KLM Royal Dutch Airlines

Annual Report





2010
2011



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

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of Commerce and Industry,
Amsterdam, The Netherlands

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Key figures

Consolidated figures in millions of euros, unless stated otherwise	2010/11	2009/10
Revenues	**8,651**	7,469
Expenses before depreciation and long-term rentals	**7,462**	6,973
Depreciation and long-term rentals	**806**	781
Income from current operations	**383**	(285)
As a % of operating revenues	**4.4**	(3.8)
Profit/(loss) for the year	**147**	(383)
Earnings per ordinary share (EUR)	**3.14**	(8.18)
Equity	**2,683**	2,240
As a % of total long-term funds	**35**	31
Return on equity (%)	**6.0**	(17.6)
Capital employed	**4,179**	4,398
Return on capital employed (%)	**5.7**	(7.0)
Net-debt-to-equity ratio	**109**	118
Dividend per ordinary share (EUR)	**0.10**	-
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**76,974**	74,129
Capacity (in millions of available seat-kilometers, ASK)	**92,064**	90,168
Passenger load factor (%)	**83.6**	82.2
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**6,533**	6,301
Capacity (in millions of available ton freight-kilometers, ATFK)	**8,874**	8,712
Cargo load factor (%)	**73.6**	72.3
Financial position		
Cash flow from operating activities	**609**	(259)
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(434)**	(481)
Free cash flow	**175**	(740)
Average number FTEs of KLM Group staff		
Permanent	**30,315**	30,888
Temporary	**1,401**	1,689
Employed by KLM	**31,716**	32,577
Agency staff	**1,726**	1,455
Total KLM	**33,442**	34,032

Report of the Board of Managing Directors

Letter from the President

The economic crisis may be over, but the air transport industry has not yet recovered from this crisis. We did, however, succeed in regaining an upward trend in fiscal year 2010/11 compared to 2009/10. We managed to achieve a solid operating result in the fiscal year, despite volatile and rising fuel prices and external challenges. Challenges such as the eruption of the volcano Eyjafjallojökull late March 2010, which disrupted operations in April and May; an extended period of ice and snow in December 2010 and January 2011; major political unrest in some parts of the world in February and March 2011; and the earthquake in Japan in March 2011 leading to this terrible situation around the nuclear power stations.

Our good achievement may be largely attributed to the flexibility, positive attitude and dedication of the people who make up our organisation. The same commitment that ensured our emergence from the crisis in relatively good shape also ensured that we could recover and regain the upward trend in 2010/11. One of our strongest trump cards during the crisis and thereafter was our effort to 'keep the family together'; internal mobility was stimulated and no external hires were allowed. This approach, which allowed major cost savings to be implemented without involuntary redundancies in the Netherlands, not only attracted a great deal of attention at home and abroad, but primarily ensured a sense of stability within the organisation. Partly because of this, our people were ready and able to go the extra mile. We continued to reap the fruits of this approach in the fiscal year.

The crisis has knocked the air transport industry back two to three years. The process of recovery is still in full swing. If we pursue and further improve this upward trend, we should be able to return to pre-crisis levels within a reasonable timeframe. But only in terms of results, because the world and manner in which we operate will never be the same again. This is a new world we share. We came to realise this during the crisis and then began taking structural measures to create opportunities to achieve success in new ways in this rapidly changing world.

The fiscal year 2010/11 was characterised by a resurgence of demand in both Passenger and Cargo traffic. As anticipated, the composition of demand had changed. Demand for Business Class seats, in particular, did not return to pre-crisis levels.

Many companies that opted to have their employees fly Economy instead of Business Class during the crisis have continued to pursue this policy.
This development was not unexpected and we took the anticipatory measure of introducing our Economy Comfort product in the fiscal year. This new zone in the front section of Economy Class, where passengers pay a somewhat higher price for extra comfort, clearly proved its worth.

We were perfectly capable of fulfilling demand for Cargo transport with our strategy of giving priority to the Cargo capacity in Passenger aircraft bellies and combi aircraft. This in combination with the flexible deployment of full-freighter capacity made available by our renewed partnership with our wholly-owned subsidiary Martinair.

This year imposed heavy demands on our operations. The aforementioned disruptions pushed staff and processes to the limit. The experiences gained have been used to re-evaluate processes and to work on specific details ensuring that we can serve our passengers even better in such circumstances.

Financial results

During fiscal year 2010/11, increased demand for air transport led to recovery of revenues. We achieved a substantial improvement in our operating income, from a loss of EUR 285 million in 2009/10 to an operating profit of EUR 383 million in 2010/11. This despite rising fuel prices towards the end of the fiscal year.

All our businesses contributed positively to this result. Network-wide, Passenger revenues were 18% above the previous fiscal year, with excellent performance on the North Atlantic and in Asia. This was never achieved without Air France and our strategic partners Delta Air Lines, Alitalia, Kenya Airways and China Southern Airlines. Cargo Business also recovered strongly, with revenues 33% above previous fiscal year. Cargo traffic improved network-wide and benefited from growing export out of Europe.

We managed to reduce the unit cost compared to the previous fiscal year. A great achievement, considering the low capacity growth and negative effects from the aforementioned operational disruptions and challenges.
We have weathered the crisis well. Our liquidity position has never been at stake and cash level always remained around EUR 1.5 billion. The crisis has, however, impacted the balance sheet ratios of KLM and it will take years to recover.

In order to improve our balance sheet position, the focus will remain on cash generation.
During fiscal year 2010/11, part of the debt incurred throughout the crisis could already be repaid due to the fact that our operating cash flow was higher than our investing cash flow. Cash generation was limited, though, affected by the airspace closure and the disproportionately heavy penalties from anti-trust violation in the Cargo market. We have continued to invest in new aircraft, fleet modifications and software.

As we did in previous years, we continued to seize and strengthen synergies inside and outside the KLM Group. Further synergies within the KLM Group were achieved together with Martinair, which will focus on full-freighter activities, and transavia.com, which will focus primarily on its position in the Dutch domestic market. Both companies also moved to a new, shared head office. Outside the KLM Group, we benefited from our partner Air France and our strong strategic partnerships with Delta Air Lines, Alitalia, Kenya Airways and China Southern Airlines, as well as from our cooperation with a growing number of partners in the SkyTeam alliance.

We are on the right track, but it would be good to have the wind in our favour. We have what it takes to pursue this upward trend and improve our financial position. That applies to KLM, but also for the shared objectives we have formulated within the AIR FRANCE KLM Group in our strategic plan Embark, which will guide us through the coming years. Our main priority is to return to pre-crisis performance levels. That means we must strike a good balance between income and investments. To achieve this, we will have to cut cost further, increase productivity, and further reduce our debt. This is no easy task, but we can do it. It will be especially challenging during the coming period, with capacity levels – our own and those of others – rising throughout the market as post-crisis recovery continues. This will, for the time being, present a major challenge in terms of yield and revenue management.

transavia.com and Martinair

Our wholly-owned subsidiaries transavia.com and Martinair also felt the impact of post-crisis fallout in combination with major disruptions. transavia.com incurred a loss for the first time in more than 30 consecutive years of profit and responded by improving its competitive position through a refocused positioning and introducing programs leading to a structurally lower unit cost.

In consultation with KLM, it was decided that Martinair would become the full-freighter operator in the KLM Group. As a result Martinair will phase out and stop operating Passenger flights effective November 2011.

The expertise of Martinair to operate the full-freighter fleet flexibly and to respond to opportunities that present themselves worldwide will further strengthen the Air France KLM Cargo Business.

Network and alliances

We actively restored our network during the fiscal year. Frequencies that had been adjusted and often trimmed during the crisis were restored and new, potentially profitable opportunities were seized. In view of rapid growth in Asia and the growing importance of this continent, we are focusing on strategic growth in China. During the second half of the fiscal year we were forced to make temporary adjustments in our network due to the political unrest in parts of the world and the earthquake in Japan and the nuclear consequences.

In 2011/12, we will introduce the adapted '7-Wave New Balance' operational setup, which will see, among other things, the addition of 22 weekly frequencies within Europe and a better spread of European and intercontinental flights across the day. The preparations for this complicated adjustment were made during the fiscal year 2010/11. Growth in China was pursued in this fiscal year with the addition of the new destination Hangzhou and the launch of service to Xiamen, KLM's seventh destination in China. In the spring of 2011, we have initiated operations to Miami and Aalborg.

Global alliances are the key to survival in the air transport industry. Our bond with Air France, but also our close ties with our strategic partners Delta Air Lines, Alitalia, Kenya Airways, China Southern Airlines and other SkyTeam partners, were of immense benefit to us during the crisis. We will definitely be pursuing and strengthening our strategy of global cooperation.

SkyTeam, that celebrated its 10th anniversary in June 2010, is increasingly positioning itself as one of the trend-setting alliances in the sector. In the fiscal year, Saudi Arabian Airlines, Middle East Airlines–Air Liban, Aerolíneas Argentinas, Garuda Indonesia, China Eastern Airlines, Shanghai Airlines (as part of China Eastern Airlines) and China Airlines (Taiwan) all signed agreements to join SkyTeam, and the accession procedures for TAROM and Vietnam Airlines were rounded off.

Corporate Social Responsibility

KLM honoured its commitment to Corporate Social Responsibility (CSR) throughout the crisis. We continued with our CO_2 reduction program through already established operational initiatives such as the recycling of aircraft components, but advances were also made in areas such as the fuel awareness program for cockpit crew.

We pressed on with research into the potential of biofuel. In 2009 KLM operated the first ever Passenger test flight partly powered by biofuel and has continued to pursue innovative developments since then. In the fiscal year, a study into four potential feedstock's for biokerosene was initiated by SkyNRG, a company KLM co-founded, which is advised on sustainability issues by the Netherlands World Wide Fund for Nature. Projects such as these make it clear that we must pursue innovation and novel initiatives together with partners in our supply chain, including public authorities, suppliers and non-governmental organisations.

In December 2010, significant steps were made towards a Single European Sky, when six EU member states agreed on a legally binding agreement enabling the air traffic control authorities of France, Germany, the Benelux and Switzerland to operate in partnership. In addition, targets were set to curb flight delays and improve flight efficiency, thus reducing fuel consumption.

Elsewhere, an important milestone was reached in the dialogue with stakeholders at the Alders Table. On August 18, 2010 an agreement was sealed to start experimenting with the implementation and enforcement of new noise nuisance norms for Amsterdam Airport Schiphol (AAS). The key objective of the new system is to direct each take-off and landing to the runway that causes the least noise nuisance, subject to safety and weather conditions. This approach takes into account AAS mainport objectives, with the endorsement of local residents. For KLM and AAS, this makes further growth possible without causing greater noise nuisance in the area surrounding the airport. The agreement was the outcome of two years of consultation between all parties involved.

KLM has also pursued its drive to benefit the environment on a smaller scale, within the organisation. Examples from the year under review include the up cycling of women's uniforms (transforming them into new sustainable products), sustainable catering, and weight-reduction measures on board of the aircraft.

Various local initiatives were also undertaken. For instance KLM signed a memorandum of intent titled 'Sustainable Amstelveen' during the Amstelveen Regional Climate Summit and KLM Catering Services donated 1,200 food hampers to the Amsterdam Food Bank.

For the sixth consecutive year, the sustainability drive of KLM and Air France was acknowledged with top ranking in the Dow Jones Sustainability Index in the Airlines category. We were also rated leader in the supersector 'Travel & Leisure' for the second time.

Qualitative growth for the mainport

"Qualitative growth of our global transport network is essential" – this statement from the Dutch government's coalition accord of October 2010 has our wholehearted agreement. Effective consultation with the government and agreement on key principles is crucial to KLM's continued operational success.

"Work and wellbeing in the Netherlands depend more than ever on the country's competitive strength in a fast-changing world", is another quote from that same coalition accord. One of the key objectives of the government's White Paper on Air Transport (Luchtvaartnota) is a competitive and sustainable air transport industry for a strong economy. The cornerstones of this ambition are network quality and a sustainable and competitive air transport industry. All of which is reflected in the hub system of KLM and its partners.

The coalition agreement, the Alders agreement, the White Paper on Air Transport and various other policy objectives together offer a robust foundation for the required network quality. However, further steps must be taken at an international level to safeguard the competitive position of the Netherlands.

A level playing field implies that the same rules apply for all participants. This should extend to areas such as the Emission Trading Scheme (ETS), the Single European Sky (SES), taxation, but also to an international norm for security procedures.

Non-uniform security regulations are confusing to passengers, create huge discrepancies in terms of cost and undermine fair competition. Besides, we are constantly confronted with the impact of the ruling in connection with Regulation 261/2004 on compensation to passengers in case of flight delays.

The interest of our mainport remains a key priority. Our mainport is dependent on the partnership between KLM and AAS, which is why the proposed amendment of AAS's tariff system prompted serious debate during the fiscal year.
A study jointly commissioned by KLM and AAS, conducted towards the end of 2010/11, proved beneficial in several ways. The main conclusion of the report is that the successful business model of the mainport can only be continued if all parties jointly make use of opportunities and encounter threats. The report also concludes that modifying the fee structure should not be considered without caution, so that the economic and social value for The Netherlands will, also in the long term, be assured. Cooperation between KLM and AAS is an essential ingredient in retaining and strengthening AAS's mainport status.

Prospects

The economic crisis may be over, but we must and will remain alert, flexible and innovative. Political unrest, uncertainties surrounding world economic growth and highly volatile fuel prices as examples, show that we are doing business in a new world. Together with Air France, we have formulated a strategy called "Embark" that will help us address the ongoing changes we face in the years ahead. This strategy revolves around five spearheads: customers, operation, staff, development and finance. These are the areas in which we will develop policy ensuring recovery, flexibility and further profitable growth.

I look forward to a year in hopefully somewhat calmer waters. A year in which we find room for growth. We are well positioned, thanks to our cooperation with Air France and other partners. I have faith in our organisation, our people and our strategy. Together we will succeed in this new world we share.

Peter Hartman
President and CEO, KLM

Financial Performance

General comments

In fiscal year 2010/11, we managed to turn the 2009/10 loss from current operations into a profit from current operations. This despite the aforementioned operational disruptions and challenges. Yield improvements and increase of load factors, through capacity optimisation, were the key factors that led to the substantial improvement of income from current operations. Rising fuel prices towards the end of the fiscal year put pressure on results.

Revenues and cost development

In millions of Euros	2010/11	2009/10	Variance %
Revenues	8,651	7,469	16
External expenses*	(5,641)	(5,072)	11
Employee compensation and benefit expenses*	(2,153)	(2,197)	(2)
Depreciation and amortisation	(539)	(546)	(1)
Other income and expenses	65	61	
Total expenses	(8,268)	(7,754)	7
Income from current operations	**383**	**(285)**	

* For comparison purposes EUR 47 million has been reclassified from external expenses to employee compensation and benefit expenses in 2009/10.

Revenues

Revenues were up by 16%, to EUR 8,651 million (including a 4.4% favorable exchange rate effect). This reflects an increase in capacity of 1.3%, an increased load factor of 1.4% point and 15% higher yields.

Passenger transport revenues were at EUR 5,702 million, 17% higher than last year, with an increase of capacity, measured in available seat kilometers, of 2.1%.

Revenue per Passenger kilometer (yield) improved by 13.8% (+ 9.8% at constant exchange rates), while load factor improved to 83.6% (+ 1.4% point).

Cargo transport revenues strongly increased with 33% to EUR 1,695 million, with a capacity increase of only 1.8%. Revenue per ton-kilometer (yield) increased by 28.6% (+ 22.0% at constant exchange rates), whilst load factor improved 1.3% point versus last year to 73.6%.

Transport revenues of the Leisure Business decreased by 3.3% to EUR 752 million. Revenues from maintenance for third parties and the work performed for Air France amounted to EUR 446 million, representing a decrease of 4.6%.

Expenses

Expenses increased by 7% to EUR 8,268 million (2.7% at constant exchange rates).

Aircraft fuel cost increased by 22% to EUR 2,388 million. The average jet fuel price was 12% higher than last year, whilst the USD was 7.1% stronger.

Excluding fuel, expenses increased by 1.4% with a capacity increase measured in "equivalent" seat kilometers of 1.3%. At constant exchange rates, unit cost were 0.4% lower than last year.

Employee cost decreased by 2% to EUR 2,153 million, mainly due to a reduction in employees. The average workforce employed by the KLM Group was 31,716 FTE's (2009/10: 32,577 FTE's).

Income from current operations

In 2010/11, the profit from current operations amounted to EUR 383 million (2009/10: EUR 285 million loss) and includes an estimated loss due to the airspace closure of EUR 63 million.

The results of the Passenger Business improved significantly by the increase of 15.7% in Passenger revenues per available seat kilometer, partly offset by higher fuel cost and increased operating cost. The income from current operations was EUR 287 million, compared to a loss of EUR 138 million in 2009/10.
Cargo Business turnaround led to an operating income of EUR 111 million (2009/10: EUR 153 million loss). Demand for Cargo traffic increased sharply during 2010/11 resulting in a 30.9% increase of revenue per available ton-kilometer.

Maintenance activities accounted for EUR 34 million of operating income. The leisure activities (including transavia.com and Martinair leisure) realised a loss of EUR 39 million.

In millions of Euros	**2010/11**	**2009/10**
(Loss)/Income from current operations	383	(285)
Other non-current income and expenses	(78)	(91)
Net cost of financial debt	(120)	(98)
Other financial income and expenses	(39)	(16)
Pre-tax income	146	(490)
Income tax benefit /(expenses)	(1)	114
Share of results of equity shareholdings	2	(7)
Profit/(loss) for the year	**147**	**(383)**

The net profit for the year was EUR 147 million (2009/10: EUR 383 million loss).

