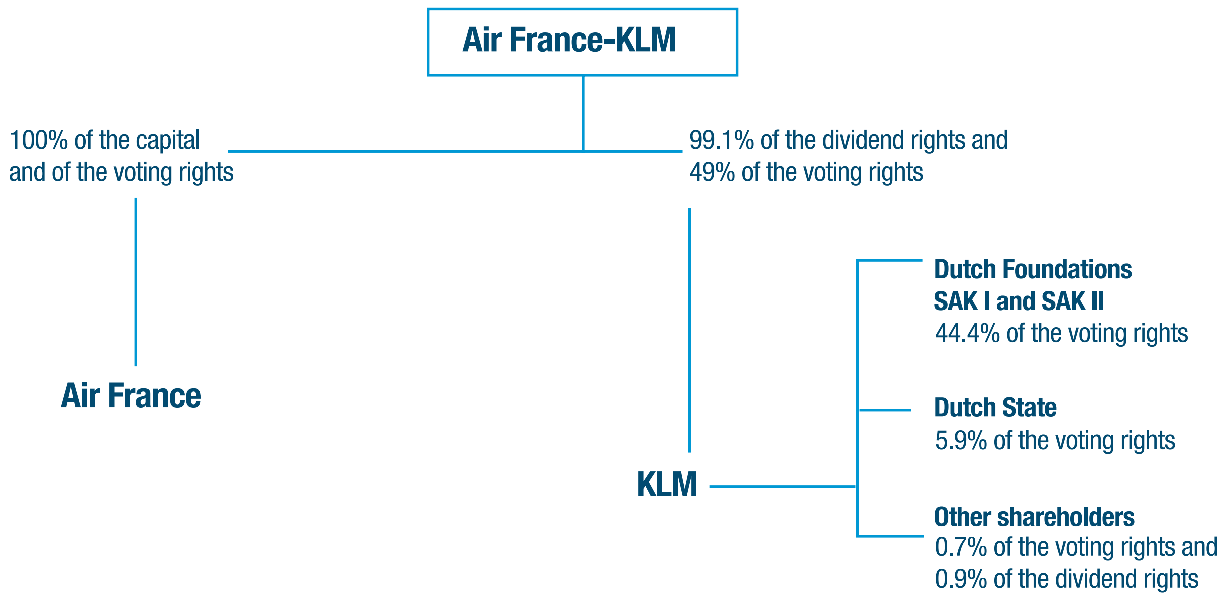
Source : Sungard/GL Trade.

Information on the agreements concluded in connection with the business combination between Air France and KLM

In connection with the agreements concluded between Air France (1) and KLM for the creation of the Air France-KLM group (1), various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.

Agreements relating to the KLM shareholding structure

At March 31, 2010, Air France-KLM holds 93.4% of the economic rights and 49% of the voting rights, the Dutch foundations 44.4% of the voting rights and the minorities 0.7% of the voting rights and 0.9% of the dividend rights of KLM. Air France-KLM is entitled to 99.1% of any dividend paid on KLM's ordinary shares.



KLM set up two Dutch foundations, SAK I and SAK II, to handle the administration of KLM shares transferred as part of the business combination operations together with the KLM shares acquired by Air France-KLM. SAK I and SAK II are each managed by Boards of Directors comprised of three members. One member is appointed by Air France, one by KLM and the third, acting as Chairman, is appointed by the first two. The majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be Dutch nationals and reside in the Netherlands. Board decisions are taken unanimously. In return for the shares transferred to SAK I and SAK II, Air France-KLM received share certificates enabling it to benefit from all the economic rights associated with the underlying shares. SAK I and SAK II, however, retain the voting rights attached to these shares.

These voting rights are exercised by the members of the SAK I and SAK II Boards of Directors in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France, in the best interests of KLM, Air France-KLM and its shareholders.

