KLM Royal Dutch Airlines

Annual Report





2009
2010


Headoffice
Amsterdamseweg 55
1182 GP Amstelveen
The Netherlands

Postal address
P.O. Box 7700
1117 ZL Schiphol
The Netherlands

Telephone: +31 20 649 91 23
Fax: +31 20 649 23 24
Internet: www.klm.com

Registered under number 33014286
in the Trade Register of the Chamber
of Commerce and Industry,
Amsterdam, The Netherlands

Table of contents

	Page
Key figures	**2**
Report of the Board of Managing Directors	**3**
• Letter from the President	3
• Financial Performance	11
• Overview of significant KLM participating interests	15
• Traffic and Capacity	16
• Commercial Developments	17
• Staff	22
• Fleet Development	23
• Fleet composition KLM Group	24
• Risk profile and risk management	25
Board and Governance	**34**
• Corporate Governance	36
• Report of the Supervisory Board	38
• Remuneration Policy and Report	43
• Supervisory Board and Board of Managing Directors	50
Financial Statements 2009/10	**53**
• **Consolidated financial statements**	**54**
• Consolidated Balance Sheet	54
• Consolidated Income Statement	55
• Consolidated Statement of recognised income and expenses	56
• Consolidated Statement of Changes in Equity	57
• Consolidated Cash Flow Statement	58
• Notes to the Consolidated Financial Statements	59
• **Company financial statements**	**148**
• Company Balance Sheet	148
• Company Income Statement	149
• Notes to the Company Financial Statements	150
Other Information	**159**
• Auditors' Report	159
• Provisions of the Articles of Association on the Distribution of Profit	161
• Appropriation of Profit and Distribution to Shareholders	166
Miscellaneous	**168**
• Five-year review	168
• Glossary of Terms and Definitions	170
• Warning about Forward-Looking Statements	172

Key figures

Consolidated figures in millions of euros, unless stated otherwise	2009/10	2008/09*
* Martinair is included January-March 2009		
Revenues	**7,469**	8,182
Expenses before depreciation and long-term rentals	**6,973**	7,312
Depreciation and long-term rentals	**781**	711
Income from current operations	**(285)**	159
As a % of operating revenues	**(3.8)**	1.9
Loss for the year	**(383)**	(193)
Earnings per ordinary share (EUR)	**(8.18)**	(4.14)
Equity	**2,240**	2,099
As a % of total long-term funds	**31**	28
Return on equity (%)	**(17.6)**	(6.5)
Capital employed	**4,398**	4,490
Return on capital employed (%)	**(7.0)**	1.7
Net-debt-to-equity ratio	**118**	72
Dividend per ordinary share (EUR)	-	-
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**74,129**	76,667
Capacity (in millions of available seat-kilometers, ASK)	**90,168**	93,992
Passenger load factor (%)	**82.2**	81.6
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**6,301**	5,163
Capacity (in millions of available ton freight-kilometers, ATFK)	**8,712**	7,603
Cargo load factor (%)	**72.3**	67.9
Financial position		
Cash flow from operating activities	**(259)**	503
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(481)**	(493)
Free cash flow	**(740)**	10
Average number FTEs of KLM Group staff		
(Martinair 2008/09 annualised)		
Permanent	**30,888**	31,445
Temporary	**1,689**	2,512
Employed by KLM	**32,577**	33,957
Agency staff	**1,455**	2,049
Total KLM	**34,032**	36,006

Report of the Board of Managing Directors

Letter from the President

In 2009/10 KLM was highly impacted by the global economic crisis, which started in the previous fiscal year and which only slightly reduced in strength towards the end of the fiscal year 2009/10. It has been a difficult time for the aviation sector as a whole. The International Air Travel Association (IATA) confirmed in March 2010 that airlines had lost between two and three years of growth. Even though the worst may well be behind us, we have suffered a setback of at least two years. To limit the impact of the difficult economic environment, we continued adjusting our course. Significant achievements were made in the field of capacity reductions and cost management.

From the very start of the crisis, cost and cash control have been key elements in our approach. When the first indications of the economic crisis manifested in April 2008, we initiated a financial strategy based on cost management and a strategic reconsideration of investments. Holding on to cash and generating cash still are considered highly important and are communicated throughout the organisation by using the motto 'Cash is King'.

In a constant dialogue with the Company's works council, we also managed the social dimension of the crisis, using the motto 'Keeping the Family Together'. This unique social strategy is based on the solidarity and flexibility of our working force and contains a halt to recruitment, a reduction in the number of temporary personnel and agency staff, and a smart management of vacancies. As a result we were able to reach our goals to considerably reduce our staff while preventing forced lay-offs in the Netherlands. We are proud to say that by all of these efforts, KLM achieved substantial savings while actively limiting the negative social impact of the economic crisis.

Despite the economic environment, 2009 was a festive year because of our 90th anniversary, which we celebrated modestly and appropriately. In spite of the enormous setback by the volcanic ash crisis in April 2010, we trust that the new fiscal year will ultimately bring uplift to the economic climate. We are confident that KLM, as part of AIR FRANCE KLM, will emerge from this crisis stronger: with a good and varied product, exceptional service, a continuous focus on operational safety and quality and a strong record in the field of corporate social responsibility.

Financial results

As expected considering the economic climate, KLM's Passenger Business performance in fiscal year 2009/10 is disappointing. The yield during the first and second quarters of the fiscal year, compared with the same period of the previous fiscal year, shows a drop of 14%. Towards the end of the fiscal year first signs of (slow) recovery could be noticed. In the fourth quarter, unit revenues were up 4.3% in comparison to the same period in the previous fiscal year. By adjusting our capacity, we were able to maintain similar load factors as in the previous fiscal year. However, due to businesses worldwide economising on travel budgets, and especially due to the reduced demand for Business Class, we will have to reckon with a continuing pressure on our yields.

Our Cargo Business was also heavily impacted by the continuation of the economic crisis. Full year revenues per available freight kilometer were 15% lower than the previous fiscal year. Because of the slight uplift that could be noticed in the demand in the second half of the fiscal year, we were able to improve our revenues towards the end of the fiscal year.

The Engineering and Maintenance Business profited from the economic situation and performed well during the fiscal year, in financial as well as operational terms. As a result we were able to reduce our non-performance costs.

Due to the unstable economic environment, which resulted amongst others in significant fuel price and exchange rate fluctuations, KLM is facing great uncertainty and volatility. It is impossible to be fully prepared for such extreme circumstances. However, we do have faith in our long term financial strategy. Because of the changed market circumstances we altered our long term policy on fuel hedging. For now and the future, hedging remains essential to retain a certain margin of stability for fuel prices.

KLM's financial position has been substantially affected by the economic crisis. The highest financial priority in the fiscal year was given to keeping our cash position at an acceptable level. This was done mainly by limiting investments to committed fleet, maintenance and strategic IT projects only, and by keeping a strong focus on our working capital. Because of the economic crisis and the reduction of our capacity there was no need for fleet expansion, however we have continued our fleet renewal and modification program, an investment of EUR 431 million. Our motto 'Cash is King' is still applied throughout the organisation.

Together with Air France, and due to our strong reputation, we have succeeded in concluding some favourable financing arrangements. Our cash position at March 31, 2010 was above EUR 1,5 billion. However, the crisis admittedly has had an adverse impact on our balance sheet position, which we had been carefully enhancing over the previous years.

In order to preserve cash, a strong and successful effort was made in keeping our unit cost at a stable level. We effectively managed the transition between the foreseen capacity growth and the actual capacity reduction within a single year and were able to stabilise our unit costs despite the 8% reduction in capacity.

In order to make the best use of the opportunities, we are continuing to seize synergies within the KLM Group. Increasing synergies is also an ongoing effort within the AIR FRANCE KLM Group. We will also have to draw the maximum benefits of synergy from the SkyTeam Alliance and our joint ventures in order to display our strength in the market. Especially the joint venture of KLM, Air France and Delta Air Lines is showing optimistic results for the future. We are also starting to see the benefits of our joint IT strategy with Air France, in which we have invested substantially.

We were able to postpone most other, non-critical, investments. One of the biggest developments over the past two years has been the replacement of fifteen of our Fokker 100s with Embraer 190 aircraft. We had thirteen Embraers in our fleet by the end of the fiscal year. These new aircraft have also significantly increased passenger appreciation ratings. Furthermore, we renewed part of our Boeing 737 fleet. During the fiscal year the last Fokker 50s were phased out.

Passenger Business

As a result of the continued economic crisis and the lower yields, traffic revenues from Passenger Business fell by 14% during the fiscal year. Traffic fell by 3% to 74 billion passenger kilometers, but due to successful capacity management load factors improved to 82.2%.

Operational reliability improved during the fiscal year. However, the nearly three months of bad weather during the winter had a severe impact on our operations. Nonetheless, we flew with few interruptions to our service. This was a costly operation, which placed great demands on our workforce.

The bad weather was not only confined to our home base at Schiphol, but many other bases also had to cope with the effects of adverse weather. Resolving the consequent disruptions to our schedules was a strenuous test of our effort and resilience, which we managed successfully. Our efforts concerning operational quality resulted in excellent figures. Over the fiscal year we achieved a luggage IRrate (irregularity rate) of 17.2, an improvement of 3.4%. This figure represents the number of pieces of luggage per 1,000 passengers that do not arrive on time with their owners. Furthermore, we improved our on-time arrival and departure rates.

Customer focus

We are increasingly confronted with altered market circumstances and changed customer needs. In response, a continued and amplified focus on product improvement and customer service is key to our strategy. During the fiscal year, we have successfully introduced Economy Comfort, a dedicated front section of Economy Class, in all of our widebody aircraft. We have extended the pitch to 35 inches (instead of 30 or 31 inches) in Economy Class, which gives significant extra legroom at a slight increase in price. Another investment with a distinct positive impact on customer appreciation is our seat replacement program including audio video on demand. This fiscal year, the Economy Class sections of 6 out of our 22 Boeing 747-400s were fitted with new seats with in-flight entertainment. The modification will be completed before the end of October 2010 on all of our 747s. Furthermore, electronic business was made easier for our customers and more additional services, such as car hire, parking facilities and hotel reservations are and will become available via KLM.com. A memorable moment was the introduction of our new ladies' uniform for cabin and cockpit crew, and uniformed ground staff.

Cargo Business

KLM Cargo capacity (excl. Martinair) fell by 13.8% in fiscal year 2009/10 to 5.8 billion freight tonnes kilometer. With traffic declining by 9.6%, the load factor grew by 3.3% points to 71.2%. This shows that Cargo Business has been under extreme pressure by the economic crisis. As a reaction to the crisis, we have taken the approach to primarily sell the freight capacity in the bellies and combis, and only additionally by flying full freighters. The number of full freighters in the KLM Group was drastically reduced. In the KLM Group, we temporarily transferred our full freighters to Martinair. This allowed us to derive maximum benefit from the collaborative synergy within the KLM Group.

Engineering & Maintenance Business

The Engineering & Maintenance Business showed positive results in the fiscal year and achieved its targets. Also, good operational performance was achieved, which lead to the reduction of our so called non-performance costs. As a result of the lower utilisation of our fleet during the fiscal year Engineering & Maintenance was able to perform other activities in the field of product improvement, such as the fitting of Economy Comfort.

transavia.com

As a fully owned subsidiary, transavia.com operates within the KLM Group in the low cost low fare market for European scheduled and charter services. The difficult market circumstances also influenced the results of transavia.com, which still performed relatively well this fiscal year. The results of Transavia France (a 40% associate of transavia.com) improved, but were nevertheless influenced by the economic climate and still amounted to an overall loss.

Martinair

As a fully owned subsidiary since December 31, 2008, the results of Martinair have been incorporated for the entire fiscal year. Martinair was also fully hit by the economic crisis, in the Passenger Business as well as the Cargo Business. Synergies between Martinair and the KLM Group were further pursued during the fiscal year. Examples are the new joint headquarters building of Martinair and transavia.com, which has been opened in May 2010 and the joint organisation of the Cargo sales forces of Martinair, KLM and Air France.

Network and partnerships

Together with its partners, KLM operates 715 flights per day, to 151 destinations of which 72 long haul and 79 medium haul in 63 countries. By Martinair and transavia.com together another 71 destinations are flown. During the fiscal year, we recommenced our flights to Aruba and Denpasar (Bali) and opened the new destination Calgary. We have also opened a new destination in Hangzhou in China on May 9, 2010. Furthermore, we are making a critical examination of the dynamics of our operational wave system at Schiphol, while continuing to focus on improving our service to our passengers.

Retaining our position in the market is critical. The joint venture between Air France, KLM and Delta Air Lines provides us with a strong position in the North Atlantic market, of which we are already seeing promising results. Also we are optimising our cooperation and joint venture with Alitalia, in which AIR FRANCE KLM acquired a 25% interest in the previous fiscal year.

Corporate Social Responsibility

Regardless of the economic crisis and our financial performance, sustainable development continues to be a focus point on our agenda. During the fiscal year the reduction of CO_2 emissions was once again a prime aspect of our sustainability efforts. We are reducing CO_2 emissions, amongst others through initiatives such as fuel saving policies, airport vehicles powered by compressed air ('Air Pods'), and the 'Scrap' project by which old aircraft parts are reprocessed and used to make new ones. We are also permanently looking for ways to save weight on board, which in turn saves fuel and therefore CO_2 emissions. For similar reasons, we are continuing to press for a rapid introduction of the Single European Sky, which is expected to lead to a reduction of CO_2 emissions of 10%.

We are also trying to contribute to making aviation more sustainable in general terms. In this context, we operated the world's first demonstration flight, with a number of passengers, partly powered by biofuel on November 23, 2009. Together with a number of partners, we want to lead the way by establishing a venture for the development and production of aviation biofuels. This will require input from others, including the government and suppliers throughout the chain.

The Dutch branch of the WWF serves as an active partner of KLM in the pursuit of its environmental goals and further sustainable development. WWF-NL chose KLM as its business partner of the year. For our customers, we offer programs to offset the CO_2 emissions of their travel and shipments.

We continue to take part in stakeholder dialogue, such as the 'Alders Table', an intensive Dutch consultation on the development of Schiphol Airport involving the airport authorities, KLM, air traffic control, the State, local and regional authorities and neighbouring residents.

Our persistent efforts in the field of sustainable development were marked in September, when KLM and Air France occupied the top position in the Airlines sector of the Dow Jones Sustainability Index, for the fifth year in succession. We also received the 2009 Environmental Award from Airline Business, as number 1 of all airlines in the 'environmental strategy' category.

Level playing field

KLM is subject to a broad range of factors that influence our level playing field. The aviation ticket tax, which was imposed at Dutch national level, has rightfully been abolished as per July 1, 2009. However, we are constantly confronted with pressure in the area of laws and regulations. On November 19, 2009, the European Court of Justice issued a ruling in connection with Regulation 261/2004 on compensation to passengers in case of flight delays. The financial consequences of the ruling are still not certain, as the ruling is being challenged, but these could be considerable. Together with the Association of European Airlines and others, we are advising European and national governmental bodies about the counter-productive elements of this ruling and the impact that it could have on KLM.

Another regulatory initiative that is going to have an evident impact on KLM and the European aviation sector is the introduction of a system of tradable CO_2 emission rights (ETS) as of 2012. KLM believes ETS can be a useful economic instrument to contain CO_2 emissions, provided that its design is effective, affordable and does not disturb the level playing field with other, non-European, airlines.

Prospects

In short we can say that we have not only suffered a two-year setback in terms of traffic, but we are also dealing with a turbulent world scene. The financial impact of the volcanic ash is also uncertain, but is expected to be considerable. With structural lower revenues and continuous pressure on our costs, we will have to review our processes and put ever more energy into retaining our customer base. In addition to managing costs and improving productivity, other key elements of our answer include agility, flexibility and the continuous energy of our workforce.

In case of no further severe interruptions as a result of the volcanic ash, we anticipate a cautious improvement in the new fiscal year for a number of reasons. First of all, we have noticed a mildly positive trend as regards both passenger numbers and cargo, even though the totals are still considerably lower than some years ago. Secondly, we have adjusted the Company's costs to the lower revenues; and thirdly, in light of the current market situation, we are planning for a stable capacity level.

As a Company, there are always good times and bad times to be endured. We have experienced an extreme crisis, but even now there is also good news: the way we cope with the crisis socially, by keeping our blue family together. KLM, as part of AIR FRANCE KLM, is facing the future with confidence. As ever, we rely on the enthusiasm and devotion of our employees to keep improving the service to our customers and strengthen our competitive position.

Peter Hartman
President and CEO, KLM

Financial Performance

General comments

During the fiscal year 2009/10, KLM continued to suffer from extremely unfavourable circumstances. The economic decline lowered the demand for passenger and air freight traffic significantly. As a result of immediate capacity reductions, load factors could still be kept at satisfactory levels, but yields suffered importantly from the lower demand.
Only in the last quarter of the fiscal year, yields improved compared to a year earlier, but at much lower absolute levels than two years ago. Fuel prices were on average below the level of last fiscal year, but increased from $60/barrel in the first quarter to $80/barrel in the fourth quarter.

During the fiscal year 2009/10 the results for Martinair were fully consolidated. For the fiscal year 2008/09, only one quarter of Martinair results was consolidated, as the acquisition was effective as per January 2009. In order to evaluate results on a comparable basis, variances are also given with a "pro-forma" result for 2008/09, i.e. as if Martinair would have been consolidated for 12 months.

Revenues and cost development	**2009/10**	**2008/09**	**Variance**	**Variance***
In millions of Euros			**%**	**%**
Revenues	7,469	8,182	(9)	(16)
External expenses	(5,119)	(5,526)	(7)	(17)
Employee compensation and benefit expenses	(2,150)	(1,919)	12	5
Depreciation and amortisation	(546)	(510)	7	(5)
Other income and expenses	61	(68)		
Total expenses	(7,754)	(8,023)	(3)	(12)
Income from current operations	**(285)**	**159**		

* incl. Martinair on a comparable basis

Revenues

Revenues were down by 9%, to EUR 7,469 million (-16% including Martinair on a comparable basis). The reduction reflects an increase in capacity of 1.2% and the lower yields of 11.4%.
Passenger transport revenues were at EUR 4,873 million, 13% lower than last year, with a reduction of capacity, measured in available seat kilometers, of 4.1%.

Revenue per passenger kilometer (yield) deteriorated by 10.8% (-11.0% at constant exchange rates), while load factor improved slightly to 82.2% (+ 0.6% point).

Cargo transport revenues increased by 1.5% to EUR 1,278 million (-28% including Martinair at comparable basis), with a capacity increase of 15.0% (-17% including Martinair at comparable basis). The reduction in capacity was predominantly caused by less production with full freighters.
Revenue per ton-kilometer dropped by 16.9% (-17.1% at constant exchange rates), whilst load factor improved 4.4% versus last year to 72.3%.

Transport revenues of the Leisure Business increased by 4.3% to EUR 778 million (-15.6% including Martinair on a comparable basis). Revenues from maintenance for third parties and the work performed for Air France amounted to EUR 467 million, representing a decrease of 3.7% (-4.3% at constant exchange rates).

Expenses

Expenses were reduced by 3% to EUR 7,754 million (-4.2% at constant exchange rates). Including Martinair on a comparable basis the reduction was 12%.

Aircraft fuel costs decreased by 14.3% to EUR 1,962 million (-25% including Martinair on a comparable basis). The average jet fuel price was 18.1% lower than last year, whilst the USD was slightly stronger. Reduction of fuel volume was higher than capacity reduction, due to more fuel efficient fleet and various projects to reduce the weight of the aircraft.

Excluding fuel, expenses increased by 0.8% (-6.2% including Martinair on a comparable basis) with a capacity increase measured in “equivalent” seat kilometers of 1.2%. At constant exchange rates, manageable unit costs were only 0.5% higher than last year despite the significant capacity reduction with Martinair on a comparable basis.

Employee costs increased by 12% to EUR 2,150 million (+5% including Martinair on a comparable basis). The increase of employee costs was mainly the results of higher pension costs, as calculated under the IAS19 accounting principles. Excluding the higher pension costs salaries would have been stable. The average workforce of the KLM Group was 34,032 FTE’s (2008/09: 36,006 FTE’s, Martinair 2008/09 annualised).

Income from current operations

In 2009/10, the loss from current operations amounted to EUR 285 million (2008/09: EUR 159 million profit) and includes a negative payout of fuel hedges of EUR 269 million.

The results of the Passenger Business were affected by the drop of 10.1% in passenger revenues per seat kilometer, only partly compensated by lower fuel costs and reduced operating costs. The loss from current operations was EUR 138 million, compared to a gain of EUR 132 million in 2008/09.

Cargo Business booked a loss of EUR 153 million (2008/09: EUR 20 million loss). Demand for cargo traffic remained low during 9 months of the year and only restored in the last quarter of the fiscal year 2009/10.

Maintenance activities accounted for EUR 22 million of operating income. The leisure activities (including transavia.com and Martinair leisure) realised a loss of EUR 20 million.

In millions of Euros	**2009/10**	**2008/09**
(Loss)/Income from current operations	(285)	159
Other non-current income and expenses	(91)	(11)
Net cost of financial debt	(98)	(70)
Other financial income and expenses	(16)	(286)
Pre-tax income	(490)	(208)
Income tax benefit /(expenses)	114	62
Share of results of equity shareholdings	(7)	(47)
Loss for the year	**(383)**	**(193)**

The net loss for the year was EUR 383 million (2008/09: EUR 193 million negative).

Other non-current income and expenses of EUR 91 million include book losses for sale and leaseback operations of aircraft, as well as a provision for two Boeing 747 freighters that were taken out of service and subleased.

The net cost of financial debt increased due to less interest income on cash investments not fully compensated by lower interest costs on the outstanding debt.

Other financial income and expenses include a part of the results of fuel derivatives that does not qualify for hedge accounting (the variances in the time value of the hedges) as well as the currency revaluation of balance sheet positions.

The result from equity shareholdings reflects the KLM share of the results of Kenya Airways Ltd., Transavia France and Schiphol Logistics Park CV.

Cash flow statement

In millions of Euros	**2009/10**	**2008/09**
Cash flow from operating activities	(259)	503
Cash flow from investment activities	(481)	(493)
(Increase) / Decrease in short-term deposits and commercial paper	250	(275)
Cash flow from financing activities	456	42
Other	2	8
Changes in cash and cash equivalents	**(32)**	**(215)**

The operating cash flow was EUR 259 million negative, including a negative working capital movement of EUR 112 million.

Investing cash flow amounted to EUR 481 million, of which EUR 431 million for fleet renewal and modifications. Two Boeing 777-300ER, one Boeing 737-800, two Boeing 737-700, three used Fokker 70 and 10 Embraer 190 aircraft entered the fleet in 2009/10.

Fleet related investments amounted to EUR 162 million, including EUR 118 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 69 million (including EUR 38 million for capitalised software) whilst disposal of aircraft led to an income of EUR 181 million and mainly relate to aircraft sale and leaseback operations.

The financing cash flow was EUR 456 million. New financing include financing of the new fleet (EUR 389 million), an internal loan of EUR 386 million from AIR FRANCE KLM was drawn, related to the convertible bond issued by AIR FRANCE KLM in June 2009 and mortgage loans for real estate and equipment (EUR 59 million). Redemption of existing loans and other movements amount to EUR 378 million.

Equity increased to EUR 2,240 million at March 31, 2010 (EUR 2,099 million per March 31, 2009). The negative net result for the fiscal year 2009/10 was more than compensated by positive movements in the value of fuel hedge derivatives that are reported in "Other Comprehensive Income", part of the equity. The net debt to equity ratio increased to 118%.

Overview of significant KLM participating interests

As at March 31, 2010

Subsidiaries	KLM interest in %
Transavia Airlines C.V.	100
Martinair Holland N.V.	100
KLM Cityhopper B.V.	100
KLM Cityhopper UK Ltd.	100
KLM UK Engineering Ltd.	100
European Pneumatic Component Overhaul & Repair B.V.	100
KLM Catering Services Schiphol B.V.	100
KLM Flight Academy B.V.	100
KLM Health Services B.V.	100
KLM Equipment Services B.V.	100
KLM Financial Services B.V.	100
Cygnific B.V.	100
Cobalt Ground Solutions Ltd.	60
Jointly controlled entity	
Schiphol Logistics Park C.V.	53 (45% voting right)
Associate	
Kenya Airways Ltd.	26
Transavia France S.A.S.	40

Traffic and Capacity

Passenger	Passenger kilometers		Seat kilometers		Load factor	
In millions	2009/10	% Change 2008/09	2009/10	% Change 2008/09	% 2009/10	% 2008/09
Route areas						
Europe & North Africa	11,900	(6.2)	15,936	(6.1)	74.7	74.7
North America	15,504	(6.9)	18,172	(8.0)	85.3	84.3
Central and South America	7,751	(3.5)	9,161	(5.2)	84.6	83.1
Asia	21,755	(1.8)	25,430	(2.7)	85.5	84.8
Africa	9,977	3.7	12,247	3.4	81.5	81.2
Middle East	4,198	(4.9)	5,633	(5.9)	74.5	73.8
Caribbean and Indian Ocean	3,044	(2.1)	3,589	(1.6)	84.8	85.2
Total	**74,129**	**(3.3)**	**90,168**	**(4.1)**	**82.2**	**81.6**

Cargo	Traffic		Capacity		Load factor	
In million cargo ton-km	2009/10	% Change 2008/09 */**/***	2009/10	% Change 2008/09 */**/***	% 2009/10	% 2008/09 */**/***
Route areas						
Europe & North Africa	25	(8.7)	244	2.1	10.1	11.4
North America	915	(4.6)	1,413	(4.9)	64.8	64.6
Central and South America	1,494	118.0	1,920	115.6	77.8	77.0
Asia	2,617	0.3	3,279	(10.0)	79.8	71.6
Africa	990	63.1	1,338	58.2	74.0	71.8
Middle East	184	4.4	288	(3.9)	64.0	58.9
Caribbean and Indian Ocean	76	(24.0)	230	14.1	32.9	49.4
Total	**6,301**	**22.0**	**8,712**	**15.0**	**72.3**	**67.9**

* including Martinair for 3 months

** excluding Martinair traffic is – 9.6% and capacity is -13.8%

*** including Martinair on a comparable basis traffic is – 14.1% and capacity is – 17.0%

Commercial developments

Passenger Business

As a consequence of the economic crisis, the revenues from Passenger Business fell this fiscal year by 13% compared to the previous year. Because of the rapid and effective reduction in capacity since the onset of the crisis load factors remained at a reasonable level. However, as was the case in the previous year, demand in the premium travel lagged far behind, imposing further pressure on yields. Passenger kilometers fell 3.3% from 77 to 74 billion. With a 4% reduction of capacity, the load factor we achieved was 82.2%, representing a rise of 0.6% points in comparison with 2008/09.