Other non-current income and expenses of EUR 78 million mainly relate to a EUR 73 million increase of the provision for Cargo anti-trust investigations in Europe and South Africa and civil actions in Canada, EUR 10 million for Passenger service recovery cost mainly relating to the airspace closure in April 2010, partly off set by EUR 9 million result of sale of assets mainly due to the cumulative exchange differences relating to the partial disposal of a holding company.

The net cost of financial debt increased due to less interest income on cash investments and higher interest cost on the outstanding debt.

Other financial income and expenses include negative revaluation differences on the perpetual loans and fuel derivatives that do not qualify for hedge accounting (the variances in the time value of the hedges).

The result from equity shareholdings reflects the KLM share of the results of Kenya Airways Ltd. and Transavia France.

Cash flow statement

In millions of Euros	2010/11	2009/10
Cash flow from operating activities	609	(259)
Cash flow from investment activities	(434)	(481)
(Increase) / Decrease in short-term deposits and commercial paper	34	250
Cash flow from financing activities	(62)	456
Other	(3)	2
Changes in cash and cash equivalents	**144**	**(32)**

The operating cash flow was EUR 609 million positive, including a positive working capital movement of EUR 215 million.

Investing cash flow amounted to EUR 434 million, of which EUR 378 million for fleet renewal and modifications. Next to prepayments for future fleet, one Boeing 777-300ER, one Airbus A330-200, three Boeing 737-800, four Boeing 737-700 and four Embraer 190 aircraft entered the fleet in 2010/11.

Fleet related investments amounted to EUR 204 million, including EUR 191 million for capitalised fleet maintenance. This includes also the modification of the entire Boeing 747-400 fleet with new seats and equipped with a new inflight entertainment system in Economy class. Other capital expenditure amounted to EUR 83 million (including EUR 55 million for capitalised software) whilst disposal of aircraft led to an income of EUR 231 million and mainly relate to aircraft sale and leaseback operations.

The financing cash flow was EUR 62 million negative. New financing include financing of the new fleet (EUR 209 million), two partly government guaranteed loans (EUR 149 million), of which one unsecured and one mortgage on real estate and equipment loans (EUR 11 million). Redemption of existing loans and other movements amount to EUR 431 million.

Equity increased to EUR 2,683 million at March 31, 2011 (EUR 2,240 million per March 31, 2010) as a result of the net result for the fiscal year 2010/11 and the large 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 decreased from 118% to 109%.

Overview of significant KLM participating interests

As at March 31, 2011

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	
		% Change		% Change	%	%
In millions	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
Route areas						
Europe & North Africa	12,118	1.8	15,563	(2.3)	77.9	74.7
North America	15,761	1.7	18,398	1.2	85.7	85.3
Central and South America	8,123	4.8	9,349	2.1	86.9	84.6
Asia	23,446	7.8	27,148	6.8	86.4	85.5
Africa	10,008	0.3	12,305	0.5	81.3	81.5
Middle East	4,323	3.0	5,552	(1.4)	77.9	74.5
Caribbean and Indian Ocean	3,194	4.9	3,749	4.5	85.2	84.8
Total	**76,974**	**3.8**	**92,064**	**2.1**	**83.6**	**82.2**

Cargo	Traffic		Capacity		Load factor	
		% Change		% Change	%	%
In million cargo ton-km	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
Route areas						
Europe & North Africa	21	(14.0)	252	3.0	8.4	10.1
North America	914	(0.1)	1,349	(4.5)	67.7	64.8
Central and South America	1,575	5.6	2,016	5.0	78.2	77.8
Asia	2,698	3.0	3,336	1.7	80.9	79.8
Africa	1,048	5.8	1,373	2.5	76.3	74.0
Middle East	202	9.7	326	13.2	62.0	64.0
Caribbean and Indian Ocean	75	(1.0)	223	(3.2)	33.6	32.9
Total	**6,533**	**3.7**	**8,874**	**1.8**	**73.6**	**72.3**

Commercial developments

Passenger Business

The recovery in Passenger Business initiated in the last months of the previous fiscal year was hampered by major external disruptions in fiscal 2010/11. It began with the eruption of the Icelandic volcano Eyjafjallajökull late March 2010. The ash cloud ensuing from the eruption had far-reaching consequences in April and May, exacerbated by the European authorities' decision to ground all air traffic for five days. Moreover, several periods of extreme winter weather in late 2010 and early 2011 led to major operational upheaval. Later, towards the end of the fiscal year, in February and March 2011, there was unrest in the Middle East and North Africa and in addition the earthquake in Japan and the nucleair consequences.

However, despite all these factors, the upward trend was maintained and operating income from Passenger Business strongly improved in fiscal 2010/11 compared to 2009/10, which was seriously affected by the global financial crisis.

Despite these challenges, load factor rose to 83.6% thanks to the strong drive towards recovery and flexible deployment of capacity during and after the crisis. Demand for Business Class seats recovered, but definitely not to pre-crisis levels. Consequently, yield remained under pressure. The number of Passenger kilometers was up 3.8% from 74,129 to 76,974 million. With capacity up 2.1%, load factor increased to 83.6%, which amounts to an increase of 1.4% points compared with 2009/10.

Network

In 2010/11, KLM and its partners served 152 destinations from Schiphol, 73 of which were long-haul and 79 medium-haul. Improvements were primarily visible in the recovery of frequencies that had been adjusted downwards during the crisis. New opportunities were seized, increasing frequencies to Mexico, Sao Paulo, San Francisco and Osaka, and achieving strategic growth in China by adding Hangzhou and Xiamen to the network. Services were started to Kigali (Rwanda), with a stopover in Entebbe (Uganda) and the frequency to Panama was increased from five to six flights a week and to Tokyo from seven to ten. The network was further extended with the destinations Aalborg and Miami.

Product development

Important steps were taken in the area of customer service in fiscal year 2010/11. Following the improvements to the MD-11 cabin previous fiscal year, the modification of the entire Boeing 747-400 fleet was completed, with new seats and equipped with a new inflight entertainment system in Economy Class.

The catering in World Business Class was given a new impulse with dishes created by Dutch top chefs. KLM also introduced new tableware designed by a Dutch designer in both World Business Class and Europe Business Class at the start of the summer schedule. A-la-carte catering was also introduced for Economy Class passengers, enabling them to choose their own meals. Wherever possible, KLM makes use of sustainable fish, organic products and meat with the *Beter Leven* (Better Life) seal of approval.

Dutch fashion designers have designed comfort bags exclusively for KLM's World Business Class. Passengers traveling on intercontinental flights will be given these bags.

KLM, AAS and suppliers have taken important steps with the ambitious 70 Million Bags program. This far-reaching program is designed to ensure efficient processing of the growing volume of baggage. Within a few years, there should be sufficient capacity to process 70 million items of baggage a year, with fewer hitches, in less time and at a lower cost per item. Moreover, the physical conditions for baggage handlers will improve with the more robust system, which will be better able to absorb peaks and disruptions.

During the fiscal year, there was a strong focus on improving electronic services. The KLM.com website was revamped, structure and navigation were improved, and extra functions were added. New website technology also enables KLM to precisely measure what customers need, and to use this information in optimising service.

Almost simultaneously, KLM launched its new mobile website, which makes it easier for passengers to access information, make bookings and check in using their mobile phones. Passengers with internet access can now also receive their boarding pass as a text message or email on their mobile phone. The number of airports where the e-boarding pass is accepted is increasing all the time.

KLM also offers passengers self-service facilities at a growing number of airports. The ambition is to make self-service check-in available at all outstations.

Passengers can also use these kiosks to access other services, including the purchase of an Economy Comfort seat or an upgrade to Business Class.
In 2010 KLM launched an application that enables smart phone users to book tickets directly from these devices. By early March 2011, this app had already been downloaded 100,000 times.

A new development is the use of social media to enter into a dialogue with passengers, to run campaigns, and to offer services. KLM took its first steps on twitter at the end of 2009 and opened its facebook account early 2010. KLM's use of social media really accelerated during the ash cloud in April 2010. During major disruptions, twitter and facebook proved to be welcome additions to the existing communication channels in helping stranded passengers. Since then KLM invested heavily in social media, with developments including a social media hub that maintains contact with fans and followers seven days a week, informing, facilitating and inspiring them, and entering into dialogue with them. Within a year, both channels had more than 180,000 followers and this number is growing constantly.

Our commitment to innovation is also demonstrated by teaming up with Space Experience Curaçao, which aims to establish a base for space travel in 2014. This wonderful project is wholly in keeping with KLM's pioneering tradition.

Operational integrity

Safety remains the top priority for KLM's operations. Other key spearheads are operational integrity and cost control. The aim is to achieve responsible growth, while focusing on punctuality and customer needs.

Fuel efficiency is a key issue at KLM, not only because of its cost benefits but also in terms of corporate social responsibility. Good results were again achieved in terms of fuel and weight savings and further reduction of CO_2 emissions. In 2010, the fuel awareness program for cockpit crew was translated into a reference manual for pilots, containing suggestions and mathematical examples on how to fly even more economically.

On-time performance also generates savings, because better arrival and departure punctuality will reduce cost. Improved arrival punctuality is important for transferring passengers and baggage, resulting in increased customer satisfaction and lower recovery cost.

Improved flight punctuality is the result of intensive cooperation between all the links in the operational chain. The sharing of operational information plays an essential role in this. This Collaborative Decision Making (CDM) initially tested on a select number of flights. Focusing on these flights also had a positive impact on other flights. This approach will be pursued in the forthcoming fiscal year.

Cargo Business

During fiscal year 2010/11, KLM Cargo succeeded in recovering from the crisis. Over the year KLM Cargo's traffic rose by 3.7%. While recovery was fuelled by improved market conditions, restructuring the Cargo organisation also played a key role. In response to declining demand for airfreight services the network was optimised in cooperation with Air France Cargo and Martinair Cargo. In addition, the workforce was streamlined through natural attrition and internal mobility. The drive to optimally utilise Cargo capacity aboard our Passenger aircraft, initiated during the crisis, also began to bear fruit in the fiscal year. By flexibly deploying the full freighters, Cargo supplemented capacity aboard in global network of high-frequency Passenger services.

The commercial integration of Air France KLM Cargo and Martinair Cargo began to take shape in 2010/11. The emphasis here was on capacity and integrated network management. The latter went hand in hand with the co-location of offices worldwide, which generated further synergies and cost savings. Partly as a result of this, Cargo contributed substantially to KLM Group results.

Focus on security was further intensified this year, owing partly to a series of incidents affecting other Cargo carriers and partly to the introduction of new EU legislation governing customs authorities. Stricter security regulations had an impact on Cargo's freight and documentation processes. In the ground operation much effort was put in creating more awareness on safety and security procedures.

In fiscal year 2010/11, Cargo introduced various security and quality innovations. Major benefits will be achieved through more efficient processes and cooperation with other parties in the chain. One example is the e-freight@NL project, in which KLM Cargo is taking the initiative, ensuring that AAS leads the way in implementing e-freight.

Engineering & Maintenance Business

Engineering & Maintenance achieved good results in this fiscal year and improved its operating income for the fourth year on a row. It also succeeded in lowering the non-performance cost. Decreased fleet utilisation during the crisis and in the fiscal year made it possible for Engineering & Maintenance to implement modifications at an accelerated pace, thus achieving product improvements.

Examples include the completion of the Economy Comfort reconfiguration and installation of new inflight entertainment systems in Economy Class aboard KLM's Boeing 747-400 fleet.

Improved operational performance resulted in lower non performance cost. The quality of maintenance on narrow- and wide-body aircraft was permanently improved. Engineering & Maintenance is striving to streamline its production processes, trimming unnecessary steps and activities. This has resulted in an organisation that is continually improving and becoming more efficient.

transavia.com

As a wholly-owned KLM subsidiary, transavia.com operates as the leisure and low-cost, low-fare carrier of the KLM Group, operating charter and scheduled services within Europe and to North Africa. transavia.com also holds a 40% stake in Transavia France.

Also transavia.com was affected by various disruptions during the fiscal year and operates in an increasingly competitive environment. The carrier incurred a net loss for the first time in many years. In view of the results lagging behind for too long, it was decided in September 2010 to suspend flights operated from Denmark after a two-year period. transavia.com carried 5.0 million passengers in 2010/11. transavia.com saw a marked increase in bookings to wintersport destinations during the winter season. Intensified cooperation within the Group generated new synergies between transavia.com, Martinair and KLM.

The sharpened positioning is refocused to benefit optimally from transavia.com's distinctive 'low fare with care' approach through a comprehensive and transparent proposition. The changed proposition is key: offering a seat with the typical transavia.com service for a competitive basic price, and the freedom to select a wide range of additional paid services. In support of its refocused positioning transavia.com has for instance – in cooperation with KLM – increased the flight frequency for several destinations and included new destinations.

The strategy targets growth in the Dutch home market, particularly from the Eindhoven and Rotterdam regions. transavia.com will focus on its position primarily in the Dutch market, but will also be keeping an eye out for growth opportunities in other regions.

Martinair

From the end of 2011, Martinair will focus solely on Cargo operations, bringing to an end 53 years of Passenger services. This will serve to further optimise cooperation within the KLM Group and contribute towards achieving further synergy gains. Effective February 2011, the carrier's cabin crew transferred to KLM. Some entered active service at KLM directly and others will continue to fly for Martinair until the end of October 2011.
Martinair's full-freighter operations effectively complement Air France KLM Cargo's extensive belly and combi Cargo network.

Because Martinair Cargo offers both scheduled services and ad-hoc charters, it can respond swiftly and flexibly to shifting market demand. This flexibility coupled with far-reaching synergies generated through cooperation with AIR FRANCE KLM served to expedite Martinair Cargo's financial recovery in 2010/11.

Staff

In fiscal year 2010/11, the policy to 'keep the family together', which was initiated at the start of the economic crisis, was pursued. The focus was on preventing involuntary redundancies and filling vacancies with employees from within the KLM Group. Once again, office staff was called upon to lend a helping hand at operational departments if their own work allowed this, thereby reducing the need to hire temporary staff. Through intensive cooperation with other divisions in this Solidarity@klm project, Ground Services managed to achieve savings of around EUR 1.8 million.
During the course of this project, around 1,000 volunteers from across KLM assisted Ground Services by doing a wide array of jobs. Also Martinair and transavia.com colleagues joined in this effort. For example with KLM pilots flying within the transavia.com operation. KLM Solidarity@klm did not only generate savings, it also brought about a greater understanding of other people's jobs.

Keeping the family together does not only extend to KLM, but also to the KLM Group as a whole. Late September 2010, Martinair announced that it would suspend Passenger services in the fall of 2011. Martinair cabin crew who were made redundant by this measure, joined KLM cabin crew in February 2011. Between February and November 2011, former Martinair cabin crew will be seconded to Martinair to ensure operation.

Sustained availability is the focal point of employee policy. Mobility contributes to the continued health and contentment of employees in the working environment. To stimulate mobility - change of jobs - Ground Services and Cargo initiated a trial involving acknowledgment of competencies gained in the operational environment. This official procedure acknowledges the working experience of staff by awarding them (certificates or diploma). Sustained availability is also incorporated in the Safety@Work program that Ground Services launched last year, which aims to achieve zero damage and zero incidents.

Safety culture

KLM aims to achieve the highest level of safety in the air transport industry. To this end, a renewed KLM Safety program was launched in 2010/11, with a view to reducing the number of incidents by improving safety culture. A Safety Champion was appointed at every division to lead the safety drive as an ambassador and initiator.

Various initiatives were developed in 2010/11, including the Safety Award, which is presented bi-monthly. There is now also an annual Safety Day and during the fiscal year a KLM-wide Safety Culture Survey was conducted to gain insight into the status of safety culture within the Company.

A key aspect of the safety program is the concept of 'Just Culture'. This aims to offer a safe environment in which employees are stimulated to report unsafe or undesirable circumstances.

To achieve its objectives, KLM has developed a safety strategy that strikes a balance between people, hardware and organisational processes. Future efforts will see KLM striving to ensure that various safety initiatives are implemented in a uniform manner within different divisions.

Fleet development

The KLM Group pursued her fleet development program during and after the economic crisis to ensure access to modern, efficient and economical aircraft. This contributes to the quality of KLM's service provision to passengers and ensures cost savings as well as lower CO_2 emissions.

In the fiscal year 2010/11, KLM Group added 13 new aircraft to its fleet, replacing older aircraft. KLM took delivery of one Boeing 777-300ER, one Airbus A330-200, three Boeing 737-800s, four Boeing 737-700s, and four Embraer E190s. The Boeing 777-300ER and Airbus A330-200 are used for growth, the Boeing 737-700s and Boeing 737-800s replaced our Boeing 737-300s and 400s, while the Embraers replaced part of the Fokker fleet at KLM Cityhopper.