Initially established for a three-year period, further to an agreement of April 2, 2007 between Air France-KLM and KLM, the two foundations SAK I and SAK II were maintained for an unspecified period with the same purpose. However, this agreement stipulates that Air France-KLM may, at any time after May 6, 2007, end this administered shareholding structure for the KLM shares held by SAK I and SAK II and proceed to consolidate the economic rights and voting rights on the shares.

(1) Air France-KLM when it concerns the holding company and Air France when it concerns the company.

Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France and KLM concluded the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France-KLM. As such, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to SAK I in the name and for the account of Air France-KLM as long as this foundation is maintained. In the second case, SAK I will issue share certificates for Air France-KLM corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates confer to Air France-KLM the sole economic right attached to these shares, i.e. a right to a reduced dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France-KLM against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were sold by the Dutch State to SAK I for the account of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period, Air France-KLM had the right to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly. Having decided, in 2007, to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with such an exchange.

The Dutch State also benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France-KLM at any time.

Amendments made to the Dutch State's option and the related agreements

Since 1994, the Dutch State has benefited from an option to subscribe for preferential KLM B shares, enabling it to increase its stake to 50.1% of the capital and voting rights of KLM irrespective of the amount of capital issued by KLM when the said option is exercised. The sole economic right attached to these shares is a right to a reduced dividend.

Air France, KLM and the Dutch State signed an agreement on October 16, 2003 to amend certain terms of the existing option for the Dutch State. In accordance with the amended terms of the option, the Dutch State could exercise its option if another country, representing a key market served by KLM, provides written notice that it intends to limit or terminate KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals.

The Dutch State's amended option was initially set for a period of three years from May 5, 2004 and was renewable on three occasions by the Dutch State for periods of twelve months on each occasion. The Dutch State having exercised this renewal option in 2007, 2008 and 2009, it lapsed in May 2010.

Assurances given to KLM and the Dutch State

Assurances given to the Dutch State

On October 16, 2003, Air France and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

According to the terms of the assurances given to the Dutch State, Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licenses, and will continue to fulfil all of the conditions required for the maintenance of these licenses.

In cooperation with the competent Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are required to operate international lines.

To this end, if an economic decision to shut a service down were likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision.

Air France and KLM confirmed that passenger traffic on flights departing from Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on these two airports.

Air France and KLM agreed that the cargo activities at the Roissy-CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group. Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

Pursuant to an agreement concluded on May 25, 2010, the Dutch State, Air France-KLM and KLM agreed to extend the assurances given to the Dutch State beyond May 5, 2012 and for an indefinite period, subject to Air France-KLM's right to terminate this with nine months' notice.

Assurances given to KLM

The assurances given to KLM, applicable until May 5, 2009, became null and void as of May 6, 2009.

Mechanism to ensure compliance with the assurances given

Air France and KLM set up a Dutch foundation, the *Fondation des Assurances KLM,* in order to facilitate the formation of binding advices on the interpretation of the assurances given to the Dutch State and KLM. The *Fondation des Assurances KLM* comprises two committees, which issue binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France Board of Directors appear to contravene the assurances given to the Dutch State or KLM. The Foundation des Assurances KLM was established for a period of eight years through to May 6, 2012, subject to a possible contravention of the assurances not having been referred to one of the committees on this date. In this case, the *Fondation des Assurances KLM* will only be liquidated after having given its opinion on the alleged contravention.

When giving its opinions, the *Fondation des Assurances KLM* must act in the best interests of KLM, the Air France-KLM group and its shareholders. The Foundation is managed by a Board of four independent directors:

- one appointed by Air France;
- one appointed by KLM;
- one appointed by the Dutch State;
- one appointed by the other three directors.

Since May 6, 2009, the date on which the assurances given to KLM became null and void, there has been only one committee within the foundation which is responsible for the respect of the assurances given to the Dutch State.

The director appointed by Air France has double voting rights with regard to the appointment of the fourth director.

Notices relating to a possible contravention of the assurances given to the Dutch State will be issued by a committee comprised of the director appointed by Air France, the director appointed by the Dutch State and the director appointed by the other directors.