An important and visible step forward was the introduction, on March 29, 2010 of the new ladies' uniform for all our cabin and cockpit crew, and our uniformed ground staff. This new ladies' uniform was designed by the Dutch designer Mart Visser, and enhances KLM's modern and professional image.

Network

KLM and its partners operated 151 destinations of which 72 long haul and 79 medium haul destinations from Amsterdam in fiscal year 2009/10. Our operating schedule exhibited a great degree of flexibility with an adjusted frequency of flights to certain destinations. In these difficult times that started in fiscal year 2008/09, KLM safeguards its global network by redesigning schedules and by reallocating aircraft whilst keeping an attractive network for the customer.

In the fiscal year our network was enhanced by the addition of some new destinations, namely Denpasar (Bali), Aruba and Calgary, the last two having been KLM destinations in the past. KLM continued to focus on achieving strategic growth in China, where capacity was increased. In the beginning of the fiscal year 2010/11 a new destination in China, Hangzhou, has been added to our portfolio.

Product development

Even in the midst of the economic crisis, KLM continued to invest in product development. During the fiscal year in question, Economy Comfort was introduced, a dedicated front section of Economy Class, providing extra comfort for passengers. Economy Comfort offers added legroom and a more relaxed reclining position for a slight increase in price.

At Amsterdam Airport Schiphol, new ideas for the 'next generation' gates are being tested, which should result in faster service and greater convenience for passengers. There is also a special priority lane and a dedicated waiting area for premium passengers.

Economy Class passengers can find a convenient waiting area more quickly once they have passed through the security checks. Most of the C pier at Schiphol Airport has already been refurbished in line with this concept, and all of the gates will be modernised within a few years. The 'next generation' gates are part of a collaborative effort with Schiphol Airport, aimed at further improvements for passengers. The boarding process will be improved over the next year by means of fixed seating arrangements in all of the piers, which makes it easier to distinguish between premium and non-premium passengers. Finally, we are working closely with Air France on a new computer system that will deal with bookings, reservations and check in, which will also help to speed up the service we provide to our customers.

The '70 Million Bags' program, run by KLM, Amsterdam Airport Schiphol and suppliers, is a significant project designed to improve efficiency in the handling of the increasing flow of luggage (to up to 70 million items each year). One important element of this project is the new luggage-handling bay, which is to be commissioned towards the end of 2010. In order to meet the new EU rules, which require 100% screening of all transfer luggage, we are making sure that there is adequate screening capacity built into the new facility.

Two important steps forward made it easier to do electronic business with KLM; the new booking tool, which further simplifies online booking for our customers, and the roll-out of our website KLM.com in 133 countries in its new format, matching KLM's house style. Some new services were also added to the website, including facilities for booking a hotel, hiring a car or reserving a parking place at the airport at the same time as booking a flight.

Our on-board catering product was also invigorated, with contributions from top chefs such as Sergio Herman and Margot Janse. In February 2010, KLM introduced 'Delicious' – a new private label representing the highest quality, fresh and sustainably sourced food – in Economy Class for our intercontinental flights. Our efforts in the field of Corporate Social Responsibility were rewarded by the global Seafood Champion Award, for the use of sustainably sourced fish in our cuisine. When buying fresh fish, KLM ensures that this is MSC (Marine Stewardship Council) certified or from the green list of WWF.

In case the fish of the green list is not available, KLM makes sure the fish purchased is not on the red list of WWF.

Operational quality

Flight safety is the cornerstone of the KLM operation. We have continued to make developments during the fiscal year in areas such as training, in order to maintain our high standards of safety. Of course, these aspects are not just confined to our flight operation. Everyone in the Company is continually working on safety aspects in order to maintain the high standards set by both KLM and the IATA Operational Safety Audits (IOSA).

Fuel efficiency is a matter of significant importance to KLM, considering the cost impact, even more so against the background of the economic crisis, and bearing in mind our strong sense of responsibility for the environment. We have achieved great results in areas such as fuel and weight savings. One example is a fuel awareness program we have initiated for cockpit crew and ground handling staff. A proactive approach towards the careful use of fuel has been adopted, for example by switching off one engine when taxiing or delaying engine start-up if this is possible.

Cargo Business

Because of the ongoing economic crisis the demand for air freight fell dramatically during 2009. In response, capacity was reduced by 14%, and a number of full freighters were grounded. The emphasis is now on cargo transport in the lower decks (bellies) of passenger aircraft and our combi-aircraft. The full freighters are only used as an addition on routes with significant cargo flows. Network synergies have been created, as a result of arrangements between AIR FRANCE KLM Cargo and Martinair Cargo and a reduction in overlapping destinations.

Cargo took several measures to react to the substantial decrease of its revenues. Radical cost management, reduction of employees through internal mobility and natural attrition, postponement of major investments and efficiency enhancements were implemented throughout the organisation. As a result of an improved balance in terms of capacity and demand, slight margin improvements could be achieved during the second half of the fiscal year 2009/10. Even though first signs of a cautious recovery could be noticed during the last quarter of 2009, revenues are still far below the pre crisis level. The economic situation will continue to have an influence on Cargo during 2010.

Structural improvements to the entire cargo process are necessary and have been initiated during the fiscal year.

At the same time, innovation of the supply chain remains of utmost importance. We aim to achieve major benefits from improving the various processes, such as by the use of e-freight – sending freight with electronic airways bills – and the development of 'green lanes'. By the use of a green lane faster handling can be achieved, because the Customs aspects are covered through the entire chain from producer to importer, including the flight, in terms of items such as safety, health, economy and the environment. Another initiative for faster handling of air freight at Schiphol Airport is the Cargo Checkpoint, which is a drive-through scanning lane that checks the cargo for explosives, contraband and so on, in a single process.

Engineering & Maintenance Business

As in the previous fiscal year KLM Engineering & Maintenance showed a different picture than the rest of KLM, by achieving its targets despite the economic crisis. Financial results were satisfactory and the business performed well in operational terms. As a result of the improved operational performance the non-quality costs were reduced.

Aircraft maintenance, both for narrow and widebody aircraft, exhibited substantial and permanent improvements on all fronts. Engineering & Maintenance deliberately aims for a 'lean' production process, where all unnecessary steps and activities are removed from the process. The result is an organisation that is continually improving and becoming more efficient, from the inside out. With a view to improving operational performance even further, a start was made on replacing the existing maintenance system. This new system was used for the first time during this fiscal year for the maintenance of the Boeing 737 fleet.

transavia.com

In spite of the crisis, transavia.com was able to record a profit. However, the impact of the poor market situation was felt and resulted in reductions in passenger numbers and less lease-out aircraft over the winter. During the fiscal year, transavia.com carried 5.2 million passengers, a decrease of 4.8% compared to the previous year.

transavia.com responded to the reduction in demand by adjusting its network, making an extra commercial effort and introducing a stringent package of cost-management measures.

The strong collaborative efforts within the Group bore fruit for transavia.com during the past year. A number of synergies were achieved in operational matters, particularly with KLM, including mutual leasing in and leasing out of aircraft, exchanges of cockpit and cabin crew and ground staff, base maintenance checks at KLM, and a shift of part of transavia.com's data centre to the KLM centre at Schiphol Rijk.

The hybrid business model (which involves flying charter and scheduled services using the same stock of seats) is also gaining pace in other markets. Transavia.com now operates beyond the Netherlands, from France and Denmark, and maintains a watchful eye for any opportunities to extend this business concept elsewhere in Europe.

Martinair

During the first complete fiscal year in which Martinair was part of the KLM Group many synergies were achieved. Efforts will continue in the fiscal year 2010/11 to ensure optimum collaboration within the Group, which will allow us to operate at the peak of our efficiency. In coordination with the Group, Martinair reduced its capacity in the wake of the economic crisis, while maintaining its network for customers.

Following the restructuring that took place in 2007/08, the transfer of various activities to KLM led to a more efficient operation at Martinair. Within the KLM Group, Martinair Cargo specialises in operating freight aircraft from Schiphol. Martinair's passenger flights focus on holiday destinations in the Caribbean and Kenya.

Staff

The KLM Group employs a workforce of 31,787 as per March 31, 2010. For many years, KLM has been a preferred employer in the Dutch labour market. Employees tend to stay with the Company for a large part of their career. Together, we create the professionalism, the spirit and the blue family we are so proud of.

Mobility and flexibility

KLM is doing everything possible to keep the KLM family together during this crisis and to avoid any forced layoffs in The Netherlands. During the fiscal year, part of the temporary contracts were not extended as a matter of principle, and any vacancies that arose were filled internally by KLM employees. Because these employees' former jobs were not occupied, the result was a reduction in the total number of positions. Since September 2008, the process has resulted in a reduction of more than 3,500 jobs.

KLM indirect staff was asked to help out in operational departments, in addition to their own work, in order to reduce the costs of hired and temporary staff. About 800 of our staff answered the call, including ground staff and cockpit crew, who were deployed on operational matters at peak times, allowing for a marked reduction in the number of temporary employees who had to be hired.

Other employees have also been on secondment within the KLM Group. KLM cabin crew flew with transavia.com for six months in the summer of 2009, and pilots worked for Martinair and transavia.com. Also, ground staff is asked to fly with KLM Cityhopper as cabin attendants for a year, during which period their own positions will not be occupied.

Safety culture

KLM aims to achieve the highest possible level of safety in the aviation industry. A key element of our operation is to never compromise on safety. Continuous and effortless attention is being paid to the training of our pilots. Also, much attention is given to the training of other employees, such as those working in operational and technical functions. The campaigns to increase the awareness on occupational safety have been continued during the fiscal year.

Fleet development

As a result of the economic crisis, no additional aircraft were added to the fleet during the fiscal year. However, since fleet development contributes to the high quality of service to our passengers, as well as to the efficiency of our operation in general, we did proceed with renewals. There was an influx of fifteen aircraft during the past fiscal year, involving two Boeing 777-300ERs, one Boeing 737-800, two Boeing 737-700s and ten Embraer 190s. The Boeing 737-800 and -700s replace the Boeing 737-300 and Boeing 737-400 aircraft, while the Embraer fleet replaces part of the Fokker 100 fleet at KLM Cityhopper. Three Boeing 737-400s, three Boeing 737-300s, eleven Fokker 100s, twelve Fokker 50s of KLM/KLM Cityhopper and two Boeing 767-300ERs of Martinair left the fleet over the past year.

A number of improvements were also undertaken to our existing fleet. All intercontinental aircraft (Boeing 747, Boeing 777, MD11 and Airbus A330) were fitted with Economy Comfort. New seats equipped with inflight entertainment upgraded the Economy Class sections of a number of our Boeing 747-400s. This transition will be completed in the fiscal year 2010/11.

Finally, two new Boeing 777-300ERs were delivered in fully 'e-Enabled' condition, with three operational e-Enabled applications: the electronic complaints log, e-reports and the facility for uploading documents electronically and wirelessly. Because it is now possible to communicate these processes between the aircraft and the ground during the flight, certain actions such as unplanned maintenance can be dealt with more quickly once the aircraft lands.

Fleet composition KLM Group

		Included in balance sheet			Operating leases ***	Total
		Average age in years *	Owned **	Finance leases		
Consolidated fleet as at March 31, 2010						
Boeing 747-400 PAX	wide body	20.0	1		5	6
Boeing 747-400 Combi	wide body	15.9	10	6		16
Boeing 747-400 ER Freighter	wide body	6.7		3	1	4
Boeing 747-400 BC Freighter	wide body				1	1
Boeing 777-300 ER	wide body	1.5		4		4
Boeing 777-200 ER	wide body	5.5		6	9	15
MD-11	wide body	15.1	8		2	10
MD-11 Freighter	wide body	14.1	5		2	7
Boeing 767-300 ER	wide body				4	4
Airbus A330-200	wide body	4.1		6	4	10
Boeing 737-900	narrow body	7.2		2	3	5
Boeing 737-800	narrow body	9.8	3	17	20	40
Boeing 737-700	narrow body	3.6		11	5	16
Boeing 737-400	narrow body	18.4	6		3	9
Boeing 737-300	narrow body	17.6	7			7
Embraer 190	regional	0.6		9	4	13
Fokker 100	regional	15.9	5			5
Fokker 70	regional	14.3	23	3		26
Training aircraft			7			7
Total consolidated fleet		**11.0**	**75**	**67**	**63**	**205**

* Excluding operating leases and training aircraft. The average age including operating leases is 10.3 years
** Excluding 4 Fokker 50 not in operation as at March 31, 2010
*** Excluding 3 B747-400 BC Freighter not in operation as at March 31, 2010

Risk profile and risk management

The aviation industry is vulnerable to the world wide economic developments. The airline industry can be characterised as being a cyclical, capital- and labor intensive business area, facing a comparatively high level of fixed cost, operating with relatively small margins. Additionally, the airline industry has to deal with a strong fluctuating oil price and increasing laws and regulations, for instance in the areas of the environment and security.

The risks of AIR FRANCE KLM are explained in related parts of the AIR FRANCE KLM financial disclosure reporting. Basically, the risks discussed below can have an impact on the Company's brand, income, liquidity and the access to capital markets.

This section reports on KLM's risk management and in particular the most important risks, such as mentioned in the following paragraph.

Risk management within the KLM Group

KLM has organised and established a Company-wide risk management process which identifies the risks on a timely basis. By taking the proper actions, KLM is able to mitigate the potential impact of risk factors. KLM has integrated risk management into most aspects of its operations so as to ensure that its objectives are achieved. A system of both top-down and bottom-up risk assessments is being followed in order to identify the most relevant business risks, to monitor the risks and where necessary to take corrective actions.

Management carries out periodic risk assessments. On a quarterly basis each business and large division summarises its key operational and tactical risks in a risk overview, highlighting the risk itself, the likelihood of the occurrence of the risk as well as the financial impact. This is also done for Company-wide risks. The impact and likelihood are split in different brackets. This risk matrix enables management to quickly focus on the most important risks.

The Board discusses the identified risks periodically with management. Subsequently the most important issues are discussed with the Supervisory Board and its Audit Committee. In addition external auditors assess the controls as far as the financial disclosure is concerned.

Once a year, in conjunction with the strategic management process, also the long term strategic risks are identified and discussed including the controls that are in place.

At the year-end the use of an internal Document of Representation ("DoR") is incorporated into the internal accountability process. In this internal statement, business management confirms to the Board of Managing Directors, the reliability of the figures they have submitted and control procedures applied. At the same time, business management acknowledges and certifies that they are responsible:

- to report transparently the outcomes of its risk management process;
- to maintain a reliable internal control framework in general and over financial reporting in particular;
- to report eventual open control issues and the measures to monitor and to mitigate the consequences of these control issues; and
- to report that there is no knowledge of any undisclosed material fraud or suspected fraud.

Macro-economic developments

The demand for Passenger transport (both business and leisure) and Cargo transport is influenced by international and regional economic and political conditions. During fiscal year 2008/09, the world economic situation had rapidly and severely deteriorated and fiscal year 2009/10 hardly showed any improvement.

This financial and economic crisis has an extensive impact on the aviation industry. Among others:

- decrease in the number of passengers;
- substitution of business class by economy seat bookings;
- a material decrease in the demand of Cargo transportation;
- air fares erosion; and
- overcapacity.

The impact of the global recession on the post crisis airline industry is still uncertain. KLM (in close co-operation with Air France) is continually adapting its capacity and network of destinations to the economic situation. Furthermore, KLM is responding to this by:

- constantly monitoring the developments in the industry landscape;
- stimulating innovative thinking ("explore the future initiatives");
- cross functional sharing & development;

- smart processing;
- monthly monitoring of network results and results per business;
- strong cost control & ongoing cost reduction initiatives; and
- focussing on cash combined with a smart and prudent policy on investments.

Developments in market conditions

General:

- Regional or local instability, terrorist attacks and other related conflicts can lead to a decrease in Passenger and Cargo transportation and an increase in costs (especially fuel, security and insurances);
- The competition of alternate transportation modes (for passengers as well for cargo);
- The monopolistic or oligopolistic position of many suppliers in the supply chain, e.g. airports, Air Traffic Control (ATC), manufacturers;
- Potential impact of epidemics on Passenger and Cargo transportation which might require fast and severe measures; and
- Potential impact of natural disasters and extreme weather conditions.

Airlines industry & emerging markets:

- Increasing capacity of new airlines in emerging markets worldwide;
- Creation of major hubs, especially in the Middle East;
- A shift to extended range aircrafts with the possibility to bypass European hubs;
- The continuing consolidation;
- On time availability of new generation long haul aircraft; and
- Increased competition of low cost carriers and hi-speed trains.

Governmental:

- A number of KLM's global competitors receive directly or indirectly government subsidies or support, or are favoured by specific national legislation;
- The introduction and development of the Single European Sky;
- Distortion of level playing fields by regulators; and
- Increased regulation with regard to security, environment and consumer rights.

KLM's answer to these market conditions is:

- a service oriented product in an expanding world-wide network;
- an optimal alliance strategy;
- joint ventures (some together with Air France) with Delta, Alitalia, Kenya Airways and China Southern; and
- business units aimed at the leisure market with a focus on European and international value-for-money flights.

Through intensive contacts with various regulators and interest groups, KLM aims to bring about a level playing field for all its businesses, both in the market and in the supply chain.

Political developments

The European Court of Justice's ruling of November 5, 2002 changed member states' position on negotiating aviation treaties with non-member states. Treaties are increasingly negotiated by or in cooperation with the European Commission. The State of the Netherlands and KLM are contributing to the establishment of the approach that will safeguard the acquired and future interests of KLM and Amsterdam Airport Schiphol.

An important development was the approval of legislation to establish a Single European Sky, in which area further steps were taken in this fiscal year. In April 2009, the Dutch Government presented a comprehensive national air transport policy, in the "Luchtvaartnota". The mainport function of Schiphol, and the essential role of the network of KLM and its partners, is at the core.

Legal risks

Like other companies KLM is experiencing the consequences of increasing and demanding litigation within society in general. KLM is regularly party to or involved in legal actions. Many of the risks mentioned in the other paragraphs could have a legal impact.

Anti trust risks

Airlines, by nature of their business, have many mutual operational contacts, for instance via different international organisations, (e.g.: IATA, AEA). These operational contacts combined with the changing anti trust legislation over the last decades, increase the risk of (non-intended) violations of anti trust laws.

During the last past years much attention has been given to the monitoring and controlling of this topic and increasing staff awareness through extensive compliance programs.

Since 2006, the Company is subject of anti trust investigations in various jurisdictions worldwide. This is why Air France and KLM started a joint antitrust compliance program in fiscal year 2007/08, with a mandatory e-learning module for employees within the target group. In fiscal year 2009/10 the training had been retaken by our target group, in order to keep the knowledge on this important subject alive. In fiscal year 2010/11 a revised e-learning module will be launched.

Legislative, fiscal and regulatory developments

KLM's operations are sensitive to changes in legislation, regulations, airport fees and taxes. In particular, there is increasing economic, security and other legislation and regulation for a major supplier/ partner of KLM, Amsterdam Airport Schiphol. KLM identifies and monitors possible risks in this area promptly and subsequently on a timely basis. KLM is in close contact with governmental and non-governmental organisations to manage proper communication on increasingly complex subjects. It is our duty to ensure that politicians and regulators are well-informed of:

- the industry's economic and operational realities and of KLM's interests; and
- the potential consequences of (proposed) new legislation for the airport & aviation industry in general and KLM in particular.

Furthermore, KLM has a prominent international presence in the Association of European Airlines (AEA) and the International Air Transport Association (IATA).

On November 19, 2009, the European Court of Justice issued a ruling in connection with Regulation 261/2004 on the compensation to passengers in case of flight delays. The financial consequences of the ruling are still not certain, due to the ruling being challenged, but these could be considerable.

The combination of KLM and Air France requires measures to ensure compliance with fiscal legislation including well documented cross border inter-company transactions.
Strong monitoring and mitigating controls have been introduced:

- a well elaborated AIR FRANCE KLM guideline; and
- an active monitoring of the arms-length character of these transactions.

The second phase of the EU-US (Open Skies) agreement that has been agreed on in March 2010 creates a stable environment for AIR FRANCE KLM and its partners to supply transatlantic services. It also sets equal standards in areas like safety, security and competition. Through the agreement the US recognizes that environmental instruments need to be developed that can be linked to the EU emission trading system. Moreover, it will set an example for further liberalisation worldwide. Furthermore, in December 2009 a comprehensive Air Transport Agreement was signed between the EU and Canada. This agreement represents a significant step towards the opening of both markets.

Following the delisting from NYSE, AIR FRANCE KLM decided voluntarily to comply with the main requirements of the US Sarbanes-Oxley Act. This resulted in ongoing attention for the internal control framework over financial reporting. The existing risk management system is supportive to this additional attention and contributes to fulfil the requirements of the Dutch Corporate Governance principles.

Fuel price, foreign exchange movements and insurance

KLM is exposed to various risks in financial markets. Uncertainty about fuel prices and of continuous availability of oil in the near future, enhance these risks. In 2009/10 AIR FRANCE KLM implemented the new fuel hedging strategy, which is designed to constantly monitor the downside and the upside risk of the fuel hedge portfolio. The long term effects of fuel availability and resulting prices, together with the possible growing demand by industries and the still increasing worldwide mobility, will have a financial impact and are considered to be long term risks for the airline industry.

More information about the impact and management of financial risks (a.o.: liquidity, solvability, fluctuations in exchange rates and interest rates) is included under "Financial risk management" in the notes to the consolidated financial statements.

KLM has taken out an airline insurance policy on behalf of itself, including its subsidiaries and Kenya Airways Ltd. covering damage to its aircraft, liability in relation to passengers and third parties and cargo in connection with its airline activities. With respect to these aviation risks cover is available to a limit of 2.25 billion US dollars for each event. A specific insurance is available covering damage caused by terrorist acts up to 1 billion US dollars for any one occurrence, subject to a limit of 2 billion US dollars annually.

Further global insurance policies are in place to reduce the financial risk of damage to property, business interruption loss and general liability exposures.

Environmental risks

A diverse range of environmental risks confronts KLM. KLM's operations affect the environment through, among others:

- emissions of air pollutants;
- CO_2 emissions;
- noise; and
- water and ground pollution risks.

The Dutch "Aviation Act" includes a separate chapter relating to Amsterdam Airport Schiphol. This chapter stipulates the regulations of Schiphol Airport, but it also includes environmental regulations covering emissions, noise and security. Environmental, operational and economic impact studies have been undertaken to update the regulations. The environmental capacity for the short term and medium long term (until 2020) of Schiphol has been formally approved in 2008. A two-year experiment with a new noise regulation system (with the aim to offer more capacity, flexibility and protection) is planned to begin at the end of 2010.

During the past year the EU decided to implement CO_2 emission rights trading (ETS) for aviation as per 2012. The impact on the operation depends on many variables, notably production levels and the price of CO2-compensation credits. In KLM's current estimates the implementation of ETS will have a considerable financial impact. In the meantime KLM is reducing its CO_2 emissions and investigating the use of bio fuel. KLM also applies an environmental program (under ISO 14001) each year, as part of its normal business operations in which the right balance is sought between "People, Planet and Profit". These programs involve costs being incurred in the areas of prevention, registration & control and reduction of polluting emissions to air and water and for the removal of waste.

KLM conducts intensive consultation with the authorities and other institutions and organisations in order to achieve effective and competitive environmental policies and legislation on a timely basis, enabling anticipation of their implementation and in so doing fulfilling its accountability.

Operational risks

Operational integrity is one of the essential conditions for success in the aviation industry. Airlines are highly sensitive to disruptions. Delays, both on the ground and in the air, lead to loss of quality and are costly. KLM has taken a number of initiatives to safeguard its operational integrity. The Operations Control Center, which coordinates all flight-related decisions, plays a central role.

KLM’s operations are dependent on good cooperation with its suppliers, which is a prerequisite for delivering a high quality service to its customers. In this context Amsterdam Airport Schiphol, as the owner of the baggage handling system, is a key partner in delivering high quality service in baggage handling at Schiphol. Over the last years significant process improvements and innovations were realised in an effective partnership between KLM and Schiphol. In short, the first phase of the major 70MB (70 million bags) program will be delivered. Going forward, system capacity needs further expansion, in order to accommodate future growth. The following phases of the 70MB program provide in this demand. Joint process management will be crucial for maintaining required service levels.

Lack of airspace in Europe can cause congestion at and around some airports, particularly at peak times. The approval of the European Parliament of the Single European Sky (SES) should mitigate this operational risk.

Safety and security risks

KLM maintains strict, internationally recognised safety norms and standards and is constantly active to adapt and to comply to new legislation and regulations. As such, KLM complies with amongst others American and European legislation and regulations, which are sometimes different and occasionally conflicting. Detailed rules, which all airlines must fully comply with, cover all flight operations and therefore have a direct impact on all aspects of the business. Tightening up the rules in response to events or new insights has quite often operational and financial consequences.

The airline industry is vulnerable to terrorist or criminal acts directed towards passengers, staff and/or property. The probability of such acts occurring at airports as well as on board, or the threat thereof, is decreased as much as possible by a large number of security measures.

ICT risks

Airline operations are highly dependent on ICT facilities. Contingency plans aim to guarantee the continuity of operations in the event of the failure of vital systems. Additional contingency plans (e.g.: Twin centre concept (fall-back arrangement) & Disaster Recovery Procedures) have been developed in close co-operation with Air France. The majority has been realised and the remaining part is continuing to be developed.

Rapid technological developments demand constant attention. In order to maintain an overview and at the same time manage the costs and complexity of ICT, KLM has opted for an approach which aims at standardisation, simplicity and a strong alignment of systems between Air France and KLM. In a less complex ICT structure, a more efficient, simpler, and better ICT security is possible. However, as more interactive services (products and transactions) are offered over the Internet, continuous attention to security is a critical precondition to prevent misuse (fraud) and (virus) attacks.

KLM is largely dependent on the level of organisation and the way in which airport authorities worldwide have organised the exercise of security at airports. KLM attempts to exercise direct influence on the quality and effectiveness of security measures as much as possible, of course taking into account the security demands.

