KLM Royal Dutch Airlines
Annual Report

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

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

Table of contents

	Page
Key figures	**2**
Report of the Board of Managing Directors	**3**
• Letter from the President	3
• Financial Performance	10
• Overview of significant KLM participating interests	14
• Traffic and Capacity	15
• Commercial and operational developments	16
• Safety	21
• Staff	23
• Fleet Development	24
• Fleet composition KLM Group	25
• Risks and risk management	26
Board and Governance	**41**
• Corporate Governance	43
• Report of the Supervisory Board	45
• Remuneration Policy and Report	52
• Supervisory Board and Board of Managing Directors	60
Financial Statements 2011	**63**
• **Consolidated financial statements**	**63**
• Consolidated Balance Sheet	64
• Consolidated Income Statement	65
• Consolidated Statement of recognised income and expenses	66
• Consolidated Statement of Changes in Equity	67
• Consolidated Cash Flow Statement	69
• Notes to the Consolidated Financial Statements	70
• **Company financial statements**	**162**
• Company Balance Sheet	162
• Company Income Statement	163
• Notes to the Company Financial Statements	164
Other Information	**174**
• Independent Auditors' Report	174
• Provisions of the Articles of Association on the Distribution of Profit	177
• Appropriation of Profit and Distribution to Shareholders	182
Miscellaneous	**184**
• Five-year review	184
• Glossary of Terms and Definitions	186
• Warning about Forward-Looking Statements	188

Key figures

In millions of Euros, unless stated otherwise	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 - March 31, 2011 (12 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
Revenues	**6,985**	8,651	8,904
Expenses before depreciation and long-term rentals	**6,096**	7,462	7,877
Depreciation and long-term rentals	**614**	806	819
Income from current operations	**275**	383	208
As a % of operating revenues	**3.9**	4.4	2.3
Profit for the period	**48**	147	1
Earnings per ordinary share (EUR)	**1.01**	3.14	0.02
Equity	**2,558**	2,683	2,558
As a % of total long-term funds	**34**	35	34
Return on equity (%)	**1.8**	6.0	-
Capital employed	**4,142**	4,179	4,142
Return on capital employed (%)	**5.2**	5.7	3.7
Net-debt-to-equity ratio	**119**	109	119
Dividend per ordinary share (EUR)	**-**	0.10	-
Traffic figures			
Passenger			
Traffic (in millions of revenue passenger-kilometers, RPK)	**65,218**	80,453	84,217
Capacity (in millions of available seat-kilometers, ASK)	**76,189**	96,276	99,893
Passenger load factor (%)	**85.6**	83.6	84.3
Cargo			
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**4,841**	6,533	6,442
Capacity (in millions of available ton freight-kilometers, ATFK)	**6,877**	8,874	9,065
Cargo load factor (%)	**70.4**	73.6	71.1
Financial position			
Cash flow from operating activities	**86**	609	144
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	**(311)**	(434)	(401)
Free cash flow	**(225)**	175	(257)
Average number FTEs of KLM Group staff			
Permanent	**30,001**	30,315	30,023
Temporary	**1,796**	1,401	1,682
Employed by KLM	**31,797**	31,716	31,705
Agency staff	**2,121**	1,726	2,036
Total KLM	**33,918**	33,442	33,741

Report of the Board of Managing Directors

Letter from the President

Fiscal 2011 was a year of two halves for KLM. We began it positively and continued the pronounced upward line we had commenced in 2010. Both passenger and cargo traffic recovered strongly from the crisis. Demand was again firm enough to redeploy the capacity we had earlier taken out of service. But the picture changed completely after the summer. Europe failed to find an adequate solution to the international debt crisis and the continent slipped back into a slow down at the end of 2011. Economic growth, which was just showing cautious signs of recovery, flattened or even declined. Stock prices and interest rates fell, consumer confidence weakened, pension funding rates came under pressure and banks were reluctant to extend credit to businesses and consumers.

Such developments have a near immediate impact on an international company such as KLM. Cargo transport – always a bellwether of economic change – was the first to be hit by the economic uncertainty. Passenger traffic suffered a slight decline in demand, particularly from south European countries, and a renewed pressure on yields due in part to business passengers continuing to prefer Economy Class to Business Class.

Yet there is no reason for KLM to write 2011 off as a bad year. Given the circumstances, we came through the year well. The passenger load factor is one of the highest in industry, unit cost are 1% lower, our Cargo combination with Air France is still the largest airfreight carrier in the world and we closed the nine-month fiscal year with a modest profit. And we notice every day that the spirit among our people is still buoyant. We are confident that KLM, together with Air France, will continue to be a leader in the air transport industry. But we are also aware of the very hard economic circumstances in which we must operate.

2011 again proved how flexible KLM can be in uncertain and difficult times. Flights were seriously disrupted on several occasions, for example by the earthquake, tsunami and the nuclear problems in Japan and by the social unrest in the Arab world, but we overcame the problems efficiently and safely thanks to the hard work of many people. We also identified opportunities to exploit new commercial openings.

The capacity that became available, for example, was used to open up commercially attractive routes to Rio de Janeiro and Buenos Aires. We again extended our network in China and further strengthened our position in Africa and Central America.

In the circumstances, KLM is in reasonable shape. But we are preparing ourselves for a lengthy period of growing uncertainty and permanently changing market conditions. To give one example, fuel cost rose to extreme heights in the past year and are now the largest cost item – more than 30% – in our entire operation. Despite a strict fuel hedging policy, fuel cost increased by EUR 270 million in 2011. Such cost hikes in a fiercely competitive industry cannot be passed on in full to customers and therefore have a negative impact on the profitability of both our passenger and cargo operations.

Margins in our industry are under intense pressure. On the one hand, some cost factors, such as fuel prices, are difficult to influence. On the other, the market is still attracting new carriers. We are no strangers to competition from low cost carriers on short and medium haul routes. We have risen successfully to this competition through our subsidiary transavia.com and our keenly priced KLM products. However, we are currently seeing a growing number of new parties entering the long haul market. Large, financially strong carriers from the Gulf region are pursuing aggressive strategies to win market share on these routes.

KLM is not afraid of competition. With our close-knit European network, we are capable of feeding traffic through Amsterdam and Paris to a large number of intercontinental destinations. Our cooperation with Air France, the joint dual hub strategy, the quality of our product and the versatility of our organisation provide a good platform. With such intense competition, though, it is important that the rules are the same for everyone. Unfortunately, 'Europe' is increasingly pricing itself out of the market with measures from Brussels that put European airlines at a disadvantage to competitors from other continents. The playing field is not level.

One of the measures KLM continues to oppose is the way in which the European Commission has introduced the CO_2 Emissions Trading System (ETS). KLM does not oppose the trade in CO_2 emissions allowances – on the contrary – but the way in which it is being implemented. In practice, the European system can make it financially more advantageous for intercontinental passengers to transfer from Dubai instead of Amsterdam or Paris because CO_2 emission charges do not need to be paid there. This results in more flying hours and overtax the environment, while this is not the intended purpose of the introduction of ETS.

Europe is in danger of becoming even more isolated now that a large number of countries, including the US, China and Russia, are threatening to impose additional levies and charges on European airlines entering their airspace by way of compensation for the European charges.

Another example of market distortion is the European measure requiring airlines to pay for cost relating to care and assistance when passengers are delayed (Regulation EU 261/2004). In years such as 2011, when operations were again seriously disrupted by wind, fog and other natural phenomena, companies such as KLM must bear huge financial burdens even though they have absolutely no influence on the circumstances. If snow, wind or fog delay road transport, traffic jams are socially acceptable. But when air transport is afflicted by the same circumstances, the airlines are held responsible.

Indecision about the debt crisis is not the only factor weakening the European industry; it does not seem to have fully realized that in a global market all manner of European rules can quickly distort the competition. Europe is no longer an unquestioned economic powerhouse in the world. There are clear signs that economic activity is shifting to the East. If we want to remain a meaningful player in the new economic order, we must not cling to a narrow European outlook but move closely with global trends.

Financial results

In the nine months of the book year 2011, we could keep the load factors in our Passenger and Leisure Businesses at very high levels, also by adjusting our network quickly as a reaction to unfavorable events in some parts of the world. The Cargo Business suffered from lower load factors as a result of the declining demand. In all our businesses we reduced capacity during the year in order to keep yields at acceptable levels. The yield development, although slightly positive for the KLM Group, was not sufficient to compensate for the increased fuel bill.

We closed 2011 with an operating income of EUR 275 million and a modest net profit of EUR 48 million but the rapidly changing circumstances seen in 2011 clearly place KLM's financial position in a different light. We cannot avoid the conclusion that the recovery in fiscal 2010/11 was only temporary.

The outlook for the world economy is so diverse that we must be prepared for continuous uncertainty and pressure on our future financial position. Cash flow from operating activities is positive but too small and so inadequate to sustain or enhance our operational plans, such as the proposed replacement and enlargement of the fleet.

This is a challenging situation for KLM. In every year between 2005 and 2008, we were able to finance necessary investments from operating cash flow but the prolonged economic crisis has slowly exhausted the solid financial position we had relied upon before 2008. No company can spend more than it earns year after year without its debts becoming unacceptably high. Furthermore, debt financing becomes more difficult and more expensive.

KLM can consider itself fortunate that it was able to make investments in recent years, for example to renew the fleet with modern fuel-efficient aircraft. Our greatest challenge now is to reduce the debt position. We will therefore consider the height of our future investments very judiciously. Unit cost will have to be driven down and revenue must be improved.

Although KLM's capital position has weakened by four years of economic crisis, we recognised the structural problems in our industry back in 2008 and took measures in anticipation. Fiscal year 2010/11 seemed to mark a turnround but we must now accept that the crisis is not over and we must continue to adapt our regime to it. During the past fiscal year we critically reviewed our cost cutting and other programs before deciding whether to continue them or not. More so than in previous years, KLM is facing the challenge of fighting for every scrap of the market. The utmost will be demanded of the organisation's creativity in order to improve the network's profitability, simplify processes and increase productivity.

Enlargement and renewal

Despite the weakening economic outlook in the second half of the year, KLM used 2011 to invest in enlarging its network and improving its products. Our network development is focused firmly on emerging markets in Asia, South America and to a growing extent Africa. The opening of a direct scheduled service to Xiamen in March 2011 increased the number of destinations in Greater China served by KLM and its partners to eight and as such KLM and partners offer more connections to China than any other European airline. With a total of 54 flights a week, KLM and its partners have grown rapidly to become the largest flight operator between Western Europe and Greater China. The contacts with

Greater China are not confined to scheduled services. The accession of China Eastern and China Airlines to SkyTeam (and the signing of the protocol for Xiamen Airlines to join) have strengthened the ties with this economically important region.

In South and Central America too, we identified new opportunities in book year 2011 and opened services to Rio de Janeiro, Buenos Aires and other destinations. Also the African continent is becoming economically more attractive. Together with our strategic partner Kenya Airways, we intend to strengthen our position through the hub in Nairobi as well as through our direct connections.

The fleet renewal program made steady progress in 2011 and we are operating more fuel-efficient and quieter aircraft. We can look back on many product innovations and improvements both on the ground and onboard last year but the most spectacular developments were seen in Social Media. We are the absolute leader in our industry. Not only are Twitter, Facebook and other Social Media important marketing tools, they also put us in direct touch with our customers 24 hours a day, 7 days a week. Social Media are a fantastic means of communication during unexpected conditions and on many days last year they enabled us to inform customers of the constant changes that fog, high winds or snow were forcing us to make our arrival and departure times.

Martinair and transavia.com

For Martinair, a full member of the KLM Group since the beginning of 2009, 2011 was a turbulent and historic year. On 31 October the company brought to an end the passenger operations it had first started in 1960. Martinair now concentrates exclusively on airfreight, for which it has 12 aircraft in the fleet. Martinair will therefore remain a prominent brand in the market. Behind the scenes, it forms an integrated unit with AIR FRANCE KLM Cargo and will share offices with the cargo organisation at Schiphol.
transavia.com, a wholly owned subsidiary of KLM, celebrated its 45th anniversary in November 2011. The year was one of growth from the Netherlands region and a return to profitability. The focus remains fixed on the leisure market from and to the Netherlands. The market is served by means of both scheduled and charter flights from Amsterdam, Rotterdam, Eindhoven and Groningen. The carrier successfully responded last year to the growing demand for city trips and reported a sharp increase in flights to winter sports destinations. transavia.com took a raft of measures that successfully reduced its unit cost last year.

Developments at Schiphol

Important agreements on the development of Schiphol Airport, KLM's 'home', have been made in recent years. The Alders Agreement and its implementation will give Schiphol the potential to consolidate its position as an international mainport. The fact that Schiphol welcomed a record number of nearly 50 million passengers – and hence again became the fourth largest airport in Europe – confirms the mainport's great importance. The lion's share of these passengers flew with KLM or its partners. Cooperation between KLM and Schiphol remains of crucial importance to retain the mainport's status and strengthen the Dutch economy. KLM believes the income Schiphol, as a monopolist, generates from the passengers carried by KLM and other carriers should be shared with the airlines and used to invest in the airport.

A great deal of energy was again invested in 2011 in the implementation of the new standards and enforcement system to reduce noise levels around the airport. The principles underpinning the system are sound and the parties involved are engaged in constructive talks but in practice implementation is proving far from straightforward. In a densely populated country such as the Netherlands, it is virtually impossible to spare every town and village when plotting the optimal flight path. Our decisions must not lose sight of the bigger picture. KLM is continuing to keep its commitment in reducing noise levels, in part by flying quieter aircraft with more capacity and by adopting different approach and landing procedures.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is firmly anchored in every level of the KLM organisation. This was seen during the year in the Corporate Social Responsibility workshops held to enable KLM staff throughout the organisation to discuss new ideas and initiatives in every discipline. The fact that AIR FRANCE KLM headed the Dow Jones Sustainability Index for its industry for the seventh year in succession and even become Super Sector Leader in 2011 is the result not of one department or a handful of people but of the KLM community as a whole.

Reducing CO_2 emissions remains a key priority. The steps we are taking sometimes seem small – such as the introduction of new and lighter tableware in World Business Class and light-weight airfreight pallets – but they all help reduce fuel consumption. In just five years such measures have successfully reduced our kerosene consumption by 4.8%.

In June we wrote history by becoming the first airline in the world to operate a commercial flight using fuel made in part from used cooking oil. As a matter of principle, we do not use raw materials that can be used for food. More than 100 flights have since flown to and from Paris with biokerosene in their tanks. The fuel meets the same technical specifications as 'ordinary' kerosene. The biokerosene flight crowned four years of collaboration with the World Wide Fund for Nature promoting the sustainability of the aviation industry. The next step is to ensure an adequate supply of biokerosene so that its price becomes more competitive and a start can be made on its wide-scale use. Our ambition remains to have the entire KLM fleet fly on 1% sustainable fuel on average by 2015. We are encouraging the production of biokerosene through SkyNRG, a company in which KLM has an equity interest. We would greatly appreciate the support of the government in this ambition as it would significantly accelerate the process.

The future

We look back on 2011 with mixed feelings. On the one hand, it was a year full of new hopes, positive results, new destinations, new plans, new investments, new fuels and improved products. On the other, it was a year in which the storm clouds quickly gathered. There can be no doubt about how seriously we must take the new economic challenges. To live up to our philosophy of '*keeping the family together*' we will again call on the flexibility of our people. We must organize our work more smartly and simply in order to increase productivity. Cash is and will remain king. We will again review our investments and take measures to improve our debt position. We must generate the maximum synergy from all our alliances and partnerships, not only in the KLM Group and within AIR FRANCE KLM but also with our partners on North Atlantic routes, in China, Africa, and within SkyTeam.

We are on the eve of a challenging period in which we must take structural measures together to secure the future of the KLM Group. Our employees are keenly aware that we have to take action. We will rise to this challenge together in 2012, full of confidence in the flexibility and agility of the KLM Group.

Peter Hartman
President and CEO, KLM

Financial Performance

General comments

In this financial performance the 9 months period April 1, 2011 until December 31, 2011 (fiscal 2011) is compared to the proforma unaudited figures for the same 9 months period 2010. The 12 months period January 1, 2011 until December 31, 2011 (unaudited calendar year 2011) and the 12 months period April 1, 2010 until March 31, 2011 (fiscal 2010/11) are given for information.

In fiscal 2011 KLM booked a positive operating income of EUR 275 million. The increased fuel cost is the main reason for a lower income from current operations compared to the same period last year. Passenger and Leisure capacity was actively managed, leading to high load factors. In Cargo load factors were affected due to declining demands and additional capacity by other airlines.

In millions of Euros	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 - December 31, 2010 (9 months) Proforma unaudited	Variance %	January 1, 2011 - December 31, 2011 (12 months) Proforma unaudited	April 1, 2010 - March 31, 2011 (12 months)
Revenues	6,985	6,768	3	8,904	8,651
External expenses	(4,627)	(4,337)	7	(5,968)	(5,641)
Employee compensation and benefit expenses	(1,637)	(1,613)	1	(2,177)	(2,153)
Depreciation and amortisation	(410)	(402)	2	(547)	(539)
Other income and expenses	(36)	34	-	(4)	65
Total expenses	(6,710)	(6,318)	6	(8,696)	(8,268)
Income from current operations	**275**	**450**		**208**	**383**

Revenues

Revenues were up by 3.2%, to EUR 6,985 million (+ 4.8% at constant exchange rates), compared to the same 9 months period of 2010. Capacity (in EASK's) was 4.1% higher than last year.

Passenger transport revenues were at EUR 4,675 million, 4.8% higher compared to the same 9 months period 2010, with an increase of capacity, measured in available seat kilometers of 5.0% (including Martinair Leisure Business). Unit revenue decreased with 1.7% (- 0.3% at constant exchange rates). Revenue per Passenger kilometer (yield) decreased by 2.8% (-1.4% at constant exchange rates), while load factor improved to 85.6% (+ 0.9% point).