Fleet composition KLM Group

		Included in balance sheet				
		Average age in years *	Owned **	Finance leases	Operating leases ***	Total
Consolidated fleet as at March 31, 2011						
Boeing 747-400 PAX	wide body	21.0	1		5	6
Boeing 747-400 Combi	wide body	16.9	12	4		16
Boeing 747-400 ER Freighter	wide body	7.7		3	1	4
Boeing 747-400 BC Freighter	wide body	-			1	1
Boeing 777-300 ER	wide body	2.0		5		5
Boeing 777-200 ER	wide body	6.5		6	9	15
MD-11	wide body	16.0	8	1	1	10
MD-11 Freighter	wide body	15.1	5		2	7
Boeing 767-300 ER	wide body	-			4	4
Airbus A330-200	wide body	5.1		6	5	11
Boeing 737-900	narrow body	8.2		2	3	5
Boeing 737-800	narrow body	10.2	8	11	22	41
Boeing 737-700	narrow body	4.6		11	9	20
Boeing 737-400	narrow body	19.4	6		2	8
Boeing 737-300	narrow body	19.6	3			3
Embraer 190	regional	1.4		13	4	17
Fokker 100	regional	16.9	5			5
Fokker 70	regional	15.3	23	3		26
Training aircraft			7			7
Total consolidated fleet		**11.4**	**78**	**65**	**68**	**211**

* Excluding operating leases and training aircraft. The average age including operating leases is 10.4 years
** Excluding 4 Fokker 50 not in operation as at March 31, 2011
*** Excluding 3 B747-400 BC Freighter not in operation as at March 31, 2011, of which 2 are subleased

Risks and risk management

General

The aviation industry is vulnerable through world wide economic developments. The airline industry can be characterised as being a cyclical, capital- and labour intensive business area, facing a high level of fixed costs and operating with relatively small margins. In addition, the airline industry has to deal with a strong fluctuating oil price and an increasing number of laws and regulations, for instance in the areas of environment, (flight) security and passengers rights.

This paragraph focuses on the risks, which KLM Group is facing, including the management and monitoring of these risks. A distinction is made between strategic, operational and financial risks. Strategic risks are related to KLM's strategic choices, operational risks are directly related to operational activities and financial risks are related to the financial and currency developments. These financial risks are elaborated in the section under "Financial risk management" in the notes attached to the consolidated financial statements.

Overall risks of the AIR FRANCE KLM Group are explained in relevant parts of the AIR FRANCE KLM financial disclosure reporting. These parts have a strong connection with this section, in which basically, the most important KLM risks are discussed. These risks can have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

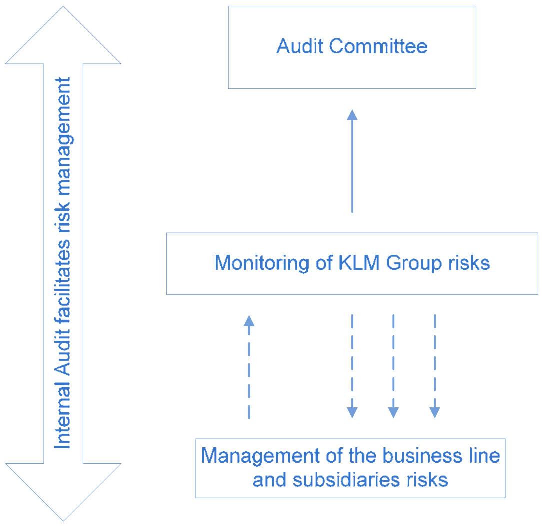
Furthermore AIR FRANCE KLM considers it crucial to have a balance between the interests of all stakeholders in the Company. KLM is of the opinion that matters like business ethics, risk management and transparency are essential parts in bringing about this balance. The business ethics are embedded in the Business Principles and the Code of Conduct. Together with other codes, like a Whistle Blower Policy, this Code of Conduct is published on our internal website.

Risk management process

KLM Group is exposed to the general risks associated with air transport and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operating risk mapping processes have been established by all the relevant entities, supervised by internal audit. These risk maps are regularly updated and consolidated for KLM Group.

Every three months, KLM Group entities update the scope of its major operating and financial risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, the senior executives concerned at the level of the Board of Managing Directors and/or management are responsible for reviewing the measures implemented to control these risks. On a quarterly basis, a presentation on the most significant operating and financial risks is made by internal audit to the KLM Executive Committee and the Audit Committee.

The Group Strategic Framework determines the strategic risks (competition, economic growth, etc.) as well as the related action plans within the context of its work to establish the Group's strategy. These risks and action plans are the subject of a presentation and discussion during the yearly meeting of the Board of Managing Directors devoted to the Group's strategy.



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

Monitoring

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 continuing attention of 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.

A yearly internal Document of Representation ("DoR") is used to facilitate in the internal accountability process. In the DoR, business management confirms to the Board of Managing Directors, the reliability of the figures they have submitted and of control procedures applied. At the same time, business management acknowledges and certifies that it is responsible:

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

KLM fraud policy

The KLM Board of Managing Directors adopted a new fraud policy which better clarifies and aligns the already existing fraud prevention and detection procedures and responsibilities within the organisation and structures the cooperation between KLM Internal Audit and KLM Security Services. With this new fraud policy, KLM takes further steps in mitigating the risk of intentional act designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

Risk factors and their management

Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months. Consequently, the quarterly operating results within a fiscal year are difficult to compare.

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis such as being experienced currently are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions. The Group monitors demand closely so as to adjust capacity while reinforcing the flexibility of the fleet.

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

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

The Group has also developed emergency plans and procedures enabling it to adapt to changing environments to ensure that it can respond effectively to different situations, such as epidemic, geopolitical or other types of events that can occur.

The aim of these plans is the effective protection of passengers and staff, operational and service continuity and the preservation of the long-term viability of the Group's businesses. These plans are regularly evaluated to take into account the lessons learnt from events experienced.

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

Air transport activities remain highly regulated, particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (such as: standards on safety, aircraft noise, CO_2 emissions, airport access and the allocation of time slots). Within this context, the community institutions notably decide on the regulations which may be restrictive for airlines and are liable to have a significant organisational and/or financial impact. The European Commission has published its White Paper entitled *Roadmap to a Single European Transport Area* which emphasises need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development.

In terms of its content, the main positive measure is the Commission's commitment to developing bio-fuels as well as the implementation of the Single European Sky. The White Paper also, however, envisages introducing a tax on air transportation, levying VAT on international flights, stepping up initiatives in the passenger rights area, pursuing a pro-active policy on rail development and reviewing the regulation governing the allocation of time slots in the European platforms. These initiatives could increase the Group's operating expenses or reduce its revenues. KLM, in close cooperation with Air France, actively defends its positions with the Dutch government and European institutions directly or through industry bodies such as the International Air Transport Association (IATA) and the Association of European Airlines (AEA) regarding both changes in European and national regulations and a reasonable and balanced allocation of traffic rights to non-European airlines.

On a national level the, by the Dutch government presented air transport policy (the "Luchtvaartnota") in which the mainport function of AAS and the essential role of the network of KLM and partners are at the core.

For KLM it is important to monitor that implementation of these laws is not leading to a distortion of the level playing field in the airline industry.

Risks of loss of flight slots

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

The European Commission did not take the initiative enabling the suspension to be extended to the winter 2009 and the summer 2010 seasons. The European coordinators, however, will allow airlines to retain their grandfather rights to slots unused following the closure of European airspace linked to the eruption of the Icelandic volcano.

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

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

Risks linked to the consumer compensation regulations

Passenger rights in the European Union are defined by regulations, established in 2005, which apply to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union. The European regulations establish common rules for compensation, uniform enforcement and assistance on denied boarding or substantial delay in embarkation, flight cancellation or class downgrading. For KLM it is important that a level playing field in the national enforcement practices is secured.

Risks relating to the environment

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

The Dutch "Aviation Act" has a separate chapter relating to AAS including environmental regulations covering emissions, noise and security.
The environmental capacity for the short-term and medium long-term (until 2020) of AAS has been formally approved of in 2008. A two-year experiment with a new noise regulation system (with the aim to offer more capacity, flexibility and protection) started on November 1, 2010.

In December 2006, the European Commission proposed to include air transportation in the Emissions Trading Scheme (EU ETS). The draft directive was adopted by the European Parliament in July 2008 and its application is planned as of January 2012.
The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual quota or allotment of CO_2 emission allowances. Each Member State then, in turn, allocates a specific quantity of emission allowances to each relevant company. At the end of every year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances (exchangeable quotas). Furthermore, they can earn credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs). For the aviation sector, the reference in terms of CO_2 emissions will be the average emissions produced by the industry as a whole between 2004 and 2006. The breakdown between operators will be based, pro-rata, on revenue ton-kilometers (RTK) produced in 2010. On December 31, 2010, for the first time, air transport operators were therefore required to declare their CO_2 emissions together with their traffic data (revenue ton-kilometers) for 2010.

The European directive applies to all European and non-European airlines flying into and out of Europe, which has raised numerous objections from non-European countries and their airlines. A first legal challenge was filed in the UK at the end of 2009.
The United Nations climate change conferences held in Copenhagen in December 2009 followed by Cancun in 2010 did not result in the expected world-wide agreement. However, consistent with the proposals for an overall sector approach supported by the air transport industry, a global response looks to be taking shape under the aegis of the United Nations with the adoption of an International Civil Aviation Organisation resolution during its meeting in October 2010.

KLM is constantly seeking ways to reduce its fuel consumption and carbon emissions:

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

KLM also acts with the relevant national, European and international authorities and bodies and participates in the work of the airline industry (AEA, ICAO, IATA) to promote effective solutions for the environment which are also balanced in terms of competition.

Risks linked to the oil price

The fuel bill is the largest cost item for airlines. The volatility in the oil price thus represents a risk for the air transport industry. In effect, a sharp increase in the oil price, such as seen since early 2011, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies.
Lastly, for the European airlines, any appreciation in the US dollar relative to the euro also results in an increased fuel bill.
AIR FRANCE KLM Group has a policy in place to manage this risk that is set out in the section under “Financial risk management” in the notes attached to the consolidated financial statements.
KLM also makes a consistent effort to reduce its fuel consumption and is developing a series of measures and innovations enabling fuel consumption to be optimised. KLM also supports research to develop alternative solutions such as bio-fuels.

Operating risks

Safety and security

Safety and Security are basic elements of KLM operations and a vital source for customer satisfaction. KLM is committed to continuously improve the entire safety of her operations. This is achieved by building upon the best safety and security practices through a management and working environment of continuous learning and improvement.

Airline accident risk

Air transport is heavily regulated by a range of regulatory procedures issued by both national and international civil aviation authorities. The required compliance with these regulations is governed through an Air Operator Certificate (AOC), awarded to KLM for an unlimited period.

Although accident risk is inherent to air transport, each AOC is required to adopt an Accident Prevention and Flight Safety program (APFS). The civil aviation authority carries out a series of checks on a continuous basis covering these requirements and associated quality system.

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

Operational integrity

Operational integrity is one of the essential conditions for success in the aviation industry. Airline Operations are highly sensitive to disruptions. Delays lead to loss of quality and are costly. KLM has taken a number of initiatives to safeguard its operational integrity. The Operations Control Centre, where all network-related decisions are taken, plays a central role.

As traffic recovers, KLM expects airspace and airport congestion and thus delays to return, especially in some parts of the Euro control region.
In 2010 several Single European Sky II implementation regulations have been improved. They are all aimed at improving airspace and airport capacity, efficiency and cost reduction.

To KLM a prerequisite for delivering a high quality service to its customers is good co-operation with its suppliers. To mitigate the inherent risks of third party processes, the quality of their operation and well-tuned co-operation between all parties involved is of importance.

A good example is AAS, as the supplier of the baggage handling system. For KLM, delivering high quality service in baggage handling at this airport is key. During the past years significant process improvements and innovations were realized in an effective partnership between KLM and AAS.

Reputational risks

Risks related to operational integrity may impact a Company's reputation adversely. KLM regards reputation risks as those that are primarily linked to the operation of its (core) processes. It is the responsibility of the Board of Managing Directors to monitor and limit the consequences of these risks as much as possible.

Natural phenomena leading to exceptional situations

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

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

Risk of food poisoning

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

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

Risk of the failure of a critical IT system and IT risks

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

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

KLM consistently ensures the allocation of the resources required to secure the operation of the IT systems.

Dedicated support centers and redundant networks guarantee the accessibility of data and IT processing in the event of major incidents.

The access controls to IT applications and to the computer files at each workstation together with the control over the data exchanged outside the company are governed by rules that meet international standards. Campaigns to raise the awareness of all staff are regularly carried out. Specialised companies, external auditors and internal audit, comprising IT specialists, regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Group, particularly when it comes to protecting data of a personal nature and complying with the laws and regulations regarding their strict confidentiality.

Risks linked to the Group's activities

Risks linked to non-respect of the competition rules

In 2010, the European Commission decided to impose a fine totalling EUR 799 million on 25 companies in air cargo transport, within the framework of an inquiry into anti-competitive practices in the air freight sector. AIR FRANCE KLM, in conjunction with Air France, KLM and Martinair, has filed an appeal regarding this decision with the European Court of Justice in Luxembourg. Within this context, the AIR FRANCE KLM Group has reinforced its procedures to supplement its already-extensive action to prevent any breach of competition law (training module, poster campaign, dedicated telephone line, ad hoc training sessions) including the development of an additional training tool on competition law.

Risks linked to competition from other air and rail transport operators

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

On its short and medium-haul flights to and from the Netherlands, the Group competes with alternative means of transportation. In particular, the high-speed rail network in Europe competes directly with the KLM Group flights in Europe. Any extension of high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results. KLM Group also face competition from low-cost airlines for some European point-to-point traffic.

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

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

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

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

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

Financing risks

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

Any long-term obstacle to its ability to raise capital would reduce the AIR FRANCE KLM, KLM and Air France borrowing capability and any difficulty in securing financing under acceptable conditions could have a negative impact on the AIR FRANCE KLM, KLM and Air France activities and financial results.

Risks linked to labour disruptions and the negotiation of collective agreements

Personnel costs account for around 25% of the operating expenses of KLM. As such, the level of salaries has an impact on operating results. The profitability of the Group could be affected if it were unable to conclude collective labour agreements under satisfactory conditions. Furthermore, any strike or cause for work to be stopped could have a negative impact on the Group's activity and financial results.

KLM prioritise social dialogue and employee agreements in order to prevent the emergence of any conflict.

Transfer Pricing

The combination of KLM and Air France requires measures to ensure compliance with fiscal legislation including well documented cross border intercompany transactions. Strong monitoring and mitigating controls have been introduced, such as an AIR FRANCE KLM guideline and an active monitoring of the arms-length character of the transactions.

Risks linked to pension plans

KLM Group holds a number of retirement and other long term benefit plans for its employees. These benefit plans are in a situation of overfunding also according to the Dutch Pension Regulations.

Changes in these regulations and in financing agreements between the pension funds, operating these benefit plans, and KLM Group, could have a favorable or unfavorable impact on the pension obligations and/or on the level of funding.

Revisions in IAS19 on pension obligations will have an impact on the equity position of the Group. The impact of new accounting requirements can not be determined yet since both the timing and new standards are not final yet.

In the financial statements the potential volatility is elucidated in the paragraph "Accounting policies for the balance sheet – Provisions for employee benefits" and note 16 Provisions for employee benefits of the consolidated financial statements.

Risks linked to the use of third-party services

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

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

Insurance risks

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

Insurance policies taken out by KLM

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

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

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

Legal risks and arbitration procedures

In connection with the normal exercise of their activities, the Company and its subsidiaries are involved in disputes which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities. Reference is made to note 20 Contingent assets and liabilities of the consolidated financial statements.

Board and Governance

General

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a public limited liability company incorporated under Dutch 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. There have been no material changes in the Company's governance policy in comparison with fiscal year 2009/10.

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, 2011, "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.

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

On March 31, 2011, the Board of Managing Directors has three members. As of the Annual General Meeting of Shareholders of July 1, 2011, the Board of Managing Directors will exist of four 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, 2011.

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 2010/11.

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 two occasions in fiscal year 2010/11.

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;
- Best practice provision II.2.8 will only be implemented in contracts of new external members of the Board of Managing Directors;

- In deviation from best practice provision II.2.11, KLM has integrated 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.

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 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 in line with its regular schedule on six occasions during fiscal year 2010/11. The meetings were well attended by the members, with only occasionally a member being absent. One extra Supervisory Board meeting was held by conference call.

In line with the usual practice, four of the six regular meetings were held shortly after the quarterly close and concentrated on the development of KLM's financial results. As in the previous year, much attention was paid to the Group's liquidity position and balance sheet. Despite encouraging signs of recovery, the Supervisory Board is of the opinion that the Group's key priority for the years to come is further strengthening its balance sheet and reducing its net debt. This is of utmost importance, especially since the operating environment remains fragile and sensitive to geo-political events and related impact on revenues and cost, in particular fuel cost. The Supervisory Board discussed extensively the measures the Board of Managing Directors undertakes to strengthen the balance sheet.

During the annual strategy meeting of October, the Board of Managing Directors presented the main elements of the five-year AIR FRANCE KLM strategic plan and its implications for KLM. Apart from this topic, also the future positioning of Martinair's Passenger Business was discussed. In line with previous years, 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.

Apart from the financial results, the Supervisory Board was also informed every meeting on relevant developments in the cooperation with Air France, in that context also being informed on certain internal organisational alignment projects under way, especially in the area of finance and control, aimed at achieving additional synergies.

The Supervisory Board was also informed on a regular basis on global market developments, and particular attention was paid to the Group's activities and plans for the world growth areas such as China. Apart from that, the Supervisory Board was regularly updated on relevant developments in the cooperation with the partner airlines, like Delta Air Lines, Alitalia and Chinese partner China Southern Airlines.

