AIRFRANCE KLM

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Registration Document
2010-11

Registration Document 2010-11

Air France-KLM

This Registration Document includes the annual financial report

This Registration Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on June 15, 2011, 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, 2010 figuring on pages 2 and 3 of the 2009-10 Registration Document, and the review of the financial situation and results of the financial year ended March 31, 2009 figuring on pages 2 and 3 of the 2008-09 Registration Document are incorporated by reference in this document (*See also section 5 – Key financial indicators, page 133*).

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

Revenues
(in € billion)

2010-11	2009-10	2008-09	
		Pro-forma Martinair	Published
23.62	20.99	24.69	23.97

During the 2010-11 financial year, revenues were €2.6 billion higher (+12.5%) than in the previous financial year.

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

2010-11	2009-10	2008-09	
		Pro-forma Martinair	Published
0.12	(1.29)	(0.19)	(0.13)

The operating result improved by €1.41 billion during the 2010-11 financial year thanks to the economic recovery and the strategic measures implemented in the passenger and cargo businesses since 2009.

Information by business

	2010-11		2009-10		2008-09 Pro-forma Martinair	
	Revenues *In € billion*	Income/(loss) from current operations *In € million*	Revenues *In € billion*	Income/(loss) from current operations *In € million*	Revenues *In € billion*	Income/(loss) from current operations *In € million*
Passenger	18.10	(44)	16.27	(918)	18.83	(21)
Cargo	3.16	69	2.44	(436)	3.38	(221)
Maintenance	1.03	143	0.96	81	1.0	98
Others	1.32	(46)	1.33	(12)	1.49	(42)

Despite the numerous exceptional events arising over the course of the financial year, the Group's main businesses significantly improved their performance: a +€874 million improvement in the passenger business and a +€505 million improvement for the cargo business.

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

2010-11	2009-10	2008-09	
		Pro-forma Martinair	Published
0.61	(1.56)	(0.81)	(0.81)

The net result, Group share was a positive €613 million after a €1.03 billion gain realized on the IPO of Amadeus in the Madrid stock market in which the Group retains 15.2%.

Financial structure
(in € billion)

	2010-11	2009-10	2008-09
Net debt	5.89	6.22	4.44
Consolidated stockholders' equity	6.91	5.42	5.68
Gearing ratio	0.85	1.15	0.78

Investments and financing
(in € billion)

	2010-11	2009-10	2008-09
Gross investment in tangible and intangible assets	2.12	2.10	2.04
Financing	2.52	0.26	0.94
Free cash flow	0.40	(1.84)	(1.10)

Financing corresponded to operating cash flow, the proceeds on disposals of tangible and intangible assets and, for the 2010-11 financial year, the €193 million of cash generated on the Amadeus transaction.

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Corporate governance

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1.1 The Board of Directors

In order to comply with the governance principles as presented in the AFEP-MEDEF Corporate Governance Code and adopt the conclusions of the evaluation of the functioning of the Board of Directors, the General Shareholders' Meeting of July 10, 2008, decided to reduce the duration of Board directors' terms of office from six to four years and to include the option of a staggered renewal process for mandates in the bylaws.

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

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

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

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

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

1.1.1 Composition of the Board of Directors

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

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

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

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

Directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta

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

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

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

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

Other directorships and offices

French companies

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

Non-French company

- Director of Alitalia CAI (Italy).

Others

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

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

French companies and public institutions

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

Non-French companies

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

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

Pierre-Henri Gourgeon

*Chief Executive Officer of Air France-KLM**

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

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

Number of shares held in the company's stock: 44,097 shares.

Other directorships and offices

French companies

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

Non-French company

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

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

French companies

- Deputy Chief Executive Officer of Air France-KLM* until December 2008;
- Deputy Chief Executive Officer of Air France until December 2008;
- Director of Autoroutes du Sud de la France until March 2006;

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

* *Listed company.*

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

Leo M. van Wijk

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

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

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

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

Other directorships and offices

Non-French companies

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

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

Non-French companies

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

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

Maryse Aulagnon

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

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

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

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

Other directorships and offices

French companies

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

Non-French companies

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

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

French companies

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

Non-French company

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

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

* *Listed company.*

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Patricia Barbizet

Chief Executive Officer and director of Artémis

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

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

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

Other directorships and offices

French companies

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

Non-French companies

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

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

French companies

- Chairman of the Board of Directors of Tallandier Editions until 2010;
- Chief Executive Officer of Misarte until 2009;
- Artémis representative on the Top Tickets Board of Directors until 2009;
- Director of Piasa until December 2008;
- Chairman of the Board of Directors of Piasa until May 2008;
- Chairman and Chief Executive Officer of Piasa until April 2007.

Non-French company

- Director of Afipa (Switzerland) until October 2006.

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

Frits Bolkestein

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

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

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

Other directorships and offices

Non-French company

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

Other

- Chairman of Telders Foundation (Netherlands).

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

Non-French company

- Advisor to PricewaterhouseCoopers (Netherlands) until December 2007.

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

* *Listed company.*

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

Jean-François Dehecq

*Honorary Chairman of Sanofi-Aventis**

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

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

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

Other directorships and offices

French companies

- Director of Veolia Environnement*;
- Chairman of the Orientation Committee of the Fonds Stratégique d'Investissement;
- Director of Balmain since May 2010;
- Director of Pierre Balmain S.A. since April 2011.

Others

- Chairman of the National Committee of États Généraux de l'Industrie since November 2009;
- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers);
- Chairman of the Sanofi Espoir Corporate Foundation;
- Member of the French Foundation for Research into Epilepsy.

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

French companies

- Chairman of the Board of Directors of Sanofi-Aventis until May 2010;
- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher until June 2007;
- Chairman and Chief Executive Officer of Sanofi-Aventis* until December 2006.

Non-French company

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

Others

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

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

Jean-Marc Espalioux

Chairman of Financière Agache Private Equity

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

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

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

Other directorships and offices

French companies

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

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

French companies

- Member of the Supervisory Committee of Lyparis SAS until July 2010;
- Director of Veolia Environnement* until May 2010;
- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Epargne until July 2009;
- Member of the Supervisory Board of Club Méditerranée until January 2006;
- Accor Permanent representative on the Supervisory Board of Lucien Barrière group until January 2006.

Non-French company

- Chairman of Accor UK until January 2006.

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

* *Listed company.*

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

Peter Hartman

President and Chief Executive Officer of KLM

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

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

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

Other directorships and offices

Non-French companies

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

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

Non-French companies

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

Other

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

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

Cornelis J.A. van Lede

Chairman of the Supervisory Board of Heineken (Netherlands)*

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

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

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

Other directorships and offices

French company

- Director of Air Liquide*.

Non-French companies

- Member of the Supervisory Board of Philips Electronics (Netherlands);
- Director of Sara Lee Corporation* (United States);

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

Non-French companies

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

Others

- Member of the Board of Directors of INSEAD (Institute of Business Administration) (France) until 2010;
- Chairman of the Board of Directors of INSEAD until January 2009.

Born November 21, 1942, Mr van Lede, a Dutch national, was Chairman of the Management Board of Akzo Nobel between 1994 and 2003 and Chairman of the Dutch Federation of Industries between 1984 and 1991.

* *Listed company.*

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Directors representing the French State

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

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

Jean-Dominique Comolli

Commissioner for State Holdings

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

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

Other directorships and offices representing the French State

French companies and public institutions

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

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

French companies and public institutions

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

Non-French companies

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

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

Claude Gressier

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

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

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

Other directorships and offices representing the French State

Public institution

- Director of the SNCF.

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

Public institution

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

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

Philippe Josse

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

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

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

Other directorships and offices representing the French State

French companies and public institutions

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

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

* *Listed company.*

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

Directors representing the employee shareholders

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

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

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

Bernard Pédamon

Representative of the flight deck crew

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

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

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

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

Christian Magne

Representative of the ground staff and cabin crew

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

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

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

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

Directors whose mandates expired during the 2010-11 financial year

Bruno Bézard

Director of the Regional Economic Service in China

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

Expiration date of mandate: December 14, 2010.

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

French companies and public institutions

- Director of La Poste until October 2010;
- Director of the SNCF until September 2010;
- Director of EDF* until September 2010;
- Director of Areva until September 2010;
- Director of France Telecom* until September 2010;
- Director of the Fonds Stratégique d'Investissement until September 2010;
- Director of the Grand Port Maritime de Marseille until February 2010;
- Director of Thalès* until September 2009;
- Director of France Télévisions until April 2007.

Non-French company

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

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

Didier Le Chaton

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

Expiration date of mandate: July 8, 2010.

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

* *Listed company.*

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Floris Maljers

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

Expiration date of mandate: July 8, 2010.

Other directorships and offices

Non-French company

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

Other

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

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

Non-French companies

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

Other

- Director of Rand Europe until July 2007.

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

Pierre Richard

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

Expiration date of mandate: July 8, 2010.

Other directorships and offices

French companies

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

Non-French company

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

Other

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

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

French companies

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

Non-French companies

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

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

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

* *Listed company.*

Experience of members of the Board of Directors

Director	Age at March 31, 2011	Board of Directors experience: Date appointed to the Group	Date appointed to the Air France-KLM Board	Professional experience: Sector	Principal current position
Jean-Cyril Spinetta	67 years	September 23, 1997	September 15, 2004	Public Service, Air Transport (Air Inter and Air France)	Chairman of the Board of Directors of Air France-KLM and Air France
Pierre-Henri Gourgeon	64 years	January 20, 2005	January 20, 2005	Aeronautics and Air Transport	Chief Executive Officer of Air France-KLM and Air France
Leo van Wijk	64 years	June 24, 2004	September 15, 2004	Air Transport (KLM)	Vice-Chairman of the Air France-KLM Board of Directors
Maryse Aulagnon*	61 years	July 8, 2010	July 8, 2010	Industry (CGE) Property and Finance (Affine Group)	Chairman and CEO of Affine
Patricia Barbizet*	55 years	January 3, 2003	September 15, 2004	Industry (Renault, Pinault group)	CEO and director of Artémis
Frits Bolkestein*	77 years	November 22, 2005	November 22, 2005	Industry (Shell)/Public (Dutch Parliament and European Commission)	Member of the Supervisory Board of de Nederlandsche Bank
Jean-Dominique Comolli**	62 years	December 14, 2010	December 14, 2010	Industry (Seita, Altadis) Public Service	Commissioner for State Holdings
Jean-François Dehecq*	71 years	January 25, 1995	September 15, 2004	Industry (SNPA and Sanofi)	Honorary Chairman of Sanofi-Aventis
Jean-Marc Espalioux*	59 years	September 14, 2001	September 15, 2004	Services (CGE, Accor)	Chairman of Financière Agache Private Equity
Claude Gressier	67 years	June 24, 2004	September 15, 2004	Public Service	Honorary General Public Works Engineer Director of the SNCF
Peter Hartman	61 years	July 8, 2010	July 8, 2010	Air Transport (KLM)	President and Chief Executive Officer of KLM
Philippe Josse	50 years	May 16, 2006	May 16, 2006	Public Service	Director of Budget
Cornelis van Lede*	68 years	June 24, 2004	September 15, 2004	Industry (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	Chairman of the Heineken Supervisory Board
Christian Magne	58 years	September 14, 2001	September 15, 2004	Air Transport (Air France)	Finance Executive
Bernard Pédamon	49 years	July 8, 2010	July 8, 2010	Air Transport (Air France)	Boeing 777 Flight Captain

* *Directors considered to be independent.*

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

1.1.2 Missions of the Board of Directors

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

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

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

1.1.3 Organization of the Board of Directors

Separation of the functions of Chairman and Chief Executive Officer

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

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

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

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

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

Internal regulations of the Board of Directors

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

The internal regulations are regularly updated; they were, in particular, modified by the Board of Directors meeting of March 26, 2009 in order, notably, to specify the roles and powers of the Chairman and the Chief Executive Officer following the separation of the functions of Chairman and Chief Executive Officer, effective January 1, 2009. The Board of Directors also updated its internal regulations on July 8, 2010 to reflect the changes in the composition of the Appointments Committee.

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

Corporate governance principles and independence of the directors

The Board of Directors operates in accordance with the governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in 2010 and available on the MEDEF website (www.medef.fr, corporate governance section). However, given its ownership structure (notably the French State and employees) and the specific rules governing the appointment of a number of its Board directors, Air France-KLM does not comply in full with the AFEP-MEDEF Code guidelines with regard to the proportion of independent directors within the Board of Directors and the Audit Committee.

In effect, after having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, the Board of Directors meeting of March 23, 2011 adopted the following position:

- nine of the fifteen directors are either representatives of the French State, or representatives of the employee shareholders, or senior executives or former senior executives of Air France-KLM and KLM and, in this capacity, may not be considered to be independent;

- the six remaining directors (Ms Aulagnon, Ms Barbizet, Mr Bolkestein, Mr Dehecq, Mr Espalioux and Mr van Lede) can be considered independent in that:
  - none of these six directors appointed by the Shareholders' Meeting has a relationship with the company, the Group or its management that is such as to color his or her judgement (aside from the fact that the candidature of some of these individuals had been proposed to the Shareholders' Meeting either by KLM or by the Dutch government pursuant to the agreements signed in October 2003),
  - Mr Dehecq's term of office is considered to start from 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group;
- given the above, the following can be considered independent:
  - three of the six members of the Audit Committee, and
  - all the members of the Appointments Committee and two of the three members of the Remuneration Committee.

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

Compliance and ethics

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

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

Conflicts of interest

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. It should, however, be noted that the French State, which holds 15.7% of the Air France-KLM share capital as at March 31, 2011, also holds 52.4% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

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

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

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

1.1.4 Functioning of the Board of Directors

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

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

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

Board activity during the 2010-11 financial year

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

During these meetings the following matters were notably addressed:

- interim and annual financial statements;
- regular status reports on the Group's activity and financial situation;
- budget projections;
- consequences of the closure of the European air space following a volcanic eruption (April 2010) and exceptional snowfall (December 2010);
- fuel hedging strategy;
- consolidation in Europe;
- a status report on the debt;

- aviation safety and the conclusions of the Independent Safety Review Team;
- preventive measures implemented in terms of anti-competitive practices;
- trans-Atlantic joint-venture with Delta;
- review of the situation of Amadeus;
- compensation of the executive directors;
- evaluation of the functioning of the Board of Directors;
- qualification of independent Board directors;
- revised composition of the Board Committees.

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

Evaluation of the functioning of the Board of Directors

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

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

The interviews with the Board directors were handled under the seal of anonymity and were the subject of a presentation and discussion during the Board of Directors meeting of March 23, 2011.

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

Regulated agreements and commitments

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

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

1.1.5 The Board of Directors Committees

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

The Audit Committee

Composition

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

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

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

Missions

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

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

The Audit Committee is responsible for selecting the incumbent and deputy Statutory Auditors and submits the names of the proposed firms to the Board of Directors before their appointment by the General Shareholders' Meeting. It verifies the independence and the quality of their work, approves the fees of the Statutory Auditors and issues prior approval for some services provided by them.

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

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

- consolidation scope;
- relevance and consistency of the accounting methods used to draw up the financial statements;
- principal estimates made by management;
- principal financial risks and material off-balance-sheet commitments;

- comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits.

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

Activity

During the 2010-11 financial year, the Audit Committee met four times (four meetings in 2009-10) with an attendance rate for members of 79% (75% in 2009-10). The meetings lasted an average of two hours and thirty minutes.

The following matters were notably reviewed by the Audit Committee during the 2010-11 financial year.

Review of the financial statements

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

Internal control and internal audit

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

Risk assessment

The Audit Committee also reviewed the following matters:

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

The Remuneration Committee

Composition

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

Missions

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

Activity

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

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted by the Board, relating to the principles and the amounts of the fixed and variable compensation for the executive directors (see *Compensation of the Company Officers* section below).

The Appointments Committee

Composition

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

Missions

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

Activity

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

1.1.6 Compensation of the company officers

Compensation for directors

Board directors' fee modalities

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

- €20,000 as fixed compensation;

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

Committee members receive additional fees:

- for the Audit Committee, the Chairman and members receive, respectively, fees of €12,000 and €8,000;
- for the other Committees, the Chairman and members receive, respectively, €7,500 and €5,000.

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

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

The directors' fees and other compensation paid in respect of the 2010-11 and 2009-10 financial years were as follows. Note that, with the exception of Mr Hartman, no directors received any compensation other than directors' fees:

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

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

Compensation of the executive directors

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

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

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

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

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

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

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

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

Compensation in respect of the 2010-11 financial year

At the request of the Chairman, who wished to take into account the impact of the economic environment on the company's situation, the Board of Directors had decided, at its meeting on May 19, 2009, to reduce the annual fixed compensation of the Chairman of the Board of Directors from €500,000 to €200,000, effective April 1, 2009.

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

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

In respect of the 2010-11 financial year, Mr Spinetta's total compensation thus amounted to €200,000.

In April 2005, Mr Spinetta subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. **Given Mr Spinetta's participation in the *Air France-KLM shares-for-salary exchange offering* amounting to 65,240 shares, his fixed compensation was €50,240.**

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

	2010-11 financial year		2009-10 financial year	
(In €)	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	200,000	50,240	200,000	50,240
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**200,000**	**50,240**	**200,000**	**50,240**

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

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

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

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

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

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

(In €)	Fixed compensation(1)	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total(1)
Amounts paid during the 2010-11 financial year	50,240	0	0	0	0	50,240
(Reminder of 2009-10)	*(50,240)*	*(225,000)* in respect of 2008-09	*(0)*	*(29,091(3))* in respect of 2008-09	*(0)*	*(304,331)*

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

Compensation in respect of the 2011-12 financial year

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

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

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

Compensation of Mr Gourgeon in his capacity as Chief Executive Officer

Compensation in respect of the 2010-11 financial year

At its meeting of May 19, 2010, the Board of Directors decided to maintain the annual fixed compensation of the Chief Executive Officer at €750,000. The criteria for establishing his variable compensation remain those set by the Board of Directors at its meeting on November 19, 2008, i.e. a variable portion (whose payment is subject to the achievement of the attribution criteria outlined above) representing up to 100% of his fixed compensation (target amount) or up to 130% of this compensation (maximum amount).

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

This amount corresponds to:

- 50% of the fixed compensation in respect of absolute performance, the Board of Directors having noted that the adjusted operating result was well ahead of the budget;
- 25% of the fixed compensation in respect of qualitative performance, evaluated in the light of the quality and responsiveness of management both internally and vis-à-vis externally within a particularly difficult environment.

In respect of the 2009-10 financial year, the variable portion had been set at €150,000 in respect solely of the qualitative component, the criteria used to determine the quantitative portion not having been fulfilled in view of the results for the financial year.

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

In respect of the 2010-11 financial year, Mr Gourgeon's total compensation thus amounted to €1,312,500 (€750,000 for the fixed portion and €562,500 for the variable portion).

In April 2005, Mr Gourgeon subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. Given Mr Gourgeon's participation in the *Air France-KLM shares-for-salary exchange* offering amounting to 44,769 shares, his fixed compensation was reduced from €750,000 to €649,200. Consequently, **Mr Gourgeon received total compensation of €1,211,700 in respect of the 2010-11 financial year.**

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

	2010-11 financial year		2009-10 financial year	
(In €)	Before SSE*	After SSE*	Before SSE*	After SSE*
Compensation due in respect of the financial year	1,312,500	1,211,700	900,000	799,200
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**1,312,500**	**1,211,700**	**900,000**	**799,200**

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

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

	Fixed compensation						
(In €)	Before SSE*	After SSE*	Variable compensation	Exceptional compensation	Directors' fees(1)	Benefits in kind	Total
Amounts due in respect of the 2010-11 financial year	750,000	649,200	562,500	0	0	0	1,211,700 (2)
(Reminder of 2009-10)	*(750,000)*	*(649,200)*	*(150,000)*	*(0)*	*(0)*	*(0)*	*(799,200)(3)*

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

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

(2) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2010-11 financial year amounted to €1,312,500.

(3) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2009-10 financial year amounted to €900,000.

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

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

(In €)	Fixed compensation[1]	Variable compensation	Exceptional compensation	Directors' fees[2]	Benefits in kind	Total[1]
Amounts paid during the 2010-11 financial year	649,200	150,000 in respect of 2009-10	0	0	0	799,200
(Reminder of 2009-10)	*(649,200)*	*(220,000)* in respect of 2008-09	*(0)*	*(29,091)* in respect of 2008-09	*(0)*	*(898,291)*

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

Compensation in respect of the 2011-12 financial year

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

For the evaluation of the variable component for the 2011-12 financial year, the Board of Directors meeting of May 18, 2011 opted to introduce a new quantitative performance criterion relating to the change in the Group's net debt, in line with the orientations established by the Board of Directors, and notably the budget.

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

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

Other commitments made in respect of the executive directors

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

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

The General Shareholders' Meeting held on July 9, 2009 confirmed the benefit of this additional collective scheme to Mr Gourgeon in his new capacity as Chief Executive Officer as of January 1, 2009, under the same conditions as the other personnel concerned *(see Note 36.1 to the consolidated financial statements, page 214 post-employment benefits at March 31, 2011)*.

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, 2011

	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 33 eligible senior executives at March 31, 2011.*

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

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

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

		KLM(1)	
Date of authorization		May 17, 2005(2)	
Date of granting	July 26, 2005	July 26, 2006	July 27, 2007
Total number of options granted	390,609	411,105	428,850
Of which to Mr Hartman	*25,000*	*25,000*	*25,000*
Of which to Mr van Wijk	*25,000*	*25,000*	*25,000*
Available for exercise from	July 28, 2008	July 27, 2009	July 27, 2010
Expiration date	July 16, 2010	July 26, 2011	July 25, 2012
Exercise price per share	€13.11	€17.83	€34.21
Number of shares purchased at March 31, 2011	3,500	0	0
Of which purchased by Mr Hartman	*0*	*0*	*0*
Of which purchased by Mr van Wijk	*0*	*0*	*0*
Number of share options cancelled or lapsing on March 31, 2011	387,109	33,406	38,333
Outstanding stock options at March 31, 2011	0	377,699	390,517
Of which remaining to be exercised by Mr Hartman	*0*	*25,000*	*25,000*
Of which remaining to be exercised by Mr van Wijk	*0*	*25,000*	*25,000*

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

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

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

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

None.

During the 2008-09 financial year, KLM introduced Share Appreciation Rights or SARs, which are share-based plans paid for in cash. This scheme has replaced the option plans since 2008 although those granted until 2007 remain in force (no options having been exercised in 2010-11). 145,450 SARs, 136,569 SARs and 153,080 SARs were respectively granted by KLM on July 1, 2010, July 1, 2009 and July 1, 2008 (*see Note 28.4 to the consolidated financial statements, page 180*).

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

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

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

Individual concerned	Operation date	Nature of the operation	Unit price *(In €)*	Operation amount *(In €)*	Type of financial instrument	Market for the operation
Edouard Odier Executive Vice President, Information Systems, of Air France and the Air France-KLM group	October 5, 2010	Sale	10.99	8,879.92	Shares	Euronext Paris
Pierre-Henri Gourgeon, Chief Executive Officer of Air France-KLM	December 15, 2010	Sale	14.04	23,868.00	Shares	Euronext Paris

1.2 The Group Executive Committee

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

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

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

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

1.3 Stock market and shareholders

1.3.1 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. The stock is a component of the CAC Next20, Euronext 100 and DJ Eurostoxx 300 and is also included 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 – Information on trading in the stock, page 255*).

	Financial year 2010-11	Financial year 2009-10	Financial year 2008-09
Stock price high (In €)	15.300	13.080	21.150
Stock price low (In €)	8.610	6.485	6.215
Number of shares in circulation	300,219,278	300,219,278	300,219,278
Market capitalization at March 31 (In € billion)	3.5	3.5	2.0

Dividend policy

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

Financial year ended	Earnings per share *(in €)*	Dividend paid *(in €)*
2007-08	2.63	0.58
2008-09	(2.76)	-
2009-10	(5.30)	-

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

In view of the difficult environment in the past two financial years, the Board of Directors decided not to propose the payment of a dividend in respect of the 2008-09 and 2009-10 financial years. In respect of the 2010-11 financial year, the Board of Directors chose not to propose the payment of a dividend, preferring to prioritize the continued reduction in debt.

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 both 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 remains in regular contact with financial analysts and institutional investors through road-shows and transport conferences 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 Action'air 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 and English with an interactive version available on the website or on request.

The Group regularly participates, in partnership with the business press, in information meetings exclusively for 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. During the last twelve months, the Group thus met with its shareholders based in Biarritz, Clermont-Ferrand, La Rochelle, Metz and Reims. 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 communication aimed at individual shareholders.

A new dedicated website

A new version of the Group's www.airfranceklm-finance.com website will be available online as of July 2011.

For this new website, giving access to all the information issued by the Group, accessibility and readability has been prioritized, with documents such as the Registration Document, the Annual Report and the Shareholder's Guide all available in interactive versions, enabling a targeted search for information. This new site benefits from the latest web technologies, making it compatible with most mobile solutions. Internauts will find its ergonomics both innovative and practical with improved navigation using an all-image-based graphics language in each section. Internauts can continue to visit an *Island in the Sky* in the Second Life universe (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 latest documents and press releases, the Air France-KLM stock price in 3D, a sustainable development space, a virtual auditorium, corporate films and the Air France Museum

Awards for financial communication

In 2010, the Group won third prize for innovation in investor relations, awarded by the SFAF, Opinion Way, IR Intelligence and the Forum des Relations Investisseurs. In 2009, the Group won an award for its communication on sustainable development.

Activity

2

2.1 Highlights of the 2010-11 financial year

April 2010

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

May 2010

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

June 2010

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

July 2010

- Italian company Alitalia joins Air France-KLM and Delta in the joint-venture on the North Atlantic, with membership backdated to April 1.

September 2010

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

November 2010

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

December 2010

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

February 2011

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

March 2011

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

April 2011

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

2.2 Market and environment

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

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

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

2.2.1 The economic environment

A return to growth in 2010

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

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

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

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

A number of unknowns for 2011

The geopolitical context

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

Oil

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

2.2.2 The competitive environment

The industry brings capacity back on stream

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

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

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

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

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

Trend in customer behavior: increased sensitivity to the price element

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

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

Evolving operational models in medium haul

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

The consolidation continues

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

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

Consolidation is also taking the form of new partnerships within the three major alliances. Seven new members based in Asia, Latin America and the Middle East either have joined or will join the SkyTeam alliance between 2010 and 2012 *(See also Activity section on page 43)*. TAM and Aegean Airlines joined the Star Alliance in 2010. They are likely to be followed by Air India, Ethiopian, a merged Avianca-TACA as well as by Copa Airlines in 2011. In 2010 S7 Airlines became a member of the Oneworld alliance, and Kingfisher Airlines and Air Berlin should join them respectively in 2011 and 2012.

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

Conclusion

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

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

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

2.3 Strategy

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

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

2.3.1 Fundamental strengths

A powerful, balanced network

The Air France-KLM group currently operates the largest network between Europe and the rest of the world. Of the 180 long-haul destinations served directly by AEA (Association of European Airlines) member airlines in the Summer 2010 season, Air France-KLM accounted for 112, or 62% of the total, compared with 50% for IAG (British Airways + Iberia) and 52% for the Lufthansa group (Lufthansa + Swiss + Austrian Airlines + BMI + Brussels Airlines). Furthermore, the Group also offers 30 destinations which are served by neither IAG nor the Lufthansa group.

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

Two coordinated hubs at developing airports

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

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

This unique combination of hubs was even more important during this period of crisis at a time when the smallest airlines were cancelling direct flights, requiring their passengers to these destinations to use a transfer platform. The 2009-10 financial year is a good example of this strength at work with connecting traffic remaining virtually stable (-0.3%) at Roissy-CDG while point-to-point traffic declined by 2.3%.

A balanced customer base

The Air France-KLM group's policy of meeting the expectations of all its customers in terms of networks, products and fares has enabled it to build a balanced customer base. In 2010, 42% of passengers travelled for business purposes and 58% for personal reasons. The Group also benefits from a balanced breakdown between transfer (56%) and point-to-point passengers (44%). Furthermore, in 2010, 66% of revenues (53% in 2009) were generated by the Group's passenger loyalty strategy (frequent flyer program and corporate contracts).

A global alliance that strengthens the network

At March 31, 2011, the SkyTeam alliance, the number two global alliance in terms of market share with 17%, brought together thirteen European, American and Asian companies. SkyTeam enables the Group to respond to market needs and withstand competition in both passenger and cargo transportation. The alliance comprises Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Southern, Czech Airlines, Delta, Kenya Airways, Korean Airways, Tarom and Vietnam Airlines. Lastly, China Airlines, China Eastern, Aerolineas Argentinas, Garuda Indonesia, MEA (Lebanon) and Saudi Arabian Airlines have joined or are going to join the alliance in 2011 and 2012. *(See also Section 2 – Passenger business, page 43)*.

Strategic partnerships

Since April 2009, Air France-KLM and Delta have been working together within the framework of a joint-venture agreement on the North Atlantic. The scope of this agreement is very extensive covering all the flights between North America, Mexico and Europe through integrated cooperation and flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf countries and India together with flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination. This type of contract enables the sharing of revenues and costs *(See also Section 2 – Passenger business, pages 40 and 44)*.

Air France-KLM chose to step up its cooperation with Alitalia through an operational partnership agreement, cemented with a 25% equity stake in the Italian company. This operation, which took place in January 2009, has significant advantages for the two groups *(See also Section 2 – Passenger business, page 44).*

A modern fleet

The Group makes an ongoing investment in new aircraft and currently operates one of the most efficient and modern fleets in the sector. Such investment has a triple advantage in that it enables the Group to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local residents and greenhouse gas emissions *(See also Section 2 – Activity – Fleet, page 59).*

2.3.2 Air-France-KLM's strategy

The Group's strategy is to place the customer at the heart of its actions and this customer-centric focus is enshrined in the *Embark* corporate project. Taking into account the new requirements, analyzing the behavior of new customers and differentiating and personalizing the products and services are all key to securing the loyalty of customers who are better informed and increasingly autonomous. The Group is mobilized around multiple projects ranging from technological innovation, to improving products, harmonizing the partnership offers and using electronic distribution as a partial alternative to traditional distribution methods *(See also Section 2 – Passenger business, page 42)*.

Accelerating our development

Passenger business

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

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

Cargo business

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

Maintenance business

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

Regaining a value-creating level of profitability

The group has the following medium-term objectives :

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

Growth in capacity and revenues

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

Reducing unit costs

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

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

Reinforcing the financial structure

Since the beginning of the crisis, the Air France-KLM group has adapted its investment plans in line with two objectives: limit the introduction of new capacity within a context of a reduction or low growth in the offering and preserve the Group's cash. Supported by a young and fuel-efficient fleet and despite a context of recovery, the Group has decided to continue to curtail its investment in order to generate cash flow to pay down debt and reduce the gearing ratio to 0.5 *(See also Section 5 – Investments and financing, page 124)*.

Being the reference in sustainable development

Renewing the social pact

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

A model of excellence in corporate social responsibilty

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

2.4 Passenger business

Passenger transportation is the Air France-KLM group's main activity, representing some 77% of 2010-11 revenues.

During the 2010-11 financial year, this business saw a significant recovery driven by an improvement in the economic environment combined with major efforts in terms of cost-savings and strategic adaptation. The operating result thus improved by some €900 million relative to 2009-10 despite a succession of exceptional external events (shut-down of the European airspace following the eruption of the Icelandic volcano, exceptional snowfall, geopolitical crises in Africa and the Middle East, the earthquake in Japan) and the sharp rise in the fuel bill.

Pursuing strategic initiatives

While the economic crisis affected all the networks, long-haul required only a limited adaptation in the Group's business model whereas, in medium-haul, it highlighted the need for structural changes which were implemented within the framework of a two-year project to redefine the product launched in April 2010. This adaptation strategy involved investment of €100 million amortized over ten years and should generate €250 million of additional revenues with €410 million of cost savings over a full year, i.e. in 2011-12. For 2010-11, the target called for additional revenues of between €130 million and €170 million, and cost savings of €200 million to €250 million. Restated for the exceptional events which disrupted operations during the financial year, these objectives were achieved.

Long-haul

The current economic recovery underpins expectations of significant growth in transport demand. The Group plans to take advantage of this by implementing productive and targeted growth in capacity.

Productive growth

Since it benefits from two of the largest hubs globally, the Group can operate larger aircraft like Airbus A380s and Boeing B777-300s, meaning it can take advantage of economies of scale. The Group thus took delivery of its first five Airbus A380s between November 2009 and May 2011 and awaits the delivery of one more aircraft by the summer of 2011. In Amsterdam, KLM took delivery of its fifth Boeing B777-300 in February 2011 and plans to convert two Boeing B747 combis into the all-passenger configuration.

The large size of the fleet also enables the multiplication of sub-fleets in order to cover the different typologies of network routes. For example, in the Summer 2011 season, Air France is operating 61 Boeing B777s in five versions. Most of the fleet continues to comprise two mostly *Business* versions with first class cabins. Nine B777-300ERs are assigned to the predominantly leisure routes with a very dense 472-seat configuration. Two new intermediary versions without First class and with fewer Business class seats will be introduced as of the Summer 2011 season in four B777-300ERs with a capacity of 383 passengers and 14 B777-200ERs reconfigured to offer 309 seats.

The arrival of these new versions of the B777-200ER opens up new growth prospects on predominantly leisure destinations, with a cabin configuration adapted to these markets. In Summer 2011, these aircraft will be progressively deployed on the Guangzhou, Bangkok, Phnom Penh, Osaka, Santiago de Chile and Lima services.

The use of larger aircraft combined with the introduction of the new Boeing B777 configurations represents 2.5% of the 6.5% growth planned by the Group this summer in the long-haul network.

Reinforcing the leadership of the network

The Group plans to maintain its leadership position for the long-haul network out of Europe, whether in terms of the number of destinations served or its share of capacity. The Group thus accounts for 60% of the destinations between Europe and the rest of the world, far ahead of its direct competitors and has a market share of 13.2% relative to 10.6% and 10.1% for Lufthansa and IAG *(Source: OAG)*.