Cargo transport revenues remained in line with last year at EUR 1,271 million, with a capacity increase of 2.9%. Unit revenue decreased with 3.4% (-0.5% at constant exchange rates). Revenue per ton-kilometer (yield) increased by 1.3% (+ 4.2% at constant exchange rates), whilst load factor decreased 3.4% point versus the comparative 9 months period 2010 to 70.4%.

Transport revenues of the Leisure Business decreased by 4.7% to EUR 606 million compared to the same 9 months period 2010, which is mainly due to the ending of the leisure activities of Martinair per end October 2011. transavia.com increased revenues by 4.8%.

Revenues from maintenance for third parties and the work performed for Air France amounted to EUR 392 million, representing an increase of 11.7%, compared to the 9 months period 2010, mainly resulting from higher maintenance revenue from Air France.

Expenses

Expenses increased by 6% to EUR 6,710 million (10.1% at constant exchange rates) compared to the 9 months period 2010.

Aircraft fuel cost increased by 15% to EUR 2,067 million. The average jet fuel price was 18% higher than the 9 months period 2010, whilst the USD was 7.1% weaker.

Excluding fuel, expenses increased by 2.9% with a capacity increase measured in "equivalent" seat kilometers of 4.1%. At constant exchange rates, unit cost were 0.9% lower than the 9 months period 2010.

Employee cost increased by 1.5% to EUR 1,637 million, mainly due to Collective Labour Agreements increases and higher pension cost. The average workforce employed by the KLM Group was 31,797 FTE's (9 months period 2010: 31,812 FTE's).

Income from current operations

In fiscal 2011, the income from current operations amounted to EUR 275 million (9 months period 2010: EUR 450 million). The increased fuel bill and the fact that the extra cost was only in part recoverable in revenues are the main reasons for the lower income from current operations.

The results of the Passenger Business decreased mainly because Passenger transport revenues per available seat kilometer could not offset the higher fuel cost. Operating cost increased but far less than capacity, resulting in 1.3% lower unit cost (excluding currency effects and fuel). The income from current operations was EUR 223 million, compared to EUR 324 million in the 9 months period 2010.

Cargo Business operating income was EUR 17 million (9 months period 2010: EUR 94 million). The decrease is mainly due to lower demand for Cargo traffic resulting in a 3.4% lower load factor and increased fuel cost.

Maintenance activities accounted for EUR 31 million of operating income (9 months period 2010: EUR 29 million). The leisure activities realised an operating profit of EUR 11 million, of which EUR 31 million for transavia.com and an operating loss of EUR 20 million for Martinair leisure.

In millions of Euros	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 - December 31, 2010 (9 months) Proforma unaudited	January 1, 2011 - December 31, 2011 (12 months) Proforma unaudited	April 1, 2010 - March 31, 2011 (12 months)
Income from current operations	275	450	208	383
Other non-current income and expenses	(3)	(70)	(11)	(78)
Net cost of financial debt	(95)	(93)	(123)	(120)
Other financial income and expenses	(112)	(72)	(79)	(39)
Pre-tax income	65	215	(5)	146
Income tax benefit/(expenses)	(22)	(25)	3	(1)
Share of results of equity shareholdings	5	5	3	2
Profit for the period	**48**	**195**	**1**	**147**

The net profit fiscal 2011 was EUR 48 million (9 months period 2010: EUR 195 million).

Other non-current income and expenses show a loss of EUR 3 million in fiscal 2011. The EUR 70 million loss in the 9 months period 2010 mainly relates to the increase in the provision for European Cargo anti-trust investigations.

The increase in other financial expenses mainly relates to the revaluation of KLM's debt in foreign currencies, the time value on fuel and finance derivatives and the lower market value of the AIR FRANCE KLM shares owned by KLM.
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	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 - December 31, 2010 (9 months) Proforma unaudited	January 1, 2011 - December 31, 2011 (12 months) Proforma unaudited	April 1, 2010 - March 31, 2011 (12 months)
Cash flow from operating activities	86	523	144	609
Cash flow from investment activities	(311)	(317)	(401)	(434)
(Increase) / Decrease in short-term deposits and commercial paper	75	(50)	159	34
Cash flow from financing activities	(25)	(209)	122	(62)
Other	3	1	-	(3)
Changes in cash and cash equivalents	**(172)**	**(52)**	**24**	**144**

The operating cash flow of EUR 86 million positive, is composed of a cash flow from operating activities before working capital of EUR 354 million and a negative working capital movement of EUR 268 million.

Investing cash flow amounted to EUR 311 million, of which EUR 288 million for fleet renewal and modifications. Next to prepayments for future fleet, three Boeing 737-800 and eight Boeing 737-700 aircraft entered the fleet in fiscal 2011. Fleet related investments amounted to EUR 102 million, including EUR 83 million for capitalised fleet maintenance. Other capital expenditure amounted to EUR 77 million (including EUR 50 million for capitalized software) whilst disposal of aircraft led to an income of EUR 156 million and mainly relate to aircraft sale and leaseback operations.

The financing cash flow was EUR 25 million negative. New financing include financing of the new fleet amounting to EUR 247 million, other movements of EUR 81 million and a EUR 150 million loan from AIR FRANCE KLM S.A. This relates to the bond issue by AIR FRANCE KLM S.A. for a total amount of EUR 700 million on October 14, 2009, of which KLM can draw a total amount of EUR 350 million.
Redemption of finance lease liabilities amounted to EUR 383 million, redemption on existing loans amounted to EUR 120 million.

Equity decreased to EUR 2,558 million at December 31, 2011 (EUR 2,683 million per March 31, 2011) as a result of the positive net result for the fiscal year 2011 and the negative movements in the value of fuel hedge derivatives that are reported in “Other Comprehensive Income”, part of the equity. Including the subordinated perpetual loans and the preference shares, the near equity amounts to EUR 3,234 million at December 31, 2011 (EUR 3,292 million at March 31, 2011). The net debt to equity ratio increased from 109% to 119%.

Overview of significant KLM participating interests

As at December 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	
In millions	2011 (9 months)	2010/11 (9 months)	% Change	2011 (9 months)	2010/11 (9 months)	% Change	2011% (9 months)	% 2010/11 (9 months)
Route areas								
Europe & North Africa	11,013	9,674	13.8	13,268	12,133	9.4	83.0	79.7
North America	15,274	14,601	4.6	17,067	16,531	3.2	89.5	88.3
Central and South America	5,750	4,843	18.7	6,552	5,589	17.2	87.8	86.7
Asia	18,969	17,574	7.9	21,883	20,248	8.1	86.7	86.8
Africa	7,491	7,850	(4.6)	8,978	9,523	(5.7)	83.4	82.4
Middle East	3,087	3,012	2.5	3,948	3,874	1.9	78.2	77.8
Caribbean and Indian Ocean	3,634	3,899	(6.8)	4,492	4,675	(3.9)	80.9	83.4
Total	**65,218**	**61,453**	**6.1**	**76,189**	**72,573**	**5.0**	**85.6**	**84.7**

Passenger	Passenger kilometers			Seat kilometers			Load factor	
In millions	2011 (12 months)	2010/11 (12 months)	% Change	2011 (12 months)	2010/11 (12 months)	% Change	2011% (12 months)	% 2010/11 (12 months)
Route areas								
Europe & North Africa	13,466	12,127	11.0	16,706	15,571	7.3	80.6	77.9
North America	16,929	16,255	4.1	19,538	19,002	2.8	86.6	85.5
Central and South America	9,621	8,713	10.4	11,031	10,067	9.6	87.2	86.6
Asia	24,841	23,446	5.9	28,783	27,148	6.0	86.3	86.4
Africa	9,828	10,188	(3.5)	12,017	12,562	(4.3)	81.8	81.1
Middle East	4,517	4,442	1.7	5,745	5,671	1.3	78.6	78.3
Caribbean and Indian Ocean	5,016	5,281	(5.0)	6,073	6,255	(2.9)	82.6	84.4
Total	**84,217**	**80,453**	**4.7**	**99,893**	**96,276**	**3.8**	**84.3**	**83.6**

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2011 (9 months)	2010/11 (9 months)	% Change	2011 (9 months)	2010/11 (9 months)	% Change	2011% (9 months)	% 2010/11 (9 months)
Route areas								
Europe & North Africa	27	17	64.1	246	193	27.7	11.1	8.6
North America	829	782	6.0	1,237	1,149	7.7	67.0	68.1
Central and South America	1,023	1,079	(5.2)	1,375	1,385	(0.7)	74.4	77.9
Asia	2,013	2,053	(2.0)	2,602	2,515	3.5	77.4	81.6
Africa	775	788	(1.7)	1,020	1,026	(0.5)	75.9	76.8
Middle East	123	160	(23.0)	224	251	(10.9)	54.9	63.6
Caribbean and Indian Ocean	51	54	(4.3)	172	167	2.9	29.8	32.0
Total	**4,841**	**4,932**	**(1.8)**	**6,877**	**6,686**	**2.9**	**70.4**	**73.8**

Cargo	Traffic			Capacity			Load factor	
In million cargo ton-km	2011 12 months)	2010/11 (12 months)	% Change	2011 (12 months)	2010/11 (12 months)	% Change	2011% (12 months)	% 2010/11 (12 months)
Route areas								
Europe & North Africa	32	21	50.1	305	252	21.2	10.4	8.4
North America	960	914	5.1	1,437	1,349	6.5	66.8	67.7
Central and South America	1,519	1,575	(3.6)	2,006	2,016	(0.5)	75.7	78.2
Asia	2,658	2,698	(1.5)	3,423	3,336	2.6	77.7	80.9
Africa	1,035	1,048	(1.2)	1,368	1,373	(0.4)	75.7	76.3
Middle East	165	202	(18.2)	299	326	(8.4)	55.4	62.0
Caribbean and Indian Ocean	73	75	(3.1)	227	223	2.1	31.9	33.6
Total	**6,442**	**6,533**	**(1.4)**	**9,065**	**8,874**	**2.2**	**71.1**	**73.6**

Commercial and operational developments

Passenger Business

The number of passenger kilometers remained relatively firm in 2011 despite the economic threats in the second half of the year. They increased by 6.1% from 61,453 million to 65,218 million. With a 5.0% increase in capacity, the load factor came to 85.6%. Passenger traffic results were depressed, by rising fuel cost and the difficult economic conditions. Demand for Business Class has still not returned to the level seen before the financial crisis. Growth in the United States is low and Europe is in recession but the economies of other parts of the world, such as South America, parts of Asia and several countries in Africa, are dynamic. KLM is pursuing selective growth and identified opportunities for new commercially attractive destinations in these markets in 2011. They include Buenos Aires and Rio de Janeiro. The South American market is developing favorably. A destination such as Panama, which was started three years ago, is now being flown six times a week. In Greater China, KLM has built up a strong position in a relatively short period of time. On the African continent, the cooperation with Kenya Airways was deepened further and KLM is making preparations to serve new destinations in Africa.

On European routes, a more aggressive pricing policy increased the number of leisure passengers carried from the Netherlands by approximately 400,000.

2011 was also a year of disruptions in flights. The natural disaster in Japan and the political unrest in the Arab world had an impact on passenger traffic well into the year. Flights had to be cancelled or scaled down, routes had to be changed and in a number of cases KLM personnel had to be temporarily moved for safety reasons. Social Media (Facebook, Twitter and the 24/7 availability of our Social Media Hub) and KLM Connect (email and SMS information service) proved their value during these disruptions and their use enabled us to communicate very quickly, effectively and directly with our customers. And our customers greatly appreciated our efforts.

Product development

Even in economically difficult times, KLM continues to invest in improving its products and services. Last year KLM improved the new European Business Class to offer a full Business Class product on short haul flights. By leaving the centre seat vacant, we can offer passengers more space and comfort. The meals are better matched to the length and time of the flights and new tableware from the hand of Dutch designer Marcel Wanders has been introduced. The new tableware, which is also used in World Business Class, upholds the tradition of commissioning Dutch designers to create KLM products. Following the new uniforms designed by Mart Visser in 2010, the tradition was continued last year with the comfort bag created by fashion designers Victor & Rolf. It is already being looked upon as a collector's item.

Passengers in Economy Class could already opt for extra leg room (Economy Comfort) and since last year they have been able to order à la carte meals through the internet before their flights. E-commerce is growing in importance in the service we provide to our customers. We comfortably exceeded our goal of selling more than 20% of tickets by internet or mobile telephone last year. More than 70% of KLM passengers now check in electronically. Significant steps were taken with Social Media such as Twitter and Facebook in 2011. The number of people following KLM on Social Media quadrupled in the course of the year to more than 1,25 million. Twitter is an extremely effective means of communication; passengers who tweet their flight numbers are informed within a minute of the latest departure and arrival times and people who tweet a flight route or date are automatically sent the lowest available price. Since July, everyone asking KLM a question through the Social Media receives an answer within an hour, 24 hours a day, seven days a week. KLM received several awards for its new e-commerce services last year. Not only are the new media appreciated by customers and improve customer contact, they are also more efficient.

Operational quality

The extensive network of destinations served by KLM and the substantial and growing number of passengers it carries resulting in high demands on the quality of our operations. The situation is further complicated by the very complex approach routes that often have to be flown to reduce noise levels in residential areas in combination with the desire to make the most economical use of fuel in landing procedures. Baggage handling procedures for the relatively high proportion of transfer passengers that fly with KLM, for example, are more complex than those for passengers on direct flights.

A study was carried out with Air Traffic Control The Netherlands last year of the optimal descent speed to maximize fuel savings. Internationally, KLM worked on optimizing transatlantic routes so that pilots can anticipate airport congestion at a far earlier stage and adjust their flight speed accordingly.

For many years KLM has been calling for improvements to optimize flights in European airspace (the Single European Sky). Considerable savings can be made in flight times to and from Schiphol and thus in fuel consumption. The basic agreements have already been reached at European level but their reluctant implementation means the improvements have not yet been achieved in practice.

A trial project involving iPads on our aircraft was introduced during the year. The iPads enable the pilots and cabin crew to share information about the flight or the airplane more quickly and efficiently. They also reduce the amount of paper that is used onboard.

Cargo

Cargo began 2011 with a rapid and strong recovery but the economic crisis depressed demand for cargo transport in the second half of the year. Since many airlines had taken additional capacity into service in 2010 and early 2011, rates came under pressure from the resultant global overcapacity. This underlines the need to adhere to our strategy of carrying as much airfreight as possible in the bellies and or in the main decks of our passenger aircrafts, in addition using full freighters only on routes with substantial cargo flows.

We must also respond alertly and flexibly to changing market demand and adapt routes or add stopovers where necessary to optimize revenue. The worldwide commercial operations of AIR FRANCE KLM Cargo and Martinair Cargo were fully integrated in 2011 to create a joint offer for our customers. Martinair, which is positioned within the joint AIR FRANCE KLM Cargo Business as a flexible full freighter specialist, operates 12 freighters from Schiphol. Cargo will have to compete principally on quality in the years ahead. Cargo's strength lies in its knowledge of local markets and customers throughout the world. A new commercial policy has been introduced to forge closer ties with producers and forwarders who want their products to be delivered problem-free and exactly on time: '*Flown as planned and delivered as promised*'. To further increase the reliability of the service and make business processes even more efficient, new investments were made in specialized ICT products (e-freight).

Special attention was paid during the year to the position Cargo will take in emerging markets, such as flights between Africa and China. Thanks to the strategic cooperation with Kenya Airways and the Chinese partners in SkyTeam, AIR FRANCE KLM Cargo is developing the hub in Nairobi in order to open up access to the entire African market.

Engineering & Maintenance

Engineering & Maintenance (E&M) again reported an operating profit and succeeded in reducing KLM's maintenance cost. These positive results were due in part to improved productivity and a thorough cost saving program. The subsidiaries KLM UK Engineering (chiefly Fokker 50/70/100 and Boeing 737 maintenance) and Epcor (pneumatic systems and auxiliary power units) made healthy contributions to E&M's positive results in 2011.

In parts and engine maintenance, E&M performed well against fierce international competition. Parts maintenance contracts were again concluded with several major carriers such as Malaysia Airlines. Airframe maintenance is very labor-intensive and therefore less profitable. Major in-house overhauls (D checks) of Boeing 747's were terminated in 2011. The work has been outsourced to certified foreign maintenance companies. The staff consequences of this decision could be absorbed without problems within our own organisation and resulted in a substantial cost saving.

Synergies were again generated from cooperation within the KLM Group and with Air France in 2011. Agreements were made to concentrate engineering and the management of parts for certain aircraft types in Amsterdam and Paris so that both operating companies can limit their investments in people and equipment.

transavia.com

transavia.com is a specialist operator of both charter and scheduled flights in the leisure market. Every year it carries passengers to more than 90 destinations in Europe and North Africa, especially to the Mediterranean area and the major winter sports resorts. In the Netherlands, transavia.com is the market leader in the air holiday flight market. transavia.com France, in which transavia.com has a 40% interest, operates the same business model from Paris.

Market demand developed positively in 2011. The destination portfolio was increased with new destinations from Amsterdam (Athens and Lisbon), Rotterdam (Vienna, Milan, Prague, Madrid, Montpellier, Toulon, Biarritz and Chambery) and Eindhoven (Barcelona, Ibiza, Palma de Mallorca and Nice). Winter sports destinations were flown from Groningen for the first time.

Cooperation within the KLM Group was intensified during the year. Important steps were taken for cooperation in aircraft maintenance. transavia.com started to carry KLM transfer passengers to a number of transavia.com destinations.

Safety

Safety is a basic element in the KLM operations and a vital ingredient for customer satisfaction. KLM seeks continuous improvement in its safety performance. Its safety management system continuously monitors, analyses and manages safety risks. KLM is constantly raising the system's professional standards; this is a major undertaking being carried out by all the operational divisions.