Furthermore, the Supervisory Board discussed KLM's European (Passenger) product, and the changes that will be implemented in terms of product on board, pricing structure and network planning. The Supervisory Board understands that the intra-European market remains a highly competitive market, and an adequate response to competitive developments, by leveraging the Group's assets, both KLM and Transavia, is a must.

During the last Board meetings, the Supervisory Board was extensively informed on the situation with AAS, and the progress of the joint project study, launched by KLM and AAS and conducted by two external consultancy firms. The Supervisory Board was happy to learn the positive outcome of the study and the recognition of the two strongest pillars that make the mainport Schiphol a success, KLM and AAS.

Demonstrating the Group's commitment to Asia and China in particular, the Supervisory Board held its annual budget meeting in China in March 2011. The city of Xiamen was chosen to host the meeting, combining it with the celebration of KLM's inaugural flight to this city, being the seventh destination of the KLM Group in greater China.

Other (in part being recurring) discussion topics during the fiscal year included:

- Fleet development and fleet investments;
- Hedging policy;
- Performance of the KLM pension funds;
- Operational safety & quality assurance;
- Status of the investigations into the Group's Cargo Business by competition authorities in various jurisdictions and the related initiated civil actions;
- Remuneration policy and remuneration of the Board of Managing Directors;
- Management performance and development;
- Composition of the Supervisory Board;
- Composition of the Board of Managing Directors;
- An analysis of the performance 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, who master the Dutch language, 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

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.

Mr. Peyrelevade is available for re-appointment, and AIR FRANCE KLM has notified KLM it wishes to propose to the general meeting of shareholders Mr. Peyrelevade's reappointment.

Mr. Kok has advised the Company not being 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 resulting vacancy qualifies, has advised the Supervisory Board it wishes to nominate Mrs. Roobeek as its candidate.

The Supervisory Board hereby announces that Mrs. Asscher-Vonk and Messrs. Martre, Blanchet, Guillaume and Laan are due to retire by rotation as per the closure of the General Meeting of Shareholders in 2012. Shareholders are entitled to make recommendations for the vacancies. It should be noted that for the position of Mrs. Asscher-Vonk, KLM's Works Council has the power to nominate a candidate and for the position of Messrs. Martre, Blanchet, Guillaume and Laan AIR FRANCE KLM has the power to nominate candidates.

Composition of the Board of Managing Directors

During the fiscal year 2010/11, the Supervisory Board discussed the composition of the Board of Managing Directors, also in view of the resignation of Jan Ernst de Groot as Managing Director of the Company per April 1, 2011. The Supervisory Board is grateful to Mr. De Groot for his contributions to the Company since his joining in 1992.

The Supervisory Board evaluated both external and internal candidates and agreed to propose to the General Meeting of Shareholders, the appointment of two new members to the Board of Managing Directors, Erik Varwijk and Camiel Eurlings. KLM's Articles of Association will be altered to reflect the increase of the number of Managing Directors.

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, 2011 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 the 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 and was informed on the alignment for the accounting for unused tickets with Air France.

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 the fiscal year.

The Remuneration Committee met on four occasions during the fiscal year. At its May meeting, 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 during two meetings a benchmark study into the structure and level of the remuneration of the Board. These discussions have not led to any proposal for amendment of the remuneration policy. Finally, the Remuneration Committee developed a proposal for targets for the new fiscal year, which targets have been established by the Supervisory Board.

The Nomination Committee met once during the fiscal year. During the meeting, the composition of the Supervisory Board was discussed.

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

Distribution to shareholders

Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (AIR FRANCE KLM) the right to set aside an amount of the disclosed profit to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consultation of the Board of Managing Directors and the Supervisory Board. After having consulted both Boards and under the condition that the financial statements 2010/11 being adopted by the general meeting of shareholders in July, the Meeting of Priority Shareholders has decided to add an amount to the reserves such that, with due observance of the other provisions of article 32 of KLM's Articles of Association, a sum of EUR 0.10 per ordinary share will be available for distribution.

In accordance with the same article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of approximately EUR 4.8 million and also relate to the fiscal years 2009/10 and 2008/09, in which years absent a net profit no distributions were made to these shareholders.

Financial Statements 2010/11

The Supervisory Board hereby presents the annual report and the financial statements for fiscal year 2010/11. 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 Group's affairs and the Supervisory Board's supervision thereof in the fiscal year 2010/11.

Independence

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

Closing remarks

The fiscal year 2010/11 took off turbulently with the air space closure in April 2010, putting right from the start pressure on the Group's revenues. During the fiscal year, however, signs of revenue recovery became visible, also in the Group's financial results. It is unfortunate that – again due to events beyond the control of the Group – the fiscal year ended with an uncertain and challenging outlook, because of the earth quake and ensuing tsunami in Japan and geo-political unrest in North-Africa and the Middle-East.

The Supervisory Board is impressed by the continuing flexibility and loyalty of management and all KLM employees, and is convinced that – even under uncertain circumstances – the Group will be able to maintain these capabilities.

The Supervisory Board expresses its appreciation for all contributions of management and staff during the fiscal year.

Amstelveen, June 1, 2011

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 2010 and concerned the change in target setting under the long-term incentive scheme as well as the incorporation of the relevant provisions of the amended Dutch Corporate Governance Code.

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 Labour 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. Furthermore, the remuneration policy objective is to focus the Company and its Managing Directors on improving the performance of the Company and on achieving the Company's long-term objectives within the context of AIR FRANCE KLM.

As a consequence, the remuneration package includes a short-term incentive relating to the performance in the past fiscal year and a long-term incentive in the form of phantom shares, relating to certain pre-determined financial and non-financial targets with a longer term focus.

Structure

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

1. Base salary;
2. Short-term incentive in cash related to performance in the past fiscal year;
3. Long-term incentive in the form of phantom shares related to certain predetermined financial and non-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 relating to performance in the past fiscal year. 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. In line with the Dutch Corporate Governance Code, the Remuneration Committee – in establishing both the policy and actual remuneration for individual members of the Board of Managing Directors – analyses the possible outcomes of the intended new short-term incentive target setting (in case of a change to the policy) or agreed short-term incentive pay-out percentage. The Committee will relate such outcomes against the results of the Company as a whole.

The Remuneration Committee may use its discretionary powers in case the evaluation of the short-term incentive targets would produce an unfair result due to extraordinary circumstances by adjusting the pay out downwards or upwards as the case may be. Together with its proposal to the Supervisory Board, the Remuneration Committee will provide an explanation for its using said discretionary powers.

3. Long-term incentive plan

In July 2008, KLM introduced a long-term incentive (LTI) plan in the form of phantom shares, relating to certain predetermined financial and non-financial targets. The LTI 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 plan 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.

As of July 1, 2010, the KLM performance criteria for the LTI plan are:

(a) AIR FRANCE KLM total shareholders return (30%);
(b) KLM Group Return on Capital Employed (40%);
(c) AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%).

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.

The Company's remuneration policy also provides for the Supervisory Board having the authority to recover any short-term incentive paid out or any long-term incentive vested on the basis of incorrect financial or other data up until three years after such payment or vesting has been awarded. This 'claw back clause' has been integrated in the individual employment contracts of the members of the Board of Managing Directors.

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

Members of the Board of Managing Directors have a contract of employment with the Company. In case of newly appointed external members of the Board of Managing Directors the term of the employment contract is set at four years. In other cases, new Board members are appointed for a fixed-term of four years.

With regard to the current 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 until July 2011. Mr. De Groot has resigned as of April 1, 2011.

Severance pay

The employment contract with Mr. Hartman was formally dissolved on August 1, 2005 and replaced with a fixed-term employment contract. 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.

In case of newly appointed external members of the Board of Managing Directors, the maximum severance pay in the event of dismissal is set at one year's base salary.

Remuneration of the Board of Managing Directors in fiscal year 2010/11

1. Base salary

The base salary for the members of the Board of Managing Directors remained unchanged in fiscal year 2010/11.

In fiscal year 2010/11, the total base salary of the members of the Board of Managing Directors was EUR 1,392,152 (last year: EUR 1,373,802).

Within the parameters of the remuneration policy, the Supervisory Board has decided to increase the base salaries of both CEO and CFO by 6.5% as of July 1, 2011.

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 2010/11 in accordance with the remuneration policy. This resulted in a short-term incentive payment for fiscal year 2010/11 of 100% of base salary for Mr. Hartman, 80% for Mr. Gagey and 58% 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 2009/10 in July 2010. 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.

At its May 2010 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the long-term incentive plan.

Since these targets in respect of 2009/10 were not entirely met, the first (one third) increment of the 2009/10 phantom shares series as well as the second (one third) increment of the 2008/09 phantom shares series and the third (one third) increment of the 2007/08 phantom shares series have only partially vested, that is for 64 percent in July 2010.
The 2007/08 shares are now, insofar vested, unconditionally awarded to the members of the Board of Managing Directors.

At its May 2011 meeting, the Remuneration Committee has evaluated the results achieved against the (last year new adopted) targets set for the long-term incentive plan. In respect of fiscal year 2010/11, the outcome of the evaluation resulted in respect of two of the three targets (KLM Group Return on Capital Employed; and AIR FRANCE KLM position in the Dow Jones Sustainability Index) in a score 'well above target', whereas the third target was at target. As a result, the first (one third) increment of the 2010/11 phantom shares series, the second (one third) increment of the 2009/10 phantom shares series and the third (one third) increment of the 2008/09 phantom shares series have vested for 113 percent. These phantom shares will be unconditionally awarded in July 2011 to the members of the Board of Managing Directors.

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 2010/11

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 2010/11 was EUR 281,000 (previous fiscal year EUR 284,500). 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, 2011)

Name	Year of birth	Nationality	First appointment/ Current term	Function /Supervisory Board memberships and other functions *
Kees J. Storm *Chairman*	1942	Dutch	2002 / (third) 2010 – 2014	Former Chairman Board of Managing Directors AEGON N.V. / Anheuser-Busch InBev S.A., AEGON N.V., Chairman 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	Former CEO of ANVAR, Former Vice President of ERAP, CEA, SNI, Demeter Partners
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 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, 2011 are shown here

Board of Managing Directors (situation as at March 31, 2011)

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, 2011

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros

After proposed appropriation of the result for the year	Note	March 31, 2011	March 31, 2010
ASSETS			
Non-current assets			
Property, plant and equipment	1	4,537	4,632
Intangible assets	2	145	119
Investments accounted for using the equity method	3	76	78
Derivative financial instruments	4	104	127
Other financial assets	5	178	312
Deferred income tax assets	15	38	44
Pension assets	16	2,989	2,707
		8,067	**8,019**
Current assets			
Derivative financial instruments	4	488	238
Other financial assets	5	264	287
Inventories	6	199	192
Trade and other receivables	7	977	978
Cash and cash equivalents	8	1,229	1,085
		3,157	**2,780**
TOTAL ASSETS		**11,224**	**10,799**
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves	10	304	(3)
Retained earnings		1,809	1,673
Total attributable to Company's equity holders		**2,681**	**2,238**
Minority interest		2	2
Total equity		**2,683**	**2,240**
LIABILITIES			
Non-current liabilities			
Intercompany loans	11	388	388
Finance lease obligations	12	1,739	2,002
Derivative financial instruments	4	109	312
Other financial liabilities	13	1,628	1,488
Deferred income	14	210	223
Deferred income tax liabilities	15	411	308
Provisions for employee benefits	16	156	167
Other provisions	17	393	222
		5,034	**5,110**
Current liabilities			
Trade and other payables	18	1,755	1,581
Finance lease obligations	12	397	451
Derivative financial instruments	4	279	279
Other financial liabilities	13	143	102
Deferred income	14	855	814
Provisions for employee benefits	16	34	40
Other provisions	17	44	182
		3,507	**3,449**
Total liabilities		**8,541**	**8,559**
TOTAL EQUITY AND LIABILITIES		**11,224**	**10,799**

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

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros

	Note	2010/11	2009/10
Revenues	21	**8,651**	**7,469**
Expenses			
External expenses	22	(5,641)	(5,072)
Employee compensation and benefit expense	23	(2,153)	(2,197)
Depreciation and amortisation	24	(539)	(546)
Other income and expenses		65	61
Total expenses		**(8,268)**	**(7,754)**
Income from current operations		**383**	**(285)**
Other non-current income and expenses	25	(78)	(91)
Income from operating activities		**305**	**(376)**
Gross cost of financial debt	26	(163)	(165)
Income from cash and cash equivalents	26	43	67
Net cost of financial debt		(120)	(98)
Other financial income and expense	26	(39)	(16)
Pre-tax income		**146**	**(490)**
Income tax (expense)/benefit	27	(1)	114
Net result after taxation of consolidated companies		**145**	**(376)**
Share of results of equity shareholdings		2	(7)
Profit/(loss) for the year		**147**	**(383)**
Attributable to:			
Equity holders of the company		147	(383)
Minority interest		-	-
		147	**(383)**
Net profit/(loss) attributable to equity holders of the company		147	(383)
Dividend on priority shares		-	-
Net profit/(loss) available for holders of ordinary shares		**147**	**(383)**
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
Profit/(loss) per share (in EUR)		3.14	(8.18)
Diluted profit/(loss) per share (in EUR)		3.14	(8.18)

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, 2011	**March 31, 2010**
Profit/(loss) for the year	147	(383)
Cash flow hedges		
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	392	464
Change in fair value transferred to income statement	30	249
Exchange differences on translation foreign operations	(22)	1
Tax on items taken directly to or transferred from equity	(107)	(182)
Total of other comprehensive income included in the recognised income and expenses	**293**	**532**
Recognised income and expenses	**440**	**149**
- Equity holders of the company	440	149
- Minority interests	-	-

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, 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**

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, 2010	**94**	**474**	**(3)**	**1,673**	**2,238**	**2**	**2,240**
Net gain/(loss) from cash flow hedges	-	-	422	-	422	-	422
Exchange differences on translation foreign operations	-	-	(31)	9	(22)	-	(22)
Transfer from retained earnings	-	-	23	(23)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(107)	-	(107)	-	(107)
Net income/(expense) recognised directly in equity	**-**	**-**	**307**	**(14)**	**293**	**-**	**293**
Profit for the year	-	-	-	147	147	-	147
Total recognised income/(expense)	**-**	**-**	**307**	**133**	**440**	**-**	**440**
Dividends paid	-	-	-	-	-	-	-
Other movements	-	-	-	3	3	-	3
As at March 31, 2011	**94**	**474**	**304**	**1,809**	**2,681**	**2**	**2,683**

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

KLM Royal Dutch Airlines

Consolidated cash flow statement

In millions of Euros	2010/11	2009/10
Profit/(loss) for the year	147	(383)
Depreciation and amortisation	539	546
Changes in provisions	(10)	14
Results of equity shareholdings	(2)	6
Changes in pension assets	(297)	(226)
Changes in deferred income tax	1	(114)
Other changes	16	10
Net cash flow from operating activities before changes in working capital	**394**	**(147)**
(Increase) / decrease in inventories	9	(15)
(Increase) / decrease in trade receivables	(43)	58
Increase / (decrease) in trade payables	72	108
(Increase) / decrease in other receivables and payables	177	(263)
Net cash flow from operating activities	**609**	**(259)**
Capital expenditure on intangible fixed assets	(55)	(38)
Capital expenditure on aircraft	(582)	(593)
Disposal of aircraft	231	181
Capital expenditure on other tangible fixed assets	(36)	(37)
Disposal of other tangible fixed assets	2	4
Investment in equity shareholdings	3	-
Sale of equity shareholdings	1	1
Dividends received	2	1
(Increase) / decrease in short-term deposits and commercial paper	34	250
Net cash used in investing activities	**(400)**	**(231)**
Increase in long-term debt	369	834
Decrease in long-term debt	(551)	(461)
Increase in long-term receivables	(37)	(26)
Decrease in long-term receivables	158	108
Dividend paid	(1)	-
Other changes	-	1
Net cash flow from financing activities	**(62)**	**456**
Effect of exchange rates on cash and cash equivalents	(3)	2
Change in cash and cash equivalents	**144**	**(32)**
Cash and cash equivalents at beginning of year	1,085	1,117
Cash and cash equivalents at end of year *	1,229	1,085
Change in cash and cash equivalents	**144**	**(32)**
Income tax reimbursed / (paid) (flow included in operating activities)	-	-

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 1,542 million as at March 31, 2011 (as at March 31, 2010: EUR 1,533 million)

Financial Statements fiscal 2010/2011

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 principal 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 1, 2011 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on July 1, 2011.

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

Significant accounting policies

The consolidated financial statements are prepared on historical cost basis unless stated otherwise. 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 stated otherwise.

Change in accounting policies

The revised standards IFRS 3 "Business Combinations" and IAS 27 "Individual and Consolidated Financial Statements" are applied for the first time in the fiscal year 2010/11. Both did not have an impact on the Group consolidated financial statements.

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, 2011. 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.

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

Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after April 1, 2011, were not adopted early by the Group for the preparation of these consolidated financial statements:

- The revised standard IAS 24 "Related party disclosures", applicable for fiscal year beginning on or after January 1, 2011;
- IFRIC 19 "Financial debts paid by equity instruments", applicable for fiscal year beginning on or after July 1, 2010; and
- The revised interpretation IFRIC 14 "Limit on Defined Benefit Asset Minimum Funding Requirements and their Interaction", applicable for fiscal year beginning on or after January 1, 2011.

The Group does not expect any significant impact from the application of these new standards, interpretations and amendments to existing standards.

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.

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.