The submission of a case to the Foundation's committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France Board of Directors may be made by the Dutch State with regard to the assurances given to it.

If the committee of the *Fondation des Assurances KLM* issues a mandatory notice indicating that the decision submitted to it contravenes the assurances given, the KLM Supervisory Board, the KLM Management Board or the Air France Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The committee takes decisions based on a majority vote.

At March 31, 2010, no cases had been submitted to the Foundation's committee.

Information relating to the agreements concluded with Alitalia–Compagnia Aerea Italiana (Alitalia–CAI)

Alitalia–Compagnia Aerea Italiana (Alitalia–CAI) is a new legal entity incorporated under Italian law established by some twenty Italian corporate bodies and individual shareholders, to acquire part of the aviation activities of Alitalia Linee Aeree Italiane (Alitalia-LAI), a company in legal liquidation since September 2008.

In December 2008, Alitalia–CAI acquired, from the liquidator, a portion of Alitalia-LAI's airline and non-airline assets and recruited some of this company's workforce. In addition, at the end of December 2008, Alitalia–CAI acquired the airline Air One, the number two operator in the Italian domestic market.

Pursuant to a series of agreements concluded on January 12, 2009, within the framework of a reserved capital increase at Alitalia–CAI, Air France-KLM acquired a 25% shareholding in this company in return for an investment of €323 million, a sum which was paid in full on March 25, 2009 after the fulfilment of the conditions precedent.

In addition to the investment agreement, four additional agreements were concluded between Air France-KLM and Alitalia–CAI:

- an industrial and commercial agreement known as the *Partnership Agreement;*
- an agreement relating to Alitalia–CAI's membership of the SkyTeam alliance;
- an agreement relating to the change in Alitalia–CAI's bylaws notably in terms of governance and shareholders' rights;
- a call option agreement in addition to the aforementioned changes in the bylaws.

Partnership agreement

Under the terms of this eight-year agreement, Air France-KLM and Alitalia–CAI agreed to maximize the synergies that they have identified in the different areas, particularly in terms of cooperation on the routes between France and Italy, the feeding of their respective hubs, intercontinental routes, frequent flyer programs and sales and distribution.

In order to ensure the full effectiveness of the agreement, the companies have established governance bodies and appointed a Partnership Manager to be responsible for preparing the annual or multi-year actions plans, establishing the monthly reports and, more generally, for monitoring the implementation of the decisions taken by the governance bodies.

The first Partnership Manager, who is a senior executive of Air France-KLM, was appointed in January 2009 for a three-year period, renewable once, and is based in Italy.

Agreement covering the change in the Alitalia–CAI bylaws

Governance

Air France-KLM is represented by three Board directors on the Alitalia–CAI Board of Directors out of a total of 19 members. After January 12, 2012, Air France-KLM representation on the Board of Directors will be proportional to its shareholding.

In addition, Air France-KLM is represented by two out of a total of nine members of the Alitalia–CAI Executive Committee, the body to which the Board of Directors has delegated part of its powers in line with Italian law.

Ordinary shares and B shares

Air France-KLM holds B shares which carry the same economic and voting rights as the ordinary shares held by the Italian shareholders. Furthermore, the B shares give their holders a number of specific rights, notably in terms of representation on the Board of Directors and a right to withdraw from the company.

Pre-emption right

The bylaws provide for a four-year lock-up period for the shares. Until January 12, 2013, holders of the ordinary shares may not sell their shares to third-parties nor to Air France-KLM.

Between January 13, 2013 and October 28, 2013, the sale of the ordinary shares and the B shares is authorized between shareholders or to a third-party, but only on condition that the other shareholders have not exercised their pre-emption rights and, in the event of a sale to a third party, prior approval has been given by the Board of Directors. After October 28, 2013, the shares may be sold with a pre-emption right for all shareholders.