KLM is audited every two years to retain its IOSA registration (IATA Operational Safety Audit). IOSA covers all operational management and control measures that play a part in safety procedures. KLM's safety performance is ensured by properly documented and observed process descriptions based on applicable legislation and regulations. Safety, however, depends not only on good equipment and procedures but above all on the expertise and dedication of all members of staff. KLM encourages its staff to report unsafe situations and guarantees those that do a 'just culture': staff can report an incident or dangerous situation without fear of reprisal.

A survey was carried out of the safety culture among all KLM staff worldwide in 2011. It presented KLM with an accurate picture of the status of the safety culture within the organisation. Flight safety is built into the genes of the entire company and is first nature to all our people. The areas in which improvements can still be made are limited but not less important for that. Several programs and initiatives to improve safety and safety awareness have been launched for the cockpit, cabin and ground staff.

We are increasingly working together within KLM in the fields of operational safety and occupational safety. Our aims are to integrate our procedures and learn from each other. The Cargo division, for example, introduced a work permit system in 2011 to ensure that third parties also work safely at KLM. KLM will roll the system out across the organisation in 2012.

KLM goes the extra mile when it comes to safety. With its partners in Safety Platform Schiphol, it is working on improving safety at and around Schiphol. Joint measures have been taken, for example, to reduce the number of bird strikes and airspace violations. KLM is also helping to develop policy on the construction of high buildings near Schiphol to ensure that the number of obstacles does not increase and to keep safety risks to a minimum.

Of greatest importance, however, is that our safety performance was good last year and the number of incidents was lower. KLM will continue to work on securing the highest possible safety standards in the aviation industry.

Staff

KLM adopted a very cautious recruitment policy for new, permanent staff. On balance, the policy has led to a contraction in the number of permanent staff at the KLM Group to 29,913 FTE's at the end of 2011. Wherever possible, new vacancies are filled through internal transfers or the use of flexible staff. One outcome of the policy has been an increase in the average age of the permanent staff at KLM. Another is that they are expected to be more productive and flexible.

Our people again showed during the year that they are more than willing to move to other places within the organisation. Talks on increased productivity and other employment conditions were held in a constructive atmosphere with the unions. Another important issue in 2011 was the transfer of Martinair's personnel to the KLM organisation. All the flight personnel were offered a position within KLM in accordance with the social plan agreed between the unions and Martinair.

Fleet development

KLM Group continued its fleet renewal program in fiscal 2011. Fleet renewal raises the quality of service we offer our customers and enhances the efficiency of our operations.

During fiscal 2011, we welcomed a total of 11 new aircraft: three Boeing 737-800's and eight Boeing 737-700's. These aircraft are more fuel-efficient, require less maintenance and are quieter. KLM phased out its entire Boeing 737 Present Generation fleet (737-300 and 737-400) in 2011. Its entire Boeing 737 fleet now consists of the modern Boeing 737 Next Generation.

In total, 16 aircraft left our fleet in fiscal 2011. Martinair bade farewell to its passenger fleet of four Boeing 767-300ER's during the year. An additional one Boeing 737-800, eight Boeing 737-400's and three Boeing 737-300's were phased out.

AIR FRANCE KLM confirmed the signature of a purchase contract with Boeing for a firm order of 25 Boeing 787-900 and 25 options. Discussions are ongoing with Airbus and Rolls Royce to finalize the contract for the Airbus A350 order.

Fleet composition KLM Group

		Included in balance sheet				
		Average age in years *	Owned **	Finance leases	Operating leases ***	Total
Consolidated fleet as at December 31, 2011						
Boeing 747-400 PAX	wide body	21.8	1		5	6
Boeing 747-400 Combi	wide body	17.7	12	4		16
Boeing 747-400 ER Freighter	wide body	8.5		3	1	4
Boeing 747-400 BC Freighter	wide body	-			1	1
Boeing 777-300 ER	wide body	2.7		5		5
Boeing 777-200 ER	wide body	7.2		6	9	15
MD-11	wide body	16.9	8	2		10
MD-11 Freighter	wide body	15.8	3	2	2	7
Airbus A330-200	wide body	5.9		6	5	11
Boeing 737-900	narrow body	8.9		2	3	5
Boeing 737-800	narrow body	10.3	12	6	25	43
Boeing 737-700	narrow body	4.6		13	15	28
Embraer 190	regional	2.1		13	4	17
Fokker 100	regional	17.7	5			5
Fokker 70	regional	16.0	23	3		26
Training aircraft			5			5
Total consolidated fleet		**11.4**	**69**	**65**	**70**	**204**

* Excluding operating leases and training aircraft. The average age including operating leases is 9.9 years
** Excluding 4 B737-400 and 1 B737-300 not in operation as at December 31, 2011
*** Excluding 3 B747-400 BC Freighter not in operation as at December 31, 2011, of which 2 are subleased

Risks and risk management

General

The airline industry can be characterised as being a cyclical, capital- and labor intensive business, facing a high level of fixed cost 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 markets 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 Group risks are discussed. These risks can have an impact on KLM's brand, reputation, profitability, liquidity and access to capital markets.

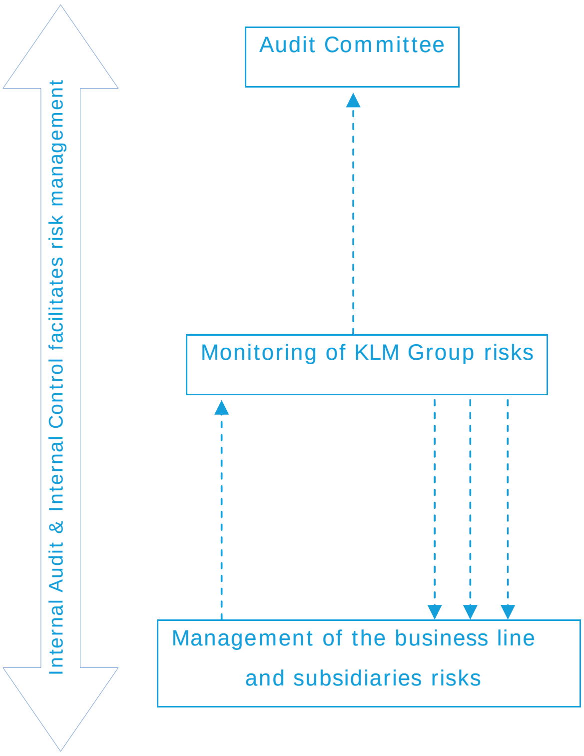
Furthermore AIR FRANCE KLM considers it crucial to have a balance between the interests of all stakeholders in the Company. KLM Group is of the opinion that matters like business ethics, risk management and transparency are essential parts in bringing about this balance. The business ethics are embedded 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 & Internal Control. 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 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 & Internal Control to the KLM Executive Committee (ExCom) and twice a year to the Audit Committee of the Supervisory Board.

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 meetings 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 continue complying with the main requirements of the US Sarbanes-Oxley Act. This resulted in continuing attention of the internal control framework for 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 if 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 for financial reporting in particular;
- To report 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 ExCom adopted in 2011 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 & Internal Control and KLM Security Services. With this fraud policy, KLM is mitigating the risk of intentional act designed to deceive or mislead others mainly to obtain unjust or illegal advantage to the detriment of KLM.

To support the further implementation and maintenance of this fraud policy a cross divisional fraud table has been installed. This committee reviews fraud cases, which serve as learning opportunities towards good practices. Every quarter KLM Security Services and KLM Internal Audit & Internal Control report to the Chief Financial Officer on fraud cases and their potential financial impact.

Risk factors and their management

Risks relating to the air transport activity

Risk 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 one fiscal year are difficult to compare.

Risk 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 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.

Risk linked to terrorist attacks, the threat of attacks, geopolitical instability (threats of) epidemics

Any terrorist attack, the threat of an attack, or a military action has a negative effect on the revenues. This negative effect is notably due to a decrease in demand and to an increase of insurance and security cost. Also an epidemic or the perception that an epidemic could occur, can have a negative impact on the KLM Group's Passenger traffic. Since early 2011, the geopolitical situation resulting from political problems in some Arab and African countries had, and still has, a significant impact on air transport activity with these regions.

The KLM 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 KLM Group's businesses. These plans are regularly evaluated to take into account the lessons learnt from events experienced.

More generally, 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.

Risk 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 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 the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development.

In terms of its content, the main positive measures are the Commission's commitment to developing bio-fuels, promoting intermodality, stimulate innovation 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, Dutch government presented its air transport policy (the "Luchtvaartnota") in which the mainport function of Amsterdam Airport Schiphol 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.

Risk to lose 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.

In the case of the eruption of the Icelandic volcano, the European coordinators, however, have allowed airlines to retain their grandfather rights to slots unused following the closure of European airspace, which is one of the exemption clauses in the Regulation they may apply.

Given the 80/20 utilisation rule applying to each pair of flight slots for the duration of the season concerned, AIR FRANCE KLM 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.

Risk linked to the consumer compensation regulations

Passenger rights in the European Union are defined by regulations (regulation 261/2004). One of them, established in 2005, applies to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union.

This European regulation establishes 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 an European and non-European level playing field in aviation is secured.

Risk relating to the environment

The air transport industry is subject to numerous environmental regulations and laws such as laws on aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste and contaminated sites. Over the last few years, the Dutch, European and US authorities have adopted various measures, 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 Schiphol airport including environmental regulations covering emissions, noise and security.
The environmental capacity for the short-term and medium long-term (until 2020) of Schiphol airport operations has been formally approved of in 2008 by 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 2008, the European Commission proposed to include air transportation in the Emissions Trading Scheme (EU ETS). The directive is effective as of January 2012.
The principle of the European Emissions Trading Scheme is that each Member State is allocated an annual 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 to certain markets in the EU. Furthermore, they can earn a limited amount of credits for their greenhouse gas reduction efforts in developing countries through Clean Development Mechanisms (CDMs).
The European directive applies to all European and non-European airlines flying into, within and out of Europe, which has raised numerous objections from non-European countries and their airlines such as China, United States and India.

The last United Nations climate change conferences (COP17 in Durban) did not result in the expected world-wide agreement on limiting CO_2 emissions for international aviation. However, consistent with the proposals by the aviation sector for an overall sectoral approach, a global response looks to be taking shape. Under the International Civil Aviation Organisation in the context, of the resolution in last assembly (2010), it will catalyse the raised international discussions on the unilateral character of the regional scheme in Europe.

KLM is acting constantly to reduce its fuel consumption and carbon emissions by:

- Modernisation of the fleet and engines, improved fuel management, a KLM fuel savings plan, continuous reductions in weight carried, improved operating procedures;
- Investment in a venture, SkyNRG, and supports research into the development and use of more sustainable fuels (bio-fuels), and
- cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), operating procedures.

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) stimulating to work on effective solutions for the environment.

On the ground all relevant activities are also covered by our environmental management system under the ISO14001 certification. Until now this is only applicable for KLM, but it is planned to extend this certification also to other subsidiaries.

Risk 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, 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.

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.

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

A good example is Amsterdam Airport Schiphol, as the supplier of the baggage handling system. For KLM Group regards reputation risks as those that are primarily linked to the operation of its (core) processes. It is the responsibility of the ExCom 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 cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). For instance, 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. The earthquake followed by a tsunami, which caused a nuclear disaster in Japan in March 2011 had also important impact as the volcano eruption. Similarly, bad weather, such as heavy fog and heavy storms at airports can have significant operational and financial repercussions for the activity of KLM Group, with regulations requiring the KLM Group 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 flights. These meals are prepared in catering facilities belonging either to the Group 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 are carried out by laboratories in accordance with industry standards and audits of compliance are regularly conducted by third parties 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 for the Group's day-to-day operations. They comprise the IT applications operated in the data 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 availability, security and regulatory compliance risks. 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 and Internal Control, comprising IT specialists, regularly evaluate the effectiveness of the solutions in place.

Risks linked to the Group's activities

Risk 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, ad hoc training sessions) including the development of an additional training tool on competition law.

Risk 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 Amsterdam Airport Schiphol, 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 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.

Risk 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 January 2012, the European Commission announced that it has opened an investigation to assess whether the transatlantic joint venture between KLM, Air France, Alitalia and Delta is compatible with EU antitrust rules. This joint venture has been granted antitrust immunity from the US Department of Transport in 2008. Furthermore, the Commission had decided to close the above-mentioned 2006 investigation. If the new investigation demonstrates that the joint venture is not compatible with EU antitrust law, AIR FRANCE KLM and its partners could be required to make a number of concessions, notably in making slots available to competitors at certain airports.

Risk 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 risk

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 European debt crisis and Euro currency

The risk perception of the Euro increased as the stability and continuity of the currency is under pressure due to the debt crisis in a number of European Union countries. The Euro is KLM's home market currency and the largest part of revenues and cost are still in this currency. Any change to the European and Monetary Union affecting the value or abandoning of the Euro, will have a significant impact on its activities and financial results. The debt crises itself and its impact on banks and financial institutions can have a significant impact on the borrowing capability of KLM.

Risk linked to labour disruptions and the negotiation of collective agreements

Personnel cost 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 tax 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.

Risk 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 according to the Dutch Pension Regulations. Under actual IAS19 accounting rules, a pension asset is also recognised in the KLM balance sheet.
Changes in these regulations and in financing agreements between the KLM pension funds and the Company could have a favorable or unfavorable impact on the pension obligations and/or on the level of funding.

Revisions in IAS19 as from 2013 on pensions will have an impact on the equity position of the Group due to the removal of the corridor method. Changes in actuarial gains and losses will be recorded in Other Comprehensive Income as part of equity, but will never recycle to the profit and loss account. This will make pensions more volatile on the balance sheet.
In addition the Net Periodic Pension Cost (NPPC) will increase as from 2013 due to the fact the same interest rate will be used to discount the defined benefit obligations and to calculate the expected return on fund assets.

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.

Risk 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 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 risk

KLM and Air France have pooled their airline risks in the insurance market in order to capitalise on the scale effect. Also CAI group forms part of the combined AIR FRANCE KLM purchase agreement.

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy for its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd. which is to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activities. It covers KLM's legal liability up to USD 2.2 billion per event and also includes liability for damage to third parties caused by acts of terrorism up to an amount of 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 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 protect 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 capacity available in the market and on the quantification of risks that can reasonably be anticipated.

Legal risk 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 2010/11.

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, and
- the depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C (“SAK II”) on the cumulative preference shares C.

On December 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 December 31, 2011, the Board of Managing Directors has 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 May 11, 2012.

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 eight occasions in fiscal year 2011.

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 2011.

Corporate Governance

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. The reason for that is that the Company has various other complaints regulations that are adequate for the respective domains they entail. 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 is only 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, and

- 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 rotation schedule, insofar not published in this annual report, may all be viewed at the Company's head office. Copies will 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 four occasions during (the nine months of) fiscal year 2011. The meetings were well attended by the members, with only occasionally a member being absent.

In line with the usual practice, three of the four regular meetings were held shortly after the quarterly close and concentrated on the development of KLM's financial results. As in previous years, priority was given to discussions in connection with the Company's liquidity position, balance sheet and debt development, next to the general discussions on financial results and revenue and cost developments. While encouraging signs of economic recovery, with a positive impact on the Company's results, were visible towards the end of calendar year 2010, these however soon disappeared due to the euro debt crisis, the resulting volatile and uncertain economic environment, as well the continued geo-political unrest in the Middle East and Africa regions. All such developments have put pressure on the Company's results in the fiscal year and contribute to the challenging outlook for next year. The Supervisory Board has learnt of the various measures the Board of Managing Directors has implemented already and will implement in 2012 in response to the adverse conditions and in order to improve the Company's financial results, and its balance sheet.

Due to the change of fiscal year and resulting changes in strategic and business planning cycles, the regular annual strategy meeting planned for October was used to discuss the AIR FRANCE KLM long haul fleet tender process and related investments for the Company. The Supervisory Board approved the entering into Memoranda of Understanding with Airbus and Boeing respectively for the delivery of Airbus A350 aircraft and Boeing 787 aircraft.

The Supervisory Board dedicated time to discuss management development, in particular for the key executive positions in the Company.

As an usual practice, the Supervisory Board was informed every meeting on relevant developments in the cooperation with Air France, which in the fiscal year included the changes in the governance of Air France and AIR FRANCE KLM.

During the course of the fiscal year, the Board approved several investments relating to fleet and the product on board. The majority of the fleet investments were planned for in the Company's investment plan and serve as replacement for older, less fuel efficient aircraft. The Board was informed on plans to earlier phase-out the MD-11 aircraft, in view of the economic circumstances and the consequently anticipated scenarios of strict capacity discipline. Furthermore, the Supervisory Board approved the first phase of the World Business Class seat replacement project, which will introduce the 'full flat' seats on board of the aircraft.

The Supervisory Board also discussed the Company's Operational Safety & Quality assurance policies and results, an annually recurring topic on its agenda. By definition, safety remains the key priority for the Company, and therefore the Board is of the opinion that it is a topic that is to be discussed on an annual basis.

During the different meetings, the Board was moreover informed on relevant legislative developments for the Company, in particular those related to the introduction of the European Emission Trading Scheme per January 1, 2012.

Other topics discussed during the fiscal year, of which some are recurring:

- The KLM Compliance Framework, and compliance in general;
- The Company's hedging policy and hedging results;
- Performance of the Company's three main pension funds;
- Performance and remuneration of the Board of Managing Directors;
- Composition of the Supervisory Board and the Board of Managing Directors;
- Status of the investigations into the Group's Cargo Business by competition authorities in various jurisdictions, the pending appeal in Luxemburg, and the related civil actions, and
- benchmark information of the Company's main competitors relative to the Company's positioning and financial results.

Due to the change of fiscal year, the annual evaluation of the Board's own functioning, that is usually scheduled for the first quarter of the calendar year, has not been executed during the 9 months of this transitional fiscal year, hence its results will be communicated in next year's annual report.

In keeping with previous years, Dutch-speaking members of the Supervisory Board attended meetings of the Works Council. Also, the Supervisory Board met informally with the Works Council during the annual lunch, which lunch was attended by the Board of Managing Directors and the Executive Committee as well.