Reputational risks

Business processes, systems and procedures may display weaknesses or may temporarily be unavailable. These situations may be due to disruptions or external circumstances caused by weather conditions, the situation at or around the airport or natural disasters. Such risks may have an adverse impact on KLM's reputation and in some cases may lead to a financial loss. KLM regards reputation risk as a risk which is primarily linked to the operation of its (core) processes. It is up to the process managers to monitor and limit the consequences of these risks as much as possible.

Board and Governance

General

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a public limited liability company incorporated under Netherlands law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a separate Supervisory Board. KLM has been subject to the mitigated structure regime for large companies since May 2007.

KLM's corporate governance is based on the statutory requirements applicable to limited companies and on the Company's Articles of Association. Furthermore, KLM has brought its corporate governance as far as possible in line with generally accepted principles of good governance, as laid down in the amended Dutch Corporate Governance Code, which was presented by the Monitoring Committee (Commissie Frijns) in December 2008.

This section considers KLM's corporate governance policy. Besides the amendments as a result of the Code, there have been no material changes in the Company's governance policy in comparison with fiscal year 2008/09.

Shareholder structure

KLM's shareholder structure is outlined below.

Depositary receipts of shares carry beneficial (economic) ownership, but no voting rights on the underlying KLM shares.

AIR FRANCE KLM holds:

- all KLM priority shares and a proportion of the common shares, together representing 49% of the voting rights in KLM;
- the depositary receipts issued by Stichting Administratiekantoor KLM ("SAK I") on common KLM shares and on the cumulative preference shares A, together representing 33.16% of the beneficial rights of KLM's nominal share capital;
- the depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C ("SAK II") on the cumulative preference shares C.

On March 31, 2010, "SAK I" held 33.16% of the voting rights in KLM on the basis of common shares and cumulative preference shares A. "SAK II" holds 11.25% of the voting rights in KLM. The Dutch State directly holds the cumulative preference shares A, which represents 5.92% of the voting rights.

Since 1994, the Dutch State has had the option under certain air political circumstances to take an interest of up to 50.1% in the issued capital of KLM. Further to the merger with Air France, the option has been retained subject to certain amendments for a period of three years, with an option to renew it for a further year for a maximum of three years. The Dutch State has used the possibilities for renewal.

AIR FRANCE KLM

Air France and KLM share the same holding Company, AIR FRANCE KLM S.A. The holding Company's Board of Directors (*Conseil d'Administration*) has 15 members. The AIR FRANCE KLM Group Executive Committee among others decides upon issues of a strategic nature.

Supervisory Board

KLM's Supervisory Board has a duty to supervise the management by the Board of Managing Directors and the general performance of the Company. It also provides the Board of Managing Directors with advice. The Supervisory Board has nine directors.
The Supervisory Directors fulfil their duties in the interests of the Company, its stakeholders and its affiliates. Supervisory Directors are appointed and reappointed by the General Meeting of Shareholders. The KLM Works Council has a legal right of recommendation for one third of the Supervisory Directors.

Three committees are active within the Supervisory Board: an Audit Committee, a Remuneration Committee, and a Nomination Committee. All these committees have their own regulations, which lay down, amongst other things, the committees' tasks.

Board of Managing Directors

The Board of Managing Directors has three members. It is supervised by the Supervisory Board. The Managing Directors are appointed and dismissed by the General Meeting of Shareholders. The members of the Board of Managing Directors are appointed for a fixed term. Further information on the members' service agreements is presented in the section Remuneration Policy and Report. Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single entity with joint responsibility. The Supervisory Board appoints one of the members of the Board of Managing Directors as President & Chief Executive Officer. The Board of Managing Directors shares its operational management tasks with an Executive Committee, consisting of the Company's divisional managers.

General Meeting of Shareholders

A General Meeting of Shareholders may be convened by the Board of Managing Directors, the President & Chief Executive Officer, the Supervisory Board, three Supervisory Directors, or the Meeting of Priority Shareholders, each of which has equal power to do so. KLM's next Annual General Meeting of Shareholders will be held at Schiphol East on July 1, 2010.

Staff Participation

The Board of Managing Directors, represented by the 'Bestuurder', meets with the Company's Works Council on a regular basis. During these meetings, a number of topics are discussed such as the cooperation with Air France, the Company's strategy, and financial results. The KLM Works Council has 25 members. The KLM Works Council met on ten occasions in fiscal year 2009/10.
At AIR FRANCE KLM level a European Works Council has been installed to jointly represent KLM and Air France. This Council focuses on subjects concerning the cooperation between KLM and Air France. The European Works Council met on three occasions in fiscal year 2009/10.

Corporate Governance: Implementation

KLM's Corporate Governance is, insofar as possible, in line with generally accepted principles of good governance, such as the amended Dutch Corporate Governance Code ("the Code"). Although KLM as an unlisted Company is not formally obliged to comply with the Code, it has committed itself to follow the Code voluntarily where possible.

KLM deviates from the best practices described in the Code in a limited number of areas. These deviations are:

- Regulations and other documents are not made available on the Internet. Since the vast majority of KLM shares are owned by a small group of known shareholders, it has been decided to provide copies of regulations and other documents upon written request;
- In deviation from best practice provision II.1.6, KLM has implemented a whistleblower policy with a limited financial scope. In view of this scope, it has been decided that the Chairman of the Audit Committee will be the primary point of contact if there are suspicions of financial misconduct regarding the Board of Managing Directors;
- In deviation from best practice provision II.2.11, KLM will integrate the claw back clause with a maximum term of recovery of three years after the variable remuneration was awarded;
- In deviation from best practice provision III.6.5, KLM has not drawn up regulations governing ownership of and transactions in securities by Board of Managing Directors or Supervisory Board members, other than securities issues by its own Company (AIR FRANCE KLM), because these are considered to be less relevant for KLM;
- In deviation of best practice provision III.5.13, a limited number of consultants that provide advice to the Remuneration Committee of the Supervisory Board, also provide advice to the Board of Managing Directors. However, in these cases separate agreements are made in order to create a so-called Chinese wall.

The amendments in the provisions concerning remuneration will be integrated in the (new) contracts of the members of the Board of Managing Directors. Other amendments in the Code have been implemented in the policy and/or regulations of KLM.

Regulations

KLM has adopted regulations in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Board of Managing Directors. The amendments of the Dutch Corporate Governance Code have been integrated in these regulations. The Rules of Supervision, the Profile with Code of Conduct for the members of the Supervisory Board, the Board of Managing Directors Regulations, the Terms of Reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, and the retirement roster may all be viewed at the Company's head office. Copies shall be made available to shareholders on written request from the Company Secretary.

Report of the Supervisory Board

The supervision of the policies and actions of the Board of Managing Directors of Koninklijke Luchtvaart Maatschappij is entrusted to the Supervisory Board, which, in the two-tier corporate structure under Dutch law, is a separate body and fully independent of the Board of Managing Directors.

Supervision

In fulfilment of its duty to supervise and advise the Company's Board of Managing Directors, the Supervisory Board met on six occasions during fiscal year 2009/10. The meetings were well attended by almost all members.

Of the six regular meetings, four were held shortly after the quarterly close and concentrated on the development of KLM's financial results, with a particular interest – due to the economic crisis – for the Group's liquidity position and balance sheet. The Board also discussed extensively the measures management undertook to mitigate the effects of the crisis. Given the poor results of the Cargo business, the Board held a separate session to discuss the market outlook and strategic positioning of this business in the world cargo market.

In October, the Board held its annual Strategy Meeting, during which the main elements of AIR FRANCE KLM's five-year Strategic Plan were presented to the Supervisory Board with particular emphasis on KLM's positioning and the main strategic risks the Group encounters. As is usual practice, also KLM's 3-year plan, budget, investment plan and financial plan for the next fiscal year were discussed. All were approved by the Supervisory Board. During the fiscal year, the Supervisory Board held two additional meetings by conference call to discuss two financing operations proposed by AIR FRANCE KLM. These operations, of which the proceeds are partially drawn by KLM and still available to KLM, were not foreseen in the financial plan for the fiscal year.

Besides the financial performance, the Supervisory Board was also frequently informed on relevant developments in the cooperation with Air France and in the cooperation with partners, such as Delta Air Lines, Alitalia and China Southern. Next to that, the Supervisory Board discussed intra KLM Group developments, in particular developments with the Group's two main subsidiaries transavia.com and Martinair.

The Supervisory Board furthermore discussed the implications of the new Dutch corporate governance code and decided on the amendments to the various regulations as a result there-of.

Other discussion topics during the fiscal year included:

- Fleet development and fleet investments;
- Hedging policy;
- Performance of the KLM pension funds;
- Corporate social responsibility and Emission Trading;
- Operational safety & quality assurance;
- Status of the investigations into the Group's Cargo business by competition authorities in various jurisdictions;
- Remuneration policy and remuneration of the Board of Managing Directors;
- Management performance and development;
- Composition of the Supervisory Board;
- An analysis of the Group's main competitors.

The Board evaluated its own functioning and that of its committees on the basis of a questionnaire, which was completed by all its members. The results of this self-assessment were discussed during one of the meetings of the Board.

In keeping with previous years, members of the Supervisory Board attended meetings of the Works Council. Also the Supervisory Board had an informal lunch with the Works Council, which lunch was attended by the members of the Board of Managing Directors and KLM's Executive Committee as well.

Composition of the Supervisory Board

Mr. Kees Storm is due to retire by rotation as per the closure of the General Meeting of Shareholders in July 2010. Mr. Storm is available for re-appointment. KLM's Works Council, using its legal power to nominate one-third of the members of the Supervisory Board for which the vacancy qualifies, has advised the Supervisory Board it wishes to nominate Mr. Storm as its candidate, thereby bringing the number of Works Council nominees to the level of three.

The Supervisory Board hereby announces that Messrs. Wim Kok and Jean Peyrelevade are due to retire by rotation as per the closure of the General Meeting of Shareholders in July 2011. Shareholders are entitled to make recommendations for the vacancy. It should be noted that for the position of Mr. Kok KLM's Works Council has the power to nominate a candidate and for the position of Mr. Peyrelevade AIR FRANCE KLM has the power to nominate a candidate.

Committees

The Supervisory Board has three committees: an Audit Committee, a Remuneration Committee, and a Nomination Committee. These committees prepare policy and decision-making and report on their activities to the full Supervisory Board.

On March 31, 2010 the composition was as follows:

Audit Committee

- Hans Smits (Chairman)
- Henri Guillaume
- Kees Storm

Remuneration Committee

- Wim Kok (Chairman)
- Irene Asscher-Vonk
- Remmert Laan

Nomination Committee

- Wim Kok (Chairman)
- Irene Asscher-Vonk
- Remmert Laan

The Audit Committee met on two occasions during fiscal year. Apart from the financial results, the Audit Committee discussed the main (financial and non financial) risks based on Management's risk assessments, the results of internal audits and the yearly Audit plan performed by the Group's internal auditor. Next to that, the Audit Committee also addressed the internal risk management and control system.

The Chairman of the Audit Committee reported on the main discussion topics during the meeting of the full Board. The Audit Committee's meetings were attended by the President and Chief Executive Officer, the Chief Financial Officer, the external auditors, the internal auditor, and the corporate controller. In keeping with previous years, the Audit Committee met with the external auditors without the members of the Board of Managing Directors being present, to discuss the closing process and course of affairs during fiscal year.

The Remuneration Committee met on four occasions during fiscal year. The Committee evaluated the performance of the members of the Board of Managing Directors against the collective and individual targets set for the fiscal year. The Supervisory Board subsequently established the variable remuneration based on the recommendations of the Remuneration Committee. The Remuneration Committee also discussed with Management a proposal for a new target setting system for the long incentive scheme of the Group, which proposal has also been discussed with the entire Board. Since the new target setting entails a change to the Group's remuneration policy, the proposal will be submitted for approval to the General Meeting of Shareholders.

The Nomination Committee met once during the fiscal year. Since no changes in the composition of the Supervisory Board and Board of Managing Directors were foreseen, the meeting was brief.

The meetings of both the Remuneration Committee and the Nomination Committee were partly attended by the President and Chief Executive Officer.

Distribution to shareholders

Absent a net profit in fiscal year 2009/10, no distribution will be made.

Financial Statements 2009/10

The Supervisory Board hereby presents the annual report and the financial statements for fiscal year 2009/10. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V. The Supervisory Board has discussed the financial statements and the Annual Report with the external auditors and the Board of Managing Directors. The unqualified auditors' report as issued by KPMG and Deloitte can be found in the Other Information section of the financial statements.

The Supervisory Board is satisfied that the Annual Report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of the Company's affairs and the Supervisory Board's supervision thereof in the 2009/10 fiscal year.

Independence

The Supervisory Board considers all of its members to be independent pursuant to the Dutch Corporate Governance Code.

Closing remarks

The fiscal year 2009/10 has undoubtedly been one of the most challenging years in the Group's 90 years of existence. The economic tide was adverse, the financial results impacted by the crisis with some first signs of recovery. Nevertheless, management and employees of KLM showed their resilience, flexibility, loyalty and support in managing the crisis and mitigating its impact. The Supervisory Board wishes to thank the Board of Managing Directors and all KLM employees for their contributions during this difficult year.

Amstelveen, June 2, 2010

On behalf of the Supervisory Board

Kees J. Storm
Chairman

Remuneration Policy and Report

Remuneration policy for the Board of Managing Directors

The Supervisory Board's Remuneration Committee is responsible for formulating, implementing and evaluating the remuneration policy of the Company with regard to the terms and conditions of service and remuneration of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board. The remuneration policy is formulated and proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders. The latest changes to the Company's remuneration policy were adopted by the General Meeting of Shareholders in July 2008.

In accordance with the Articles of Association and the remuneration policy and subject to the prior approval of the Meeting of Priority Shareholders (AIR FRANCE KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the individual members of the Board of Managing Directors. These decisions are prepared by the Remuneration Committee.

Each year, the Remuneration Committee evaluates whether there is cause to change the remuneration for the members of the Board of Managing Directors. The following factors are considered in the evaluation: (i) developments in the remuneration of AIR FRANCE KLM's directors, whereby also external benchmark data regarding directors' remuneration (reference group is large Dutch companies) are taken into account as well as (ii) inflation and developments in KLM's Collective Labor Agreement. Any changes in individual remuneration further to the evaluation are proposed by the Remuneration Committee to the Supervisory Board. The Supervisory Board in turn adopts the remuneration subject to the approval of the Meeting of Priority Shareholders.

Objective of the policy

The main objective of the remuneration policy is to create a remuneration structure that enables the Company to attract and retain qualified Managing Directors and to offer them a stimulating reward.

Structure

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:

1. base salary;
2. a short-term incentive in cash related to performance in the past fiscal year;
3. a long-term incentive in the form of phantom shares related to certain predetermined financial targets.

1. Base salary

The amount of the base salary is related to the requirements and responsibilities pertaining to the function of the relevant member of the Board of Managing Directors. The Remuneration Committee determines an appropriate level for the base salary with the aid of external reference data issued by independent remuneration experts. The job grade is determined on the basis of the Company's size, the complexity of the activities, the national and international environment in which the Company operates and the specific responsibilities pertaining to the position. On the basis of this job grade, a base salary level is set at around the median of the market level.

Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body), with the maximum number of remunerated positions whereby the payment accrues concerned is set at two per Managing Director. Acceptance of such position requires the approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remains due to the Company.

Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

2. Short-term incentive plan

The purpose of the short-term incentive plan is to reward members of the Board of Managing Directors for achieving pre-agreed and measurable targets. The short-term incentive is paid in cash as a percentage of base salary. 60% of the short-term incentive is based on a target relating to KLM's income from operating activities; 20% is based on a target relating to the operating income of AIR FRANCE KLM, and 20% on achieving individual targets.

The maximum pay-out percentage is connected to the position of the Board member. Depending on the performance level achieved, the pay-out percentages are as follows:

For the CEO:

- The maximum percentage that can be paid out on a score of 'excellent' is 100%;
- On a score of 'at target', this percentage is 70%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

For the CFO:

- The maximum percentage that can be paid out on a score of 'excellent' is 80%;
- On a score of 'at target', this percentage is 60%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

For the Managing Director:

- The maximum percentage that can be paid out on a score of 'excellent' is 60%;
- On a score of 'at target', this percentage is 40%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

The Remuneration Committee evaluates the agreed targets each year and proposes new targets. Both the evaluation and the proposals are submitted to the Supervisory Board for approval.

3. Long-term incentive plan

As of July 3, 2008, the long term incentive plan in the form of AIR FRANCE KLM stock options was replaced by the long term incentive phantom shares plan. The long term incentive plan is designed to focus the members of the Board of Managing Directors on achieving long term profitable growth for KLM as part of AIR FRANCE KLM. The phantom performance shares provide for the conditional award of an amount in cash that, at the time of selling of the performance shares, is equal to the market value of the number of AIR FRANCE KLM shares that have vested during the performance period.

Granting of the phantom shares will only take place if the individual performance of the Board members is at least 'at target'. The granted shares will vest in three years, provided certain predetermined performance criteria are met. The vested shares may then be sold after three years from the granting date during a period of two years.

The KLM performance criteria for the LTI plan are: (i) the KLM Current Operating Income accounting for 80%, and (ii) the AIR FRANCE KLM Return on Capital Employed accounting for 20%. On July 1, 2010, a change in the criteria for granting the phantom performance shares effective fiscal year 2010/11 will be proposed to the General Meeting of Shareholders.

The number of phantom performance shares (in the case of 'at target' performance) that will conditionally be granted to the members of the Board of Managing Directors under the long term incentive plan amounts to 10,000 shares in respect of the Chief Executive Officer, 7,500 shares in respect of the Chief Financial Officer and 6,000 shares in respect of the Managing Director.

Pensions

In accordance with KLM's pension policy, the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme, whereby any variable income is excluded from pensionable salary. In the changeover to this career average salary scheme, a transitional plan was agreed for employees born before January 1, 1950. This transitional plan is applicable to Mr. Hartman. Mr. Gagey does not accumulate pension rights in The Netherlands.

Employment contracts with members of the Board of Managing Directors

Mr. Hartman's fixed term employment contract expires January 1, 2012, and includes a renewal option for two years.

Mr. Gagey's fixed term employment contract expires January 1, 2013.

The employment contract with Mr. De Groot, contains a fixed-term clause for a period of four years up until July 2011.

Severance pay

The service agreement with Mr. Hartman was formally dissolved on August 1, 2005 and replaced with a fixed-term agreement. As a consequence, Mr. Hartman has lost his possible entitlement to severance pay based on the "sub-district court formula". In the event of forced redundancy, the maximum severance pay will be equal to the remaining term of his service agreement.

Remuneration of the Board of Managing Directors in fiscal year 2009/10

1. Base salary

The base salary for the members of the Board of Managing Directors was increased by 1.25% on January 1, 2010 in line with the general collective labour agreement increases. Furthermore, the base salary of Mr. De Groot was increased to EUR 300,000 on July 1, 2009. Base salaries for Messrs. Hartman and Gagey were not adjusted except for the aforementioned increase.

In fiscal year 2009/10, the total base salary of the members of the Board of Managing Directors was EUR 1,373,802.

Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 30 of the financial statements.

2. Short-term incentive plan

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2009/10 in accordance with the remuneration policy. This resulted in a short-term incentive payment for fiscal year 2009/10 of 20% of base salary for Mr. Hartman, 16% for Mr. Gagey and 10% for Mr. De Groot.

Details of the amounts involved are included in note 30 of the financial statements.

3. Long-term incentive plan

Pursuant to the long-term incentive phantom shares plan, phantom shares were conditionally granted to each member of the Board of Managing Directors in respect of fiscal year 2008/09 in July 2009. The number of granted phantom shares amounted to 10,000 for the Chief Executive Officer, 7,500 for the Chief Financial Officer, and 6,000 for the Managing Director. The phantom shares were granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

The Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan. Since these targets in respect of 2008/09 were not completely met, the first (one third) increment of the 2008/09 phantom shares series as well as the second (one third) increment of the 2007/08 phantom shares series have vested for 60 percent in July 2009, and have thus become unconditional.
Details of the granting and vesting of the phantom shares are included in note 30 of the financial statements.

Loans and advances

No loans or advances have been granted to members of the Board of Managing Directors.

Remuneration Policy for the Supervisory Board

The remuneration of the members of the Supervisory Board consists of a fixed fee per annum and a fee for each meeting of the Board's Committees attended. Members of the Supervisory Board do not receive a performance-related reward or shares or rights to shares by way of remuneration. Nor are members of the Supervisory Board granted loans, advances or guarantees. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders.

Remuneration of the Supervisory Board Members in fiscal year 2009/10

The remuneration for the Supervisory Board is as follows. The fixed fee payable for services amounts to EUR 42,500 for the Chairman, EUR 34,500 for the Vice-Chairman and EUR 26,500 for the other members of the Supervisory Board.

The fee per meeting of the Audit Committee attended amounts to EUR 2,000 for the Chairman and EUR 1,000 for the other members of the Audit Committee. The fee per meeting of the Remuneration Committee and the Nomination Committee attended amounts to EUR 1,500 for the Chairman and EUR 1,000 for the other members of the Remuneration Committee and the Nomination Committee.

Members of the Supervisory Board are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

The total remuneration of current and former Supervisory Board members for fiscal year 2009/10 was EUR 284,500 (previous fiscal year EUR 274,000). Details on the remuneration received by the individual members of the Supervisory Board are presented in note 29 of the financial statements.

Supervisory Board and Board of Managing Directors

Supervisory Board (situation as at March 31, 2010)

Name	Year of birth	Nationality	First appointment/ Current term	Function /Supervisory Board memberships and other functions *
Kees J. Storm *Chairman*	1942	Dutch	2002 / (second) 2006 – 2010	Former Chairman Board of Managing Directors AEGON N.V. / Anheuser-Busch InBev S.A., AEGON N.V., Pon Holdings B.V., Baxter International Inc., Unilever NV and Plc., member Curatorium VNO-NCW
J.F. Henri Martre *Vice-Chairman*	1928	French	2004 / (second) 2008 – 2012	Former Vice President Board of Airbus, former Chairman and CEO Aérospatiale / Sogepa, France-Telecom, GIFAS, Banque de France, Aviation Marchande
Irene P. Asscher-Vonk	1944	Dutch	2004 / (second) 2008 – 2012	Former Professor of labour law and social security law Radboud University Nijmegen / Arriva Personenvervoer Nederland B.V., Philip Morris Holland, Rabobank Nederland, TBI
Jean-Didier F.C. Blanchet	1939	French	2004 / (second) 2008 – 2012	Former CEO Board of Air France, former Chairman and CEO of Méridien / SNCF participations, Cercle des Transports
Henri Guillaume	1943	French	2004 / (second) 2008 – 2012	Treasury Inspector on special assignment to the French Treasury, Former Vice President of ERAP, Former CEO of ANVAR
Wim Kok	1938	Dutch	2003 / (second) 2007 – 2011	Former Prime-Minister of The Netherlands /TNT N.V., Royal Dutch Shell plc
Remmert Laan	1942	French Dutch	2004 / (second) 2008 – 2012	Vice-Chairman Leonardo & Co / Director KKR PEI and Patrinvest S.A., Trustee Insead Foundation
Jean Peyrelevade	1939	French	2007 / (first) 2007 – 2011	Chairman Leonardo & Co SAS, former CEO of Suez, former CEO Stern Bank, former CEO of the Union des Assurances de Paris, former CEO Credit Lyonnais, former Associate of Toulouse & Associates / Director of Bouygues – DNCA Finance – BG Gardel Bonnard
Hans N.J. Smits	1950	Dutch	2004 / (second) 2008 – 2012	Chairman Board of Managing Directors Havenbedrijf Rotterdam N.V. / former Chairman and CEO Rabobank, former Chairman and CEO Amsterdam Airport Schiphol

(*) Only memberships of Supervisory Boards and functions with large companies on March 31, 2010 are shown here.

