

AIRFRANCE KLM



Annual
report
2008-09



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Profile

The Air France-KLM group was born of the merger between Air France and KLM in 2004.

With revenues of around €24 billion, the Group's development is based on leveraging the complementarity of the two companies in their three principal businesses: passenger transportation, cargo transportation and services in aeronautics maintenance and overhaul.

The Group enjoys world-leading rankings in each of its businesses. Air France-KLM is the European leader in passenger transportation, which represents around 80% of its revenues. The Group is the global leader in cargo transportation, its second business with 12% of revenues. On the aeronautics maintenance market (4% of revenues), Air France-KLM ranks number two amongst the multi-product players world-wide.

With operations on every continent, the Group has more than 107,000 employees.



Chairman's message

"Dear Shareholders,

After eleven years at the helm of our Group as Chairman and Chief Executive Officer, I came to the view, together with your Board of Directors, that we needed to separate these two functions.

On January 1, 2009, I therefore handed over responsibility for the Chief Executive Officer role to Pierre-Henri Gourgeon, someone with whom you are already very familiar since he worked with me to ensure firstly the success of Air France and subsequently of Air France-KLM. He takes over at a very difficult time. Our Group's results to March 31, 2009 show that the airline business has been particularly badly hit by the global crisis which has spared no market nor sector of activity.

Your Board of Directors supports the strategy implemented by your Group to face up to this challenging situation: adjusting capacity in line with demand, reinforcing the cost-savings plans and reducing investments to preserve cash. These robust measures do not, however, preclude Air France-KLM from preparing its future by strengthening strategic partnerships.

The commitment, responsiveness and dynamism of all the men and women in your Group will enable it to weather this crisis, qualities which have been to the fore since the tragic loss of flight AF447 on June 1. United in grief with the families of all the victims, they have nonetheless renewed their belief in their profession, which they continue to pursue with passion and dedication."

Jean-Cyril Spinetta,
Chairman of the Board of Directors



Appropriate
responses
to adapt
the business





Interview with Pierre-Henri Gourgeon, Chief Executive Officer of Air France-KLM

“Before anything else, I would like to express our profound emotion at the loss of the 228 passengers and crew members on board flight AF447. For each and every one of us, it is a tragedy which seems to brutally undermine the raison d’être of our business. The Group is mobilized around supporting the families of our passengers and crew. The next few months will be long and difficult, but crucial to understanding what happened during the night of June 1, 2009 between Brazil and Senegal.”

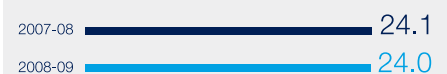
You have just taken the helm of a Group you already know well. What would you like to change?

Pierre-Henri Gourgeon: I am, indeed, already very familiar with the Air France-KLM group. The strategy implemented by Jean-Cyril Spinetta and myself over these last eleven years is still valid and I don’t intend to review it fundamentally even though, in the current environment, it will need to be adapted. We are experiencing an unprecedented crisis and will need to respond with appropriate measures.

To begin, how would you sum up the financial year which has just ended?

P.-H. G.: The 2008-09 financial year was altogether unusual in that it was one of contrasting halves. We had a satisfactory first half, even if the operating environment already showed signs of a slowdown largely due to the soaring oil price, against which our fuel hedging strategy afforded us partial protection. The second half, and particularly the last quarter, was hit by the full force of the global crisis. To this was added the sudden and sustained downturn in the oil price which penalized our fuel hedges. The financial year saw stable revenues of €23.97 billion and an operating loss of €129 million. The net loss was €814 million since the collapse in the oil price required us to recognize in our financial statements the decline in the value of our hedging instruments. This affected both our results and our shareholders’ equity.

Revenues (in € billion)



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





Three questions for Peter Hartman, Chief Executive Officer of KLM

How is the Group handling the need to adapt headcount to the decline in activity?

Our businesses are complex and require many different competencies. We have implemented a policy of flexibility aimed at reducing costs without undermining our skill base in France and the Netherlands. Since last year, we have implemented a hiring freeze and reduced recourse to temporary employees. We offer support to those wishing to retire. Professional mobility is being developed. These measures enabled a 2.5% reduction in headcount at March 31, 2009, and should allow a further 3% reduction to March 31, 2010.