Composition of the Supervisory Board

Mrs. Irene Asscher and Messrs. Henri Martre, Jean-Didier Blanchet, Henri Guillaume, Remmert Laan and Hans Smits are due to retire by rotation as per the closure of the General Meeting of Shareholders in May 2012.

Messrs. Blanchet, Guillaume and Laan are available for re-appointment, and AIR FRANCE KLM has notified KLM it wishes to nominate for re-appointment Mr. Blanchet for a third and final term of two years, and Messrs. Guillaume and Laan for a third and final term of four years. Mr. Martre has informed the Company that he is not available for re-appointment. In the resulting vacancy, AIR FRANCE KLM has notified KLM it wishes to propose Mr. Philippe Calavia, in his capacity as Chief Financial Officer of AIR FRANCE KLM Group, for appointment to the KLM Supervisory Board as per the General Meeting of Shareholders in May 2012.

Mr. Smits is available for re-appointment and the Company wishes to propose his re-appointment to the Board for a third and final term of four years. With respect to Mrs. Asscher, 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 propose the re-appointment of Mrs. Asscher.

The Supervisory Board hereby announces that no Supervisory Board members are due to retire by rotation as per the closure of the General Meeting of Shareholders in 2013.

Composition of the Board of Managing Directors

During the fiscal year 2011, the Supervisory Board discussed the composition and succession planning of the Board of Managing Directors.

The Supervisory Board hereby announces that it will propose to the General Meeting the appointment of Mr. Pieter Elbers, Chief Operating Officer, to the Board 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.

Due to Mr. Kok's resignation from the Board and the joining of Mrs. Roobeek, the composition of the committees was amended in the fiscal year and is as follows per year-end:

Audit Committee

- Hans Smits (Chairman)
- Henri Guillaume
- Annemieke Roobeek

Remuneration Committee

- Remmert Laan (Chairman)
- Irene Asscher-Vonk
- Kees Storm

Nomination Committee

- Remmert Laan (Chairman)
- Irene Asscher-Vonk
- Kees Storm

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.

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 Chairman (as an observer) and 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 one occasion 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 furthermore developed a proposal for targets for the new fiscal year, which targets have been established by the Supervisory Board.

The Nomination Committee met on two occasions during the fiscal year. During the meetings, the composition of both the Supervisory Board and the Board of Managing Directors was discussed.

The meetings of both the Remuneration Committee and the Nomination Committee were partly attended by the President and Chief Executive Officer, the Company secretary and the EVP Human Resources and Industrial Relations.

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 2011 being adopted by the general meeting of shareholders in May, the Meeting of Priority Shareholders has decided to add an amount of EUR 47,495,405 out of the disclosed profit to the reserves. In accordance with further provisions of Article 32, payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of approximately EUR 1,200,932. As a consequence of the foregoing, there will not be any profits available for distribution on ordinary shares. The Meeting of Priority Shareholder has decided so after due consideration of KLM's 2011 financial results, the financial situation of the

Company, in specific its net-debt-to-equity level, the balance sheet, and the Company's financing needs in the (near) future, as well as the continuing uncertainties in the operating environment due to the high fuel prices, the weak European economy and the geopolitical situation in certain regions in the world.

Financial Statements 2011

The Supervisory Board hereby presents the annual report and the financial statements for fiscal year 2011, which due to the change into calendar year of the fiscal year, comprises 9 months (April – December 2011). 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 2011.

Independence

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

Closing remarks

Fiscal year 2011 has again proven to be challenging, not only for KLM but for the entire airline industry. With the even more challenging industry outlook for 2012, it will be more critical than ever that the Company demonstrates its resilience and capabilities to execute the plans to improve profitability, reduce debt and hence improve the balance sheet.

The Supervisory Board realizes this will require continuous flexibility and loyalty of management and all employees. At the same time the Board remains convinced that the Company has the ability and agility to structurally change and secure its future.

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

Amstelveen, April 11, 2012

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. No changes to the Company's remuneration policy have been implemented in fiscal year 2011 and no changes are foreseen to be proposed for adoption to the General Meeting of Shareholders in May 2012.

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, and
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 payout 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

Members of the Board of Managing Directors are furthermore participating in the Company's long-term incentive (LTI) plan, which is 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 provides 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%), and
(c) AIR FRANCE KLM position in the Dow Jones Sustainability Index (DJSI) (sector transport) (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 only 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 a maximum of four years. In those cases that Board members are appointed from within the Company, the employment contract is respected, and the Board member is 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, 2014;
- Mr. Gagey's fixed term employment contract expires January 1, 2013; Mr. Gagey will leave the Company and return to Air France as of March 2012;
- Mr. Eurlings has a fixed term employment contract of four years, which expires on July 1, 2015, and
- Mr. Varwijk's employment contract contains a fixed-term clause for a period of four years until July 1, 2015.

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 members of the Board of Managing Directors, the maximum severance pay in the event of dismissal may not exceed one year's base salary.

Remuneration of the Board of Managing Directors in fiscal year 2011

1. Base salary

The base salaries of the individual members of the Board were increased by 1.25% as of April 1, 2011 and 0.50% as of September 1, 2011, both increases equal to the agreed upon CLA increases for all employees. In deviation of the company's policy, the Board of Managing Directors proposed to the Supervisory Board not to apply the general CLA increase of 1.25% as per January 1, 2012 in light of the economic circumstances. This proposal was accepted by the Supervisory Board.

Last year, the maximum base salary for the Managing Director position (Mr. Eurlings and Varwijk) has been set within the parameters of the remuneration policy, which is around the median of the market level for the corresponding job grade. Since the actual base salaries of Messrs. Eurlings and Varwijk are still below such maximum, and giving due consideration to the Company's remuneration policy, the Supervisory Board has decided to increase the base salary of Mr. Eurlings to EUR 375,000 and that of Mr. Varwijk to EUR 400,000 as of April 1, 2012.

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 2011 in accordance with the remuneration policy. This resulted in a short-term incentive payment for fiscal year 2011 (corrected for the 9 months period of the fiscal year) of 15% of base salary for Mr. Hartman, 10.5% for Mr. Gagey, 8.25% for Mr. Eurlings and 6.75% for Mr. Varwijk.

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 and based on the performance evaluation of fiscal year 2011, phantom shares will be conditionally granted to each member of the Board of Managing Directors in April 2012. The number of granted phantom shares will amount to 10,000 for the Chief Executive Officer, 7,500 for the Chief Financial Officer, and 6,000 for the Managing Directors. The phantom shares are granted conditionally in accordance with the provisions of the long-term incentive phantom shares plan.

At its February 2012 meeting, the Remuneration Committee has evaluated the results achieved against the targets set for the LTI plan. In respect of fiscal year 2011, the targets were partially met.

Therefore the first (one third) increment of the 2012 phantom shares series, the second (one third) increment of the 2011 phantom shares series and the third (one third) increment of the 2010 phantom shares series will vest for 36%. These phantom shares will be unconditionally awarded in April 2012 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 policy for members of the Supervisory Board has not been changed since 2008. The remuneration 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 2011

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.

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 December 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 Executive Board AEGON N.V. / Vice-Chairman Anheuser-Busch InBev S.A., Vice-Chairman Unilever N.V. and Plc. , Chairman Pon Holdings B.V., member AEGON N.V., member Baxter International Inc., 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, GIFAS, SOFRADIR, ESL Network
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/ Adoma, SNI, Demeter Partners
Remmert Laan	1942	French Dutch	2004 / (second) 2008 – 2012	Vice-Chairman Leonardo & Co / Chairman Forest Value Investment Management, Director Patrinvest S.A., Trustee Insead Foundation
Jean Peyrelevade	1939	French	2007 / (second) 2011 – 2015	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 BG Gardel Bonnard
Annemieke J.M. Roobeek	1958	Dutch	2011/ (first) 2011-2015	Professor Strategy en Transformation management, Nyenrode Business University and Director-owner, MeetingMoreMinds and Open Dialogue / ABN Amro Group, Amsterdam RAI Exhibition Centres, Abbott Healthcare Products
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 / Chairman Janssen de Jong Group

(*) Only memberships of Supervisory Boards and functions with large companies on December 31, 2011 are shown here.

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

Name	Year of birth	Nationality	First appointment	Function
Peter F. Hartman	1949	Dutch	1997	President and Chief Executive Officer KLM
Frédéric N.P.P. Gagey	1956	French	2005	Managing Director and Chief Financial Officer KLM
Camiel M.P.S. Eurlings	1973	Dutch	2011	Managing Director KLM and EVP AIR FRANCE KLM Cargo
Erik F. Varwijk	1961	Dutch	2011	Managing Director KLM and EVP AIR FRANCE KLM International & The Netherlands

Company Secretary & General Counsel

Barbara C.P. van Koppen	1966	Dutch		

KLM Royal Dutch Airlines

Financial Statements for the nine months period ended December 31, 2011

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros After proposed appropriation of the result for the year	Note	December 31, 2011	March 31, 2011	December 31, 2010 Proforma unaudited
ASSETS				
Non-current assets				
Property, plant and equipment	1	4,405	4,537	4,537
Intangible assets	2	183	145	131
Investments accounted for using the equity method	3	85	76	84
Derivative financial instruments	4	95	104	73
Other financial assets	5	203	178	204
Deferred income tax assets	15	37	38	38
Pension assets	16	3,209	2,989	2,916
		8,217	**8,067**	**7,983**
Current assets				
Derivative financial instruments	4	165	488	294
Other financial assets	5	86	264	371
Inventories	6	236	199	208
Trade and other receivables	7	856	977	804
Cash and cash equivalents	8	1,057	1,229	1,033
		2,400	**3,157**	**2,710**
TOTAL ASSETS		**10,617**	**11,224**	**10,693**
EQUITY				
Capital and reserves				
Share capital	9	94	94	94
Share premium		474	474	474
Other reserves	10	191	304	106
Retained earnings		1,797	1,809	1,855
Total attributable to Company's equity holders		**2,556**	**2,681**	**2,529**
Non-controlling interests		2	2	2
Total equity		**2,558**	**2,683**	**2,531**
LIABILITIES				
Non-current liabilities				
Loans from parent company	11	387	388	388
Finance lease obligations	12	1,795	1,739	1,760
Derivative financial instruments	4	119	109	160
Other financial liabilities	13	1,476	1,628	1,512
Deferred income	14	210	210	205
Deferred income tax liabilities	15	369	411	363
Provisions for employee benefits	16	149	156	168
Other provisions	17	412	393	239
		4,917	**5,034**	**4,795**
Current liabilities				
Trade and other payables	18	1,624	1,755	1,603
Loans from parent company	11	150	-	-
Finance lease obligations	12	284	397	503
Derivative financial instruments	4	64	279	259
Other financial liabilities	13	239	143	73
Deferred income	14	685	855	687
Current income tax liabilities	15	4	-	-
Provisions for employee benefits	16	48	34	40
Other provisions	17	44	44	202
		3,142	**3,507**	**3,367**
Total liabilities		**8,059**	**8,541**	**8,162**
TOTAL EQUITY AND LIABILITIES		**10,617**	**11,224**	**10,693**

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

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros	Note	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 - March 31, 2011 (12 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
Revenues	21	**6,985**	**8,651**	**8,904**
Expenses				
External expenses	22	(4,627)	(5,641)	(5,968)
Employee compensation and benefit expense	23	(1,637)	(2,153)	(2,177)
Depreciation and amortisation	24	(410)	(539)	(547)
Other income and expenses		(36)	65	(4)
Total expenses		**(6,710)**	**(8,268)**	**(8,696)**
Income from current operations		**275**	**383**	**208**
Other non-current income and expenses	25	(3)	(78)	(11)
Income from operating activities		**272**	**305**	**197**
Gross cost of financial debt	26	(124)	(163)	(162)
Income from cash and cash equivalents	26	29	43	39
Net cost of financial debt		(95)	(120)	(123)
Other financial income and expense	26	(112)	(39)	(79)
Pre-tax income		**65**	**146**	**(5)**
Income tax (expense)/benefit	27	(22)	(1)	3
Net result after taxation of consolidated companies		**43**	**145**	**(2)**
Share of results of equity shareholdings		5	2	3
Profit for the year		**48**	**147**	**1**
Attributable to:				
Equity holders of the Company		47	147	1
Non-controlling interests		1	-	-
		48	**147**	**1**
Net profit attributable to equity holders of the Company		47	147	1
Dividend on priority shares		-	-	-
Net profit available for holders of ordinary shares		**47**	**147**	**1**
Average number of ordinary shares outstanding		46,809,699	46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699	46,809,699
Profit per share (in EUR)		1.01	3.14	0.02
Diluted profit per share (in EUR)		1.01	3.14	0.02

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	April 1, 2011 - December 31, 2011	April 1, 2010 - March 31, 2011	January 1, - December 31, 2011 Proforma unaudited
Profit/(loss) for the year	48	147	1
Cash flow hedges			
Effective portion of changes in fair value of cash flow hedges recognised directly in equity	(81)	392	224
Change in fair value transferred to income statement	(155)	30	(184)
Exchange differences on translation foreign operations	8	(22)	(1)
Tax on items taken directly to or transferred from equity	59	(107)	(10)
Total of other comprehensive income included in the recognised income and expenses	**(169)**	**293**	**29**
Recognised income and expenses	**(121)**	**440**	**30**
- Equity holders of the company	(122)	440	30
- Non-controlling interests	1	-	-

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

KLM Royal Dutch Airlines

Consolidated statement of changes in equity

In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to Company's equity holders						
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**

In millions of Euros	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to Company's equity holders						
As at April 1, 2011	**94**	**474**	**304**	**1,809**	**2,681**	**2**	**2,683**
Net gain/(loss) from cash flow hedges	-	-	(236)	-	(236)	-	(236)
Exchange differences on translation foreign operations	-	-	8	-	8	-	8
Transfer from retained earnings	-	-	56	(56)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	59	-	59	-	59
Net income / (expense) recognised directly in equity	**-**	**-**	**(113)**	**(56)**	**(169)**	**-**	**(169)**
Profit for the year	-	-	-	47	47	1	48
Total recognised income / (expense)	**-**	**-**	**(113)**	**(9)**	**(122)**	**1**	**(121)**
Dividends paid	-	-	-	(5)	(5)	-	(5)
Other movements	-	-	-	2	2	(1)	1
As at December 31, 2011	**94**	**474**	**191**	**1,797**	**2,556**	**2**	**2,558**

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

Proforma unaudited	Attributable to Company's equity holders						
In millions of Euros	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
As at January 1, 2011	**94**	**474**	**106**	**1,855**	**2,529**	**2**	**2,531**
Net gain/(loss) from cash flow hedges	-	-	40	-	40	-	40
Exchange differences on translation foreign operations	-	-	1	(2)	(1)	-	(1)
Transfer from retained earnings	-	-	54	(54)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(10)	-	(10)	-	(10)
Net income / (expense) recognised directly in equity	**-**	**-**	**85**	**(56)**	**29**	**-**	**29**
Profit for the year	-	-	-	1	1	-	1
Total recognised income / (expense)	**-**	**-**	**85**	**(55)**	**30**	**-**	**30**
Dividends paid	-	-	-	(5)	(5)	-	(5)
Other movements	-	-	-	2	2	-	2
As at December 31, 2011	**94**	**474**	**191**	**1,797**	**2,556**	**2**	**2,558**

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

KLM Royal Dutch Airlines

Consolidated cash flow statement

In millions of Euros	April 1, - December 31, 2011 (9 months)	April 1, 2010 - March 31, 2011 (12 months)	January 1, - December 31, 2011 (12 months) Proforma unaudited
Profit for the period	48	147	1
Depreciation and amortisation	410	539	547
Changes in provisions	14	(10)	5
Results of equity shareholdings	(5)	(2)	(2)
Changes in pension assets	(217)	(297)	(303)
Changes in deferred income tax	18	1	(7)
Other changes	86	16	28
Net cash flow from operating activities before changes in working capital	**354**	**394**	**269**
(Increase) / decrease in inventories	(30)	9	(16)
(Increase) / decrease in trade receivables	107	(43)	(59)
Increase / (decrease) in trade payables	(36)	72	52
(Increase) / decrease in other receivables and other payables	(309)	177	(102)
Net cash flow from operating activities	**86**	**609**	**144**
Capital expenditure on intangible fixed assets	(50)	(55)	(69)
Capital expenditure on aircraft	(395)	(582)	(489)
Disposal of aircraft	156	231	185
Capital expenditure on other tangible fixed assets	(31)	(36)	(39)
Disposal of other tangible fixed assets	7	2	7
Investment in equity shareholdings	-	3	3
Sale of equity shareholdings	-	1	(1)
Dividends received	2	2	2
(Increase) / decrease in short-term deposits and commercial paper	75	34	159
Net cash used in investing activities	**(236)**	**(400)**	**(242)**
Increase in long-term debt	396	369	681
Decrease in long-term debt	(511)	(551)	(680)
Increase in long-term receivables	(50)	(37)	(52)
Decrease in long-term receivables	145	158	178
Dividend paid	(5)	(1)	(5)
Other changes	-	-	-
Net cash flow from financing activities	**(25)**	**(62)**	**122**
Effect of exchange rates on cash and cash equivalents	3	(3)	-
Change in cash and cash equivalents	**(172)**	**144**	**24**
Cash and cash equivalents at beginning of period	1,229	1,085	1,033
Cash and cash equivalents at end of period *	1,057	1,229	1,057
Change in cash and cash equivalents	**(172)**	**144**	**24**
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 1,264 million as at December 31, 2011 (as at March 31, 2011: EUR 1,542 million)

Financial Statements fiscal nine months period ended December 31, 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 April 11, 2012 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on May 11, 2012.

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

Change of fiscal year

AIR FRANCE KLM S.A. decided to change its financial year from March 31 to a calendar year, to come in line with the majority of airlines. This change has been approved at the KLM Annual General Meeting of Shareholders on July 1, 2011. As a consequence the fiscal year 2011 is a short financial year from April 1, until December 31, 2011 (9 months) and is not comparable to the financial statements for the year ended March 31, 2011.