The recovery in the Group's growth opens up new development prospects for the network. In addition to more traditional forms of growth like the bringing into service of larger aircraft and increasing the number of frequencies to ensure a daily service to more destinations, the emphasis is on extending the network with the opening of new destinations and the multiplication of destinations served out of the Group's two hubs. Relative to the Summer 2010 season, the Group thus expects to operate no fewer than seven additional long-haul destinations. In Africa, the Group is adding three destinations, Kigali (Rwanda), Freetown (Sierra Leone) and Monrovia (Liberia), thereby reinforcing a unique network on this continent in which the Group and its partners link no fewer than 43 destinations. In Asia, the Group is increasing its operations in China by adding an eighth destination, Xiamen, and now operates flights to Phnom Penh in Cambodia thanks to a new version of the Boeing B777-200ER, well adapted to this market. Lastly, the trans-Atlantic joint-venture (see below) is facilitating the opening of two new destinations, Orlando and Cancun.

The multiplication of the destinations served out of the two hubs is particularly visible in Latin America and the Caribbean. Rather than add a second daily frequency out of Paris to Buenos Aires, and out of Amsterdam to Lima, the Group has chosen to offer these destinations on departure from both hubs, reinforcing the attractiveness of the offer to and from all of the Group's markets.

Rapid growth for SkyTeam, particularly in Asia

Partnerships and joint-venture agreements help to feed flights and reinforce the Group's competitiveness on the routes covered by these agreements. The functioning of the alliance and partnerships is outlined on page 43.

SkyTeam's rapid development is a major asset for the Group. No fewer than seven new airlines are set to join the existing 13 alliance members by 2012, all operating in markets with strong growth: China Eastern, Shanghai Airlines, China Airlines, Aerolineas Argentinas, Garuda Indonesia, Middle East Airlines and Saudi Arabian Airlines.

The alliance's positioning in China is exceptional since it includes four airlines, China Southern, China Eastern, Shanghai Airlines, and China Airlines, with 40% of the Chinese domestic market and strong positions not just in major cities but those that are experiencing rapid growth.

By establishing joint-venture agreements with Chinese partners, the Group is building a major advantage when it comes to benefiting from the exceptional growth forecast for the market between Europe and China. With China Southern, a joint-venture is already in place on the routes between Guangzhou and Paris and Amsterdam. Negotiations are currently underway with China Eastern aimed at establishing a joint-venture once the airline becomes a SkyTeam member in June 2011.

Furthermore, the development of cooperation within SkyTeam is key to competing with the Gulf carriers (Emirates, Etihad and Qatar Airways) as such cooperation effectively supports the Group's efforts to differentiate itself relative to these carriers by enabling it to offer additional non-stop flights to more cities, give access to connecting flights bound for multiple secondary destinations and ensure the optimal distribution of its products to local customers. This is why Air France-KLM is actively seeking a partnership in India, a market in which the Gulf State carriers are particularly well established.

Increasing integration within the trans-Atlantic joint-venture

The leading strategic market remains the North Atlantic, representing more than a quarter of global *premium* revenues for IATA member airlines. Thanks to its joint-venture with Delta, the Air France-KLM group has a major strategic position on these routes. Benefiting from more than a decade of experience acquired within the framework of the agreement between KLM and Northwest, the joint-venture was created in April 2009 and extended to Alitalia in April 2010. The joint-venture is outlined in more detail on page 44.

The highly integrated organization, based on the principle of sharing revenues and costs, extends the areas of cooperation to all aspects of the offer. Not only are the revenue management, pricing and sales forces merged and the network developed jointly, but the partners are also working on an alignment of their respective products, with Delta recently deciding to adopt KLM's *Economy Comfort* product.

The difficulty of ensuring the profitable operation of the capacity brought on line by the joint-venture in the Winter 2010 season strengthened the partners' commitment to the appropriate management of capacity in the most seasonal markets. As of May 2011, the joint-venture therefore decided to schedule a coordinated reduction in capacity in the Winter 2011 season with the partners planning to collectively curtail their capacity by 7% to 9% on the Europe-United States/Canada routes.

Ongoing improvement in the product offering

The 2010-11 financial year saw the completion of the roll-out of the new *Premium Voyageur* class at Air France, launched in October 2009. In December 2009, KLM had completed the deployment across all its fleet of a comparable product, *Economy Comfort*, sold as an option. These products aim to meet the needs of business customers who usually fly economy or switched to economy due to the recession, and the needs of leisure customers looking for additional comfort at a fare lower than in Business class.

Customer feedback on these products has been very encouraging with 71% of *Premium Voyageur* passengers at Air France saying they will definitely choose this class again for their next trip. During this first year of deployment, the load factor was slightly ahead of objectives whereas the average fares were slightly below target. KLM saw more-rapid-than-expected revenue growth. These two products should generate more than €450 million of revenues during the 2011 calendar year.

The Group continues to invest in the product offer on board long-haul aircraft. A new *Business* class seat was thus introduced at Air France in 2010 and was very well received by customers. Ninety per cent of customers rated it *good* or *very good* in terms of comfort in the sleeping position and 64% considered it to be better than the competition. This new seat should be fitted on 60% of the fleet by the summer of 2012 for an investment of €110 million over three years.

Reinforcing the flexibility and balance of the network

In 2010-11, a series of exceptional events and the rise in the fuel bill led the Group to further develop the flexibility and balance of its network. The extensive diversification of the network is effectively a major strength since it acts as a natural hedge when it comes to unforeseen events, whether these be geopolitical crises or natural catastrophes. While, in 2010-11, the Group was more exposed than other carriers to the crises affecting Africa, the Middle East (Ivory Coast, Sahel, Tunisia, Egypt, Libya, etc.) and Japan, this combination of events was exceptional. As in any crisis, the Group was able to reallocate its capacity to destinations that were more dynamic due either to the transfer of customers or demand proving stronger than originally anticipated.

Flexibility is also a response when faced with the rise in the oil price. While the immediate response remains the implementation of fuel surcharges, the Group closely monitors the reaction of customers to these price rises and is ready to reduce its capacity growth if demand appears to be affected by these increases.

The transformation of medium haul

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

A robust transformation project

Faced with the crisis which particularly affected the medium-haul network, in 2009-10 the Group decided to respond by launching a transformation project dubbed the NEO, or New European Offer. This project was based on three key pillars: an in-depth transformation of the commercial offering to produce a simpler product that is better adapted to customer needs while preserving a high level of unit revenues, a re-engineering of internal processes made possible by this new commercial offer to reduce costs and, lastly, a reorganization of the flight schedule.

One year after its launch, the new commercial offering is clearly in tune with customer requirements. Business customer perception of *Premium Eco,* the product aimed particularly at this segment, is very positive especially in terms of value for money. After a period of adaptation, the value for money perceived by customers in *Premium Affaires* and *Voyageur,* which have been the focus of the greatest cost-saving efforts, has returned to its level of last year. This satisfaction was especially reflected in traffic and revenues with more than a 60% rise in *Premium Eco* traffic. The main aim, which was to encourage the best customers to return to these flights, has thus been achieved.

The project targeted a €500 million improvement in the operating result for 2011-12, of which €350 million in 2010-11, but ended up exceeding this 2010-11 target after restatement for the exceptional events of April (shut-down of the European airspace due to the eruption of an Icelandic volcano) and December (significant disruption to operations due to heavy snowfall).

In 2011, the transformation project will be pursued in order to reach the initial €500 million objective. After having restructured its medium-haul network in 2010 within the framework of the transformation project, in April 2011 KLM launched the redefinition of its commercial offer for Business customers. Business Class was thus reviewed to respond, as at Air France, to the customers' need for flexibility and additional comfort. The main characteristics of this new product are flexible tickets, increased personal space by, notably, leaving the middle seat empty, improved catering and the upgrading of the ground service with dedicated check-in counters, priority during security and boarding, access to airport lounges, etc.

Provincial bases: a new model

To return to profitable growth on the point-to-point medium-haul segment, particularly in its domestic market, Air France is currently working on a *provincial base* project reflected in a new production model, aimed at regaining market share on departure from cities in the French regions.

The aim of this new business model is to increase the use of aircraft to around 12 hours a day, thanks to a reduced turn-around time and an optimized flight schedule from each base.

The increase in aircraft productivity should be accompanied by an increase in the productivity of flight crews and ground staff and the amortization of fixed costs over a broader activity base. The current simulations point to a 30% reduction in manageable costs, which in turn represent around 60% of operating expenses. The reduction in unit costs would thus be some 15% and, in addition to significantly improving the profitability of the existing lines, the project would significantly increase the offer on departure from the relevant bases.

While not yet concluded, the negotiations with the unions are well underway. The launch of the first base is planned for Marseilles in October 2011 and the envisaged three additional bases (Toulouse, Nice and Bordeaux) could be brought on stream during the spring of 2012. Since the negotiations have yet to be finalized and the exact scope of the activity concerned remains to be determined, the Group is currently not in a position to set precise quantitative objectives on this project.

Customers at the heart of the *Embark* corporate project

By placing the customer at the heart of the enterprise project, the Group is engineering a real cultural change involving all employees. Making the company more customer-centric not only consists of investing in in-flight services but also of developing a customer service culture.

Being the number one in service recovery

Service recovery is emblematic of this change. The experience of the Icelandic volcano in April 2010 particularly highlighted the fact that the ability to handle unforeseen events is a key service when it comes to differentiating the Group from its competitors.

This response to unforeseen events becomes more robust when the Group can contact clients directly on their mobile phones and if customers have the opportunity to manage their reservations directly on their mobile phones. This is why the Group is investing in information technologies (the Air France and KLM Connect system) and mobile telephone applications.

With Air France-KLM Connect, Air France and KLM are the first airlines to offer their customers a pro-active information service on such a large scale across their networks. Thanks to the mobile number and email address supplied by customers when purchasing their travel, Air France and KLM will be able to inform them, up to 14 days prior to departure of any cancellation, delay or change of boarding gate and, on arrival, of any delay in baggage delivery. This new tool was launched on February 1, 2011.

The leader in mobile telephone applications

Technological innovation has already markedly transformed the air travel experience. In March 2011, more than two-thirds of Air France-KLM customers checked in using the internet (36%), self-service check-in kiosks (30%) or mobile telephones (1%). Taking advantage of the growing intelligence of mobile telephones is the next logical step in this strategy.

The new mobile websites launched in September 2010 enable the Group to offer its customers more autonomy in the planning and realization of their travel as well as more reliable and virtually real time information, particularly in the event of unforeseen circumstances. The websites enable trips to be managed from A to Z using a smart phone, from purchasing a ticket or subscribing to an additional option, checking in, choosing a seat, receiving a boarding card, managing reservations, obtaining real-time information on flight schedules and the answers to any questions, and checking *Flying Blue* accounts, etc.

Air France-KLM is notably the first Group to offer reservation changes via mobile internet: switching to an earlier or later flight, cancelling a check-in, checking-in again and thus changing a reservation. This reservation change is either free or subject to a charge, based on the conditions of the fare initially paid. The mobile website even enables customers to be refunded based on the fare conditions.

Air France-KLM aims to become the benchmark in this market and to gradually extend the operating scope of its mobile websites and applications to offer its customers a relevant service throughout their trips.

Being attentive to and present on social media

The customer service culture also involves the Group being present on social media. This shows that it can adapt to communication tools tailored to customer expectations and benefit from such innovation to provide them with an improved level of service. The investment in this segment is reflected in the fact that Air France is currently the European airline with the most fans (more than 340,000) on Facebook.

Flying Blue, a highly attractive frequent flyer program

This loyalty program, resulting in 2005 from the merger of the Air France and KLM frequent flyer programs, now has 19 million members (+ 72% since its launch) of whom 48% are French and Dutch, 30% are other European nationals and 22% come from the rest of the world. Some 10% of members fly with both airlines.

New members continue to see strong growth (115,000 every month), of whom 75% sign up on line. Their breakdown which is a little higher in Europe (30%) and the rest of the world (40%) than in France and the Netherlands (30%) shows the strength of the combination between the two airlines. The importance of the frequent flyer program is also reflected in the fact that nearly 43% of the Group's passenger revenues are generated with *Flying Blue* members.

The success of *Flying Blue* depends on the strength of the Air France-KLM network, the tangible advantages offered by the program and its ease of use since most of the operations are carried out over the internet. A survey carried out during November 2010 with 4,100 *Flying Blue* members confirmed their satisfaction: 75% welcome the program and 90% would recommend it to friends and family.

Fundamental strengths

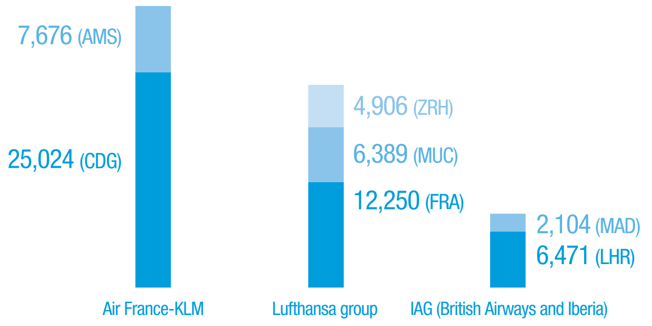
In addition to the strategic measures implemented in response to the economic crisis and changes in customer behavior, the Group's strategy remains based on fundamental strengths which continue to demonstrate their key role in the Group's development.

The hubs

The dual hub system retains its central function within the passenger activity. The powerful and coordinated hubs of Paris-CDG and Amsterdam-Schiphol, inter-linked by 11 daily flights, offer just under 33,000 weekly connecting opportunities between European medium-haul and international long-haul flights in under two hours. This is 40% more than the Lufthansa group at its three main platforms (Frankfurt, Munich and Zurich) and five times more than British Airways at Heathrow. The combination of the two hubs of CDG and Schiphol, which is unique in Europe, enables the Air France-KLM group to offer a large number of frequencies by destination and an extensive range of flight times. A passenger can thus choose between eleven daily flights to New York, four flights for Shanghai, three flights for Sao Paulo and four to Montreal. The large size of the Group's hubs enables the operation of bigger aircraft such as the B777-300ER and A380, which are synonymous with the kind of economies of scale that cannot be tapped by airlines operating out of smaller hubs.

Furthermore, because the intercontinental hubs of Roissy and Schiphol function by pooling light traffic flows coming from and bound for all world regions, they limit the consequences of traffic declines linked to any external events (political instability, earthquake in Japan, etc.).

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 (whose principal member in Europe is Air France-KLM), Star Alliance (around Lufthansa) and oneworld (around British Airways and Iberia), represent more than 65% of world-wide traffic. Of the 50 largest airlines, only the low cost carriers, the Gulf State airlines and a few niche carriers 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 thus switched alliance whereas 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 that now comprises thirteen members: Aéroflot, Aeromexico, Air Europa, Air France, Alitalia, China Southern, Czech Airlines, Delta, Kenya Airways, KLM, Korean Air, TAROM and Vietnam Airlines. While retaining their separate identities and brands, the airlines work together on offering their customers an extended network and global services.

No fewer than seven new members are expected to join the alliance by the end of 2012: China Eastern and its subsidiary Shanghai Airlines (Shanghai), Garuda Indonesia, Aerolineas Argentinas, China Airlines (Taiwan), MEA Middle East Airlines (Lebanon) and Saudi Arabian Airlines.

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, technologies 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 13,000 daily flights to 898 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 costs 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 384 million annual passengers a seamless travel experience on flights with one or several airline members.

The alliance has developed specific products such as the 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 thus gained 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. 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 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 two years of cooperation, Air-France-KLM confirms this objective.

The trans-Atlantic joint-venture with Delta

The joint-venture was launched on April 1, 2009 and extended to Alitalia in July 2010 with effect from April 1, 2010. It does not reflect the creation of a shared company but the signature of a contract for an initial duration of ten years, creating the equivalent of a virtual company. The agreement requires the sharing of costs and revenues and thus the implementation of a comprehensive series of actions contributing to an improvement in the operating result of the activity. The governance bodies comprise an Executive Committee, a Management Committee and working groups.

The scope of the joint-venture is very wide, covering all the 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.

With revenues of €8.5 billion in 2010-11 and a market share of 27%, the joint-venture is the number one operator on the North Atlantic, the largest air transport market globally. More than 260 daily flights link the seven principal hubs: Paris, Amsterdam, Rome, Atlanta, Detroit, Minneapolis and New York. Furthermore, since October 2009, responsibility for pricing and revenue management has been centralized by a 60-strong team based in Amsterdam. More recently, the coordination of the network has been reflected in the strengthening in the hub to hub services, the optimization of the aircraft types deployed on each route and an increase in the number of destinations served by non-stop flights on both sides of the Atlantic with, notably, 27 destinations served in North America and 33 in Europe. The sales forces have been combined in each region.

At the time the joint-venture was launched, the Air France-KLM group expected a €150 million improvement in the operating result of this network over three years. Although this performance was disrupted, during the 2010-11 financial year, by external events and the situation of overcapacity during the Winter season, the Group maintains this target.

Activity during the financial year

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

First half (April-September 2010)

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

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

Second half (October 2010-March 2011)

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

2010-11 financial year

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

Key figures by network

	Destinations *(Summer season)*		Capacity in ASK *(In million)*		Traffic in RPK *(In million)*		Load factor *(In %)*		No. of passengers *(In thousands)*		Scheduled passenger revenues *(In € million)*	
At March 31	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	124	123	52,968	55,217	38,505	38,635	72.7	70.0	48,213	48,492	6,045	5,921
North America	24	23	51,542	51,495	44,196	44,440	85.7	86.3	6,501	6,835	2,925	2,407
Latin America	11	11	26,600	26,805	23,014	22,914	86.5	85.5	2,457	2,181	1,475	1,223
Asia-Pacific	25	22	55,867	54,185	48,012	46,165	85.9	85.2	5,586	5,397	3,070	2,393
Africa-Middle East	54	50	36,884	36,796	29,030	28,923	78.7	78.6	5,491	5,484	2,541	2,372
Caribbean-Indian Ocean	16	15	26,972	26,514	21,978	21,378	81.5	80.6	3,072	3,005	1,234	1,173
Total	**254**	**244**	**250,836**	**251,012**	**204,737**	**202,455**	**81.6**	**80.7**	**71,320**	**71,394**	**17,290**	**15,489**

The long-haul network

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

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

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

The North and Latin American market remained the Group's first network in terms of both traffic (33%) and capacity (31%), carrying 8.9 million passengers (-0.7%) to 34 destinations in 10 countries. Traffic and capacity were stable (-0.2% for both), as was the load factor at 86.0%. Revenues amounted to €4.4 billion, up by 21.2% after a positive currency impact of 4.6%. This network accounted for 25% of scheduled passenger revenues (+2 points). On this market the Group benefits from the joint-venture agreement with Delta which enables the coordination of capacity and revenue management on the North American network as well as on flights to and from a number of countries in northern Latin America.

The Group served 22 destinations in 11 countries in the Asia-Pacific region. This second-largest long-haul network represented 23% of traffic and 22% of capacity, as in the previous year. This long-haul network regained its dynamism with traffic up by 4% for a 3.1% increase in capacity, the already-very-high load factor of 85.9% rising by 0.7 of a percentage point. 5.6 million passengers (+3.5%) traveled on this network, generating revenues of €3.07 billion (+28.3% after a 5.8% positive currency impact) representing some 18% of total scheduled passenger revenues, 2.6 points higher than in the previous financial year.

With 50 destinations in 40 countries, Africa-Middle East remains the Group's third long-haul network. The share of this network was unchanged on the 2009-10 financial year (around 14% of capacity and traffic). It proved very resilient despite the crises with traffic increasing by 0.4% for stable capacity (+0.2%). The load factor stood at 78.7% (+0.1 of a point). The Group carried 5.5 million passengers (+0.1%) and generated revenues of €2.54 billion, a 7.1% increase after a 3.6% positive currency impact. The contribution of this network to total scheduled passenger revenues remained unchanged at around 15%.

The Caribbean and Indian Ocean network offers 15 destinations in five countries. With around 11% of traffic and capacity, this network is the Group's fourth long-haul network. Unlike the previous year, activity on this network was buoyant with traffic up by 2.8%. With capacity having been increased by only 1.7%, the load factor gained 0.9 of a point to 81.5%. The number of passengers rose by 2.2% to 3.1 million. Revenues reached €1.23 billion, up by 5.2% after a positive currency impact of 0.9%. This network's share of total scheduled passenger revenues remained stable at around 7%.

The medium-haul network

The medium-haul network is the Group's third network with 19% of traffic and 22% of capacity, as in 2009-10. It covers France, the other European countries and North Africa and offers 123 destinations in 36 countries (Summer 2010 season). This network mainly links Europe with the rest of the world thanks to the Group's two hubs. The French domestic market is mostly served out of Orly, with the *La Navette* shuttle service which links Paris to the main French regional capitals. The Group's regional subsidiaries, Brit Air, Régional, CityJet, VLM and KLM Cityhopper, participate in the medium-haul business either by linking secondary French and European cities or by offering intra-domestic routes.

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

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

Key figures for the passenger business

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

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

2.5 Cargo business

The cargo business is the second of the Group's activities, representing some 13% of total revenues and regrouping the Air France-KLM Cargo and Martinair Cargo activities. Since April 2009, Air France-KLM has gradually taken responsibility for marketing the bellies of Alitalia aircraft. The joint-venture agreement between Air France, KLM and Delta also includes transporting air freight in the bellies of passenger aircraft.

A remarkable market recovery within a volatile environment

After the sharpest decline in demand in aviation history during 2009 (-10% in traffic measured in revenue ton-kilometers or RTK), the pick-up in world trade during 2010 underpinned a recovery in the air freight sector, reflected in a 20.6% increase in traffic *(Source: IATA)*.

Whereas the industry recently announced that the equivalent of two to three years of growth had been wiped out, air freight recovered its pre-crisis levels as of the second quarter of 2010, driven by Asia and the emerging countries. The growth in traffic for the European airlines remains, however, below the level seen prior to the crisis and well short of that of the Asian carriers *(Source AEA)*.

Demand in the cargo sector varied significantly over the course of the year, with a peak of +35.3% in May 2010 relative to May 2009 corresponding to the high point of the inventory re-build, a trough of +6.9% in November 2010 and +2.3% in February 2011 versus February 2010. Growth slowed as of the 2010 third quarter once stocks had been re-constituted but also due to a series of exceptional events arising over the course of the year.

The crisis linked to the eruption of the Icelandic volcano in April 2010 weighed on the recovery, affecting carriers in all regions. This was reflected in a three percentage point fall in traffic during April (+26.6% versus +29.5% in March 2010). The bad weather conditions in Europe and North America in December which led to the closure of a number of snow-bound airports also had a significant impact on the air freight industry. Europe was the most seriously affected, with growth falling to 2.9% in December from 6.6% in November. The political crises in the Middle East and North Africa led to a fall in demand: in February 2011, demand was below its pre-crisis level (-0.8% in February 2011 versus February 2008), something that hadn't been seen since the recovery. Lastly, demand was also weakened by the consequences of the tragic earthquake which rocked Japan in March 2011.

Regional variations in traffic remained marked during 2010. The Latin American carriers recorded the strongest growth for the year as a whole (+29.1%) but represented only 3% of the market. The Middle Eastern airlines with a market share of 11% saw traffic growth of 26.7% while the Asia-Pacific carriers, whose market share was 45%, posted growth of 24.0%. African airlines enjoyed robust traffic growth of 23.8% but with a market share limited to 1.0%. The North American carriers recorded a traffic increase of 21.8% with a market share of 16.0% while their European counterparts, with 24.0% market share, saw growth limited to 10.8%, reflecting the sluggishness of the European economy together with the impact of the volcano in April and the closure of airports in December *(Source: IATA)*.

Renewed growth in capacity: during the crisis, the airlines had reduced their capacity, notably by withdrawing all-cargo aircraft from operation, leading to a reduction of some 200 aircraft in the global fleet at the height of the recession. In 2010, with the economic recovery, the all-cargo aircraft grounded during the crisis were brought back into service and new all-cargo aircraft were delivered (22 Boeing B777Fs and 5 Airbus A330Fs). The belly offering continued to grow strongly with the expansion of the passenger fleet, notably with the introduction of 52 Boeing B777-30ER and 87 Airbus A330-300 aircraft with substantial hold capacity.

The Middle East (+15.7% versus 2009) with Emirates and Asia-Pacific (+14.3% versus 2009) with Cathay and Korean made a significant contribution to capacity growth, unlike Europe where capacity was virtually stable (+0.6% versus 2009).

In 2010-11, the growth in cargo demand did, however, exceed that of capacity, enabling the load factor to increase by 2.2 percentage points to an average of 53.2% for the year.

After recording a historic collapse in revenues in 2009, returning to the 2005 level, the priority for the cargo industry in 2010 was a recovery in revenues. IATA estimates the **improvement in revenues** at +30% in 2010 relative to 2009, virtually returning to pre-crisis levels, with the improvement particularly marked in the first half.

Air France-KLM Cargo: an effective restructuring

Air France-KLM Cargo confirms its leadership position

Air France-KLM Cargo confirmed its position as the European and world-wide leader, excluding integrators. Its market share (including Martinair) amounted to 31.1% in 2010 (32.7% in 2009) amongst the AEA (Association of European Airlines) airlines and 7.0% at global level (8.4% in 2009). These declines in market share reflect the Group's priority on improving unit revenue and refocusing on the fastest-growing markets.

During the financial year, the Group transported more than 1.5 million tons of cargo of which 66% in the bellies of passenger aircraft and 33% in the dedicated cargo fleet, to a network of some 254 destinations in some 111 countries.

Backed by its two powerful 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 four.

The Group is reaping the full benefits of its integrated organization which has been in place for the past five years. The Joint Cargo Team covers sales, distribution, marketing, network management and communication as well as strategy and development. In 2009-10, the Group was strengthened by the gradual commercial integration of Martinair Cargo within Air France-KLM.

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

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

A new mixed, belly-dominant business model

Within a context of market improvement, the Air France-KLM group implemented a new belly-dominant business model, supplemented by an appropriately-scaled full freighter offering.

This new strategy is based on a long-haul passenger network which is exceptional by virtue of its coverage, density and connectivity. It is also supported by the increasing number of Boeing B777 next-generation passenger aircraft with much-increased belly capacity.

This strategic repositioning enabled a marked improvement in the financial performance of the cargo business in similar proportions at the two hubs and across all aircraft types. The cargo business thus returned to profit one year earlier than planned.

The Air France-KLM group's efforts focused on the fundamentals: optimization of the network, an increase in revenues and a reduction in costs.

Maintaining capacity discipline and restructuring the network: Capacity remained virtually unchanged (-0.3%) with the priority on bellies and combis (+2.5%) and a reduction in the full freighter offer (-5.6%). The growth in capacity is now driven by the bellies of passenger aircraft which represented 66% of the total offer in 2010-11 compared with 54% in 2007-08, the full freighter fleet having been reduced from 25 to 14 aircraft.

The rationalization of the network continued with all the cargo aircraft based at Schiphol now operated by Martinair. In addition to the 112 destinations served by the long-haul passenger network and the 67 destinations operated by full freighter aircraft, the combi and cargo offer was increased in the autumn of 2010 in Japan, Korea and China.

A continued strategy of revenue improvement: unit revenue exceeded its pre-crisis level, leading to a 29.5% increase in revenues.

This performance was based on a revamped commercial strategy with, notably, more effective management of revenue and contractual conditions, an adapted customer segmentation, a rationalization and simplification of the product portfolio and the introduction of profitability as the main criterion in decision-making.

Tight control over costs and cash: the Group reduced its unit costs (on a constant currency and fuel price basis) by 1.1% relative to 2009-10 and continued to adjust headcount to the level of production notably via internal mobility and voluntary departures. The number of employees in the cargo business was reduced by 5.2%, or more than 297 positions, over the financial year. Since the beginning of the crisis, the number of employees has fallen by 16.4%, i.e. more than 1,000.

Air France-KLM Cargo launched a **vast transformation and adaptation program** aimed at improving levels of performance and the profitability of the Roissy-CDG and Amsterdam-Schiphol platforms whose results are already visible.

Consolidation of partnerships with Alitalia and the trans-Atlantic joint-venture

The acquisition of a 25% equity interest in Alitalia enables the Group to step up its cooperation with the Italian airline and its presence in the Italian market, the fourth largest in Europe. The Group is now responsible for the marketing, revenue management and supervision of Alitalia's cargo operations. Furthermore, the joint-venture agreement signed between Air France-KLM and Delta in April 2009 now enables the three airlines to cover 25% of the total trans-Atlantic offer. It is reflected in closer coordination of their commercial policies, made possible by the granting of anti-trust immunity.

Amongst the ground-breaking projects for the future, the Air France-KLM group is working on the roll-out of a single booking and commercial inventory system integrating the revenue management tools. This will enable the greater effectiveness of its commercial team, an increase in revenues and an improvement in levels of customer satisfaction.

Positive results a year ahead of schedule

Supported by the dynamism of international trade and the restructuring measures in place since late 2009, Air France-KLM's cargo business returned to growth and profitability one year ahead of schedule. For the 2010-11 financial year the Group had effectively been forecasting a halving in its 2009-10 losses of €436 million.

First half (April-September 2010)

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

Second half (October 2010-March 2011)

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

2010-11 financial year

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

	Capacity in ATK *(In million)*		**Traffic in RTK** *(In million)*		**Load factor** *(In %)*		**No. of tons** *(In thousands)*		**Cargo revenues** *(In € million)*	
At March 31	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	493	501	69	74	14.0	14.8	52	56	54	53
North and Latin America	6,423	6,375	4,478	4,241	69.7	66.5	557	527	1,133	790
Asia-Pacific	5,895	5,954	4,666	4,598	79.2	77.2	535	529	1,051	840
Africa-Middle East	2,837	2,821	1,775	1,765	62.6	62.6	289	288	600	476
Caribbean-Indian Ocean	1,068	1,115	450	477	42.1	42.7	59	64	158	154
Total	**16,716**	**16,766**	**11,438**	**11,155**	**68.4**	**66.5**	**1,492**	**1,464**	**2,996**	**2,313**

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

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

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

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

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

Key figures for the cargo business

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

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

Since February 2006, the world-wide air cargo industry has been the subject of anti-trust proceedings. Those concerning the Group are detailed in Notes 29.2 and 29.3 to the consolidated financial statements on pages 188 to 191.

2.6 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 a little over 4% of the Group's total revenues.

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 competitive support for the Air France and KLM fleets, and to be a leading MRO player contributing to the Group's results.

A market transformed under the impact of the crisis

Made up of the spending on direct or sub-contracted aircraft maintenance and modification by aircraft operators, the global MRO market is estimated at US$43.6 billion for 2010, 2.3% growth on 2009. Trends in this market closely follow those of the airline fleets globally and their usage patterns. In the short term, this market is more sensitive to variations in older-generation fleets than to those comprised of next-generation aircraft (technological advances and maturity effect).

The economic crisis did not spare the aircraft maintenance market which was impacted, with a slight time lag, by the adaptation measures adopted by most airlines: the scaling back of flight schedules, route closures and the withdrawal of the oldest aircraft from operation.

The exit from crisis has seen the perpetuation of certain trends such as pressure on prices, driven by the stiffer competition between maintenance operators (MRO) and the expectations of airline customers. Similarly, more and more operators are seeking to transfer the financing of their spare parts to their maintenance service providers.

AFI KLM E&M well positioned but facing stiffer competition

The crisis has changed the relative positioning of the players in this market. The portfolios of some of Air France-KLM's competitors have seen a marked deterioration due to the reduction in older-generation fleets and they are making a determined effort to re-position themselves in the next-generation products where AFI KLM E&M is particularly well positioned.

At the same time, airframe, engine and component manufacturers are significantly increasing their after-sales services on this market by offering customers increasingly-integrated maintenance solutions. This process, which has been amplified by the need to offset a declining revenue stream from crisis-hit original equipment sales, nevertheless reflects a long-term strategy based on leveraging intellectual property. The Group's suppliers are also its competitors and this trend is no longer limited to new aircraft programs (Goldcare 787) or to the action of engine manufacturers.

In this environment, AFI KLM E&M increased third-party revenues by 7.6% over the financial year, capitalizing on its competitive strengths: the scale effects afforded by the Group's own fleets together with those of its customers, an extensive range of services, the expertise of its teams and a policy of continuous improvement. All of the above are key advantages when it comes to executing the corporate strategy.

Affirming AFI KLM E&M's position as a global leader

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

AFI KLM E&M has thus set itself five objectives aimed at achieving these strategic goals:

- contributing to flight safety initiatives and participating in operational performance;
- financing profitable growth;
- adapting products and services;
- developing the global MRO network;
- capitalizing on skills and adapting resources to activity growth.

Contributing to flight safety initiatives and participating in operational performance

AFI KLM E&M's primary task is to guarantee the airworthiness of the Group's fleet and its regulatory compliance. To this end, AFI KLM E&M supervises the management of the technical data, implements the maintenance policies and ensures the availability of the required skilled staff and technical resources on a permanent basis.

During the financial year, AFI KLM E&M made an active contribution to the transverse projects on flight safety.

Within the framework of the Group's customer service goals, AFI KLM E&M maintains a high level of operational performance for the Group's airlines and maintenance customers. In the area of cabin quality, particular attention is paid to the reliability of the in-flight entertainment systems.

Financing profitable growth

Financing growth

An MRO's positioning on the new technologies developed by the aeronautics industry requires scale effects and an increased level of financing. During the financial year, AFI KLM E&M inaugurated a new engine maintenance facility at Orly on a scale suitable for very large engines (GE90 or GP7000-type). This investment was part of an upgrading program costing some €30 million that currently enables the Group to occupy a leadership position in the support of these engines. Similarly, after the coming on stream of a new ATEC avionics test bench in Amsterdam, AFI KLM E&M has reinforced its capacity in this area.

In 2010, a growing number of calls to tender were characterized by their large scale, in terms of both duration and revenues and by the fact that the airlines were increasingly seeking financing solutions from MROs for their spare parts inventories. AFI KLM E&M was able to adapt to this trend and signed a number of agreements of this type with, for example, Virgin Atlantic for the component support on its A330s. This involved innovative financing solutions, if necessary within the framework of partnerships.