Withdrawal right and redemption of the B shares

Air France-KLM benefits from a withdrawal right from Alitalia–CAI particularly if, on its own initiative, Alitalia–CAI terminates the partnership agreement. Symmetrically, Alitalia–CAI is entitled to redeem the B shares held by Air France-KLM, particularly were the level of synergies anticipated within the framework of the partnership agreement not to be achieved at the end of three years.

Mandatory tender offer

If a shareholder reaches more than 50% of the Alitalia–CAI share capital, the other shareholders have a put option at a market price to be established by an expert appraiser and payable in cash.

However, this put option is not exercisable in the event that one shareholder, holding less than 50% of the share capital, were to launch a purchase offer (in shares or in cash) open to all shareholders. In this case, the offer must be accepted by at least 51% of the Alitalia–CAI shareholders each owning more than two million shares and holding, in aggregate, at least 51% of the company's shares.

The initiator of the offer may decide not to proceed with the offer if the percentage of the shares tendered does not amount to at least 67% of the total number of shares, including the shares already held by the initiator.

Voting in the Shareholders' Meeting

It is stipulated in the bylaws that, for the adoption of the most important resolutions, an 80% majority is required.

Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after ratification.

Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the “transit right”;
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;
- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

European legislation

Single European airspace

Within the European Union, these eight freedoms have been supplemented, since April 1, 1997, by common legislation that creates a homogenous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European airspace. Furthermore, any resident of an EU Member State may now hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework eliminates the need for bilateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Open skies agreement between Europe and the United States

On March 22, the European Union Council of Ministers unanimously approved the air transport agreement established on March 2, 2007 between the European and US negotiators. This agreement, which introduces a broad degree of liberalization in air services between the European Union and the United States, offering numerous commercial opportunities to US and EU carriers, was signed on April 30, 2007 at the summit between the European Union and the United States. It came into force on March 30, 2008. The agreement replaces the so-called Open Skies bilateral agreements, signed by the majority of EU Member States with the United States, certain provisions of which the European Court of Justice had deemed contrary to Community law. The authorized agreement thus constitutes the recognition by the EU’s major aviation partner of the concept of an EU airline.

A second phase of negotiations was opened in May 2008 to cover, notably, a new liberalization of access to the market, the definition of a new policy in terms of ownership and control of the US carriers, issues relating to the environment as well as limitations which could exist in terms of access to airport infrastructure.

At the end of an 18-month period the two parties were expected to review the progress made and, if no agreement was forthcoming after an additional period of 10 months, each party could, having given notice of 12 months, call into question all or part of the rights acquired during the first phase. A possible application of these provisions is thus not possible before November 30, 2010 at the earliest.

At the end of eight rounds of negotiations between the representatives of the European Commission and the United States a so-called *second stage agreement* was reached between the European and US negotiators on March 25, 2010. This agreement was signed but will still need to be approved by the Transport Council meeting in June 2010 and by the European Parliament.

Note that this agreement constitutes a new step towards further liberalization of the US airline ownership and control rules even if the date for this change is as yet unknown. If it is approved by the Transport Council and the European Parliament, this agreement will definitively eliminate the risk of a suspension of the rights acquired in 2007 which could have transpired in November 2010 without the materialization of a *second stage agreement* before that date.

Passenger rights

Passenger rights in the European Union are defined by regulations, established in 2005, which apply to all flights, both scheduled and unscheduled, departing from an airport located in a Member State of the European Union. The regulations establish common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading.

If a flight is overbooked, air carriers are encouraged to develop policies based on calling for volunteers to take a different flight. If this policy does not prevent boarding refusals, the passengers affected receive compensation, calculated based on the final destination mileage zone and the delay in terms of the initial arrival time, amounting to between €250 and €600. In addition, if a flight is delayed for at least five hours, passengers may request the reimbursement of their ticket (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

If a flight is cancelled, the air carrier's obligations are based on their ability to adequately inform their passengers. The earlier the passenger is informed (and in the absence of exceptional circumstances), the fewer the constraints for the carrier. If these obligations are not met, the passenger may claim compensation varying from €250 to €600, on the basis of the final destination mileage zone and the time period in which he or she was rescheduled.