For comparison purposes proforma unaudited consolidated income statement, consolidated statement of recognised income and expenses, consolidated statement of changes in equity and consolidated cash flow statement for the calendar year 2011 and unaudited consolidated balance sheet as at December 31, 2010 have been included.

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 standard IAS24 “Related party disclosures”, IFRIC 19 “Financial debts paid by equity instruments”, the revised interpretation IFRIC 14 “Limit on defined Benefit Asset Minimum Funding Requirements and their Interaction” and the IFRS annual improvement published in May 2010 are applied for the first time in the fiscal year 2011. These changes 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 December 31, 2011. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of The Dutch Civil Code. As permitted by section 402 of Book 2 of The Dutch 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

Amendments to IFRS 7 “Disclosure in the transfer of financial assets” approved by the European Union is applicable for fiscal years beginning on or after July 1, 2011.

Other standards potentially applicable to the Group, published by the IASB, but not adopted by the European Union are described below. They will have to be applied, subject to their approval by the European Union, for the accounting periods starting:

July 1, 2012:
- Amendment to IAS 1 on presentation of other comprehensive income.

January 1, 2013:
- Standard IFRS 10 "Consolidated Financial Statements" which will replace IAS27 "Consolidated and Separate Financial Statements" for the part concerning the consolidated financial statements and also SIC 12 "Consolidation – Special Purpose Entities" ;
- Standard IFRS 11 "Joint Arrangements" which will replace IAS 31 "Interests in Joint Ventures" and also the interpretation SIC 13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers" ;
- Standard IFRS 12 "Disclosure on Interests in Other Entities" ;
- The revised standards IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates" ;
- Standard IFRS 13 "Fair Value Measurement" ; and
- the revision of the standard IAS 19 "Employee Benefits".

January 1, 2015:
- Standard IFRS 9 "Financial instruments – Classification and measurement of financial assets and liabilities".

The impact analysis of these standards on the Group's financial statements is currently under way. The consequences of the revision of IAS 19 are mainly the removal of the corridor method currently used by the Group and the expected return on assets on pension plan assets that will be replaced by an interest rate, which will also be used to discount the defined benefit obligations. The removal of the corridor method will have an impact on (opening) equity and the use of the new interest rate will increase the Net Period Pension Costs (NPPC) of the Group. Reference is made to note 16 Provisions for employee benefits.

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 as 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 non-controlling interest. Non-controlling 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 March 31, all Group companies are consolidated based on annual accounts closed on December 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 control is given up, 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 December 31, 2011 EUR	Average in Income Statement 2011 (9 months) EUR	Balance Sheet March 31, 2011 EUR
1 US Dollar (USD)	0.77	0.72	0.70
1 Pound sterling (GBP)	1.20	1.15	1.13
1 Swiss franc (CHF)	0.82	0.82	0.77
100 Japanese yen (JPY)	0.99	0.91	0.85
100 Kenya Shilling (KES)	0.92	0.80	0.83

Business combinations

Business combinations are accounted for using the purchase method in accordance with IFRS 3 revised standard “Business combinations”. 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 (engine services, component services and airframe maintenance) 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 (until October 31, 2011).

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 correspond 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 is 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 recognised 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 recognised 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 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 include 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 relate 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 judgements

Estimates and judgements 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 correspond 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, judgement 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 and 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 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 December 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, three ways, four ways, collar and collar put spread.

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 December 31, 2011, KLM identified the following exposure to counterparty risk:

LT Rating (Standards & Poors)	Total exposure in EUR millions
AAA	359
AA+	48
AA	225
A+	314
A	127
Total	1,073

At December 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, 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**

	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, 2011	**1,695**	**2,814**	**1,677**	**6,186**	**621**	**630**	**163**	**1,414**	**221**	**7,821**
Additions	230	76	47	353	2	12	5	19	55	427
Disposals	(310)	-	-	(310)	(1)	(41)	(3)	(45)	-	(355)
Other movements	-	44	(22)	22	(1)	6	-	5	-	27
As at Dec. 31, 2011	**1,615**	**2,934**	**1,702**	**6,251**	**621**	**607**	**165**	**1,393**	**276**	**7,920**
Accumulated depreciation										
As at April 1, 2011	**1,080**	**710**	**725**	**2,515**	**186**	**491**	**92**	**769**	-	**3,284**
Depreciation	97	109	132	338	22	21	10	53	-	391
Disposals	(154)	-	-	(154)	(2)	(33)	(3)	(38)	-	(192)
Other movements	51	70	(83)	38	1	(7)	-	(6)	-	32
As at Dec. 31, 2011	**1,074**	**889**	**774**	**2,737**	**207**	**472**	**99**	**778**	-	**3,515**
Net carrying amount										
As at March 31, 2011	**615**	**2,104**	**952**	**3,671**	**435**	**139**	**71**	**645**	**221**	**4,537**
As at Dec. 31, 2011	**541**	**2,045**	**928**	**3,514**	**414**	**135**	**66**	**615**	**276**	**4,405**

Property, plant and equipment include assets which are held as security for mortgages and loans as follows:

	December 31, 2011	March 31, 2011
Aircraft	142	225
Land and buildings	171	179
Other property and equipment	52	52
Carrying amount	**365**	**456**

Borrowing costs capitalised during the year amount to EUR 5 million (March 31, 2011 EUR 5 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2010/11 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 December 31, 2011 amounts to EUR 306 million (March 31, 2011 EUR 309 million).

2 Intangible assets

	Goodwill	Software	Trade-marks	Software under development	Total
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
Disposals	-	(1)	-	-	(1)
Others	-	(1)	-	2	1
As at March 31, 2011	**29**	**112**	**2**	**2**	**145**
Historical cost					
As at April 1, 2011	**39**	**162**	**7**	**82**	**290**
Additions	-	16	-	34	50
Reclassifications	-	1	(2)	-	(1)
As at December 31, 2011	**39**	**179**	**5**	**116**	**339**
Accumulated amortisation and impairment					
As at April 1, 2011	**29**	**112**	**2**	**2**	**145**
Amortisation	-	18	1	-	19
Reclassifications	-	(5)	(1)	(2)	(8)
As at December 31, 2011	**29**	**125**	**2**	**-**	**156**
Net carrying amount					
As at March 31, 2011	**10**	**50**	**5**	**80**	**145**
As at December 31, 2011	**10**	**54**	**3**	**116**	**183**

3 Investments accounted for using the equity method

	December 31, 2011	March 31, 2011
Associates	62	53
Jointly controlled entities	23	23
Carrying amount	**85**	**76**

Investments in associates

	2011	2010/11
Carrying amount as at April 1	**53**	**55**
Movements		
Share of profit/(loss) after taxation	5	2
Dividends received	(1)	(1)
Foreign currency translation differences	5	(7)
OCI movements derivatives	-	3
Other movements	-	1
Net movement	**9**	**(2)**
Carrying amount as at December 31 / March 31	**62**	**53**

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

	December 31, 2011	March 31, 2011
Country of incorporation	Kenya	Kenya
Percentage of interest held	26%	26%
Assets	721	706
Liabilities	509	513
Revenues	786	681
Profit/(loss) after taxation	32	20
Share of profit/(loss) after taxation	**8**	**5**

The table of Kenya Airways Ltd.'s assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2011 and March 31, 2010. The share of result included in the carrying amounts as at December 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 December 31, 2011 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 23 million (March 31, 2011 EUR 32 million).

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

	December 31, 2011	**March 31, 2011**
Country of incorporation	France	France
Percentage of interest held	40%	40%
Assets	97	94
Liabilities	84	65
Revenues	172	175
Profit/(loss) after taxation	2	(10)
Share of profit / (loss) after taxation	**1**	**(4)**

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

	2011	2010/11
Carrying amount as at April 1	**23**	**23**
Movements		
New consolidation	-	-
Share of profit/(loss) after taxation	-	-
Other movements	-	-
Net movement	**-**	**-**
Carrying amount as at December 31 / 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:

	December 31, 2011	March 31, 2011
Country of incorporation	The Netherlands	The Netherlands
Percentage of interest held	53%	53%
Percentage of voting right	45%	45%
Non-current assets	59	58
Current assets	-	-
Profit/(loss) after taxation	-	-
Share of profit/(loss) after taxation	**-**	**-**

4 Derivative financial instruments

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)**

As at December 31, 2011	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current
Exchange rate risk				
Fair value hedges	17	31	-	-
Cash flow hedges	60	19	(20)	(7)
Items not qualifying for hedge accounting	9	1	(3)	(1)
Total exchange rate risk hedges	**86**	**51**	**(23)**	**(8)**
Interest rate risk				
Fair value hedges	1	20	-	(12)
Cash flow hedges	-	-	(1)	(74)
Items not qualifying for hedge accounting	-	2	-	(17)
Total interest rate risk hedges	**1**	**22**	**(1)**	**(103)**
Commodity risk hedges				
Cash flow hedges	78	7	(40)	(6)
Items not qualifying for hedge accounting	-	-	-	-
Total commodity risk hedges	**78**	**7**	**(40)**	**(6)**
Others	-	**15**	-	(2)
Total as at December 31, 2011	**165**	**95**	**(64)**	**(119)**

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 December 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								
Forward purchases								
USD	621	203	123	39	33	-	223	48
Total fair value hedges	**621**	**203**	**123**	**39**	**33**	**-**	**223**	**48**
Cash flow hedges								
Options								
USD	200	200	-	-	-	-	-	2
Forward purchases								
USD	1,365	1,020	345	-	-	-	-	72
Forward sales								
GBP	187	150	37	-	-	-	-	(2)
JPY	242	155	87	-	-	-	-	(13)
CHF	35	35	-	-	-	-	-	-
NOK	116	116	-	-	-	-	-	(1)
SEK	36	36	-	-	-	-	-	-
KRW	18	18	-	-	-	-	-	(6)
DKK	5	5	-	-	-	-	-	-
Other	8	8	-	-	-	-	-	-
Total cash flow hedges	**2,212**	**1,743**	**469**	**-**	**-**	**-**	**-**	**52**
Items not qualifying for hedge accounting								
Forward purchases								
USD	170	146	24	-	-	-	-	6
Others								
USD	48	-	-	-	-	48	-	-
Total items not qualifying for hedge accounting	**218**	**146**	**24**	**-**	**-**	**48**	**-**	**6**
Total exchange rate risk hedges	**3,051**	**2,092**	**616**	**39**	**33**	**48**	**223**	**106**

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
As at December 31, 2011	**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	347	87	46	49	27	21	117	9
Total fair value hedges	**347**	**87**	**46**	**49**	**27**	**21**	**117**	**9**
Cash flow hedges								
Swaps	1,737	328	281	274	257	183	414	(75)
Total cash flow hedges	**1,737**	**328**	**281**	**274**	**257**	**183**	**414**	**(75)**
Items not qualifying for hedge accounting								
Swaps	119	-	-	-	-	19	100	(15)
Total Items not qualifying for hedge accounting	**119**	**-**	**-**	**-**	**-**	**19**	**100**	**(15)**
Total interest rate risk hedges	**2,203**	**415**	**327**	**323**	**284**	**223**	**631**	**(81)**

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 as at December 31, 2011 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	118	118	-	-	-	-	-	(3)
Options	2,133	1,463	670	-	-	-	-	42
Total cash flow hedges	**2,251**	**1,581**	**670**	**-**	**-**	**-**	**-**	**39**
Total commodity risk hedges	**2,251**	**1,581**	**670**	**-**	**-**	**-**	**-**	**39**

Valuation methods for financial assets and liabilities at their fair value

As at December 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	-	42	-	42
Cash and cash equivalents	940	-	-	940
Derivatives instruments (asset and liability)				
Currency exchange derivatives	-	106	-	106
Interest rate derivatives	-	(81)	-	(81)
Commodity derivatives	-	39	-	39

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 at the closing date of the period presented. The hypotheses used are coherent with those applied in the fiscal year ended as at December 31, 2011.

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:

	December 31, 2011		**March 31, 2011**	
	Increase of 10 USD	**Decrease of 10 USD**	**Increase of 10 USD**	**Decrease of 10 USD**
Income before tax	55	(69)	(13)	(4)
Other reserves	63	(49)	139	(127)

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	
	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011
USD	203	273	756	735
JPY	-	-	331	282
CHF	-	-	344	322

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	
	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011
Change in value of financial instruments	-	(2)	30	26	-	-
Other reserves	(131)	(103)	13	13	10	16

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 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 currency 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 2011 against EUR nil million for 2010/11.

5 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2011	2010/11	2011	2010/11	2011	2010/11	2011	2010/11
Carrying amount as at April 1	**272**	**402**	**34**	**25**	**136**	**172**	**442**	**599**
Movements								
Additions and loans granted	-	-	(2)	15	(75)	116	(77)	131
Loans and interest repaid	(135)	(135)	(3)	(3)	-	(153)	(138)	(291)
Interest accretion	52	22	-	-	-	-	52	22
Foreign currency translation differences	22	(11)	3	(2)	(9)	-	16	(13)
Other movements	(6)	(6)	6	(1)	(6)	1	(6)	(6)
Net movement	**(67)**	**(130)**	**4**	**9**	**(90)**	**(36)**	**(153)**	**(157)**
Carrying amount as at December 31 / March 31	**205**	**272**	**38**	**34**	**46**	**136**	**289**	**442**

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	40	165	142	130
Loans and receivables				
Other loans and receivables	4	34	4	30
At fair value through profit or loss				
Restricted deposit EU anti-trust investigations	42	-	116	-
AIR FRANCE KLM S.A. shares	-	4	-	13
Other financial assets	-	-	2	5
	42	**4**	**118**	**18**
Carrying amount	**86**	**203**	**264**	**178**

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:

	December 31, 2011	March 31, 2011
USD	227	300
GBP	2	2
Total	**229**	**302**

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

	December 31, 2011		March 31, 2011	
in %	**EUR**	**USD**	**EUR**	**USD**
Held-to-maturity investments	-	4.9	-	5.5
Loans and receivables	1.5	0.2	1.0	0.3
At fair value through profit or loss	1.5	-	0.8	-

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 42 million (March 31, 2011 EUR 106 million) is restricted.

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

	December 31, 2011	March 31, 2011
Held-to-maturity		
Less than 1 year	40	143
Between 1 and 2 years	33	33
Between 2 and 3 years	32	37
Between 3 and 4 years	61	19
Between 4 and 5 years	-	40
Over 5 years	39	-
Total	**205**	**272**

The maturities of loans and receivables are as follows:

	December 31, 2011	March 31, 2011
Loans and receivables		
Less than 1 year	2	3
Between 1 and 2 years	1	1
Between 2 and 3 years	1	3
Between 3 and 4 years	4	-
Between 4 and 5 years	1	5
Over 5 years	29	22
Total	**38**	**34**

The fair values of the financial assets are as follows:

	December 31, 2011	March 31, 2011
Held-to-maturity		
Triple A bonds and long-term deposits	**225**	**294**
Loans and receivables		
Other loans and receivables	**37**	**33**
At fair value through profit or loss		
Deposits and commercial paper with original maturity 3-12 months	-	-
Restricted deposit EU Cargo Claim	42	116
AIR FRANCE KLM S.A. shares	4	13
Other financial assets	-	7
	46	**136**
Total fair value	**308**	**463**

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 December 31, 2011 and 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:

	December 31, 2011	March 31, 2011
Less than 1 year	45	150
Between 1 and 2 years	32	34
Between 2 and 3 years	31	37
Between 3 and 4 years	103	19
Between 4 and 5 years	-	41
Over 5 years	51	25
Total interest bearing financial assets	**262**	**306**

6 Inventories

	December 31, 2011	March 31, 2011
Carrying amount		
Maintenance inventories	130	136
Other sundry inventories	106	63
Total	**236**	**199**

Inventory write-downs amounted to EUR 55 million (March 31, 2011 EUR 52 million).

7 Trade and other receivables

	December 31, 2011	March 31, 2011
Trade receivables	503	689
Provision trade receivables	(12)	(15)
Trade receivables - net	491	674
Amounts due from:		
- AIR FRANCE KLM group companies	82	15
- associates and jointly controlled entities	6	4
- maintenance contract customers	111	80
Taxes and social security premiums	27	25
Other receivables	63	81
Prepaid expenses	76	98
Total	**856**	**977**

In the fiscal year EUR 1 million (March 31, 2011 EUR 1 million increase) 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 December 31, 2011 amounted to EUR 86 million (March 31, 2011 EUR 77 million).

Advances received for maintenance contracts in progress at December 31, 2011 amounted to EUR 17 million (March 31, 2011 EUR 28 million).

8 Cash and cash equivalents

	December 31, 2011	March 31, 2011
Cash at bank and in hand	117	72
Short-term deposits	940	1,157
Total	**1,057**	**1,229**

The effective interest rates on short-term deposits are in the range from 0.65% to 3.44% (2010/11 range 0.53% to 2.15%). 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:

	December 31, 2011	March 31, 2011
USD	30	28
GBP	2	2
JPY	1	2
Other currencies	14	30
Total	**47**	**62**

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			
	December 31, 2011		March 31, 2011	
	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 December 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, 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**
As at April 1, 2011	**163**	**(18)**	**159**	**304**
Gains/(losses) from cash-flow hedges	(236)	-	-	(236)
Exchange differences on translating foreign operations	-	8	-	8
Transfer to retained earnings	-	-	56	56
Tax on items taken directly to or transferred from equity	59	-	-	59
As at December 31, 2011	**(14)**	**(10)**	**215**	**191**

The legal reserves consist of the following items:

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 other 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 Dutch Civil Code.

11 Loans from parent company

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
AIR FRANCE KLM S.A	150	386	-	386
Others	-	1	-	2
Total	**150**	**387**	**-**	**388**

Loans from parent company non-current

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 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 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.

Loans from parent company current

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 December 31, 2011, KLM has drawn EUR 150 million of the EUR 350 million credit facility, for a period of three months. The drawn amount will bear a floating interest rate.