What practical steps are you taking to replace employees who leave the company without recruiting and to avoid redundancies when a position is abolished?

We strongly encourage professional mobility. At Air France, for example, ground operations positions are being reduced but, for the past three years, we have offered these employees the opportunity to become cabin crew. A significant number have taken this up. As another example, employees in the cargo activity are offered vocational training before joining the maintenance business.

At the CDG hub, around a hundred agents in the cargo business, where activity has fallen sharply, will move to positions occupied until now by temporary employees. We also call on volunteers to strengthen teams during peak periods, such as those at the CDG hub during the holiday season at Air France. At KLM, pilots who are flying less are also ready to help the ground-based teams.

We also offer attractive conditions to promote increased part-time and teleworking. This has two advantages in that we can respond to the personal needs of employees while reducing our scale.

Why have you invested in Martinair?

We have, in fact, taken full control of Martinair, in which we previously held 50%. In this difficult period, it means we can now rationalize the dedicated cargo fleet.

Have all the Group's businesses been affected in the same way by the crisis?

P.-H. G.: No, not all our businesses have been affected in the same way. The cargo activity has been the worst hit. The weakness in international trade flows during the second half was compounded by a situation of excess capacity in both air transportation and shipping, which put pressure on prices. Moreover, the collapse in the oil price led us to withdraw many fuel surcharges. Weak demand and lower revenues resulted in a €207 million loss for the cargo activity. The passenger activity was more resilient over the year as a whole, managing to broadly break even. However the second half was characterized by a significant fall in business traffic. On the other hand, our third activity, maintenance, performed very well, driven by the engine and components businesses and the turnaround in the airframes activity.

Breakdown of operating income/(loss) by business (in € million)





You mentioned appropriate responses to the crisis. Could you tell us more?

P.-H. G.: The first response consists of adapting the offer to declining demand. We have decided to reduce our capacity by 4.5% in the passenger activity and by 11% in the cargo activity for the Summer 2009 season. The second response is to adjust the fleet plan in line with this reduction in capacity. We have negotiated a deferral in aircraft deliveries with our OEM partners. This rescheduling has the added advantage of preserving cash during this difficult period. We are thus reducing our investment program by €2.9 billion between last year and 2010-11. The third response consists of reinforcing our cost-savings plans. We have set a target of €600 million of savings for the 2009-10 financial year, in addition to the €675 million already achieved in 2008-09.

Air France-KLM has always had a customer-focused strategy. Does this mean that the reduction in investment will not concern your customer policy?

P.-H. G.: Absolutely right. The investment in our customer offer is maintained. We continue to deploy our range of e-services to streamline the travel experience. This autumn, we shall be launching a new cabin class, *Premium Voyageur*, which will offer greater comfort at an attractive price. During this crisis period, this class is also aimed at stemming the flow of business passengers switching to economy. Furthermore, we have introduced innovative services for our *Première* customers, providing them with a personalized, fast-track experience on departure as on arrival and when making an on-bound connection. We must secure the loyalty of our passengers and induce them to choose our flights, which offer them the level of comfort and service they have come to expect.

Have you changed your hedging strategy in response to the decline in the oil price?

P.-H. G.: I would first like to emphasize that our hedging strategy of the past decade has proven highly effective in terms of reducing the impact of the progressive rise in the oil price. The latter took four years to reach \$140 but only four months to fall back to \$40! We have adapted to these new conditions, firstly in taking on no new hedging contracts and then, between December and February, unwinding part of our portfolio. This enables us to benefit from the current oil price which is lower than the prices at which we were hedged. For the current financial year, our fuel bill should be some \$1.5 billion* lower than in 2008-09. That is a considerable difference.

Could you comment on the strategic partnerships signed this year?

P.-H. G.: We have stepped up our cooperation with Alitalia thanks to an operational partnership agreement, cemented by a 25% equity stake. This agreement gives us privileged access to the Italian market, the fourth largest in Europe, and offers Alitalia access to the leading network linking Europe to the rest of the world. This partnership should generate synergies estimated at €360 million, of which €160 million for our Group over the next two to three years. Alitalia is currently performing in line with its objectives.