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, 2011 EUR	Average in Income Statement 2010/2011 EUR	Balance Sheet March 31, 2010 EUR
1 U.S. Dollar (USD)	0.70	0.76	0.74
1 Pound sterling (GBP)	1.13	1.17	1.12
1 Swiss franc (CHF)	0.77	0.74	0.70
100 Japanese yen (JPY)	0.85	0.88	0.79
100 Kenya Shilling (KES)	0.83	0.94	0.96

Business combinations

Business combinations are accounted for using the purchase method. The cost of a business combination is measured at 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. Any other costs directly attributable to the business combination are recorded in the income statement.

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 airline 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 assets comprises aircraft 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 corresponds 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 are 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.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially (settlement day), 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.

If the hedging instrument no longer meets the criteria for hedge accounting, is sold, is terminated or designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in equity is recognized immediately in profit or loss.

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.

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.

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 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 those revenues in order to determine which part of the tickets sold and related surcharges will expire without any transport commitment for 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. 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" 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 the tax losses carried forward and 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 tax losses carried forward and 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 the present value of the total benefit obligations or the 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.

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. The revenues however 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

Phantom shares and stock option program

The Group has cash-settled long-term incentive plans 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.

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.

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 and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14), projected benefit obligations, funding requirements and periodic pension 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.

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 4.

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 KLM, the Chief Executive Officer and the Chief Financial Officer of AIR FRANCE KLM and Air France. 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 Group 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 treasury 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, the resulting net prices and stress scenarios, 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:

a. Currency risk;

b. Interest rate risk; and

c. 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 euro 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 euro could result in a negative impact on the group's activity and financial results. Conversely, AIR FRANCE KLM is a net seller of the Japanese yen and of pound sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies relative to the euro could have a negative effect on the group's activity and financial results. In order to reduce its currency exposure, the AIR FRANCE KLM Group has adopted hedging strategies.

Both KLM and Air France 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 2011 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 Standard & Poor's and Moody's Investors Services.

As of March 31, 2011, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	722
AA+	54
AA	50
AA-	125
A+	362
A	157
Total	1,470

At March 31, 2011, 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, 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
Other	-	(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										
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
Other	-	-	-	-	(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**

	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, 2010	**1,475**	**2,959**	**1,582**	**6,016**	**612**	**608**	**161**	**1,381**	**218**	**7,615**
Additions	14	215	176	405	9	25	2	36	149	590
Disposals	(108)	(264)	(41)	(413)	-	(3)	-	(3)	-	(416)
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Other	314	(96)	(40)	178	-	-	-	-	(146)	32
As at March 31, 2011	**1,695**	**2,814**	**1,677**	**6,186**	**621**	**630**	**163**	**1,414**	**221**	**7,821**
Accumulated depreciation										
As at April 1, 2010	**886**	**684**	**709**	**2,279**	**155**	**465**	**84**	**704**	**-**	**2,983**
Depreciation	134	141	168	443	31	30	14	75	-	518
Disposals	-	(171)	(36)	(207)	-	(1)	-	(1)	-	(208)
Currency translation differences	-	-	-	-	-	-	(1)	(1)	-	(1)
Other	60	56	(116)	-	-	(3)	(5)	(8)	-	(8)
As at March 31, 2011	**1,080**	**710**	**725**	**2,515**	**186**	**491**	**92**	**769**	**-**	**3,284**
Net carrying amount										
As at March 31, 2010	**589**	**2,275**	**873**	**3,737**	**457**	**143**	**77**	**677**	**218**	**4,632**
As at March 31, 2011	**615**	**2,104**	**952**	**3,671**	**435**	**139**	**71**	**645**	**221**	**4,537**

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

	2011	2010
Aircraft	225	203
Land and buildings	179	126
Other property and equipment	52	58
Carrying amount as at March 31	**456**	**387**

Borrowing costs capitalised during the year amount to EUR 5 million (2009/10 EUR 6 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2009/10 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, 2011 amounts to EUR 309 million (March 31, 2010 EUR 334 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 nil million (2009/10 EUR 49 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, 2009	**39**	**114**	**7**	**53**	**213**
Additions	-	1	-	37	38
Reclassifications	-	20	-	(26)	(6)
Disposals	-	(4)	-	-	(4)
Others	-	2	-	-	2
As at March 31, 2010	**39**	**133**	**7**	**64**	**243**
Accumulated amortisation and impairment					
As at April 1, 2009	**28**	**82**	**-**	**-**	**110**
Amortisation	1	15	1	-	17
Reclassifications	-	1	-	-	1
Disposals	-	(4)	-	-	(4)
As at March 31, 2010	**29**	**94**	**1**	**-**	**124**
Historical cost					
As at April 1, 2010	**39**	**133**	**7**	**64**	**243**
Additions	-	-	-	54	54
Reclassifications	-	32	-	(32)	-
Disposals	-	(2)	-	-	(2)
Others	-	(1)	-	(4)	(5)
As at March 31, 2011	**39**	**162**	**7**	**82**	**290**
Accumulated amortisation and impairment					
As at April 1, 2010	**29**	**94**	**1**	**-**	**124**
Amortisation	-	20	1	-	21
Reclassifications	-	-	-	-	-
Disposals	-	(1)	-	-	(1)
Others	-	(1)	-	2	1
As at March 31, 2011	**29**	**112**	**2**	**2**	**145**
Net carrying amount					
As at March 31, 2010	**10**	**39**	**6**	**64**	**119**
As at March 31, 2011	**10**	**50**	**5**	**80**	**145**

3 Investments accounted for using the equity method

	2011	2010
Associates	53	55
Jointly controlled entities	23	23
Carrying amount as at March 31	**76**	**78**

Investments in associates

	2010/11	2009/10
Carrying amount as at April 1	**55**	**71**
Movements		
Share of profit/(loss) after taxation	2	(6)
Dividends received	(1)	(1)
Foreign currency translation differences	(7)	3
OCI movements derivatives	3	(10)
Other movements	1	(2)
Net movement	**(2)**	**(16)**
Carrying amount as at March 31	**53**	**55**

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

		As at March 31,
	2011	2010
Country of incorporation	Kenya	Kenya
Percentage of interest held	26	26
Assets	706	707
Liabilities	513	563
Revenues	681	657
Profit/(loss) after taxation	20	(37)
Share of profit/(loss) after taxation	**5**	**(10)**

The table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2010 and 2009. The share of result included in the carrying amounts as at March 31, 2011 has 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, 2011 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 32 million (2009/10 EUR 68 million).

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

		As at March 31,
	2011	**2010**
Country of incorporation	France	France
Percentage of interest held	40	40
Assets	94	98
Liabilities	65	77
Revenues	175	149
Profit/(loss) after taxation	(10)	(2)
Share of profit/(loss) after taxation	**(4)**	**(1)**

Transavia France is an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%). In the shareholders' agreement it has been stated that when losses exceed 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.

Jointly controlled entities

	2010/11	**2009/10**
Carrying amount as at April 1	**23**	**24**
Movements		
Share of profit/(loss) after taxation	-	-
Other movements	-	(1)
Net movement	**-**	**(1)**
Carrying amount as at March 31	**23**	**23**

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, 2011	2010
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53	53
Percentage of voting right	45	45
Non-current assets	58	57
Current assets	-	2
Profit/(loss) after taxation	-	-
Share of profit/(loss) after taxation	**-**	**-**

4 Derivative financial instruments

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)**

As at March 31, 2011	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	8	8	(5)	(3)
Cash flow hedges	11	5	(35)	(16)
Items not qualifying for hedge accounting	2	5	-	(3)
Total exchange rate risk hedges	**21**	**18**	**(40)**	**(22)**
Interest rate risk				
Fair value hedges	2	4	-	(24)
Cash flow hedges	2	7	(1)	(26)
Items not qualifying for hedge accounting	-	(1)	(1)	(11)
Total interest rate risk hedges	**4**	**10**	**(2)**	**(61)**
Commodity risk hedges				
Cash flow hedges	463	58	(237)	(23)
Items not qualifying for hedge accounting	-	-	-	-
Total commodity risk hedges	**463**	**58**	**(237)**	**(23)**
Others	-	**18**	-	(3)
Total as at March 31, 2011	**488**	**104**	**(279)**	**(109)**

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 equity are recycled in the income statement at realisation dates of hedged items.

As at March 31, 2011 the types of derivatives used, their nominal amounts and fair values are as follows:

	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	25	25	-	-	-	-	-	-
Forward purchases								
USD	638	334	83	-	30	-	191	8
Total fair value hedges	**663**	**359**	**83**	**-**	**30**	**-**	**191**	**8**
Cash flow hedges								
Options								
USD	252	221	31	-	-	-	-	(4)
Forward purchases								
USD	890	587	303	-	-	-	-	(32)
Forward sales								
GBP	205	144	61	-	-	-	-	4
JPY	185	115	70	-	-	-	-	1
CHF	38	38	-	-	-	-	-	(1)
NOK	121	121	-	-	-	-	-	(1)
SEK	66	66	-	-	-	-	-	(2)
KRW	29	29	-	-	-	-	-	(2)
Other	14	14	-	-	-	-	-	2
Total cash flow hedges	**1,800**	**1,335**	**465**	**-**	**-**	**-**	**-**	**(35)**
Items not qualifying for hedge accounting								
Forward purchases								
USD	98	27	71	-	-	-	-	5
Others								
USD	51	-	-	-	-	-	51	(1)
Total items not qualifying for hedge accounting	**149**	**27**	**71**	**-**	**-**	**-**	**51**	**4**
Total exchange rate risk hedges	**2,612**	**1,721**	**619**	**-**	**30**	**-**	**242**	**(23)**

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 equity are recycled in the income statement 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	395	132	67	41	43	15	97	(18)
Total fair value hedges	**395**	**132**	**67**	**41**	**43**	**15**	**97**	**(18)**
Cash flow hedges								
Swaps	1,723	277	297	261	253	223	412	(20)
Others	75	75	-	-	-	-	-	2
Total cash flow hedges	**1,798**	**352**	**297**	**261**	**253**	**223**	**412**	**(18)**
Items not qualifying for hedge accounting								
Swaps	106	-	-	-	-	1	105	(13)
Total Items not qualifying for hedge accounting	**106**	**-**	**-**	**-**	**-**	**1**	**105**	**(13)**
Total interest rate risk hedges	**2,299**	**484**	**364**	**302**	**296**	**239**	**614**	**(49)**

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 equity are recycled in the 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	124	124	-	-	-	-	-	29
Options	2,286	1,586	700	-	-	-	-	232
Total cash flow hedges	**2,410**	**1,710**	**700**	**-**	**-**	**-**	**-**	**261**
Total commodity risk hedges	**2,410**	**1,710**	**700**	**-**	**-**	**-**	**-**	**261**

Valuation methods for financial assets and liabilities at their fair value

As at March 31, 2011, 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	-	116	-	116
Cash and cash equivalents	1,157	-	-	1,157
Derivatives instruments (asset and liability)				
Currency exchange derivatives	-	(23)	-	(23)
Interest rate derivatives	-	(49)	-	(49)
Commodity derivatives	-	261	-	261

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 2009/10.

The impact on "other reserves" corresponds to the sensitivity of effective fair value variations for instruments and is 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, 2011		**March 31, 2010**	
	Increase of 10 USD	**Decrease of 10 USD**	**Increase of 10 USD**	**Decrease of 10 USD**
Income before tax	(13)	(4)	(25)	21
Other reserves	139	(127)	187	(174)

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, 2011	March 31, 2010	March 31, 2011	March 31, 2010
USD	273	402	735	867
JPY	-	-	282	263
CHF	-	-	322	293

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, 2011	March 31, 2010	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Change in value of financial instruments	(2)	(2)	26	24	-	-
Other reserves	(103)	(77)	13	11	16	10

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 nil million for 2010/11 against EUR 2 million for 2009/10.

5 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2010/11	**2009/10**	**2010/11**	**2009/10**	**2010/11**	**2009/10**	**2010/11**	**2009/10**
Carrying amount as at April 1	**402**	**455**	**25**	**54**	**172**	**421**	**599**	**930**
Movements								
Additions and loans granted	-	3	15	-	116	-	131	3
Loans and interest repaid	(135)	(70)	(3)	(11)	(153)	(250)	(291)	(331)
Interest accretion	22	24	-	-	-	-	22	24
Foreign currency translation differences	(11)	2	(2)	-	-	7	(13)	9
Other movements	(6)	(12)	(1)	(18)	1	(6)	(6)	(36)
Net movement	**(130)**	**(53)**	**9**	**(29)**	**(36)**	**(249)**	**(157)**	**(331)**
Carrying amount as at March 31	**272**	**402**	**34**	**25**	**136**	**172**	**442**	**599**

	2011		2010	
	Current	**Non-current**	**Current**	**Non-current**
Held-to-maturity investments				
Triple A bonds and long-term deposits	142	130	132	270
Loans and receivables				
Other loans and receivables	4	30	5	20
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	-	-	150	-
Restricted deposit EU anti-trust investigations	116	-	-	-
AIR FRANCE KLM S.A. shares	-	13	-	16
Other financial assets	2	5	-	6
	118	**18**	**150**	**22**
Carrying amount as at March 31	**264**	**178**	**287**	**312**

Regarding the restricted deposit EU anti-trust investigations reference is made to note 20 Contingent assets and liabilities – guarantees and to note 17 Other provisions – Legal issues.

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

	March 31, 2011	March 31, 2010
USD	300	420
GBP	2	2
Total	**302**	**422**

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, 2011		March 31, 2010	
in %	**EUR**	**USD**	**EUR**	**USD**
Held-to-maturity investments	-	5.5	-	6.1
Loans and receivables	1.0	0.3	0.6	0.2
At fair value through profit or loss	0.8	-	1.4	-

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 106 million (2009/10 EUR 126 million) is restricted.

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

	March 31, 2011	March 31, 2010
Held-to-maturity		
Less than 1 year	143	132
Between 1 and 2 years	33	140
Between 2 and 3 years	37	31
Between 3 and 4 years	19	37
Between 4 and 5 years	40	20
Over 5 years	-	42
Total	**272**	**402**

The maturities of loans and receivables are as follows:

	March 31, 2011	March 31, 2010
Loans and receivables		
Less than 1 year	3	4
Between 1 and 2 years	1	2
Between 2 and 3 years	3	1
Between 3 and 4 years	-	3
Between 4 and 5 years	5	-
Over 5 years	22	15
Total	**34**	**25**

The fair values of the financial assets are as follows:

	March 31, 2011	March 31, 2010
Held-to-maturity		
Triple A bonds and long-term deposits	**294**	**436**
Loans and receivables		
Other loans and receivables	**33**	**23**
At fair value through profit or loss		
Deposits and commercial paper with original maturity 3-12 months	-	150
Restricted deposit EU Cargo Claim	116	-
AIR FRANCE KLM S.A. shares	13	16
Other financial assets	7	7
	136	**173**
Total fair value	**463**	**632**

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, 2011;
- 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, 2011	**March 31, 2010**
Less than 1 year	150	110
Between 1 and 2 years	34	174
Between 2 and 3 years	37	31
Between 3 and 4 years	19	37
Between 4 and 5 years	41	19
Over 5 years	25	55
Total interest bearing financial assets	**306**	**426**

6 Inventories

	March 31, 2011	**March 31, 2010**
Carrying amount		
Maintenance inventories	136	130
Other sundry inventories	63	62
Total	**199**	**192**

Inventory write-downs amounted to EUR 52 million (2009/10 EUR 53 million).

7 Trade and other receivables

	March 31, 2011	**March 31, 2010**
Trade receivables	689	650
Provision trade receivables	(15)	(19)
Trade receivables - net	674	631
Amounts due from:		
- AIR FRANCE KLM group companies	15	43
- associates and jointly controlled entities	4	2
- maintenance contract customers	80	87
Taxes and social security premiums	25	19
Other receivables	81	89
Prepaid expenses	98	107
Total	**977**	**978**

The 2010/11 EUR 1 million (2009/10 EUR 1 million release) increase 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, 2011 amounted to EUR 77 million (2009/10 EUR 71 million).

Advances received for maintenance contracts in progress at March 31, 2011 amounted to EUR 28 million (2009/10 EUR 26 million).

8 Cash and cash equivalents

	March 31, 2011	March 31, 2010
Cash at bank and in hand	72	104
Short-term deposits	1,157	981
Total	**1,229**	**1,085**

The effective interest rates on short-term deposits are in the range from 0.53% to 2.15% (2009/10 range 0.21% to 6.75%). 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, 2011	March 31, 2010
USD	28	34
GBP	2	3
JPY	2	6
Other currencies	30	29
Total	**62**	**72**

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, 2011		March 31, 2010	
	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 of shares are as follows:

Priority shares

All priority shares are held by AIR FRANCE KLM S.A. Independent rights attached to the priority shares include the 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. Issuance 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 of 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.

As at March 31, 2011 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 fiscal year 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, 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)**
As at April 1, 2010	**(153)**	**13**	**137**	**(3)**
Gains/(losses) from cash-flow hedges	422	-	-	422
Exchange differences on translating foreign operations	-	(31)		(31)
Transfer to retained earnings	-	-	23	23
Tax on items taken directly to or transferred from equity	(106)	-	(1)	(107)
As at March 31, 2011	**163**	**(18)**	**159**	**304**

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 Intercompany loans

On June 26, 2009, AIR FRANCE KLM S.A. 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 S.A., 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 credit facility 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.

In addition, AIR FRANCE KLM S.A. issued a EUR 700 million bond with 7 years duration as of October 14, 2009. AIR FRANCE KLM S.A., Air France and KLM have agreed that the proceeds of the bond will be made available to Air France and KLM pursuant to a loan agreement dated March 26, 2010. Thereby AIR FRANCE KLM grants to KLM a total amount of EUR 350 million in the form of a credit facility. On March 31, 2011, KLM has not drawn any amount under the EUR 350 million credit facility.