Reducing costs

AFI KLM E&M is developing its production capability and deploying Industrial Development Plans (IDP) for the Component and Engine repair activities. These industrial development plans aim to rationalize the Group's production capacity (AFI KLM E&M, with its subsidiaries and affiliates) by taking into account an equitable distribution of technologies, the optimization of investment, and the sharing of workload increases across the different components.

The Group thus offers its customers leading-edge technology tailored to the needs of their next-generation aircraft, highly-trained teams and extensive capabilities to ensure a flexible response to their own scheduling needs.

Products and services tailored to individual customers

More than 150 customers call on AFI KLM E&M's 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. The French State thus reaffirmed its confidence in the Group by entrusting it with the upgrade on the AWACs for the French Air Force while the company Air Calin extended the component support contract on its A320s and A330s.

The renewal of maintenance contracts strengthens AFI KLM E&M's ability to develop new products and services in its different 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.

Airframe maintenance: at the service of operators

Operations support

The 2010-11 financial year was marked by a series of disruptions in the Group's operations (Icelandic volcano, exceptional weather conditions, air traffic control disruption, etc.) The AFI KLM E&M teams demonstrated their ability to adapt to help Air France-KLM contend with these challenges and delivered a high quality operating performance: technical punctuality, consistency, cabin quality, etc.

The contract signed in February 2011 between KLM E&M and Delta to support all the US carrier's operations in Amsterdam is a testimony to the quality of the Group's services in this area.

Major airframe overhaul

As a result of new technologies, the Heavy Maintenance market continues to undergo a profound transformation with recent-generation aircraft (Boeing B777) requiring considerably less heavy maintenance labor input. AFI KLM E&M correctly anticipated these changes and is adjusting its industrial base accordingly: the infrastructure at the Orly site was thus adapted within the framework of the ORYzon 2010 project and this process is continuing in Amsterdam.

Modification

From engineering to production, AFI KLM E&M supports the Group's companies in the design and deployment of new cabin products for short and medium-haul but also across the entire long-haul offering (economy, premium economy, business and first class).

This expertise is recognized in the market and a number of airlines such as Royal Jordanian, Finnair and Air Europa have commissioned AFI KLM E&M to design and execute cabin modifications.

Lastly, a new VIP cabin modification product has been launched under the VIPJetSuite brand.

Component support: a service business par excellence

Component support covers repairs to a wide technology spectrum of aircraft components, the management of technical standards and reliability, but especially the management of physical flows to and from customers' operating bases. The development opportunities for this product are 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 and the Group is accordingly deploying a global support network based on local logistics. After Air Asia X, Malaysia Airlines became the second Malaysian airline to call on AFI KLM E&M's

services, with a contract covering the component support on its Boeing B737NGs. This involved establishing an advance inventory located in Kuala Lumpur, close to the Malaysia Airlines hub and to other airline customers. The Malaysian national carrier wanted the support of a world class partner capable of supplying it with the best level of service and offering bespoke solutions, including financing.

The economy of scale on the fleets maintained may also come from partnerships with OEMs. This is the case for the CSPs (Component Support Programs) between Boeing and AFI on the Boeing B777 and with KLM E&M for the Boeing B737NGs. Given its satisfaction with the level of service delivered over the previous four years, in 2010 Air New Zealand extended the Boeing B777 component support contract on the bringing into service of its Boeing B777-300ERs.

The Group's logistics capability, which is fundamental to Component Support and customer service, is being upgraded with the reinforcement of AFI KLM E&M's global network. A number of projects aimed at improving performance for internal and external customers were carried out in 2010. The North American network was thus redesigned to increase operational and economic performance and will be followed by the South-East Asian network. The coordination between the Paris and Amsterdam AOG desks, which are veritable operational control towers, was stepped up, and a joint information system project has been launched.

In order to satisfy the market needs, new capacity is constantly being introduced. Via its Epcor subsidiary, for example, the Group has brought on line a maintenance unit for the auxiliary power units on Embraer 170s and 190s (APU APS 2300).

Engine support: the era of Very Big Engines

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

CFM56: these engine shops currently support the largest fleet of CFM56-5 powerplants in the world, with nearly 400 engines operated by numerous airlines. In 2004, the construction of an engine shop in Amsterdam enabled AFI KLM E&M to position itself for the growing demand for CFM56-7 support. Turkish carrier Saga Airlines has thus signed a support contract for this engine type and can count on the Group to support the growth in its 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 engines. This engine, whose design is similar to that of the CF6-80C2, offers 60% component commonality. By choosing AFI KLM E&M to maintain its CF6-80E1 engines, Air Europa opted for a partner that met its need for full-service maintenance at a competitive price.

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 technological infrastructure. The Group is expanding its MRO capability through ongoing investment in facilities and, after a 5,500m² extension to its workshops in 2006, a further 9,500m² was added in 2010 with the opening, at Orly, of the new Constellation engine shop. This investment enables AFI KLM E&M to offer customers more Very Big Engine (VBE) capacity such as on the GE90 and the GP7200, the powerplant equipping the A380, and can service up to 100 VBEs a year (compared with 50 previously). In early 2011, official authorization was granted for the overhaul of low pressure modules on the GE 90-94 and 115 engines. Similarly, the investment in the construction of a new engine test bench facility has been approved and will provide AFI KLM E&M with state-of-the art industrial tools for handling VBEs.

Over the course of the year, the appropriateness of this strategy was confirmed with the signature of some very major contracts with, for example, Air Canada which, in July 2010, entrusted the Group with the support for the GE90 engines on its Boeing B777s. In revenue terms, this contract is one of the largest ever signed with AFI KLM E&M. This was followed by Philippine Airlines and Alitalia demonstrating their confidence in the Group's expertise on this engine type. To date, a number of other airlines have shown interest in this product which makes AFI KLM E&M the only credible alternative to the manufacturer.

The Engine support activities are pursuing efforts to reduce 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 the CRMA subsidiary in the Paris area, specialized in repairs to next-generation engine parts and sub-assemblies. In September 2010, CRMA enabled AFI KLM E&M to become the first MRO to service a Turbine Center Frame (TCF) on the GP7200 engine equipping the A380 for Engine Alliance.

AFI KLM E&M expands its network

AFI KLM E&M is pursuing its growth strategy in profitable markets and segments by deploying its network of subsidiaries (EPCOR, CRMA, KLM UK Engineering, AMG, TSI) and partnerships (AMES, ATI, Spairliners, Max MRO), backed by the strength of its global logistics network.

In 2010-11, the Group thus affirmed its presence in growth markets (developing countries, the Americas) by signing a strategic partnership agreement involving the acquisition of a minority shareholding in the Indian company Max MRO Services, dedicated to component support in the Indian market, and by taking 100% control of its US subsidiary AMG, specialized in component support and aerostructures.

Furthermore, Aerotechnic Industries (ATI), an AFI KLM E&M-Royal Air Maroc joint-venture based at Casablanca airport, offers the market two heavy maintenance bays for medium-haul aircraft. Specialized in the Airbus A320 family, it welcomed its first customers in early 2011.

For the Boeing B737, AFI KLM E&M is also supported by the KLM UK Engineering facility based in Norwich (UK). Lastly, AMES, a joint-venture with Aircelle based in Dubai and specialized in aerostructures, began operations and also welcomed its first customers. These companies enable the Group to ensure a local market presence and contribute to consolidating the workload of the Group's European entities.

AFI KLM E&M is also supported by subsidiaries and partnerships specialized in specific market segments, and by centers of excellence which complete the Group's offer. As outlined above, EPCOR and CRMA are constantly developing their offering in, respectively, APUs and pneumatic equipment, and engine components. For its part, the Spairliners joint-venture, specialized in A380 component support, this year took responsibility for Lufthansa's A380s following those of Qantas and Air France.

A green contribution

For the Air France-KLM group, sustainable development is a priority. Within this framework, Air France Industries KLM Engineering & Maintenance deploys multiple initiatives and techniques to ensure high standards of corporate social responsibility.

The *Green Maintenance* commitment is enshrined within the strategy of the maintenance business, illustrating the drive for innovation and contributing to continuous progress.

An innovation dynamic

AFI KLM E&M increasingly deploys *green* procedures. In operation since last year, the Engine Water Wash technique and the new environmentally-friendly painting process for aircraft and the recycling of metal waste are now all established benchmark processes. The Group has also just decided to extend the use of the innovative ECOSHINE®(1) wet polishing process for cleaning aircraft at its Roissy and Orly sites, representing a real breakthrough enabling a substantial reduction in the consumption of water, fuel and CO_2 emissions.

In terms of infrastructure, the rationale which consists of capitalizing on ecological innovation is also respected. All the existing buildings, hangars and workshops take into account HQE (High Quality Environment) principles. Similarly, the future engine test bench facility at Roissy-Charles de Gaulle will be equipped with a revolutionary new system for reducing noise disturbance.

The Schiphol site is currently testing LED (Light Emitting Diodes) lighting in its hangars to reduce the consumption and cost of energy while extending the areas with lighting including those for the aircraft and the employee workspace. Hand-held lamps are also equipped with LEDs whose consumption is 12KW/hour instead of the usual 2000KW.

In late 2010, the neon tubes installed on board the Fokker 70s were replaced with LED lighting reducing energy consumption by 20%, thus prolonging their use and the interval between maintenance.

Like the LED lighting, the *Carpet Care* project launched at Schiphol contributes to reducing the weight of carpets and, in turn, that of aircraft. Furthermore, this project includes the recycling of used carpeting. With a recycling target of 80% of the 35,000m² of used carpet annually, the manufacturers will be able to produce a new material for the construction industry.

In 2010-11, some 6,000 suggestions from employees at the various AFI sites helped to reinforce this forward-thinking innovation dynamic, with many of the ideas concerning the environment and the citizenship approach.

A first for the industry

Striving for ever-higher performance standards, at the service of customers and other stakeholders: this is the goal of the operational process system, consolidated by AFI KLM E&M.

Renewed by Bureau Veritas in June 2010, AFI's Single & Global Certification constitutes the formal recognition of the effectiveness of this system which embraces eight international reference standards: ISO 9001 (Quality), 14001 (Environment), 15489 (Documentation Management), 22000 (Food Hygiene), EN-Aeronautics Maintenance 9100 (Design), 9110 (Realization), 9120 (Storage), OHSAS 18001 (Occupational Health and Safety).

Making a positive choice in favor of sustainable development in a spirit of permanent progress is the foundation of the ISO 26000 approach deployed by Air France Industries which, in November 2010, achieved a first in the world of aeronautics maintenance, repair and overhaul: a positive evaluation based on the new ISO 26000 Corporate Social Responsibility standard.

In the CSR field too, Air France-KLM's maintenance business can leverage a distinctive advantage.

Operational synergies

In addition to the structural changes designed to align procedures in procurement and sales on a lasting 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 2010-11 financial year, this figure amounted to €200 million.

(1) ECOSHINE® is the property of the company UUDS.

2.6.1 Key figures for the maintenance business

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

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

2.7 Other businesses

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

Servair

The catering business is regrouped around Servair, an Air France subsidiary which generates more than 90% of the revenues of this activity, and KLM Catering Services, a subsidiary of KLM.

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.

In its mission to ensure the optimum level of passenger comfort, Servair exercises its activity in three main areas:

- catering and logistics with the assembly of meal trays for passengers and crews and their loading, compliant with regulations specific to the air transport sector and the pre-preparation of meals, together with other forms of catering including bars, snacks, airport restaurants and site facilities;
- 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 Solutions offers consultancy based on a comprehensive range of customized services offering the airline world the best support whether on the ground and in the air.

Servair has more than 150 airline customers and 9,100 employees including more than 100 chefs and 40 experts in hygiene, microbiology and quality standards.

Some 21 of the Servair production sites are ISO 9001 V2000 certified and two have ISO 14001 certification. Furthermore, the Servair laboratory, which carries out 50,000 analysis operations annually, has obtained COFRAC accreditation.

Servair has operations at more than 50 airports world-wide and has 46 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 and San Francisco), China and Africa.

In August 2010, Servair reinforced its position as the leading caterer in Africa with the acquisition of two production centers based at Nairobi and Mombasa in Kenya.

In November 2010, following a call to tender, Servair became responsible for managing the Alitalia catering business at all its outstations, via its new subsidiary Servair Solution Italia.

Key figures for the catering business

Year ending	March 31, 2011	March 31, 2010
Total revenues *(In €m)*	897	903
Third-party revenues *(In €m)*	340	347
Income from current operations *(In €m)*	18	19

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, and will be integrated within KLM at the end of 2011.

Transavia, the Group's low cost subsidiary, has operations in the Netherlands and France directed at medium-haul leisure customers as well as, via its charter flights, tour operators. It operates a fleet of 38 Boeing B737-700 and 800 aircraft, of which 29 aircraft out of Amsterdam and nine out of Paris Orly.

The leisure business generated revenues of €915 million (-0.3%). This virtual stability represented a good performance since, early in the financial year, Transavia was negatively impacted by the closure of European airspace which led to a revenue loss of around €24 million and, at the end of the financial year, by political instability in a number of countries in the Mediterranean basin. The Dutch subsidiary also closed its activity out of Denmark. As a result, this business generated a €54 million loss from current operations of which some €10 million was due to the impact of the various crises.

Key figures for the leisure activity

Year ending	March 31, 2011	March 31, 2010
Number of passengers *(In million)*	6.5	6.7
Total revenues *(In €m)*	915	918
Income/(loss) from current operations *(In €m)*	(54)	(23)

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

Change in accounting year end

The Board of Directors decided to propose a change in the accounting year end to December 31 to the Annual General Shareholders' Meeting of July 7, 2011, enabling the Air France-KLM group to have the same financial year end as most air transport companies and particularly its partners including Delta.

Consequently, if this resolution is adopted, the financial year beginning April 1, 2011 will be of nine months' duration. The Group will also present pro-forma results for the 2010 and 2011 calendar years (January to December).

For information, the tables below show the main operating aggregates published for the last three financial years in their calendar year presentation. Since the Group reports quarterly results, the elements given for the calendar year correspond to the sum of the quarters comprising the calendar year. This information has not been audited.

Published results	Financial Year 2008-09*	Financial Year 2009-10	Financial Year 2010-11
Revenues *(In €m)*	24,693	20,994	23,615
EBITDAR *(In €m)*	2,275	1,111	2,629
Income/(loss) from operations *(In €m)*	(186)	(1,285)	122
Net income/(loss), Group share *(In €m)*	(811)	(1,559)	613

** *pro-forma Martinair.*

Unaudited results	Calendar Year 2008*	Calendar Year 2009	Calendar Year 2010
Revenues *(In €m)*	24,660	21,032	23,310
EBITDAR *(In €m)*	2,696	1,094	2,503
Income/(loss) from operations *(In €m)*	399	(1,324)	28
Net income/(loss), Group share *(In €m)*	(851)	(1,347)	289

* *Without Martinair.*

Activity

The Group reported traffic figures for April and May 2011. The changes on the previous year (+3.2% in passenger traffic for +12.9% in capacity) were not significant in that April 2010 had been impacted by the shut-down of the European airspace following the eruption of the Icelandic volcano. However, it should be noted that the load factor gained 0.2 points to 80.5%. Note that events in Japan, Africa and the Middle East continue to weigh on demand to and from these regions.

For the current financial year, the Air France-KLM group intends to pursue the strategic measures launched during the past two years in both the passenger and cargo businesses (*See Section 2 – Activity*). The group also continues to reduce costs under the *Challenge 12* program which aims to deliver savings of €470 million for 2011. Lastly, capacity is being increased by 5.7% for the Summer 2011 schedule via the use of larger or more densified aircraft, new route openings and the addition of frequencies at Paris and Amsterdam, thereby increasing the attraction of the dual hub. If market conditions require (economic growth trend, negative impact of higher oil prices on demand), the Group has the flexibility to adapt by reducing capacity. However, forward bookings show a positive trend for the coming months.

Based on the forward curve on May 13, 2011, or $111 a barrel, the fuel bill for the 2011 calendar year is estimated at $9.14 billion after hedging versus $7.26 billion after hedging for the 2010 calendar year. The volatility in the oil price is also being reflected in that of the fuel bill which could be limited to $7.41 billion after hedging with a barrel at $75 or reach $10.49 bilion after hedging with a barrel at $150. The final bill in euros will depend on the euro/dollar exchange rate.

The measures undertaken during the economic crisis have strengthened the position of the Air France-KLM group, leaving it well equipped to face the uncertain environment created, in particular, by the geopolitical events since the beginning of 2011. In this context, the objective is to generate higher operating income than in 2010.

There has been no significant change in the Group's financial or commercial situation since the end of the last financial year for which the reviewed or audited financial statements have been published.

2.9 Fleet

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

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

At March 31, 2011, 274 aircraft were fully owned (45% of the fleet compared with 47% one year earlier), 117 aircraft were under finance lease representing 19% of the fleet (18% at March 31, 2010) and 218 under operating lease representing 36% of the fleet (35% at March 31, 2010).

There were firm orders for 56 aircraft at March 31, 2011, including 13 orders for regional aircraft, while options stood at 53 of which 21 for regional aircraft. At March 31, 2010, orders had amounted to 76, of which 21 for regional aircraft, with options on 58 aircraft, of which 18 regional aircraft *(See also Note 34 to the consolidated financial statements, page 211)*.

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 technical 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 extend its crisis adaptation plan, the Group had identified two major orientations which 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.

During the 2010-11 financial year, the Group organized an additional adjustment to the fleet plan enabling the investment plan to be further reduced in line with the challenges facing the industry by extending the operation of four Boeing B747-400 aircraft and postponing the delivery of two Boeing B777-300s.

Furthermore, the Group financed its investment in the fleet through secured bank loans, operating leases, and sale and leaseback transactions on new aircraft or those already in the fleet. Investment in flight equipment amounted to €1.79 billion, of which €1.1 billion on the acquisition of aircraft (including advance payments), €545 million on ground-based maintenance and €144 million on spare parts. Proceeds on the disposal of flight equipment stood at €976 million, of which €741 million on the sale and leaseback of aircraft.

The environment a key concern

Despite the plan to adapt the fleet plan to the crisis, the two companies continue to modernize their fleets and thus 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 20 new aircraft during the financial year.

2.9.1 The Air France group fleet

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

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

The ongoing crisis has led to successive downward revisions in the fleet plan since the end of 2008. After the first deferrals secured in 2008-09 on the deliveriy of 14 long-haul aircraft, five cargo aircraft and three medium-haul aircraft, two Boeing B777-300ERs initially planned for 2011 were sold, one to ANC and the other to KLM, and the postponement to 2014 confirmed on the delivery of one Airbus A380-800 initially planned for 2012.

Air France decided on an additional adjustment phase to smooth the investment in renewing the fleet without sacrificing growth in capacity, by prolonging the operation of four Boeing B747-400s. The delivery of two more Boeing B777-300ERs, initially planned for 2013, was thus deferred until 2015 and options on this same aircraft type deferred until 2016.

The Air France fleet

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

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

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

During the 2010-11 financial year seven aircraft joined the fleet and 18 were withdrawn. In the long-haul fleet, one Boeing B777-300ER delivered in December enabled the inauguration of the new cabin configuration on this aircraft type, with 42 business class seats. Two Airbus A380s joined the fleet in April and August 2010, enabling the continued rationalization of services on multi-frequency routes. The restructuring of the medium-haul fleet was pursued with some of the remaining deliveries relating to the order placed in 2007 and, on the other hand, a necessary reduction in the size of the fleet due to the industry context in the domestic and European networks. Eleven Airbus A320s were thus withdrawn from the fleet and three Airbus A320s added. In the cargo fleet, four Boeing B747-200 and 400s were withdrawn while there were no aircraft joining the fleet.

The fleet of the regional subsidiaries and Transavia

The fleet of the regional subsidiaries is organized around four aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family common to Brit Air, Régional and VLM and the Avro fleet operated by CityJet. At March 31, 2011, the total fleet of these four companies comprised 139 aircraft, with a seat capacity of up to 100, of which 133 in operation. Nine aircraft joined the regional fleet (three Embraer 170s and six CRJ 1000s) and 21 were withdrawn (six aircraft at Brit Air and 15 at Régional). Of a total fleet of 148 aircraft, 79 are fully owned (53%), 29 are under finance lease (20%) and 40 are under operating lease (27%).

The average age of the fleet in operation was 10.6 years at March 31, 2011: 9.7 years for the Brit Air fleet, 7.7 years for Régional, 12.0 years for CityJet and 21.3 years for the VLM fleet.

Investment in flight equipment amounted to €190 million over the financial year. At March 31, 2011, the order book stood at eight firm orders, all CRJ-1000s for Brit Air, and 15 options. Four of these options are part 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. Régional took delivery of aircraft under firm order while five firm orders remain outstanding for delivery in Amsterdam.

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

2.9.2 The KLM group fleet

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

The KLM fleet

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

During the financial year, seven aircraft joined the fleet while five were withdrawn. One Boeing B777-300 and one Airbus A330 joined the long-haul fleet. Four Boeing B737-700s and one Boeing B737-800 entered the medium-haul fleet while one Boeing B737-400 and four Boeing B737-300s were withdrawn.

Investment in flight equipment over the year amounted to €480 million including advance payments on orders, spare parts and ground-based maintenance operations.

At March 31, 2011, firm orders stood at 17 aircraft with options on a further 18 aircraft.

The subsidiaries' fleet

Investment in flight equipment amounted to €70 million.

Other non-regional fleets

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

Martinair has a fleet of 15 aircraft including 11 cargo aircraft, air freight being its main activity, together with four long-haul aircraft. Five aircraft are fully owned (33%) and ten are under operating lease (67%). The average age of this fleet is 15.1 years.

Regional fleet

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

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

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

Air France fleet

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

Regional fleet

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

Other fleet

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

KLM fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11	03/31/10	03/31/11
B747-400	11	13	6	4	5	5	22	22	22	22
B777-300	-	-	4	5	-	-	4	5	4	5
B777-200	-	-	6	6	9	9	15	15	15	15
MD11	8	8	-	1	2	1	10	10	10	10
A330-200	-	-	6	6	4	5	10	11	10	11
Long-haul	**19**	**21**	**22**	**22**	**20**	**20**	**61**	**63**	**61**	**63**
B747-400	-	-	3	3	1	1	4	4	4	4
Cargo	**-**	**-**	**3**	**3**	**1**	**1**	**4**	**4**	**4**	**4**
B737-900	-	-	2	2	3	3	5	5	5	5
B737-800	1	5	12	8	8	9	21	22	21	22
B737-700	-	-	6	6	-	4	6	10	6	10
B737-400	6	6	-	-	3	2	9	8	9	8
B737-300	7	3	-	-	3	-	7	3	7	3
Medium-haul	**14**	**14**	**20**	**16**	**14**	**18**	**48**	**48**	**483**	**48**
Total	**33**	**35**	**45**	**41**	**35**	**39**	**113**	**115**	**113**	**115**

Regional fleet

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

Other fleet

Aircraft	Owned 03/31/10	Owned 03/31/11	Finance lease 03/31/10	Finance lease 03/31/11	Operating lease 03/31/10	Operating lease 03/31/11	Total 03/31/10	Total 03/31/11	In operation 03/31/10	In operation 03/31/11
Transavia Netherlands										
B737-800	2	3	5	3	12	13	19	19	19	19
B737-700	-	-	5	5	5	5	10	10	10	10
Total	**2**	**3**	**10**	**8**	**17**	**18**	**29**	**29**	**29**	**29**
Martinair										
B767-800	3	-	-	-	4	4	4	4	4	4
Long-haul	**3**	**-**	**-**	**-**	**4**	**4**	**4**	**4**	**4**	**4**
B747-400 BCF	-	-	-	-	4	4	4	4	1	1
MD-11-CF	3	3	-	-	1	1	4	4	4	4
MD-11-F	2	2	-	-	1	1	3	3	3	3
Cargo	**5**	**5**	**-**	**-**	**6**	**6**	**11**	**11**	**8**	**8**
Total	**5**	**5**	**-**	**-**	**10**	**10**	**15**	**15**	**12**	**12**
Total other fleet	**7**	**8**	**10**	**8**	**27**	**28**	**44**	**44**	**41**	**41**
Total KLM group	**72**	**75**	**67**	**65**	**66**	**71**	**205**	**211**	**198**	**204**

Air France-KLM group fleet

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

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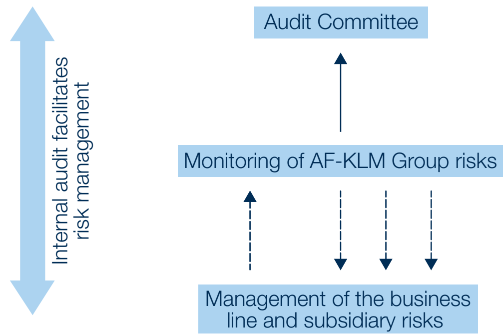
Risks and risk management

3

3.1 Risk management process

The Air France-KLM group is exposed to the general risks associated with air transport and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operating risk mapping processes have been established by all the relevant entities, supervised by internal audit. These risk maps are regularly updated and consolidated by subsidiary (Air France and KLM) and for the Air France-KLM group. Market risks (fuel, currencies and interest rates) are managed by the Risk Management Committee *(See Market risks and their management).* Every three months, each Group entity updates the scope of its major operating risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, the senior executives concerned at the level of the general management are responsible for reviewing the measures implemented to control these risks. On a quarterly basis, a presentation on the most significant operating and market risks is made by internal audit to the Executive Committee and the Audit Committee.

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



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

3.2 Risk factors and their management

3.2.1 Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

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

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis, such as the one being traversed currently with an unstable economic environment, are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions The Group also monitors demand closely so as to adjust capacity thanks to flexible management of the fleet *(See section 2 – Fleet, page 59)*.

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

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs notably due to a fall in demand and to higher insurance and security costs. Certain aircraft also saw a decline in their value. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated in Asia. Any attack, threat of an attack, military action, epidemic or perception that an epidemic could occur (*e.g.* Influenza A/H1N1), could have a negative impact on the Group's passenger traffic. Since early 2011, the geopolitical situation resulting from the natural disasters in Japan and political problems (Middle Eastern and African countries) have had a significant impact on air transport activity to these regions.

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

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

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

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

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

Risks of loss of flight slots

Due to the saturation at major European airports, all air carriers must obtain flight slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Pursuant to this regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The regulation does not provide for any exemptions for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots as was recently the case in 2009.

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

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

Risks linked to the consumer compensation regulations

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

Risks relating to the environment

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

In December 2006, the European Commission proposed to include air transportation in the Emissions Trading Scheme (EU ETS). The draft directive was adopted by the European Parliament in July 2008 and its application is planned as of January 2012.

The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual quota or allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of each year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances (exchangeable quotas). Furthermore, they can earn credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs). For the aviation sector, the reference in terms of CO_2 emissions will be the average emissions produced by the industry as a whole between 2004 and 2006. The breakdown between operators will be based, pro-rata, on revenue ton-kilometers (RTK) produced in 2010. On December 31, 2010, for the first time, air transport operators were thus required to declare their CO_2 emissions together with their traffic data (revenue ton-kilometers) for 2010.

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

The United Nations Climate Change conferences, in Copenhagen in December 2009 followed by Cancun in 2010, did not result in the expected world-wide agreement. However, consistent with the proposals for an overall sector approach supported by the air transport industry, a global response looks to be taking shape under the aegis of the United Nations with the adoption of an International Civil Aviation Organization resolution during its meeting in October 2010.

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

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

The Group also acts with the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Energy and Sustainable Development) and participates in the work of the airline industry (AEA, ICAO, IATA) to promote effective solutions for the environment which are also balanced in terms of competition *(See also Section 4 – Social and environmental data, pages 108 to 112)*.

Risks linked to the oil price

The fuel bill is the second largest cost item for airlines. The volatility in the oil price thus represents a risk for the air transport industry. In effect, a sharp increase in the oil price, such as seen since early 2011, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies.

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

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

Operating risks

Natural phenomena leading to exceptional situations

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

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

Risk of food poisoning

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

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

Airline accident risk

(See also Insurance risks, pages 73 and 74)

Accident risk is inherent to air transport. It is heavily regulated by a range of regulatory procedures issued by the national or European civil aviation authorities. Compliance with these regulations governs whether an airline is awarded the CTA (Certificate of Air Transport) which is valid for three years.

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

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

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

In September 2009, Air France launched a new initiative within the framework of the continuous improvement in the safety management system by commissioning an external evaluation mission. This Independent Safety Review Team comprising eight independent and internationally-recognized experts reviewed all the internal functioning procedures, decision-making processes and practices potentially having an impact on flight safety by combining a systematic vision of the safety and practical experience of managing operations in airlines of a similar size to Air France. On this basis, following an inquiry that continued throughout 2010, the experts made a number of recommendations combining the best practices observed in other airlines globally. Given its commitment to the highest possible standards of flighty safety, Air France immediately implemented these recommendations by, for example, establishing the Flight Safety Committee within the Air France Board of Directors and the launch of an in-flight observations campaign, the LOSA (Line Operations Safety Audit), a practice already used by other airlines in the United States, Asia and Australia but implemented for the first time by a major European airline.

Risk of failure of a critical IT system and IT risks

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

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

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

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

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

3.2.2 Risks linked to the Group's activities

Risks linked to non-respect of the competition rules

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

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalization of the European market on April 1, 1997 and the resulting competition between carriers has led to a reduction in airfares. Furthermore, the *Open Skies* agreement between the European Commission and the United States has been in force since end-March 2008 meaning that European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentiallly opens the way to increased competition for Roissy-Charles de Gaulle and Schiphol, it has also enabled Air France and KLM to extend their networks and strengthen cooperation within the SkyTeam alliance, particularly within the framework of the implementation of a trans-Atlantic joint-venture with their partners Delta and Alitalia.

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

To respond to the competition from other airlines and railway networks, the Group constantly adapts its network strategy, capacity and commercial offer. Furthermore, the Group regularly raises with the French, Dutch and European authorities the need to establish and maintain fair competition regulations.

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

In June 2006, the European Commission expressed a certain number of objections concerning the SkyTeam alliance. Air France and its partners responded to these objections in October 2006. In the event that the European Commission were to maintain its position, Air France and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at certain airports. The Commission having decided to undertake an overall review of the alliances as a whole, no position has, to date, been adopted.

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

For the European Commission to authorize Air France's business combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. The fulfilment of these commitments should not have a material negative impact on the activities of Air France and KLM. Note that no request for flight slots has, to date, been made.

Risks linked to financing

(See also section 5 – Investments and financing)

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

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

Risks linked to labor disruptions and the negotiation of collective agreements

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

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

Risk linked to pension plans

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

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

The sensitivity analysis on the change in the returns on assets is presented in Note 29.1 to the consolidated financial statements, page 184.

Risks linked to the use of third-party services

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

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

3.2.3 Insurance risks

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

Insurance policies taken out by Air France

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

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

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

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

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

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

Insurance policies taken out by KLM

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

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

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

3.2.4 Legal risks and arbitration procedures

In connection with the normal exercise of their activities, the company and its subsidiaries are involved in disputes which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities (*See also Notes 29.2 and 29.3 to the consolidated financial statements on pages 188 to 191*).

3.3 Market risks and their management

3.3.1 Organisation of the Air France-KLM group

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

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

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

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

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

The policy on fuel hedging is the responsibility of the fuel purchasing departments which are also in charge of purchasing fuel for physical delivery. The general managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of all the positions, the percentages hedged as well as the breakdown of instruments and underlyings used, the average hedge levels and the resulting net prices. All this data covers a rolling 24 months. Furthermore, a weekly Air France-KLM group report (known as the GEC report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

3.3.2 Market risks and their management

Currency risk

(See also Note 32 to the consolidated financial statements, page 197)

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

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

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

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

Operations

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

2010-11 operating exposure *(In million of currencies at March 31, 2011)*	**US Dollar (USD)**	**Sterling (GBP)**	**Yen (JPY)**
Net position before management	(5,150)	700	60,200
Currency hedge	2,550	(200)	(31,350)
Net position after management	(2,600)	500	28,850

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

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

Investment

Aircraft and spare parts are purchased in US dollars, meaning that the Group is exposed to a rise in the dollar relative to the euro in terms of its investment in flight equipment.

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The net investments figuring in the table below reflect the contractual commitments at March 31, 2011.

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

Exposure on the debt

The exchange rate risk on the debt is limited. At March 31, 2011, 84% of the Group's net debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt.

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

Interest rate risk

(See also Note 32 to the consolidated financial statements, page 197)

At both Air France and KLM, debt is generally contracted in floating-rate instruments. However, given the level of interest rates, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates in order to limit its volatility. After swaps, the Air France-KLM group's debt contracted at fixed rates represents 71% of the overall total. The average cost of the Group's debt after swaps stood at 3.87% at March 31, 2011 (3.64% at March 31, 2010).

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

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

** *Floating rate >1 year.*

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

Fuel price risk

(See also Note 32 to the consolidated financial statements, page 197)

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

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

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

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

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

Counterparty risk

(See also Note 32 to the consolidated financial statements, page 197)

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

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of A or above (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their ratings. The RMC also monitors the trend in the respective share of each counterparty in the total hedging portfolio (fuel, currency and interest rate). The positions of both Air France and KLM are taken into account in the assessment of the overall exposure. A quarterly report is established and circulated to the members of the RMC. It is supplemented by real-time information in the event of any real risk of a rating downgrade for counterparties.

Equity risk

Air France and KLM cash resources are not directly invested in the equity market or in equity mutual funds. However, at March 31, 2011, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies worth a net €970 million, principally comprising Amadeus shares. An overall fall of 1% would represent an equity risk of €9.7 million.

Liquidity risks

(See also Note 30.8 to the consolidated financial statements, page 196)

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

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

- net interest charges added to one third of operating lease payments must not represent more than 40% of adjusted EBITDAR;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and define certain conditions for the interest payments on the loan.

KLM has a fully available €530 million credit facility maturing in July 2012, negotiated with a consortium of international banks. This credit facility can be extended for another year subject to certain conditions.

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

- net interest charges added to one third of operating lease payments must not represent more than 40% of adjusted EBITDAR;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to 1.25 times the unsecured net debts.

These ratios are calculated every six months and were respected at March 31, 2011.