We have also reinforced our cooperation with our US partner Delta, now merged with Northwest, through a joint-venture agreement which has been in force since April 1. We have created the most powerful operator on the North Atlantic with a market share of 25%, revenues of around \$12 billion, more than 200 daily flights and six coordinated hubs of which two in Europe and four in the United States. For our Group, we are expecting an improvement of about \$150 million in the profitability of this network. This is a tool which is well-adapted to the crisis.

To conclude, how do you see the 2009-10 financial year?

P.-H. G.: The experts are expecting an upturn in the economy in 2010 based on the ongoing restructuring of the banking industry and on the effects of stimulus packages however we have, as yet, little visibility on the current financial year. We expect cost-savings measures and the reduction in the fuel bill to offset much of the decline in our revenues although we will still be in loss at the operating level. Nevertheless, we remain confident since the responsiveness which should enable us to weather the current situation will also ensure that we are prepared for the economic recovery.

* Based on the forward curve of June 12, 2009: \$70/bbl.

Seven questions raised by the crisis

The current economic situation raises numerous issues. Throughout this annual report, Air France-KLM has chosen to answer the questions raised by its Consultative Committee for Individual Shareholders.

Patrick Sandevor: What is the impact of the crisis on the airline industry?

The airline industry has been hit by the full force of this crisis, with travel being one of the first budgets to be reduced. Both leisure and business passengers are looking for the cheapest fares and travelling less frequently. The crisis is global but each airline has to contend with a different context and respond appropriately. The overall trend globally is, however, to reduce capacity and cut costs. Lastly, mergers and restructuring in order to gain competitiveness are also a way of responding to the crisis. In this challenging environment, our Group remains sound and well-positioned.

Patrice Moreau: How is Air France-KLM responding to the reduction in corporate travel budgets?

The crisis is impacting all segments of the market but business travel has certainly been the most affected. It is not just a question of adjusting our capacity. We are also adapting our fare structures to meet the needs of our business customers. We offer more attractive discounts to corporate contract customers and have a new range of fares accessible to small and medium-sized businesses.

This autumn, Air France will launch a new cabin class, *Premium Voyageur*, which offers a greater level of comfort than economy at an attractive price. This is also a response to the crisis aimed at stemming the flow of business customers switching to economy class. Securing customer loyalty remains a major concern and investing in quality a priority.

Roger Stehlin: Can a group of Air France-KLM's size be flexible enough to adapt its business and change its strategy when necessary?

The ability to re-invent oneself and respond rapidly are integral to our Group culture. During crisis periods, the most successful companies are those which are able to take rapid decisions and adopt a pro-active management approach. We have demonstrated our ability to react in moving rapidly, ahead of our competitors, to adapt our capacity and reduce frequencies and to ground cargo aircraft. The next few years will be challenging in an economic context but will also present opportunities. We intend to seize such opportunities to reinforce our strategy and bolster our position as the global leader in air transportation.

Gérard Audran: Do the banking crisis and the credit crunch raise financing issues which are likely to hold back the Group's long-term development?

Our financial position is robust. It enables us to continue to finance the acquisition of our aircraft under conditions which, while a little less attractive than in the past few years, remain, nonetheless, perfectly acceptable. Furthermore, the Group has cash of €4 billion and available credit facilities of €1.2 billion. Finally, Air France-KLM has just successfully completed a convertible bond issue raising €661 million, thereby diversifying its sources of funding and boosting the resources necessary to continue its development.

Claude Samuel: Does the hub-based organization, which proved highly effective in a growth period, remain a strength currently?

Our organization around our two main hubs, Paris-Charles de Gaulle and Amsterdam-Schiphol, is acting as a shock-absorber for the crisis. Weak traffic is more penalizing for airlines without a hub since they are not able to stimulate demand outside their own countries and are often forced to withdraw direct flights, requiring their customers to use a transfer platform. Our comprehensive offer and the significant number of potential transfer opportunities out of Paris and Amsterdam remain powerful competitive advantages and will be key when traffic picks up.

Michel Guérillot: Does the fleet need to be adapted to withstand the crisis?