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

12 Lease obligations

	March 31, 2011			March 31, 2010		
	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	482	85	397	546	95	451
Total current	**482**	**85**	**397**	**546**	**95**	**451**
Between 1 and 2 years	302	71	231	470	74	396
Between 2 and 3 years	308	60	248	282	62	220
Between 3 and 4 years	283	47	236	288	52	236
Between 4 and 5 years	239	39	200	264	37	227
Over 5 years	896	72	824	1,007	84	923
Total non-current	**2,028**	**289**	**1,739**	**2,311**	**309**	**2,002**
Total	**2,510**	**374**	**2,136**	**2,857**	**404**	**2,453**

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 5.2%, average floating rate 1.9%). Taking into account the impact of hedging the average interest rate is 3.7% (average fixed rate 3.8%, average floating rate 3.0%). After hedging 79% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 2,160 million as at March 31, 2011 (2009/10 EUR 2,481 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 March 31, 2011	Aircraft March 31, 2010	Buildings March 31, 2011	Buildings March 31, 2010	Other equipment March 31, 2011	Other equipment March 31, 2010	Total March 31, 2011	Total March 31, 2010
Operating lease commitments								
Within 1 year	278	285	30	32	16	18	324	335
Total current	**278**	**285**	**30**	**32**	**16**	**18**	**324**	**335**
Between 1 and 2 years	297	273	28	28	13	16	338	317
Between 2 and 3 years	269	255	23	26	9	13	301	294
Between 3 and 4 years	271	225	22	23	7	10	300	258
Between 4 and 5 years	257	235	20	21	4	9	281	265
Over 5 years	784	813	213	227	8	14	1,005	1,054
Total non-current	**1,878**	**1,801**	**306**	**325**	**41**	**62**	**2,225**	**2,188**
Total	**2,156**	**2,086**	**336**	**357**	**57**	**80**	**2,549**	**2,523**

13 Other financial liabilities

	2010/11	2009/10
Carrying amount as at April 1	**1,590**	**1,539**
Additions and loans received	195	60
Loans repaid	(115)	(50)
Foreign currency translation differences	34	22
Other changes	67	19
Net movement	**181**	**51**
Carrying amount as at March 31	**1,771**	**1,590**

The financial liabilities comprise:

	March 31, 2011 Current	March 31, 2011 Non-current	March 31, 2010 Current	March 31, 2010 Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	566	-	528
Other loans (secured/unsecured)	143	1,030	102	928
Total	**143**	**1,628**	**102**	**1,488**

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 322 million as at March 31, 2011 (2009/10 EUR 293 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	2011	2010
Less than 1 year	143	102
Between 1 and 2 years	238	57
Between 2 and 3 years	149	226
Between 3 and 4 years	331	132
Between 4 and 5 years	141	310
Over 5 years	769	763
Total as at March 31	**1,771**	**1,590**

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

	2011	2010
USD	24	41
CHF	322	293
JPY	255	238
Total as at March 31	**601**	**572**

The fair values of financial liabilities are as follows:

	2011	2010
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	594	536
Other loans (secured/unsecured)	1,174	1,032
Fair value as at March 31	**1,800**	**1,600**

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, 2010				
Total borrowings	993	-	597	1,590
Effect of interest rate swaps	(522)	-	522	-
	471	**-**	**1,119**	**1,590**
As at March 31, 2011				
Total borrowings	1,110	-	661	1,771
Effect of interest rate swaps	(504)	-	504	-
	606	**-**	**1,165**	**1,771**

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

	March 31, 2011		March 31, 2010	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	5.04	-	3.94	-
Subordinated perpetual loans	-	4.09	-	4.29
Other loans	2.53	5.50	1.62	2.97

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	-	577		4.42	4.42
Other loans	626	548	2.77	3.91	3.30

The variable interest rates are based on the London and Euro Interbank Offered Rates.

The Company has a EUR 530 million syndicated revolving credit facility with a consortium of international banks, which started in July 2010. The facility will expire in July 2012, but can be extended to July 2013. No amounts had been drawn on this facility as at March 31, 2011 and 2010.

14 Deferred income

	March 31, 2011		March 31, 2010	
	Current	Non-current	Current	Non-current
Advance ticket sales	758	-	722	-
Sale and leaseback transactions	13	31	11	30
Flying Blue frequent flyer program	84	179	81	193
Total	**855**	**210**	**814**	**223**

15 Deferred income tax

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

	2010/11	2009/10
Carrying amount as at April 1	**264**	**197**
Income statement charge	1	(114)
Tax (credited)/charged to equity	107	182
Other movements	1	(1)
Net movement	**109**	**67**
Carrying amount as at March 31	**373**	**264**

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 38 million, EUR 1 million is expected to be recovered in 12 months or less and EUR 37 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, 2011	March 31, 2010
Deferred tax asset	(38)	(44)
Deferred tax liability (offset)	411	308
	373	**264**

The offset amounts are as follows:

	2011	2010
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	15	23
Deferred tax assets to be recovered after more than 12 months	385	370
	400	**393**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	6
Deferred tax liabilities to be settled over more than 12 months	804	695
	811	**701**
Carrying amount as at March 31	**411**	**308**

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 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**
Fiscal 2010/11					
Tax losses	308	62	-	-	370
Fleet assets	66	(12)	-	-	54
Fleet related assets (maintenance)	6	(1)	-	-	5
Provisions for employee benefits	16	-	-	-	16
Financial lease obligations	3	(1)	-	-	2
Derivative financial instruments	52	-	(107)	55	-
Other	7	1	-	(1)	7
Total	**458**	**49**	**(107)**	**54**	**454**

	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 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**
Fiscal 2010/11					
Fleet assets	-	-	-	-	-
Other tangible fixed assets	15	(4)	-	-	11
Pensions and benefits (asset)	691	56	-	-	747
Maintenance provision	10	(2)	-	-	8
Derivative financial instruments	-	-	-	55	55
Other	6	-	-	-	6
Total	**722**	**50**	**-**	**55**	**827**

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 11 million (2009/10 EUR 104 million) and in The Netherlands of EUR nil million (2009/10 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 30 million (2009/10 EUR 74 million).

16 Provisions for employee benefits

	March 31, 2011	2010	2009	2008	2007
Pension and early-retirement obligations	66	70	73	110	128
Post-employment medical benefits	33	35	34	30	46
Other long-term employment benefits	79	91	67	58	60
Termination benefits	12	11	11	18	22
Total Liabilities	**190**	**207**	**185**	**216**	**256**
Less: Non-current portion					
Pension and early-retirement obligations	41	45	45	81	110
Post-employment medical benefits	31	33	32	28	43
Other long-term employment benefits	73	79	61	55	54
Termination benefits	11	10	9	15	15
Non-current portion	**156**	**167**	**147**	**179**	**222**
Current portion	**34**	**40**	**38**	**37**	**34**

	March 31, 2011	2010	2009	2008	2007
Assets					
Pension assets non current portion	2,989	2,707	2,472	2,226	2,074
Total assets	**2,989**	**2,707**	**2,472**	**2,226**	**2,074**

Pension plans

The Company sponsors a number of pension plans for employees world-wide. The major plans are defined benefit plans covering Cabin Crew, Cockpit Crew and Ground Staff based in The Netherlands, The United Kingdom, Germany, 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 fiscal year 2010/11 the financial markets continued the upward trend which had a positive impact of EUR 811 million on the assets of the KLM pension funds. Interest rates increased in 2010/11 as a result of which the discount rate increased from 4.75% to 5.20%. The positive effect on the pension obligations as a result of the increase in discount rate was mainly compensated by the effect of the new 2010-2060 Generation Mortality table of the Dutch Actuarial Association. Together with the addition of the annual service- and interest costs the pension obligations increased by EUR 166 million.

The unrecognised net actuarial losses decreased from EUR 1,034 million per March 2010 to EUR 673 million per March 2011.

The three major KLM pension funds benefited from the recovery of the financial markets in 2010/11, which resulted in the following funding ratios as at March 31, 2011:

- Ground Staff pension fund 128.5% (March 31, 2010: 123.4%)
- Cabin Crew pension fund 128.3% (March 31, 2010: 127.1%)
- Cockpit Crew pension fund 143.1% (March 31, 2010: 130.9%)

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 2,249 million as at March 31, 2011 (2009/10 EUR 1,604 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. These net assets recognised are not readily available for the Company.

The accounting standards require management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets and mortality rates. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions and in financing agreements between pension funds and the Company can have a significant impact on the recoverability of the net pension assets (IFRIC 14).

As at March 31, 2011 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 2,989 million (2009/10 EUR 2,705 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 %	**2010/11**	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended March 31	5.21	4.78	5.53	5.53	4.49
Rate of compensation increase	2.89	3.08	3.03	3.01	5.11
Rate of price inflation	2.02	1.84	1.81	2.03	2.05
Weighted average assumptions used to determine net cost					
Discount rate for year ended March 31	5.21	4.78	5.53	5.53	4.49
Expected long-term rate of return on plan assets	6.05	6.15	6.16	5.71	5.70
Rate of compensation increase	2.89	3.08	3.03	3.01	5.04
Rate of price compensation	2.02	1.84	1.81	2.03	2.02

For the main Dutch pension plans, the 2010-2060 Generation mortality tables (with certain plan specific adjustments) of the Dutch Actuarial Association was used.

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, 2011**	**March 31, 2010**
0.25% increase in the discount rate		
Impact on the net periodic pension cost	(16)	(17)
Impact on defined benefit obligation	(428)	(420)
0.25% decrease in the discount rate		
Impact on the net periodic pension cost	17	28
Impact on defined benefit obligation	428	420

	Pension and early-retirement obligations				
	2011	**2010**	**2009**	**2008**	**2007**
Present value of wholly or partly funded obligations	10,969	10,803	8,834	8,652	9,260
Fair value of plan assets	(13,218)	(12,407)	(9,967)	(11,910)	(12,221)
Subtotal	**(2,249)**	**(1,604)**	**(1,133)**	**(3,258)**	**(2,961)**
Present value of unfunded obligations	(1)	1	1	1	17
Unrecognised net actuarial gains/(losses)	(673)	(1,034)	(1,267)	1,141	998
Subtotal	**(674)**	**(1,033)**	**(1,266)**	**1,142**	**1,015**
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**(2,923)**	**(2,637)**	**(2,399)**	**(2,116)**	**(1,946)**

	Pension and early-retirement obligations				
	2011	**2010**	**2009**	**2008**	**2007**
Amounts in the balance sheet as at March 31					
Liabilities	66	70	73	110	128
Assets	(2,989)	(2,707)	(2,472)	(2,226)	(2,074)

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

	Pension and early-retirement obligations				
	2010/11	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Carrying amount as at April 1	**10,803**	**8,834**	**8,652**	**9,277**	**8,828**
Service cost	356	287	282	312	311
Interest cost	525	495	484	422	389
Plan participants' contributions	-	-	-	15	37
Curtailments	(15)	(1)	(7)	-	(57)
Actuarial losses/(gains)	(340)	1,517	(212)	(1,014)	15
Benefits paid from plan/company	(357)	(345)	(324)	(310)	(289)
Other	(6)	3	(3)	2	36
Exchange rate changes	3	13	(38)	(52)	7
Net movement	166	1,969	182	(625)	449
Carrying amount as at March 31	**10,969**	**10,803**	**8,834**	**8,652**	**9,277**

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

	2010/11	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Fair value as at April 1	**12,407**	**9,967**	**11,910**	**12,221**	**11,404**
Expected return on plan assets	765	616	679	692	649
Actuarial gains/(losses) (related to the plan assets)	14	1,729	(2,607)	(853)	174
Employer contributions	354	376	310	173	244
Member contributions	51	51	36	32	37
Benefits paid from plan / company	(357)	(345)	(324)	(310)	(288)
Curtailments	(16)	(1)	-	-	(40)
Other	(1)	3	(2)	-	34
Exchange rate changes	1	11	(35)	(45)	7
Net movement	811	2,440	(1,943)	(311)	817
Fair value as at March 31	**13,218**	**12,407**	**9,967**	**11,910**	**12,221**

The actual return on pension plan assets is EUR 779 million positive (2009/10 EUR 2,345 million positive).

The experience adjustments are as follows:

	March 31,				
	2011	**2010**	**2009**	**2008**	**2007**
Benefit obligation	121	91	(115)	(64)	239
Plan asset	14	1,729	(2,607)	(853)	173

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

in %	March 31, 2011	2010	2009	2008	2007
Debt securities	48.9	52.4	55.5	49.1	45.7
Real estate	10.5	9.0	9.4	11.6	13.3
Equity securities	40.5	38.2	34.7	38.1	40.3
Other	0.1	0.4	0.4	1.2	0.7

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				
	2011	2010	2009	2008	2007
Present value of unfunded obligations	37	37	33	34	52
Unrecognised net actuarial gains/(losses)	(4)	(2)	1	(4)	(6)
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**33**	**35**	**34**	**30**	**46**

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

	Post-employment medical benefits				
	2010/11	2009/10	2008/09	2007/08	2006/07
Carrying amount as at April 1	**37**	**33**	**32**	**50**	**70**
Service cost	-	-	-	1	-
Interest cost	2	2	2	2	2
Curtailments	-	-	-	(12)	(20)
Actuarial losses/(gains)	2	4	(5)	(1)	3
Benefits paid from plan/company	-	-	-	(2)	(2)
Other	(2)	(2)	(1)	-	-
Exchange rate changes	(2)	-	5	(6)	(3)
Net movement	**-**	**4**	**1**	**(18)**	**(20)**
Carrying amount as at March 31	**37**	**37**	**33**	**32**	**50**

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

	Post-employment medical benefits				
in %	**2010/11**	**2009/10**	**2008/09**	**2007/08**	**2006/07**
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended March 31	5.38	5.90	7.05	5.90	5.51
Weighted average assumptions used to determine net cost					
Discount rate for year ended March 31	5.38	5.90	7.05	5.90	5.57
Medical cost trend rate assumptions used to determine net cost *					
Immediate trend rate Pre 65	9.56	9.56	8.20	8.19	7.35
Immediate trend rate Post 65	9.56	9.56	10.90	10.91	9.46
Ultimate trend rate	5.00	5.00	5.00	5.00	4.87
Year that the rate reaches ultimate trend rate	2015	2014	2013/14	2012/13	2012/13

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

Other long-term employee benefits

	2011	**2010**	**2009**	**2008**	**2007**
Jubilee benefits	51	52	47	41	40
Other benefits	28	39	20	17	20
Total carrying amount	**79**	**91**	**67**	**58**	**60**
Less: Non-current portion					
Jubilee benefits	45	46	43	40	38
Other benefits	28	33	18	15	16
Non-current portion	**73**	**79**	**61**	**55**	**54**
Current portion	**6**	**12**	**6**	**3**	**6**

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.

	2011	2010	2009	2008	2007
Redundancy benefits					
Non-current portion	11	10	9	15	15
Current portion	1	1	2	3	7
Total carrying amount	**12**	**11**	**11**	**18**	**22**

Termination benefits relate 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, 2010	**107**	**65**	**52**	**143**	**37**	**404**
Charged to consolidated income statement:						
Additional provisions and increases in existing provisions	65	23	13	74	9	184
Unused amounts reversed	(7)	-	(8)	-	(1)	(16)
Used during year	(35)	(11)	(30)	(43)	(15)	(134)
Other changes	1	(4)	2	-	-	(1)
As at March 31, 2011	**131**	**73**	**29**	**174**	**30**	**437**
Current/non-current portion						
Non-current portion	121	53	24	171	24	393
Current portion	10	20	5	3	6	44
Carrying amount as at March 31, 2011	**131**	**73**	**29**	**174**	**30**	**437**

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, 2011 relates to the anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in South Africa and civil actions in Canada for KLM and the remaining amount to be paid to the US DOJ related to Martinair. For more details reference is made to note 20 Contingent assets and liabilities. The Group has provided restricted deposits for the fine imposed by the EU. Reference is made to note 5 Other financial assets.

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, 2011	March 31, 2010
Trade payables	734	667
Amounts due to AIR FRANCE KLM Group companies	67	85
Taxes and social security premiums	68	75
Other payables	357	296
Accrued liabilities	529	458
Total	**1,755**	**1,581**

19 Commitments

As at March 31, 2011, KLM has commitments for previously placed orders amounting to EUR 518 million (2009/10 EUR 753 million). EUR 467 million of this amount relates to aircraft (2009/10 EUR 669 million) of which EUR 281 million is due in 2011/12. The balance of the commitments as at March 31, 2011 amounting to EUR 51 million (2009/10 EUR 84 million) is related to other tangible fixed assets. As at March 31, 2011 prepayments on aircraft orders have been made, amounting to EUR 208 million (2009/10 EUR 181 million).

20 Contingent assets and liabilities

Contingent liabilities

Antitrust investigations and civil litigation

a. Actions instigated by the EU Commission and several 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 and certain surcharges of air cargo services. The action was followed by formal or informal investigations by competition authorities in other jurisdictions.

On 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. On November 9, 2010, the European Commission announced its decision in this investigation, imposing fines on 14 airlines, including KLM and Martinair. KLM and Martinair received a combined fine of EUR 157 million. The fine exceeded the provision already recorded by KLM and Martinair some years ago by EUR 70 million. Hence, an additional non current provision has been recorded in fiscal year 2010/11. Reference is made to note 17 Other provisions – Legal issues.