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

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

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

These ratios are calculated every six months and were respected at March 31, 2011.

Given the conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €4.36 billion at March 31, 2011 and the available credit facilities, the Group considers that it incurs no liquidity risk. *(See section 5 – Gearing ratio, page 134)*

Financing risks

Financing strategy

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

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

Air France group

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

It also diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003, and by issuing €450 million of bonds convertible into new or existing shares (OCEANES), in April 2005 and, in September 2006, €550 million of euro-denominated bonds, with a 4.75% coupon, maturing on January 22, 2014. An additional €200 million was raised in April 2007, fully fungible with the first tranche.

KLM group

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

Air France-KLM holding company

(See also section 5 – Note 30.2 to the consolidated financial statements and section 6 – Information relating to the share capital, page 250)

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 197)

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

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

3.4 Report of the Chairman of the Board of Directors on corporate governance, internal control and risk management for the 2010-11 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

3.4.1 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, senior 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.

3.4.2 Control environment

Internal control network

A Group Internal Control and Internal Audit division has 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 six 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 regroups the 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 the 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.

Close cooperation within 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.).

Under the Group's governance rules, each company has retained its internal audit department; the coordination of internal audit at Group level has, however, been effective since the 2005-06 financial year. The Group's Internal Audit Director has overall responsability for this coordination and reports directly to the Chief Executive Officer. Both internal control departments use identical methodologies (Group Charter, Group audit manuel, 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 34 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 holding 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;
- 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.

Furthermore, consistent with the preliminary recommendations of the Independent Safety Review Team, the Air France Board of Directors decided, on July 8, 2010, to create a Flight Safety Committee.

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 everyone's legal and human responsibility and establish internal prevention procedures.

For its part, the KLM group has published a code of conduct addressing the following principal factors: 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 for, notably, 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 purchasing function common to Air France and KLM *(See 3.4.4 Procurement)* which is outlined in the Procurement Quality Manual.

The purchasing function regularly updates the Quality reference system. This system comprises, notably, the purchasing Code of Ethics for Employees, which defines the rules of conduct for all Air France-KLM buyers 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 the 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.

3.4.3 Risk assessment

Risk analysis process

A process for the management and reporting of strategic and operational risks has been in place for the last five 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 the procedures for their control 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 Registration 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.

3.4.4 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 division 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 by 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 Group's specific internal monitoring system. Air France and KLM are also regularly audited by their customers and 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, recognized by the profession like at the level 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, 2011, 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 delisting from the New York stock exchange.

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 at 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 is leading 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 latter 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, comprising 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 practices.

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 at the level of each company based on their specific processes. 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 properly coordinate the execution of decisions taken (hedging instruments, strategies planned and counterparties).

A summary of the cash positions of Air France, KLM and Air France-KLM is communicated 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 sub-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 holding 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 holding 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.

The consolidated financial statements are submitted to the management then presented to the Audit Committee every quarter. Furthermore, when the interim and full year financial statements are established, they are reviewed by the Statutory Auditors prior to their closure. The statutory financial statements are closed annually with their review by the Statutory Auditors and a presentation to the Management and the Audit Committee.

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 revenue passenger-kilometer, per available seat-kilometer, per revenue ton-kilometer, etc.).

Management reporting process

The management control departments coordinate the reporting process for the previous month and, at the beginning of the following month, 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.

3.4.5 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 horizontally.

Internal communication supports the implementation of internal control and risk management by providing objectives, instructions and information at all the levels of the Group's operational and support entities and by 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.

3.4.6 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 the company Transavia.

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 124 and 62 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 86% of the Group's revenues and 73% 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) meeting that brings together the senior executives of Air France and KLM at an annual 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 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, 2011.

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

3.5 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, 2011

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, 2011.

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 31, 2011

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.

Social and environmental data

4

4.1 Social data

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

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

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

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

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

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

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

4.1.1 Air France-KLM's human resources and employment policy

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

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

4.1.2 Air France

Employment

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

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

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

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

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

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

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

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

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

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

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

Organization of working time

The average length of the working week applied within the company is consistent with that stipulated by the law in force. In 2010, the percentage of employees working part time in France stood at 14.58% for ground staff, 36.01% for cabin crew and 15.48% for flight deck crew (respectively 14.7%, 35.9% and 18% in 2009).

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

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

Compensation and sharing the value creation

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

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

The 2010 salary agreement also introduced a minimum increase mechanism intended to help those on entry-level salaries.

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

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

In order to give all employees access to a retirement savings product, Air France set up a *PERCO* collective retirement scheme through a collective agreement in October 2008. No voluntary contributions were made to the *PEE* and *PERCO* schemes in 2010.

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

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

Social dialogue

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

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

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

Health and safety

Protecting the safety of employees

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

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

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

Managing the reduction in work-related accidents

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

Training and sharing experience to ensure better risk control

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

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

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

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

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

Improving the quality of life and health in the workplace

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

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

Training

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

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

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

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

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

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

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

In 2010, the highlights were:

- more than €215 million invested in training: some €79 million for ground staff, over €89 million for flight deck crew and around €47 million for cabin crew;
- a volume of 1,743,993 hours of training, of which 939,861 for ground staff, 457,523 for cabin crew and 346,609 for flight deck crew;
- a DIF access rate of more than 10% for employees as a whole (7.5% en 2009) and 15% for ground staff;
- the mobilization of human resources in support of some 21 employees working, on an individual or collective basis, towards formal recognition of their work experience in the form of a professional diploma or certification (*Validation des Acquis de L'Expérience* – VAE), leading to more than 173 individuals working towards VAEs since 2007 including 94 approved in full;
- a continued high level of vocational training to support ongoing employability, with 1,273 new applications made in 2010, of which 1,106 ground staff, 105 cabin crew and 62 flight deck crew.

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

Fostering equal opportunity and combating discrimination

Fostering equal opportunity and promoting diversity

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

As a testament to this commitment, the French airline announced plans to apply for the Diversity Label which is awarded to companies setting exemplary standards in this area. Within this framework, an audit was launched to ensure that the HR procedures do not lead to any discrimination and that the principle of equal treatment for equal skills is respected in terms of both recruitment and career progression.

Recruitment: equal opportunity and a commitment to internship

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

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

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

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

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

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

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

Professional gender equality

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

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

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

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

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

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

Policy on disability

With a twenty-year commitment to an ambitious policy on disability and despite the various measures implemented to withstand the unprecedented economic crisis impacting the air transport industry, Air France actively pursued its efforts on the integration and maintained employment of disabled persons.

Despite the natural departures of employees with disabilities (retirement) and the restrictions linked to the number of regulated professions within the company for which it is difficult to employ disabled persons (pilots, air hostesses and stewards, etc.) the number of disabled employees increased (1,572 in 2010 versus 1,422 in 2009).

Despite the freeze on recruitment, the 7th version of the agreement for the Social and Vocational Integration of Staff with Disabilities which came into force in 2009 continues to target the recruitment of 85 employees with disabilities over three years, with 25 employees with disabilities having been recruited in 2010.

The company's commitment is also reflected in the increase in sub contracting to the adapted and protected sector (companies employing workers whose disabilities prevent them from working in a so-called *ordinary* environment). For 2010, spending amounted to €12 million, or the equivalent of 560 indirect jobs. All these elements contributed to increasing the regulatory disabled employment quota in France from 3.58% in 2009 to 3.92% in 2010.

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

Corporate Social Responsibility and the vocational integration of young people

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

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

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

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

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

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

4.1.3 KLM

Workforce and employment

KLM pursues a sustainable employment policy for all employees, based on developing their skills and qualifications, encouraging professional mobility and promoting healthy lifestyles. KLM is constantly adapting to the new constraints and challenges of the air transport sector and this policy of change management implies a culture of mobility. Geographical and professional mobility and recourse to additional vocational training are all ways for employees to acquire new skills and develop their employability.

Maintaining employment and mobility

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

The freeze on external hiring remained intact for much of the year with job openings being filled by internal transfers, thus limiting the need to hire from outside the company.

Over 2010 as a whole, 254 posts were successfully filled with internal candidates amongst existing employees within KLM and its subsidiaries.

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

Organization of working time

In the Netherlands, part-time working is very widespread.

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

Compensation policy

With the economic situation remaining uncertain, KLM and the unions once again opted for a collective labor agreement lasting just 18 months to October 2011.

The agreement includes a commitment by KLM to avoiding redundancies as far as possible in return for modest salary increases. On April 1, 2011, salaries were increased by 1.25% to be followed by an additional 0.5% in September 2011.

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

Social dialogue

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

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

Health and safety in the workplace

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

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

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

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

Training

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

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

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

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

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

Professional equality

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

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

Vocational integration of disabled persons

Within the framework of Dutch legislation, KLM is committed to furthering the integration of disabled persons and to maximizing their potential contribution. This represents a common goal for both KLM and its employees. An employee is considered to be disabled if he or she is unable to perform their duties or accept a position at a comparable salary level. Based on government guidelines, company doctors evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and the employees on the adjustment in working hours, types of work and workstation adaptation that are required to maximize the potential of employees with disabilities. In the Netherlands, companies are financially responsible for their employees who become disabled for a two-year period and, since 2010, KLM has extended this period to twelve years.

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

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

Corporate social responsibility at local level

- Alders Table: KLM is committed to maintaining a regular dialogue with local inhabitants and representatives at Alderstafel meeting and through its involvement in the Schiphol Regional Review Board (CROS). On August 18, 2010, within the Alderstafel framework, an agreement was reached with local inhabitants, Dutch Ministry representatives and air transport professionals on development that takes into account both the change in aircraft movements and a commitment to reducing noise disturbance.
- CROS: KLM has been investing for several years in dialogue and cooperation with residents in the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS).

- RCO: KLM continues to invest in education programs through Regional Education Centers (ROC). ROC Amsterdam and the Engine Services division jointly offer gas turbine mechanic and sheet metalwork training while KLM also assists by certifying skills and offering internships. KLM provides professional training for careers in aircraft maintenance at two schools with a two-year contract as a mechanic at the end of the course. At Global Start, an organization offering support to young people who drop out of school, training is offered in Information and communication technologies.
- Landschap Noord-Holland: In 2010 KLM started a 3 year partnership with Landschap Noord-Holland Foundation as part of the KLM Destination Nature Program. Destination Nature actively supports nature conservation and biodiversity in the territories served by KLM. This partnership aims to contribute to the sustainable development of the Schiphol, Noord Holland region. Amongst the Foundation's many projects, KLM has specifically "adopted" Ilperveld. This beautiful area of reclaimed land, which has existed since the eleventh century, is a stunning example of Dutch water management as well as being rich in bird and plant life.

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

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

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √ in the tables on pages 102 to 107. They are the subject of verification with a limited level of assurance[1].

4.2.1 Reporting scope

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

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

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

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

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

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

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

4.2.2 Reporting tools

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

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

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

4.2.3 Details and methodology/Commentary on changes in the indicators

The notes below refer to the references in the tables on pages 102 and 107.

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.

(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.

Employees

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

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

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

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

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

Recruitment on permanent contracts

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

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

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

Recruitment on fixed-term contracts

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

Departures

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

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

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

Percentage of women; Organization of working time

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

Other social data tables

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

Health and safety in the workplace – Absenteeism

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

Air France

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

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

KLM

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

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

Health and safety – work-related accidents

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

Air France

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

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

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

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

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

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

KLM and KLM subsidiaries

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

KLM subsidiaries

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

Training

Air France and Air France subsidiaries

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

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

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

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

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

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

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

KLM and KLM subsidiaries

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

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

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

Disabled staff

Air France and Air France subsidiaries

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

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

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

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

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

KLM and KLM subsidiaries

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

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

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

Collective agreements signed

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

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

4.3 Social indicators for the Group

4.3.1 Consolidated social data for the Air France-KLM group

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

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

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

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

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

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

N.A.: Not available.

NRE social data (1)	Air France-KLM group				Air France group*				KLM group**			
Headcount at 12/31 (permanent contracts and fixed-term contracts)					Total Air France group		Of which Air France		Total KLM group		Of which KLM	
	2008	2009	2010	2010-09	2009	2010	2009	2010	2009	2010	2009	2010
Departures												
Ground staff	4,804	6,232	6,826	10%	4,303	5,448	2,665	3,533	1,929	1,378	1,089	765
Cabin crew	1,047	1,435	1,709	19%	737	880	628	678	698	829	189	251
Flight deck crew	355	246	281	14%	181	211	151	168	65	70	50	50
Total Departures √ (4)	**6,206**	**7,913**	**8,816**	**11%**	**5,221**	**6,539**	**3,444**	**4,379**	**2,692**	**2,277**	**1,328**	**1,066**
of which resignations √	3,011	1,795	1,728	-4%	736	744	534	525	1,059	984	662	439
of which redundancies (incl. Economic) √	1,208	1,177	662	-44%	631	448	374	263	546	214	89	52
of which retirement √	1,852	1,644	1,583	-4%	1,286	1,186	1,099	1,132	358	397	326	370
of which deaths √	135	155	129	-17%	114	95	100	85	41	34	34	27
of which other departures √	N.A.	N.A.	4,714		N.A.	4,066	N.A.	2,374	N.A.	648	N.A.	178
Percentage of women at 12/31 √ (5)	**42.9%**	**42.6%**	**42.5%**	**-0.1%**	**43.0%**	**43.0%**	**44.4%**	**44.6%**	**41.6%**	**41.6%**	**42.0%**	**42.7%**
Ground staff	37.0%	36.8%	36.4%	-1.0%	39.9%	39.6%	40.9%	40.8%	29.9%	29.2%	28.7%	28.8%
Cabin crew	72.2%	71.8%	71.9%	0.2%	65.4%	65.5%	64.7%	64.8%	82.3%	82.4%	82.3%	82.7%
Flight deck crew	5.5%	5.5%	5.6%	1.3%	6.2%	6.4%	6.7%	6.8%	4.5%	4.4%	4.2%	4.2%
Part time employment at 12/31 (5)												
Percentage of female part-time employees √	39.9%	42.2%	42.6%	1.0%	32.7%	33.2%	35.2%	35.7%	61.6%	62.0%	64.5%	64.5%
Percentage of male part-time employees √	10.1%	10.3%	10.9%	5.2%	7.0%	7.5%	7.5%	8.0%	16.8%	17.4%	16.7%	17.2%
Percentage of part time employees √	**22.9%**	**23.9%**	**24.4%**	**2.2%**	**18.1%**	**18.6%**	**19.8%**	**20.3%**	**35.4%**	**36.0%**	**36.7%**	**37.4%**

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

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

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

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

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

N.A.: Not available.

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

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

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

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

Air France subsidiaries

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

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

4.3.3 Other data for KLM (according to local legislation)

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

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

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

N.A.: Not available.

KLM Subsidiaries

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

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

N.A.: not available.

4.4 Environmental data

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

The Air France-KLM group is aware of the impact of its activity on climate change and is seeking to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan[1].

Within the framework of the *Grenelle de l'Environnement*, the French National Conference on the Environment, Air France signed, in January 2008, the Air transport sector Agreement with the French State, aimed at pursuing and increasing the efforts towards air transportation that is increasingly respectful of the environment.

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

Organization and responsibilities

Air France and KLM each have their own environmental management systems however the two Environment divisions closely coordinate their activities, collectively establishing the Group's environmental strategy and working together on a wide range of issues. In particular, they carry out a common environmental reporting process through the Group's Corporate Social Responsibility report.

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

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

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

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

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

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

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

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

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

Environmental management/ISO 14001 certification

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

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

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

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

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

Managing environmental risks

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

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

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

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

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

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

Environmental reporting

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

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

Since 2008, a selection of Air France-KLM's environmental indicators have been verified by one of the Group's Statutory Auditors with the highest level of assurance known as reasonable assurance (for the indicators that are the most significant for air transport namely CO_2 emissions and fuel consumption in the air operations) and a limited level of assurance for the other indicators.

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

Greenhouse gas emissions

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

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

Applicable to fixed industrial sources as of 2005, the European Emissions Trading Scheme (EU-ETS) was revised in 2008 in order to extend it to the aviation sector as of 2012. 2010 was the year for which the first mandatory declaration was made and verified for data on activity and emissions. Activity (expressed in revenue ton-kilometers) reported by each operator in 2010 will serve as the calculation base for the allocation of their aviation quotas.

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

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

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

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

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

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

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

Soil use conditions

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

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

Measures taken to reduce water consumption

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

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

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

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

Measures taken to improve energy efficiency

Air operations

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

Ground operations

As regards the ground operations, Air France is renewing its vehicle fleet and runway equipment to increase the share of electrical propulsion, the aim being to increase the proportion of electrically-powered engines to 34% in 2007 and 60% by 2020. At end 2010, some 45% of Air France's vehicle fleet was powered by electricity. The company has also introduced the monitoring, via an IT system, of the fuel consumption of registered vehicles. The participation alongside other major French companies in a common call to tender for the acquisition of registered electric vehicles will enable Air France to replace its light vehicles in the Ile de France with 600 electric vehicles between 2012 and 2014.

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

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

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

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

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

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

Measures taken to reduce the impact on the biological equilibrium

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

Training and information for employees

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

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

Measures taken to limit noise pollution

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

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

- Application of *less noise* procedures, such as continuous descent approaches in collaboration with the DGAC, the French civil aviation authority. The continuous descent approach has already been deployed at Marseilles and Orly and Air France will participate in the implementation at Roissy-CDG airport planned for 2011 in fulfilment of a commitment made at the French National Conference on the Environment.
- Reduction of night traffic: at CDG, Air France has given up 725 of the 818 annual slots abandoned by the airlines as a whole since 2003.

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

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

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

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

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

Indemnities paid and actions carried out to repair environmental damage

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

Air France is committed to an ongoing dialogue with stakeholders.

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

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

In 2010, KLM paid €25 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

Environmental risk provisions and guarantees

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

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

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

Environmental expenditure and investment

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

KLM does itemize a list of the most significant expenditures that can be directly linked to environmental legislation or management. This concerns expenditure relating to noise disturbance and the sound-proofing mentioned in the section above. KLM's other significant expenditure is on waste (€3 million).

Amount of environmental indemnities paid as a result of legal rulings

Air France and KLM paid no environmental indemnities.

4.5 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 air operations (√√) and a limited level of assurance[1] for the other verified indicators (√).

4.5.1 Scope

Scope covered and scope N-1

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

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

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

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

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

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

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

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

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

4.5.2 Reporting tools

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

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

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

4.5.3 Details and methodology, comments on variations

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

Within the framework of an approach based on continuous improvement, the methodologies used for certain performance indicators have been more precisely defined. When these changes

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

have a significant impact on the data, comparison with the figures for previous years is not relevant.

Air operations

CO_2 emissions

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

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

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

SO_2 emissions

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

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

NO_x and HC emissions

Total Emissions

Air France:

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

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

The calculation methodology is based on the fuel flow 2 methodology by Boeing[1]. For more than 75% of the flights, recorded data has been used to calculate emissions specific to each flight. Emissions for other flights were estimated from the calculated average flight emissions. For these flights, a less precise estimation method was used in 2010 than in 2009. However, the impact on the published data is not significant.

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

KLM:

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

Low altitude emissions

The methodology used for the calculation of low altitude emissions is based on the LTO (Landing-Takeoff) cycle and on engine data communicated by the ICAO[2]. Taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology.

In-flight fuel jettison

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

Total noise energy

This indicator was implemented by the Air France-KLM group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[3]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

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

4.5.4 Ground operations

Water consumption

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

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

(2) International Civil Aviation Organization.

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

Consumption of other energies

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

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

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

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

Emissions from ground operations (CO_2, SO_2 and NO_x)

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

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

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

VOC Emissions

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

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

HC Emissions

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

Hazardous industrial waste

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

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

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

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

Effluents

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

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

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

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

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

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

4.6 Environmental indicators for the Group

4.6.1 Air France-KLM air operations

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

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

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

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

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

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

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

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

4.6.2 Air France-KLM ground operations

Environmental indicators		Unit
Consumptions		
Water consumption √		000 m^3
Electricity consumption √		MWh
Other energies consumption[(4)] √		MWh
Emissions		
Greenhouse gas emissions	CO_2 √	tonnes
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC √	tonnes
	Emissions of HC	tonnes
Emissions of substances contributing to acidification and eutrophication	NO_x √	tonnes
	SO_2 √	tonnes
Waste		
Waste production	Quantity of non-hazardous industrial waste √	tonnes
	Quantity of hazardous industrial waste √	tonnes
	% of hazardous industrial waste recovered √	%
Effluents		
Compliance rate of effluents with regulatory limits	Nitrogen compounds √	%
	Phosphorus compounds √	%
	Metals[(7)] √	%

√ Figures verified by KPMG for 2010 (limited level of assurance).
na: not available.
nc: not comparable.
(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi and CRMA. CityJet, BlueLink, VLM and Transavia France are not included.
(2) KLM and its subsidiaries: KLM Cityhopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS) and KLM Health Services (KHS). Transavia and Martinair are partially included.
(3) KLM water consumption included onboard drinking water in previous years. This has now been excluded.
(4) In 2008 and 2009, energy consumption for cooling and heating was included: natural gas, fuel oil, iced water and superheated water. In 2010, Air France group also reported natural gas and fuel oil consumption other than for heating and cooling, gasoline and diesel for vehicles and ground support equipment, and jet A1 for testing engines. KLM group remained in line with the 2008-09 scope.
(5) The data was updated as a result of adjustments made to a subsidiary.
(6) Quantities discharged in effluents in kg.
(7) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

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

4.7 Statutory Auditor's Report on a selection of environmental and social indicators published in Air France - KLM Group's "2010-11 Registration Document" and "2010-11 Corporate Social Responsibility Report" for the year ended December 31, 2010

This is a free translation into English of the original report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

As requested and in our capacity as Statutory Auditors of Air France-KLM Group, we performed a review in the aim of providing:

- A limited level of assurance on a selection of environmental and social indicators for the year ended December 31, 2010 selected by Air France - KLM Group and identified by the symbol √,
- A reasonable level of assurance on the indicators "fuel consumption" and "CO_2 emissions" related to air operations for the year ended December 31, 2010, identified by the symbol √√.

This selection of indicators ("**the Data**") is presented in the tables "environmental indicators" and "social indicators" of the "2010-11 Registration Document" and the "2010-11 Corporate Social Responsibility Report" of Air France-KLM Group.

These Data were prepared under the responsibility of the Air France - KLM Group's Environment and Sustainable Development division in accordance with the internal performance reporting procedures, which may be consulted at the Group's head office ("**the Protocol**"). The notes on the methodology for the reporting of the social and environmental indicators, provided with the tables "environmental indicators" and "social indicators", specifies data collection and calculation methodologies used to calculate the indicators published.

Our role is to provide a conclusion on the Data selected based on the work performed. The conclusions expressed below relate solely to this Data and not to all of the Air France-KLM Group's "2010-11 Registration Document" and the "2010-11 Corporate Social Responsibility Report".

4.7.1 Nature and scope of the work

We conducted our procedures in accordance with ISAE 3000 standard, in compliance with applicable professional guidelines in France.

Limited assurance

We conducted the following limited procedures in order to provide limited assurance that the selected Data identified by the symbol √ did not contain any material anomalies. A higher level of assurance would have required more extensive work.

- We assessed the reporting Protocol relating to environmental and social performance indicators with regard to its relevance, reliability, neutrality, understandability and completeness.
- We conducted interviews with the Group's Environment and Sustainable Development division in order to update our knowledge of the reporting process and of the organization in place, as well as to ascertain that the reporting Protocol had been applied correctly.
- We performed tests on the implementation of the Protocol on a sample of entities[1] ("**the selected Entities**"). For the selected Entities, we verified that the Protocol had been understood and implemented correctly, and we performed arithmetic tests, on a sample basis, on the calculation of these Data and reconciliations with supporting documents.
- We performed consistency tests on the Data consolidation at Group level.

The contribution of the selected Entities to the published Data represents an average of 77% for consolidated environmental Data published and 68% for consolidated social Data published.

Reasonable assurance

For the indicators "fuel consumption" and "CO_2 emissions" related to air operations, identified by the symbol √√, the work performed is more extensive specifically concerning tests on spot check basis and enables us to provide a reasonable level of assurance.

We were assisted in our work by the Environment and Sustainable Development professionals of our firm.

(1) Environment: Direction Générale Industrielle Air France (Roissy, Orly et Villeneuve Le Roi), Direction Générale de l'Exploitation Air France (Roissy et Orly), Air France Cargo Roissy, Direction du Siège Air France (Roissy), Servair group and its subsidiaries (Servair 1, Acna Roissy), CRMA, KLM Schiphol for ground operations.
Air France and its in subsidiaries CityJet, Brit Air and Régional, KLM and KLM CityHopper for air operations.
Social: Air France in France, BlueLink, KLM, Transavia, Martinair.

4.7.2 Comments on the Group's reporting Protocol and implementation

Based on the work performed, the following comments were made on the reporting Protocol and its implementation:

- Due to differences between legislative frameworks, the definitions of some social indicators are different between Air France and KLM. The figures are disclosed separately and cannot be compared.
- The internal control system has been improved at Air France Data consolidation level, due in particular to more consistency checks being performed, but needs to be strengthened at the level of:
  - environmental data collection and validation for KLM ground operations,
  - data collection for Air France, in particular regarding the indicators related to industrial waste,
  - data collection tools for Air France regarding the "Volatile Organic Compounds - VOC emissions" and "industrial waste" indicators.
- The Protocol has been completed, in particular the indicator "Consumption of other energies" for ground operations has been created and the indicator "total payroll devoted to training" has been broadened to KLM. However:
  - The definitions and the scope of the Data collection for some environmental indicators could be further harmonized between Air France and KLM, in particular for the air operations indicators.
  - For Air France, the calculation or estimation methodologies of some indicators (for the indicator "Volatile Organic Compounds - VOC emissions" and the indicators related to training in particular) could be specified in order to justify their relevance and to harmonize the collection processes of the reported Data.
- The Group continued the formalization of the reporting scope, in particular for Air France, and the extension to its subsidiaries, for instance by integrating the KLM subsidiaries Transavia and Martinair to the scope of some environmental indicators. However, the integration of the significant subsidiaries to the environmental and social reporting scope should be pursued in 2011, in order to ensure that all the Data are reported based on a Group scope.

4.7.3 Conclusion

Limited assurance

Based on our work, we did not identify any material anomalies likely to call into question that the examined Data appearing in the tables "environmental indicators" and "social indicators" of the "2010-11 Registration Document" and the "2010-11 Corporate Social Responsibility Report" of Air France-KLM group, identified by the symbol √, have been prepared, in all material aspects, in accordance with the above-mentioned Protocol.

Reasonable assurance

In our opinion, the indicators "fuel consumption" and "CO_2 emissions" related to air operations, identified by the symbol √√, have been established, in all material aspects, in accordance with the above-mentioned Protocol.

Paris La Défense, May 31, 2011

KPMG Audit
Department of KPMG S.A.

Valérie Besson
Partner

Michel Piette
Partner

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Financial report

5

5.1 Investments and financing

The investments of the financial year ended March 31, 2009 figuring on page 108 of the 2008-09 Registration Document are incorporated by reference in this document.

The Air France-KLM group's capital expenditure on tangible and intangible assets together with the acquisition of controlling interests in subsidiaries and equity interests amounted to €2.16 billion at March 31, 2011 compared with €2.10 billion one year earlier. Operating cash flow stood at a positive €1.35 billion and proceeds from the disposal of property, plant and equipment of €0.97 billion enabled the financing of investments together with the generation of €0.4 billion of free cash flow (*See also Section 5.3 - Comments on the financial statements*).

The Group's cash position amounted to €4.36 billion, including €574 million of investment securities immobilized for between 3 and 12 months and €197 million of Triple A deposits. In addition, the Group has credit facilities of €1.89 billion subscribed by Air France, KLM and Air France-KLM, of which €1.39 billion was available at March 31, 2011 (*See also Section 3 - Liquidity risks*).

Stockholders' equity amounted to €6.91 billion after a positive impact of €374 million relating to the fair value of hedging instruments versus a €325 million negative impact at March 31, 2010. Net debt stood at €5.89 billion (€6.22 billion at March 31, 2010). The gearing ratio was 0.85, and 0.90 excluding the valuation of hedging instruments against a respective 1.15 and 1.08 at March 31, 2010 *(See also Section 5.4 – Key financial indicators ratios, page 133).*

5.1.1 Investments

(In € million)	**2010-11**	**2009-10**
Acquisition of intangible assets	(153)	(113)
Investment in flight equipment	(1,788)	(1,738)
Other property, plant and equipment	(181)	(246)
Acquisitions of controlling interests in subsidiaries and equity interests	(33)	(2)
Loss of control over subsidiaries and equity interests	193	0
Proceeds on disposals of property, plant and equipment and intangible assets	977	1,053
Dividends received	8	5
Net decrease (increase) in investments over 3 months to 1 year	(229)	87
Net cash used in investing activities	(1,206)	(954)

Investment in tangible and intangible assets amounted to €2.12 billion (€2.1 billion at March 31, 2010), of which €1.79 billion in flight equipment. The acquisition of aircraft (*See also Section 2 – Activity – Fleet*) 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 €181 million and included various industrial facilities and equipment. Investment in intangible assets, amounting to €153 million, related to the purchase of software and capitalized IT development.

Acquisitions of controlling interests in subsidiaries and equity interests amounted to €33 million (this figure now takes into account the application of the revised IFRS 3). The disposal of equity interests generated €193 million of cash on the sale of WAM shares in April 2010 during the IPO of Amadeus.

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €0.98 billion (€1.05 billion at March 31, 2010) including €236 million principally on the sale of aircraft and €741 million on the sale and leaseback of aircraft.

Investment in tangible and intangible assets net of disposals stood at €1.14 billion at March 31, 2011, in line with the three-year investment plan presented in 2009-10. The amounts for the next two financial years (€1.6 billion in 2011-12 and 2012-13) are going to change given the change in date for the accounting year end from March 31 to December 31 but in proportions that will not be significant.

The dividends received from unconsolidated subsidiaries amounted to €8 million compared with €5 million during the previous year. Lastly, income on investments over periods of between three months and one year increased by €229 million compared with a €87 million fall one year earlier.

In total, cash flows used in investing activities showed a net disbursement of €1.2 billion versus €0.95 billion during the 2009-10 financial year.

5.1.2 Financing

(In € million)	2010-11	2009-10
Capital increase	6	-
Acquisition/sale of equity interests without a change of control	1	(13)
Issuance of new debt	900	2,704
Reimbursement of debt	(646)	(326)
Reimbursement of debt on finance lease liabilities	(550)	(522)

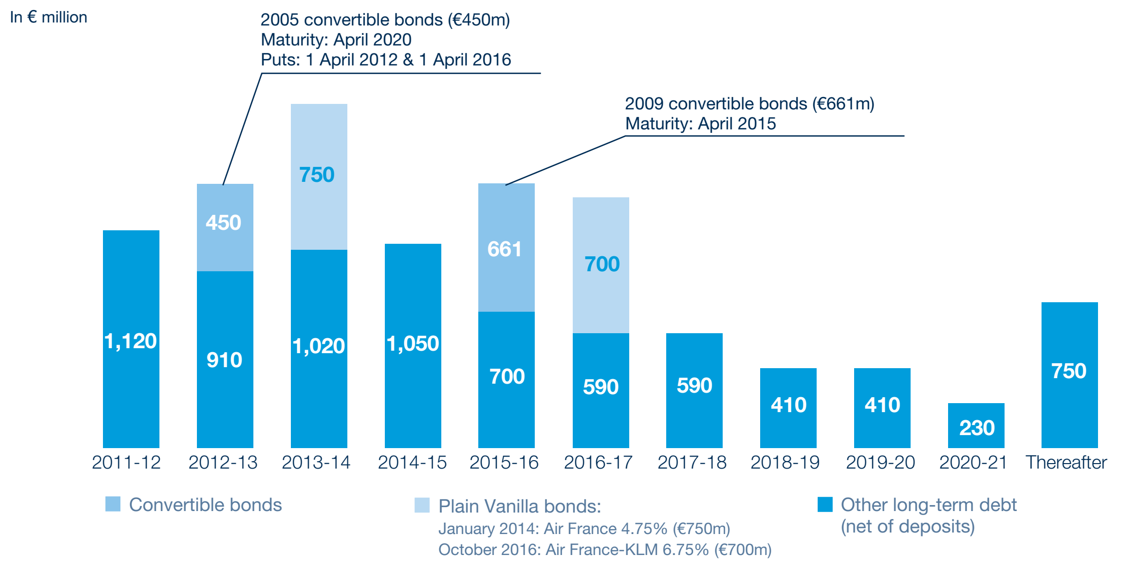
The Group's debt principally serves to finance the investment in flight equipment.

The financing operations principally corresponded to the financing of assets: Air France financed eight long and medium-haul aircraft for a total of €250 million together with regional aircraft for a total of €144 million, largely through bank debt contracted with European and Asian credit institutions. For its part, KLM notably financed one long-haul, three medium-haul and four regional aircraft for a total of €195 million. Other financing operations were also realized including €141 million of property financing. In parallel, the Group repaid €646 million of borrowings (€326 million in 2009-10) and €550 million of debt relating to finance lease liabilities (€522 million in 2009-10).

At March 31, 2011, €6.2 billion of long-term debt was guaranteed by pledged or mortgaged assets amounting to €8.3 billion, representing 51.34% of the net book value of the assets concerned (*See also Note 35.1 to the consolidated financial statements, page 213*).

The Group's gross debt (excluding draw downs on the credit facility) of €10.25 billion (*See also Key financial indicators, page 133),* including €0.6 billion of perpetual subordinated bonds, is 75% comprised of long-term secured debt and 25% of bond debt (or the equivalent). Seventy-one percent of gross debt is at fixed rates.

Debt reimbursement schedule



5.2 Property, plant and equipment

5.2.1 Property, plant and equipment of the Air France-KLM group

Net book value at 31 March *(In € million)*	**2011**	**2010**
Flight equipment	***11,040***	***11,349***
Other property, plant and equipment		
Land and buildings	1,314	1,375
Equipment and machinery	467	476
Assets in progress	67	122
Others	263	279
Total other property, plant and equipment	**2,111**	**2,252**

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 on page 211. 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.