Board of Managing Directors (situation as at March 31, 2010)

Name	Year of birth	Nationality	First appointment	Function
Peter F. Hartman	1949	Dutch	1997	President and Chief Executive Officer
Frédéric N.P. Gagey	1956	French	2005	Chief Financial Officer
Jan Ernst C. De Groot	1963	Dutch	2007	Managing Director

Company Secretary & General Counsel

Barbara C.P. Van Koppen	1966	Dutch		

KLM Royal Dutch Airlines

Financial Statements for the year ended March 31, 2010

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros

After proposed appropriation of the result for the year	Note	March 31, 2010	March 31, 2009
ASSETS			
Non-current assets			
Property, plant and equipment	1	4,632	4,756
Intangible assets	2	119	103
Investments accounted for using the equity method	3	78	95
Other financial assets	4	312	431
Derivative financial instruments	5	127	112
Deferred income tax assets	15	44	57
Pension assets	16	2,707	2,472
		8,019	**8,026**
Current assets			
Other financial assets	4	287	499
Derivative financial instruments	5	238	134
Inventories	6	192	194
Trade and other receivables	7	978	1,047
Cash and cash equivalents	8	1,085	1,117
		2,780	**2,991**
TOTAL ASSETS		**10,799**	**11,017**
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves	10	(3)	(533)
Retained earnings		1,673	2,063
Total attributable to Company's equity holders		**2,238**	**2,098**
Minority interest		2	1
Total equity		**2,240**	**2,099**
LIABILITIES			
Non-current liabilities			
Other financial liabilities	11	1,488	1,491
Intercompany loans	12	388	-
Finance lease obligations	13	2,002	2,096
Derivative financial instruments	5	312	691
Deferred income	14	206	408
Deferred income tax liabilities	15	308	254
Provisions for employee benefits	16	167	147
Other provisions	17	222	204
		5,093	**5,291**
Current liabilities			
Trade and other payables	18	1,601	1,705
Other financial liabilities	11	102	48
Finance lease obligations	13	451	381
Derivative financial instruments	5	279	696
Deferred income	14	811	563
Provisions for employee benefits	16	40	38
Other provisions	17	182	196
		3,466	**3,627**
Total liabilities		**8,559**	**8,918**
TOTAL EQUITY AND LIABILITIES		**10,799**	**11,017**

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros

	Note	2009/10	2008/09
Revenues	21	**7,469**	**8,182**
Expenses			
External expenses	22	(5,119)	(5,526)
Employee compensation and benefit expense	23	(2,150)	(1,919)
Depreciation and amortisation	24	(546)	(510)
Other income and expenses		61	(68)
Total expenses		**(7,754)**	**(8,023)**
Income from current operations		**(285)**	**159**
Other non-current income and expenses	25	(91)	(11)
Income from operating activities		**(376)**	**148**
Gross cost of financial debt	26	(165)	(202)
Income from cash and cash equivalents	26	67	132
Net cost of financial debt		**(98)**	**(70)**
Other financial income and expense	26	(16)	(286)
Pre-tax income		**(490)**	**(208)**
Income tax benefit	27	114	62
Net result after taxation of consolidated companies		**(376)**	**(146)**
Share of results of equity shareholdings		(7)	(47)
Loss for the year		**(383)**	**(193)**
Attributable to:			
Equity holders of the company		(383)	(194)
Minority interest		-	1
		(383)	**(193)**
Net loss attributable to equity holders of the company		(383)	(194)
Dividend on priority shares		-	-
Net loss available for holders of ordinary shares		**(383)**	**(194)**
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Loss per share (in EUR)		(8.18)	(4.14)
Diluted loss per share (in EUR)		(8.18)	(4.14)

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines

Consolidated statement of recognised income and expenses

In millions of Euros	March 31, 2010	March 31, 2009
Loss for the year	(383)	(193)
Cash flow hedges		
Effective portion of changes in fair value hedge recognised directly in equity	464	(1,499)
Change in fair value transferred to income statement	249	(309)
Exchange differences on translation foreign operations	1	14
Tax on items taken directly to or transferred from equity		
Tax on items taken directly to or transferred from equity	(182)	461
Total of other comprehensive income included in the recognised income and expenses	**532**	**(1,333)**
Recognised income and expenses	**149**	**(1,526)**
- Equity holders of the company	149	(1,527)
- Minority interests	-	1

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines

Consolidated statement of changes in equity

In millions of Euros

	Attributable to Company's equity holders						
	Share capital (note 9)	**Share premium**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
As at April 1, 2008	**94**	**474**	**797**	**2,296**	**3,661**	**1**	**3,662**
Net gain/(loss) from cash-flow hedges	-	-	(1,808)	-	(1,808)	-	(1,808)
Exchange differences on translation foreign operations	-	-	14	-	14	-	14
Transfer from retained earnings	-	-	3	(3)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	461	-	461	-	461
Net income/(expense) recognised directly in equity	**-**	**-**	**(1,330)**	**(3)**	**(1,333)**	**-**	**(1,333)**
Loss for the year	-	-	-	(194)	(194)	1	(193)
Total recognised	**-**	**-**	**(1,330)**	**(197)**	**(1,527)**	**1**	**(1,526)**
Dividends paid	-	-	-	(28)	(28)	-	(28)
Other movements	-	-	-	(8)	(8)	(1)	(9)
As at March 31, 2009	**94**	**474**	**(533)**	**2,063**	**2,098**	**1**	**2,099**

In millions of Euros

	Attributable to Company's equity holders						
	Share capital (note 9)	**Share premium**	**Other reserves (note 10)**	**Retained earnings**	**Total**	**Minority interests**	**Total equity**
As at April 1, 2009	**94**	**474**	**(533)**	**2,063**	**2,098**	**1**	**2,099**
Net gain/(loss) from cash-flow hedges	-	-	713	-	713	-	713
Exchange differences on translation foreign operations	-	-	1	-	1	-	1
	-	-					
Transfer from retained earnings	-	-	(2)	2	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(182)	-	(182)	-	(182)
Net income/(expense) recognised directly in equity	**-**	**-**	**530**	**2**	**532**	**-**	**532**
Loss for the year	-	-	-	(383)	(383)	-	(383)
Total recognised income/(expense)	**-**	**-**	**530**	**(381)**	**149**	**-**	**149**
Dividends paid	-	-	-	-	-	-	-
Other movements	-	-	-	(9)	(9)	1	(8)
As at March 31, 2010	**94**	**474**	**(3)**	**1,673**	**2,238**	**2**	**2,240**

The accompanying notes are an integral part of these consolidated financial statements

KLM Royal Dutch Airlines

Consolidated cash flow statement

In millions of Euros	**2009/10**	**2008/09**
Loss for the year	(383)	(193)
Depreciation and amortisation	546	510
Changes in provisions	14	44
Results of equity shareholdings	6	47
Changes in pension assets	(226)	(247)
Changes in deferred income tax	(114)	41
Other changes	10	(58)
Net cash flow from operating activities before changes in working capital	**(147)**	**144**
(Increase) / decrease in inventories	(15)	45
(Increase) / decrease in trade receivables	58	136
Increase / (decrease) in trade payables	108	(84)
(Increase) / decrease in other receivables and payables	(263)	262
Net cash flow from operating activities	**(259)**	**503**
Capital expenditure on intangible fixed assets	(38)	(39)
Capital expenditure on aircraft	(593)	(492)
Disposal of aircraft	181	97
Capital expenditure on other tangible fixed assets	(37)	(65)
Disposal of other tangible fixed assets	4	2
Investment in equity shareholdings	-	(13)
Sale of equity shareholdings	1	-
Dividends received	1	1
Changes in group of consolidated holdings	-	16
(Increase) / decrease in short-term deposits and commercial paper	250	(275)
Net cash used in investing activities	**(231)**	**(768)**
Increase in long-term debt	834	484
Decrease in long-term debt	(461)	(503)
Increase in long-term receivables	(26)	(25)
Decrease in long-term receivables	108	114
Dividend paid	-	(28)
Other changes	1	-
Net cash flow from financing activities	**456**	**42**
Effect of exchange rates on cash and cash equivalents	2	8
Change in cash and cash equivalents	**(32)**	**(215)**
Cash and cash equivalents at beginning of year	1,117	1,332
Cash and cash equivalents at end of year *	1,085	1,117
Change in cash and cash equivalents	**(32)**	**(215)**
Income tax reimbursed / (paid) (flow included in operating activities)	-	93

The accompanying notes are an integral part of these consolidated financial statements

* Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amounts to EUR 1,533 million as at March 31, 2010 (as at March 31, 2009: EUR 1,869 million)

Financial Statements fiscal 2009/2010

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company") is a public limited liability company incorporated and domiciled in The Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the company financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

The Company together with its subsidiaries (the "Group") has as its principle business activities the air transport of passengers and cargo, aircraft maintenance and any other activity linked to air transport.

These financial statements have been authorised for issue by the Board of Managing Directors on June 2, 2010 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on July 1, 2010.

In the AGM of shareholders on June 29, 2006 it was approved that the annual report is prepared in the English language only.

Subsequent events

In April 2010, the airspace has been closed or strongly disturbed because of the ash cloud involved by the volcanic blast in Iceland. The cost generated by this event will be recorded at the closing of the first quarter 2010/11.

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless otherwise stated. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Change in accounting policies

The standard IAS 1 revised is applied for the first time as of March 31, 2010. The Group has chosen the option to present the performance in two statements, a consolidated income statement and a consolidated statement of recognised income and expenses, including comparative figures.

The revisions to standard IAS 23 "Borrowing costs" are applied for the year 2009/10. As the Group has already opted for the capitalisation of borrowing costs in tangible fixed assets costs, this amendment has no impact on the Group consolidated financial statements.

The amendments to the standard IFRS 7 are applied for the year 2009/10 and in particular the presentation of fair value hierarchy for financial assets and liabilities.

The standard IFRS 8 Operating Segments is also applied for the first time as of March 31, 2010. The application of this policy has no impact on the Group consolidated financial statements. Segments previously presented according to IAS 14 were compliant with the definition of operating segments identified and grouped according to IFRS 8. The Group presents its segment information based on Passenger, Cargo, Maintenance, Leisure and Other segments. Moreover it has been considered useful to maintain information by geographical segments.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards adopted by the European Union (IFRS) and effective at the reporting date March 31, 2010. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Netherlands Civil Code. As permitted by section 402 of Book 2 of the Netherlands Civil Code the Company income statement has been presented in condensed form.

Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after April 1, 2010, were not adopted early by the Group for the preparation of these consolidated financial statements:

- The revised standard IFRS 3 "Business combinations", mandatory application from July 1, 2009;

- The revised standard IAS 27 "Individual and consolidated financial statement", mandatory application from July 1, 2009;
- Amendment to IAS 39 " Eligible hedged items", mandatory application from July 1, 2009;
- Amendment to IAS 32 " Classification of subscription rights", mandatory application from February 1, 2010;
- The standard IFRS 9 "Financial instruments", which first part "classification and measurement", anticipatory effective for periods beginning on or after January 1, 2010. Text has not yet been adopted by the European Union;
- The revision to standard IAS 24 "Related party disclosures", anticipatory effective for periods beginning on or after January 1, 2010. The Group does not expect any impact concerning the application of IAS 24 revised;
- The interpretation IFRIC 16 "Hedges of a net investment in a foreign operation", effective for periods beginning on or after January 1, 2009;
- The interpretation IFRIC 17 " Distribution of non cash assets to owners", effective for periods beginning on or after July 1, 2009;
- The interpretation of IFRIC 18 " Transfers of assets from customers", effective for periods beginning on or after July 1, 2009; and
- The interpretation of IFRIC 19 "Extinguishing financial liabilities with equity instruments", anticipatory effective for periods beginning on or after January 1, 2010. Text has not yet been adopted by the European Union.

Other new standards, interpretations and amendments to existing standards are not applicable to the Group.

Use of estimates and the exercise of judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from the estimates.
The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in the note Accounting policies for the Balance sheet.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Consolidation principles

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are companies (including special purpose entities) over which the Company has control, either directly or indirectly. Control is defined as the power to govern a subsidiary's operating and financial policies and to obtain benefits from its activities. In assessing whether control exists, account is taken of the existence and effect of potential voting rights that are currently exercisable or convertible or other arrangements that give the Company the right to determine operating and financial policy.

The results of consolidated companies acquired in the year are included in the consolidated income statement from the date on which control could be exercised. They are de-consolidated from the date that control ceases.

The assets, liabilities and results of subsidiaries are fully consolidated.

The interest of third parties in group equity and group results is disclosed separately as minority interest. Minority interest in the balance sheet represents the minority shareholders' proportion of the fair value of identifiable assets and liabilities of the subsidiaries at the date of acquisition and the minority's proportion of movements in equity since that date.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. With the exception of a few non significant subsidiaries and equity affiliates closing their books at December 31, all Group companies are consolidated based on annual accounts closed on March 31.

Scope of consolidation

A list of the significant subsidiaries is included in note 34 of the consolidated financial statements.

As of December 17, 2008, the European Commission approved the acquisition of the remaining 50% of the airline Martinair Holland N.V. ("Martinair") by the Company which, after this operation held 100% of the shares. Martinair is fully consolidated starting January 1, 2009. Until this date, the shares held were accounted for under the equity method.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the exchange rate of the related hedge, if applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- The income statement and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the

cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting translation differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for the most significant currencies were as follows:

	Balance Sheet March 31, 2010 EUR	Average in Income Statement 2009/2010 EUR	Balance Sheet March 31, 2009 EUR
1 U.S. Dollar (USD)	0.74	0.71	0.75
1 Pound sterling (GBP)	1.12	1.13	1.07
1 Swiss franc (CHF)	0.70	0.66	0.66
100 Japanese yen (JPY)	0.79	0.76	0.76
100 Kenya Shilling (KES)	0.96	0.92	0.91

Business combinations

Business combinations are accounted for using the purchase method. The cost of a business combination is measured as the aggregate of:

- The fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquirer; and
- Any other costs directly attributable to the business combination.

When a business combination agreement provides for an adjustment to the cost contingent on future events, then the adjustment is taken into account when determining the cost if the adjustment is probable and can be measured reliably.

Where goodwill has been initially determined on a provisional basis, adjustments arising within twelve months of the acquisition date are recognised on a retrospective basis.
Goodwill acquired in a business combination is no longer amortised, but instead is subject to annual impairment test or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Segment reporting

The Company defines its primary segments on the basis of the Group's internal organisation, main revenue generating activities and the manner in which the Board of Managing Directors manages operations.

Business segments

The activities of each segment are as follows:

Passenger

The Passenger Business segment's main activity is the transportation of passengers on scheduled flights that have the Company's air code. Passenger revenues include receipts from passengers for excess baggage and inflight sales. Other passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements and revenues from block-seat sales.

Cargo

Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of cargo capacity to third parties.

Maintenance

Maintenance revenues are generated through maintenance services provided to other airlines and clients around the world.

Leisure

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com and Martinair.

Other

This segment covers primarily catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

- Direct flights: Revenue is allocated to the geographical segment in which the destination falls;
- Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted passenger-kilometers).

The greater part of the Group's asset comprises flight equipment and other assets that are located in The Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the income statement a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have little predictive value due to their nature, frequency and/or materiality.

Such elements can be divided into three categories:

- Elements that are both very infrequent and material, such as the recognition in the income statement of negative goodwill;
- Elements that have been incurred for both periods presented and may recur in future periods but for which amounts have varied from period to period, the Group believes that amounts to be incurred in future periods will continue to vary materially in amount and nature such as sales of aircraft equipment and disposals of other assets;
- Elements that are by nature unpredictable and non-recurring, if they are material 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.

Accounting policies for the balance sheet

Impairment of assets

The Group's assets, other than inventories, deferred tax assets, assets arising from construction contracts, assets arising from employee benefits, financial assets that are within the scope of IAS 39 and non current assets held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to Passenger Business and software to the business unit which uses the software. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspondents to the Group's Business segments.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs (or groups of CGUs) and then, to reduce the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

Property, plant and equipment

Historical cost

With the exception of leased assets, and except as described in the following paragraph property, plant and equipment is stated initially at historical acquisition or manufacturing cost. Leased assets are stated initially at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.
Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.

Interest incurred in connection with the financing of aircraft (including other flight equipment) during the period prior to commissioning is included in cost. The interest rate adopted is the applicable interest rate for debts outstanding at the balance sheet date unless capital expenditure or advance payments are themselves funded by specific loans.

The costs of major maintenance operations (airframes and engines excluding parts with limited useful lives) which are carried out in accordance with specifications and schedules defined by manufacturers and regulating authorities are capitalised when incurred. Other maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives.

Aircraft fixtures and fittings and spare parts are classified as separate components from the airframe and depreciated separately.

During the annual operational planning cycle, the Group reviews the depreciation methods, useful lives and residual values and, if necessary amends these.

The useful lives of property, plant and equipment are as follows:

Category	Useful life (years)
Aircraft	20 to 24
Aircraft fixtures and fittings, and spare parts	3 to 20
Land	Not depreciated
Buildings	10 to 40
Equipment and fittings	3 to 15
Other property and equipment	5 to 20

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or when shorter, the term of relevant use. Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount.

Intangible assets

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the income statement. Goodwill on acquisition of associates is included in investments in associates. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of profit or loss on disposal. The useful life of goodwill is indefinite.

Computer software

Computer software is stated at historical cost less accumulated amortisation and accumulated impairment losses. Only the costs incurred in the software development phase are capitalised. Costs incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the income statement as incurred. The costs comprise the costs of KLM personnel as well as external IT consultants.

Amortisation takes place over the estimated useful lives (mainly 5 years and with a maximum of 10 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortisation commences when the software is taken into use. Prior to this moment the costs are capitalised as prepaid intangible assets.
The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Trademarks

The Martinair trademarks were acquired as part of the acquisition of Martinair and have useful lives between 5 and 10 years.

The estimated useful life and amortisation method are reviewed during the annual operational planning cycle, including the effect of any changes in estimates being recognised prospectively if the change relates to future periods.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Jointly controlled entities are entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.

Investments in associates and jointly controlled entities are accounted for by the equity method and are initially recognised at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, taking into account other than temporary losses (impairment). When the Group's share of losses in an associate/jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate/jointly controlled entity.

Unrealised gains on transactions between the Group and its associates/jointly controlled entities are eliminated to the extent of the Group's interest in the associates/jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial instruments: Recognition and measurement of financial assets and liabilities

For the purposes of determining the basis on which they are to be recognised and measured financial instruments are classified into the following categories:

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold until maturity. Held-to-maturity investments are initially recognised at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest is recognised in the income statement.

Medium term notes and bank deposits held by the Group as natural hedges for foreign currency liabilities and debts are generally classified as held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest calculated using the effective interest method is recognised in the income statement.

Loans to associates, other loans and trade and other receivables are classified as loans and receivables, except for, short term receivables where the recognition of interest would be immaterial.

Effective interest method

For held-to-maturity investments and loans and receivables, the Group applies the effective interest rate method and amortises the transaction costs, discounts or other premiums included in the calculation of the effective interest rate over the expected life of the instrument.

At fair value through profit or loss

At fair value through profit or loss financial assets are other financial assets which have not been classified under either held-to-maturity or loans and receivables. At fair value through profit or loss financial assets are measured at fair value both on initial recognition and subsequently. Gains and losses arising from changes in fair value are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents cover all highly liquid instruments with original maturities of three months or less and includes cash in hand, deposits held at call and on short-term with banks and bank overdrafts. Bank overdrafts are shown under "Financial liabilities" in "Current liabilities" in the balance sheet.

Where the Company has a practice and legally enforceable right to offset bank balances, the net balance is included under cash and cash equivalents or bank overdrafts as applicable. Cash and cash equivalents are stated in the balance sheet at fair value.

Financial liabilities

Financial liabilities are initially recognised at amortised cost, which is the fair value of the consideration received. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments carried at amortised cost.

Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled. Any costs that were attributable to financial liabilities are expensed through the income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially, and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques where an active market does not exist.

Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterpart, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

Recognition of fair value gains and losses

The method of recognising fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged.

All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

Derivatives are used to hedge the risks associated with changes in interest rates, foreign currency rates and fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rate movements. The Group also uses swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent.

Hedging transactions fall into two categories:

1. Fair value hedges;
2. Cash flow hedges.

1. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

2. Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement.
Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge effectiveness testing

To qualify for hedge accounting, at the inception of the hedge, and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must be demonstrated on an ongoing basis.

The documentation at inception of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method used to assess effectiveness will depend on the risk management strategy.

For interest rate and foreign exchange derivatives used as fair value and cash flow hedges, the offset method is used as the effectiveness testing methodology. For fuel derivatives used as cash flow hedges regression analysis and offset methodologies are used.

Fair value hierarchy

Based on the requirements of IFRS 7, the fair values for financial assets and liabilities are classed following a scale that 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; or
- Level 3: Fair value from valuation techniques which rely on completely or in part on non observable data such as prices on an inactive market or the valuation on a multiple basis for non quoted securities.

Inventories

Inventories consist primarily of expendable aircraft spare parts and other supplies and are stated at the lower of cost and net realisable value. Cost, representing the acquisition cost, is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Leases

Finance leases

The Group has entered into a number of finance lease contracts (exclusively for aircraft). Under the terms of these contracts substantially all the risks and rewards in connection with the ownership of the underlying assets are transferred to the Group and the lease payments are treated as repayment of principal and finance cost to reward the lessor for its investment. The assets which are the subject of finance leases are presented as property, plant and equipment in the balance sheet.

Finance lease liabilities are stated initially at the present value of the minimum lease payments. Finance cost is recognised based on a pattern that reflects an effective rate of return to the lessor.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Sale and leaseback transactions resulting in a finance lease with a deferred credit are initially established at present value and credited to net cost of financial debt over the remaining term of the associated financial lease contracts.

Operating leases

In addition to finance leases, the Group also leases aircraft, buildings and equipment under operating lease agreements. Operating leases are lease contracts which are not classified as finance leases, i.e. the risks and rewards in connection with the ownership of the underlying assets are not substantially transferred to the lessee.

Lease expense of operating leases is recognised in the income statement on a straight-line basis over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately in the income statement. If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred and amortised in proportion over the period for which the asset is expected to be used.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and the fair value is recognised immediately in the income statement.

Deferred income

Advance ticket sales

Upon issuance, both Passenger and Cargo ticket sales, including fuel and security surcharges, are recorded as deferred income under Advance ticket sales. The Company applies an estimation policy with respect to the recognition of traffic revenues in order to determine which part of the tickets sold and related surcharges will expire without any transport commitment of the part of the Company.

Deferred gains on sale and leaseback transactions

This item relates to amounts deferred arising from sale and leaseback transactions.

Flying Blue frequent flyer program

KLM and Air France have a common frequent flyer program "Flying Blue". This program allows members to acquire "miles" as they fly on KLM, Air France or with other partner companies. These miles entitle members to a variety of benefits such as free flights with the two companies.

The probability of air miles being converted into award tickets is estimated using a statistical method. The value of air miles is estimated based on the deferred revenue approach, based on its fair value (IFRIC 13). This estimate takes into consideration the conditions of the use of free tickets and other awards.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred income (see note 14)" as liability on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognised.

The Group also sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognised as revenue immediately.

Deferred income taxes

Deferred tax assets and liabilities arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realised or the liability is settled. Except for goodwill arising from a business combination, deferred tax assets are recognised to the extent that is probable that taxable profit will be available against which the temporary difference can be utilised. Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same authority.

A deferred tax asset is recognised for all deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realised.

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions for employee benefits

Pensions and other post-employment benefits

Pensions and other post-employment benefits relates to provisions for benefits (other than termination benefits) which are payable to employees on retirement. The provisions cover defined benefit pension plans, early-retirement schemes and post-employment medical benefits available to employees. The Group has various defined benefit and defined contribution pension plans, which are generally funded through payments to separately administered funds or to insurance companies.

The amount recognised as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:

1. The present value of the defined benefit obligations at the balance sheet date;
2. Plus any unrecognised actuarial gains (less actuarial losses) at the balance sheet date as described below;
3. Minus any past service cost not recognised at the balance sheet date; and
4. Minus the fair value of the plan assets at the balance sheet date.

The present values of the defined benefit obligations are calculated using the projected unit credit method. The calculations of the obligations have been performed by independent qualified actuaries. This benefit/years-of-service method not only takes into account the benefits and benefit entitlements known at the balance sheet date, but also increases in salaries and benefits to be expected in the future.

Using the so-called "corridor approach", previously unrecognised cumulative, actuarial gains and losses exceeding 10% of total benefit obligations or of the present value of plan assets (whichever is higher) are recognised over expected employees' average residual active lives with an effect on future net income. When a plan is curtailed or settled, gains or losses arising are recognised immediately.

The determination of the liability or asset to be recognised as described above is carried out for each plan separately. In situations where the fair value of plan assets, adjusted for any unrecognised positions, exceeds the present value of a fund's defined benefit obligations then an asset is recognised if available.

The service cost and the interest accretion to the provisions are included in the income statement under "Employee compensation and benefit expense".

Other long-term employment benefits

The provision for other long-term employment benefits relates to benefits (other than pensions and other post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. The provision covers jubilee benefits. The benefits are unfunded.

The amount recognised as a liability for other long-term employment benefits at the balance sheet date is the present value of the defined benefit obligations. Appropriate assumptions are made about factors such as salary increases, employee turnover and similar factors impacting the measurement of the obligations.

The service cost and the interest accretion to the provisions are included in the income statement under "Employee compensation and benefit expense".

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy.

The provision is recognised when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn.

Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Other provisions

Provisions are recognised when:

- There is a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of economic benefits will be required to settle the obligation;
- And a reliable estimate of the amount of the obligation can be made; and

- The provisions are carried at face value unless the effect of the time value of money is material, in which case the amount of the provision is the present value of the expenditures expected to settle the obligation. The effect of the time value of money is presented as a component of financial income.

Accounting policies for the income statement

Revenues

Air transport

Revenues from air transport transactions are recognised as and when transportation service is provided. Air transport revenues are stated net of external charges such as commissions paid to agents, certain taxes and volume discounts. These revenues include (fuel) surcharges paid by passengers.

Maintenance contracts

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue and costs relating to third party maintenance contracts to be recognised in the income statement in a given period, when the outcome can be estimated reliably. When the outcome of a maintenance contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Maintenance revenues from time and material contracts are recognised together with incurred direct maintenance expenses as a percentage of completion of the individual maintenance visits in progress. The degree of progress to completion is measured with use of recorded progress and expenses incurred per individual maintenance visit.

Revenues on maintenance/power by the hour contracts, that are billed on logged flight hours customers' engines and components, are recognised to the extent that actual maintenance services, valued at sales prices against the amounts billed on logged flight hours have actually been carried out. Any amount billed for services not yet performed are recorded as liability for unearned revenues.

External expenses

External expenses are recognised in the income statement using the so called Matching principle which is based on a direct relationship between costs incurred and obtaining income related to the operation. Any deferral of costs in view of applying the matching principle is subject to these costs meeting the criteria for recognising them as an asset on the balance sheet. In order to minimize the financial risks involved with such transactions the Company makes use of financial derivatives such as fuel forward contracts, foreign currency options and swaps. The gains and losses arising from the use of the derivatives are included in these costs.

Gains/losses on disposals of property, plant and equipment

The gain on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the item. Gains on disposal are netted against losses on disposal.

Reversal of impairment losses on financial assets

This item represents increases in the carrying amounts of financial assets arising from reversals of previously recognised impairment losses. The amount of the reversal does not exceed the carrying amount of the assets that would have been determined had no impairment losses been recognised in prior years.

Other income and expense items

Gross cost of financial debt

Gross cost of financial debt includes interest on loans of third parties and finance leases using the effective interest rate method.

Income from cash and cash equivalents

Interest income includes interest on loans, interest-bearing marketable securities, short-term bank deposits and money at call. Interest income is recognised on an accrual basis.

Foreign currency exchange gains and losses

Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Fair value gains and losses

Fair value gains / losses represent the total of increases / decreases during the year in the fair values of assets and liabilities, excluding derivative financial instruments designated as cash flow hedges.

Share-based compensation

Stock option program

The Group has cash-settled long-term incentive schemes in which it grants to its employees phantom shares (as from 2007/08) and options (until 2006/07) to acquire AIR FRANCE KLM shares.

The phantom shares are shares, generating an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of shares. Phantom shares are accounted for as a liability at the fair value at each reporting date. The liability will be built up monthly during a 3 year vesting period. The fair value of the phantom shares is measured at the AIR FRANCE KLM share closing price at the end of the month.

The fair value of the options granted is recognised over the vesting period as employee benefit expense in the income statement with a corresponding increase in liabilities. The fair value of the stock options is determined using the Black & Scholes method. This takes into account the features of the plan (exercise price and period) and the market data (Risk-free interest rate, price of the share, volatility and expected dividends). The liability is measured at grant date and each balance sheet date and each settlement date.

Changes in the fair value of the liability are recognised as employee benefit expense in profit and loss.

Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

Factors may exist which require the recognition of an impairment of certain assets and/or CGUs. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)), which correspondents to the Group's business segments. Such impairment is based on estimates of the fair value less costs to sell and the value in use. The fair value less costs to sell is derived from assumptions in relation to the possible selling price of a certain asset. The value in use is based on the discounted value of the cash flows that the asset/CGU is expected to generate in the future. These future cash flows are based on the business plans for the coming years. The value in use also takes into account possible adverse developments, which may lead to impairment. It is possible that the Group may have to recognise additional impairment charges in the future as a result of changes in (market) conditions that may take place in future periods.