Furthermore, a passenger who is seated in a class lower than the reservation class benefits from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone. Note that the US authorities have adopted new rules increasing passenger rights in this area, which came into force on May 19, 2008, doubling the compensation to between $400 and $800.

International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transportation: the Montreal Convention, the Chicago Convention and the Rome Convention.

The Montreal Convention (1999)

The Montreal Convention of May 1999, ratified to date by 97 States, aims to provide better protection for victims suffering damages. This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first tier that sets an objective liability for the air transport company of up to 113,100 Special Drawing Rights (SDR);
- a second tier, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages are exclusively a result of the acts of a third party.

Furthermore, with regard to compensation, the rule relating to the regional authority of courts has been extended.

The Chicago Convention (1944)

The Convention relating to international civil aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic airspace and their relations with one another.

Signed in December 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 190 signatory States in all areas of civil aviation.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification by making a distinction between everyday risk and terrorist risk.

Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. A European regulation covers access to most so-called coordinated European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.). In Asia, the allocation of slots is generally done on the basis of recommendations made by IATA (Bangkok, Tokyo, Hong Kong, Singapore, etc.). In the United States, with the exception of New York and O'Hare Airport (Chicago) this procedure is replaced with a system based on the assignment of boarding gates.

For airports within the European Union, each Member State with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organisations and the airport authorities, designates a coordinator or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:

- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as grandfather rights) for past operations;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a carrier or have become available for any other reason;
- finally, the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators.

Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:

- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

Information and control

Person responsible for the reference document and for the annual financial report

Pierre-Henri Gourgeon, Chief Executive Officer.

Declaration by the person responsible for the reference document

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions to this effect, the information contained in this reference document reflects reality and that nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been established in accordance with the applicable accounting standards and give a true and fair view of the assets, financial position and results of the company and of all the companies within the consolidation scope, and that the information contained in the management report on pages 6 to 25, 28 to 35, 41 to 43, 45 to 47, 51 to 53, 54 to 61, 64 to 70, 74 to 83, 88 to 91, 97 to 106, 118 and 119, 123 to 129 and 241 to 245 includes a fair review of the development of the business, results and financial position of the company and of all the companies in the consolidation scope, together with a description of the principal risks and uncertainties that they face.

I have obtained an end-of-engagement letter from the statutory auditors in which they confirm having verified the information regarding the financial position and the financial statements contained herein and having reviewed the entire reference document.

The consolidated financial statements for the financial year ended March 31, 2010 included in this reference document on pages 130 to 216 are the subject of a report from the statutory auditors figuring on pages 217 and 218 which contains an observation relating to changes in accounting method.

The consolidated financial statements for the year ended March 31, 2009 included in the reference document filed with the AMF on June 9, 2009 under the registration number D.09-494, were the subject of a report from the statutory auditors on pages 206 and 207 which contains an observation relating to a change in accounting method.

Pierre-Henri Gourgeon
Chief Executive Officer

Statutory auditors

Incumbent statutory auditors

Deloitte et Associés
185, avenue Charles-de-Gaulle – 92200 Neuilly-sur-Seine

represented by Dominique Jumaucourt

Starting date of first mandate: September 25, 1998

Renewal for a six-year period proposed to the Shareholders' Meeting of July 8, 2010.

KPMG Audit
A division of KPMG SA

1, cours Valmy – 92923 Paris-La Défense

represented by Valérie Besson and Michel Piette

Starting date of first mandate: September 25, 2002

Renewed for a six-year period at the Shareholders' Meeting of July 10, 2008.

Deputy statutory auditors

B.E.A.S.
7/9, Villa Houssaye – 92200 Neuilly-sur-Seine

represented by William Di Cicco

Starting date of first mandate: September 25, 1998

Renewal for a six-year period proposed to the Shareholders' Meeting of July 8, 2010.

Denis Marangé
1, cours Valmy – 92923 Paris-La Défense

Starting date of first mandate: July 10, 2008

Appointed for a six-year period at the Shareholders' Meeting of July 10, 2008.