5.2.2 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	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Passenger	435,295	422,481	118,930	120,450	554,225	542,931
Cargo	315,606	318,027	97,755	97,456	413,361	415,483
Maintenance	633,130	625,960	255,232	255,247	888,362	881,207
Support	393,889	417,694	109,321	117,228	503,210	534,922
Total	**1,777,920**	**1,784,162**	**581,238**	**590,381**	**2,359,158**	**2,374, 543**

Air France group

The Air France buildings represent 85% of the Air France group's property, plant and equipment, of which 86% is situated in continental France.

The main changes were the coming into service of a 10,000m² engine maintenance building at Orly and a 3,100m² extension to the simulator building at Paray. By taking control of a company in Kenya, Servair increased its surface area by around 15,000m² . In parallel, Air France returned a hangar and offices at Orly, and closed a number of agencies and its Vilgénis site.

KLM group

The KLM group did not record any significant changes during the 2010-11 financial year (6,800m² reduction in maintenance premises and 1,400m² reduction at Schiphol airport).

Financing

	Air France group	KLM group	Total
Fully owned	46%	87%	56%
Finance lease	9%	-	7%
Operating lease	43%	13%	37%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.82 billion at March 31, 2011 (*See also Note 33.2 to the consolidated financial statements, page 210*).

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 principal sites

Sites	Approximate surface area in m²	Type of financing
Air France group		
Roissy-CDG airport	679,000	Ownership, finance lease, rental
Orly airport	375,000	Ownership, finance lease, rental
Toulouse	70,000	Ownership, finance lease, rental
Vilgénis	7,500	Ownership
Le Bourget	37,000	Ownership, rental
Montreuil	23,000	Rental
Valbonne	17,000	Ownership
KLM group		
Schiphol airport	38,550	Operating lease
Schiphol Centrum	134,600	Ownership
Schiphol Oost	325,000	Ownership, operating lease
Schiphol Rijk	22,900	Ownership, operating lease
Schiphol Noord	22,000	Ownership
Amstelveen	30,000	Ownership
Others	8,400	Operating lease

Main rental contracts

Sites	Approximate surface area in m²	Type of financing
Air France group		
Commercial head office, Montreuil	23,000	Commercial lease
Hangar H1 at CDG	43,000	Agreement
KLM group		
Schiphol	37,500	Commercial lease

5.2.3 Assets in progress

The main construction projects in progress for the Air France group are a 5,000m² building for the new engine test bench facility for very large engines like the GE90 at Roissy-CDG costing €20 million, the refitting of Air France premises within the new S4 satellite at Roissy-CDG airport (13,000m², €24 million) and, lastly, the renovation of a 9,000m² industrial building to be used for engine maintenance at Orly for €8 million.

The KLM group currently has no outstanding commitments to large-scale construction projects.

5.3 Comments on the financial statements

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

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

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

	March 31		
(In € million)	**2011**	**2010**	**% Change**
Revenues	23,615	20,994	12.5
EBITDAR*	2,629	1,111	x2.4
Income/(loss) from current operations	122	(1,285)	N/A
Income/(loss) from operating activities	886	(1,632)	N/A
Net income/(loss) from continuing operations	612	(1,560)	N/A
Net income/(loss), Group share	613	(1,559)	N/A
Basic earnings/(loss) per share, Group *(In €)*	2.08	(5.30)	N/A

N/A: not applicable.

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

Revenues

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

Operating expenses

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

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

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

The breakdown of external expenses was as follows:

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

The main changes were as follows:

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

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

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

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

Income/(loss) from current operations

The **result from current operations** was positive to the tune of €122 million versus a loss of €1.28 billion at March 31, 2010, an improvement of some €1.4 billion. This improvement was due to the strategic measures implemented in 2009-10 principally in the passenger and cargo businesses *(See section 2, pages 39 to 50)* and to the economic recovery.

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

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

Income/(loss) from operating activities

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

Net cost of financial debt

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

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

Other financial income and expenses

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

The breakdown was as follows:

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

Net income/(loss) – Group share

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

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

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

The contributions to the net result by quarter were, respectively, €736 million at June 30, 2010, €290 million at September 30, 2010,

€(46) million at December 31, 2010 and €(367) million at March 31, 2011.

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

5.3.2 Investments and financing of the Group

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

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

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

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

The difference was principally due to:

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

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

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

5.3.3 Air France-KLM parent company results

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

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

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

Pursuant to the provisions of Article 39.4 and Article 223 quatar of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

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

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

5.4 Key financial indicators

The financial indicators (previously called performance ratios) for the financial year ended March 31, 2009 figuring on pages 117 to 119 of the 2008-09 Registration Document are incorporated by reference in this document.

Restated net income

The Group presents a restated net income figure when:

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

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

* *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities. (See also Note 10 to the consolidated financial statements, page 161).*

** *See consolidated statements of cash flow.*

Adjusted operating margin

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

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

Gearing ratio

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

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

Return on Capital Employed (RoCE)

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

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

- capital employed: consolidated stockholders' equity net of the valuation of hedging instruments (€374 million) and the badwill linked to the KLM pension fund surplus (€928 million) recognized on the adoption of IFRS. Net debt and annual operating leases, capitalized at seven times in accordance with the rule used by analysts following the air transport sector and the rating agencies, are then added to this figure;
- adjusted income from current operations after income taxes.

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

Cost of capital

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

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Contents

5.5 Consolidated financial statements

5.5.1 Consolidated income statement

Period from April 1 to March 31, *(In € millions)*	**Notes**	**2011**	**2010**
Sales	***5***	***23,615***	***20,994***
Other revenues		7	5
Revenues		***23,622***	***20,999***
External expenses	6	(14,555)	(13,197)
Salaries and related costs	7	(7,333)	(7,434)
Taxes other than income taxes		(179)	(216)
Amortization and depreciation	8	(1,624)	(1,640)
Provisions	8	(52)	(35)
Other income and expenses	9	243	238
Income from current operations		***122***	***(1,285)***
Sales of aircraft equipment	10	8	(21)
Other non-current income and expenses	10	756	(326)
Income from operating activities		***886***	***(1,632)***
Cost of financial debt		(455)	(410)
Income from cash and cash equivalents		84	106
Net cost of financial debt	***11***	***(371)***	***(304)***
Other financial income and expenses	11	(78)	(193)
Income before tax		***437***	***(2,129)***
Income taxes	12	196	586
Net income of consolidated companies		***633***	***(1,543)***
Share of profits (losses) of associates	20	(21)	(17)
Net income from continuing operations		***612***	***(1,560)***
Net income for the period		***612***	***(1,560)***
♦ ***Equity holders of Air France-KLM***		***613***	***(1,559)***
♦ Non controlling interests		(1)	(1)
Earnings per share – Equity holders of Air France-KLM (in euros)	14.1		
♦ basic		2.08	(5.30)
♦ diluted		1.76	(5.30)

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

5.5.2 Consolidated statement of recognized income and expenses

(In € millions)	March 31, 2011	March 31, 2010
Net income for the period	***612***	***(1,560)***
Fair value adjustment on available-for-sale securities		
Change in fair value recognized directly in equity	165	6
Change in fair value transferred to profit or loss	4	-
Cash flow hedges		
Effective portion of changes in fair value hedge recognized directly in equity	952	1,159
Change in fair value transferred to profit or loss	68	532
Items of the recognized income and expenses of equity shares	***(7)***	***10***
Currency translation adjustment	***(25)***	***4***
Tax on items taken directly to or transferred from equity		
Income/(expense) recognized directly in equity	(316)	(518)
Total of other comprehensive income included in the recognized income and expenses	***841***	***1,193***
Recognized income and expenses	***1,453***	***(367)***
♦ ***Equity holders of Air France-KLM***	***1,452***	***(370)***
♦ Non-controlling interests	1	3

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

5.5.3 Consolidated balance sheet

Assets *(In € millions)*	**Notes**	**March 31, 2011**	**March 31, 2010**
Goodwill	15	422	401
Intangible assets	16	695	612
Flight equipment	18	11,040	11,349
Other property, plant and equipment	18	2,111	2,252
Investments in equity associates	20	422	446
Pension assets	21	2,995	2,733
Other financial assets *(including €503 million of deposits related to financial leases as of March 31, 2011 and €630 million as of March 31, 2010)*	22	1,654	840
Deferred tax assets	12.5	933	942
Other non-current assets	25	156	180
Total non-current assets		***20,428***	***19,755***
Assets held for sale	13	21	93
Other short-term financial assets *(including €149 million of deposits related to financial leases and 574 million of investments between 3 months and 1 year as of March 31, 2011 compared respectively to €139 million and €343 million as of March 31, 2010)*	22	751	517
Inventories	23	558	537
Trade accounts receivable	24	1,938	2,142
Income tax receivables		6	1
Other current assets	25	1,550	979
Cash and cash equivalents	26	3,717	3,751
Total current assets		***8,541***	***8,020***
Total assets		**28,969**	**27,775**

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

Liabilities and equity *(In € millions)*	**Notes**	**March 31, 2011**	**March 31, 2010**
Issued capital	27.1	300	2,552
Additional paid-in capital	27.2	2,971	719
Treasury shares	27.3	(94)	(106)
Reserves and retained earnings	27.4	3,675	2,198
Equity attributable to equity holders of Air France-KLM		***6,852***	***5,363***
Non-controlling interests		54	55
Total Equity		***6,906***	***5,418***
Provisions and retirement benefits	29	1,930	1,432
Long-term debt	30	8,980	9,222
Deferred tax	12.5	511	418
Other non-current liabilities	31	272	818
Total non-current liabilities		***11,693***	***11,890***
Liability related to assets held for sale	13	-	10
Provisions	29	287	696
Current portion of long-term debt	30	1,808	1,825
Trade accounts payable		2,211	2,032
Deferred revenue on ticket sales		2,440	2,340
Frequent flyer programs		806	840
Current tax liabilities		3	11
Other current liabilities	31	2,686	2,597
Bank overdrafts	26	129	116
Total current liabilities		***10,370***	***10,467***
Total liabilities		**22,063**	**22,357**
Total liabilities and equity		**28,969**	**27,775**

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

5.5.4 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	Non controlling interests	Total equity
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***
Fair value adjustment on available for sale securities	-	-	-	-	166	166	-	166
Gain/(loss) on cash flow hedges	-	-	-	-	697	697	3	700
Currency translation adjustment	-	-	-	-	(24)	(24)	(1)	(25)
Net income for the year	-	-	-	-	613	613	(1)	612
Total of income and expenses recognized	***-***	***-***	***-***	***-***	***1,452***	***1,452***	***1***	***1,453***
Stock based compensation (ESA) and stock option	-	-	-	-	25	25	-	25
Dividends paid	-	-	-	-	-	-	(3)	(3)
Capital decrease	-	(2,252)	2,252	-	-	-	-	-
Treasury shares (Note 27.3)	-	-	-	12	-	12	-	12
Change in consolidation scope	-	-	-	-	-	-	1	1
March 31, 2011	***300,219,278***	***300***	***2,971***	***(94)***	***3,675***	***6,852***	***54***	***6,906***

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

5.5.5 Consolidated statements of cash flows

Period from April 1 to March 31, *(In € millions)*	Notes	2011	2010
Net income for the period – Equity holders for Air France-KLM		613	(1,559)
Non-controlling interests		(1)	(1)
Amortization, depreciation and operating provisions	8	1,676	1,675
Financial provisions	11	(3)	7
Gain on disposals of tangible and intangible assets		(11)	61
Loss/(gain) on disposals of subsidiaries and associates		(13)	-
Gain on WAM (ex Amadeus) operation	10	(1,030)	-
Derivatives – non monetary result	11	(25)	(8)
Unrealized foreign exchange gains and losses, net		33	13
Share of (profits) losses of associates	20	21	17
Deferred taxes	12	(215)	(591)
Other non-monetary items		(209)	143
Subtotal		**836**	**(243)**
(Increase)/decrease in inventories		(10)	(28)
(Increase)/decrease in trade receivables		171	(89)
Increase/(decrease) in trade payables		245	126
Change in other receivables and payables		108	(564)
Net cash flow from operating activities		***1,350***	***(798)***
Acquisitions of subsidiaries and investments in associates, net of cash acquired	37	(33)	(2)
Purchase of property, plant and equipment and intangible assets	19	(2,122)	(2,097)
Proceeds on WAM (ex Amadeus) transaction	10	193	-
Proceeds on disposal of subsidiaries and investments in associates	37	-	-
Proceeds on disposal of property, plant and equipment and intangible assets		977	1,053
Dividends received		8	5
Decrease (increase) in investments, net between 3 months and 1 year		(229)	87
Net cash used in investing activities		***(1,206)***	***(954)***

Consolidated statements of cash flows (cont.)

Period from April 1 to March 31, *(In € millions)*	**Notes**	**2011**	**2010**
Increase in capital		6	-
Purchase of non-controlling interests, of shares in non-controlled entities	37	(13)	(16)
Disposal of subsidiaries without control loss, of shares in non-controlled entities	37	14	3
Issuance of long-term debt		900	2,704
Repayments on long-term debt		(646)	(326)
Payment of debt resulting from finance lease liabilities		(550)	(522)
New loans		(110)	(73)
Repayments on loans		231	151
Dividends paid		(3)	(3)
Net cash flow from financing activities		***(171)***	***1,918***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		***(20)***	***3***
Change in cash and cash equivalents and bank overdrafts		***(47)***	***169***
Cash and cash equivalents and bank overdrafts at beginning of period	26	3,635	3,466
Cash and cash equivalents and bank overdrafts at end of period	26	3,588	3,635
Income tax (paid)/reimbursed (flow included in operating activities)		(32)	(3)
Interest paid (flow included in operating activities)		(435)	(357)
Interest received (flow included in operating activities)		49	79

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

5.6 Notes to the consolidated financial statements

Note 1 Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM S.A., 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) and 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 April 29, 2010, the company WAM was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation was executed in two stages:

1. a capital increase reserved to the market, to which the Group did not subscribe;
2. the concomitant sale of a portion of the shares held by the Group.

After the operation, the Group's holding decreased from 22% to 15%. At the same time, the governance of WAM was changed. These two items involved the loss of significant influence for the Group as well as a change in the valuation method of the remaining shareholding. The impact of this transaction on the Group's financial statements is described in Note 10.

In April 2010, the European air space was closed or significantly disrupted due to a volcanic eruption in Iceland.

2.2 Subsequent events

There has been no significant event since the close of the financial year.

Note 3 Accounting policies

3.1 Accounting principles

3.1.1 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, 2011 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 18, 2011.

3.1.2 Change in accounting principles

IFRS standards, Amendments and IFRIC's interpretations applicable effective April 1, 2010

The revised standards IFRS 3 "Business Combinations" and IAS 27 "Individual and Consolidated Financial Statements" have been applied since April 1, 2010.

It has conducted to change the accounting rule concerning the loss of significant influence. Note 10 describes the application of this new accounting rule concerning companies in which the Group has ceased to exercise a significant influence during the financial year together with the associated impact.

The other texts with application effective April 1, 2010 have no impact on the Group consolidated financial statements.

IFRS Standards, amendments and IFRIC's interpretations which came into force for financial statement for accounting periods starting April 1, 2011 and not early applied by the Group

The texts adopted by the European Union as of March 31, 2011 described below, and which came into force for accounting periods starting April 1, 2011, have not been applied early by the Group for the establishment of the consolidated financial statements when this arrangement was possible:

- the revised standard IAS 24 "Related party disclosures", applicable for annual periods beginning on or after January 1, 2011;
- IFRIC 19 "Financial debts paid by equity instruments", applicable for annual periods beginning on or after July 1, 2010;
- the revised interpretation IFRIC 14 "Limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction", applicable for annual periods beginning on or after January 1, 2011.

The Group does not expect any significant impact from the application of these new standards, amendments and interpretations.

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 future results could differ from these estimates depending on changes in the assumptions used or different conditions.

3.3 Consolidation principles

3.3.1 Subsidiaries

Companies over 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.

Non-controlling interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income, under the line "non-controlling interests".

The effects of a buyout of non-controlling interests in a subsidiary already controlled by the Group and divestment of a percentage interest without loss of control are recognized in equity. In a partial disposal resulting in loss of control, the retained equity interest is remeasured at fair value at the date of loss of control. The gain or loss on the disposal will include the effect of this remeasurement and the gain or loss on the sale of the equity interest, including items initially recognized in comprehensive income and reclassified to profit and loss.

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 their fair value on the date of withdrawal from the consolidation scope.

3.3.3 Intra-group operations

All intra-group balances and transactions, including income, expenses and dividends are eliminated in full. Profits and losses resulting from intra-group 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 the 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

3.5.1 Business combinations completed on or after April 1, 2010

Business combinations completed on or after April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 revised standard "Business combinations". 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, except for non-current assets classified as assets held for sale which are measured at 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.

Costs other than those related to the issuance of debt or equity securities are recognized immediately as an expense when incurred.

For each acquisition, the Group has the option of using the "full" goodwill method, where goodwill is calculated by taking into account the fair value of non-controlling interests at the acquisition date rather than their proportionate interest in the fair value of the assets and liabilities of the acquiree.

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.

Contingent considerations or earn-outs are recorded in equity if contingent payment is settled by delivery of a fixed number of the acquirer's equity instrument. In all other cases, they are recognized in liabilities related to business combinations. Contingent payments or earn-outs are measured at fair value at the acquisition date. This initial measurement is subsequently adjusted through goodwill only when additional information is obtained after the acquisition date about facts and circumstances that exists at that date. Such adjustment is made only during the 12 months measurement period that follows the acquisition date. All other subsequent adjustment which does not meet these criteria is recorded as a receivable or payable through income statement.

In a step acquisition, the previously-held equity interest in the acquiree is remeasured at its acquisition-date fair value. The difference between the fair value and the net book value must be accounted in profit or loss as well as elements previously recognized in other comprehensive income.

3.5.2 *Business combination carried out before April 1, 2010*

Business combinations carried out before April 1, 2010 are accounted for using the purchase method in accordance with IFRS 3 "Business combinations". 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 "Non-current assets held for sale and discontinued operations", 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 at issuance. 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 "Loyalty programmes", 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" have been met.

The deferred amount due in relation to the acquisition of miles by members is estimated:

- according to the fair value of the "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 a statistical method.

With regards to the invoicing of other partners in the program, the margins realized on sales of "miles" by the 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, as defined in the No. 2009-R.03 recommendation from the National Accounting Council.

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 impact the understanding of the Group's financial performance and do not contribute to the establishment of reliable future projections, such as the 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 "Financial instruments: recognition and measurement".

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 SICAV and FCP, 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 and 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 measurement, 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 presenting a breakdown of financial assets and liabilities categorized by value (See Note 32.4) meets the amended requirements of IFRS 7 “Financial instruments: Disclosures”. 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 calculated 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 “First-time adoption of international financial reporting standards”.

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 lifetime 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 has been realized 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 test

In accordance with the standard IAS 36 "Impairment of Assets", fixed assets, intangible assets and goodwill are tested for depreciation if there is an indication of impairment, and those with an indefinite useful life are tested at least once a year on December 31.

For this test, the Group deems 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 discounted future cash flow method, estimated based on budgetary assumptions approved by management, using an actuarial rate which corresponds to the weighted average cost of Group capital and 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, leisure and others.

When the recoverable value of an asset or CGU is inferior to its net book value, an impairment is realized. 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 are calculated, in accordance with IAS 19 "Employee benefits", using the projected units of credit method, factoring in the specific economic conditions in each country 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 10% of the greater of the present value of the defined benefit obligation at that date and the fair value of any plan assets at that date. The exceeding amount 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 surpluses recognition.

These pension surpluses 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 under "Flight equipment". 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 "Income taxes".

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.

Deferred tax corresponding to fiscal losses are recognized as assets given the prospects of recoverability resulting from budgets and medium term plans prepared by the Group. The assumptions used are similar to those used for testing the value of assets (these are described in Note 3.1.4).

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

Assets or groups of assets held 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 assets held for sale.

The Group determines on each closing date whether any assets or groups 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.

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 "Share-based payment", 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

No significant acquisitions of subsidiaries occurred during the financial years ended March 31, 2011 and 2010.

4.2 Disposals

Year ended March 31, 2011

On April 29, 2010, the company WAM (Amadeus) was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation is detailed in Note 10.

Year ended March 31, 2010

No significant disposals of subsidiaries occurred during the financial year ended March 31, 2010.

Note 5 Information by activity and geographical area

Business segments

The segment information by activity and geographical area presented below is prepared on the basis of internal management data provided to the Group Executive Committee Officer, who is the Group's chief operating decision maker.

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 goodwill, 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, 2011

(In € millions)	Passenger	Cargo	Maintenance	Other	Non-allocated	Total
Total sales	19,154	3,176	3,083	1,928	-	27,341
Inter-segment sales	(1,051)	(17)	(2,054)	(604)	-	(3,726)
External sales	***18,103***	***3,159***	***1,029***	***1,324***	***-***	***23,615***
Income from current operations	(44)	69	143	(46)	-	122
Income from operating activities	(44)	69	143	(46)	764	886
Share of profits (losses) of associates	-	-	-	-	(21)	(21)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(449)	(449)
Income taxes	-	-	-	-	196	196
Net income from continuing operations	***(44)***	***69***	***143***	***(46)***	***490***	***612***
Depreciation and amortization for the period	(1,057)	(103)	(304)	(160)	-	(1,624)
Other non monetary items	(71)	(4)	7	(64)	273	141
Total assets	**12,888**	**1,386**	**2,577**	**4,831**	**7,287**	**28,969**
Segment liabilities	6,153	239	577	633	3,544	11,146
Financial debt, bank overdraft and equity	-	-	-	-	17,823	17,823
Total liabilities and equity	**6,153**	**239**	**577**	**633**	**21,367**	**28,969**
Purchase of property, plant and equipment and Intangible assets	***1,552***	***139***	***269***	***162***	***-***	***2,122***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 10.

Non-allocated assets amounting to €7.3 billion are mainly financial assets held by the Group. They comprise financial assets for €1.5 billion, marketable securities of €3.3 billion, deferred tax of €0.9 billion, cash of €0.4 billion and derivatives of €0.9 billion.

Non-allocated liabilities amounting to €3.5 billion, mainly comprise a portion of provisions and retirement benefits of €1.1 billion, deferred tax of €0.5 billion and employee-related liabilities of €1.3 billion and derivatives of €0.6 billion.

Financial debts, bank overdrafts and equity are not allocated.

➤ 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
Inter-segment 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***	***-***	***2,097***

The income from operating activities not allocated mainly corresponds to non-current income and expenses detailed in Note 10.

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.

5.2 Information by geographical area

Sales by geographical area

➤ Year ended March 31, 2011

(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	5,492	5,720	337	1,163	2,941	1,637	17,290
Other passenger sales	333	272	10	58	54	86	813
Total passenger	***5,825***	***5,992***	***347***	***1,221***	***2,995***	***1,723***	***18,103***
Scheduled cargo	338	1,048	34	236	516	824	2,996
Other cargo sales	49	27	4	12	38	33	163
Total cargo	***387***	***1,075***	***38***	***248***	***554***	***857***	***3,159***
Maintenance	610	381	-	-	38	-	1,029
Others	374	891	19	40	-	-	1,324
Total	**7,196**	**8,339**	**404**	**1,509**	**3,587**	**2,580**	**23,615**

➤ 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**

Traffic sales by geographical area of destination

➤ Year ended March 31, 2011

(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	1,885	4,160	1,234	2,541	4,400	3,070	17,290
Scheduled cargo	6	48	158	600	1,133	1,051	2,996
Total	**1,891**	**4,208**	**1,392**	**3,141**	**5,533**	**4,121**	**20,286**

➤ 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**

Note 6 External expenses

Year ended March 31, *In € millions*	2011	2010
Aircraft fuel	5,720	4,725
Chartering costs	513	487
Aircraft operating lease costs	831	721
Landing fees and en route charges	1,747	1,707
Catering	554	562
Handling charges and other operating costs	1,303	1,281
Aircraft maintenance costs	1,139	1,072
Commercial and distribution costs	896	854
Other external expenses	1,852	1,788
Total	**14,555**	**13,197**
Excluding aircraft fuel	*8,835*	*8,472*

Note 7 Salaries and number of employees

Salaries and related costs

Year ended March 31, *(In € millions)*	2011	2010
Wages and salaries	5,430	5,406
Net periodic pension costs	185	308
Social contributions	1,761	1,768
Expenses related to share-based compensation	26	27
Other expenses	(69)	(75)
Total	**7,333**	**7,434**

The Group pays contributions to a multi-employer plan in France, the CRPN (public pension fund for crew). This multi-employer plan being assimilated with a French State plan, it is accounted for as a defined contribution plan in "social contributions".

The "other expenses" notably comprise the capitalization of salary costs on aircraft and engine overhaul.

Average number of employees

Year ended March 31,	2011	2010
Flight deck crew	8,662	8,855
Cabin crew	22,498	22,593
Ground staff	70,852	73,273
Total	**102,012**	**104,721**

Note 8 Amortization, depreciation and provisions

Year ended March 31, *(In € millions)*	2011	2010
Intangible assets	58	55
Flight equipment	1,281	1,296
Other property, plant and equipment	285	289
Amortization and depreciation	***1,624***	***1,640***
Inventories	14	3
Trade receivables	(2)	9
Risks and contingencies	40	23
Provisions	***52***	***35***
Total	**1,676**	**1,675**

The amortization changes of intangible and tangible assets are presented in Notes 16 and 18.

The changes in inventories and trade receivables impairment are presented in Notes 23, 24 and 25.

The movements in provisions for risks and charges are detailed in Note 29.

Note 9 Other income and expenses

Year ended March 31, *(In € millions)*	2011	2010
Joint operation of routes	15	59
Operations-related currency hedges	175	156
Other	53	23
Total	**243**	**238**

Note 10 Other non-current income and expenses

Year ended March 31, *(In € millions)*	2011	2010
Sales of aircraft equipment	**8**	**(21)**
WAM (Amadeus) operation	1,030	-
Disposals of subsidiaries and affiliates	13	1
Restructuring costs	(18)	(152)
Loss on aircraft held for sale	(6)	(113)
Other	(263)	(62)
Other non-current income and expenses	**756**	**(326)**

WAM (Amadeus) operation

On April 29, 2010, the company WAM (Amadeus) was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation was executed in two stages:

1. A capital increase reserved to the market, to which the Group did not subscribe;
2. The concomitant sale of a portion of the shares held by the Group.

After the operation, the Group's holding decreased from 22% to 15%. At the same time, the governance of WAM was changed. These two items involved the loss of significant influence for the Group as well as a change in the valuation method of the remaining shareholding.

As a consequence, consistent with IFRS, since the April 29, 2010 IPO, the shares held by the Group have been valued at their market value (market price).

The overall profit recorded in the income statement amounting to €1,030 million breaks down as follows:

- gain on disposal of shares: €280 million, including €193 million of cash received;
- valuation at the market price of the remaining shares held by the Group: €750 million.

After this operation, the WAM (Amadeus) shares held by the Group were reclassified as "assets available for sale" (in "other financial assets non current"). The value of the shares is updated at each closing period as a function of the share price. The counterpart of this revaluation is recorded in the other comprehensive income.

Disposals of subsidiaries and affiliates

No other significant disposals of subsidiaries or affiliates occurred during the financial years ended March 31, 2011 and 2010.

Restructuring costs

Year ended March 31, 2011

Following to the extension of the Air France voluntary redundancy plan, an additional provision amounting to €12 million has been recorded in "other non-current income and expenses".

Year ended March 31, 2010

As of March 31, 2010, the Group recorded a €148 million provision to cover a voluntary redundancy plan. This plan concerned 1,700 posts for its subsidiary Air France. The departures mainly took place in 2010.

Loss on aircraft held for sale

Year ended March 31, 2010

As of March 31, 2010, this line included the impact of the fair value adjustments on ten B747s amounting to €(62) million, the fair value adjustments on 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 operation.

Other

Year ended March 31, 2011

In Europe, the European Commission announced on November 9, 2010 its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competitive practices – mainly concerning fuel surcharges. The Commission imposed an overall fine of €340 million on the companies of the Air France-KLM group.

This fine is €127 million higher than the provisions already made by the Group in its accounts. Consequently, an additional "non current expense" has been recorded.

A pension plan was closed in the United States. The impact of this closure amounts to €(26) million.

Note 11 Net cost of financial debt and other financial income and expenses

Year ended March 31, *(In € millions)*	**2011**	**2010**
Income from marketable securities	23	21
Other financial income	61	85
Financial income	***84***	***106***
Loan interests	(291)	(271)
Lease interests	(95)	(122)
Capitalized interests	27	35
Other financial expenses	(96)	(52)
Cost of financial debt	***(455)***	***(410)***
Net cost of financial debt	***(371)***	***(304)***
Foreign exchange gains (losses), net	(33)	(26)
Change in fair value of financial assets and liabilities	(48)	(160)
Net (charge) release to provisions	3	(7)
Other financial income and expenses	***(78)***	***(193)***
Total	**(449)**	**(497)**

The interest rate used in the calculation of capitalized interest is 3.75% for the year ended March 31, 2011 and 3.81% for the year ended March 31, 2010.

The financial income mainly comprises interest income and gains on the sale of financial assets at fair value through profit and loss.

In a decision made on January 8, 2010, Venezuela decided to depreciate its currency, the Venezuelan Bolivar. The measure became effective 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, 2011 arose mainly from the variation in the ineffective portion of fuel and foreign currency exchange derivatives amounting to €(34) million, together with the change in value of derivative instruments no longer qualified as hedging amounting to €(11) million.

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.

Note 12 Income taxes

12.1 Income tax charge

Current and deferred income taxes are detailed as follows:

Year ended March 31, *(In € millions)*	**2011**	**2010**
Current tax (expense)/income	***(19)***	***(5)***
(Charge)/income for the year	(19)	(5)
Deferred tax income/(expense) from continuing operations	***215***	***591***
Change in temporary differences	(176)	(202)
Change in tax rates	8	-
CAVE impact	4	(31)
(Use)/recognition of tax loss carryforwards	379	824
Income tax (expense)/income from continuing operations	**196**	**586**

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, 2011 and 2010, the Group recognized a deferred tax asset amounting to €379 million and €824 million respectively, given the gains previously realized and the prospects of recoverability.

Impact of the business tax reform

The 2010 Finance Law voted on December 30, 2009, 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) comprising two contributions: the LDE (land tax of enterprises/*Cotisation Foncière des Entreprises* – CFE) and the CAVE (Contribution on Added Value of Enterprises/*Cotisation sur la Valeur Ajoutée des Entreprises* – CVAE). The latter 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 under the line “tax”.

For the financial year ending March 31, 2010 and consistent with the measures set out in IAS 12 “Income taxes”, the qualification of the CAVE as a tax on profits led the Group to account for a 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 differences 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),*	**2011**	**2010**
Cash flow hedge	(316)	(518)
OCEANE	-	(36)
Total	**(316)**	**(554)**

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)*	2011		2010	
Income before tax		***437***		***(2,129)***
Theoretical tax calculated with the standard tax rate in France	34.43%	(151)	34.43%	(733)
Differences in French/foreign tax rates		(5)		86
Non deductible expenses		316		11
Non-taxable income		-		-
Impact of tax loss carryforwards		27		19
CAVE impact		(15)		37
Other		24		(6)
Income tax expenses	**(44.77)%**	**196**	**27.54%**	**(586)**

The tax rates applicable in France and in the Netherlands were set at respectively 34.43% and 25%. The Dutch tax rate has decreased by 0.5 percentage point starting January 1, 2011.

12.4 Unrecognized deferred tax assets (basis)

Year ended March 31, *(In € millions)*	2011	2010
Temporary differences	31	95
Tax losses	196	401
Total	**227**	**496**

As of March 31, 2011, 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, 2010	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassifica-tion	March 31, 2011
Flight equipment	(1,039)	(78)	-	-	26	(1,091)
Pension assets	(683)	(50)	-	-	1	(732)
Financial debt	453	36	(236)	-	(3)	486
Other liabilities	387	(31)	-	-	(109)	11
Deferred revenue on ticket sales	206	-	(80)	-	(1)	205
Others	(252)	(41)	-		90	(283)
Deferred tax corresponding to fiscal losses	1,452	379	-	-	(5)	1,826
Deferred tax asset/(liability)	**524**	**215**	**(316)**	**-**	**(1)**	**422**

(In € millions)	April 1, 2009	Amounts recorded in income	Amounts recorded in equity	Currency translation adjustment	Reclassifica-tion	March 31, 2010
Flight equipment	(812)	(174)	(1)	1	(53)	(1,039)
Pension assets	(623)	(59)	-	(1)	-	(683)
Financial debt	442	47	(36)	-	-	453
Other liabilities	911	24	(579)	(2)	33	387
Deferred revenue on ticket sales	209	(3)	-	-	-	206
Others	(254)	(70)	62	-	10	(252)
Deferred tax corresponding to fiscal losses	599	826	-	1	26	1,452
Deferred tax asset/(liability)	**472**	**591**	**(554)**	**(1)**	**16**	**524**

Note 13 Assets held for sale and liabilities related to assets held for sale

Year ended March 31, 2011

As of March 31, 2011, the line “assets held for sale” includes the fair value of 5 aircraft held for sale for an amount of €21 million.

Year ended March 31, 2010

As of March 31, 2010, the line “assets held for sale” included the fair value of 8 aircraft held for sale for an amount of €93 million.

The line “liabilities related to assets held for sale” included pre-payment received for the sale of 4 aircraft classified as “assets held for sale”.

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)*	2011	2010
Income for the period – Group share	613	(1,559)
Dividends to be paid to priority shares	-	-
Income for the period – Group share (used to calculate basic earnings per share)	613	(1,559)
Impact of potential ordinary shares:		
♦ interest paid on convertible bonds (net of tax)	44	-
Income for the period – Group share *(used to calculate diluted earnings per share)*	***657***	***(1,559)***

Reconciliation of the number of shares used to calculate earnings per share

Year ended March 31,	2011	2010
Weighted average number of:		
♦ Ordinary shares issued	300,219,278	300,219,278
♦ Treasury stock held regarding stock option plan	(1,334,312)	(1,679,287)
♦ Treasury stock held in stock buyback plan	(661,716)	(1,199,292)
♦ Other treasury stock	(2,961,300)	(2,965,348)
Number of shares used to calculate basic earnings per share	***295,261,850***	***294,375,351***
OCEANE conversion	78,617,611	-
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**373,879,561**	**294,375,351**

14.2 Non dilutive instruments

As of March 31, 2011

Given the trend in the average Air France-KLM stock price during the 2010-11 financial year, non-dilutive instruments related to all the stock option plans described in Note 28.