KLM and Martinair have filed an appeal against the decision before the General Court of the European Union in Luxemburg in January 2011. Since the appeal does not suspend the payment of the fine, KLM and Martinair have provided bank guarantees instead of an immediate payment. Reference is made to note 5 Other financial assets.

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.

On November 29, 2010, the KFTC imposed a fine of the equivalent of EUR 4.5 million on KLM, which was paid in January 2011. KLM has filed an appeal against this decision before the competent court in Korea.

As of March 31, 2011, the procedures respectively with the authorities of Switzerland, Brazil and South Africa were still ongoing, in which KLM and Martinair are co-operating. Except for South Africa, for which KLM recorded a provision of EUR 0.9 million, these 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-mentioned investigations, KLM and Martinair are involved in class actions in the US and Canada, as well as various civil actions in Europe.
With respect to the US class actions, KLM and Martinair (together with Air France) concluded a settlement agreement with the plaintiffs in July 2010, bringing an end to all claims, court proceedings in connection with unlawful practices for Cargo transportation to, from and within the US. The share of KLM and Martinair in the concluded settlement agreement amounts to EUR 31 million, which was paid in July 2010. The settlement has no impact on the Company's results in view of the provisions recorded.

On March 14, 2011, the Court issued an order granting final approval of the aforementioned settlement. Before that date, 36 claimants have opted out. Of those 36, only 4 are customers of KLM, Martinair or Air France. These customers may pursue separate claims. With regard to those opt-outs, the settlement amount will be adjusted downwards proportionate to the revenue share of these opt-outs.

As of March 31, 2011, KLM and Martinair remain exposed in class actions brought against the companies in Canada. In appreciation of the revenues involved, the risks are not significant. A provision of EUR 2.4 million has been recorded in 2010/11.

As of March 31, 2011, KLM, Martinair and Air France have been summoned to appear before the District Court of Amsterdam in a civil law suit brought by a company named Equilib. To the current knowledge of the Company, Equilib has acquired claims from 70 purchasers of air cargo services, who claim to have suffered damages as a result of the alleged antitrust infringements.

Equilib seeks to obtain a declaratory judgement confirming that KLM, Martinair and Air France are guilty of unlawful anticompetitive conduct and are to be held jointly and severally liable for damages suffered by the claimants. Equilib, who estimates its claims at EUR 400 million, has however not substantiated that figure. KLM, Martinair and Air France have initiated contribution proceedings against the other airlines that were fined by the European Commission on November 9, 2010.

In the United Kingdom, a civil law suit has been filed against British Airways by two flower importers. British Airways has initiated contribution proceedings against the other airlines, including KLM, Martinair and Air France that were fined by the European Commission on November 9, 2010.

KLM and Martinair, together with Air France, will vigorously defend themselves in all civil law suits initiated against them. These law suits have not been provided for, as KLM and Martinair are unable given the current status of the proceedings to assess its exposure.

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 through 2006.

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 a class 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, including KLM, filed several motions to dismiss, and these motions are currently pending before the court. KLM defends itself against these actions, that it considers without merit, especially given the fact that KLM does not operate itself any transpacific flights.

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. By its decision of September 1, 2010, the Court dismissed all claims. Claimants appealed the court decision and have submitted their statement of claims. KLM filed its statement of reply on May 3, 2011. It is expected that a court hearing will follow by the end of summer. It is too early to assess the outcome of the appeal proceedings.

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 17, 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 607 million (2009/10 EUR 576 million).

These guarantees include an amount of EUR 41 million which relates to the EU anti-trust investigations (see note 17). The remainder is secured by cash pledge (see note 5).

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 11) as at March 31, 2011 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 357 million as at March 31, 2011 (2009/10 EUR 290 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

	2010/11	2009/10
Services rendered		
Passenger transport	5,702	4,873
Cargo transport	1,695	1,278
Maintenance contracts	446	467
Charter and low cost business	752	778
Other services	56	73
Total revenues	**8,651**	**7,469**

22 External expenses

	2010/11	2009/10
Aircraft fuel	2,388	1,962
Chartering costs	88	83
Aircraft operating lease costs	267	234
Landing fees and route charges	683	646
Catering *	173	175
Handling charges and other operating costs	445	418
Aircraft maintenance costs *	591	585
Commercial and distribution costs	340	344
Insurance	44	36
Rentals and maintenance of housing *	132	130
Sub-contracting *	189	203
Hired personnel	122	106
Other external expenses *	179	150
Total external expenses *	**5,641**	**5,072**

* For comparison purposes external expenses have been reclassified to/from other expense lines and overall EUR 47 million has been reclassified from external expenses to wages and salaries (note 23) in 2009/10

23 Employee compensation and benefit expense

	2010/11	2009/10
Wages and salaries *	1,866	1,820
Social security premiums other than for state pension plans	188	187
Share-based remuneration	1	2
Pension and early-retirement plan costs	91	168
Post-employment medical benefit costs	2	2
Other long-term employee benefit costs	5	18
Total employee compensation and benefit expense	**2,153**	**2,197**

* for comparison purposes EUR 47 million has been reclassified from external expenses (note 22) to wages and salaries in 2009/10

Pension and early-retirement plan costs comprise:

	2010/11	2009/10
Defined benefit plans	61	143
Defined contribution plans	30	25
Total	**91**	**168**

Defined benefit plans and early-retirement plan costs comprise:

	2010/11	2009/10
Current service cost	305	238
Interest cost	525	495
Expected return on plan assets	(765)	(616)
Net actuarial losses/(gains) recognised in year	4	25
Losses/(gains) arising from plan curltailments or settlements	(7)	-
Other	(1)	1
Total	**61**	**143**

In the fiscal year ended March 31, 2011 the net periodic pension cost for the major defined benefit plans recognised in the income statement amounted to EUR 61 million (2009/10 EUR 143 million) and the total contributions paid by the Group amounted to EUR 354 million (2009/10 EUR 376 million). The contributions paid in 2010/11 include additional deficit funding in The United Kingdom amounting to EUR 5 million (2009/10 EUR 39 million). In The Netherlands no additional contributions were required (2009/10 EUR 35 million).

The Group's projected defined benefit plans and early retirement plan costs for 2011/12 amount to EUR 81 million. The Group's expected cash contributions for these plans amount to EUR 364 million.

Post-employment medical benefits costs comprise:

	2010/11	2009/10
Current service cost	-	-
Interest cost	2	2
Losses/(gains) arising from plan curltailments or settlements	-	-
Total	**2**	**2**

Other long-term employee benefits comprise:

	2010/11	2009/10
Current service cost	3	3
Interest cost	3	3
Losses/(gains) arising from plan curltailments or settlements	-	9
Net actuarial losses/(gains) recognised in year	(1)	3
Total	**5**	**18**

Number of full-time equivalent employees:

	2010/11	2009/10
Average for year		
Flight deck crew	3,347	3,423
Cabin crew	7,745	7,696
Ground staff	20,624	21,458
Total	**31,716**	**32,577**

	2011	2010
As at March 31		
Flight deck crew	3,311	3,390
Cabin crew	7,654	7,419
Ground staff	20,512	20,978
Total	**31,477**	**31,787**

24 Depreciation and amortisation

	2010/11	2009/10
Intangible assets	21	17
Flight equipment	443	449
Other property and equipment	75	80
Total depreciation and amortisation	**539**	**546**

25 Other non-current income and expenses

The 2010/11 expenses includes EUR 73 million increase of the provisions relating to the Cargo anti-trust investigations in Europe and South Africa and civil actions in Canada, EUR 10 million for Passenger service recovery costs mainly relating to the airspace closure in April 2010. This was partly offset by EUR 9 million result of sale of assets mainly due to the cumulative exchange differences relating to the partial disposal of a holding company.

The 2009/10 expenses 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.

26 Net cost of financial debt

	2010/11	2009/10
Gross cost of financial debt		
Loans from third parties	68	64
Finance leases	72	105
Other interest expenses	23	(4)
Total gross cost of financial debt	**163**	**165**
Income from cash and cash equivalents		
Loans to third parties	43	67
Total income from cash and cash equivalents	**43**	**67**
Net cost of financial debt	**120**	**98**

	2010/11	2009/10
Foreign currency exchange gains/(losses)	8	20
Fair value gains/(losses)	(47)	(36)
Total other financial income and expense	**(39)**	**(16)**

The fair value losses recorded as at March 31, 2011 consist of the variation in the ineffective portion of fuel and foreign currency exchange derivatives for EUR 8 million (2009/10 EUR 46 million), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 3 million (2009/10 EUR 11 million positive) as well as the unrealised revaluation of other balance sheet items for EUR 36 million (2009/10 EUR 1 million).

27 Income tax expense

	2010/11	2009/10
Current tax (income)/expense	-	-
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	40	(114)
Benefit from previously unrecognised tax loss	(32)	-
Deferred tax expense/(income) resulting from increase/(reduction) in tax rate	(7)	-
Total tax (income)/expense	**1**	**(114)**

The applicable average tax rate in The Netherlands for 2010/11 is 25.375% (2009/10: 25.5%). As per January 1, 2011 the applicable tax rate in The Netherlands decreased from 25.5% to 25.0%.

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

in %	2010/11	2009/10
Applicable average tax rate in The Netherlands	25.4	25.5
Impact of:		
Profit free of tax/Non-deductible expenses	3.3	-
Unrecorded tax assets in year	(22.0)	(2.5)
Differences in foreign tax rate changes	-	0.2
Differences due to tax rate changes	(4.5)	-
Effective tax rate	**2.2**	**23.2**

28 Share-based payments

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

	March 31, 2011	March 31, 2010
Share option plan	1	1
Carrying amount	**1**	**1**

Phantom shares

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

	2010/11	2009/10
As at April 1	**243,060**	**149,478**
Granted	145,450	136,569
Forfeited	(54,745)	(42,987)
Exercised	-	-
As at March 31	**333,765**	**243,060**

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

	2011	2010
Phantom shares expiry date		
July 1, 2013	107,259	125,870
July 1, 2014	99,632	117,190
July 1, 2015	126,874	-
Carrying number as at March 31	**333,765**	**243,060**

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: AIR FRANCE KLM total shareholders return (30%), KLM Group Return on Capital Employed (40%) and AIR FRANCE KLM position in the Dow Jones Sustainability Index (30%). 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.

Under 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% in July 2008. The second trance has vested for 60% in July 2009. The third trance has vested for 64% in July 2010. The 2008 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2011 and July 1, 2013.

Under the Long Term Incentive plan 2009, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2009. The first trance has vested for 60% in July 2009. The second trance has vested for 64% in July 2010 and the third trance is still conditionally awarded.

Under the Long Term Incentive plan 2010, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2010. The first trance has vested for 64% in July 2010 and the vesting of the second and third trance are still conditionally awarded.

Share options

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

	2010/11		2009/10	
	Number of share options	**Weighted average exercise price (in EUR)**	**Number of share options**	**Weighted average exercise price (in EUR)**
As at April 1	**1,143,182**	**22.00**	**1,461,020**	**20.25**
Granted	-	-	-	-
Forfeited	(11,000)	26.02	(27,333)	13.95
Exercised	-	-	-	-
Expired	(363,966)	13.11	(290,505)	-
As at March 31	**768,216**	**26.16**	**1,143,182**	**22.00**
Exercisable as at March 31	**768,216**		**747,165**	

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)	**2011**	**2010**
Option expiry date			
July 16, 2010	13.11	-	363,966
July 26, 2011	17.83	377,699	383,199
July 25, 2012	34.21	390,517	396,017
Carrying number as at March 31		**768,216**	**1,143,182**

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 the 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:

	2011	2010
Fair value at grant date	9.50	9.20
Share price (in EUR, Closing price March 31, AEX Amsterdam)	11.8	11.7
Volatility (%)	31.1	38.9
Risk free rate (%)	2.1	1.6
Dividend yield (%)	0.6	0.7

29 Supervisory Board remuneration

	2010/11			2009/10		
(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.F.H. Martre	34,500	-	34,500	34,500	-	34,500
I.P Asscher-Vonk	26,500	3,000	29,500	26,500	4,000	30,500
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	4,500	31,000	26,500	6,000	32,500
R. Laan	26,500	3,000	29,500	26,500	4,000	30,500
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**	**18,500**	**281,000**	**262,500**	**22,000**	**284,500**

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)	2010/11	2009/10
P.F. Hartman	674,953	668,703
F.N.P. Gagey	413,449	409,621
J.E.C. De Groot	303,750	295,478
Total	**1,392,152**	**1,373,802**

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

Short-term incentive plan

	2010/11		2009/10	
(amounts in EUR)	Short term incentive plan	Targets achieved	Short term incentive plan	Targets achieved
P.F. Hartman	674,953	Full	134,991	Partially
F.N.P. Gagey	330,759	Full	66,152	Partially
J.E.C. De Groot	176,175	Partially	30,375	Partially
Total	**1,181,887**		**231,518**	

For a description of the short-term incentive plan, we refer to the Remuneration Policy and Report in the Board and Governance Section.

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.

In connection with Mr. De Groot's resignation per April 1, 2011, an one-off amount of EUR 767,000 will be paid to him in July 2011. The amount also reflects Mr. De Groot's 20 years of employment with the Company, of which the last 4 years as a member of the Board of Managing Directors as of 2007.

In 2009/10 Mr. Hartman received a one-off payment of EUR 998,225, which 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)	2010/11	2009/10
P.F. Hartman	101,468	308,731
F.N.P. Gagey	-	-
J.E.C. De Groot	76,220	69,372
Total	**177,688**	**378,103**

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

According to the remuneration policy the Board of Managing Directors may retain payments they receive from other remunerated positions with a maximum number of 2 positions per Managing Director. The amount ceded to the Company amounts to EUR 29,700 (2009/10 EUR 59,700).

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 phantom shares and options are forfeited.
The maximum number of phantom shares granted to the Chief Executive Officer is 10,000, to the Chief Financial Officer 7,500 and to the Managing Director 6,000. For further information see note 28.

The current and former members of the Board of Managing Directors have the following positions with respect to the phantom shares granted under the KLM long-term incentive plan at March 31, 2011:

(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, 2011
P.F. Hartman						
July, 2008	10,000	July 1, 2013	(2,533)	-		7,467
July, 2009	10,000	July 1, 2014	(2,534)	-		7,466
July, 2010	10,000	July 1, 2015	(1,200)	-		8,800
	30,000		**(6,267)**	**-**		**23,733**
F.N.P. Gagey						
July, 2008	7,500	July 1, 2013	(1,900)	-		5,600
July, 2009	7,500	July 1, 2014	(1,900)	-		5,600
July, 2010	7,500	July 1, 2015	(900)	-		6,600
	22,500		**(4,700)**	**-**		**17,800**
J.E.C. De Groot						
July, 2008	6,000	July 1, 2013	(1,520)	-		4,480
July, 2009	6,000	July 1, 2014	(1,520)	-		4,480
July, 2010	6,000	July 1, 2015	(720)	-		5,280
	18,000		**(3,760)**	**-**		**14,240**
Total	**70,500**		**(14,727)**	**-**		**55,773**

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 have the following positions with respect to options on shares in AIR FRANCE KLM S.A. at March 31, 2011:

(Amounts in EUR)	Options vested unconditionally *	Exercise price per share	Expiry date	Number of options exercised	Average share price at exercise	Total outstanding as at March 31, 2011
P.F. Hartman						
2006	25,000	17.83	July 26, 2011	-		25,000
2007	25,000	34.21	July 25, 2012	-		25,000
	50,000			**-**		**50,000**
F.N.P. Gagey						
2006	25,000	17.83	July 26, 2011	-		25,000
2007	25,000	34.21	July 25, 2012	-		25,000
	50,000			**-**		**50,000**
J.E.C. De Groot						
2006	5,000	17.83	July 26, 2011	-		5,000
2007	20,000	34.21	July 25, 2012	-		20,000
	25,000			**-**		**25,000**
L.M. Van Wijk	(Until July 5, 2007)					
2006	25,000	17.83	July 26, 2011	-		25,000
2007	25,000	34.21	July 25, 2012	-		25,000
	50,000			**-**		**50,000**
Total	**175,000**			**-**		**175,000**

* Number of shares that can be acquired

As at March 31, 2011 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:

	2010/11	2009/10
Sales of goods and services		
AIR FRANCE KLM Group companies	102	155
Associates	12	10
Other related parties	1	1
Purchases of goods and services		
AIR FRANCE KLM Group companies	180	179
Associates	6	-
Other related parties	17	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 11. No loans were granted to or received from related parties during 2009/10 and 2010/11. During 2010/11 an operational lease contract for an aircraft was signed with KLM Amsterdam Ltd., in which the Group has a non-controlling interest of 40%.