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

12 Lease obligations

	December 31, 2011			March 31, 2011		
	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	365	81	284	482	85	397
Total current	**365**	**81**	**284**	**482**	**85**	**397**
Between 1 and 2 years	329	70	259	302	71	231
Between 2 and 3 years	276	60	216	308	60	248
Between 3 and 4 years	325	47	278	283	47	236
Between 4 and 5 years	205	33	172	239	39	200
Over 5 years	932	62	870	896	72	824
Total non-current	**2,067**	**272**	**1,795**	**2,028**	**289**	**1,739**
Total	**2,432**	**353**	**2,079**	**2,510**	**374**	**2,136**

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 2.8% (average fixed rate 4.7%, average floating rate 2.1%). Taking into account the impact of hedging the average interest rate is 3.6% (average fixed rate 3.8%, average floating rate 2.8%). After hedging 87% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 2,070 million as at December 31, 2011 (March 31, 2011 EUR 2,160 million). The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

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

	Aircraft		Buildings		Other equipment		Total	
	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011	Dec. 31, 2011	March 31, 2011
Operating lease commitments								
Within 1 year	327	278	31	30	15	16	373	324
Total current	**327**	**278**	**31**	**30**	**15**	**16**	**373**	**324**
Between 1 and 2 years	291	297	28	28	12	13	331	338
Between 2 and 3 years	267	269	24	23	10	9	301	301
Between 3 and 4 years	243	271	22	22	7	7	272	300
Between 4 and 5 years	247	257	20	20	7	4	274	281
Over 5 years	1,187	784	201	213	18	8	1,406	1,005
Total non-current	**2,235**	**1,878**	**295**	**306**	**54**	**41**	**2,584**	**2,225**
Total	**2,562**	**2,156**	**326**	**336**	**69**	**57**	**2,957**	**2,549**

13 Other financial liabilities

	2011	2010/11
Carrying amount as at April 1	**1,771**	**1,590**
Additions and loans received	(3)	195
Loans repaid	(119)	(115)
Foreign currency translation differences	73	34
Change in scope of consolidation		-
Other changes	(7)	67
Net movement	**(56)**	**181**
Carrying amount as at December 31 / March 31	**1,715**	**1,771**

The financial liabilities comprise:

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	625	-	566
Other loans (secured/unsecured)	239	819	143	1,030
Total	**239**	**1,476**	**143**	**1,628**

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 346 million as at December 31, 2011 (March 31, 2011 EUR 322 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	December 31, 2011	**March 31, 2011**
Less than 1 year	239	143
Between 1 and 2 years	153	238
Between 2 and 3 years	329	149
Between 3 and 4 years	165	331
Between 4 and 5 years	76	141
Over 5 years	753	769
Total	**1,715**	**1,771**

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

	December 31, 2011	**March 31, 2011**
USD	64	24
CHF	344	322
JPY	280	255
Total	**688**	**601**

The fair values of financial liabilities are as follows:

	December 31, 2011	**March 31, 2011**
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	733	594
Other loans (secured/unsecured)	1,057	1,174
Fair value	**1,822**	**1,800**

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, 2011				
Total borrowings	1,110	-	661	1,771
Effect of interest rate swaps	(504)	-	504	-
	606	**-**	**1,165**	**1,771**
As at December 31, 2011				
Total borrowings	1,053	-	662	1,715
Effect of interest rate swaps	(455)	-	455	-
	598	**-**	**1,117**	**1,715**

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

	December 31, 2011		March 31, 2011	
in %	**EUR**	**Other**	**EUR**	**Other**
Cumulative preference shares	4.30	-	5.04	-
Subordinated perpetual loans	-	3.96	-	4.09
Other loans	2.37	-	2.53	5.50

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	-	625	-	4.32	4.32
Other loans	593	465	3.05	3.57	3.28

The variable interest rates are based on EURIBOR or the USD LIBOR rate.

The Company has renewed per July 2011 the EUR 530 million syndicated revolving credit facility with a consortium of international banks, which started in July 2010. The new EUR 540 million revolving credit facility will expire in July 2016. No amounts have been drawn on this facility as at December 31, 2011 and March 31, 2011.

14 Deferred income

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
Advance ticket sales	597	-	758	-
Sale and leaseback transactions	14	19	13	31
Flying Blue frequent flyer program	73	182	84	179
Others	1	9	-	-
Total	**685**	**210**	**855**	**210**

15 Deferred income tax

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

	2011	2010/11
Carrying amount as at April 1	**373**	**264**
Income statement charge	22	1
Tax (credited)/charged to equity	(59)	107
Other movements	(4)	1
Net movement	**(41)**	**109**
Carrying amount as at December 31 / March 31	**332**	**373**

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 37 million, EUR 1 million is expected to be recovered in 12 months or less and EUR 36 million is expected to be recovered after more than 12 months.

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

	December 31, 2011	March 31, 2011
Deferred tax asset	(37)	(38)
Deferred tax liability (offset)	369	411
Current income tax liability	4	-
	336	**373**

The current income tax liability relates to the result on the disposal of real estate outside The Netherlands.

The offset amounts are as follows:

	December 31, 2011	March 31, 2011
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	10	15
Deferred tax assets to be recovered after more than 12 months	432	385
	442	**400**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	7	7
Deferred tax liabilities to be settled over more than 12 months	804	804
	811	**811**
Carrying amount	**369**	**411**

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 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 December 31
Deferred tax assets					
Fiscal 2011					
Tax losses	370	42	-	-	412
Fleet assets	54	(9)	-	-	45
Fleet related assets (maintenance)	5	(1)	-	-	4
Provisions for employee benefits	16	-	-	-	16
Financial lease obligations	2	-	-	-	2
Derivative financial instruments	-	-	-	4	4
Other	7	(1)	-	-	6
Total	**454**	**31**	**-**	**4**	**489**

	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 2010 / 11					
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**

	Carrying amount as at April 1	Income statement charge / (credit)	Tax charged / (credited) to equity	Other	Carrying amount as at December 31
Deferred tax liabilities					
Fiscal 2011					
Other tangible fixed assets	11	(3)	-	-	8
Pensions and benefits (asset)	747	55	-	-	802
Maintenance provision	8	(2)	-	-	6
Derivative financial instruments	55	-	(59)	4	-
Other	6	(1)	-	-	5
Total	**827**	**49**	**(59)**	**4**	**821**

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 7 million (March 31, 2011 EUR 11 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 32 million (March 31, 2011 EUR 30 million).

16 Provisions for employee benefits

	December 31, 2011	March 31, 2011	2010	2009	2008
Pension and early-retirement obligations	67	66	70	73	110
Post-employment medical benefits	36	33	35	34	30
Other long-term employment benefits	82	79	91	67	58
Termination benefits	12	12	11	11	18
Total Liabilities	**197**	**190**	**207**	**185**	**216**
Less: Non-current portion					
Pension and early-retirement obligations	28	41	45	45	81
Post-employment medical benefits	33	31	33	32	28
Other long-term employment benefits	77	73	79	61	55
Termination benefits	11	11	10	9	15
Non-current portion	**149**	**156**	**167**	**147**	**179**
Current portion	**48**	**34**	**40**	**38**	**37**

	December 31, 2011	March 31, 2011	2010	2009	2008
Assets					
Pension assets non current portion	3,209	2,989	2,707	2,472	2,226
Total assets	**3,209**	**2,989**	**2,707**	**2,472**	**2,226**

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, 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 in- and outside The Netherlands.

In fiscal year 2011 the financial markets where volatile as a result of the debt and Euro crisis. Despite this the assets of the KLM pension funds increased with EUR 665 million as a result of higher market values of long-term bonds, share put options and interest rate swaps. Overall interest rates decreased in 2011 as a result of which the discount rate decreased from 5.20% to 5.0%. Due to this and the addition of the periodical service- and interest costs, the pension obligations increased by EUR 816 million. The unrecognised net actuarial losses increased from EUR 673 million per March 2011 to EUR 1,042 million per December 2011.

The three major KLM pension funds benefited from the increase in the value of fund assets, but the obligations increased sharply due to the very low interest rates, as set by the Dutch Central Bank. This resulted in the following funding ratios as at December 31, 2011:

- Ground Staff pension fund 108.6% (March 31, 2011: 128.5%)
- Cabin Crew pension fund 107.2% (March 31, 2011: 128.3%)
- Cockpit Crew pension fund 122.2% (March 31, 2011: 143.1%)

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totalling EUR 2,098 million as at December 31, 2011 (March 31, 2011 EUR 2,249 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 December 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 3,209 million (March 31, 2011 EUR 2,989 million).

New IAS 19 as from 2013

The main impacts of the revisions of IAS 19 as per January 1, 2013 are:

- Removal of the corridor method. As of the effective date all actuarial gains and losses should be recognised as remeasurement in Other Comprehensive Income (OCI) in equity as per transition date. The unrecognised actuarial losses of the KLM pension funds amount to approximately EUR 1 billion (approximately EUR 750 million net of tax), which will be charged to the opening equity (retained earnings) of the 2012 comparative figures in the 2013 financial statements; and
- expected return on fund assets will be replaced by the same interest rate as used to calculate the discounted defined benefit obligations. Since the expected return is higher than the new interest rate to be used, the Net Periodic Pension Costs (NPPC) will increase as from 2013 (including comparative figures 2012).

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 is 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				
	December 31,		March 31,		
in %	2011	2011	2010	2009	2008
Weighted average assumptions used to determine benefit obligations					
Discount rate for year ended	4.98	5.21	4.78	5.53	5.53
Rate of compensation increase	2.35	2.89	3.08	3.03	3.01
Rate of price inflation	2.04	2.02	1.84	1.81	2.03
Weighted average assumptions used to determine net cost					
Discount rate for year ended	4.98	5.21	4.78	5.53	5.53
Expected long-term rate of return on plan assets	5.58	6.05	6.15	6.16	5.71
Rate of compensation increase	2.35	2.89	3.08	3.03	3.01
Rate of price compensation	2.04	2.02	1.84	1.81	2.03

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

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

In millions of Euros	Sensitivity of the assumptions for the year ended December 31, 2011	March 31, 2011
0.25% increase in the discount rate		
Impact on the net periodic pension cost	(22)	(16)
Impact on defined benefit obligation	(480)	(428)
0.25% decrease in the discount rate		
Impact on the net periodic pension cost	44	17
Impact on defined benefit obligation	634	428

	Pension and early-retirement obligations				
	December 31,	March 31,			
	2011	2011	2010	2009	2008
Present value of wholly or partly funded obligations	11,785	10,969	10,803	8,834	8,652
Fair value of plan assets	(13,883)	(13,218)	(12,407)	(9,967)	(11,910)
Subtotal	**(2,098)**	**(2,249)**	**(1,604)**	**(1,133)**	**(3,258)**
Present value of unfunded obligations	(1)	(1)	1	1	1
Unrecognised net actuarial gains/(losses)	(1,042)	(673)	(1,034)	(1,267)	1,141
Subtotal	**(1,043)**	**(674)**	**(1,033)**	**(1,266)**	**1,142**
Net liability/(asset) relating pension and other post-retirement obligations	**(3,141)**	**(2,923)**	**(2,637)**	**(2,399)**	**(2,116)**

	Pension and early-retirement obligations				
	December 31,	March 31,			
	2011	2011	2010	2009	2008
Amounts in the balance sheet					
Liabilities	67	66	70	73	110
Assets	(3,209)	(2,989)	(2,707)	(2,472)	(2,226)

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

	Pension and early-retirement obligations				
	2011	**2011/10**	**2010/09**	**2009/08**	**2008/07**
Carrying amount as at April 1	**10,969**	**10,803**	**8,834**	**8,652**	**9,277**
Service cost	270	356	287	282	312
Interest cost	423	525	495	484	422
Plan participants' contributions	-	-	-	-	15
Curtailments	-	(15)	(1)	(7)	-
Actuarial losses/(gains)	378	(340)	1,517	(212)	(1,014)
Benefits paid from plan/company	(280)	(357)	(345)	(324)	(310)
Other	(1)	(6)	3	(3)	2
Exchange rate changes	26	3	13	(38)	(52)
Net movement	816	166	1,969	182	(625)
Carrying amount as at December 31 / March 31	**11,785**	**10,969**	**10,803**	**8,834**	**8,652**

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

	2011	**2011/10**	**2010/09**	**2009/08**	**2008/07**
Fair value as at April 1	**13,218**	**12,407**	**9,967**	**11,910**	**12,221**
Expected return on plan assets	601	765	616	679	692
Actuarial gains/(losses) (related to the plan assets)	13	14	1,729	(2,607)	(853)
Employer contributions	274	354	376	310	173
Member contributions	38	51	51	36	32
Benefits paid from plan / company	(280)	(357)	(345)	(324)	(310)
Curtailments	-	(16)	(1)	-	-
Other	2	(1)	3	(2)	-
Exchange rate changes	17	1	11	(35)	(45)
Net movement	665	811	2,440	(1,943)	(311)
Fair value as at December 31 / March 31	**13,883**	**13,218**	**12,407**	**9,967**	**11,910**

The actual return on pension plan assets is EUR 614 million positive (March 31, 2011 EUR 779 million positive).

The experience adjustments are as follows:

	December 31,	**March 31,**			
	2011	**2011**	**2010**	**2009**	**2008**
Benefit obligation	86	121	91	(115)	(64)
Plan asset	13	14	1,729	(2,607)	(853)

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

in %	December 31, 2011	March 31, 2011	2010	2009	2008
Debt securities	51.9	48.9	52.4	55.5	49.1
Real estate	12.2	10.5	9.0	9.4	11.6
Equity securities	35.9	40.5	38.2	34.7	38.1
Other	-	0.1	0.4	0.4	1.2

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				
	December 31, 2011	March 31, 2011	2010	2009	2008
Present value of unfunded obligations	45	37	37	33	34
Unrecognised net actuarial gains/(losses)	(9)	(4)	(2)	1	(4)
Net liability/(asset) relating pension and other post-retirement obligations	**36**	**33**	**35**	**34**	**30**

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

	Post-employment medical benefits				
	December 31, 2011	March 31, 2011	2010	2009	2008
Carrying amount as at April 1	**37**	**37**	**33**	**32**	**50**
Service cost	-	-	-	-	1
Interest cost	1	2	2	2	2
Curtailments	-	-	-	-	(12)
Actuarial losses/(gains)	5	2	4	(5)	(1)
Benefits paid from plan/company	(1)	-	-	-	(2)
Other	(1)	(2)	(2)	(1)	-
Exchange rate changes	4	(2)	-	5	(6)
Net movement	**8**	**-**	**4**	**1**	**(18)**
Carrying amount as at December 31 / March 31	**45**	**37**	**37**	**33**	**32**

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

	Post-employment medical benefits				
in %	December 31, 2011	March 31, 2011	2010	2009	2008
Weighted average assumptions used to determine benefit obligations					
Discount rate for year	4.40	5.38	5.90	7.05	5.90
Weighted average assumptions used to determine net cost					
Discount rate for year	4.40	5.38	5.90	7.05	5.90
Medical cost trend rate assumptions used to determine net cost *					
Immediate trend rate Pre 65	9.50	9.56	9.56	8.20	8.19
Immediate trend rate Post 65	9.50	9.56	9.56	10.90	10.91
Ultimate trend rate	5.00	5.00	5.00	5.00	5.00
Year that the rate reaches ultimate trend rate	2016	2015	2014	2013/14	2012/13

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

Other long-term employee benefits

	December 31, 2011	March 31, 2011	2010	2009	2008
Jubilee benefits	53	51	52	47	41
Other benefits	29	28	39	20	17
Total carrying amount	**82**	**79**	**91**	**67**	**58**
Less: Non-current portion					
Jubilee benefits	48	45	46	43	40
Other benefits	29	28	33	18	15
Non-current portion	**77**	**73**	**79**	**61**	**55**
Current portion	**5**	**6**	**12**	**6**	**3**

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.

	December 31, 2011	March 31, 2011	2010	2009	2008
Redundancy benefits					
Non-current portion	11	11	10	9	15
Current portion	1	1	1	2	3
Total carrying amount	**12**	**12**	**11**	**11**	**18**

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, 2011	**131**	**73**	**29**	**174**	**30**	**437**
Additional provisions and increases in existing provisions	55	7	10	10	5	87
Unused amounts reversed	(3)	-	-	-	(1)	(4)
Used during year	(35)	(8)	(15)	(4)	(4)	(66)
Other changes	-	3	2	(4)	1	2
As at December 31, 2011	**148**	**75**	**26**	**176**	**31**	**456**
Current / non-current portion						
Non-current portion	141	55	20	174	22	412
Current portion	7	20	6	2	9	44
Carrying amount as at December 31, 2011	**148**	**75**	**26**	**176**	**31**	**456**

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 December 31, 2011 relates to the anti-trust investigations in Europe for KLM and Martinair, anti-trust investigations in South Africa 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 part of the fine imposed by the EU. Reference is made to note 5 Other financial assets.

Other provisions

Other provisions include provisions for onerous leases of aircraft, demolition costs of buildings and site restoration costs for land and buildings under long term lease agreements.

18 Trade and other payables

	December 31, 2011	March 31, 2011
Trade payables	690	734
Amounts due to AIR FRANCE KLM Group companies	73	67
Taxes and social security premiums	97	68
Other payables	257	357
Accrued liabilities	507	529
Total	**1,624**	**1,755**

19 Commitments

As at December 31, 2011, KLM has commitments for previously placed orders amounting to EUR 2,045 million (March 31, 2011 EUR 518 million). EUR 2,002 million of this amount relates to aircraft (March 31, 2011 EUR 467 million) of which EUR 243 million is due in 2012. The balance of the commitments as at December 31, 2011 amounting to EUR 43 million (March 31, 2011 EUR 51 million) is related to other tangible fixed assets. As at December 31, 2011 prepayments on aircraft orders have been made, amounting to EUR 250 million (March 31, 2011 EUR 208 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 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, which is fully provided for. 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 guarantees backed by a cash pledge (reference is made to note 5 Other financial assets) and unsecured guarantees instead of an immediate payment. KLM is awaiting a date for the hearing before the General Court.