Person responsible for financial information

Dominique Barbarin
Financial communication department

Tel: +33 1 41 56 88 60

Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably:

- the 2009-10, 2008-09, 2007-08, 2006-07 and 2005-06 reference documents filed with the *Autorité des marchés financiers*;
- the financial press releases (traffic, quarterly, half-year and annual results);
- the offering memoranda;
- the financial presentations;
- the company bylaws.

Glossary

Air transport glossary

AEA
Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)
Total number of seats available for the transportation of passengers multiplied by the number of kilometres traveled.

Available ton-kilometers (ATK)
Total number of tons available for the transportation of cargo, multiplied by the number of kilometres traveled.

Biometry
Technique allowing the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Coordinated airport
Airport where a coordinator has been appointed to allocate landing and take off slots according to rules established in advance. All large European Union airports are coordinated.

Cabotage
Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity
Capacity is measured in available seat-kilometers.

Catering
In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Code share
In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Code sharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as *free flow,* the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi
Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Connecting traffic
Traffic between two destinations which are not linked by a direct flight.

DGAC
Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL
Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services
Range of ground services offered by Air France and KLM to their passengers, based on new information technologies. E-services notably enable passengers to check in using self-service kiosks or via the airlines' websites as well as the use of electronic tickets.

EASA
European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticketing
All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces the traditional paper ticket.

Equivalent available seat-kilometer (EASK)
Measure of production after conversion of cargo tons into equivalent available seats.

Equivalent revenue passenger-kilometers (ERPK)
Overall measure of traffic after conversion of cargo tons into equivalent revenue passenger-kilometers.

Fare combinability
System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's Schiphol hub and a journey with an onward flight connection at Air France's Roissy-Charles de Gaulle hub. With fare combinability, customers benefit from a choice of more frequencies via one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

FAA
Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling
Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

High contribution
Fare classes corresponding to business or first class.

Hub
Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA
International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with various commercial and financial support services.

IATA year
Financial year for many airlines, including Air France-KLM, which runs from April 1 to March 31 the following year. This system makes it possible to track changes in activity more effectively based on the seasons defined by IATA, i.e. a summer season and a winter season.

ICAO
The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation world-wide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture
Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor
Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub
System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from world-wide destinations.

Over-reservation or over-booking
Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, this allows many passengers per year to find a seat on board aircraft by freeing up additional seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic
Traffic between two airports, excluding all passengers prolonging their trip with a connecting flight.

Revenue management
Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue per passenger per kilometer
Unit revenue for one paying passenger carried over one kilometer.

Revenue per ton per kilometer
Unit revenue for one ton of cargo carried over one kilometer.

Revenue passenger-kilometer (RPK)
Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)
Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operating and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening and the questioning of passengers.

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment

Section of a flight between two destinations. The number of passengers is calculated by segment carried.

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.).

Ton-kilometers transported

Total number of tons transported multiplied by the number of kilometer covered.

Traffic

Traffic is measured in revenue passenger-kilometers.

Unit revenue

In the passenger business, corresponds to the revenue for one available seat or for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over five months.

Financial Glossary

Adjusted operating margin
The adjusted operating margin is the percentage of revenues represented by operating income adjusted for the portion of operating leases considered as financial charges.

ADR
American Depositary Receipt. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. The Air France-KLM level 1 ADR program is traded on the OTCQX Market.

Earnings per share
Earnings per share corresponds to net income divided by the number of shares.

EBITDAR
Corresponds to earnings before interest, taxation, depreciation, amortization and operating leases. EBITDAR facilitates comparison between companies with different aircraft financing policies.

Fuel hedging
Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price. Two financial products, options and swaps, are used in this type of mechanism.

Gearing ratio
The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the company's financial independence: the lower it is, the greater the company's room for manoeuvre.

IFRS
International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN
International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization
The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

Net income, Group share
Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

OCÉANE
Bonds convertible into new or existing shares.