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	
	2010/ 11	**2009/ 10**	**2010/ 11**	**2009/ 10**	**2010/ 11**	**2009/ 10**	**2010/ 11**	**2009/ 10**	**2010/ 11**	**2009/ 10**	**2010/ 11**	**2009/ 10**	**2010/ 11**	**2009/ 10**
Revenues														
Revenues External	5,702	4,873	1,695	1,278	446	467	752	778	56	73		-	8,651	7,469
Revenues Internal	383	304	15	14	661	624	(1)	1	179	176	(1,237)	(1,119)	-	-
Total revenue	6,085	5,177	1,710	1,292	1,107	1,091	751	779	235	249	(1,237)	(1,119)	8,651	7,469
Operating profit/(loss)	287	(138)	111	(153)	34	22	(39)	(20)	(10)	4		-	383	(285)
Share of results of equity shareholdings													2	(7)
Financial Income and expense													(159)	(114)
Gain/(loss) on disposal of assets													9	(30)
Income tax expense													(1)	114
Other													(87)	(61)
Profit/(loss) for the year													**147**	**(383)**
Depreciation and amortisation	(336)	(316)	(83)	(88)	(61)	(64)	(33)	(44)	(33)	(46)	7	12	(539)	(546)
Other non monetary items	(55)	(81)	(25)	(20)	(20)	(18)	1	1	59	95	-	8	(40)	(15)
Assets														
Intangible assets	67	35	1	1	4	7	2	6	71	70			145	119
Flight equipment	2,784	2,806	500	514	306	313	294	312	(4)	(28)			3,880	3,917
Other property, plant and equipment	131	124	46	50	226	257	13	13	241	270			657	714
Trade receivables	348	340	214	176	90	91	22	38	-	(13)			674	632
Other assets	1,386	1,092	(323)	(334)	184	173	315	319	4,306	4,167			5,868	5,417
Total assets	**4,716**	**4,397**	**438**	**407**	**810**	**841**	**646**	**688**	**4,614**	**4,466**	**-**	**-**	**11,224**	**10,799**
Liabilities														
Deferred revenues on sales	981	936	10	9	35	34	73	71	1	-			1,100	1,050
Other liabilities	3,524	3,877	477	560	69	129	450	460	2,921	2,483			7,441	7,509
Total liabilities	**4,505**	**4,813**	**487**	**569**	**104**	**163**	**523**	**531**	**2,922**	**2,483**	**-**	**-**	**8,541**	**8,559**

33 Secondary segment reporting

Revenues by destination 2010/11	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,647	183	941	1,401	1,309	5,481
Other passenger revenues	67	7	38	57	52	221
Total passenger revenues	**1,714**	**190**	**979**	**1,458**	**1,361**	**5,702**
Scheduled cargo	12	23	364	676	564	1,639
Other cargo revenues	0	1	13	23	19	56
Total cargo revenues	**12**	**24**	**377**	**699**	**583**	**1,696**
Maintenance	446					446
Other revenues	658	117	13	20	-	808
Total maintenance and other	**1,104**	**117**	**13**	**20**	**-**	**1,254**
Total revenues by destination	**2,830**	**331**	**1,369**	**2,177**	**1,944**	**8,651**

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**

Geographical analysis of assets: the major revenue-earning asset of the Group is the fleet, the majority of which are registered in The Netherlands. Since the Group's 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, 2011:

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 result for the year	Note	March 31, 2011	March 31, 2010
ASSETS			
Non-current assets			
Property, plant and equipment	35	3,555	3,655
Intangible assets		130	95
Investments accounted for using the equity method	36	593	442
Derivative financial instruments	4	104	127
Other financial assets	37	304	459
Pension assets	16	2,989	2,707
		7,675	**7,485**
Current assets			
Derivative financial instruments	4	488	238
Other financial assets	37	193	226
Inventories		175	163
Trade and other receivables	38	947	1,010
Cash and cash equivalents	39	1,182	1,027
		2,985	**2,664**
TOTAL ASSETS		**10,660**	**10,149**
EQUITY			
Capital and reserves			
Share capital	40	94	94
Share premium		474	474
Other reserves	40	304	(3)
Retained earnings		1,809	1,673
Total attributable to Company's equity holders		**2,681**	**2,238**
LIABILITIES			
Non-current liabilities			
Intercompany loans	41	587	593
Finance lease obligations	42	1,401	1,652
Derivative financial instruments	4	106	309
Other financial liabilities	43	1,503	1,339
Deferred income	44	191	206
Deferred income tax liabilities	45	475	335
Provisions	46	353	213
		4,616	**4,647**
Current liabilities			
Trade and other payables	47	1,813	1,648
Intercompany loans	41	28	22
Finance lease obligations	42	319	332
Derivative financial instruments	4	279	279
Other financial liabilities	43	91	87
Deferred income	44	788	746
Provisions	46	45	150
		3,363	**3,264**
Total liabilities		**7,979**	**7,911**
TOTAL EQUITY AND LIABILITIES		**10,660**	**10,149**

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

KLM Royal Dutch Airlines

Company income statement

In millions of Euros	2010/11	2009/10
Income/(loss) from subsidiaries after taxation	27	(70)
Profit/(loss) of KLM N.V. after taxation	120	(313)
Income/(loss) for the year	**147**	**(383)**

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 2010/11 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.

Investments accounted for using the equity method, over which significant influence is exercised, are stated on that basis. The share in the result of these investments comprises the share of the Company in the result of these investments. Results on transactions, where the transfer of assets and liabilities between the Company and its investments and mutually between these investments 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, 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
Other	-	-	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)
Other	-	-	-	-	(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**

	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, 2010	**779**	**2,413**	**1,175**	**4,367**	**560**	**508**	**97**	**1,165**	**156**	**5,688**
Additions	189	41	59	289	9	14	4	27	123	439
Disposals	(77)	(63)	(108)	(248)	-	(1)	(4)	(5)	-	(253)
Other	-	(36)	103	67	7	1	1	9	(115)	(39)
As at March 31, 2011	**891**	**2,355**	**1,229**	**4,475**	**576**	**522**	**98**	**1,196**	**164**	**5,835**
Accumulated depreciation and impairment										
As at April 1, 2010	**388**	**543**	**530**	**1,461**	**132**	**396**	**44**	**572**	**-**	**2,033**
Depreciation	96	113	120	329	29	22	8	59	-	388
Disposals	(61)	61	(103)	(103)	-	(1)	(4)	(5)	-	(108)
Other	74	(118)	-	(44)	10	(1)	2	11	-	(33)
As at March 31, 2011	**497**	**599**	**547**	**1,643**	**171**	**416**	**50**	**637**	**-**	**2,280**
Net carrying amount										
As at March 31, 2010	**391**	**1,870**	**645**	**2,906**	**428**	**112**	**53**	**593**	**156**	**3,655**
As at March 31, 2011	**394**	**1,756**	**682**	**2,832**	**405**	**106**	**48**	**559**	**164**	**3,555**

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

	March 31, 2011	March 31, 2010
Aircraft	180	126
Land and buildings	179	126
Other property and equipment	52	58
Carrying amount	**411**	**310**

Borrowing costs capitalised during the year amounted to EUR 5 million (2009/10 EUR 6 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2009/10: 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, 2011 was EUR 309 million (2009/10 EUR 320 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 nil million (2009/10 EUR 49 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, 2011	March 31, 2010
Subsidiaries	517	364
Associates	53	55
Jointly controlled entities	23	23
Carrying amount	**593**	**442**

	2010/11	2009/10
Subsidiaries		
Carrying amount as at April 1	**364**	**279**
Movements		
Investments	135	151
Change in consolidation scope	7	-
Share of profit/(loss) after taxation	27	(70)
OCI movement	1	9
Dividends received	(3)	(6)
Foreign currency translation differences	(14)	-
Other movements	-	1
Net movement	**153**	**85**
Carrying amount as at March 31	**517**	**364**

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

	2011		2010	
	Current	**Non-current**	**Current**	**Non-current**
Held-to-maturity investments				
Triple A bonds and long-term deposits	75	90	76	164
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	-
Restricted deposit EU Cargo Claim	116	-	-	-
AIR FRANCE KLM S.A. shares	-	13	-	16
Other financial assets	2	200	-	278
Total at fair value	118	213	150	294
Carrying amount as at March 31	**193**	**304**	**226**	**459**

38 Trade and other receivables

	March 31, 2011	March 31, 2010
Trade receivables	575	534
Provision trade receivables	(10)	(16)
Trade receivables - net	565	518
Amounts due from:		
- subsidiaries	121	243
- AIR FRANCE - KLM group companies	20	40
- associates and jointly controlled entities	2	2
- maintenance contract customers	78	87
Taxes and social security premiums	22	16
Other receivables	69	18
Prepaid expenses	70	86
Total	**947**	**1,010**

Maintenance contract costs incurred to date (less recognised losses) for contracts in progress at March 31, 2011 amounted to EUR 77 million (2009/10 EUR 71 million). Advances received for maintenance contracts in progress at March 31, 2011 amounted to EUR 28 million (2009/10 EUR 26 million). The maturity of trade and other receivables is within one year.

39 Cash and cash equivalents

	March 31, 2011	March 31, 2010
Cash at bank and in hand	48	58
Short-term deposits	1,134	969
Total	**1,182**	**1,027**

The effective interest rates on short-term deposits are in the range from 0.53% to 2.15% (2009/10 range 0.21% to 6.75%). 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 Intercompany loans

	March 31, 2011	March 31, 2010
Non-current portion	587	593
Current portion	28	22
Carrying amount	**615**	**615**

For the non-current intercompany loans with AIR FRANCE KLM amounting to EUR 386 million reference is made to note 11. For the guarantees from KLM to AIR FRANCE KLM reference made to note 20.

42 Finance lease obligations

	March 31, 2011	March 31, 2010
Non-current portion	1,401	1,652
Current portion	319	332
Carrying amount	**1,720**	**1,984**

43 Other financial liabilities

	March 31, 2011		March 31, 2010	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	566	-	528
Other loans (secured/unsecured)	91	905	87	779
Total	**91**	**1,503**	**87**	**1,339**

44 Deferred income

	March 31, 2011		March 31, 2010	
	Current	Non-current	Current	Non-current
Advance ticket sales	696	-	659	-
Sale and leaseback transactions	8	12	6	13
Flying Blue frequent flyer program	84	179	81	193
Total	**788**	**191**	**746**	**206**

45 Deferred income tax

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

	2010/11	2009/10
Carrying amount as at April 1	**335**	**251**
Movements:		
Income statement charge	30	(106)
Tax (credited)/charged to equity	107	182
Other movements	3	8
Net movement	**140**	**84**
Carrying amount as at March 31	**475**	**335**

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:

	2011	2010
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	14	23
Deferred tax assets to be settled after 12 months	353	350
	367	**373**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	7
Deferred tax liabilities to be settled after 12 months	835	701
	842	**708**
Carrying amount as at March 31	**475**	**335**

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 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**
Deferred tax assets 2010/11					
Tax losses	254	32	-	-	286
Fleet assets	28	(11)	-	(1)	16
Fleet related assets (maintenance)	6	(1)	-	-	5
Provisions for employee benefits	14	-	-	-	14
Financial lease	3	-	-	-	3
Derivative financial instruments	49	-	(107)	58	-
Other	42	-	-	(1)	41
Total	**396**	**20**	**(107)**	**56**	**365**

	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 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
Derivative financial instruments	-	-	-	-	-
Other	7	(1)	-	10	16
Total	**757**	**42**	**-**	**(68)**	**731**
Deferred tax liabilities 2010/11					
Other tangible fixed assets	15	(4)	-	-	11
Pensions & benefits (asset)	690	56	-	-	746
Maintenance provision	10	(2)	-	-	8
Derivative financial instruments	-	-	-	58	58
Other	16	-	-	1	17
Total	**731**	**50**	**-**	**59**	**840**

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.

46 Provisions

	Phasing-out costs of operating lease aircraft	Employee Benefit	Legal Issues	Other	Total
As at April 1, 2010	**97**	**155**	**105**	**6**	**363**
Charged to consolidated income statement:					
Additional provisions and increases in existing provisions	62	44	61	2	169
Unused amounts reversed	(7)	(8)	-	-	(15)
Used during year	(31)	(55)	(32)	(1)	(119)
Other changes	1	(1)	-	-	-
As at March 31, 2011	**122**	**135**	**134**	**7**	**398**
Current/non-current portion					
Non-current portion	115	101	131	6	353
Current portion	7	34	3	1	45
As at March 31, 2011	**122**	**135**	**134**	**7**	**398**

47 Trade and other payables

	March 31, 2011	March 31, 2010
Trade payables	670	613
Amounts due to subsidiaries	374	323
Amounts due to AIR FRANCE KLM Group companies	67	78
Taxes and social security premiums	58	65
Other payables	276	226
Accrued liabilities	368	343
Total	**1,813**	**1,648**

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 1, 2011

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

Independent 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, 2011 as set out on the pages 63 to 171. 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, 2011, 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, 2011, the company income statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

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. Furthermore, Management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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, including the Dutch Standards on Auditing. This 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 auditors consider 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, 2011, 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, 2011, 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 requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the Board of Managing Directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed.

Further, we report that the report of the Board of Managing Directors, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen/ Rotterdam, June 1, 2011

KPMG ACCOUNTANTS N.V.

T. van der Heijden RA

Deloitte Accountants B.V.

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

It is proposed that the net profit for 2010/11 amounting to EUR 146,982,000 be appropriated as follows:

Transfer to reserves		
• Retained earnings	EUR	142,298,648
Dividend distributions		
• Priority shareholders 2008/09		794
• Priority shareholders 2009/10		794
• Priority shareholders 2010/11		794
• Ordinary shareholders 2010/11		4,680,970
Total dividend distributions	EUR	4,683,352
Total transfer to reserves/ dividends	**EUR**	**146,982,000**
Interest expenses		
• A cumulative preference shareholders 2008/09 (6%)		1,057,500
• A cumulative preference shareholders 2009/10 (6%)		1,057,500
• A cumulative preference shareholders 2010/11 (6%)		1,057,500
• C cumulative preference shareholders 2008/09 (3.85%)		542,949
• C cumulative preference shareholders 2009/10 (3.85%)		542,949
• C cumulative preference shareholders 2010/11 (3.85%)		542,949
Total interest expenses	**EUR**	**4,801,347**

Five-Year Review

(in millions of EUR, unless stated otherwise)	**2010/11**	2009/10	2008/09	2007/08	2006/07
Consolidated income statement					
Passenger	5,702	4,873	5,602	5,667	5,423
Cargo	1,695	1,278	1,259	1,194	1,162
Other revenues	1,254	1,318	1,321	1,167	1,113
Revenues	8,651	7,469	8,182	8,028	7,698
Expenses	(8,268)	7,754	8,023	7,277	7,095
Income from current operations	383	(285)	159	751	603
Financial income and expense	(159)	(114)	(356)	(75)	(47)
Other non-current income and expenses	(78)	(91)	(11)	(198)	13
Pre-tax income	146	(490)	(208)	478	569
Income tax expense	(1)	114	62	(154)	(63)
Net result after taxation of consolidated companies	145	(376)	(146)	324	506
Share of results of equity shareholdings	2	(7)	(47)	(33)	10
Profit/(loss) for the year	147	(383)	(193)	291	516
Consolidated balance sheet					
Current assets	3,157	2,780	2,991	3,268	2,852
Non-current assets	8,067	8,019	8,026	8,237	7,676
Total assets	11,224	10,799	11,017	11,505	10,528
Current liabilities	3,507	3,449	3,627	2,894	2,818
Non-current liabilities	5,034	5,110	5,291	4,733	4,684
Group equity	2,683	2,240	2,099	3,878	3,026
Total liabilities	11,224	10,799	11,017	11,505	10,528

Five-Year Review

(in millions of EUR, unless stated otherwise)		**2010/11**	2009/10	2008/09	2007/08	2006/07
Key financial figures (KLM Group)						
Return on equity (%)		6.0	(17.6)	(6.5)	8.4	18.5
Result for the year as percentage of revenues		1.7	(5.1)	(2.4)	3.6	6.7
Earnings per ordinary share (EUR)		3.14	(8.18)	(4.14)	6.22	11.03
Result for the year plus depreciation		686	163	317	765	993
Capital expenditures (net)		(400)	(231)	(768)	(438)	(137)
Net-debt-to-equity percentage		109	118	72	57	87
Dividend per ordinary share (EUR)		0.10	-	-	0.58	0.48
Number of staff (KLM Group)						
(in FTE)						
The Netherlands		27,166	28,003	27,840	26,779	26,466
Outside The Netherlands		4,550	4,574	4,501	4,226	4,055
Employed by KLM		31,716	32,577	32,341	31,005	30,521
Total agency staff		1,726	1,455	2,017	1,997	2,034
Total KLM Group		33,442	34,032	34,358	33,002	32,555
Traffic (KLM Company)						
Passenger kilometers	*	76,974	74,129	76,667	75,073	72,367
Revenue ton freight-kilometers	*	3,738	4,134	4,575	4,947	4,823
Passenger load factor (%)		83.6	82.2	81.6	82.9	83.7
Cargo load factor (%)		72.9	71.2	67.9	74.1	74.1
Number of passengers (x 1,000)		23,104	22,446	23,505	23,354	22,634
Weight of cargo carried (kilograms)	*	491	540	606	657	627
Average distance flown per passenger (in kilometers)		3,332	3,300	3,262	3,214	3,197
Capacity (KLM Company)						
Available seat-kilometers	*	92,064	90,168	93,992	90,563	86,478
Available ton freight-kilometers	*	5,128	5,802	6,733	6,675	6,511
Kilometers flown	*	374	388	412	406	394
Blockhours (x 1,000)		560	585	622	616	597
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.1	6.3	7.0	7.3	7.2
Cargo (per RTK)		24.9	19.3	23.9	23.1	22.9
Number of staff (KLM Company)						
(in FTE)						
The Netherlands		21,004	21,340	21,876	21,426	21,600
Outside The Netherlands		2,698	2,756	2,923	2,910	2,612
Employed by KLM		23,702	24,096	24,799	24,336	24,212

* 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;
- Political unrest throughout the world;
- 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 labour 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 cost 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.