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 December 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 (or were) 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 afore-mentioned 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.

Three class actions were filed against KLM, Martinair and various other carriers in Canada in August 2009. KLM and Martinair (together with Air France) entered into settlement negotiations with the Canadian plaintiffs in March 2011. A settlement agreement was executed on September 19, 2011 on the basis whereof KLM and Martinair paid EUR 2.8 million.

In September 2010, 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 145 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 roughly EUR 800 million, has however not substantiated that figure. KLM, Martinair and Air France have served the other airlines that were fined by the European Commission on November 9, 2010 with a contribution claim and a claim to make them join the proceedings. Some airlines have meanwhile voluntarily joined the proceedings.

Also, on April 5, 2011, a writ of summons was served on Equilib on behalf of KLM, Martinair and Air France before the Paris Commercial Court stating that both Equilib and the acts in which it engaged were never valid. These proceedings are still ongoing.

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, that were fined by the European Commission, including KLM, Martinair and Air France, 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.

KLM replied to several questionnaires from the EU Commission pointing out (amongst others) 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. On November 10, 2011, the EU Commission informed KLM that the case has been closed.

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. The motion was granted with regard to inbound flights from Asia/Oceania to the United States but denied in as far as outbound flights from the United States to Asia/Oceania were concerned. Following the partial decline, KLM filed a motion for interlocutory appeal. The judge's order provided in the context of that appeal provides the predicate needed to bring an early motion for a judgement by the court dismissing the complaint with respect to KLM. 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. Following statement exchanges and a court hearing, by decision dated November 15, 2011, the Amsterdam Court of Appeal confirmed the Amsterdam court decision denying all claims made. Claimants have filed for cassation with the Netherlands Supreme Court on February, 15 2012.

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. Therefore 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, amount to EUR 507 million (March 31, 2011 EUR 607 million).

These guarantees include an amount of EUR 119 million (March 31, 2011 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 a loan from parent company (see note 11) as at December 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).

With respect to the guarantee on the EUR 700 million bond loan, issued by AIR FRANCE KLM S.A. in October 2009, EUR 150 million was drawn by the Company. This amount has been recorded as a loan from parent company (see note 11) as at December 31, 2011 and thus excluded from the guaranteed amount. Furthermore the guaranteed amount has been reduced since both Air France and the Company 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 Dutch 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 amount to EUR 396 million as at December 31, 2011 (March 31, 2011 EUR 357 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

	2011 (9 months)	2010/11 (12 months)
Services rendered		
Passenger transport	4,675	5,702
Cargo transport	1,271	1,695
Maintenance contracts	392	446
Charter and low cost business	606	752
Other services	41	56
Total revenues	**6,985**	**8,651**

22 External expenses

	2011 (9 months)	2010/11 (12 months)
Aircraft fuel	2,067	2,388
Chartering costs	69	88
Aircraft operating lease costs	204	267
Landing fees and route charges	551	683
Catering	136	173
Handling charges and other operating costs	348	445
Aircraft maintenance costs	493	591
Commercial and distribution costs	242	340
Insurance	32	44
Rentals and maintenance of housing	93	132
Sub-contracting	151	189
Hired personnel	115	122
Other external expenses	126	179
Total external expenses	**4,627**	**5,641**

23 Employee compensation and benefit expense

	2011 (9 months)	2010/11 (12 months)
Wages and salaries	1,406	1,866
Social security premiums other than for state pension plans	145	188
Share-based remuneration	(1)	1
Pension and early-retirement plan costs	72	91
Post-employment medical benefit costs	2	2
Other long-term employee benefit costs	13	5
Total employee compensation and benefit expense	**1,637**	**2,153**

Pension and early-retirement plan costs comprise:

	2011 (9 months)	2010/11 (12 months)
Defined benefit plans	55	61
Defined contribution plans	17	30
Total	**72**	**91**

Defined benefit plans and early-retirement plan costs comprise:

	2011 (9 months)	2010/11 (12 months)
Current service cost	232	305
Interest cost	423	525
Expected return on plan assets	(601)	(765)
Net actuarial losses/(gains) recognised in year	1	4
Losses/(gains) arising from plan curltailments or settlements	-	(7)
Other	-	(1)
Total	**55**	**61**

In the fiscal year 2011 the net periodic pension cost for the major defined benefit plans recognised in the income statement amounted to EUR 55 million (2010/11 EUR 61 million) and the total contributions paid by the Group amounted to EUR 272 million (2010/11 EUR 354 million). The contributions paid in the fiscal year 2011 include additional deficit funding in The United Kingdom amounting to EUR 3 million (2010/11 EUR 5 million).

The Group's projected defined benefit plans and early retirement plan costs for 2012 amount to EUR 157 million. The Group's expected cash contributions for these plans amount to EUR 377 million.

Post-employment medical benefits costs comprise:

	2011 (9 months)	2010/11 (12 months)
Current service cost	-	-
Interest cost	2	2
Losses/(gains) arising from plan curltailments or settlements	-	-
Total	**2**	**2**

Other long-term employee benefits comprise:

	2011 (9 months)	2010/11 (12 months)
Current service cost	6	3
Interest cost	3	3
Losses/(gains) arising from plan curltailments or settlements	2	-
Net actuarial losses/(gains) recognised in year	-	(1)
Other	2	-
Total	**13**	**5**

Number of full-time equivalent employees:

	2011 (9 months)	2010/11 (12 months)
Average for year		
Flight deck crew	3,328	3,347
Cabin crew	7,969	7,745
Ground staff	20,500	20,624
Total	**31,797**	**31,716**

	December 31, 2011	March 31, 2011
Flight deck crew	3,335	3,311
Cabin crew	7,570	7,654
Ground staff	20,526	20,512
Total	**31,431**	**31,477**

24 Depreciation and amortisation

	2011 (9 months)	2010/11 (12 months)
Intangible assets	19	21
Flight equipment	338	443
Other property and equipment	53	75
Total depreciation and amortisation	**410**	**539**

25 Other non-current income and expenses

The 2011 expenses includes EUR 10 million relating to an one-off pension contribution for the Martinair Cockpit fund (defined contribution), EUR 3 million for an onerous lease of a MD-11 Freighter at Martinair and EUR 1 million for an onerous lease of a foreign office of Martinair. This was partly offset by a EUR 6 million gain on sale of properties in Japan, EUR 3 million gain on the sale of phased out Boeing 737-300 and 400's and EUR 2 million related to favourable sale and lease back transactions at transavia.com.

The 2010/11 expenses include 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.

26 Net cost of financial debt

	2011 (9 months)	2010/11 (12 months)
Gross cost of financial debt		
Loans from third parties	64	68
Finance leases	47	72
Other interest expenses	13	23
Total gross cost of financial debt	**124**	**163**
Income from cash and cash equivalents		
Loans to third parties	29	43
Total income from cash and cash equivalents	**29**	**43**
Net cost of financial debt	**95**	**120**

	2011 (9 months)	2010/11 (12 months)
Foreign currency exchange gains/(losses)	8	8
Fair value gains/(losses)	(120)	(47)
Total other financial income and expense	**(112)**	**(39)**

The fair value losses recorded in the fiscal year consist of the variation in the ineffective portion of fuel and foreign currency exchange derivatives for EUR 11 million (2010/11 EUR 8 million negative), the change in value of derivative instruments no more qualifying for hedge accounting for EUR 6 million negative (2010/11 EUR 3 million negative) as well as the unrealised revaluation of other balance sheet items for EUR 103 million negative (2010/11 EUR 36 million negative).

27 Income tax expense

	2011 (9 months)	2010/11 (12 months)
Current tax (income)/expense	4	-
Deferred tax (income)/expense relating to the origination and reversal of temporary differences and tax losses	18	40
Benefit from previously unrecognised tax loss	-	(32)
Deferred tax expense/(income) resulting from increase/(reduction) in tax rate	-	(7)
Total tax (income) / expense	**22**	**1**

The applicable average tax rate in The Netherlands for the fiscal year 2011 is 25% (2010/11: 25.375%). 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 %	2011 (9 months)	2010/11 (12 months)
Applicable average tax rate in The Netherlands	25.0	25.4
Impact of:		
Profit free of tax/Non-deductible expenses	5.8	3.3
Unrecorded tax assets in year	-	(22.0)
Differences in foreign tax rate changes	3.0	-
Differences due to tax rate changes	-	(4.5)
Effective tax rate	**33.8**	**2.2**

28 Share-based payments

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

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

Phantom shares

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

	2011 (9 months)	2010/11 (12 months)
As at April 1	**333,765**	**243,060**
Granted	144,235	145,450
Forfeited	(1,415)	(54,745)
Exercised	(11,088)	-
As at December 31 / March 31	**465,497**	**333,765**

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

	December 31, 2011	March 31, 2011
Phantom shares expiry date		
July 1, 2013	96,171	107,259
July 1, 2014	98,921	99,632
July 1, 2015	126,283	126,874
July 1, 2016	144,122	-
Carrying number	**465,497**	**333,765**

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 tranche has vested for 100% in July 2008. The second tranche has vested for 60% in July 2009. The third tranche 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. The 2008 plan has an intrinsic value of EUR 0.4 million as at December 31, 2011.

Under the Long Term Incentive plan 2009, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2009. The first tranche has vested for 60% in July 2009. The second tranche has vested for 64% in July 2010. The third tranche has vested for 113.4% in July 2011. The 2009 phantom shares are now, insofar vested, unconditionally awarded and can be exercised between July 1, 2012 and July 1, 2014.

Under the Long Term Incentive plan 2010, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2010. The first tranche has vested for 64% in July 2010. The second tranche has vested for 113.4% in July 2011 and the vesting of the third tranche is still conditionally awarded.

Under the Long Term Incentive plan 2011, executive employees of KLM have received (conditional and unconditional) phantom shares per July 1, 2011. The first tranche has vested for 113.4% in July 2011 and the vesting of the second and third tranche 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:

	2011 (9 months)		2010/11 (12 months)	
	Number of share options	**Weighted average exercise price (in EUR)**	**Number of share options**	**Weighted average exercise price (in EUR)**
As at April 1	**768,216**	**26.16**	**1,143,182**	**22.00**
Granted	-	-	-	-
Forfeited	-	-	(11,000)	26.02
Exercised	-	-	-	-
Expired	(377,699)	17.83	(363,966)	13.11
As at December 31 / March 31	**390,517**	**34.21**	**768,216**	**26.16**
Exercisable as at Dec. 31 / March 31	**390,517**		**768,216**	

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)	**December 31, 2011**	**March 31, 2011**
Option expiry date			
July 26, 2011	17.83	-	377,699
July 25, 2012	34.21	390,517	390,517
Carrying number		**390,517**	**768,216**

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:

	December 31, 2011	March 31, 2011
Fair value at grant date	10.83	9.50
Share price (in EUR, Closing price, AEX Amsterdam)	4.0	11.8
Volatility (%)	70.6	31.1
Risk free rate (%)	1.6	2.1
Dividend yield (%)	4.4	0.6

29 Supervisory Board remuneration

	2011 (9 months)			2010/11 (12 months)		
(Amounts in EUR)	**As Supervisory Board member**	**As Committee member**	**Total**	**As Supervisory Board member**	**As Committee member**	**Total**
K.J. Storm	31,875	2,000	33,875	42,500	2,000	44,500
J.F.H. Martre	25,875	-	25,875	34,500	-	34,500
I.P Asscher-Vonk	19,875	2,000	21,875	26,500	3,000	29,500
J.D.F.C. Blanchet	19,875	-	19,875	26,500	-	26,500
H. Guillaume	19,875	2,000	21,875	26,500	2,000	28,500
W. Kok (until July 1, 2011)	6,625	1,500	8,125	26,500	4,500	31,000
R. Laan	19,875	2,500	22,375	26,500	3,000	29,500
H.N.J. Smits	19,875	4,000	23,875	26,500	4,000	30,500
J. Peyrelevade	19,875	-	19,875	26,500	-	26,500
A.J.M. Roobeek (as from July 1, 2011)	13,250	1,000	14,250			
Total	**196,875**	**15,000**	**211,875**	**262,500**	**18,500**	**281,000**

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

Other transactions with Supervisory Board members

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

30 Board of Managing Directors remuneration

Base salary

(amounts in EUR)	2011 (9 months)	2010/11 (12 months)
P.F. Hartman	535,965	674,953
F.N.P.P. Gagey	328,311	413,449
C.M.P.S. Eurlings (as from July 1, 2011)	175,583	-
E.F. Varwijk (as from July 1, 2011)	188,125	-
J.E.C. De Groot (until July 1, 2011)	76,887	303,750
Total	**1,304,871**	**1,392,152**

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

Short-term incentive plan

	2011 (9 months)		2010/11 (12 months)	
(amounts in EUR)	Short term incentive plan	Targets achieved	Short term incentive plan	Targets achieved
P.F. Hartman	109,717	Partially	674,953	Full
F.N.P.P. Gagey	47,046	Partially	330,759	Full
C.M.P.S. Eurlings (as from July 1, 2011)	29,019	Partially	-	-
E.F. Varwijk (as from July 1, 2011)	25,439	Partially	-	-
J.E.C. De Groot (until July 1, 2011)	-	-	176,175	Partially
Total	**211,221**		**1,181,887**	

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, a one-off amount of EUR 767,000 was 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.

Pension costs

Pension (amounts in EUR)	2011 (9 months)	2010/11 (12 months)
P.F. Hartman	7,745	101,468
F.N.P.P. Gagey	-	-
C.M.P.S. Eurlings (as from July 1, 2011)	42,000	-
E.F. Varwijk (as from July 1, 2011)	43,914	-
J.E.C. De Groot (until July 1, 2011)	19,057	76,220
Total	**112,716**	**177,688**

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 20,250 (2010/11 EUR 29,700).

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 December 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	Number of phantom shares conditional	Number of phantom shares vested	Total outstanding as at December 31, 2011
P.F. Hartman								
July, 2008	10,000	July 1, 2013	(2,533)	-		-	7,476	7,476
July, 2009	10,000	July 1, 2014	(2,533)	-		-	7,913	7,913
July, 2010	10,000	July 1, 2015	(1,200)	-		3,333	5,914	9,247
July, 2011	10,000	July 1, 2016	-	-		6,666	3,781	10,447
	40,000		**(6,266)**	**-**		**9,999**	**25,084**	**35,083**
F.N.P.P. Gagey								
July, 2008	7,500	July 1, 2013	(1,900)	-		-	5,600	5,600
July, 2009	7,500	July 1, 2014	(1,900)	-		-	5,935	5,935
July, 2010	7,500	July 1, 2015	(900)	-		2,500	4,435	6,935
July, 2011	7,500	July 1, 2016	-	-		5,000	2,835	7,835
	30,000		**(4,700)**	**-**		**7,500**	**18,805**	**26,305**
C.M.P.S. Eurlings (as from July 1, 2011)								
July, 2011	6,000	July 1, 2016	-	-		4,000	2,268	6,268
	6,000		**-**	**-**		**4,000**	**2,268**	**6,268**
E.F. Varwijk (as from July 1, 2011)								
July, 2008	4,500	July 1, 2013	(1,140)	-		-	3,360	3,360
July, 2009	4,500	July 1, 2014	(1,140)	-		-	3,561	3,561
July, 2010	4,500	July 1, 2015	(339)	-		1,500	2,661	4,161
July, 2011	6,000	July 1, 2016	-	-		4,000	2,268	6,268
	19,500		**(2,619)**	**-**		**5,500**	**11,850**	**17,350**
J.E.C. De Groot (until July 1, 2011)								
July, 2008	6,000	July 1, 2013	(1,520)	-		-	4,480	4,480
July, 2009	6,000	July 1, 2014	(1,520)	-		-	4,748	4,748
July, 2010	6,000	July 1, 2015	(2,452)	-		-	3,548	3,548
	18,000		**(5,492)**	**-**		**-**	**12,776**	**12,776**
Total	**113,500**		**(19,077)**	**-**		**26,999**	**70,783**	**97,782**

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 December 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 December 31, 2011
P.F. Hartman						
2007	25,000	34.21	July 25, 2012	-		25,000
	25,000			**-**		**25,000**
F.N.P.P. Gagey						
2007	25,000	34.21	July 25, 2012	-		25,000
	25,000			**-**		**25,000**
E.F. Varwijk	(as from July 1, 2011)					
2007	10,000	34.21	July 25, 2012	-		10,000
	10,000			**-**		**10,000**
J.E.C. De Groot	(Until July 1, 2011)					
2007	20,000	34.21	July 25, 2012	-		20,000
	20,000			**-**		**20,000**
L.M. Van Wijk	(Until July 5, 2007)					
2007	25,000	34.21	July 25, 2012	-		25,000
	25,000			**-**		**25,000**
Total	**105,000**			**-**		**105,000**

* Number of shares that can be acquired

As at December 31, 2011 Mr. Hartman and Mr. Gagey held 2,960 and 900 shares AIR FRANCE KLM S.A. respectively. Mr. Eurlings had no interest in AIR FRANCE KLM S.A. Mr. Varwijk and 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:

	2011 (9 months)	2010/11 (12 months)
Sales of goods and services		
AIR FRANCE KLM Group companies	116	102
Associates	8	12
Other related parties	1	1
Purchases of goods and services		
AIR FRANCE KLM Group companies	141	180
Associates	-	6
Other related parties	13	17