As of March 31, 2010

Given the trend in the average Air France-KLM stock price during the 2009-10 financial year, non-dilutive instruments related to all the stock option plans described in Note 28 and also to the two OCEANEs 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)*	2011			2010		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value
VLM	168	-	168	168	-	168
UTA	112	-	112	112	-	112
Régional	60	-	60	60	-	60
Aeromaintenance Group	20	-	20	21	-	21
Brit Air	18	-	18	18	-	18
CityJet	11	-	11	11	-	11
SIA Kenya	22	-	22	-	-	-
Others	11	-	11	11	-	11
Total	**422**	**-**	**422**	**401**	**-**	**401**

The goodwill concerns mainly the "Passenger" business.

Movement in net book value of goodwill

Year ended March 31, *(In € millions)*	2011	2010
Opening balance	**401**	**400**
Acquisitions	22	1
Currency translation adjustment	(1)	-
Closing balance	**422**	**401**

A goodwill was recorded on the acquisition of 60% of SIA Kenya, a subsidiary of Servair group.

Note 16 Intangible assets

(In € millions)	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
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***
Additions	-	-	153	***153***
Change in scope	-	-	-	***-***
Disposals	-	-	(20)	***(20)***
Transfer	-	-	(6)	***(6)***
Amount as of March 31, 2011	***315***	***107***	***701***	***1,123***
Depreciation				
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)***
Charge to depreciation	-	(7)	(53)	***(60)***
Releases on disposal	-	-	13	***13***
Transfer	-	-	3	***3***
Amount as of March 31, 2011	***-***	***(100)***	***(328)***	***(428)***
Net value				
As of March 31, 2010	315	14	283	***612***
As of March 31, 2011	315	7	373	***695***

Intangible assets mainly comprise:

- 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;
- software and capitalized IT costs.

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 correspond to their business segments.

As of March 31, 2011, goodwill and intangible fixed assets with an indefinite useful life are attached principally to the “Passenger” CGU for €369 million and €284 million respectively.

The recoverable value of the assets of CGUs has been determined by reference to the value used at December 31, 2010 (no change with regards to December 31, 2009). The tests have been realized for all the CGUs on the basis of a three-year Group plan, approved by the management, and which includes a recovery hypothesis after the slowdown in the economy, allowing the medium-term forecasts made by the Group before the crisis occurred to be achieved.

An annual growth rate of 5% has been applied from the 4th to the 10th year of the test then a rate of 2% has been applied as of the 11th year (rate used to determine the terminal value). These growth rates remain the same as those used for the tests realized at March 31, 2010.

The discount rate of 7% at March 31, 2011 and 2010 corresponds to the Group’s weighted average cost of capital.

A discount rate higher than 16% would involve the recognition of an impairment.

Note 18 Tangible assets

(In € millions)	Flight equipment					Other tangible assets					Total
	Owned aircraft	Leased aircraft	Assets in progress	Other	Total	Land and buildings	Equip-ment and machi-nery	Assets in progress	Other	Total	
Gross value											
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)***
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***
Additions	493	7	1,172	142	1,814	34	52	78	34	198	***2,012***
Disposals	(1,127)	(7)	-	(144)	(1,278)	(10)	(47)	-	(66)	(123)	***(1,401)***
Changes in consolidation scope	(2)	-	-	-	(2)	2	5	-	5	12	***10***
Fair value hedge	-	-	59	-	59	-	-	-	-	-	***59***
Transfer	910	135	(1,175)	173	43	40	56	(133)	13	(24)	***19***
Currency translation adjustment	-	-	-	-	-	-	(2)	-	-	(2)	***(2)***
Amounts as of March 31, 2011	***10,622***	***4,788***	***969***	***2,107***	***18,486***	***2,642***	***1,270***	***67***	***901***	***4,880***	***23,366***
Depreciation											
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***
Currency translation adjustment	(5)	-	-	-	(5)	-	-	-	(1)	(1)	***(6)***

(In € millions)	Flight equipment: Owned aircraft	Flight equipment: Leased aircraft	Flight equipment: Assets in progress	Flight equipment: Other	Flight equipment: Total	Other tangible assets: Land and buildings	Other tangible assets: Equipment and machinery	Other tangible assets: Assets in progress	Other tangible assets: Other	Other tangible assets: Total	Total
Amounts as of March 31, 2010	***(4,510)***	***(1,176)***	***-***	***(815)***	***(6,501)***	***(1,201)***	***(730)***	***-***	***(636)***	***(2,567)***	***(9,068)***
Charge to depreciation	(851)	(299)	-	(142)	(1,292)	(133)	(87)	-	(65)	(285)	***(1,577)***
Releases on disposal	307	7	-	126	440	7	17	-	65	89	**529**
Changes in consolidation scope	-	-	-	-	-	(1)	(4)	-	(4)	(9)	**(9)**
Transfer	(149)	127	-	(71)	(93)	-	-	-	2	2	**(91)**
Currency translation adjustment	-	-	-	-	-	-	1	-	-	1	**1**
Amounts as of March 31, 2011	***(5,203)***	***(1,341)***	***-***	***(902)***	***(7,446)***	***(1,328)***	***(803)***	***-***	***(638)***	***(2,769)***	***(10,215)***
Net value											
As of March 31, 2010	5,838	3,477	913	1,121	11,349	1,375	476	122	279	2,252	**13,601**
As of March 31, 2011	5,419	3,447	969	1,205	11,040	1,314	467	67	263	2,111	**13,151**

Aeronautical assets under construction mainly include advance payments and maintenance work in progess concerning engines and modifications of aircraft.

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 €3,826 million as of March 31, 2011 against €3,820 million as of March 31, 2010.

As of March 31, 2010, the Group recorded an additional write-down amounting to €(67) million in "Other non-current income and expenses" (see Note 10).

Note 19 Capital expenditure

The detail of capital expenditures on tangible and intangible assets presented in the consolidated cash flow statements is as follows:

Year ended March 31, *(In € millions)*	**2011**	**2010**
Acquisition of tangible assets	2,012	1,991
Acquisition of intangible assets	153	113
Accounts payable on acquisitions and capitalized interest	(43)	(7)
Total	**2,122**	**2,097**

Note 20 Equity affiliates

Movements over the period

The table below presents the movement in equity affiliates:

(In € millions)	WAM Acquisition (Amadeus)	Alitalia	Kenya Airways	Other	Total
Value of share in investment as of March 31, 2009	**-**	***330***	***60***	***56***	***446***
Share in net income of equity affiliates	-	(13)	(5)	1	(17)
Distributions	-	-	(1)	-	(1)
Change in consolidation scope	-	-	-	4	4
Fair value adjustment		21	(10)	-	11
Other variations	-	-	-	-	-
Currency translation adjustment	-	-	3	-	3
Carrying value of share in investment as of March 31, 2010	**-**	***338***	***47***	***61***	***446***
Share in net income of equity affiliates		(31)	7	3	(21)
Distributions		-	(1)	(2)	(3)
Change in consolidation scope		-	-	12	12
Fair value adjustment		(9)	3	-	(6)
Other variations		-	-	2	2
Currency translation adjustment		-	(8)	-	(8)
Carrying value of share in investment as of March 31, 2011		***298***	***48***	***76***	***422***
Market value for listed companies			***32***		

As of March 31, 2011

KLM holds 26% of the capital of Kenya Airways.

Air France-KLM holds 25% of the capital of Alitalia.

On April 29, 2010, the company WAM (Amadeus) was the subject of an Initial Public Offering (IPO) on the Madrid stock exchange. This operation is detailed in Note 10.

The "share of profits (losses) of associates" includes mainly the share of the loss amounting to €(31) million of Alitalia Group. This corresponds to Alitalia's activity from January 1 to December 31, 2010, its annual closing date being December 31.

As of March 31, 2010

The ownership structure of WAM Acquisition (Amadeus) 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. This corresponds to Alitalia's 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.

Simplified financial statements of the main equity affiliates

The equity affiliates as of March 31, 2011 mainly concern the following companies, in which the Group has a significant influence:

- **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 serves 79 destinations in Italy and around the world with more than 2,200 flights a week.

The financial information for the principal equity affiliates for the years ended March 31, 2011 and 2010 (excluding consolidation adjustments) is presented below:

(In € millions)	WAM Acquisition (Amadeus GTD)	Alitalia	Kenya Airways
	12/31/2009	**12/31/2009**	**03/31/2009**
% holding as of March 31, 2010	22%	25%	26%
Operating revenues	2,461	2,827	657
Operating income	550	(274)	37
Net income/loss	272	(327)	(37)
Stockholders' equity	(278)	723	157
Total assets	**5,562**	**2,980**	**707**
Total liabilities and stockholders' equity	**5,562**	**2,980**	**707**
	-	**12/31/2010**	**03/31/2010**
% holding as of March 31, 2011	-	25%	26%
Operating revenues	-	3,225	653
Operating income	-	(107)	17
Net income/loss	-	(168)	19
Stockholders' equity	-	548	192
Total assets	**-**	**2,856**	**706**
Total liabilities and stockholders' equity	**-**	**2,856**	**706**

Other information

The share of WAM Acquisition's income not recorded in the Group's consolidated financial statements amounted to €60 million for the year ended March 31, 2010. Given the negative net equity after neutralization of the sum reinvested by the Air France-KLM group, its contribution to the consolidated financial statements was nil.

Note 21 Pension assets

Year ended March 31, *(In € millions)*	2011	2010
Opening balance	***2,733***	***2,499***
Net periodic pension (cost)/income for the period	(71)	(123)
Contributions paid to the funds	331	356
Reclassification	2	1
Currency translation adjustment	-	-
Closing balance	**2,995**	**2,733**

The detail of these pension assets is presented in Note 29.1.

Note 22 Other financial assets

Year ended March 31, *(In € millions)*	2011		2010	
	Current	Non current	Current	Non current
Financial assets available for sale				
Shares	-	977	-	54
Assets at fair value through profit and loss				
Marketable securities	574	-	343	-
Loans and receivables				
Financial lease deposit (triple A)	103	94	101	197
Financial lease deposit (others)	46	409	38	433
Loans and receivables	15	235	21	212
Miscellaneous financial assets	13	-	14	-
Gross value	***751***	***1,715***	***517***	***896***
Impairment at opening	***-***	***(56)***	***-***	***(55)***
New impairment charge	-	(5)	-	(1)
Use of provision	-	-	-	-
Impairment at closing	***-***	***(61)***	***-***	***(56)***
Total	**751**	**1,654**	**517**	**840**

Financial assets available for sale are as follows:

In € millions	Fair Value	% interest	Stockholder's equity	Net income	Stock price *(in €)*	Closing date
As of March 31, 2011						
Amadeus*	920	15.23%	767	384	13.50	December 2010
Club Med*	10	2.00%	516	(14)	15.20	October 2010
Voyages Fram	9	8.71%	108	(6)	NA	December 2010
Others	38	-	-	-		
Total	**977**					
As of March 31, 2010						
Club Med*	9	2.00%	492	(53)	13.615	October 2009
Voyages Fram	9	8.71%	131	9	NA	December 2009
Others	36	-	-	-	-	-
Total	**54**					

* *Listed company.*

Assets at fair value through profit and loss mainly comprise 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)*	**2011**	**2010**
Aeronautical spare parts	582	556
Other supplies	144	137
Production work in progress	6	7
Gross value	***732***	***700***
Opening valuation allowance	***(163)***	***(166)***
Charge to allowance	(21)	(12)
Use of allowance	7	9
Releases of allowance no longer required	-	-
Reclassification	3	6
Closing valuation allowance	***(174)***	***(163)***
Net value of inventory	**558**	**537**

Note 24 Trade accounts receivable

Year ended March 31, *(In € millions)*	**2011**	**2010**
Airlines	459	489
Other clients:		
♦ Passenger	873	1,004
♦ Cargo	409	324
♦ Maintenance	186	276
♦ Other	94	138
Gross value	***2,021***	***2,231***
Opening valuation allowance	***(89)***	***(86)***
Charge to allowance	(14)	(22)
Use of allowance	15	13
Currency translation adjustment	1	
Reclassification	4	6
Closing valuation allowance	***(83)***	***(89)***
Net value	**1,938**	**2,142**

Note 25 Other assets

Year ended March 31, *(In € millions)*	**2011**		**2010**	
	Current	**Non current**	**Current**	**Non current**
Suppliers with debit balances	119	-	74	-
State receivable	86	-	89	-
Derivative instruments	808	138	339	170
Prepaid expenses	259	18	242	9
Other debtors	280	-	239	1
Gross value	***1,552***	***156***	***983***	***180***
Opening valuation allowance	***(4)***	***-***	***(6)***	***-***
Charge to allowance	-	-	(1)	-
Use of allowance	1	-	1	-
Reclassification	1	-	2	-
Closing valuation allowance	***(2)***	***-***	***(4)***	***-***
Net realizable value of other assets	***1,550***	***156***	***979***	***180***

The derivative instruments did not comprise any currency hedges on financial debt as of March 31, 2011 and 2010.

Note 26 Cash, cash equivalents and bank overdrafts

Year ended March 31, *(In € millions)*	2011	2010
Mutual funds (SICAV) (assets at fair value through profit and loss)	3,219	3,171
Bank deposits (assets at fair value through profit and loss)	124	123
Cash in hand	374	457
Total cash and cash equivalents	***3,717***	***3,751***
Bank overdrafts	(129)	(116)
Cash, cash equivalents and bank overdrafts	***3,588***	***3,635***

Note 27 Equity attributable to equity holders of Air France-KLM SA

27.1 Issued capital

As of March 31, 2011, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares. Each share is entitled to one vote.

On August 5, 2010, a capital reduction operation amounting to €2,252 million took place. Since that date, the nominal value of each share has been €1 compared with €8.50 previously.

The change in the number of issued shares is as follows:

As of March 31, *(In number of shares)*	2011	2010
At the beginning of the period	***300,219,278***	***300,219,278***
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 up	300,219,278	300,219,278
♦ number of shares issued and not paid up	-	-

The shares comprising the issued capital of Air France-KLM are subject to no restriction nor priority concerning dividend distribution or reimbursement of the issued capital.

Authorized stock

The Extraordinary Shareholders' Meeting of July 8, 2010, authorized the Board of Directors, for a period of 26 months from the date of the meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM capital limited to a total maximum nominal amount of €120 million.

Breakdown of share capital and voting rights

The breakdown of share capital and voting rights is as follows:

	% of capital		% of voting rights	
Year ended March 31,	**2011**	**2010**	**2011**	**2010**
French State	16%	16%	16%	16%
Employees and former employees	10%	12%	10%	12%
Treasury shares	2%	2%	-	-
Other	72%	70%	74%	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)*	**2011**	**2010**
Other paid-in capital	2,971	719
Total	**2,971**	**719**

27.3 Treasury shares

	Treasury shares	
	Number	**In € millions**
March 31, 2009	***5,889,461***	***(124)***
Change in the period	(158,987)	18
March 31, 2010	***5,730,474***	***(106)***
Change in the period	(1,180,562)	12
March 31, 2011	***4,549,912***	***(94)***

As of March 31, 2011, Air France-KLM held 3,433,492 of its own shares (including 360,000 within the framework of the liquidity agreement), acquired pursuant to the annual authorizations granted by the Shareholders' Meeting. As of March 31, 2011, the Group also held 1,116,420 of its own shares 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)*	2011	2010
Legal reserve	70	70
Distributable reserves	1,032	1,064
Derivatives reserves	363	(325)
Available for sale securities reserves	173	7
Other reserves	1,424	2,941
Net income (loss) – Group share	613	(1,559)
Total	**3,675**	**2,198**

As of March 31, 2011, the legal reserve of €70 million represented 23% 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.

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, 2011

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price *(in €)*	Number of options exercised as of 03/31/2011
Stock-option plans						
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 *(in €)*	Number of shares exercised as of 03/31/2011
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 (in €)	Number of options
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*
Options forfeited during the period	13.49	(374,966)
Options exercised during the period	-	-
Options granted during the period	-	-
Options outstanding as of March 31, 2011	**26.16**	**768,216**
Of which: options exercisable at March 31, 2011	*26.16*	*768,216*

28.3 Price range of available options as of March 31, 2011

Range of exercise prices per share	Number of options	Weighted average remaining life (years)	Weighted average exercise price per share (in €)
From 15 to 20 euros per share	377,699	0.32	17.83
From 20 to 35 euros per share	390,517	1.34	34.21
Total	**768,216**	**0.84**	**26.16**

28.4 Description of the plans

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.

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 the pilots for the remaining 4,760,250 shares.

In accordance with the transitional provisions of IFRS 2 "Share-based payments", 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, 2011, 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 03/31/2011
KLM	07/01/2008	153,080	07/01/2008	07/01/2013	-
KLM	07/01/2009	136,569	07/01/2009	07/01/2014	-
KLM	07/01/2010	145,450	07/01/2010	07/01/2015	-

The changes in SARs were as follows:

	Number of SARs
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*
SARs forfeited during the period	(54,745)
SARs exercised during the period	-
SARs granted during the period	145,450
SARs outstanding as of March 31, 2011	***333,765***
Of which: SARs exercisable at March 31, 2011	*193,276*

The vesting conditions of the SARs granted by KLM on July 1, 2010, 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 €11.75 and a fair market value of €1.3 million;
- for the July 2009 plan: a market value of €11.75 and a fair market value of €1.2 million;
- for the July 2010 plan: a market value of €11.75 and a fair market value of €1.5 million.

28.5 Salary expenses related to share-based compensation

Year ended March 31, *(In € millions)*	Note	2011	2010
Shares-for-salary exchange 2003		25	25
Stock option plan		1	2
Salary expenses	***7***	***26***	***27***

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, 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*
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*
New provision	148	250	15	147	44	*604*
Use of provision	(86)	(166)	(86)	(103)	(38)	*(479)*
Reversal of unnecessary provisions	-	(15)	(2)	(2)	-	*(19)*
Currency translation adjustment	-	(3)	-	-	-	*(3)*
Change in scope	3	-	-	-	-	*3*
Discount/Accretion impact	-	(9)	-	-	-	*(9)*
Reclassification	2	(17)	-	-	7	*(8)*
Amount as of March 31, 2011	***986***	***556***	***122***	***401***	***152***	***2,217***
Of which:						
♦ *non-current*	*986*	*414*	*-*	*382*	*148*	*1,930*
♦ *current*	*-*	*142*	*122*	*19*	*4*	*287*

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, 2011, the impact of the closure of a pension plan in the United States has been recorded in "Other non-current income and expenses" (see Note 10).

As of March 31, 2010, the impact of the Air France voluntary redundancy plan on "retirement benefits" 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/accretion 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 holds 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 "funding requirements" 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, 2011 and 2010. These calculations include:

- assumptions on staff turnover, life expectancy and salary increase;
- assumptions of retirement age varying from 55 to 67 depending on the 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, taking into account the evolution of average interest rates on bonds rated AA market, observed on the main index available. In some countries, where the market regarding this type of bond is not large enough, the discount rate is determined with reference to bonds. Most of the Group's obligations are located in the Euro zone.

Year ended March 31,	2011	2010
Euro zone – Duration 4 to 5 years	4.25%	3.00%
Euro zone – Duration 10 to 15 years	4.75%	4.75%
Euro zone – Duration 15 years and more	5.35%	4.75%

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, 2011	Sensitivity of the assumptions for the year ended March 31, 2010
0.25% increase in the discount rate		
♦ Impact on the cost	(18)	(19)
♦ Impact on the obligation	(481)	(473)
0.25% decrease in the discount rate		
♦ Impact on the cost	19	30
♦ Impact on the obligation	481	473

- The expected long-term rates of return on funded pension plans assets are as follows:

Year ended March 31,	2011	2010
Euro zone	Between 3.0% and 6.8%	Between 3.2% and 6.8%

The expected average long-term rates of return on 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.

The sensitivity of the annual cost to variations in the expected return for plan assets is as follows:

(In € millions)	Sensitivity of the assumptions for the year ended March 31, 2011	Sensitivity of the assumptions for the year ended March 31, 2010
0.25% increase in the expected return for plan assets		
♦ Impact on the cost	35	28
0.25% decrease in the expected return for plan assets		
♦ Impact on the cost	(35)	(28)

✦ Assumption on increase in healthcare costs:

Year ended March 31,	2011	2010
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, 2011	Sensitivity of the assumptions for the year ended March 31, 2010
1% increase in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	5	4
1% decrease in healthcare costs		
♦ Impact on the cost	-	-
♦ Impact on the obligation	(5)	(4)

✦ On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

	Pension benefits		Other benefits	
Year ended March 31,	2011	2010	2011	2010
Discount rate	5.14%	4.79%	5.42%	5.91%
Salary inflation rate	2.53%	2.60%	-	-
Expected long-term rate of return on plan assets	6.09%	6.19%	-	-

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, 2011 and 2010.

	Pension benefits		Other benefits	
(In € millions)	2010-11	2009-10	2010-11	2009-10
Benefit obligation at beginning of year	***13,082***	***11,060***	***40***	***35***
Service cost	367	299	-	-
Interest cost	634	617	2	2
Employees' contribution	52	52	-	-
Plan amendments	-	(18)	-	-
Change of scope	3	(1)	-	1
Settlements/curtailments	(124)	(51)	-	-
Benefits paid	(503)	(543)	(2)	(3)
Transfers of assets/liability through Balance Sheet	(3)	-	-	-
Actuarial loss/(gain)	(245)	1,643	2	4
Currency translation adjustment	7	24	(2)	1
Benefit obligation at end of year	***13,270***	***13,082***	***40***	***40***
Including benefit obligation resulting from schemes totally or partly financed	*13,077*	*12,918*	*-*	*-*
Including not-financed benefit obligation	*193*	*164*	*40*	*40*
Fair value of plan assets at beginning of year	***13,487***	***11,031***	***-***	***-***
Actual return on plan assets	832	2,536	-	-
Employers' contributions	394	377	-	-
Employees' contributions	52	52	-	-
Change of scope	-	-	-	-
Settlements/curtailments	(111)	(4)	-	-
Transfers of assets/liability through Balance Sheet	(3)	-	-	-
Benefits paid	(482)	(525)	-	-
Currency translation adjustment	5	20	-	-
Fair value of plan assets at end of year	***14,174***	***13,487***	***-***	***-***

(In € millions)	Pension benefits 2010-11	Pension benefits 2009-10	Other benefits 2010-11	Other benefits 2009-10
Funded status	904	405	(40)	(40)
Unrecognized prior service cost	164	182	-	-
Unrecognized actuarial (gains)/losses	977	1,264	4	3
Prepaid (accrued) pension cost	***2,045***	***1,851***	***(36)***	***(37)***
Amounts recorded in the balance sheet*:				
Pension asset (Note 21)	2,995	2,733	-	-
Provision for retirement benefits	(950)	(882)	(36)	(37)
Net amount recognized	***2,045***	***1,851***	***(36)***	***(37)***
Net periodic cost:				
Service cost	367	299	-	-
Interest cost	634	617	2	2
Expected return on plan assets	(836)	(682)	-	-
Settlement/curtailment	21	(36)	-	-
Amortization of prior service cost	18	21	-	-
Amortization of unrecognized actuarial (gain) loss	13	40	-	-
Other	-	8	-	-
Net periodic cost	***217***	***267***	***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 obligations, fair value of plan assets and experience adjustments are as follows:

(In € millions)	Benefit obligations	Fair value of plan assets	Funded status	Experience adjustments on Benefit obligation	Experience adjustments on 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
As of March 31, 2011	13,310	14,174	864	47	(4)

Asset allocation

The weighted average allocation of the funds invested in Group pension plans as of March 31, 2011 and 2010 is as follows:

	Funds invested	
Year ended March 31,	**2011**	**2010**
Equities	40%	38%
Bonds	50%	52%
Real estate	10%	8%
Insurer assets	-	1%
Short-term investments	-	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, 2011, over the next ten years:

(In € millions)	**Pensions and similar benefits**
Estimated contribution to be paid in 2011-12	***402***
Estimated benefit payments as of March 31:	
2012	509
2013	490
2014	513
2015	540
2016	571
2017-2021	3,330

Risks on pension obligation

Some Group's commitments are subject to an "over-hedging" which is determined both by the local regulations and the collective agreements. An evolution of the regulations could have a favorable or unfavorable impact on the commitments and/or level of coverage of these commitments.

The revision of IAS19 on pension obligations will have an impact on the equity of the Group. This amount will be determined when applying the revised standard whose terms and date of implementation are not yet final.

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, the Air France-KLM group and its subsidiaries Air France and KLM (and their subsidiaries) are involved in litigation, some of which may be significant.

Provision for restructuring

As of March 31, 2011 and 2010, the provision for restructuring mainly includes the provision for the Air France voluntary redundancy plan (see Note 10).

Litigation concerning anti-trust laws

In the air-freight industry

a) Investigation of 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 2008-09 financial year, in Plea Agreements made by Air France, KLM and Martinair with the appropriate agencies, and the payment of fines putting an end to those proceedings. As of March 31, 2011 discussions were underway with the Competition Commission of South Africa to conclude a settlement agreement which would result in the payment by the Group of a penalty of €1.8 million.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices – mainly concerning fuel surcharges. The Commission imposed an overall fine of €340 million on the Air France-KLM group companies.

This fine exceeds, by €127 million, the provisions already made by the Group in its accounts. Consequently, an additional "non current expense" has been recorded.

As the Group's parent company, Air France-KLM was considered by the European Commission to be jointly and severally liable for the anti-competitive practices of which the Group companies were found guilty.

On January 24 and 25, 2011, the Group companies have filed an appeal against the decision before the General Court of European Union.

Since the appeal does not suspend the payment of the fines, the Group companies have chosen not to pay fine immediately, but to provide bank guarantees until a definitive ruling by the European Courts.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM, Air France and KLM a total fine of €8.6 million. The group companies have filed an appeal before the competent Court.

This fine will not impact the financial statements of the Group given that provisions have already been booked.

The total amount of provisions as of March 31, 2011 amounts to €365 million for all of the current proceedings.

b) Civil actions

As of March 31, 2011, the Group remains exposed in relation to class actions brought in Canada. With regard to the revenues involved, the risk is not significant.

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 been recorded in the financial statements.

Litigations concerning anti-trust laws

These litigations have not been provisioned given that the Group is unable, given the current status of proceedings, to evaluate its exposure.

a) In the air-freight industry

a.1) Investigation of the anti-trust authorities

The proceedings in Switzerland and Brazil, are still ongoing as of March 31, 2011.

With 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 authority 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.

In addition, civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010.

United States

In the United States, the Group concluded a Settlement Agreement with the representatives of the class action in July 2010. The Settlement Agreement, under which the Group accepted to pay USD 87 million, brings to a close all claims, lawsuits and legal proceedings in the past, present or future by plaintiffs seeking to obtain financial compensation from the Air France-KLM group for unlawful practices in freight transportation to, from or within the United States. The Settlement has no impact on the Group's financial statements, given the provisions already made to cover this risk.

On March 14, 2011, The Court issued an order granting final approval of the Air France-KLM settlement with the class action plaintiffs. Prior to that time, pursuant to procedures established by the Court, 36 entities elected to be excluded from the settlement, which permits them to separately pursue claims, but only four of those were customers of Air France, KLM or Martinair. In addition, a number of additional parties, including potentially one AF-KLM customer, filed a late exclusion notice and the Court has established a process to determine whether exclusion of those parties will be permitted.

With respect to those AF-KLM customers who have chosen to be excluded, a portion of the settlement proportional to the revenue AF-KLM received from those parties for a specified period as compared with Air France-KLM's overall revenue for that period will be segregated in a separate escrow. If claims by those parties, including written demands, are made against AF-KLM, then the portion of the separate escrow attributable to the claiming parties will be transferred to AF-KLM.

Netherlands

In the Netherlands, KLM, Martinair and Air France have been summoned on September 30, 2010, to appear before the District Court of Amsterdam in a civil suit brought by a company named Equilib which states that it has purchased claims from seventy purchasers of airfreight services who have allegedly suffered losses as a result of an anti-trust infringement in the European market between 2000 and 2006.

Equilib is seeking to obtain a declaratory judgment confirming that the Group companies have been guilty of unlawful conduct and are jointly and severally liable, along with other carriers, for the losses suffered by the airfreight purchasers. Equilib currently estimates its claims at €400 million but does not substantiate that figure.

The group companies served a contribution writ of summons on the other airlines fined by the European Commission on November 9, 2010.

United Kingdom

In the United Kingdom, a civil suit has been filed with the competent court in the UK against British Airways by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group.

The group companies will firmly resist all claims brought against them.

b) In the air transport industry (passengers)

b.1) Investigation of the European Commission into the air transport industry (passengers) between Europe and Japan

Air France and KLM, like other air carriers, were subject on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission into 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 2009, Air France and KLM were subpoenaed in a class action involving all the airlines operating transpacific routes between the United States and Asia/Oceania, on the basis of allegations of price-fixing on such routes.

Air France, which has only one transpacific route between the United States and Tahiti, and KLM, which is not involved on these routes, strongly deny these allegations. Both airlines accordingly filed motions to dismiss.

Other litigations

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 September 2011 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

On January 2008, the association VEB served KLM and Air France-KLM before the Amsterdam Civil Court claiming that KLM and Air France-KLM be ordered to pay out a higher dividend than the €0.58 per ordinary share paid for fiscal year 2007-08.

On September 1, 2010 the Court dismissed the case on the grounds that the dividend resolution met the test of reasonableness and fairness. VEB have appealed the Amsterdam Court decision.

c) Rio-Paris AF447 flight

Following to the crash of the Rio-Paris AF447 flight in the South Atlantic, a number of legal actions have been brought in the United States and Brazil by the victims' heirs.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash.

In the United States, all the proceedings have been consolidated in California before the Northern district Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and suggested that they pursue their claim in France. The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalities of fines as prescribed by law. Air France intends to challenge its implication in this case.

To the best of Air France-KLM's knowledge, 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 at least the past twelve months.

Note 30 Financial debt

Year ended March 31, *(In € millions)*	2011	2010
Non current financial debt		
Perpetual subordinated loan stock in Yen	241	232
Perpetual subordinated loan stock in Swiss francs	325	296
OCEANE (convertible bonds)	984	964
Bonds	1,450	1,450
Capital lease obligations (non current portion)	3,059	3,421
Other debt (non current portion)	2,921	2,859
Total	**8,980**	**9,222**
Current financial debt		
Capital lease obligations (current portion)	695	579
Other debt (current portion)	994	1,131
Accrued interest	119	115
Total	**1,808**	**1,825**

30.1 Perpetual subordinated bond

30.1.1 *Perpetual subordinated bond in Japanese Yen*

The perpetual subordinated bond in Japanese Yen was issued by KLM in 1999 for a total amount of JPY 30 billion, i.e. €241 million as of March 31, 2011.

The perpetual subordinated bond in Japanese Yen is subject to the payment of a coupon of 5.28% on a USD notional of USD 248 million.

The debt is perpetual and reimbursable at nominal value at the Group's discretion; the reimbursement date is 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 bond in Swiss francs*

The perpetual subordinated bond in Swiss francs was issued by KLM in two installments in 1985 and 1986 for a total original amount of CHF 500 million. Following the reimbursements made by KLM, the outstanding subordinated loan amounts to CHF 419 million, i.e. €325 million as of March 31, 2011.

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 (5¾% on a CHF 270 million portion and 2 1/8% on a CHF 149 million portion) for the years ended March 31, 2011 and 2010.

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 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, 2011, 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 in the event of 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, 2011, the debt value amounts to €402 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 preceding the normal or early reimbursement date.

Air France-KLM can impose the cash reimbursement of these bonds by exercing a call as of April 1, 2013 and under certain conditions encouraging 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, 2011, the debt value amounts to €583 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

30.3.1 *Bonds issued in 2006 and 2007*

On September 2006 and April 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 an annual interest rate of 4.75%.

30.3.2 *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 an 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:

Year ended March 31, *(In € millions)*	2011	2010
Aircraft		
Future minimum lease payments – due dates		
Y+1	786	677
Y+2	443	772
Y+3	506	410
Y+4	480	476
Y+5	374	457
Over 5 years	1,337	1,503
Total	**3,926**	**4,295**
Including:		
♦ Principal	3,427	3,665
♦ Interest	499	630
Buildings		
Future minimum lease payments – due dates		
Y+1	41	35
Y+2	39	34
Y+3	37	31
Y+4	37	31
Y+5	37	31
Over 5 years	109	107
Total	**300**	**269**
Including:	246	202
♦ Principal		
♦ Interest	54	67

Year ended March 31, *(In € millions)*	2011	2010
Other property, plant and equipment		
Future minimum lease payments – due dates		
Y+1	9	30
Y+2	9	12
Y+3	9	12
Y+4	9	12
Y+5	8	12
Over 5 years	96	150
Total	**140**	**228**
Including:		
♦ Principal	81	133
♦ Interest	59	95

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)*	2011	2010
Reservation of ownership clause and mortgage debt	2,449	2,285
Other debt	1,466	1,915
Total	**3,915**	**3,990**

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 financial debt maturities break down as follows:

Year ended March 31, *(In € millions)*	2011	2010
Maturities in		
Y+1	2,183	2,188
Y+2	1,743	1,357
Y+3	2,087	1,575
Y+4	1,276	1,786
Y+5	1,771	1,394
Over 5 years	3,904	4,724
Total	**12,964**	**13,022**
Including:		
♦ Principal	10,788	11,047
♦ Interest	2,176	1,975

As of March 31, 2011, expected financial costs amount to €383 million for 2011-12, €1,138 million for the periods from 2012-13 until 2015-16, and €655 million thereafter.