Useful lives of property, plant and equipment

The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories

The Group records its inventories at cost and provides for the risk of obsolescence using the lower of cost or market principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

Valuation of accounts receivable and the allowance for bad or doubtful debts

The Group periodically assesses the value of its accounts receivable based on specific developments in its customer base. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

Valuation of deferred tax assets and liabilities

In the process of estimating the value of deferred tax assets, in particular with regard to tax losses carried forward, assumptions are made regarding the degree to which these losses can be offset in the future. This is based, among other things, on business plans. In addition, in the preparation of the Financial Statements, assumptions are made with regard to temporary differences between the valuation for tax purposes and the valuation for financial reporting purposes. The actual outcome may diverge from the assumptions made in determining the current and deferred tax positions, e.g. as a result of disputes with the tax authorities or changes in tax laws and regulations.

Accounting for pensions and other post-employment benefits

Post-employment benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group. The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates, and future healthcare costs. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. For details on key assumptions and policies, see note 16.

It should be noted that when discount rates decline or rates of compensation increase pension and post-employment benefit obligations will increase. Net periodic pension and post-employment costs might also increase, but that depends on the actual relation between the unrecognised loss and the so-called corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation.

Other provisions

A provision will be recognised in the balance sheet when the Group has a present legal or constructive obligation to a third party as a result of a past event and it is probable that an outflow of economic benefits will require settling the obligation.

Management must make estimates and assumptions as at the balance sheet date concerning the probability that a certain obligation will crystallise as well as the amount that is likely to be paid. Future developments, such as changes in market circumstances or changes in legislation and judicial decisions may cause the actual obligation to diverge from the provision. The Group is involved in legal disputes and proceedings. Management decides on a case-by-case basis whether a provision is necessary based on actual circumstances. This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, financial leases and fair value changes have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as investing activities. Interest paid is included in operating activities.

Critical accounting judgments

Certain critical accounting judgments in applying the Group's accounting policies are described below.

Determination of fair value

The Group uses available market information and appropriate valuation techniques to determine the fair values of financial instruments. However, judgment is required to interpret market data and to determine fair value. Management believes that the carrying value of financial assets and financial liabilities with a maturity of less than one year approximate their fair value. These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable. Details of the assumptions used and the results of sensitivity analyses recognising these assumptions are provided in note 5.

Financial Risk Management

Risk management organisation and fuel hedging policy

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 the AIR FRANCE KLM 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 the AIR FRANCE KLM and, thus, to preserve budgeted margins. The RMC also defines the counterparty-risk policy.

The decisions made by the RMC are implemented by the treasury and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. In-house procedures governing risk management prohibit speculation. Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The cash management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements. The instruments used are swaps and options.

The policy on fuel hedging is the responsibility of the fuel purchasing departments, which are also in charge of purchasing fuel for physical delivery. A weekly report, enabling the evaluation of the net-hedged fuel cost of the current fiscal year and the two following ones, is supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels and the resulting net prices, as well as market commentary. Furthermore, a weekly AIR FRANCE KLM group report consolidates the figures from the two companies relating to fuel hedging and to physical cost. The instruments used are swaps and options.

Financial Risk Management

The Group is exposed to the following financial risks:

1. Market risk;

2. Credit risk; and

3. Liquidity and solvency risk.

1. Market risk

The Group is exposed to market risks in the following areas:

1. Currency risk;

2. Interest rate risk; and

3. Fuel price risk.

a. Currency risk

Most of the AIR FRANCE KLM group revenues are generated in euros. However, because of its international activities, the AIR FRANCE KLM group incurs a foreign exchange risk. The principal exposure is to the US dollar, and then, to a lesser extent, to pound sterling and the Japanese yen. Thus, any changes in the exchange rates for these currencies relative to the EUR may have an impact on the AIR FRANCE KLM Group's financial results.

With regard to the US dollar, since expenditures such as fuel, operating leases or component costs exceed the level of revenue, AIR FRANCE KLM is a net buyer. This means that any significant appreciation in the dollar against the EUR 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 EUR could have a negative effect on the group's activity and financial results. In order to reduce its currency exposure, the AIR FRANCE KLM Group has adopted hedging strategies. Both KLM and Air France companies hedge progressively their net exposure over a rolling 24 month period.

Aircraft are purchased in US dollars, meaning that the AIR FRANCE KLM group is highly exposed to a rise in the dollar against the EUR 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.

Despite this active hedging policy, not all exchange rate risks are covered. The AIR FRANCE KLM Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the AIR FRANCE KLM Group business and financial results.

b. Interest rate risk

At both KLM and Air France, most financial debt is contracted in floating-rate instruments in line with market practice. However, given the historically low level of interest rates, KLM and Air France have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. At the end of March 2010 KLM's net exposure to interest rates is neutral.

c. 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; and
  quarter 8: 10% of the volumes consumed.

- Underlyings: Brent, Gasoil and Jet CIF.
  At least 25% of volumes consumed during the two first quarters of the program (excluding the quarter underway) must be hedged in average distillates (Jet Fuel and Gasoil).
- Instruments: Swap, call, call spread, four ways and collar.

2. Credit risk

Credit risks arise from various activities including investing and operational activities as well as hedging activities with regard to financial instruments. The risk is the loss that could arise if a counterpart were to default in the performance of its contractual obligations. The Group has established credit limits for its external parties in order to mitigate the credit risk. These limits are determined on the basis of ratings from organisations such as Moody's Investors Services and Standard & Poor's.

As of March 31, 2010, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	686
AA+	54
AA	100
AA-	125
A+	338
A	100
BBB+	25
Total	1,428

At March 31, 2010, the exposure consists of the fair market value of the short term (less than 1 year) marketable securities and mainly unrestricted triple A bonds.

3. Liquidity and solvency risk

Liquidity and solvability risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its long and short term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, amongst others, operational cash flows, dividends, debt and interest payments and capital expenditure. The objective is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the coming years.

1 Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2008	**1,087**	**2,536**	**1,323**	**4,946**	**602**	**585**	**136**	**1,323**	**378**	**6,647**
Additions	47	38	238	323	-	58	7	65	169	557
Disposals	(128)	-	(141)	(269)	-	(17)	(9)	(26)	-	(295)
Change in consolidation scope	794	-	47	841	33	13	16	62	-	903
Currency translation differences	(13)	(3)	(6)	(22)	-	(1)	(1)	(2)	-	(24)
Reclassifications	111	91	50	252	5	(21)	-	(16)	(272)	(36)
As at March 31, 2009	**1,898**	**2,662**	**1,511**	**6,071**	**640**	**617**	**149**	**1,406**	**275**	**7,752**
Accumulated depreciation and impairment										
As at April 1, 2008	**334**	**472**	**610**	**1,416**	**104**	**424**	**81**	**609**	**-**	**2,025**
Depreciation	135	141	144	420	35	35	10	80	-	500
Disposals	(33)	-	(139)	(172)	-	(16)	(8)	(24)	-	(196)
Change in consolidation scope	569	-	38	607	13	8	1	22	-	629
Currency translation differences	(12)	(2)	(4)	(18)	-	(1)	(1)	(2)	-	(20)
Reclassifications	85	(38)	10	57	(2)	-	3	1	-	58
As at March 31, 2009	**1,078**	**573**	**659**	**2,310**	**150**	**450**	**86**	**686**	**-**	**2,996**
Net carrying amount										
As at March 31, 2008	**753**	**2,064**	**713**	**3,530**	**498**	**161**	**55**	**714**	**378**	**4,622**
As at March 31, 2009	**820**	**2,089**	**852**	**3,761**	**490**	**167**	**63**	**720**	**275**	**4,756**

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2009	**1,898**	**2,662**	**1,511**	**6,071**	**640**	**617**	**149**	**1,406**	**275**	**7,752**
Additions	95	343	162	600	-	4	33	37	-	637
Disposals	(522)	(42)	(155)	(719)	(32)	(11)	(9)	(52)	-	(771)
Currency translation differences	4	-	-	4	-	-	-	-	5	9
Reclassifications	-	(4)	64	60	4	(2)	(12)	(10)	(62)	(12)
As at March 31, 2010	**1,475**	**2,959**	**1,582**	**6,016**	**612**	**608**	**161**	**1,381**	**218**	**7,615**
Accumulated depreciation and impairment										
As at April 1, 2009	**1,078**	**573**	**659**	**2,310**	**150**	**450**	**86**	**686**	**-**	**2,996**
Depreciation	132	153	164	449	36	36	8	80	-	529
Disposals	(328)	(42)	(114)	(484)	(27)	(9)	(9)	(45)	-	(529)
Currency translation differences	4	-	-	4	-	-	-	-	-	4
Reclassifications	-	-	-	-	(4)	(12)	(1)	(17)	-	(17)
As at March 31, 2010	**886**	**684**	**709**	**2,279**	**155**	**465**	**84**	**704**	**-**	**2,983**
Net carrying amount										
As at March 31, 2009	**820**	**2,089**	**852**	**3,761**	**490**	**167**	**63**	**720**	**275**	**4,756**
As at March 31, 2010	**589**	**2,275**	**873**	**3,737**	**457**	**143**	**77**	**677**	**218**	**4,632**

The assets include assets which are held as security for mortgages and loans as follows:

	2010	2009
Aircraft	203	146
Land and buildings	126	131
Other property and equipment	58	8
Carrying amount as at March 31	**387**	**285**

Borrowing costs capitalised during the year amount to EUR 6 million (2008/09 EUR 9 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2008/09 4.0%).

Land and buildings include buildings located on land which have been leased on a long-term basis. The book value of these buildings at March 31, 2010 amounts to EUR 334 million (March 31, 2009 EUR 345 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 19. Included in prepayments is an amount of EUR 49 million (2008/09 EUR 20 million) relating to future sale and lease back transactions. Upon delivery to the Group, the aircraft will be directly sold to a lease company and subsequently leased back under an operating lease.

2 Intangible assets

	Goodwill	Software	Trade-marks	Software under development	Total
Historical cost					
As at April 1, 2008	**30**	**92**	-	**23**	**145**
Additions	-	3	-	36	39
Reclassifications	-	7	-	(5)	2
Change in consolidation scope	-	14	7	4	25
Others	-	(2)	-	(5)	(7)
As at March 31, 2009	**30**	**114**	**7**	**53**	**204**
Accumulated amortisation and impairment					
As at April 1, 2008	**19**	**68**	**-**	-	**87**
Amortisation	-	10	**-**	-	10
Reclassifications	-	(1)	**-**	-	(1)
Change in consolidation scope	-	5	**-**	-	5
As at March 31, 2009	**19**	**82**	**-**	**-**	**101**
Historical cost					
As at April 1, 2009	**30**	**114**	**7**	**53**	**204**
Additions	-	1	-	37	38
Reclassifications	-	20	-	(26)	(6)
Disposals	-	(4)	-	-	(4)
Others	-	2	-	-	2
As at March 31, 2010	**30**	**133**	**7**	**64**	**234**
Accumulated amortisation and impairment					
As at April 1, 2009	**19**	**82**	-	-	**101**
Amortisation	1	15	1	-	17
Reclassifications	-	1	-	-	1
Disposals	-	(4)	-	-	(4)
As at March 31, 2010	**20**	**94**	**1**	**-**	**115**
Net carrying amount					
As at March 31, 2009	**11**	**32**	**7**	**53**	**103**
As at March 31, 2010	**10**	**39**	**6**	**64**	**119**

3 Investments accounted for using the equity method

	2010	2009
Associates	55	71
Joint ventures	-	-
Jointly controlled entities	23	24
Carrying amount as at March 31	**78**	**95**

Investments in associates

	2009/10	2008/09
Carrying amount as at April 1	**71**	**62**
Movements		
New consolidations	-	1
Investments	-	13
Share of profit/(loss) after taxation	(6)	2
Dividends received	(1)	(2)
Foreign currency translation differences	3	(8)
OCI movements derivatives	(10)	3
Other movements	(2)	-
Net movement	**(16)**	**9**
Carrying amount as at March 31	**55**	**71**

The Group's interest in its principal associate, Kenya Airways Ltd., can be summarised as follows:

		As at March 31,
	2010	2009
Country of incorporation	Kenya	Kenya
Interest held %	26	26
Assets	707	760
Liabilities	563	523
Revenues	657	553
Profit/(loss) after taxation	(37)	35
Share of profit/(loss) after taxation	**(10)**	**9**

The table of Kenya Airways Ltd's assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2009 and 2008. The share of result included in the carrying amounts as at March 31, 2010 have been adjusted to reflect the estimated share of result for the year then ended.

The shares of Kenya Airways Ltd. are quoted on the Nairobi stock exchange. Based on the quoted price of the shares at the close of business on March 31, 2010 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 68 million (2008/09 EUR 22 million).

The Group's interest in its associate, Transavia France S.A.S., can be summarised as follows:

	As at March 31,	
	2010	**2009**
Country of incorporation	France	France
Interest held %	40	40
Assets	98	82
Liabilities	77	59
Revenues	149	144
Profit/(loss) after taxation	(2)	(8)
Share of profit/(loss) after taxation	**(1)**	**(3)**

Transavia France is an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%). In the shareholder's agreement has been stated that when losses exceeds the book value, the book value is written down to zero and no further losses are accounted for, to the extent that Transavia has entered into a legally enforceable or constructive obligation or has made payments on behalf of Transavia France.

Joint ventures

	2009/10	**2008/09**
Carrying amount as at April 1	**-**	**60**
Movements		
Share of profit/(loss) after taxation	-	(48)
Change in consolidation scope	-	(12)
OCI movements	-	-
Net movement	**-**	**(60)**
Carrying amount as at March 31	**-**	**-**

Acquisition Martinair

As of December 17, 2008, the European Commission approved the acquisition of the remaining 50% of the airline Martinair Holland N.V. (“Martinair”) by the Company which, after this operation held 100% of the shares. Martinair is fully consolidated starting January 1, 2009. Until this date, the shares held were accounted for under the equity method. So Martinair is fully consolidated for 12 months in 2009/10 and 3 months in the comparative figures 2008/09.

Jointly controlled entities

	2009/10	2008/09
Carrying amount as at April 1	**24**	**24**
Movements		
New consolidation	-	-
Share of profit/(loss) after taxation	-	-
Other movements	(1)	-
Net movement	**(1)**	**-**
Carrying amount as at March 31	**23**	**24**

The Group’s interest in its principal jointly controlled entity, Schiphol Logistics Park C.V., which is an unlisted company, can be summarised as follows:

	As at March 31,	
	2010	**2009**
Country of incorporation	The Netherlands	The Netherlands
Interest held %	53	53
Voting right %	45	45
Non-current assets	57	61
Current assets	2	1
Non-current liabilities	-	-
Current liabilities	-	-
Revenues	-	-
Profit/(loss) after taxation	-	-
Share of profit/(loss) after taxation	**-**	**-**

4 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
Carrying amount as at April 1	**455**	**446**	**54**	**46**	**421**	**166**	**930**	**658**
Movements								
Additions and loans granted	3	-	-	2	-	272	3	274
Loans and interest repaid	(70)	(86)	(11)	(2)	(250)	(1)	(331)	(89)
Interest accretion	24	25	-	-	-	-	24	25
Foreign currency translation differences	2	54	-	5	7	(17)	9	42
Other movements	(12)	16	(18)	3	(6)	1	(36)	20
Net movement	**(53)**	**9**	**(29)**	**8**	**(249)**	**255**	**(331)**	**272**
Carrying amount as at March 31	**402**	**455**	**25**	**54**	**172**	**421**	**599**	**930**

	2010		2009	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	132	270	95	360
Loans and receivables				
Other loans and receivables	5	20	4	50
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	150	-	400	-
AIR FRANCE KLM S.A. shares		16	-	11
Other financial assets	-	6	-	10
	150	**22**	**400**	**21**
Carrying amount as at March 31	**287**	**312**	**499**	**431**

The carrying amounts of financial assets denominated in currencies other than the Euro are as follows:

	March 31, 2010	March 31, 2009
USD	420	505
GBP	2	2
Total	**422**	**507**

The interest-bearing financial assets have fixed interest rates. The weighted average effective interest rates at the balance sheet date are as follows:

	March 31, 2010		March 31, 2009	
in %	EUR	USD	EUR	USD
Held-to-maturity investments	-	6.1	-	6.3
Loans and receivables	0.6	0.2	2.0	2.6
At fair value through profit or loss	1.4	-	5.0	-

The triple A bonds and long-term deposits are held as a natural hedge to mitigate the effect of foreign exchange movements relating to financial lease liabilities. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 126 million (2008/09 EUR 155 million) is restricted.

The maturities of held-to-maturity investments are as follows:

	March 31, 2010	March 31, 2009
Held-to-maturity		
Less than 1 year	132	95
Between 1 and 2 years	140	99
Between 2 and 3 years	31	138
Between 3 and 4 years	37	30
Between 4 and 5 years	20	36
Over 5 years	42	57
Total	**402**	**455**

The maturities of loans and receivables are as follows:

	March 31, 2010	March 31, 2009
Loans and receivables		
Less than 1 year	4	4
Between 1 and 2 years	2	39
Between 2 and 3 years	1	-
Between 3 and 4 years	3	-
Between 4 and 5 years	-	-
Over 5 years	15	11
Total	**25**	**54**

The fair values of the financial assets are as follows:

	March 31, 2010	March 31, 2009
Held-to-maturity		
Triple A bonds and long-term deposits	**436**	**510**
Loans and receivables		
Other loans and receivables	**23**	**55**
At fair value through profit or loss		
Deposits and commercial paper with original maturity 3-12 months	150	400
AIR FRANCE KLM S.A. shares	16	11
Other financial assets	7	10
	173	**421**
Total fair value	**632**	**986**

The fair values listed above have been determined as follows:

- Triple A bonds and long-term deposits: The fair values are based on the net present value of the anticipated future cash flows associated with these instruments;
- Deposits and commercial paper: The carrying amounts approximate fair value because of the short maturity of these deposits and commercial paper;
- AIR FRANCE KLM S.A. shares: Quoted price as at close of business on March 31, 2010;
- Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

The contractual re-pricing dates of the Group's interest bearing assets are as follows:

	March 31, 2010	March 31, 2009
Less than 1 year	110	97
Between 1 and 2 years	174	109
Between 2 and 3 years	31	170
Between 3 and 4 years	37	30
Between 4 and 5 years	19	36
Over 5 years	55	68
Total interest bearing financial assets	**426**	**510**

5 Derivative financial instruments

As at March 31, 2009	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	17	40	(5)	(1)
Cash flow hedges	45	10	(15)	(6)
Items not qualifying for hedge accounting	8	-	(2)	(1)
Total exchange rate risk hedges	**70**	**50**	**(22)**	**(8)**
Interest rate risk				
Fair value hedges	-	13	(2)	(34)
Cash flow hedges	-	1	(1)	(33)
Items not qualifying for hedge accounting	-	-	-	(12)
Total interest rate risk hedges	**-**	**14**	**(3)**	**(79)**
Commodity risk hedges				
Cash flow hedges	64	46	(543)	(592)
Items not qualifying for hedge accounting	-	-	(128)	(12)
Total commodity risk hedges	**64**	**46**	**(671)**	**(604)**
Others	-	**2**	-	-
Total as at March 31, 2009	**134**	**112**	**(696)**	**(691)**

As at March 31, 2010	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	25	29	(14)	(5)
Cash flow hedges	38	11	(14)	(3)
Items not qualifying for hedge accounting	1	-	(1)	-
Total exchange rate risk hedges	**64**	**40**	**(29)**	**(8)**
Interest rate risk				
Fair value hedges	4	11	(13)	(22)
Cash flow hedges	-	-	(2)	(55)
Items not qualifying for hedge accounting	-	-	-	(12)
Total interest rate risk hedges	**4**	**11**	**(15)**	**(89)**
Commodity risk hedges				
Cash flow hedges	170	67	(233)	(215)
Items not qualifying for hedge accounting	-	-	(2)	-
Total commodity risk hedges	**170**	**67**	**(235)**	**(215)**
Others	-	**9**	-	-
Total as at March 31, 2010	**238**	**127**	**(279)**	**(312)**

Exposure to exchange rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in shareholders equity are recycled in income statement at realisation dates of hedged items.

As at March 31, 2010 the types of derivatives used, their nominal amounts and fair values:

	In millions of Euros							
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	> 5 years	Fair Value
Exchange rate risk hedges								
Fair value hedges								
Options								
USD	52	25	27	-	-	-	-	3
Forward purchases								
USD	1,148	540	293	98	-	31	186	32
Total fair value hedges	**1,200**	**565**	**320**	**98**	**-**	**31**	**186**	**35**
Cash flow hedges								
Options								
USD	334	167	167	-	-	-	-	14
Forward purchases								
USD	597	530	67	-	-	-	-	29
Forward sales								
GBP	156	121	35	-	-	-	-	-
JPY	121	75	40	6	-	-	-	1
CHF	29	29	-	-	-	-	-	(6)
NOK	107	107	-	-	-	-	-	(1)
SEK	63	63	-	-	-	-	-	(2)
KRW	24	24	-	-	-	-	-	(2)
Other	16	16	-	-	-	-	-	(1)
Total cash flow hedges	**1,447**	**1,132**	**309**	**6**	**-**	**-**	**-**	**32**
Items not qualifying for hedge accounting								
Options								
USD	35	35	-	-	-	-	-	-
Forward purchases								
USD	49	42	7	-	-	-	-	-
Others								
USD	72	-	-	-	-	-	72	-
Total items not qualifying for hedge accounting	**156**	**77**	**7**	**-**	**-**	**-**	**72**	**-**
Total exchange rate risk hedges	**2,803**	**1,774**	**636**	**104**	**-**	**31**	**258**	**67**

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realisation dates of hedged items.

	In local currency millions							In millions of Euros
	Nominal amount	**<1 year**	**>1 year and <2 years**	**>2 years and <3 years**	**>3 years and <4 years**	**>4 Years and <5 years**	**>5 years**	**Fair Value**
Interest rate risk hedges								
Fair value hedges								
Swaps	495	182	126	60	34	36	57	(20)
Total fair value hedges	**495**	**182**	**126**	**60**	**34**	**36**	**57**	**(20)**
Cash flow hedges								
Swaps	1,657	254	232	271	235	226	439	(57)
Total cash flow hedges	**1,657**	**254**	**232**	**271**	**235**	**226**	**439**	**(57)**
Items not qualifying for hedge accounting								
Swaps	363	100	150	-	-	-	113	(12)
Total Items not qualifying for hedge accounting	**363**	**100**	**150**	**-**	**-**	**-**	**113**	**(12)**
Total interest rate risk hedges	**2,515**	**536**	**508**	**331**	**269**	**262**	**609**	**(89)**

Exposure to commodity risk

In the frame of cash flow hedges, maturities relate to realisation dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income statement at realisation dates of hedged items.

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

The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

	In local currency millions							In millions of Euros
	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	>5 years	Fair Value
Commodity risk hedges								
Cash flow hedges								
Swaps	87	87	-	-	-	-	-	2
Options	1,587	1,086	328	173	-	-	-	(213)
Total cash flow hedges	**1,674**	**1,173**	**328**	**173**	**-**	**-**	**-**	**(211)**
Items not qualifying for hedge accounting								
Swaps	-	-	-	-	-	-	-	-
Options	12	12	-	-	-	-	-	(2)
Total items not qualifying for hedge accounting	**12**	**12**	**-**	**-**	**-**	**-**	**-**	**(2)**
Total commodity risk hedges	**1,686**	**1,185**	**328**	**173**	**-**	**-**	**-**	**(213)**

Valuation methods for financial assets and liabilities at their fair value

As at March 31, 2010, the breakdown of the Group's financial assets and derivative instruments, based on the three classification levels, is as follows:

	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Shares	-	7	-	7
Assets at fair value through profit and loss				
Marketable securities	-	150	-	150
Cash and cash equivalents	982	-	-	982
Derivatives instruments (asset and liability)				
Interest rate derivatives	-	(89)	-	(89)
Currency exchange derivatives	-	66	-	66
Commodity derivatives	-	(213)	-	(213)

For the explanation of the three classification levels, reference is made to "fair value hierarchy" paragraph in the accounting policies for the balance sheet section.

Sensitivity analysis

The sensitivity is calculated solely on the valuation of derivates as the closing date of the period presented. The hypotheses used are coherent with those applied in the fiscal year 2008/09.

The impact on "other reserves" corresponds to the sensitivity of effective fair value variations for instruments and documented in the hedged cash flow (options intrinsic value, fair value of closed instruments). The impact on the "income for tax" corresponds to the sensitivity of ineffective fair value variations of hedged instruments (principally time value of options) and fair value variations of transactions instruments. For fuel, the downward and upward sensitivity are not symmetrical when taken into account the utilisation, in respect of the policy of optional hedged instruments in which the risk profile is not linear.

For further information reference is made to the Financial Risk Management paragraph in the text to the notes to the consolidated financial statements.

Fuel price sensitivity

The impact on "income before tax" and "other reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

	March 31, 2010		March 31, 2009	
	Increase of 10 USD	**Decrease of 10 USD**	**Increase of 10 USD**	**Decrease of 10 USD**
Income before tax	(25)	21	(45)	26
Other reserves	187	(174)	320	(304)

The fuel price sensitivity is only calculated on the valuation of derivatives at the closing date of each period presented.

Currency sensitivity

Value as of the closing date of all monetary assets and liabilities in other currencies are as follows:

	Monetary Assets		Monetary Liabilities	
	March 31, 2010	**March 31, 2009**	**March 31, 2010**	**March 31, 2009**
USD	402	467	867	903
JPY	-	-	263	229
CHF	-	-	293	276

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "other reserves" of the variation of a 10% weakening in exchange rates in absolute value relative to the Euro is presented below:

	USD		JPY		GBP	
	March 31 2010	**March 31 2009**	**March 31 2010**	**March 31 2009**	**March 31 2010**	**March 31 2009**
Change in value of financial instruments	(2)	5	24	14	-	-
Other reserves	(77)	(13)	11	8	10	13

The impact on "change in value of financial instruments on financial income and expenses" consists of:

- Change in value of monetary assets and liabilities (in accordance with IAS 21, including the effect of fair value and cash flow hedges);
- Changes in time value of currency exchange's options (accounted for financial income);
- The changes in fair value of trading derivatives.