OPE
Offre Publique d'Échange. A public exchange offer (PEO) is an offer to purchase shares in a target company in exchange for shares in the company initiating the offer.

Operating income
Operating income is the amount remaining after operating expenses (external expenses, payroll costs, amortization and provisions) have been deducted from revenues. It shows what the company earns from its principal activity before the impact of financial and exceptional items.

ORS
Offre Réservée aux Salariés or offer reserved for employees. Within the context of privatizations, the State sells a tranche of shares to employees of the company at preferential conditions.

Return on capital employed (RoCE)
A measure of the returns that a company is making on its capital employed and thus of its profitability.

Revenues
Revenues corresponds to the total sales generated by the Air France-KLM group in its three core businesses (passenger, cargo, maintenance) and in its ancillary activities. The revenues from airline operations are recognized on realization of the transportation, net of any potential discounts granted. Consequently, when passenger and cargo tickets are issued, they are recorded in balance sheet liabilities under deferred revenue on ticket sales.

Share capital
Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

SSE
Shares-for-Salary Exchange. In connection with the French State's sale of Air France-KLM shares, employees were offered shares in exchange for a salary reduction over a six-year period.

Stockholders' equity

Stockholders' equity represents the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

TPI

Titre au Porteur Identifiable or identifiable bearer shares. TPI analysis enables a company to identify its shareholders holding stock in bearer form.

US GAAP

Generally Accepted Accounting Principles in the United States. Accounting standards generally adopted in the United States.

Warrant

A warrant gives the right to purchase or sell a share at a fixed exercise price within a pre-determined time period. Warrants are created by financial institutions who ensure their distribution and trading.

Tables of concordance for the reference document

This concordance table uses the sections required by European Commission Regulation (EC) No. 809/2004 ("the regulation") of April 29, 2004 and provides the page numbers in this document for the information relating to each of these sections.

No.	Information based on Annex 1 of the Regulation	Page
21.	***Additional information***	
21.1.	Share capital	p. 173, p. 225 and p. 241
21.2.	Memorandum and bylaws	p. 240, p. 245 and p. 246
22.	***Material contracts***	***not applicable***
23.	***Third party information and statements by experts and declarations of interest***	***not applicable***
24.	***Documents on display***	***p. 26, p. 240 and p. 259***
25.	***Information on holdings***	***p. 168 and 169, p. 227 and 228, p. 250 to p. 254***

Information included by reference

Pursuant to article 28 (EC) No. 809/2004, the following information is included by reference in this reference document:

2008-09 financial year

The reference document for the 2008-09 financial year was filed with the *Autorité des marchés financiers* on June 9, 2009 under the registration number D.09-494. The consolidated financial statements are presented on pages 121 to 205 and the related statutory auditors' reports on pages 206 and 207.

The full statutory financial statements can be found on pages 208 to 218 and the related statutory auditors' certification on page 220.

The key figures are presented on pages 2 and 3 of the reference document and on page 3 of the update to the reference document filed with the *Autorité des marchés financiers* on June 17, 2009. The management report figures on pages 6 to 23, pages 28 to 58, pages 62 to 67, 70 to 79, 82 to 85, 90 to 97, 113 to 119 and pages 227 to 230.

2007-08 financial year

The reference document for the 2007-08 financial year was filed with the *Autorité des marchés financiers* on June 13, 2008 under the registration number D.08-489. The consolidated financial statements are presented on pages 100 to 191 and the related statutory auditors' certification on page 192.

The full statutory financial statements can be found on pages 193 to 203 and the related statutory auditors' certification on page 205.

The key figures are presented on pages 2 and 3. The management report figures on pages 6 to 19, 24 to 50, 54 to 61 and pages 66 to 73, 76 to 82, 97 to 99 and 213 to 216.

Table of concordance for the annual financial report

This reference document contains all the elements of the financial report as referred to in articles L.451-1-2 of the Monetary and Financial Code and required by article 222-3 of the AMF's General Regulation. The table below resumes the elements of the financial report.

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