As of March 31, 2011, 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 the 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)*	2011	2010
Euro	9,285	9,535
US dollar	745	985
Swiss franc	325	296
Yen	422	231
Kenyan Shilling	11	-
Total	**10,788**	**11,047**

30.8 Credit lines

As of March 31, 2011, the Group had credit lines amounting to €1,895 million, of which only €500 million have been drawn down. The three main credit lines amounted respectively, to €1,115 million for Air France, €530 million for KLM and €250 million for the holding Air France-KLM.

Air France's credit facility is subject to the respect of financial covenants, which were respected at March 31, 2011. It matures on April 7, 2012.

On April 4, 2011, Air France renewed this facility early with a 1,060 million revolving credit facility maturing on April 4, 2016, subject to the following financial covenants based on the Air France consolidated financial statements:

- EBITDAR must not be lower than two and a half times the net interest charges increased by one third of operating lease payments;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured financial net debts.

These ratios are calculated every six months.

KLM's credit facility, which amounts to €530 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, 2011.

Air France-KLM's credit facility, which amounts to €250 million, with a maturity as of October 4, 2017 and reduced by €50 million per 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 pledged as collateral, must be at least equal to unsecured financial net debts.

These ratios are calculated every six months and were respected at March 31, 2011.

Note 31 Other liabilities

Year ended March 31, *(In € millions)*	2011		2010	
	Current	Non current	Current	Non current
Tax liabilities	463	-	388	-
Employee-related liabilities	867	-	834	-
Non current assets' payables	43	-	26	-
Derivative instruments	396	194	524	651
Deferred income	120	1	74	87
Other	797	77	751	80
Total	**2,686**	**272**	**2,597**	**818**

Derivative instruments comprise €36 million of currency hedges on financial debts as of March 31, 2011, all as non current liability (€39 million as of March 31, 2010 including a current portion of €13 million).

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.

The instruments used are swaps, furures and options.

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 implementation of 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 management. 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, the resulting net prices and stess scenarii, as well as market commentary. Furthermore, the Fuel Purchasing departments makes a weekly Air France-KLM group report (known as the GEC report) which consolidates the figures from the two companies relating to fuel hedging and physical cost.

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 Japanese yen and pound sterling. 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 expenditure or items such as fuel, operating leases and 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 progressively hedge 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, 2011, 88% 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 71% of the overall total. Given this policy, the Group displays an amount of floating-rate debt lower than the amount of floating-rate treasury. An interest rate increase will consequently have a positive effect on the Group's financial results.

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, three ways, four ways and collar.
- *IAS 39 rule:*
  The instruments and underlyings used within the framework of the strategy must be compliant with IAS 39 “Financial instruments: recognition and measurement”.
- Implementation of monitoring indicators of positions:
  To ensure a closer monitoring of the marked-to-market positions and a dynamic management of its exposure, the Air France-KLM group uses the VAR (value at risk) to help to measure the risk for its portfolio. This monitoring is also reinforced by taking into account the maximum loss and maximum gain which can limit the scale of variation of this same portfolio and enable the appropriate reaction.

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 debt security with maturities of up to two years from high-grade issuers in order to increase the overall returns on 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 investments in money market funds (OPCVM) for which the counterparty risk is deemed not to be 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 (Standard & Poors)	**As of March 31, 2011**	**As of March 31, 2010**
AAA	306	286
AA	84	109
AA-	243	126
A+	1,052	592
A	354	119
BBB+	-	25
Total	**2,039**	**1,257**

32.2 Derivative instruments

➤ Year ended March 31, 2011

Book value *(In € millions)*	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Currency exchange risk (operating and financial operations)				
Fair value hedge	23	12	37	28
Cash flow hedge	(5)	7	25	67
Fair value through profit and loss	4	1	2	4
Interest rate risk (financial operations)				
Cash flow hedge	7	2	38	1
Fair value hedge	4	2	24	-
Fair value through profit and loss	-	-	13	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	105	784	55	296
Fair value through profit and loss	-	-	-	-
Total	**138**	**808**	**194**	**396**

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	888	783	105	-	-	-	-
	Liability	(351)	(296)	(55)	-	-	-	-
Interest rate derivative instruments	Asset	15	4	1	-	1	-	9
	Liability	(75)	(2)	(2)	(4)	(28)	(2)	(37)
Currency exchange derivative instruments	Asset	43	21	14	2	2	-	4
	Liability	(164)	(98)	(57)	(2)	-	(1)	(6)
Total	**Asset**	**946**	**808**	**120**	**2**	**3**	**-**	**13**
	Liability	**(590)**	**(396)**	**(114)**	**(6)**	**(28)**	**(3)**	**(43)**

➤ 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	-
Commodity risk				
Fair value hedge	-	-	-	-
Cash flow hedge	69	211	481	445
Fair value through profit and loss	-	-	-	4
Total	**170**	**339**	**651**	**524**

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, 2011

(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	2,392	360	355	335	384	264	694	(32)
Other	389	75	-	96	115	103	-	2
Operations qualified as fair value hedging								
Interest rate swaps	395	132	67	41	42	15	98	(18)
Operations qualified as fair value through profit and loss	***120***	***-***	***14***	***-***	***-***	***1***	***105***	***(13)***
Total	**3,296**	**567**	**436**	**472**	**541**	**383**	**897**	**(61)**

➤ Year ended March 31, 2010

(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	2,418	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)**

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 the 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)*	2011				2010			
	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	***1,879***	***1.8%***	***1,879***	***1.8%***	***1,688***	***3.0%***	***1,688***	***3.0%***
Perpetual subordinated loans	566	4.2%	594	4.3%	528	4.6%	536	4.6%
OCEANE (convertible bond)	984	4.1%	984	4.7%	964	4.0%	964	4.6%
Bonds	1,450	5.7%	1,450	5.7%	1,450	5.3%	1,150	5.2%
Other financial debts	2,164	5.2%	4,488	4.3%	2,178	5.2%	4,565	4.3%
Fixed-rate financial liabilities	***5,164***	***5.0%***	***7,516***	***4.7%***	***5,120***	***4.9%***	***7,215***	***4.5%***
Floating-rate financial assets and liabilities								
Floating-rate financial assets	***3,266***	***2.6%***	***3,266***	***2.6%***	***3,366***	***3.1%***	***3,366***	***3.1%***
Bonds	-	-	-	-	-	-	300	6.4%
Other financial debts	5,624	2.1%	3,272	2.4%	5,927	2.4%	3,532	2.6%
Bank overdraft	129	0.3%	129	0.4%	116	0.1%	116	0.3%
Floating-rate financial liabilities	***5,753***	***2.0%***	***3,401***	***2.3%***	***6,043***	***2.4%***	***3,948***	***2.8%***
Without-rate financial assets	***977***	***-***	***977***	***-***	***54***	***-***	***54***	***-***

As of March 31, 2011, without-rate financial assets mainly includes the revaluation of Amadeus (WAM) at the fair value.

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 and the pound sterling.

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, 2011

(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)	***4,114***	***2,880***	***1,184***	***32***	***15***	***3***	***-***	***(90)***
Exchange rate options								
US Dollar	1,992	1,408	584	-	-	-	-	(65)
Yen	213	125	88	-	-	-	-	5
Other currencies	139	107	32	-	-	-	-	2
Forward purchases								
US Dollar	1,045	664	336	27	15	3	-	(33)
Forward sales								
Yen	203	132	71	-	-	-	-	2
Pound sterling	205	144	61	-	-	-	-	4
Norwegian Krone	121	121	-	-	-	-	-	(1)
Swiss franc	38	38	-	-	-	-	-	(1)
Other currencies	110	110	-	-	-	-	-	(2)
Others								
US Dollar	48	31	12	5	-	-	-	(1)
Exchange risk (Fair value hedging of flight equipment acquisition)	***1,596***	***757***	***446***	***108***	***59***	***14***	***212***	***(30)***
Forward purchases US Dollar	1,571	732	446	108	59	14	212	(30)
Exchange rate options US Dollar	25	25	-	-	-	-	-	-
Exchange risk (trading)	***326***	***204***	***71***	***-***	***-***	***-***	***51***	***(1)***
Forward purchases US Dollar	98	27	71	-	-	-	-	5
Exchange rate options US Dollar	177	177	-	-	-	-	-	(4)
Other US Dollar	51	-	-	-	-	-	51	(2)
Total	**6,036**	**3,841**	**1,701**	**140**	**74**	**17**	**263**	**(121)**

➤ 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**

Within the framework of cash flow hedges, maturities relate to the realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at the 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, 2011

(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)	***5,795***	***3,956***	***1,839***	**-**	**-**	**-**	**-**	***538***
Swap	124	124	-	-	-	-	-	29
Options	5,671	3,832	1,839	-	-	-	-	509
Commodity risk (trading)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Swap	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
Total	**5,795**	**3,956**	**1,839**	**-**	**-**	**-**	**-**	**538**

➤ 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)**

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, 2011 and 2010 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.
- *Derivatives instruments:*
  The market value of derivatives instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2011 and 2010 calculated using the year-end market rate.

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

(In € millions)	March 31, 2011 Net book value	March 31, 2011 Estimated market value	March 31, 2010 Net book value	March 31, 2010 Estimated market value
Financial assets				
Financial assets available for sale				
Shares	977	977	54	54
Assets at fair value through profit and loss				
Marketable securities	574	574	343	343
Loans and receivables				
Loans				
Fixed-rate	216	229	299	323
Floating-rate	117	117	115	113
Interest rate derivative instruments				
Interest rate swaps	15	15	15	15
Exchange rate derivative instruments				
Exchange rate options	(16)	(16)	88	88
Forward currency contracts	58	58	126	126
Currency swaps	-	-	-	-
Commodity derivative instruments				
Petroleum swaps and options	889	889	280	280
Trade accounts receivables	1,938	1,938	2,142	2,142
Other assets (except derivatives instruments)	760	760	650	650

(In € millions)	March 31, 2011 Net book value	March 31, 2011 Estimated market value	March 31, 2010 Net book value	March 31, 2010 Estimated market value
Cash and cash equivalents				
Cash equivalents	3,343	3,343	3,294	3,294
Cash in hand	374	374	457	457
Financial liabilities				
Debt measured at amortized cost				
Bonds*				
Fixed-rate	2,434	2,822	2,414	2,859
Perpetual subordinated loans	566	594	528	536
Other borrowings and financial debt				
Fixed-rate	2,164	2,176	2,178	2,123
Variable-rate	5,624	5,531	5,927	5,818
Derivatives				
Interest rate derivative instruments				
Interest rate swaps	76	76	141	141
Exchange derivative instruments				
Exchange rate options	46	46	27	27
Forward currency contracts	114	114	76	76
Currency swaps	3	3	1	1
Commodity derivative instruments				
Petroleum swaps and options	351	351	930	930
Other debt				
Trade accounts payable	2,211	2,211	2,032	2,032
Deferred revenue on ticket sales	2,440	2,440	2,340	2,340
Frequent flyer programs	806	806	840	840
Other liabilities (except derivatives instruments)	2,368	2,368	2,240	2,240

* *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 €700 million of bonds issued in October 2009 by Air France-KLM.*

OCEANE issued in April 2005: The market value of €475 million, was determined based on the bond's market price as of March 31, 2011. This market value includes the fair value of the debt component (amount of €402 million in the financial statements as of March 31, 2011) as well as the fair value of the conversion option recorded in equity for €48 million.

OCEANE issued in June 2009: The market value of €866 million, was determined based on the bond's market price as of March 31, 2011. This market value includes the fair value of the debt component (amount of €583 million in the financial statements as of March 31, 2011) as well as the fair value of the conversion option recorded in equity for €78 million.

Bond issued in September 2006 and April 2007: the characteristics of this bond are described in Note 30.3. The market value is €758 million.

Bond issued in October 2009: the characteristics of this bond are described in Note 30.3. The market value is €723 million.

32.4 Valuation methods for financial assets and liabilities at their fair value

The breakdown of the Group's financial assets and liabilities is as follows based on the three classification level (see Note 3.10.7):

As of March 31 *(In € millions)*	Level 1		Level 2		Level 3		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Financial assets available for sale								
Shares	941	15	36	39	-	-	977	54
Assets at fair value through profit and loss								
Marketable securities	7	-	567	343	-	-	574	343
Cash equivalents	3,343	3,294	-	-	-	-	3,343	3,294
Derivative instruments asset								
Interest rate derivatives	-	-	15	15	-	-	15	15
Currency exchange derivatives	-	-	43	214	-	-	43	214
Commodity derivatives	-	-	888	280	-	-	888	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 as level 2.

32.5 Sensitivity

The sensitivity is calculated solely on the valuation of derivatives at the closing date of each period presented.

The range of shocks has been judged reasonable and realistic by the Group's management. The shock assumptions 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 transaction 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 hedging instruments whose 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:

(In € millions)	March 31, 2011		March 31, 2010	
	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	50	(78)	(121)	122
Gains/(losses) taken to equity	321	(309)	586	(582)

Currency hedge sensitivity

The value in euros of all monetary assets and liabilities is presented below:

(In € millions)	Monetary assets		Monetary liabilities	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
US dollar	348	464	1,204	1,307
Pound sterling	33	33	-	-
Yen	8	10	453	298
Swiss franc	6	7	322	293
Canadian dollar	4	11	3	1

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 *(In € millions)*	US dollar		Pound Sterling		Yen	
	2011	2010	2011	2010	2011	2010
Income before tax	47	(54)	(5)	2	(55)	(35)
Gains/(losses) taken to equity	289	327	(15)	(18)	(34)	(24)

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 *(In € millions)*	US dollar		Pound Sterling		Yen	
	2011	2010	2011	2010	2011	2010
Income before tax	(40)	4	(3)	(2)	42	30
Gains/(losses) taken to equity	(250)	(209)	25	16	27	21

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 €4 million on the financial charges for the year ending March 31, 2011 versus €3 million for the year ending March 31, 2010.

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 2011	2010
Flight equipment		
Due dates		
Y+1	821	807
Y+2	801	665
Y+3	670	562
Y+4	528	458
Y+5	449	388
Over 5 years	1,381	1,234
Total	**4,650**	**4,113**
Buildings		
Due dates		
Y+1	223	203
Y+2	184	191
Y+3	160	185
Y+4	149	179
Y+5	125	159
Over 5 years	983	1,036
Total	**1,824**	**1,953**

The expense relating to operating leases for flight equipment amounted to €831 million for the year ended March 31, 2011 and to €721 million for the year ended March 31, 2010.

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)*	**2011**	**2010**
Y+1	1,050	1,065
Y+2	806	1,279
Y+3	369	640
Y+4	328	401
Y+5	90	101
Total	**2,643**	**3,486**

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 under firm order as of March 31, 2011 decreased by 20 units compared with March 31, 2010 to 56 units. The number of options also decreased during the period by 5 aircraft to 53 units. The changes are explained by:

- the delivery of 26 aircraft over the period;
- 6 new firm orders;
- the cancellation of 13 orders under option; and
- the ordery of 8 aircraft under option.

Long-haul fleet

Passenger

The Group took delivery of 2 Airbus A380s and 3 Boeing B777s. It also took delivery of 1 Airbus A330 and cancelled 1 order in option for this aircraft type. The Group ordered 1 Airbus A330.

Cargo

The Group did not take any deliveries.

Medium-haul fleet

The Group took delivery of 4 Boeing B737s and cancelled 4 options for this aircraft type.

It also took delivery of 3 Airbus A320s and cancelled 3 options for this aircraft type.

Regional fleet

The Group took delivery of 3 Embraer 170s and cancelled 5 options for this aircraft type.

It took delivery of 4 Embraer 190s and placed 5 new firm orders for this aircraft type.

It also took delivery of 6 CRJ1000s and ordered 8 new aircraft under options.

The Group's commitments concern the following aircraft:

Aircraft type		To be delivered in IATA	Y+1	Y+2	Y+3	Y+4	Y+5	Beyond Y+5	Total
Long-haul fleet – passenger									
A380	***As of March 31, 2011***	***Firm orders***	***2***	***2***	***2***	***2***	-	-	***8***
		Options	-	-	-	-	***1***	***1***	***2***
	As of March 31, 2010	Firm orders	2	2	2	3	1	-	*10*
		Options	-	-	-	1	1	-	*2*
A330	***As of March 31, 2011***	***Firm orders***	-	***1***	-	-	-	-	***1***
		Options	-	-	***1***	-	-	-	***1***
	As of March 31, 2010	Firm orders	1	-	-	-	-	-	*1*
		Options	-	1	1	-	-	-	*2*
B777	***As of March 31, 2011***	***Firm orders***	***3***	***5***	-	***1***	***3***	-	***12***
		Options	-	-	***3***	***3***	***3***	***3***	***12***
	As of March 31, 2010	Firm orders	3	3	7	2	-	-	*15*
		Options	-	1	4	4	3	-	*12*
Long-haul fleet – cargo									
B777 F	***As of March 31, 2011***	***Firm orders***	***1***	-	-	-	-	-	***1***
		Options	-	-	-	-	-	***3***	***3***
	As of March 31, 2010	Firm orders	-	1	-	-	-	-	*1*
		Options	-	-	1	2	-	-	*3*
Medium-haul fleet									
A320	***As of March 31, 2011***	***Firm orders***	***6***	***5***	-	-	-	-	***11***
		Options	-	-	***1***	***6***	-	-	***7***
	As of March 31, 2010	Firm orders	1	12	1	-	-	-	*14*
		Options	-	-	2	5	3	-	*10*
A321	***As of March 31, 2011***	***Firm orders***	***1***	-	-	-	-	-	***1***
		Options	-	-	-	-	-	-	-
	As of March 31, 2010	Firm orders	-	1	-	-	-	-	*1*
		Options	-	-	-	-	-	-	-
B737	***As of March 31, 2011***	***Firm orders***	***7***	***2***	-	-	-	-	***9***
		Options	-	-	***5***	***2***	-	-	***7***
	As of March 31, 2010	Firm orders	6	5	2	-	-	-	*13*
		Options	-	1	3	5	2	-	*11*
Regional fleet									
Emb 170	***As of March 31, 2011***	***Firm orders***	-	-	-	-	-	-	-
		Options	-	-	***5***	-	-	-	***5***
	As of March 31, 2010	Firm orders	3	-	-	-	-	-	*3*
		Options	-	3	3	4	-	-	*10*
Emb 190	***As of March 31, 2011***	***Firm orders***	***2***	***3***	-	-	-	-	***5***
		Options	-	***3***	***3***	-	-	-	***6***
	As of March 31, 2010	Firm orders	4	-	-	-	-	-	*4*
		Options	-	2	2	2	-	-	*6*
CRJ 1000	***As of March 31, 2011***	***Firm orders***	***7***	***1***	-	-	-	-	***8***
		Options	***4***	***2***	***2***	***2***	-	-	***10***
	As of March 31, 2010	Firm orders	6	4	4	-	-	-	*14*
		Options	-	-	-	1	1	-	*2*

Note 35 Other commitments

35.1 Commitments made

Year ended March 31, *(In € millions)*	2011	2010
Call on investment securities	9	1
Put on investment securities	-	(2)
Warranties, sureties and guarantees	98	79
Mortgaged or secured assets	6,203	6,076
Other purchase commitments	132	148

The restrictions and pledges as of March 31, 2011 were as follows:

(In € millions)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	695	-
Tangible assets	December 1999	August 2021	7,579	13,151	57.63%
Other financial assets	September 1986	April 2020	765	2,405	31.81%
Total			**8,344**	**16,251**	**51.34%**

The amount of pledged assets on “Other financial assets” includes €303 million of marketable securities pledged as guarantee given to the European Union concerning the anti-trust litigation

35.2 Commitments received

Year ended March 31, *(In € millions)*	2011	2010
Warranties, sureties and guarantees	278	215

Warranties, sureties and guarantees principally comprise 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.

Benefits granted to the two principal executives and booked in expenses are detailed as follows:

Year ended March 31, *(In € millions)*	2011	2010
Short term benefits	0.8	1.2
Post-employment benefits	0.3	0.9
Total	**1.1**	**2.1**

Directors' fees paid during the year ended March 31, 2011 in respect of attendance at Board meetings during the year ended March 31, 2010, 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, 2011 and 2010 are as follows:

Year ended March 31, *(In € millions)*	2011	2010
Assets		
Net trade accounts receivable	98	176
Other current assets	3	10
Other non-current assets	23	5
Total	**124**	**191**
Liabilities		
Trade accounts payable	142	171
Other current liabilities	52	51
Other long-term liabilities	41	48
Total	**235**	**270**

Year ended March 31, *(In € millions)*	2011	2010
Net sales	214	258
Landing fees and other rents	(452)	(473)
Other selling expenses	(138)	(111)
Passenger service	(64)	(62)
Other	(56)	(46)
Total	**(496)**	**(434)**

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:

Aéroport 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 €454 million and €456 million for the periods ended March 31, 2011 and 2010.

Defense Ministry

Air France-KLM has entered into contracts with the French Defense Ministry to maintain certain aircraft in the French Air Force. The net revenue derived from such arrangements amounted to €54 million for the year ended March 31, 2011 and €55 million for the year ended March 31, 2010.

DGAC

The civil aviation regulator is under Ministry of Transport authority, 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, 2011 and for the year ended March 31, 2010.

Amadeus (WAM)

The company Amadeus (WAM) was consolidated by the equity method in the Group's financial statements until March 31, 2010. Following the Initial Public Offering (IPO) on the Madrid stock exchange (see Note 10), the Amadeus (WAM) shares were reclassified under "assets available for sale".

For the year ended March 31, 2011, total transactions with WAM Acquisition amounted to a cost of €102 million compared with €84 million for the year ended March 31, 2010.

Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned Alitalia.

For the year ended March 31, 2011, the amount of transactions made with Alitalia represents for the Group revenues of €64 million (compared with €42 million for the year ended March 31, 2010) and a cost of €13 million (compared with €10 million for the year ended March 31, 2010).

Note 37 Consolidated statement of cash flow

37.1 Acquisitions of subsidiaries and investments in associates, net of cash acquired, purchase of non controlling interest of shares in non-controlled entities

Net cash disbursements related to the acquisition of subsidiaries and investments in associates were as follows:

Year ended March 31, *(In € millions)*	**2011**	**2010**
Cash disbursement for acquisitions	(13)	(16)
Cash from acquired subsidiaries	(33)	(2)
Net cash disbursement	**(46)**	**(18)**

Year ended March 31, 2011

During the year ended March 31, 2011, there were no significant acquisitions of subsidiaries and investments.

Year ended March 31, 2010

During the year ended March 31, 2010, there were no significant acquisitions of subsidiaries and investments.

37.2 Disposal of subsidiaries and investments in associates, disposal of subsidiaries without loss of control and disposal of shares in non-controlled entities

Net proceeds from the disposal of subsidiaries can be analyzed as follows:

Year ended March 31, *(In € millions)*	2011	2010
Proceeds from sales of own shares	14	-
Proceeds from disposals	-	3
Cash of disposed subsidiaries	-	-
Net proceeds from disposals	**14**	**3**

Year ended March 31, 2011

During the year ended March 31, 2011, there were no significant disposals of subsidiaries.

Year ended March 31, 2010

During the year ended March 31, 2010, there were no significant disposals of subsidiaries.

37.3 Non cash transactions

During the years ended March 31, 2011 and 2010, there were no significant non-cash transactions.

Note 38 Fees of Statutory Auditors

Year ended March 31, *(In € millions)*	KPMG 2011 Amount	%	2010 Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.8	97%	3.8	97%
♦ *Air France-KLM SA*	*0.7*		*0.8*	
♦ *Consolidated subsidiaries*	*3.1*		*3.0*	
Other ancillary services and audit services	-	-	-	-
♦ *Air France-KLM SA*	-	-	-	-
♦ *Consolidated subsidiaries*	-	-	-	-
Sub-total	**3.8**	**97%**	**3.8**	**97%**
Other services				
Legal, tax and corporate	0.1	3%	0.1	3%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**3.9**	**100%**	**3.9**	**100%**

Year ended March 31, *(In € millions)*	Deloitte & Associés			
	2011		2010	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3.6	97%	4.0	100%
♦ *Air France-KLM SA*	*0.7*		*1.1*	
♦ *Consolidated subsidiaries*	*2.9*		*2.9*	
Other ancillary services and audit services	-	-	-	-
♦ *Air France-KLM SA*	-	-	-	-
♦ *Consolidated subsidiaries*	-	-	-	-
Sub-total	**3.6**	**97%**	**4.0**	**100%**
Other services				
Legal, tax and corporate	0.1	3%	-	-
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**3.7**	**100%**	**4.0**	**100%**

Note 39 Consolidation scope as of March 31, 2011

The scope includes 156 fully-consolidated entities and 30 equity affiliates

Based on the Air France-KLM ownership in terms of both voting rights and equity interest and on the functioning mode of the Group's Executive Committee, Air France-KLM has the power to manage the KLM group's financial and operational strategies and controls KLM. KLM is thus fully consolidated in the Air France-KLM's consolidated financial statements.

39.1 Consolidated entities

Entity	Country	Segment	% interest	% control
AIR FRANCE SA	France	Multisegment	100	100
KLM N.V.	Netherlands	Multisegment	99	49
MARTINAIR HOLLAND N.V. GROUP	Netherlands	Multisegment	99	49
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
BLUELINK INTERNATIONAL MAURITIUS	Mauritius	Passenger	100	100
BLUE CONNECT	Mauritius	Passenger	70	70
BRIT AIR	France	Passenger	100	100
CITYJET	Ireland	Passenger	100	100
CONSTELLATION FINANCE Limited	Ireland	Passenger	100	100
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 MARINE AIRLINE SERVICES LIMITED	United Kingdom	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES AMERICAS L.P.	United States	Passenger	99	49
KLM CITYHOPPER B.V.	Netherlands	Passenger	99	49
KLM CITYHOPPER UK LTD	United Kingdom	Passenger	99	49
COBALT 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

Entity	Country	Segment	% interest	% control
TEAMTRACKERS SRO	Czech Rep.	Passenger	100	100
VLM AIRLINES N.V.	Belgium	Passenger	100	100
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	100	100
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 BLEU SERVICES	France	Other	100	100
AIR CHEF	Italy	Other	49	50
AIR FRANCE FINANCE	France	Other	100	100
AIR FRANCE FINANCE IRELAND	Ireland	Other	100	100
AIR FRANCE KLM FINANCE LIMITED	France	Other	100	100
AIRPORT MEDICAL SERVICES B.V.	Netherlands	Other	79	49
AIRPORT MEDICAL SERVICES C.V.	Netherlands	Other	79	49
ALL AFRICA AIRWAYS	Mauritius	Other	80	80
AMSTERDAM SCHIPOL PIJPLEIDING BEHEER B.V.	Netherlands	Other	59	49
AMSTERDAM SCHIPOL 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

Entity	Country	Segment	% interest	% control
CATERING FDF	France	Other	98	100
CATERING PTP	France	Other	98	100
CELL K16 INSURANCE COMPANY	United Kingdom	Other	99	0
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
GUINEA AIRPORT SERVICES	Guinea	Other	30	60
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 SCHIPOL 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
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
NAS AIRPORT SERVICES LIMITED	Kenya	Other	58	100
O'FIONNAGAIN HOLDING COMPANY LIMITED	Ireland	Other	100	100
ORION-STAETE B.V.	Netherlands	Other	99	49

Entity	Country	Segment	% interest	% control
ORLY AIR TRAITEUR	France	Other	98	100
OUAGADOUGOU CATERING SERVICES	Burkina Faso	Other	98	100
PASSERELLE	France	Other	98	100
PASSERELLE CDG	France	Other	64	66
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
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 CONGO	Congo	Other	50	51
SERVAIR GHANA	Ghana	Other	56	57
SERVAIR SATS	Singapore	Other	50	51
SERVAIR SOLUTION ITALIA S.R.L	Italy	Other	98	100
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
SIA KENYA HOLDING LIMITED	Kenya	Other	58	59
SKYCHEF	Seychelles	Other	54	55
SKYLOGISTIC	France	Other	98	100
SOCIÉTÉ D'INVESTISSEMENT AÉROPORTUAIRE	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

Entity	Country	Segment	% interest	% control
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
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 B.V.	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
AIRCRAFT CAPITAL Ltd	United Kingdom	Other	40	40
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	49
AEROSTRUCTURES MIDDLE EAST SERVICES	United Arab Emirates	Maintenance	50	50
AEROTECHNIC INDUSTRIES	Morocco	Maintenance	50	50
SPAIRLINERS	Germany	Maintenance	50	50
COTONOU CATERING	Benin	Other	24	49
DOUAL'AIR	Cameroon	Other	25	25
FLYING FOOD CATERING	United States	Other	48	49
FLYING FOOD JFK	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
FLYING FOOD SERVICES USA	United States	Other	49	49
GUANGHOU NANLAND CATERING COMPANY	China	Other	24	25
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Italy	Other	20	20
KENYA AIRWAYS LIMITED	Kenya	Other	26	26
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	25
NEWREST SERVAIR UK LTD	United Kingdom	Other	39	40
PRIORIS	France	Other	33	34
SCHIPOL LOGISTICS PARK C.V.	Netherlands	Other	52	53
SERVAIR EUREST	Spain	Other	34	35
SKY ENERGY B.V.	Netherlands	Other	30	30
TERMINAL ONE GROUPE ASSOCIATION	United States	Other	25	25

5.7 Statutory Auditors' report on the consolidated financial statements

Year ended March 31, 2011

To the Shareholders,

In compliance with the assignment entrusted by your Annual General Meetings, we hereby report to you, for the year ended March 31, 2011, 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.

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 and liabilities and of the financial position of the Group as at March 31, 2011 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 relating to the implementation of new IFRS standards and interpretations effective April 1, 2010.

Justification of assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code ("*Code de commerce*") relating to the justification of our assessment, we bring to your attention the following matters:

- Notes 3.2, 3.14 and 17 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 and 29.3 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 and 29.3 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.

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 31, 2011
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' 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.

5.8 Statutory financial statements

Income statement

Period from April 1 to March 31 *(In € millions)*	**Notes**	**2011**	**2010**
Expenses capitalization	3	-	13
Other income	2	17	15
Total operating income		**17**	**28**
External expenses	3	(12)	(27)
Taxes and related payments		-	-
Salaries and related costs		(1)	-
Other expenses		(1)	-
Total operating expenses		**(14)**	**(27)**
Income from current operations		***3***	***1***
Financial income		34	32
Financial expenses		(109)	(68)
Net financial income	***4***	***(75)***	***(36)***
Earnings before tax and extraordinary items		***(72)***	***(35)***
Non-recurring income		42	-
Non-recurring expenses		(43)	(3)
Extraordinary income (loss)	***5***	***(1)***	***(3)***
Income tax	6	4	6
Net earnings		**(69)**	**(33)**

Balance sheet

Assets *(In € millions)*	Notes	March 31, 2011	March 31, 2010
Long-term investments	7	4,236	4,234
Loan & receivable linked to long term investment	7-10	386	786
Fixed assets		***4,622***	***5,020***
Trade receivables	11	11	10
Miscellaneous receivables	11	1	8
Marketable securities	8	1,025	898
Cash		51	100
Prepaid expenses		1	1
Current assets		***1,089***	***1,017***
Capitalized expenses to amortize		9	12
Bond redemption premium		4	5
Total Assets		**5,724**	**6,054**

Liabilities & equity *(In € millions)*	Notes	March 31, 2011	March 31, 2010
Capital	9.1	300	2,552
Additional paid-in capital		2,971	719
Legal reserve		70	70
Reserves		1,032	1,065
Income for the year		(69)	(33)
Shareholders' equity	***9.2***	***4,304***	***4,373***
Financial debt	10	1,414	1,656
Accounts payable:		3	20
including trade payables and related accounts		2	19
other accounts payable		1	1
Miscellaneous debts		3	5
Liabilities	***11***	***1,420***	***1,681***
Total Liabilities & equity		**5,724**	**6,054**

5.9 Notes

The information hereafter constitutes the notes to the financial statements for the year ended March 31, 2011.

It is an integral part of the financial statements.

The financial period covered 12 months from April 1, 2010 to March 31, 2011.

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, 2011.

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 €15 million paid by Air France and KLM at March 31, 2011 to use the "Air France-KLM" brand.

3. External expenses

Period from April 1 to March 31, *(In € millions)*	2011	2010
Lawyers & advisors fees	-	1
Capitalized bonds issuing expenses	-	13
Statutory auditor fees	2	2
Insurance	2	2
Subcontracting re-invoiced by Air France and KLM	4	5
Financial communication expenses	3	3
Other (less than €1 million)	1	1
Total	**12**	**27**

4. 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.

Period from April 1, to March 31, *(In € millions)*	2011	2010
Interests on loans(1)	(107)	(67)
including related companies	*(21)*	*(14)*
Interests received on loans	13	-
including related companies	*13*	-
Other financial income(2)	17	14
including related companies	*6*	*7*
Reversal of provisions(3)	4	18
Deficit on treasury shares sale	(2)	(1)
Total	**(75)**	**(36)**

(1) Including interests on OCEANE €(33) million, on bond €(46) million, on credit line €(3) million and commissions on guaranty delivered by Air France and KLM €(21) million.
(2) Including €10 million generated from the investment in mutual funds and deposit certificates (see Note 8).
(3) Reversal of provisions on treasury shares.

5. Extraordinary income

It includes as non-recurring expenses, mainly the loss on transfer of shares of former Alitalia company for €(42) million and as non-reccuring income the reversal of provision on these shares for €42 million (see Note 7.2).

6. 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 €4 million for the financial year ended March 31, 2011.

7. Long-term investments

7.1 Net book value

(In € millions)	Beginning of year	Acquisitions Capital increases	Transfers or sales	Provision Variation	End of year
Equity investments	4,242	-	42	-	4,200
Loan & receivable linked to long term investment	786	-	400	-	386
Other long term investments	75	-		-	75
Gross total	**5,103**	**-**	**442**	**-**	**4,661**
Depreciation	***83***	**-**		***(44)***	***39***
Net total	**5,020**	**-**	**442**	**(44)**	**4,622**

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. Air France reimbursed its loan during fiscal year (see Note 10).