The impact on "other reserves" is explained by the change in exchange rates on changes in fair value of exchange rate derivatives qualified for cash flow hedging, accounted for in "other reserves".

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. The variation of 100 basic points of interest rates would have an impact on income before tax of EUR 2 million for 2009/10 against EUR 5 million for 2008/09.

6 Inventories

	March 31, 2010	March 31, 2009
Carrying amount		
Maintenance inventories	130	134
Other sundry inventories	62	60
Total	**192**	**194**

Inventory write-downs amounted to EUR 53 million (2008/09 EUR 59 million).

7 Trade and other receivables

	March 31, 2010	March 31, 2009
Trade receivables	650	731
Provision trade receivables	(19)	(18)
Trade receivables - net	631	713
Amounts due from AIR FRANCE KLM group companies	43	44
Amounts due from associates and joint ventures	2	2
Amounts due from maintenance contract customers	87	71
Taxes and social security premiums	19	29
Other receivables	89	74
Prepaid expenses	107	114
Total	**978**	**1,047**

The 2009/10 EUR 1 million (2008/09 EUR 1 million) release of provision trade receivables has been recorded in other operating income and expenses in the consolidated income statement.

Maintenance contract costs incurred to date (less recognised losses) for contracts in progress at March 31, 2010 amounted to EUR 71 million (2008/09 EUR 42 million).

Advances received for maintenance contracts in progress at March 31, 2010 amounted to EUR 26 million (2008/09 EUR 8 million).

8 Cash and cash equivalents

	March 31, 2010	March 31, 2009
Cash at bank and in hand	104	70
Short-term deposits	981	1,047
Total	**1,085**	**1,117**

The effective interest rates on short-term deposits are in the range 0.21% to 6.75% (2008/09 range 0.35% to 2.44%). The short-term deposits have an original maturity of less than 3 months. The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

The part of the cash and cash equivalents held in currencies other than the Euro is as follows:

	March 31, 2010	March 31, 2009
USD	34	23
GBP	3	-
JPY	6	1
Other currencies	29	29
Total	**72**	**53**

The fair value of cash and cash equivalents does not differ materially from the book value.

9 Share capital

Authorised share capital

No movements have occurred in the authorised share capital since April 1, 2004. The authorised share capital of the Company is summarised in the following table:

		Authorised	
	Par value per share (in EUR)	Number of shares	Amount in EUR 1,000
Priority shares	2.00	1,875	4
Ordinary shares	2.00	149,998,125	299,996
A Cumulative preference shares	2.00	37,500,000	75,000
B Preference shares	2.00	75,000,000	150,000
C Cumulative preference shares	2.00	18,750,000	37,500
Total authorised share capital			**562,500**

Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

	Issued and fully paid			
	March 31, 2010		March 31, 2009	
	Number of shares	Amount in EUR 1,000	Number of shares	Amount in EUR 1,000
Included in equity				
Priority shares	1,312	3	1,312	3
Ordinary shares	46,809,699	93,619	46,809,699	93,619
		93,622		**93,622**
Included in financial liabilities				
A Cumulative preference shares	8,812,500	17,625	8,812,500	17,625
C Cumulative preference shares	7,050,000	14,100	7,050,000	14,100
		31,725		**31,725**
Total issued share capital		**125,347**		**125,347**

The rights, preferences and restrictions attaching to each class are as follows:

Priority shares

All priority shares are held by AIR FRANCE KLM S.A. Independent rights attaching to the priority shares include power to determine or approve:

a. To set aside an amount of the profit established in order to establish or increase reserves (art. 32.1 Articles of Association (AoA));

b. Distribution of interim dividends, subject to the approval of the Supervisory Board (art. 32.4 AoA);

c. Distribution to holders of common shares out of one or more of the freely distributable reserves subject to the approval of the Supervisory Board (art. 32.5 AoA);

d. Transfer of priority shares (art. 14.2 AoA).

Before submission to the General meeting of Shareholders prior approval of the holder of the priority shares is required for:

- **a.** Issue of shares (art. 5.4 AoA);
- **b.** Limitation of or exclusion from pre-emptive rights of the holders of other classes of shares (art. 5.4 AoA);
- **c.** Repurchase of own shares (art. 10.2 AoA);
- **d.** Alienation of own priority shares and C cumulative preference shares (art. 11.2 AoA);
- **e.** Reduction of the issued share capital (art. 11.3 AoA);
- **f.** Remuneration and conditions of employment of the Managing Directors (art.17.4 AoA);
- **g.** Amendments of the Articles of Association and/or dissolution the Company (art. 41.1 AoA).

A Cumulative preference shares, B Preference shares, C Cumulative preference shares and Ordinary shares

Holders of preference and ordinary shares are entitled to attend and vote at shareholders' meetings. Each share entitles the holder to one vote.

Since 1994 the State of The Netherlands has had an option to acquire such a number of B preference shares that the State would obtain an interest of up to 50.1% in the Company's issued capital. The option may be exercised only if the Company's access to relevant markets is or will be denied or limited because a country is of the opinion that ownership or control of KLM is not predominantly in Dutch hands. As at March 31, 2010 the State of The Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since 2006/07. For details of the right to dividend distributions attaching to each class of share see the Other information section.

10 Other reserves

	Hedging reserve	Translation reserve	Other Legal reserve	Total
As at April 1, 2008	**663**	**(2)**	**136**	**797**
Gains/(losses) from cash-flow hedges	(1,808)	-	-	(1,808)
Exchange differences on translating foreign operations	-	14	-	14
Transfer to retained earnings	-	-	3	3
Tax on items taken directly to or transferred from equity	461	-	-	461
As at March 31, 2009	**(684)**	**12**	**139**	**(533)**
As at April 1, 2009	**(684)**	**12**	**139**	**(533)**
Gains/(losses) from cash-flow hedges	713	-	-	713
Exchange differences on translating foreign operations	-	1	-	1
Transfer to retained earnings	-	-	(2)	(2)
Tax on items taken directly to or transferred from equity	(182)	-	-	(182)
As at March 31, 2010	**(153)**	**13**	**137**	**(3)**

Hedging reserve

The hedging reserve comprised the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated figures of non Euro foreign subsidiaries, as well as from the translation of the Company's net investment in foreign associates and jointly controlled entities.

Other legal reserve

The legal reserve is maintained equal to the non distributable reserves of investments accounted for using the equity method and the amount of development costs incurred on computer software and prepayments thereon at the balance sheet date, as required by Article 365.2 of Book 2 of The Netherlands Civil Code.

11 Other financial liabilities

	2009/10	2008/09
Carrying amount as at April 1	**1,539**	**1,208**
Additions and loans received	60	215
Loans repaid	(50)	(26)
Foreign currency translation differences	22	49
Change in scope of consolidation	-	90
Other changes	19	3
Net movement	**51**	**331**
Carrying amount as at March 31	**1,590**	**1,539**

The financial liabilities comprise:

	March 31, 2010		March 31, 2009	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	528	-	506
Other loans (secured/unsecured)	102	928	48	953
Total	**102**	**1,488**	**48**	**1,491**

The subordinated perpetual loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

The Swiss Franc subordinated perpetual loans amounting to EUR 293 million as at March 31, 2010 (2008/09 EUR 278 million) are listed on the SWX Swiss Exchange, Zurich. The maturity of financial liabilities is as follows:

	2010	2009
Less than 1 year	102	48
Between 1 and 2 years	57	76
Between 2 and 3 years	226	56
Between 3 and 4 years	132	196
Between 4 and 5 years	310	102
Over 5 years	763	1,061
Total as at March 31	**1,590**	**1,539**

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

	2010	2009
USD	41	62
CHF	293	277
JPY	238	229
Total as at March 31	**572**	**568**

The fair values of financial liabilities are as follows:

	2010	2009
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	536	506
Other loans (secured/unsecured)	1,032	1,004
Fair value as at March 31	**1,600**	**1,542**

The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments.

The exposure of the Group's borrowing interest rate changes and the contractual re-pricing dates are as follows:

	<1 year	>1 year and < 5 years	> 5 years	Total
As at March 31, 2009				
Total borrowings	985	-	554	1,539
Effect of interest rate swaps	(421)	-	421	-
	564	**-**	**975**	**1,539**
As at March 31, 2010				
Total borrowings	993	-	597	1,590
Effect of interest rate swaps	(522)	-	522	-
	471	**-**	**1,119**	**1,590**

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	March 31, 2010		March 31, 2009	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	3.94	-	5.72	-
Subordinated perpetual loans	-	4.29	-	4.83
Other loans	1.62	2.97	2.50	2.54

The interest rates of the subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable %-rate	Average fixed %-rate	Average %-rate
Subordinated perpetual loans	-	528	-	4.62	4.62
Other loans	496	535	2.02	3.77	2.93

The variable interest rates are based on the London and Euro Interbank Offered Rates. From July 29, 2005 the Company has a committed EUR 540 million, five-year standby credit facility with a consortium of international banks which will be terminated July 10, 2010. No amounts had been drawn on this facility as at March 31, 2010 and 2009.
As at July 28, 2009, the Company signed a new EUR 530 million syndicated revolving credit facility with a consortium of international banks, starting in July 2010. The new facility will expire in July 2012, but can be extended to July 2013.

12 Intercompany loans

On June 26, 2009, AIR FRANCE KLM issued a loan of a principal amount of EUR 661 million, represented by 56 million bonds convertible and/or exchangeable for new or existing shares of AIR FRANCE KLM due April 1, 2015.

AIR FRANCE KLM, Air France and KLM have agreed that the proceeds of the convertible bonds will be made available to Air France and KLM pursuant to a loan agreement dated March 19, 2010. Thereby AIR FRANCE KLM grants to KLM a total amount of EUR 386 million in the form of a loan credit facility.

On March 26, 2010, KLM has drawn the loan in full. The drawn amount will bear a floating interest rate. KLM has the intention to keep the drawn amount until maturity date.

However, according to the intercompany loan agreement, KLM may repay the drawn amount at any moment before the maturity date (April 1, 2015). Any advance repaid can be borrowed again.

For the guarantees from KLM to AIR FRANCE KLM reference is made to note 20.

13 Lease obligations

	March 31, 2010			March 31, 2009		
	Future minimum lease payments	**Future finance charges**	**Total financial lease liabilities**	**Future minimum lease payments**	**Future finance charges**	**Total financial lease liabilities**
Lease obligations						
Within 1 year	546	95	451	481	100	381
Total current	**546**	**95**	**451**	**481**	**100**	**381**
Between 1 and 2 years	470	74	396	472	81	391
Between 2 and 3 years	282	62	220	480	60	420
Between 3 and 4 years	288	52	236	247	50	197
Between 4 and 5 years	264	37	227	253	41	212
Over 5 years	1,007	84	923	967	91	876
Total non-current	**2,311**	**309**	**2,002**	**2,419**	**323**	**2,096**
Total	**2,857**	**404**	**2,453**	**2,900**	**423**	**2,477**

The finance leases relate exclusively to aircraft leasing. At the expiry of the leases, KLM has the option to purchase the aircraft at the amount specified in each contract. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 3.0% (average fixed rate 5.4%, average floating rate 1.3%). Taking into account the impact of hedging the average interest rate is 3.7% (average fixed rate 4.4%, average floating rate 1.4%). After hedging 74% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 2,481 million as at March 31, 2010 (2008/09 EUR 2,460 million). The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

The total future minimum lease payments under operating leases are as follows:

	Aircraft		Buildings		Other equipment		Total	
	March 31		March 31		March 31		March 31	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating lease commitments								
Within 1 year	326	286	32	31	18	15	376	332
Total current	**326**	**286**	**32**	**31**	**18**	**15**	**376**	**332**
Between 1 and 2 years	343	276	28	29	16	14	387	319
Between 2 and 3 years	328	253	26	25	13	12	367	290
Between 3 and 4 years	279	249	23	23	10	10	312	282
Between 4 and 5 years	288	225	21	20	9	8	318	253
Over 5 years	1,021	969	227	192	14	14	1,262	1,175
Total non-current	**2,259**	**1,972**	**325**	**289**	**62**	**58**	**2,646**	**2,319**
Total	**2,585**	**2,258**	**357**	**320**	**80**	**73**	**3,022**	**2,651**

14 Deferred income

	March 31, 2010		March 31, 2009	
	Current	Non-current	Current	Non-current
Advance ticket sales	722	-	519	147
Sale and leaseback transactions	8	13	2	7
Flying Blue frequent flyer program	81	193	42	254
Total	**811**	**206**	**563**	**408**

15 Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2009/10	2008/09
Carrying amount as at April 1	**197**	**715**
Income statement charge	(114)	41
Change in consolidation scope	-	(28)
Tax (credited)/charged to equity	182	(534)
Other movements	(1)	3
Net movement	**67**	**(518)**
Carrying amount as at March 31	**264**	**197**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts of deferred tax assets recognised in the other tax jurisdictions (i.e. in The United Kingdom) and in Dutch subsidiaries not included in KLM income tax fiscal unity in The Netherlands are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 44 million, EUR 1 million is expected to be recovered in 12 months or less and EUR 43 million is expected to be recovered after more than 12 months.

The split between deferred tax assets and net (offset) deferred tax liabilities is as follows:

	March 31, 2010	**March 31, 2009**
Deferred tax asset	(44)	(57)
Deferred tax liability (offset)	308	254
	264	**197**

The offset amounts are as follows:

	2010	**2009**
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	23	151
Deferred tax assets to be recovered after more than 12 months	370	383
	393	**534**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	6	50
Deferred tax liabilities to be settled over more than 12 months	695	738
	701	**788**
Carrying amount as at March 31	**308**	**254**

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at April 1	Income statement (charge)/ credit	Tax charged/ (credited) to equity	Other	Carrying amount as at March 31
Deferred tax assets					
Fiscal 2008/09					
Tax losses	7	25	73	17	122
Fleet assets	172	(19)	-	4	157
Fleet related assets (maintenance)	20	(2)	-	-	18
Provisions for employee benefits	17	(1)	-	-	16
Financial lease obligations	5	(2)	-	-	3
Derivative financial instruments	-	-	-	234	234
Other	6	-	-	5	11
Total	**227**	**1**	**73**	**260**	**561**
Fiscal 2009/10					
Tax losses	122	174	-	12	308
Fleet assets	157	(14)	-	(77)	66
Fleet related assets (maintenance)	18	(1)	-	(11)	6
Provisions for employee benefits	16	-	-	-	16
Financial lease obligations	3	(1)	-	1	3
Derivative financial instruments	234	-	(182)	-	52
Other	11	(4)	-	-	7
Total	**561**	**154**	**(182)**	**(75)**	**458**

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other	Carrying amount as at March 31
Deferred tax liabilities					
Fiscal 2008/09					
Fleet assets	46	(16)	-	(5)	25
Other tangible fixed assets	49	(4)	-	(2)	43
Pensions and benefits (asset)	576	61	-	3	640
Maintenance provision	43	(2)	-	(1)	40
Derivative financial instruments	227	-	(461)	234	-
Other	1	3	-	6	10
Total	**942**	**42**	**(461)**	**235**	**758**
Fiscal 2009/10					
Fleet assets	25	-	-	(25)	-
Other tangible fixed assets	43	(5)	-	(23)	15
Pensions and benefits (asset)	640	51	-	-	691
Maintenance provision	40	(2)	-	(28)	10
Other	10	(4)	-	-	6
Total	**758**	**40**	**-**	**(76)**	**722**

The Group has tax loss carry forwards in The Netherlands and in The United Kingdom for which a deferred tax asset has been recognised to the extent that expected future taxable profits in excess of the profit arising from the reversal of existing temporary differences, are sufficient for utilisation of those tax loss carry forwards.

Under Income Tax law in The Netherlands, the maximum future period for utilising tax losses carried forward is nine years. In The United Kingdom, this period is indefinite.

The Group has tax loss carry forwards in The United Kingdom in the amount of EUR 104 million (2008/09 EUR 53 million) and in The Netherlands of EUR 118 million (2008/09 EUR 118 million) as well as deductible temporary differences for which no deferred tax asset has been recognised, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilised. The unrecognised deferred tax assets relating to temporary differences total EUR 74 million (2008/09 EUR 81 million).

16 Provisions for employee benefits

	March 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Pension and early-retirement obligations	70	73	110	128	148
Post-employment medical benefits	35	34	30	46	65
Other long-term employment benefits	91	67	58	60	75
Termination benefits	11	11	18	22	13
Total Liabilities	**207**	**185**	**216**	**256**	**301**
Less: Non-current portion					
Pension and early-retirement obligations	45	45	81	110	148
Post-employment medical benefits	33	32	28	43	63
Other long-term employment benefits	79	61	55	54	64
Termination benefits	10	9	15	15	9
Non-current portion	**167**	**147**	**179**	**222**	**284**
Current portion	**40**	**38**	**37**	**34**	**17**

	March 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Assets					
Pension assets non current portion	2,707	2,472	2,226	2,074	1,873
Total assets	**2,707**	**2,472**	**2,226**	**2,074**	**1,873**

Pension plans

The Company sponsors a number of pension plans for employees world-wide. The major plans are defined benefit plans covering Cabin Staff, Pilots and Ground Staff based in The Netherlands, The United Kingdom, Germany, Canada, Hong Kong, The Netherlands Antilles and Japan. The major plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities.

In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located outside The Netherlands.

In 2009/10 the financial markets recovered considerably which had a significant positive effect of EUR 2.4 billion on the assets of the KLM pension funds. Interest rates decreased in 2009/10 as a result of which the discount rate decreased from 5.5% to 4.75%. This, in combination with the estimated effect of the changes in the Dutch mortality tables, resulted in a significant increase of EUR 2.0 billion of the present value of wholly and partly funded obligations.

The three major KLM pension funds benefited from the recovery of the financial markets in 2009/10, which resulted in the following funding ratios as at March 31, 2010 (including the estimated effect of the changes in the Dutch mortality tables):

- Ground staff pension fund 123.4% (March 31, 2009: 102.7%)
- Cabin staff pension fund 127.1% (March 31, 2009: 104.6%)
- Pilot staff pension fund 130.9% (March 31, 2009: 118.0%)

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 1,604 million as at March 31, 2010 (2008/09 EUR 1,133 million). Actuarial gains and losses are recognised in determining the benefit obligations and the plan assets only to the extent that they cumulatively exceed the greater of 10% of the present value of the obligations or the fair value of the plan assets. Surpluses and deficits have been recognised in the balance sheet according to IAS 19.

No limit (i.e. after the impact of IAS 19 and IFRIC 14 "The limit on a defined benefit asset, minimum funding requirements and their interaction" on IAS 19) on the net assets recognised in the balance sheet is applied since, based on the current financing agreements between these pension funds and the Company, future economic benefits are available in the form of a reduction in future contributions. As at March 31, 2010 the net assets recognised in the balance sheet of the three main funds, after taking into account unrecognised net actuarial gains and losses and net unrecognised past service costs amount to EUR 2,705 million (2008/09 EUR 2,470 million).

Investment strategy

The boards of the funds consult independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the funds. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the contribution to the company of the benefits provided. The funds use asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest a large proportion of the assets in equities which it is believed offer the best returns over the long term commensurate with an acceptable level of risk. Also a proportion of assets are invested in property, bonds and cash. Most assets are managed by the Blue Sky Group.

Assumptions used for provisions for employee benefits

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Pension and early-retirement obligations				
in %	**2009/10**	**2008/09**	**2007/08**	**2006/07**	**2005/06**
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended March 31	4.78	5.53	5.53	4.49	4.46
Rate of compensation increase	3.08	3.03	3.01	5.11	5.13
Rate of price inflation	1.84	1.81	2.03	2.05	2.18
Weighted average assumptions used to determine net cost					
Discount rate for year ended March 31	4.78	5.53	5.53	4.49	4.53
Expected long-term rate of return on plan assets	6.15	6.16	5.71	5.70	5.69
Rate of compensation increase	3.08	3.03	3.01	5.04	5.18
Rate of price compensation	1.84	1.81	2.03	2.02	2.22

For the main Dutch pension plans, the 2005-2050 Generation mortality table (with certain plan specific adjustments) of the Dutch Actuarial Association was used, including the estimated effect of the changes in the Dutch mortality tables from the Central Office of Statistics (CBS).

The sensitivity of the net periodic pension cost and the defined benefit obligation to variations in the discount rate are:

	Sensitivity of the assumptions for the year ended	
In millions of Euros	**March 31, 2010**	**March 31, 2009**
0.25% increase in the discount rate		
Impact on the net periodic pension cost	(17)	(30)
Impact on defined benefit obligation	(420)	(336)
0.25% decrease in the discount rate		
Impact on the net periodic pension cost	28	36
Impact on defined benefit obligation	420	336

	Pension and early-retirement obligations				
	2010	**2009**	**2008**	**2007**	**2006**
Present value of wholly or partly funded obligations	10,803	8,834	8,652	9,260	8,816
Fair value of plan assets	(12,407)	(9,967)	(11,910)	(12,221)	(11,405)
Subtotal	**(1,604)**	**(1,133)**	**(3,258)**	**(2,961)**	**(2,589)**
Present value of unfunded obligations	1	1	1	17	12
Unrecognised net actuarial gains/(losses)	(1,034)	(1,267)	1,141	998	852
Subtotal	**(1,033)**	**(1,266)**	**1,142**	**1,015**	**864**
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**(2,637)**	**(2,399)**	**(2,116)**	**(1,946)**	**(1,725)**

	Pension and early-retirement obligations				
	2010	**2009**	**2008**	**2007**	**2006**
Amounts in the balance sheet as at March 31					
Liabilities	70	73	110	128	148
Assets	(2,707)	(2,472)	(2,226)	(2,074)	(1,873)

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Pension and early-retirement obligations				
	2009/10	2008/09	2007/08	2006/07	2005/06
Carrying amount as at April 1	**8,834**	**8,652**	**9,277**	**8,828**	**8,404**
Service cost	287	282	312	311	310
Interest cost	495	484	422	389	378
Plan participants' contributions	-	-	15	37	35
Curtailments	(1)	(7)	-	(57)	3
Actuarial losses/(gains)	1,517	(212)	(1,014)	15	(23)
Benefits paid from plan/company	(345)	(324)	(310)	(289)	(273)
Other	3	(3)	2	36	(3)
Exchange rate changes	13	(38)	(52)	7	(3)
Net movement	**1,969**	**182**	**(625)**	**449**	**424**
Carrying amount as at March 31	**10,803**	**8,834**	**8,652**	**9,277**	**8,828**

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarised as follows:

	2009/10	2008/09	2007/08	2006/07	2005/06
Fair value as at April 1	**9,967**	**11,910**	**12,221**	**11,404**	**9,757**
Expected return on plan assets	616	679	692	649	557
Actuarial gains/(losses) (related to the plan assets)	1,729	(2,607)	(853)	174	1,051
Employer contributions	376	310	173	244	284
Member contributions	51	36	32	37	35
Benefits paid from plan / company	(345)	(324)	(310)	(288)	(273)
Curtailments	(1)	-	-	(40)	(1)
Other	3	(2)	-	34	(3)
Exchange rate changes	11	(35)	(45)	7	(3)
Net movement	2,440	(1,943)	(311)	817	1,647
Fair value as at March 31	**12,407**	**9,967**	**11,910**	**12,221**	**11,404**

The actual return on pension plan assets is EUR 2,345 million positive (2008/09 EUR 1,928 million negative).

The experience adjustments are as follows:

	March 31,			
	2010	2009	2008	2007
Experience adjustments on:				
Benefit obligation	91	(115)	(64)	239
Plan asset	1,729	(2,607)	(853)	173

The major categories of the pension plan assets as a percentage of total plan assets are as follows:

	March 31,				
in %	**2010**	**2009**	**2008**	**2007**	**2006**
Debt securities	52.4	55.5	49.1	45.7	47.0
Real estate	9.0	9.4	11.6	13.3	11.0
Equity securities	38.2	34.7	38.1	40.3	40.5
Other	0.4	0.4	1.2	0.7	1.5

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in The United States of America and Canada.

	Post-employment medical benefits				
	2010	**2009**	**2008**	**2007**	**2006**
Present value of unfunded obligations	37	33	34	52	71
Unrecognised net actuarial gains/(losses)	(2)	1	(4)	(6)	(6)
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**35**	**34**	**30**	**46**	**65**

The movements in the present value of wholly or partly funded obligations in the year are as follows:

	Post-employment medical benefits				
	2009/10	**2008/09**	**2007/08**	**2006/07**	**2005/06**
Carrying amount as at April 1	**33**	**32**	**50**	**70**	**112**
Service cost	-	-	1	-	2
Interest cost	2	2	2	2	6
Curtailments	-	-	(12)	(20)	(55)
Actuarial losses/(gains)	4	(5)	(1)	3	8
Benefits paid from plan/company	-	-	(2)	(2)	(5)
Other	(2)	(1)	-	-	-
Exchange rate changes	-	5	(6)	(3)	2
Net movement	**4**	**1**	**(18)**	**(20)**	**(42)**
Carrying amount as at March 31	**37**	**33**	**32**	**50**	**70**

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Post-employment medical benefits				
in %	**2009/10**	**2008/09**	**2007/08**	**2006/07**	**2005/06**
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended March 31	5.90	7.05	5.90	5.51	5.03
Weighted average assumptions used to determine net cost					
Discount rate for year ended March 31	5.90	7.05	5.90	5.57	5.02
Medical cost trend rate assumptions used to determine net cost *					
Immediate trend rate Pre 65	9.56	8.20	8.19	7.35	10.00
Immediate trend rate Post 65	9.56	10.90	10.91	9.46	10.00
Ultimate trend rate	5.00	5.00	5.00	4.87	5.00
Year that the rate reaches ultimate trend rate	2014	2013/14	2012/13	2012/13	2012

* The rates shown are the weighted averages for The United States of America and Canada

Other long-term employee benefits

	2010	**2009**	**2008**	**2007**	**2006**
Jubilee benefits	52	47	41	40	35
Other benefits	39	20	17	20	40
Total carrying amount	**91**	**67**	**58**	**60**	**75**
Less: Non-current portion					
Jubilee benefits	46	43	40	38	33
Other benefits	33	18	15	16	31
Non-current portion	**79**	**61**	**55**	**54**	**64**
Current portion	**12**	**6**	**3**	**6**	**11**

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service.

Termination benefits

The provision for other benefits relates to existing retirement entitlements.

	2010	2009	2008	2007	2006
Redundancy benefits					
Non-current portion	10	9	15	15	9
Current portion	1	2	3	7	4
Total carrying amount	**11**	**11**	**18**	**22**	**13**

Termination benefits relates to a provision for supplements to unemployment benefits to former employees.