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 loans see note 11. No loans were granted to or received from related parties during 2010/11 and nine months period 2011. 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	
	2011 *	2010/11	2011 *	2010/11	2011 *	2010/11	2011 *	2010/11	2011 *	2010/11	2011 *	2010/11	2011 *	2010/11
Revenues														
Revenues External	4,675	5,702	1,271	1,695	392	446	606	752	41	56			6,985	8,651
Revenues Internal	306	383	11	15	469	661	-	(1)	134	179	(920)	(1,237)	-	-
Total revenue	4,981	6,085	1,282	1,710	861	1,107	606	751	175	235	(920)	(1,237)	6,985	8,651
Operating profit/(loss)	223	287	17	111	31	34	11	(39)	(7)	(10)			275	383
Share of results of equity shareholdings													5	2
Financial Income and expense													(207)	(159)
Gain/(loss) on disposal of assets													9	9
Income tax expense													(22)	(1)
Other													(12)	(87)
Profit / (loss) for the year													**48**	**147**
Depreciation and amortisation	(268)	(336)	(58)	(83)	(45)	(61)	(21)	(33)	(18)	(26)	-	-	(410)	(539)
Other non monetary items	(73)	(55)	(19)	(25)	(18)	(20)	(4)	1	2	59	-	-	(112)	(40)
Assets														
Intangible assets	68	67	2	1	12	4	2	2	99	71			183	145
Flight equipment	2,779	2,784	416	500	317	306	283	294	(30)	(4)			3,765	3,880
Other property, plant and equipment	129	131	46	46	215	226	9	13	241	241			640	657
Trade receivables	270	348	211	214	13	11	10	22	(13)	79			491	674
Other assets	942	1,386	(247)	(323)	307	263	332	315	4,204	4,227			5,538	5,868
Total assets	**4,188**	**4,716**	**428**	**438**	**864**	**810**	**636**	**646**	**4,501**	**4,614**	**-**	**-**	**10,617**	**11,224**
Liabilities														
Deferred revenues on sales	838	981	4	10	33	35	51	73	2	1			928	1,100
Other liabilities	3,118	3,524	543	477	71	69	425	450	2,974	2,921			7,131	7,441
Total liabilities	**3,956**	**4,505**	**547**	**487**	**104**	**104**	**476**	**523**	**2,976**	**2,922**	**-**	**-**	**8,059**	**8,541**

* Nine months period April 1, 2011 - December 31, 2011

33 Secondary segment reporting

Revenues by destination 2011 (9 months)	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
Scheduled passenger	1,384	145	677	1,219	1,084	4,509
Other passenger revenues	51	5	25	45	40	166
Total passenger revenues	**1,435**	**150**	**702**	**1,264**	**1,124**	**4,675**
Scheduled cargo	13	15	271	526	402	1,227
Other cargo revenues	-	1	10	19	14	44
Total cargo revenues	**13**	**16**	**281**	**545**	**416**	**1,271**
Maintenance	392	-	-	-	-	392
Other revenues	585	49	-	13	-	647
Total maintenance and other	**977**	**49**	**-**	**13**	**-**	**1,039**
Total revenues by destination	**2,425**	**215**	**983**	**1,822**	**1,540**	**6,985**

Revenues by destination 2010/11 (12 months)	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	-	1	13	23	19	56
Total cargo revenues	**12**	**24**	**377**	**699**	**583**	**1,695**
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**

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 December 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	Note	December 31, 2011	March 31, 2011	December 31, 2010 Proforma unaudited
After proposed appropriation of the result for the year				
ASSETS				
Non-current assets				
Property, plant and equipment	35	3,487	3,555	3,517
Intangible assets		173	130	112
Investments accounted for using the equity method	36	606	593	639
Derivative financial instruments	4	93	104	73
Other financial assets	37	244	304	330
Pension assets	16	3,209	2,989	2,916
		7,812	**7,675**	**7,587**
Current assets				
Derivative financial instruments	4	165	488	294
Other financial assets	37	84	193	268
Inventories		207	175	181
Trade and other receivables	38	916	947	798
Cash and cash equivalents	39	1,019	1,182	995
		2,391	**2,985**	**2,536**
TOTAL ASSETS		**10,203**	**10,660**	**10,123**
EQUITY				
Capital and reserves				
Share capital	40	94	94	94
Share premium		474	474	474
Other reserves	40	191	304	106
Retained earnings		1,797	1,809	1,855
Total attributable to Company's equity holders		**2,556**	**2,681**	**2,529**
LIABILITIES				
Non-current liabilities				
Loans from parent company	41	586	587	579
Finance lease obligations	42	1,355	1,401	1,404
Derivative financial instruments	4	115	106	157
Other financial liabilities	43	1,358	1,503	1,381
Deferred income	44	192	191	205
Deferred income tax liabilities	45	433	475	423
Provisions	46	373	353	225
		4,412	**4,616**	**4,374**
Current liabilities				
Trade and other payables	47	1,807	1,813	1,690
Loans from parent company	41	198	28	22
Finance lease obligations	42	243	319	383
Derivative financial instruments	4	64	279	260
Other financial liabilities	43	226	91	46
Deferred income	44	640	788	632
Current income tax liabilities	45	4	-	-
Provisions	46	53	45	187
		3,235	**3,363**	**3,220**
Total liabilities		**7,647**	**7,979**	**7,594**
TOTAL EQUITY AND LIABILITIES		**10,203**	**10,660**	**10,123**

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

KLM Royal Dutch Airlines

Company income statement

In millions of Euros	April 1, 2011 - December 31, 2011 (9 months)	April 1, 2010 March 31, 2011 (12 months)	January 1 - December 31, 2011 (12 months) Proforma unaudited
Income/(loss) from subsidiaries after taxation	12	27	(10)
Profit of KLM N.V. after taxation	35	120	11
Income for the year	**47**	**147**	**1**

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 2011 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 Dutch 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, 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**

	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, 2011	**891**	**2,355**	**1,229**	**4,475**	**576**	**522**	**98**	**1,196**	**164**	**5,835**
Additions	230	9	30	269	2	8	5	15	55	339
Disposals	(175)	-	-	(175)	(1)	(41)	(3)	(45)	-	(220)
Other	115	(72)	8	51	(1)	13	1	13	-	64
As at Dec. 31, 2011	**1,061**	**2,292**	**1,267**	**4,620**	**576**	**502**	**101**	**1,179**	**219**	**6,018**
Accumulated depreciation and impairment										
As at April 1, 2011	**497**	**599**	**547**	**1,643**	**171**	**416**	**50**	**637**	**-**	**2,280**
Depreciation	74	86	93	253	21	16	6	43	-	296
Disposals	(82)	-	-	(82)	(2)	(33)	(3)	(38)	-	(120)
Other	171	(46)	(52)	73	-	-	2	2	-	75
As at Dec.31, 2011	**660**	**639**	**588**	**1,887**	**190**	**399**	**55**	**644**	**-**	**2,531**
Net carrying amount										
As at March 31, 2011	**394**	**1,756**	**682**	**2,832**	**405**	**106**	**48**	**559**	**164**	**3,555**
As at Dec.31, 2011	**401**	**1,653**	**679**	**2,733**	**386**	**103**	**46**	**535**	**219**	**3,487**

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

	December 31, 2011	March 31, 2011
Aircraft	105	180
Land and buildings	171	179
Other property and equipment	52	52
Carrying amount	**328**	**411**

Borrowing costs capitalised during the year amounted to EUR 5 million (March 31, 2011 EUR 5 million). The interest rate used to determine the amount of borrowing costs to be capitalised was 4.0% (2010/11: 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 December 31, 2011 was EUR 293 million (March 31, 2011 EUR 309 million).

36 Investments accounted for using the equity method

	December 31, 2011	March 31, 2011
Subsidiaries	521	517
Associates	62	53
Jointly controlled entities	23	23
Carrying amount	**606**	**593**

	2011	2010/11
Subsidiaries		
Carrying amount as at April 1	**517**	**364**
Movements		
Investments	-	135
Change in consolidation scope	-	7
Share of profit/(loss) after taxation	12	27
OCI movement	-	1
Dividends received	(12)	(3)
Foreign currency translation differences	3	(14)
Other movements	1	-
Net movement	**4**	**153**
Carrying amount as at December 31 / March 31	**521**	**517**

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

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	40	87	75	90
Loans and receivables				
Other loans and receivables	2	153	2	201
At fair value through profit or loss				
Restricted deposit EU Cargo Claim	42	-	116	-
AIR FRANCE KLM S.A. shares	-	4	-	13
Total at fair value	42	4	116	13
Carrying amount	**84**	**244**	**193**	**304**

38 Trade and other receivables

	December 31, 2011	March 31, 2011
Trade receivables	393	575
Provision trade receivables	(10)	(10)
Trade receivables - net	383	565
Amounts due from:		
- subsidiaries	245	121
- AIR FRANCE KLM group companies	45	20
- associates and jointly controlled entities	-	2
- maintenance contract customers	73	78
Taxes and social security premiums	24	22
Other receivables	92	69
Prepaid expenses	54	70
Total	**916**	**947**

Maintenance contract costs incurred to date (less recognised losses) for contracts in progress at December 31, 2011 amounted to EUR 86 million (March 31, 2011 EUR 77 million). Advances received for maintenance contracts in progress at December 31, 2011 amounted to EUR 17 million (March 31, 2011 EUR 28 million). The maturity of trade and other receivables is within one year.

39 Cash and cash equivalents

	December 31, 2011	March 31, 2011
Cash at bank and in hand	93	48
Short-term deposits	926	1,134
Total	**1,019**	**1,182**

The effective interest rates on short-term deposits are in the range from 0.65% to 3.44% (2010/11 range 0.53% to 2.15%). 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 Loans from parent company

	December 31, 2011	March 31, 2011
Non-current portion	586	587
Current portion	198	28
Carrying amount	**784**	**615**

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

For the current loans with AIR FRANCE KLM amounting to EUR 150 million reference is made to note 11.

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

42 Finance lease obligations

	December 31, 2011	March 31, 2011
Non-current portion	1,355	1,401
Current portion	243	319
Carrying amount	**1,598**	**1,720**

43 Other financial liabilities

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	625	-	566
Other loans (secured/unsecured)	226	701	91	905
Total	**226**	**1,358**	**91**	**1,503**

44 Deferred income

	December 31, 2011		March 31, 2011	
	Current	Non-current	Current	Non-current
Advance ticket sales	558	-	696	-
Sale and leaseback transactions	8	1	8	12
Flying Blue frequent flyer program	73	182	84	179
Others	1	9	-	-
Total	**640**	**192**	**788**	**191**

45 Deferred income tax

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

	2011	2010/11
Carrying amount as at April 1	**475**	**335**
Movements:		
Income statement charge	18	30
Tax (credited)/charged to equity	(59)	107
Other movements	3	3
Net movement	**(38)**	**140**
Carrying amount as at December 31 / March 31	**437**	**475**

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:

	December 31, 2011	March 31, 2011
Deferred tax assets:		
Deferred tax assets to be settled in 12 months or less	11	14
Deferred tax assets to be settled after 12 months	386	353
	397	**367**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	6	7
Deferred tax liabilities to be settled after 12 months	828	835
	834	**842**
Carrying amount	**437**	**475**

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 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 December 31
Deferred tax assets 2011					
Tax losses	286	41	-	-	327
Fleet assets	16	(8)	-	-	8
Fleet related assets (maintenance)	5	(1)	-	-	4
Provisions for employee benefits	14	-	-	-	14
Financial lease	3	-	-	-	3
Derivative financial instruments	-	-	-	1	1
Other	41	-	-	(1)	40
Total	**365**	**32**	**-**	**-**	**397**

	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 2010/11					
Fleet assets	-	-	-	-	-
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**

	Carrying amount as at April 1	Income statement charge / (credit)	Tax charged / (credited) to equity	Other move-ments	Carrying amount as at December 31
Deferred tax liabilities 2011					
Other tangible fixed assets	11	(3)	-	-	8
Pensions & benefits (asset)	746	55	-	-	801
Maintenance provision	8	(2)	-	-	6
Derivative financial instruments	58	-	(59)	1	-
Other	17	-	-	2	19
Total	**840**	**50**	**(59)**	**3**	**834**

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, 2011	**122**	**135**	**134**	**7**	**398**
Additional provisions and increases in existing provisions	47	38	6	-	91
Unused amounts reversed	(3)	(2)	-	-	(5)
Used during year	(31)	(34)	(4)	-	(69)
Other changes	2	5	1	3	11
As at December 31, 2011	**137**	**142**	**137**	**10**	**426**
Current / non-current portion					
Non-current portion	135	94	136	8	373
Current portion	2	48	1	2	53
As at December 31, 2011	**137**	**142**	**137**	**10**	**426**

47 Trade and other payables

	December 31, 2011	March 31, 2011
Trade payables	621	670
Amounts due to subsidiaries	529	374
Amounts due to AIR FRANCE KLM Group companies	31	67
Taxes and social security premiums	88	58
Other payables	191	276
Accrued liabilities	347	368
Total	**1,807**	**1,813**

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, April 11, 2012

The Board of Managing Directors	The Supervisory Board
Peter F. Hartman	Kees J. Storm
Frédéric N.P.P. Gagey	J.F. Henri Martre
Camiel M.P.S. Eurlings	Irene P. Asscher-Vonk
Erik F. Varwijk	Jean-Didier F.C. Blanchet
	Henri Guillaume
	Remmert Laan
	Jean Peyrelevade
	Annemieke J.M. Roobeek
	Hans N.J. Smits

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 nine-month period ended December 31, 2011 as set out on the pages 63 to 173. 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 December 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 nine-month period 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 December 31, 2011, the company income statement for the nine-month period 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 Dutch 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 Dutch 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 December 31, 2011, and of its result and its cash flow for the nine-month period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch 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 December 31, 2011, and of its result for the nine-month period then ended in accordance with Part 9 of Book 2 of the Dutch 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 Dutch 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 Dutch Civil Code.

Amstelveen/ Rotterdam, April 11, 2012

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 fiscal 2011 amounting to EUR 47,496,000 be appropriated as follows:

Transfer to reserves		
• Retained earnings	EUR	47,495,405
Dividend distributions		
• Priority shareholders 2011		595
Total dividend distributions	EUR	595
Total transfer to reserves/ dividends	**EUR**	**47,496,000**
Interest expenses		
• A cumulative preference shareholders 2011 (6%)		793,125
• C cumulative preference shareholders 2011 (3.85%)		407,212
Total interest expenses	**EUR**	**1,200,337**

Five-Year Review

(in millions of EUR, unless stated otherwise)	**2011 ***	2010/11	2009/10	2008/09	2007/08
Consolidated income statement					
Passenger	4,675	5,702	4,873	5,602	5,667
Cargo	1,271	1,695	1,278	1,259	1,194
Other revenues	1,039	1,254	1,318	1,321	1,167
Revenues	6,985	8,651	7,469	8,182	8,028
Expenses	(6,710)	(8,268)	(7,754)	(8,023)	(7,277)
Income from current operations	275	383	(285)	159	751
Financial income and expense	(207)	(159)	(114)	(356)	(75)
Other non-current income and expenses	(3)	(78)	(91)	(11)	(198)
Pre-tax income	65	146	(490)	(208)	478
Income tax expense	(22)	(1)	114	62	(154)
Net result after taxation of consolidated companies	43	145	(376)	(146)	324
Share of results of equity shareholdings	5	2	(7)	(47)	(33)
Profit/(loss) for the year	48	147	(383)	(193)	291
Consolidated balance sheet					
Current assets	2,400	3,157	2,780	2,991	3,268
Non-current assets	8,217	8,067	8,019	8,026	8,237
Total assets	10,617	11,224	10,799	11,017	11,505
Current liabilities	3,142	3,507	3,449	3,627	2,894
Non-current liabilities	4,917	5,034	5,110	5,291	4,733
Group equity	2,558	2,683	2,240	2,099	3,878
Total liabilities	10,617	11,224	10,799	11,017	11,505

* relates to nine months period ended December 31, 2011

Five-Year Review

(in millions of EUR, unless stated otherwise)		**2011 ****	2010/11	2009/10	2008/09	2007/08
Key financial figures (KLM Group)						
Return on equity (%)		1.8	6.0	(17.6)	(6.5)	8.4
Result for the year as percentage of revenues		0.7	1.7	(5.1)	(2.4)	3.6
Earnings per ordinary share (EUR)		1.01	3.14	(8.18)	(4.14)	6.22
Result for the year plus depreciation		458	686	163	317	765
Capital expenditures (net)		(311)	(434)	(481)	(493)	(460)
Net-debt-to-equity percentage		119	109	118	72	57
Dividend per ordinary share (EUR)		-	0.10	-	-	0.58
Average number of staff (KLM Group)						
(in FTE)						
The Netherlands		27,426	27,166	28,003	27,840	26,779
Outside The Netherlands		4,371	4,550	4,574	4,501	4,226
Employed by KLM		31,797	31,716	32,577	32,341	31,005
Total agency staff		2,121	1,726	1,455	2,017	1,997
Total KLM Group		33,918	33,442	34,032	34,358	33,002
Traffic (KLM Company)						
Passenger kilometers	*	63,823	76,974	74,129	76,667	75,073
Revenue ton freight-kilometers	*	2,875	3,738	4,134	4,575	4,947
Passenger load factor (%)		85.8	83.6	82.2	81.6	82.9
Cargo load factor (%)		68.6	72.9	71.2	67.9	74.1
Number of passengers (x 1,000)		19,715	23,104	22,446	23,505	23,354
Weight of cargo carried (kilograms)	*	375	491	540	606	657
Average distance flown per passenger (in kilometers)		3,237	3,332	3,300	3,262	3,214
Capacity (KLM Company)						
Available seat-kilometers	*	74,429	92,064	90,168	93,992	90,563
Available ton freight-kilometers	*	4,192	5,128	5,802	6,733	6,675
Kilometers flown	*	305	374	388	412	406
Blockhours (x 1,000)		460	560	585	622	616
Yield (KLM Company)						
Yield (in cents):						
Passenger (per RPK)		7.1	7.1	6.3	7.0	7.3
Cargo (per RTK)		25.1	24.9	19.3	23.9	23.1
Average number of staff (KLM Company)						
(in FTE)						
The Netherlands		21,337	21,004	21,340	21,876	21,426
Outside The Netherlands		2,762	2,698	2,756	2,923	2,910
Employed by KLM		24,099	23,702	24,096	24,799	24,336

* in millions
** relates to nine months period ended December 31, 2011

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.