7.2 Equity investments

Companies *(In € millions)*	Gross value at beginning of year	Acquisitions	Transfers or 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**	**-**	**42**	**4,200**

Companies *(In € millions)*	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Alitalia	42	-	42	-
Impairment	***42***	**-**	***42***	**-**
Net Value	**4,200**	**-**	**-**	**4,200**

Former Alitalia company is in liquidation process and its shares are fully depreciated.

Shareholders were proposed to transfer their shares to the Italian State with a compensation in an Italian bond for a maximum amount of €50,000. It is a zero interest bond with a maturity date on December 31, 2012. This transfer to the Italian State occurred at the beginning of January 2011.

7.3 Other financial investments

(In € millions)	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 end of year**
Impairment on treasury shares	41	-	2	39
Net Value	**34**		**2**	**36**

8. Marketable securities

(In € millions)	March 31, 2011 Net carrying amount	March 31, 2010 Net carrying amount
Treasury shares invested as part of the liquidity agreement subscribed with a bank	4	14
Mutual funds & deposit certificates	1,006	880
Money market fund[1]	15	4
Total	**1,025**	**898**

(1) Cash invested as part of a liquidity agreement, subscribed with a bank.

Net carrying amount is market value.

9. Shareholders' equity

9.1 Distribution of share capital and voting rights

At March 31,	% of capital 2011	% of capital 2010	% of voting rights 2011	% of voting rights 2010
French government	16%	16%	16%	16%
Employees and former employees[1]	10%	12%	10%	12%
Shares held by the Group	2%	2%	-	-
Public	72%	70%	74%	72%
Total	**100%**	**100%**	**100%**	**100%**

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

On March 31, 2011 the share capital distributed above is fully paid-up and comprised of 300,219,278 shares with a nominal value that decreased from €8.50 to €1. The amount of this capital decrease – not generated by losses – was allocated to Additional paid-in capital, based on General Meeting decision dated July 8, 2010.

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'Echange en actions* Air France-KLM *Nouvelles ou Existantes*" (OCEANE). During the financial year, no OCEANE were converted. Between April 2007 and March 2008 510 OCEANE were converted into 525 shares. As of March 31, 2011, 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 (OCEANE) with a maturity date fixed at April 1, 2015. 56,016,949 bonds were issued for a total amount of €661 million (see Note 10). As of March 31, 2011, 8,481 OCEANE were converted into 8,481 existing shares, including 1,890 regarding fiscal year 2010-11. The conversion ratio is one Air France-KLM share for one bond.

9.2 Statement of changes in shareholders' equity

Source of movements *(In € millions)*	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At March 31, 2009	***2,552***	***719***	***1,072***	***63***	***4,406***
Allocation of earnings	-	-	63	(63)	-
Earnings for the period	-	-	-	(33)	(33)
At March 31, 2010	***2,552***	***719***	***1,135***	***(33)***	***4,373***
Decrease of share nominal value (see Note 9.1)	(2,252)	2,252	-	-	-
Allocation of earnings	-	-	(33)	33	-
Earnings for the period	-	-	-	(69)	(69)
At March 31, 2011	***300***	***2,971***	***1,102***	***(69)***	***4,304***

10. Financial debt

Year ended March 31, *(In € millions)*	2011	2010
Non current financial debt		
OCEANE (convertible bond)	661	661
Bond	700	700
Other debt	-	-
Total non current debt	**1,361**	**1,361**
Current Financial debt		
OCEANE (convertible bond)	-	-
Bond	-	-
Other debt	-	250
Accrued interest	53	45
Total current debt	**53**	**295**
Total	**1,414**	**1,656**

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%.

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. Air France reimbursed its loan during fiscal year.

The credit line subscribed in October 2007 with a bank for €250 million and that was fully drawn, has been reimbursed in September 2010.

11. Maturity of accounts receivable and accounts payable

At March 31, 2011 *(In € millions)*	Gross amount	Up to one year	More than one year	Related companies
Accounts receivable				
Non current assets	-	-	-	-
Loans and receivable linked to long term investment	386	-	386	386
Current assets				
Trade receivables and related accounts	11	11	-	11
Miscellaneous receivables (including tax receivables)	1	1	-	1
Total	**398**	**12**	**386**	**398**

Accounts payable *(In € millions)*	Gross amount	Up to one year	More than one year	Related companies
Financial debt[(1)]	1,414	53	1,361	-
Trade payables and related accounts	2	2	-	1
Taxes and social contributions due	1	1	-	-
Miscellaneous payables	3	3	-	2
Total	**1,420**	**59**	**1,361**	**3**

(1) See Note 10.

This amount includes €53 million of accrued interests.

12. List of subsidiaries and equity investments

(In € millions) 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	(632)	100%	3,060	3,060	-		13,769	(868)	-
KLM (Netherlands)[(1)]	94	2,587	99.1%	817	817	386	-	8,651	147	-
2. Equity investments (held at less than 50%)										
Compagnia Aerea Italiana SpA[(2)]	668	(120)	25%	323	323	-	-	3,393	(168)	-

(1) Statutory financial statements at March 31, 2011.
(2) Consolidated financial statements in Italian Gaap at December 31, 2010.

13. Estimated value of the portfolio

(In € millions)	Amount at beginning of year			Amount at end of year		
	gross carrying amount(1)	net carrying amount	estimated value(2)	gross carrying amount(1)	net carrying amount	estimated value(3)
Portfolio fractions valued						
Air France	***3,060***	***3,060***	***2,172***	***3,060***	***3,060***	***3,460***
KLM	***817***	***817***	***2,218***	***817***	***817***	***2,657***
Compagnia Aerea Italiana SpA	***323***	***323***	***188***	***323***	***323***	***148***

(1) At cost.

(2) Based for Air France and for KLM on net equity share in statutory financial statements at March 31, 2010 and for Compagnia Aerea Italiana SpA on IFRS net equity share at December 31, 2009.

(3) Based and for Compagnia Aerea Italiana SpA on IFRS net equity share at December 31, 2010 and for Air France and KLM, as of March 31, 2011, on IFRS net equity shares at March 31, 2011.

14. Items concerning related companies

(In € millions)	Amount
Trade receivables & related accounts	11
including Air France	*10*
KLM	*1*
Miscellaneous receivables	1
Trade payables and related accounts	1
Miscellaneous payables	2

15. 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 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).

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.

16. Litigation

Litigations concerning anti-trust laws

a) In the air-freight industry

a.1) Investigation of 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 by Air France, KLM and Martinair with the appropriate agencies, and the payment of fines putting an end to those proceedings. As of March 31, 2011 discussions were on going with the Competition Commission of South Africa to conclude a settlement agreement which would result in the payment by the Group of a penalty of €1.8 million.

In Europe, the European Commission announced, on November 9, 2010, its decision to impose fines on 14 airlines including Air France, KLM and Martinair related to anti-competition practices – mainly concerning fuel surcharges. The commission imposed an overall fine of €340 million on the Group companies.

This fine exceeds, by €127 million, the provisions already made by the Group in its accounts. Consequently, an additional "non current expense" has been recorded by Air France, KLM and Martinair in the fiscal year first half.

As the Group's parent company Air France-KLM was considered by the European Commission to be jointly and severally liable for the unlawful practices of which Air France and KLM were found guilty.

On January 24 and 25, 2011, the Group companies have filled an appeal against the decision before the General Court of European Union.

Because the appeal does not suspend the payment of the fines, the Group companies have chosen not to make immediate payment of the fines as permitted, but to provide bank guarantees until a definitive judgement by the European Courts.

In South Korea on November 29, 2010, the Korean antitrust authority (KFTC) imposed on Air France-KLM (for unlawful practices before September 2004), Air France (for same practices after this date) and KLM a total fine of €8.6 million.

Based on Contribution agreement dated September 15, 2004, Air France is liable for the fine imposed on Air France-KLM.

The Group companies have filed an appeal before the competent Court in South korea.

The procedures in Switzerland and Brazil, which are still under way as of March 31, 2011, have not been provided against, as the Group is unable, in the current state of the proceedings, to evaluate its exposure. With 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. In addition civil suits have been filed in Europe by shippers following the European Commission's decision of November 9, 2010.

United States

In the United States, the Group concluded a settlement agreement with the representatives of the class action in July 2010. The Settlement Agreement, under which the Group accepted to pay USD 87 million, brings to a close all claims, lawsuits and legal proceedings in the past, present or future by plaintiffs seeking to obtain financial compensation from the Air France-KLM group for unlawful practices in freight transportation to, from or within the United States. The terms of the Settlement Agreement have been preliminarily approved by the Eastern District Court of New York. The Settlement has no impact on the Group's results, given the provisions already made by Air France, KLM and Martinair to cover this risk.

On March 14, 2011, the Court issued an order granting final approval of the Air France-KLM settlement with the class action plaintiffs.

Prior to that time, pursuant to procedures established by the Court, 36 entities elected to be excluded from the settlement, which permits them to separately pursue claims, but only four of those were customers of Air France, KLM or Martinair.

In addition, a number of additional parties, including potentially one AF-KLM customer, filed a late exclusion notice and the Court has established a process to determine whether exclusion of those parties will be permitted.

With respect to those AF-KLM customers who have chosen to be excluded, a portion of the settlement proportional to the revenue AF-KLM received from those parties for a specified period as compared with Air France-KLM's overall revenue for that period will be segregated in a separate escrow. If claims by those parties, including written demands, are made against AF-KLM, then the portion of the separate escrow attributable to the claiming parties will be transferred to AF-KLM.

To date, the Group is unable to measure the financial impact of these probable individual civil claims.

Canada

As of March 31, 2011, the Group remains exposed in relation to class actions brought in Canada with regard to the revenues involved, the risk is not significant.

Netherlands

In the Netherlands, KLM, Martinair and Air France have been summoned to appear before the District Court of Amsterdam in a civil suit brought by a company named Equilib which states that it has purchased claims from seventy purchasers of airfreight services who have allegedly suffered losses as a result of an antitrust infringement in the European market between 2000 and 2006.

Equilib seeks to obtain a declaratory judgment confirming that the Group companies have been guilty of unlawful conduct and are jointly and severally liable, along with other carriers, for the losses suffered by the airfreight purchasers. Equilib currently estimates its claims at €400 million but does not substantiate that figure.

The Group companies have served a contribution writ of summons to the other airlines fined by the European Commission on November 9, 2010.

United Kingdom

In the United Kingdom, a civil suit has been filed with the competent court in the UK against British Airways by two flower importers. British Airways issued contribution proceedings against all the airlines fined by the European Commission including entities of the Group.

The Group companies will firmly resist all claims brought against them.

Civil suits in Netherlands and United Kingdom have not been provisioned given that the Group is unable, in the current state of these proceedings to evaluate its exposure.

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 subject on March 11, 2008 to searches and seizures in connection with an investigation by the European Commission into 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 2009, Air France and KLM were subpoenaed in a class action involving all the airlines working transpacific routes between the United States and Asia/Oceania, on the basis of allegations of price-fixing on such routes.

Air France which has only one transpacific route between the USA and Tahiti and KLM which is not involved on these routes strongly deny these allegations. Both airlines accordingly filed motions to dismiss.

Other litigation

The Group is involved into several governmental and legal procedures for which provisions have not been necessarily recorded in the financial statements.

a) KLM minority shareholders

On January 22, 2008, the association VEB and Emarcy BV served KLM and Air France-KLM before the Amsterdam Civil Court claiming that KLM and Air France-KLM be ordered to pay out a higher dividend than the 0.58 euro per ordinary share paid for fiscal year 2007-08.

On September 1, 2010 the Court dismissed the case on the grounds that the dividend resolution met the test of reasonableness and fairness. VEB and Emarcy have appealed the Amsterdam Court decision.

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.

All these proceedings are aimed at receiving damages as reparation for the losses suffered by the heirs of the passengers who died in the crash. The civil consequences of the crash are covered by Air France's third-party liability insurance policy.

In the USA, all the proceedings have been consolidated in California before the Northern district Court.

On October 4, 2010, the District judge granted the defendants' motion for dismissal on grounds of "forum non convenience" and proposed that they claim in France. The damages as reparation for the losses suffered by the heirs of the passengers who died in the crash are covered by Air France's third-party liability insurance policy.

On March 17 and 18, 2011 respectively, Airbus and Air France were indicted for manslaughter by the investigating magistrate and incur the penalities of fines prescribed by law. Air France intends to challenge its implication in this case.

To the best of Air France-KLM's knowledge, there is no other litigation, arbitration or non-reccuring 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.

Other than the points indicated in this note, 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 at least the past twelve months.

17. Subsequent events

None.

5.10 Five-year financial summary

Year ended March 31,	2011	2010	2009	2008	2007
1. Share capital at year end					
Share capital *(In €)*	300,219,278	2,551,863,863	2,551,863,863	2,551,863,863	2,374,608,509.5
Number of ordinary shares outstanding	300,219,278	300,219,278	300,219,278	300,219,278	279,365,707
Number of shares with a priority dividend					
Maximum number of shares that may be created:					
- By bond conversion	78,617,611	78,619,501	22,609,143	22,609,143	22,609,756
- By exercise of subscription rights	-	-	-	-	21,064,433
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	(116,649)	(56,167)	105,885	228,076	158,721
Income tax	(3,712)	(5,601)	(6,767)	(5,496)	(4,465)
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	(69,343)	(32,671)	62,639	198,183	157,744
Distributed net income		-	-	171,835	134,095
3. Per share data *(In €)*					
Net income/(loss) after income tax and employee profit-sharing but before net depreciation, amortization and provisions	(0.39)	(0.17)	0.37	0.78	0.58
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	(0.23)	(0.11)	0.21	0.66	0.56
Dividend per share	-	-	-	0.58	0.48
4. Employees					
Average number of employees during the year					
Total payroll costs					
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.)					

5.11 Statutory Auditors' report on the financial statements

Year ended March 31, 2011

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, 2011, 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 2011 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

In accordance with the requirements of Article L. 823-9 of the French commercial Code ("*Code de commerce*") relating to the justification of our assessments, we bring to your attention the following matters:

- 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 7, 12 and 13 of the financial statements and satisfied ourselves as to their correct application;
- Note 16 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, 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 Code ("*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 31, 2011

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 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.

5.12 Statutory Auditors' report on regulated agreements and commitments

Year ended March 31, 2011

To the Shareholders,

In our capacity as Statutory Auditors of your company, we hereby present to you our report on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R. 225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the Shareholders' Meeting

Agreements and commitments authorized during the year

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted to the approval of the Shareholders' Meeting pursuant to Article L. 225-38 of the French Commercial Code.

Agreements and commitments previously approved by the Shareholders' Meeting

Agreements and commitments approved in prior years which remained in force during the year

Pursuant to Article R. 225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by Shareholders' Meetings of prior years, have remained in force during the year.

a) Agreement relating to the issuance by Air France-KLM of bonds convertible and/or exchangeable for new or existing Air France-KLM shares

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 Société 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 Société 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 Société Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

At the end of March 2011, Société Air France invoiced your company a €6,538,072 guarantee commission.

Pursuant to the secondary agreement organizing the terms and conditions of the credit facility, at the end of March, Société Air France had drawn down €200,000,000, that was repaid in June 2010. In respect of this transaction, your company invoiced Société Air France interest in the amount of €1,071,733.33 during fiscal year 2010-11.

b) Agreement relating to the issuance by Air France-KLM of bonds

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 Société 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 Société 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 Société Air France and KLM;
- an underwriting agreement covering the aforementioned issue, between Air France-KLM, Société Air France, KLM and a banking syndicate.

At the end of March 2011, Société Air France invoiced your company a €4,042,222 guarantee commission.

Pursuant to the secondary agreement organizing the terms and conditions of the credit facility, at the end of March 2011, Société Air France had drawn down €200,000,000, that was repaid in June 2010. In respect of this transaction, your company invoiced Société Air France interest in the amount of €855,044.45 during fiscal year 2010-11.

c) 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.

During fiscal year 2010-11, your company invoiced Société Air France €54,000 with respect to this agreement.

d) 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 in 2005 for the purpose of organizing the financial and legal relations between the two companies with respect to the issuance by Société 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 2010-11, your company invoiced Société Air France €6,494,056.97 with respect to this agreement.

e) 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 2010-11, your company invoiced Société Air France €10,290,082 with respect to this agreement.

f) 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 2010-11, your company invoiced Société Air France €525,291.91 with respect to this agreement.

g) Service agreement between Air France-KLM and Société Air France

Air France-KLM and its subsidiary Société Air France entered into an agreement in 2004 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 2010-11, Société Air France invoiced your company €2,865,679 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 2010-11, Société Air France invoiced your company €259,082.26 with respect to this agreement.

Agreements and commitments approved in prior years not performed during the year

In addition, we have been informed of the following agreements and commitments, previously approved by Shareholders' Meetings of prior years, which were not performed during the 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) 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 2010-11, your company recorded no interest expenses with respect to this agreement.

Paris La Défense and Neuilly-sur-Seine, May 31, 2011
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' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code 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

6.1 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 B747 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.

2009-10

On June 1, the Group faces the tragic loss of Air France flight AF447 over the Atlantic between Rio de Janeiro and Paris with 216 passengers and 12 crew members on board.

In April, Air France, KLM and Delta implement the joint-venture on the North Atlantic joined, in July 2010, by Alitalia.

Air France-KLM launches a €661 million issue of bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE) maturing on April 1, 2015 and €700 million of plain vanilla bonds with a seven-year maturity.

Air France-KLM shares are transferred from the CAC 40 to the CAC Next 20.

Air France operates its inaugural flight to New York on board the Airbus A380.

The Group redefines its medium-haul product and implements the restructuring of the cargo business and a voluntary departure plan at Air France.

6.2 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. Subject to approval by the Annual General Shareholders' Meeting of July 7, 2011, the financial year will run from January 1 to December 31. Consequently, the financial year starting April 1, 2011 will be of nine months' duration.

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).*

6.3 Information relating to the share capital

6.3.1 Share capital

At March 31, 2011, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

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

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

Authorizations to increase the capital

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

Nature of the operation	Maximum amount of issuance	Balance available at March 31, 2011
Capital increase via the issue of shares and other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
Issue of bonds or other related securities conferring rights to the capital with preferential subscription rights	€1 billion	€1 billion
Capital increase through capitalization of reserves and/or additional paid-in capital	€120 million	€120 million
Capital increase reserved for members of a company or Group savings scheme	3% of the capital at the time of each issue	3% of the capital at the time of each issue

The General Shareholders' Meeting of July 7, 2011 will be asked to vote on the following authorizations:

Nature of the operation submitted to the Shareholders' Meeting of July 7, 2011	Maximum amount of issuance in nominal
Capital increase via the issue of shares or other securities conferring rights to the capital with preferential subscription rights	€120 million in nominal, i.e. 40% of the current share capital
Capital increase via the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an obligatory priority subscription period	€75 million in nominal, i.e. 25% of the current share capital chargeable to the above maximum
Capital increase without preferential subscription rights with an optional priority subscription period. This authorization is limited to issuance by the company or one of its subsidiaries of securities conferring rights to the share capital and issuance of shares within the framework of public exchange offers	€45 million in the nominal, i.e. 15% of the current share capital chargeable to the above maximums
Capital increase through capitalization of reserves and/or premiums	€120 million in nominal, i.e. 40% of the current share capital
Capital increase reserved for members of a company or Group 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

6.3.2 Securities conferring entitlement to shares

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

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

Further to the payment of dividends from the *other reserves* account in respect of the financial year ended March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-20 issue contract. The 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. No bonds have been converted or exchanged into shares since that date.

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

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At March 31, 2011, 8,481 bonds had been converted into existing shares, of which 1,890 during the 2010-11 financial year, reducing the outstanding number of bonds to 56,008,468.

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

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 8, 2010, authorized the Board of Directors, for a period of 18 months, to trade in the company's own shares with a maximum purchase price of €30.

Air France-KLM is authorized to buy back up to 5% of its share capital. The objectives of the buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees or senior executives and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition. Pursuant to this authorization, at March 31, 2011, Air France-KLM held 3,433,492 shares, of which 360,000 within the framework of the liquidity agreement and 114,181 for the balance of the 1998 Shares-for-Salary Exchange. Since July 9, 2010, the company has purchased 640,034 shares at an average price of €12.882 and sold 1,620,034 shares at an average price of €12.268. During the 2010-11 financial year, pursuant to this program and the program authorized by the Shareholders' Meeting of July 9, 2009, 720,034 shares were purchased at an average price of €12.579 and 1,620,034 shares sold at an average price of €12.268.

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

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

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

6.3.4 Shareholder structure

Breakdown of the share capital and voting rights

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

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

Shareholder analysis

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

The TPI (identifiable bearer shares) analysis as at March 31, 2011 was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 97.3% of the capital were identified and 107,973 shareholders listed including 92,245 individual shareholders. Based on the TPI analysis of March 31, 2011, restated pursuant to article 14 of the bylaws which defines French residence, Air France-KLM is more than 50% held by French shareholders and, consequently, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met, the majority of the company's voting rights being held by shareholders and foundations subject to Dutch law.

	Number of shares			% of the share capital		
Financial year ended	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**	**March 31, 2011**	**March 31, 2010**	**March 31, 2009**
French State	47,247,967	47,148,326	47,136,626	15.7	15.7	15.7
Employees	29,570,185	35,497,545	36,153,734	9.8	11.8	12.0
Individuals	45,603,974	41,807,898	42,500,125	15.2	13.9	14.2
Resident institutions	73,419,348	65,996,169	68,809,487	24.5	22.0	22.9
Non-resident institutions	104,377,804	109,769,340	105,619,306	34.8	36.6	35.2

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

No declaration of shareholding by a member of an administrative or management body in respect of the applicable national legislation has been received by 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.

6.3.5 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%.

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).

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, no later than four trading days after the capital and voting right thresholds stipulated by law being exceeded.

Furthermore, if the 10%, 15%, 20% and 25% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF within five stock market trading days of its intentions for the next six months. This notification is subject to the conditions and sanctions set forth in article L. 233-14 of the Commercial Code.

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

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
Amundi Asset Management	April 16, 2010	2,990,702	1.00	R
BNP Paribas AM	April 11, 2011	2,929,356	0.98	R
BNP Paribas Assurances	March 31, 2011	2,276,699	0.76	I
Capital Research & Mgt	December 23, 2010	14,844,469	4.94	R
CNP	September 20, 2010	1,728,075	0.58	I
Credit Suisse	March 8, 2011	2,917,585	0.97	R
DNCA Finance	April 14, 2010	2,664,300	0.89	R
Donald Smith & Co	April 30, 2007	6,883,567	2.29	I
GLG Partners LP	February 10, 2011	1,548,699	0.52	I
Koweit Investment Office	October 8, 2010	2,240,000	0.75	I
Natixis	February 17, 2011	6,791,956	2.32	I
Norges Bank Investment Management	November 16, 2010	2,808,095	0.94	R
UBS London	March 22, 2011	2,834,911	0.94	R

6.3.6 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 Articles L. 6411-2 to 5 and L. 6411-8 of the Code of Transport, 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. Thus, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors can decide* to reduce this 2% threshold to 10,000 shares.

Air France-KLM publishes a notice informing the shareholders and the public that non-French shareholders as defined by article 14 of the bylaws own, directly or indirectly, 45% of Air France-KLM's share capital or voting rights. If it appears that non-French shareholders as defined by article 14 of the bylaws represent, directly or indirectly, more than 45% of Air France-KLM's capital or voting rights on a long-term basis*, 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.

* *Subject to the adoption by the Shareholders' Meeting on July 7, 2011 of the fourteenth resolution relating to the modification of article 9 of the bylaws.*

6.4 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.

Since February 2008, Air France-KLM's ADR program (American Depositary Receipt) has been 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 OCEANE 2.75% 2020 is listed for trading under the ISIN code FR0010185975 and the OCEANE 4.97% 2015 is listed for trading under the ISIN code FR0010771766 on Euronext Paris.

6.4.1 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)*
2009						
October	22	11.747	12.800	10.080	57,189,972	668.3
November	21	10.989	11.580	10.017	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
April	20	12.191	12.950	11.305	60,771,964	739.7
May	21	10.134	12.075	8.610	68,039,456	684.3
June	22	10.419	11.400	9.389	52,793,694	549.7
July	22	10.333	11.550	9.429	48,797,511	506.3
August	22	10.923	11.830	10.120	31,654,896	347.8
September	22	11.222	11.830	10.225	32,055,563	360.5
October	21	12.385	13.670	10.880	46,401,993	578.9
November	22	13.540	14.330	12.755	50, 643,188	689.4
December	23	13.953	14.600	13.515	41,631,937	583.9
2011						
January	21	14.194	15.300	12.930	55,342,720	780.5
February	20	12.635	13.890	11.400	84,031,684	1,041.9
March	23	11.627	12.190	10.910	78,293,893	908.7

Source: Euronext.

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

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2009					
October	22	20.683	20.900	20,500	357
November	21	21.000	21.000	20.900	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
April	20	21.083	21.250	21.000	690
May	21	19.800	19.850	19.750	3,914
June	22	19.997	20.740	19.500	115
August	22	19.85	20.500	19.200	100
September	22	20.667	21.000	20.500	1,837
October	21	21.000	21.000	21.000	5,867
November	22	21.317	21.500	21.200	365
December	23	21.650	21.750	21.500	133
2011					
March	23	21.500	21.500	21.500	300

Source: Sungard/GL Trade

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

	Trading days	Average price *(In €)*	Trading range *(In €)* High	Low	Volume
2009					
October	22	15.329	16.800	14.200	73,449
November	21	14.785	15.340	14.150	46,559
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	14.700	176,325
April	20	15.496	16.220	15.100	29.573
May	21	13.574	15.350	12.300	52.513
June	22	14.028	14.900	13.100	908
July	22	13.721	14.750	12.810	27,379
August	22	14.660	15.250	14.000	2,331
September	22	14.857	15.250	14.030	36,725
October	21	15.348	16.500	14.200	23,820
November	22	16.390	16.940	15.640	24,809
December	23	16.250	16.700	15.650	9,501
2011					
January	21	16.995	18.450	16.000	4,144
February	20	15.641	16.250	14.010	2,355
March	23	15.200	15.750	14.800	6,073

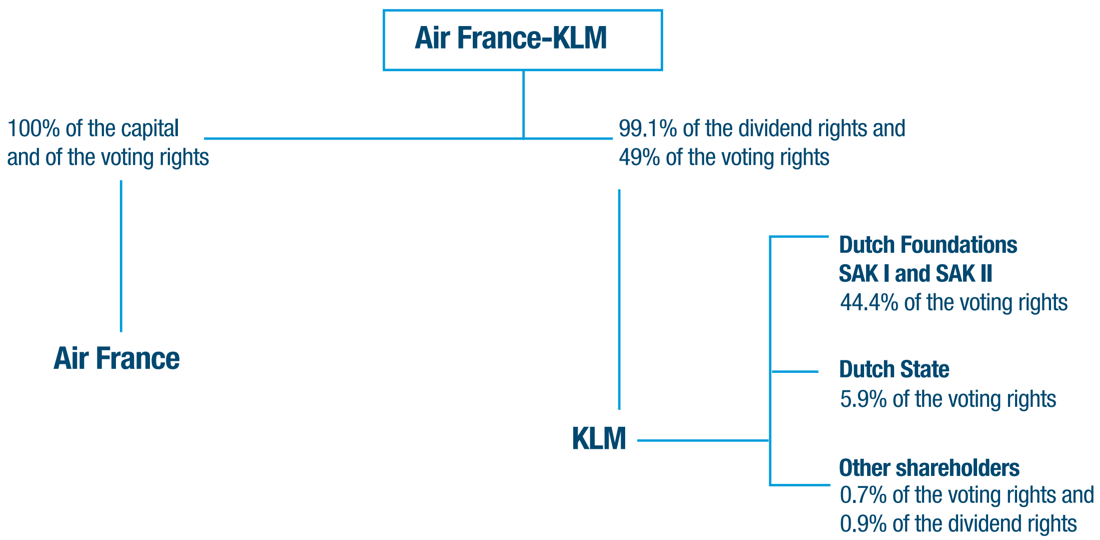
Source : Sungard/GL Trade.

6.5 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.

6.5.1 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.

6.5.2 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.

6.5.3 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 have been null and void since May 6, 2009.

6.5.4 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, 2011, no cases had been submitted to the Foundation's committee.

6.6 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

Only the company 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, excluding the initiator of the offer.

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.

6.7 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.

6.7.1 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.

6.7.2 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, 2007, the European Union Council of Ministers unanimously approved the air transport agreement established on March 2 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 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 that was signed on June 24, 2010 in Luxembourg. With this new agreement, European Union airlines can now:

- Operate flights to the United States from any European airport, irrespective of their nationality (the United States recognizes their European nature);
- Operate an unrestricted number of flights, aircraft and routes;
- Set prices as a function of the market;
- Sign cooperation agreements.

At the level of investment in third-party countries by Europeans, the airlines of some third-party countries (European countries outside the European Union and 18 African countries) can also be the subject of European Community investment with no risk to their traffic rights to the United States. Similarly, the United States will not call into question the flights of European Community airlines if European countries outside the European Union invest in their share capital.

The agreement also enables closer US-EU cooperation on aviation safety, security, competition policy, State aid, consumer protection and the environment.

In terms of airline ownership, the new agreement enables Europeans to hold more than 50% of the total share capital of US airlines but does not, however, allow the taking of control. Pursuant to US law, the voting rights on the shares of a foreign investor in a US airline are capped at 25% and control over the latter is not permitted. The European carriers thus reserved the right to cap US investment in European airlines at the same level.

Passenger rights

Passenger rights in the European Union relating to flight delays, cancellation and refused boarding 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.

New US air passenger rights regulations will come into force between now and the end of the summer of 2011.

Furthermore, the rights of air passengers with reduced mobility are defined by EC Regulation No. 1107/2006 concerning the rights of disabled persons and persons with reduced mobility when travelling by air, which has been fully applicable since July 2008.

This regulation establishes the rules aimed at protecting disabled persons and persons with reduced mobility from discrimination and providing them with the appropriate assistance. Its provisions require the entity managing an airport to ensure that assistance is provided on the ground either by itself or by a third-party service provider. Pursuant to this regulation, air carriers are also required to provide assistance on board aircraft.

Lastly, passenger rights relating to the identity of the effective carrier are set forth in EC Regulation No. 2111/2005 of December 14, 2005. This regulation foresees the establishment of a list within each Member State indicating the identity of air carriers that are banned from operating flights in this State or whose traffic rights are subject to restrictions (so-called *black list*). It also makes it mandatory for carriers to inform passengers of the identity of the effective air carrier for the relevant flight.

6.7.3 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 101 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.

6.7.4 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.

6.8 Information and control

6.8.1 Person responsible for the Registration Document and for the annual financial report

Pierre-Henri Gourgeon, Chief Executive Officer.

6.8.2 Certification by the person responsible for the Registration 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 registration 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 prepared 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 all the companies within the consolidation scope, and that the information contained in the management report on pages 6 to 29, 32 to 38, 44 to 46, 48 to 50, 55 to 57, 59 to 65, 68 to 79, 90 to 119, 129 and 132, 133 to 135 and 249 to 253, provides a true and fair view of the changes in the business, results and financial position of the company and all the companies within the consolidation scope, together with a description of the principal risks and uncertainties that they face.

I have obtained a completion letter from the statutory auditors confirming that they have verified the information regarding the financial position and the financial statements contained herein and reviewed the entire registered document.

The consolidated financial statements for the year ended March 31, 2011 included in this registration document on pages 224 to 225 were the subject of a statutory auditors' report containing an observation relating to the implementation of new IFRS standards and interpretations effective April 1, 2010.

The consolidated financial statements for the year ended March 31, 2010 included in the registration document filed with the AMF on June 10, 2010 under registration number D.10-0520 were the subject of a statutory auditors' report figuring on pages 217 to 218 which contains an observation relating to the implementation of new IFRS standards and interpretations effective April 1, 2009.

The consolidated financial statements for the year ended March 31, 2009 included in the registration document filed with the AMF on June 9, 2009 under registration number D.09-0494 were the subject of a statutory auditors' report figuring on pages 206 to 207 which contains an observation relating to the implementation of new IFRS standards and interpretations effective April 1, 2008.

Pierre-Henri Gourgeon
Chief Executive Officer

6.8.3 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

Renewed for a six-year period by 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

Renewed for a six-year period by 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.

6.8.4 Person responsible for financial information

Dominique Barbarin

Financial communication department

Tel: +33 1 41 56 88 60

6.8.5 Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably:

- the 2010-11, 2009-10, 2008-09, 2007-08 and 2006-07 Registration 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.

Glossaries

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 which runs from April 1 to March 31 the following year.

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 screening and 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 (34%) considered as financial charges.

Adjusted net debt
Adjusted net debt comprises net debt and the capitalization of operating leases (7x the annual charge).

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 average number of shares for the period.

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 adjusted interest costs
Net interest costs are adjusted for the portion (34%) of operating leases corresponding to financial costs.

Net income, Group share
Corresponds to net income, minus the share reverting to the minority shareholders in fully consolidated subsidiaries.

OCEANE
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.

Table of concordance for the Registration 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. 177, p. 232, p. 239 and p. 249
21.2.	Memorandum and bylaws	p. 248, p. 253 and 254
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21.2.8	Conditions governing changes in the capital	not applicable
22.	***Material contracts***	***not applicable***
23.	***Third party information and statements by experts and declarations of interest***	***not applicable***
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25.	***Information on holdings***	***p. 172 and 173, p. 230 and 231, p. 261 to 262***

Information included by reference

Pursuant to Article 28 (EC) No. 809/2004, the following information is included by reference in this Registration Document:

2009-10 financial year

The Registration Document for the 2009-10 financial year was filed with the *Autorité des marchés financiers* on June 10, 2010 under the registration number D.10-0520. The consolidated financial statements are presented on pages 130 to 216 and the related Statutory Auditors' reports on pages 217 and 218. The full statutory financial statements can be found on pages 219 to 230 and the related Statutory Auditors' certification on page 232. The key figures are presented on pages 2 and 3. The Management Report figures 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 to 119, 123 to 129 and 241 to 245.

2008-09 financial year

The Registration 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 Registration Document and on page 3 of the update to the Registration 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.

Table of concordance for the annual financial report

This Registration 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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