17 Other provisions

	Phasing-out costs of operating lease aircraft	Power by the hour contracts regarding aircraft	Aircraft mainte-nance provision	Legal Issues	Other	Total
As at April 1, 2009	**111**	**62**	**47**	**148**	**32**	**400**
Charged to consolidated income statement:						
Additional provisions and increases in existing provisions	59	21	18	7	39	144
Unused amounts reversed	(4)	(7)	(10)	-	(12)	(33)
Used during year	(53)	(11)	(1)	(8)	(5)	(78)
Other changes	(6)	-	(2)	(4)	(17)	(29)
As at March 31, 2010	**107**	**65**	**52**	**143**	**37**	**404**
Current/non-current portion						
Non-current portion	99	53	30	15	25	222
Current portion	8	12	22	128	12	182
Carrying amount as at March 31, 2010	**107**	**65**	**52**	**143**	**37**	**404**

Phasing-out costs of operating lease aircraft

For a number of aircraft operated under operational lease contracts, there is a contractual obligation to the lessor to redeliver the aircraft in an agreed state of maintenance. The provision represents the estimated costs to be incurred or reimbursed to the lessor at the balance sheet date.

Aircraft maintenance provision

The provision for aircraft maintenance relates to contractual commitments for aircraft financed on a base of operational lease. The provision has a variable term between one and seven years.

Legal issues

The provision as at March 31, 2010 relates to the anti-trust investigations in Europe and US class actions for KLM and Martinair, South Korea for KLM and for the remaining amount to be paid to the US DOJ related to Martinair.

Other provisions

Other provisions include provisions for debt/lease restructuring costs aircraft regarding commercial agreements, salary compensation for former flight engineers transferred to other functions and demolition costs of buildings, site restoration costs for land and buildings which is the subject of long lease.

18 Trade and other payables

	March 31, 2010	**March 31, 2009**
Trade payables	667	552
Amounts due to AIR FRANCE KLM Group companies	85	53
Taxes and social security premiums	75	117
Other payables	296	340
Accrued liabilities	478	643
Total	**1,601**	**1,705**

19 Commitments

As at March 31, 2010, KLM has commitments for previously placed orders amounting to EUR 753 million (2008/09 EUR 1,074 million). EUR 669 million of this amount relates to aircraft (2008/09 EUR 976 million) of which EUR 292 million is due in 2010/11. The balance of the commitments as at March 31, 2010 amounting to EUR 84 million (2008/09 EUR 98 million) is related to other tangible fixed assets. As at March 31, 2010 prepayments on aircraft orders have been made, accounting to EUR 181 million (2008/09 EUR 249 million).

20 Contingent assets and liabilities

Contingent liabilities

Antitrust investigations and civil litigation

a. Actions instigated by the EU Commission, the United States Department of Justice (the "US DOJ") and several other competition authorities in other jurisdictions for alleged cartel activity in air cargo transport, and related civil lawsuits.

On February 14, 2006, authorities from the EU Commission and the US DOJ presented themselves at the offices of KLM Cargo, as well as many other airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air cargo services. The action was followed by formal or informal investigations by competition authorities in other jurisdictions.

As at December 19, 2007 the EU Commission sent to 25 airlines, including KLM and Martinair, a statement of objections, in which the airlines are alleged of having participated in meetings and/or of having had contacts about surcharges and rates. KLM and Martinair are co-operating with this investigation and has prepared and issued a reply to the EU Commission's statement of objections. The EU Commission in its new composition is expected to resume the procedure for adoption of a decision, which had been suspended by the former Commission. A decision is now expected this calendar year.

In South Korea, late 2009 KLM received together with twenty-seven other airlines, notices of charges from the Korean anti-trust authority (KFTC) for allegations of anti-competitive agreements on the fuel surcharge. KLM has disputed these allegations, pointing out that the practices concerned were consistent with its obligations under the bilateral air-traffic agreements between the Netherlands and South Korea, and under the South Korean civil-aviation code.

The investigations in the United States, Canada and Australia have been concluded in the calendar years 2008 and 2009. As of March 31, 2010, the procedures respectively with the European Commission, South Korea, Switzerland, Brazil and South Africa were still ongoing, in which KLM and Martinair are co-operating.

As of March 31, 2010 a provision is included to cover any potential liability of KLM and Martinair in relation to the investigation by the European Commission. Also a provision in the amount of EUR 7.5 million to cover any potential liability of KLM in relation to the South Korean investigation has been recorded. Other procedures did not lead to a provision being recorded, as KLM is not able, given the procedures' status, to appreciate the risks incurred. In appreciation of the revenue concerned, these risks are individually not significant.

b. Civil actions relating to the Cargo Business

In addition to the above, as at March 31, 2010, over 140 purported class action lawsuits have been filed by over 140 named plaintiffs in the U.S. against a number of air cargo operators. Air France, KLM and Martinair are named specifically in some of these actions. The actions have been transferred and consolidated into a single action before the U.S. District Court for the Eastern District of New York. In the consolidated action, plaintiffs allege that that since at least January 1, 2000, the defendant cargo carriers engaged in a conspiracy to fix the price of air shipping services since January 1st, 2000 including various surcharges in air cargo services in violation of U.S. antitrust laws. Plaintiffs consequently seek treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief. The defendant air cargo carriers had filed several motions to dismiss, which were granted in part and denied in part. The indirect purchaser plaintiffs, whose claims were dismissed, have appealed. Certain claims of the direct purchaser plaintiffs, which were not dismissed, remain pending and that portion of the case is in the discovery process.

In August 2009, The District Judge dismissed the plaintiffs' claims based on breach of EU competition law. The judge also dismissed the claim from the "indirect purchasers' (i.e. the cargo shippers having acquired air shipping services from the forwarding agents and not directly from the air cargo operators). However, the judge held the direct purchaser's claim based on breach of US federal anti-trust law to be admissible. The judge also permitted the initiation of discovery proceedings, requiring the parties to collect and exchange data to be used in evidence. The provision referenced above as per March 31, 2010 includes the best estimate of the risk associated with these civil actions.

c. Investigation of the European Commission into the Passenger Business between Europe and Japan

On March 11 and 12, 2008 the EU Commission and the Dutch competition authorities paid a surprise visit to the KLM offices investigating allegations of price fixing specifically on routes to and from Japan as well as contacts in general that took place between carriers in the European Economic Area and in third countries for the period 2000/06.

On February 13, 2009, KLM replied to a questionnaire from the EU Commission pointing out the background of air-traffic relations between 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 KLM by the EU Commission on October 1, 2009. To date, the KLM is unable to state an opinion regarding the action that will be taken in connection with such enquiries by the European Commission.

d. Civil actions relating to the Passenger Business

In 2008, two putative class actions were pending in the United States against Air France and KLM, as well as several other air passenger carriers. Both actions allege that the defendant air passenger carriers violated the U.S. antitrust laws by engaging in conspiracies to fix prices for certain air passenger service.

In one of the actions, filed in the U.S. District Court for the Eastern District of New York, plaintiffs alleged that five air passenger carriers conspired to fix prices and fuel surcharges for air passenger service on transatlantic routes between the United States, Germany, and various other destinations in Europe between 2004 and 2006. The defendant air carriers filed motions to dismiss, and on March 31, 2010, the court granted one of those motions, dismissing the action in its entirety as to all defendants, including Air France and KLM, with prejudice and without giving plaintiffs leave to replead. The judgment was entered on April 7, 2010, and plaintiffs have 30 days from entry of the judgment to appeal the dismissal.

In the second action, filed in the U.S. District Court for the Northern District of California, plaintiffs allege that since at least January 2000 several air passenger carriers conspired to fix the prices, including the fuel surcharges, for air passenger service involving at least one transpacific flight segment between Asia/Oceania and the United States.

The defendant air carriers filed several motions to dismiss, and these motions are currently pending before the court.

KLM intends to defend itself against these actions, as they are considered without merit. KLM is not able to predict the outcome of both procedures as they are at a very preliminary stage.

VEB c.s

The Dutch association "Vereniging van Effectenbezitters" together with an individual KLM shareholder have served KLM and AIR FRANCE KLM (the latter in its capacity of priority shareholder) with a claim that KLM be ordered to acknowledge entitlement of minority shareholders of KLM to a higher dividend over fiscal year 2007/08 and pay the same, claiming that the dividend that was declared is unfair and not equitable and that the special rights of minority shareholders have not been observed. Proceedings have been brought before the Amsterdam court. Counsels' pleas are scheduled for June 2010. It is yet too early to assess the outcome.

Other litigation

The Company and certain of its subsidiaries are involved as defendant in litigation relating to competition issues, commercial transactions, and labour relations. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that, with the exception of the matters discussed above, the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

Site cleaning up costs

The Group owns a number of Cargo and Maintenance buildings situated on various parcels of land which are the subject of long lease agreements.

At the expiry of each of these agreements the Company has the following options:

1. To demolish the buildings and clean up the land prior to return to the lessor;
2. To transfer ownership of the building to the lessor; or
3. To extend the lease of the land.

With the exception of the buildings referred to in note 16, no decision has been taken regarding the future of any of the buildings standing on leased land. Until a decision has been taken as to whether a lease will be extended or the property sold, it cannot be determined whether it is probable that site cleaning up costs will be incurred and to what extent. Accordingly, no provision for such costs has been established.

Guarantees

Guarantees given by the Company and on behalf of subsidiaries, unconsolidated companies and third parties, including the two bond loans set out below, amounts to EUR 576 million (2008/09 EUR 15 million).

With respect to the guarantee on the convertible bond loan, issued by AIR FRANCE KLM S.A. in June 2009, EUR 386 million was drawn by the Company. This amount has been recorded as an intercompany loan (see note 12) as at March 31, 2010 and thus excluded from the guaranteed amount. Furthermore the guaranteed amount has been reduced, since Air France and the Company have entered into separate agreements where Air France will compensate the Company for 50% of any amount claimed by the bondholders (and vice versa).

In addition, AIR FRANCE KLM S.A. issued a EUR 700 million bond with 7 years duration as of October 14, 2009. The annual coupon amounts to 6.75 per cent. Both the Company and Air France S.A. have irrevocably and unconditionally agreed to act as several but not joint guarantors (each for 50%).

Section 403 guarantees

General guarantees as defined in Book 2, Section 403 of The Netherlands Civil Code have been given by the Company on behalf of several subsidiaries in The Netherlands. The liabilities of these companies to third parties and unconsolidated companies amounts to EUR 290 million as at March 31, 2010 (2008/09 EUR 160 million).

Contingent assets

Litigation

The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favourable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

21 Revenues

	2009/10	2008/09
Services rendered		
Passenger transport	4,873	5,602
Cargo transport	1,278	1,259
Maintenance contracts	467	485
Charter and low cost business	778	746
Other services	73	90
Total revenues	**7,469**	**8,182**

22 External expenses

	2009/10	2008/09
Aircraft fuel	1,962	2,290
Chartering costs	83	114
Aircraft operating lease costs	234	201
Landing fees and route charges	646	630
Catering	86	85
Handling charges and other operating costs	418	412
Aircraft maintenance costs	577	568
Commercial and distribution costs	344	366
Insurance	36	34
Rentals and maintenance of housing	126	113
Sub-contracting	140	146
Hired personnel	106	157
Other external expenses	361	410
Total external expenses	**5,119**	**5,526**

23 Employee compensation and benefit expense

	2009/10	2008/09
Wages and salaries	1,773	1,703
Social security premiums other than for state pension plans	187	186
Share-based remuneration	2	(5)
Pension and early-retirement plan costs	168	28
Post-employment medical benefit costs	2	2
Other long-term employee benefit costs	18	5
Total employee compensation and benefit expense	**2,150**	**1,919**

Pension and early-retirement plan costs comprise:

	2009/10	2008/09
Defined benefits plans	143	25
Defined contribution plans	25	3
Total	**168**	**28**

Defined benefit plans and early-retirement plan costs comprise:

	2009/10	2008/09
Current service cost	287	282
Interest cost	495	484
Expected return on plan assets	(616)	(679)
Net actuarial losses/(gains) recognised in year	25	-
Losses/(gains) arising from plan curltailments or settlements	-	(25)
Other	(48)	(37)
Total	**143**	**25**

In the fiscal year ended March 31, 2010 the net period pension cost for the major defined benefit plans recognised in the income statement amounted to EUR 143 million (2008/09 EUR 25 million) and the total contributions paid by the Group amounted to EUR 376 million (2008/09 EUR 310 million). The contributions paid in 2009/10 include additional deficit funding in The Netherlands amounting to EUR 35 million and in The United Kingdom amounting to EUR 4 million (2008/09 EUR 37 million).

The Group's projected defined benefit plans and early retirement plan costs for 2010/11 amounts to EUR 70 million. The Group's expected cash contributions for these plans amounts to EUR 352 million.

Post-employment medical benefits costs comprise:

	2009/10	2008/09
Current service cost	-	-
Interest cost	2	2
Losses/(gains) arising from plan curltailments or settlements	-	-
Total	**2**	**2**

Other long-term employee benefits comprise:

	2009/10	2008/09
Current service cost	3	3
Interest cost	3	4
Losses/(gains) arising from plan curltailments or settlements	9	-
Net actuarial losses/(gains) recognised in year	3	(2)
Total	**18**	**5**

Number of full-time equivalent employees:

	2009/10	2008/09
Average for year		
Flight deck crew	3,423	3,197
Cabin crew	7,696	7,834
Ground staff	21,458	21,310
Total	**32,577**	**32,341**

	2010	2009
As at March 31		
Flight deck crew	3,390	3,468
Cabin crew	7,419	7,778
Ground staff	20,978	21,991
Total	**31,787**	**33,237**

24 Depreciation and amortisation

	2009/10	2008/09
Intangible assets	17	10
Flight equipment	449	420
Other property and equipment	80	80
Total depreciation and amortisation	**546**	**510**

25 Other non-current income and expenses

The 2009/10 loss includes EUR 35 million for an onerous lease provision, including a sublease, for 2 Boeing 747-400 BCF Freighters, a loss of EUR 32 million relating to sale and lease back transactions of 5 Boeing 747-400's and 2 Boeing 767-300 ER's, a valuation adjustment of EUR 13 million for the phase out of 15 Fokker 100's, a provision amounting to EUR 7.5 million relating to the South Korean anti-trust authority for allegations of anti-competitive agreements on Cargo fuel surcharges, a provision of EUR 1.5 million for a voluntary leave program at KLM Catering Services and EUR 1.5 million relating to the sale of the Martinair catering building.

The 2008/09 loss includes EUR 11 million relating to a restructuring provision at Martinair for a voluntary leave program.

26 Net cost of financial debt

	2009/10	2008/09
Gross cost of financial debt		
Loans from third parties	64	84
Finance leases	105	127
Other interest expenses	(4)	(9)
Total gross cost of financial debt	**165**	**202**
Income from cash and cash equivalents		
Loans to third parties	67	132
Total income from cash and cash equivalents	**67**	**132**
Net cost of financial debt	**98**	**70**

	2009/10	2008/09
Unwinding of discount on provisions	-	(5)
Foreign currency exchange gains/(losses)	20	(30)
Fair value gains/(losses)	(36)	(251)
Total other financial income and expense	**(16)**	**(286)**

The fair value losses recorded as at March 31, 2010 consist of the variation in the ineffective portion of fuel and foreign currency exchange derivatives for EUR -46 million (2008/09 EUR -71 million), the change in value of derivative instruments no more qualified for hedge accounting for EUR 11 million (2008/09 EUR -139 million) as well as the unrealised revaluation of other balance sheet items for EUR -1 million (2008/09 EUR -41 million).

27 Income tax expense

	2009/10	2008/09
Current tax (income)/expense	-	(103)
origination and reversal of temporary differences and tax losses	(114)	41
Total tax (income)/expense	**(114)**	**(62)**

The applicable tax rate in The Netherlands for 2009/10 is 25.5%.

The average effective tax rate is reconciled to the applicable tax rate in The Netherlands as follows:

in %	2009/10	2008/09
Applicable average tax rate in The Netherlands	25.5	25.5
Impact of:		
Profit free of tax/Non-deductible expenses	-	(3.2)
Unrecorded tax assets in year	(2.5)	7.5
Differences in foreign tax rate changes	0.2	0.1
Effective tax rate	**23.2**	**29.9**

28 Share-based payments

The liability arising from share based payment transactions is as follows:

	March 31, 2010	March 31, 2009
Share option plan	1	1
Carrying amount	**1**	**1**

Phantom shares

The movement in the number of phantom performance shares granted is as follows:

	2009/10	2008/09
As at April 1	**149,478**	**-**
Granted	136,569	153,080
Forfeited	(42,987)	(3,602)
Exercised	-	-
As at March 31	**243,060**	**149,478**

The date of expiry of the phantom shares is as follows:

	2010	2009
Phantom shares expiry date		
July 1, 2013	125,870	149,478
July 1, 2014	117,190	-
Carrying number as at March 31	**243,060**	**149,478**

The phantom shares generate an amount of cash, which is equal to the AIR FRANCE KLM share price at the moment of selling of the shares. The number of vested phantom shares depends on the non-market based performance criteria operating income (80%) and ROCE (20%). The maximum number of phantom shares that may be granted to an individual employee in any year is related to their job grade.

Subject to restrictions relating to the prevention of insider-trading, phantom shares may be exercised at any time between the third and the fifth anniversary of the day of grant. Phantom shares are forfeited when employees leave the Company's employment.

According to the Long Term Incentive plan 2008, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2008. The first trance has vested for 100% unconditionally. The second trance has vested for 60% in July 2009.

According to the Long Term Incentive plan 2009, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2009. At the grant date 60% of the first trance has vested and the vesting of the second and third trance is conditional.

Share options

The movement in the number of share options granted and the weighted average exercise prices of the movements is as follows:

	2009/10		2008/09	
	Number of share options	Weighted average exercise price (in EUR)	Number of share options	Weighted average exercise price (in EUR)
As at April 1	**1,461,020**	**20.25**	**1,540,150**	**20.44**
Granted	-	-	-	-
Forfeited	(27,333)	13.95	(33,070)	22.11
Exercised	-	-	(46,060)	9.59
Expired	(290,505)	-	-	-
As at March 31	**1,143,182**	**22.00**	**1,461,020**	**20.25**
Exercisable as at March 31	**747,165**		**663,971**	

The number of shares that can be acquired analysed by the date of expiry of the option period is as follows:

	Exercise price (in EUR)	2010	2009
Option expiry date			
June 30, 2009	13.19	-	290,505
July 16, 2010	13.11	363,966	373,466
July 26, 2011	17.83	383,199	391,199
July 25, 2012	34.21	396,017	405,850
Carrying number as at March 31		**1,143,182**	**1,461,020**

As an incentive to make a longer-term commitment to the Company share purchase options on AIR FRANCE KLM S.A. shares were granted to executive employees on the basis of their reaching agreed personal performance targets. The maximum number of options that may be granted to an individual employee in any year is related to their job grade. At the grant date one-third of the options granted vest with a further one-third after one and two years respectively. Vesting is conditional on the Company achieving predetermined performance criteria.

Subject to restrictions relating to the prevention of insider-trading, options may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding options are forfeited. Options are also forfeited when employees leave the Company's employment.

The exercise price of an option is based on the weighted average price of AIR FRANCE KLM S.A. shares as calculated by Bloomberg on the first working day after the AIR FRANCE KLM S.A. Annual General Meeting.

Fair value measurement

The fair value of the share-based payments has been determined using the Black-Scholes formula. The main assumptions used in the calculations are as follows:

	2010	2009
Fair value at grant date	9.20	15.01
Share price (in EUR, Closing price March 31, AEX Amsterdam)	11.7	6.7
Volatility (%)	38.9	55.5
Risk free rate (%)	1.6	2.2
Dividend yield (%)	0.7	1.3

29 Supervisory Board remuneration

	2009/10			2008/09		
(Amounts in EUR)	**As Supervisory Board member**	**As Committee member**	**Total**	**As Supervisory Board member**	**As Committee member**	**Total**
K.J. Storm	42,500	2,000	44,500	42,500	2,000	44,500
J.D.F. Martre	34,500	-	34,500	34,500	-	34,500
I.P Asscher-Vonk	26,500	4,000	30,500	26,500	1,000	27,500
J.D.F.C. Blanchet	26,500	-	26,500	26,500	-	26,500
H. Guillaume	26,500	2,000	28,500	26,500	2,000	28,500
W. Kok	26,500	6,000	32,500	26,500	1,500	28,000
R. Laan	26,500	4,000	30,500	26,500	1,000	27,500
H.N.J. Smits	26,500	4,000	30,500	26,500	4,000	30,500
J. Peyrelevade	26,500	-	26,500	26,500	-	26,500
Total	**262,500**	**22,000**	**284,500**	**262,500**	**11,500**	**274,000**

For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section. The fees paid to the Supervisory Board are not linked to the Company's results.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

30 Board of Managing Directors remuneration

Base salary

(amounts in EUR)	2009/10	2008/09
P.F. Hartman	668,703	656,805
F.N.P. Gagey	409,621	402,333
J.E.C. De Groot	295,478	268,683
Total	**1,373,802**	**1,327,821**

For details of the remuneration policy see the Remuneration Policy and Report in the Board and Governance section.

Short-term incentive plan

	2009/10		2008/09	
(amounts in EUR)	Short term incentive plan	Targets achieved	Short term incentive plan	Targets achieved
P.F. Hartman	134,991	Partially	133,324	Partially
F.N.P. Gagey	66,152	Partially	65,335	Partially
J.E.C. De Groot	30,375	Partially	33,379	Partially
Total	**231,518**		**232,038**	

For a description of the short-term incentive plan, we refer to the section Remuneration Policy and Report.

Other allowances and benefits in kind

In addition to the base salary the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone costs and fixed monthly allowances for business expenses not otherwise reimbursed.

Mr. Hartman received a one-off payment of EUR 998,225, which was provided for within his KLM employment contract established following the completion of the merger between Air France and KLM in 2004, and whose payment was subject to his continuing activity in KLM until the age of 60 years (a condition which was satisfied in 2009).

Pension costs

Pension (amounts in EUR)	2009/10	2008/09
P.F. Hartman	308,731	681,000
F.N.P. Gagey	-	-
J.E.C. De Groot	69,372	60,000
Total	**378,103**	**741,000**

The pension costs represent the service cost of the defined benefit plan obligations.
Mr. Gagey's pension and social security costs are borne by Air France.

External supervisory board memberships

Members of the Board of Managing Directors received fees totalling EUR 59,700 (2008/09 EUR 77,500), which were ceded to the Company.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

As an incentive to make a longer-term commitment to the Company, phantom shares and options on AIR FRANCE KLM shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets.

Subject to restrictions relating to the prevention of insider-trading, phantom shares and options may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding options are forfeited.

As of 2007/08 10,000 phantom shares are granted to the Chief Executive Officer, 7,500 to the Chief Financial Officer and 6,000 to the Managing Director. For further information see note 28.

The current and former members of the Board of Managing Directors had the following positions with respect to the Phantom shares in AIR FRANCE KLM S.A. at March 31, 2010:

(Amounts in EUR)	Number of phantom shares granted	Expiry date	Number of phantom shares forfeited	Number of phantom shares exercised	Average share price at exercise	Total outstanding as at March 31, 2010
P.F. Hartman						
July, 2008	10,000	July 1,2013	(1,333)	-		8,667
July, 2009	10,000	July 1,2014	(1,334)	-		8,666
	20,000		**(2,667)**	**-**		**17,333**
F.N.P. Gagey						
July, 2008	7,500	July 1,2013	(1,000)	-		6,500
July, 2009	7,500	July 1,2014	(1,000)	-		6,500
	15,000		**(2,000)**	**-**		**13,000**
J.E.C. De Groot						
July, 2008	6,000	July 1,2013	(800)	-		5,200
July, 2009	6,000	July 1,2014	(800)	-		5,200
	12,000		**(1,600)**	**-**		**10,400**
Total	**47,000**		**(6,267)**	**-**		**40,733**

The maximum number of options that were granted until 2006/07 was 25,000 for the Chief Executive Officer and Chief Financial Officer respectively and 20,000 for the Managing Director. For further information see note 28.

The current and former members of the Board of Managing Directors had the following positions with respect to options on shares in AIR FRANCE KLM S.A. at March 31, 2010:

(Amounts in EUR)	Options granted **	Exercise price per share	Expiry date	Number of options exercised	Average share price at exercise	Total outstanding as at March 31, 2010
P.F. Hartman						
2005	25,000	13.11	July 16, 2010	-		25,000
2006	25,000	17.83	July 26, 2011	-		25,000
2007 *	25,000	34.21	July 25, 2012	-		25,000
	75,000			**-**		**75,000**
F.N.P. Gagey						
2005	25,000	13.11	July 16, 2010	-		25,000
2006	25,000	17.83	July 26, 2011	-		25,000
2007 *	25,000	34.21	July 25, 2012	-		25,000
	75,000			**-**		**75,000**
J.E.C. De Groot						
2005	5,000	13.11	July 16, 2010	-		5,000
2006	5,000	17.83	July 26, 2011	-		5,000
2007 *	20,000	34.21	July 25, 2012	-		20,000
	30,000			**-**		**30,000**
L.M. Van Wijk	(Until July 5, 2007)					
2005	25,000	13.11	July 16, 2010	-		25,000
2006	25,000	17.83	July 26, 2011	-		25,000
2007 *	25,000	34.21	July 25, 2012	-		25,000
	75,000			**-**		**75,000**
Total	**255,000**			**-**		**255,000**

* At March 31, 2010 the share options granted to each Board member in respect of 2007, have vested unconditionally

** Number of shares that can be acquired

As at March 31, 2010 Mr. Hartman and Mr. Gagey held 2,960 and 900 shares AIR FRANCE KLM S.A. respectively. Mr. De Groot had no interest in AIR FRANCE KLM S.A. other than the options described above.

31 Related party transactions

The Group has interests in various associates in which it has either significant influence in but not control or joint control over operating and financial policy. Transactions with these parties, some of which are significant, are negotiated at commercial conditions and prices which are not more favourable than those which would have been negotiated with third parties on an arm's length basis. In addition dividends have been received from those interests (see note 3). The following transactions were carried out with related parties:

	2009/10	2008/09
Sales of goods and services		
AIR FRANCE KLM Group companies	155	148
Associates	10	3
Joint ventures	-	12
Other related parties	1	-
Purchases of goods and services		
AIR FRANCE KLM Group companies	179	140
Other related parties	20	-

For details of the year-end balances of amounts due to and from related parties see notes 7 and 18. For the AIR FRANCE KLM intercompany loan see note 12. No loans were granted to or received from related parties during 2008/09 and 2009/10.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors see note 28 to 30. For information relating to transactions with pension funds for the Group's employees see note 16.

32 Primary segment reporting

	Passenger		Cargo		Maintenance		Leisure		Other		Eliminations		Total	
	2009 /10	2008 /09	2009 /10	2008 /09	2009 /10	2008 /09	2009 /10	2008 /09	2009 /10	2008 /09	2009 /10	2008 /09	2009 /10	2008 /09
Revenues														
Revenues External	4,873	5,602	1,278	1,259	467	485	778	746	73	90	-	-	7,469	8,182
Revenues Internal	304	302	14	14	624	614	1	1	176	182	(1,119)	(1,113)	-	-
Total revenue	5,177	5,904	1,292	1,273	1,091	1,099	779	747	249	272	(1,119)	(1,113)	7,469	8,182
Operating loss	(138)	132	(153)	(20)	22	27	(20)	19	4	1	-	-	(285)	159
Share of results of equity shareholdings													(7)	(47)
Financial Income and expense													(114)	(356)
Gain/(loss) on disposal of assets													(30)	4
Income tax expense													114	62
Other													(61)	(15)
Loss for the year													**(383)**	**(193)**
Depreciation and amortisation	(316)	(264)	(88)	(75)	(64)	(102)	(44)	(31)	(46)	(54)	12	16	(546)	(510)
Other non monetary items	(81)	(304)	(20)	(12)	(18)	(3)	1	(1)	95	56	8	(22)	(15)	(286)
Assets														
Intangible assets	35	20	1	2	7	10	6	9	70	62			119	103
Flight equipment	2,806	2,739	514	605	313	339	312	349	(28)	(23)			3,917	4,009
Other property, plant and equipment	124	127	50	55	257	251	13	13	270	301			714	747
Trade receivables	340	390	176	135	91	55	38	25	(13)	107			632	712
Other assets	953	464	(195)	40	173	157	319	401	4,167	4,384			5,417	5,446
Total assets	**4,397**	**3,740**	**407**	**837**	**841**	**812**	**688**	**797**	**4,466**	**4,831**	**-**	**-**	**10,799**	**11,017**
Liabilities														
Deferred revenues on sales	936	917	9	2	34	36	71	53	-				1,050	1,008
Other liabilities	3,877	4,926	560	579	129	209	460	611	2,483	1,585			7,509	7,910
Total liabilities	**4,813**	**5,843**	**569**	**581**	**163**	**245**	**531**	**664**	**2,483**	**1,585**	**-**	**-**	**8,559**	**8,918**

33 Secondary segment reporting

Revenues by destination 2009/10	**Europe, North Africa**	**Caribbean, Indian Ocean**	**Africa, Middle East**	**Americas Polynesia**	**Asia, New Caledonia**	**Total**
Scheduled passenger	1,526	158	851	1,112	991	4,638
Other passenger revenues	77	9	43	56	50	235
Total passenger revenues	**1,603**	**167**	**894**	**1,168**	**1,041**	**4,873**
Scheduled cargo	18	18	265	463	466	1,230
Other cargo revenues	1	1	10	18	18	48
Total cargo revenues	**19**	**19**	**275**	**481**	**484**	**1,278**
Maintenance	467	-	-	-	-	467
Other revenues	712	108	11	20	-	851
Total maintenance and other	**1,179**	**108**	**11**	**20**	**-**	**1,318**
Total revenues by destination	**2,801**	**294**	**1,180**	**1,669**	**1,525**	**7,469**

Revenues by destination 2008/09	**Europe, North Africa**	**Caribbean, Indian Ocean**	**Africa, Middle East**	**Americas Polynesia**	**Asia, New Caledonia**	**Total**
Scheduled passenger	1,781	178	948	1,308	1,164	5,379
Other passenger revenues	74	7	40	54	48	223
Total passenger revenues	**1,855**	**185**	**988**	**1,362**	**1,212**	**5,602**
Scheduled cargo	21	23	195	375	582	1,196
Other cargo revenues	3	1	12	21	26	63
Total cargo revenues	**24**	**24**	**207**	**396**	**608**	**1,259**
Maintenance	485	-	-	-	-	485
Other revenues	789	28	1	18	-	836
Total maintenance and other	**1,274**	**28**	**1**	**18**	**-**	**1,321**
Total revenues by destination	**3,153**	**237**	**1,196**	**1,776**	**1,820**	**8,182**

Geographical analysis of assets: The major revenue-earning asset of the Group is the aircraft fleet, the majority of which are registered in The Netherlands. Since the Group's aircraft fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

34 Subsidiaries

The following is a list of the Company's significant subsidiaries as at March 31, 2010:

Name	Country of incorporation	Ownership interest in %	Proportion of voting power held in %
Transavia Airlines C.V.	The Netherlands	100	100
Martinair Holland N.V.	The Netherlands	100	100
KLM Cityhopper B.V.	The Netherlands	100	100
KLM Cityhopper UK Ltd.	United Kingdom	100	100
KLM UK Engineering Ltd.	United Kingdom	100	100
European Pneumatic Component Overhaul & Repair B.V.	The Netherlands	100	100
KLM Catering Services Schiphol B.V.	The Netherlands	100	100
KLM Flight Academy B.V.	The Netherlands	100	100
KLM Health Services B.V.	The Netherlands	100	100
KLM Equipment Services B.V.	The Netherlands	100	100
KLM Financial Services B.V.	The Netherlands	100	100
Cygnific B.V.	The Netherlands	100	100
Cobalt Ground solutions Ltd.	United Kingdom	60	60

KLM Royal Dutch Airlines

Company balance sheet

In millions of Euros

After proposed appropriation of the profit for the year	Note	March 31, 2010	March 31, 2009
ASSETS			
Non-current assets			
Property, plant and equipment	35	3,655	3,722
Intangible assets		95	73
Investments accounted for using the equity method	36	442	374
Other financial assets	37	459	500
Derivative financial instruments	5	127	112
Pension assets	16	2,707	2,472
		7,485	**7,253**
Current assets			
Other financial assets	37	226	468
Derivative financial instruments	5	238	128
Inventories		163	164
Trade and other receivables	38	1,010	1,179
Cash and cash equivalents	39	1,027	1,080
		2,664	**3,019**
TOTAL ASSETS		**10,149**	**10,272**
EQUITY			
Capital and reserves			
Share capital	40	94	94
Share premium		474	474
Other reserves	40	(3)	(533)
Retained earnings		1,673	2,063
Total attributable to Company's equity holders		**2,238**	**2,098**
LIABILITIES			
Non-current liabilities			
Other financial liabilities	41	1,339	1,299
Intercompany loans	42	615	245
Finance lease obligations	43	1,671	1,764
Derivative financial instruments	5	309	687
Deferred income	44	206	350
Deferred income tax liabilities	45	335	251
Provisions	46	213	192
		4,688	**4,788**
Current liabilities			
Trade and other payables	47	1,632	1,747
Other financial liabilities	41	87	54
Finance lease obligations	43	335	259
Derivative financial instruments	5	279	587
Deferred income	44	740	569
Provisions	46	150	170
		3,223	**3,386**
Total liabilities		**7,911**	**8,174**
TOTAL EQUITY AND LIABILITIES		**10,149**	**10,272**

The accompanying notes are an integral part of these Company financial statements

KLM Royal Dutch Airlines

Company income statement

In millions of Euros	2009/10	2008/09
(Loss)/Income from subsidiaries after taxation	(70)	60
Loss of KLM N.V. after taxation	(313)	(254)
Loss for the year	**(383)**	**(194)**

The accompanying notes are an integral part of these Company financial statements

Notes to the Company financial statements

General

The Company financial statements are part of the 2009/10 financial statements of KLM Royal Dutch Airlines (the "Company").

Significant accounting policies

The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result

In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362(8) of Book 2 of the Netherlands Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated IFRS financial statements.

Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. The share in the result of participating interests comprises the share of the Company in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves are not incorporated insofar as they can be deemed to be unrealised.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

35 Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2008	**932**	**2,017**	**1,105**	**4,054**	**580**	**499**	**78**	**1,157**	**353**	**5,564**
Additions	17	38	129	184	-	44	4	48	169	401
Disposals	(78)	-	(111)	(189)	-	(16)	(8)	(24)	-	(213)
Currency translation differences	-	-	-	-	-	-	-	-	(93)	(93)
Reclassifications	14	98	72	184	(4)	(14)	14	(4)	(202)	(22)
As at March 31, 2009	**885**	**2,153**	**1,195**	**4,233**	**576**	**513**	**88**	**1,177**	**227**	**5,637**
Accumulated depreciation and impairment										
As at April 1, 2008	**280**	**361**	**511**	**1,152**	**99**	**367**	**50**	**516**	**-**	**1,668**
Depreciation	108	112	106	326	34	29	6	69	-	395
Disposals	(3)	-	(109)	(112)	-	(15)	(8)	(23)	-	(135)
Reclassifications	31	(45)	11	(3)	(10)	-	-	(10)	-	(13)
As at March 31, 2009	**416**	**428**	**519**	**1,363**	**123**	**381**	**48**	**552**	**-**	**1,915**

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2009	**885**	**2,153**	**1,195**	**4,233**	**576**	**513**	**88**	**1,177**	**227**	**5,637**
Additions	40	268	31	339	-	-	31	31		370
Disposals	(146)	(8)	(82)	(236)	(22)	(5)	(7)	(34)	-	(270)
Currency translation differences	-	-	-	-	-	-	-	-	4	4
Reclassifications	-	-	31	31	6	-	(15)	(9)	(75)	(53)
As at March 31, 2010	**779**	**2,413**	**1,175**	**4,367**	**560**	**508**	**97**	**1,165**	**156**	**5,688**
Accumulated depreciation and impairment										
As at April 1, 2009	**416**	**428**	**519**	**1,363**	**123**	**381**	**48**	**552**	**-**	**1,915**
Depreciation	91	123	117	331	35	29	3	67	-	398
Disposals	(119)	(8)	(106)	(233)	(22)	(4)	(6)	(32)	-	(265)
Reclassifications	-	-	-	-	(4)	(10)	(1)	(15)	-	(15)
As at March 31, 2010	**388**	**543**	**530**	**1,461**	**132**	**396**	**44**	**572**	**-**	**2,033**
Net carrying amount										
As at March 31, 2009	**469**	**1,725**	**676**	**2,870**	**453**	**132**	**40**	**625**	**227**	**3,722**
As at March 31, 2010	**391**	**1,870**	**645**	**2,906**	**428**	**112**	**53**	**593**	**156**	**3,655**

The assets include assets which are held as security for mortgages and loans as follows:

	March 31, 2010	March 31, 2009
Aircraft	126	146
Land and buildings	126	131
Other property and equipment	58	8
Carrying amount	**310**	**285**

Borrowing costs capitalised during the year amounted to EUR 6 million (2008/09 EUR 8 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2008/09: 4.0%).

Land and buildings include buildings located on land which has been leased on a long-term basis. The book value of these buildings as at March 31, 2010 was EUR 320 million (2008/09 EUR 335 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 19. Including in prepayments an amount of EUR 49 million (2008/09 EUR 20 million) relates to future sale and lease back transactions. Upon delivery to the Group, the aircraft will be directly sold to a lease company and subsequently leased back under an operating lease.

36 Investments accounted for using the equity method

	March 31, 2010	March 31, 2009
Subsidiaries	364	279
Associates	55	71
Jointly controlled entities	23	24
Carrying amount	**442**	**374**

	2009/10	2008/09
Subsidiaries		
Carrying amount as at April 1	**279**	**187**
Movements		
Investments	151	49
Change in consolidation scope	-	9
Share of profit/(loss) after taxation	(70)	61
OCI movement	9	(9)
Dividends received	(6)	(18)
Foreign currency translation differences	-	14
Other movements	1	(14)
Net movement	**85**	**92**
Carrying amount as at March 31	**364**	**279**

For details of the Group's investments in subsidiaries see note 34 to the consolidated financial statements. For details of the Group's investments in associates and jointly controlled entities see note 3 to the consolidated financial statements.

37 Other financial assets

	2010		2009	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	76	164	68	202
Loans and receivables				
Other loans and receivables	-	1	-	1
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	150	-	400	-
AIR FRANCE KLM S.A. shares	-	16	-	11
Other financial assets	-	278	-	286
Total at fair value	150	294	400	297
Carrying amount as at March 31	**226**	**459**	**468**	**500**

38 Trade and other receivables

	March 31, 2010	March 31, 2009
Trade receivables	534	612
Provision trade receivables	(16)	(14)
Trade receivables - net	518	598
Amounts due from subsidiaries	243	308
Amounts due from AIR FRANCE - KLM group companies	40	41
Amounts due from associates and joint ventures	2	-
Amounts due from maintenance contract customers	87	68
Taxes and social security premiums	16	26
Other receivables	18	46
Prepaid expenses	86	92
Total	**1,010**	**1,179**

Maintenance contract costs incurred to date (less recognised losses) for contracts in progress at March 31, 2010 amounted to EUR 71 million (2008/09 EUR 42 million). Advances received for maintenance contracts in progress at March 31, 2010 amounted to EUR 26 million (2008/09 EUR 8 million). The maturity of trade and other receivables is within one year.

39 Cash and cash equivalents

	March 31, 2010	March 31, 2009
Cash at bank and in hand	58	43
Short-term deposits	969	1,037
Total	**1,027**	**1,080**

The effective interest rates on short-term deposits are in the range 0.21% to 6.75% (2008/09 range 0.35% to 2.44%). The short-term deposits have an original maturity of less than 3 months. The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

40 Share capital and other reserves

For details of the Company's share capital and movements on other reserves see note 9 and 10 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has other reserves relating to hedging, translation and other legal reserves. Reference is made to note 10.

41 Other financial liabilities

	March 31, 2010		March 31, 2009	
	Current	**Non-current**	**Current**	**Non-current**
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	528	-	506
Other loans (secured/unsecured)	87	779	54	761
Total	**87**	**1,339**	**54**	**1,299**

42 Intercompany loans

Reference is made to note 12 for the intercompany loans with AIR FRANCE KLM. For the guarantees from KLM to AIR FRANCE KLM reference made to note 20.

43 Finance lease obligations

	March 31, 2010	March 31, 2009
Non-current portion	1,671	1,764
Current portion	335	259
Carrying amount	**2,006**	**2,023**

44 Deferred income

	March 31, 2010		March 31, 2009	
	Current	Non-current	Current	Non-current
Advance ticket sales	651	-	525	89
Sale and leaseback transactions	8	13	2	7
Flying Blue frequent flyer program	81	193	42	254
Total	**740**	**206**	**569**	**350**

45 Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2009/10	2008/09
Carrying amount as at April 1	**251**	**766**
Movements:		
Income statement charge	(106)	42
Tax (credited)/charged to equity	182	(531)
Other movements	8	(26)
Net movement	**84**	**(515)**
Carrying amount as at March 31	**335**	**251**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

	2010	2009
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	23	105
Deferred tax assets to be settled after 12 months	350	355
	373	**460**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	5
Deferred tax liabilities to be settled after 12 months	701	706
	708	**711**
Carrying amount as at March 31	**335**	**251**

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other move-ments	Carrying amount as at March 31
Deferred tax assets 2008/09					
Tax losses	-	19	73	(9)	83
Fleet assets	130	(15)	-	-	115
Fleet related assets (maintenance)	20	(2)	-	-	18
Provisions for employee benefits	15	-	-	-	15
Financial lease	5	(2)	-	-	3
Derivative financial instruments	-	-	-	231	231
Other	8	(1)	-	34	41
Total	**178**	**(1)**	**73**	**256**	**506**
Deferred tax assets 2009/10					
Tax losses	83	161	-	10	254
Fleet assets	115	(11)	-	(76)	28
Fleet related assets (maintenance)	18	(1)	-	(11)	6
Provisions for employee benefits	15	-	-	(1)	14
Financial lease	3	(1)	-	1	3
Derivative financial instruments	231	-	(182)	-	49
Other	41	-	-	1	42
Total	**506**	**148**	**(182)**	**(76)**	**396**

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other move-ments	Carrying amount as at March 31
Deferred tax liabilities 2008/09					
Fleet assets	46	(16)	-	(6)	24
Other tangible fixed assets	49	(3)	-	-	46
Pensions & benefits (asset)	578	62	-	-	640
Maintenance provision	43	(2)	-	(1)	40
Derivative financial instruments	227	-	(458)	231	-
Other	1	-	-	6	7
Total	**944**	**41**	**(458)**	**230**	**757**
Deferred tax liabilities 2009/10					
Fleet assets	24	-	-	(24)	-
Other tangible fixed assets	46	(5)	-	(26)	15
Pensions & benefits (asset)	640	50	-	-	690
Maintenance provision	40	(2)	-	(28)	10
Other	7	(1)	-	10	16
Total	**757**	**42**	**-**	**(68)**	**731**

Tax fiscal unity

The Company, together with other subsidiaries in The Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group. Martinair Holland N.V. and its Dutch subsidiaries joined the fiscal unity for Corporate tax as per April 1, 2009.

46 Provisions

	Phasing-out costs of operating lease aircraft	Employee Benefit	Legal Issues	Other	Total
As at April 1, 2009	**95**	**128**	**103**	**36**	**362**
Charged to consolidated income statement:					
Additional provisions and increases in existing provisions	52	31	8	-	91
Unused amounts reversed	(4)	(3)	-	(14)	(21)
Used during year	(45)	(17)	(6)	-	(68)
Other changes	(1)	16	-	(16)	(1)
As at March 31, 2010	**97**	**155**	**105**	**6**	**363**
Current/non-current portion					
Non-current portion	93	115	-	5	213
Current portion	4	40	105	1	150
As at March 31, 2010	**97**	**155**	**105**	**6**	**363**

47 Trade and other payables

	March 31, 2010	March 31, 2009
Trade payables	613	493
Amounts due to subsidiaries	323	390
Amounts due to AIR FRANCE KLM Group companies	78	46
Taxes and social security premiums	65	108
Other payables	226	279
Accrued liabilities	327	431
Total	**1,632**	**1,747**

Other notes

For information relating to contingency assets and liabilities, including guarantees, see note 20.

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 28 to 30.

Amstelveen, June 2, 2010

The Board of Managing Directors

Peter F. Hartman
Frédéric N.P. Gagey
Jan Ernst C. De Groot

The Supervisory Board

Kees J. Storm
J.F. Henri Martre
Irene P. Asscher-Vonk
Jean-Didier F.C. Blanchet
Henri Guillaume
Wim Kok
Remmert Laan
Jean Peyrelevade
Hans N.J. Smits

Other Information

Auditors' Report

To the Shareholders and Supervisory Board of KLM Royal Dutch Airlines
(Koninklijke Luchtvaart Maatschappij N.V.)

Report on the financial statements

We have audited the accompanying financial statements of KLM Royal Dutch Airlines, Amstelveen, for the year ended March 31, 2010 as set out on the pages 53 to 158.
The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at March 31, 2010, the consolidated income statement, consolidated statement of recognised income and expenses, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at March 31, 2010, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Managing Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating 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.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at March 31, 2010, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at March 31, 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Managing Directors is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen/ Rotterdam, June 2, 2010

KPMG ACCOUNTANTS N.V.	Deloitte Accountants B.V.
T. Van Der Heijden RA	D.A. Sonneveldt RA

Provisions of the Articles of Association on the Distribution of Profit

Unofficial translation of Article 32 of the Articles of Association of KLM Royal Dutch Airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves. The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.

2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:

(a) the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of fiscal year concerned, with a maximum of five per cent (5%) of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;

(b) next the holders of cumulative preference shares-A shall receive six per cent (6%) of the par value of their cumulative preference shares-A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares-A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares-A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares-A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;

(c) next the holders of preference shares-B shall receive five per cent (5%) of the par value of their preference shares-B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;

(d) next the holders of preference shares-B shall receive one half per cent (½%) of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the operating revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of five per cent (5%) of the nominal amount of the issued common shares;

(e) subsequently, on each cumulative preference share-C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share-C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;

(f) government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of The Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of The Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been published in the Officiële Prijscourant of Euronext Amsterdam N.V. at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;

(g) on the date on which the cumulative preference shares-C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares-C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series.

If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;

(h) if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares-C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares-C shall receive equal treatment. No further payment shall be made on the cumulative preference shares-C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;

(i) if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares-C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;

(j) if the profits over a financial year have been established and in that financial year one or more cumulative preference shares-C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares-C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares-C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares-C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;

(k) if, in the course of a given financial year, issuance of cumulative preference shares-C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance;

(l) the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of priority shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the Company as the type of the shares to which these payments relate.

4. As far as possible and subject to the approval of the Supervisory Board, the meeting of priority shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the Company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.

5. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.
6. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.
7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of Profit and Distribution to Shareholders

Absent a net profit for 2009/10, no distribution will be made. The net loss for 2009/10 amounting to EUR 382,616,000 will be transferred to retained earnings.

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	**2009/10**	2008/09	2007/08	2006/07	2005/06
Consolidated income statement					
Passenger	4,873	5,602	5,667	5,423	5,046
Cargo	1,278	1,259	1,194	1,162	1,157
Other revenues	1,318	1,321	1,167	1,113	998
Revenues	7,469	8,182	8,028	7,698	7,201
Expenses	7,754	8,023	7,277	7,092	6,661
Income from current operations	(285)	159	751	603	540
Financial income and expense	(114)	(356)	(75)	(47)	(99)
Other non-current income and expenses	(91)	(11)	(198)	13	-
Pre-tax income	(490)	(208)	478	569	441
Income tax expense	114	62	(154)	(63)	(126)
Net result after taxation of consolidated companies	(376)	(146)	324	506	315
Share of results of equity shareholdings	(7)	(47)	(33)	10	(39)
(Loss)/Profit for the year	(383)	(193)	291	516	276
Consolidated balance sheet					
Current assets	2,780	2,991	3,268	2,852	2,778
Non-current assets	8,019	8,026	8,237	7,676	7,348
Total assets	10,799	11,017	11,505	10,528	10,126
Current liabilities	3,466	3,627	2,894	2,818	2,748
Non-current liabilities	5,093	5,291	4,733	4,684	4,818
Group equity	2,240	2,099	3,878	3,026	2,560
Total liabilities	10,799	11,017	11,505	10,528	10,126

Five-Year Review

(in millions of EUR, unless stated otherwise)		**2009/10**	2008/09	2007/08	2006/07	2005/06
Key financial figures (KLM Group)						
Return on equity (%)		(17.6)	(6.5)	8.4	18.5	11.3
Result for the year as percentage of revenues		(5.1)	(2.4)	3.6	6.7	3.8
Earnings per ordinary share (EUR)		(8.18)	(4.14)	6.22	11.03	5.90
Result for the year plus depreciation		163	317	765	993	720
Capital expenditures (net)		(231)	(768)	(438)	(137)	(766)
Net-debt-to-equity percentage		118	72	57	87	106
Dividend per ordinary share (EUR)		-	-	0.58	0.48	0.30
Number of staff (KLM Group)						
(in FTE)						
The Netherlands		28,003	27,840	26,779	26,466	26,116
Outside The Netherlands		4,574	4,501	4,226	4,055	4,002
Employed by KLM		32,577	32,341	31,005	30,521	30,118
Total agency staff		1,455	2,017	1,997	2,034	1,660
Total KLM Group		34,032	34,358	33,002	32,555	31,778
Traffic (KLM Company)						
Passenger kilometers	*	74,129	76,667	75,073	72,367	69,115
Revenue ton freight-kilometers	*	4,134	4,575	4,947	4,823	4,893
Passenger load factor (%)		82.2	81.6	82.9	83.7	83.5
Cargo load factor (%)		71.2	67.9	74.1	74.1	74.8
Number of passengers (x 1,000)		20,778	23,505	23,354	22,634	21,673
Weight of cargo carried (kilograms)	*	473	606	657	627	620
Average distance flown per passenger (in kilometers)		3,288	3,262	3,214	3,197	3,189
Capacity (KLM Company)						
Available seat-kilometers	*	90,168	93,992	90,563	86,478	82,736
Available ton freight-kilometers	*	5,802	6,733	6,675	6,511	6,542
Kilometers flown	*	358	412	406	394	382
Hours flown (x 1,000)		539	622	616	597	570
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		6.3	7.0	7.3	7.2	6.9
Cargo (per RTK)		19.3	23.9	23.1	22.9	22.6
Number of staff (KLM Company)						
(in FTE)						
The Netherlands		21,340	21,876	21,426	21,600	21,184
Outside The Netherlands		2,756	2,923	2,910	2,612	2,692
Total		24,096	24,799	24,336	24,212	23,876

* in millions

Glossary of Terms and Definitions

Available ton freight kilometer (ATFK)	One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.
Available seat kilometer (ASK)	One aircraft seat flown a distance of one kilometer.
Passenger load factor	Total revenue passenger-kilometers (RPK) expressed as a percentage of the total available seat-kilometers (ASK).
Revenue ton freight kilometer (RTFK)	One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.
Revenue passenger-kilometer (RPK)	One passenger flown a distance of one kilometer.
Cargo load factor	Total revenue ton freight kilometers (RTFK) expressed as a percentage of the total available ton freight kilometers (ATFK).
Capital employed	The sum of property, plant and equipment, intangible assets, equity method investments, inventories and trade and other receivables less trade and other payables.
Code sharing	Service offered by KLM and another airline using the KL code and the code of the other airline.
Earnings per ordinary share	The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the year.
Net debt	The sum of current and non-current financial liabilities, current and non-current finance lease obligations, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.

Return on capital employed

The sum of income from operating activities, adjusted for temporary rentals of aircraft and trucks, the gain/(loss) on disposal of assets and the results of equity shareholdings after taxation divided by average capital employed.

Return on equity

Net result after taxation divided by the average equity after deduction of the priority shares.

Warning about Forward-Looking Statements

This Annual Report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:

- The airline pricing environment;
- Competitive pressure among companies in our industry;
- Current economic downturn;
- Changes in the cost of fuel or the exchange rate of the Euro to the U.S. dollar and other currencies;
- Governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
- Developments affecting labor relations;
- The outcome of any material litigation;
- The future level of air travel demand;
- Future load factors and yields;
- Industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;
- Developments affecting our airline partners;
- The effects of terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the costs of security and the cost and availability of aviation insurance coverage and war risk coverage;

- The effects of natural disasters and extreme weather conditions;
- Changing relationships with customers, suppliers and strategic partners;
- Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained our filings. We do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.