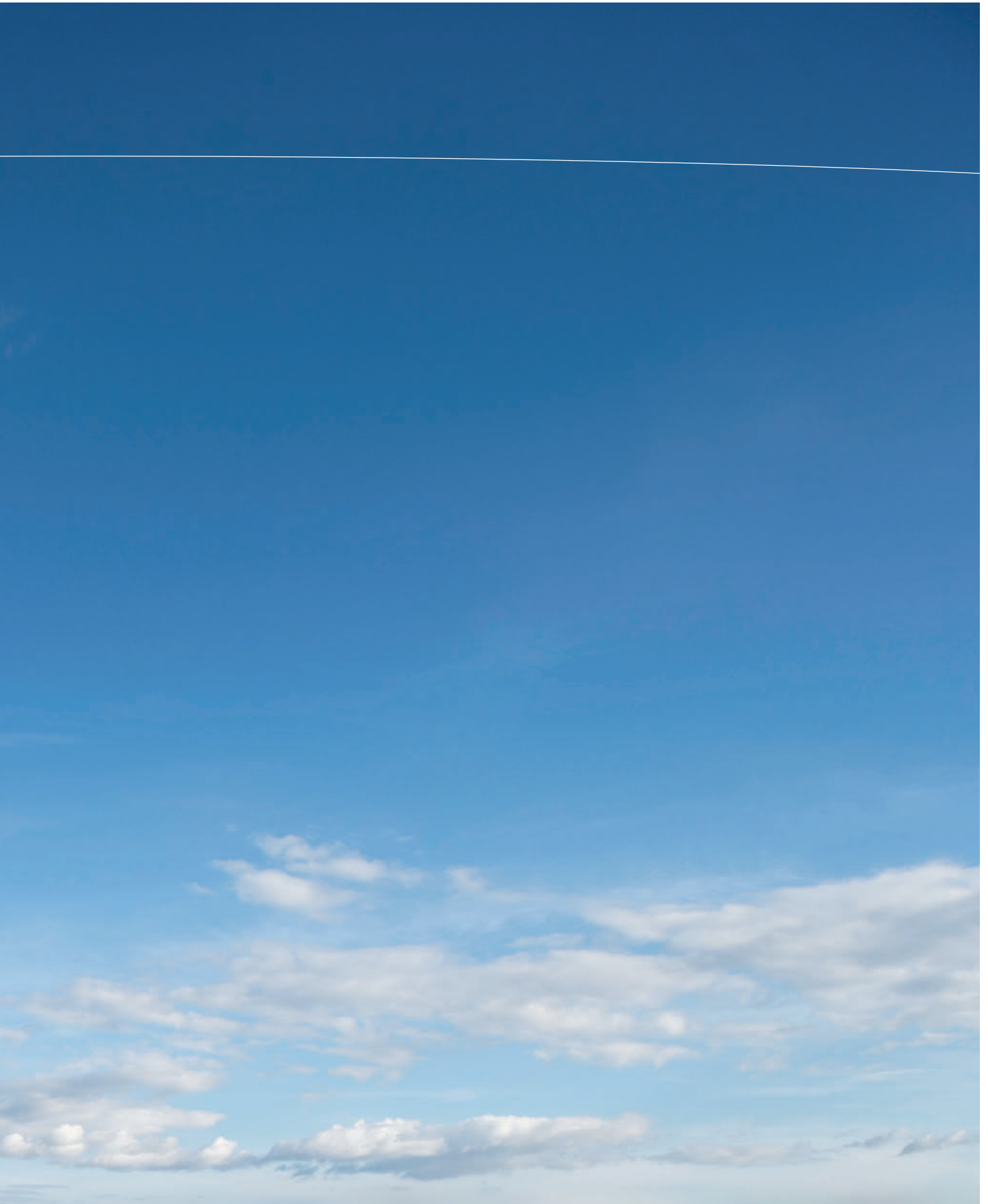
Absolutely! As a result of the reduction in capacity, the Group is revising its fleet plan. We continue to take delivery of new aircraft to pursue the modernization of our fleet and enhance the level of passenger comfort, but we have negotiated a deferral in the delivery of eleven aircraft between 2009 and 2011, thereby reducing our investment and preserving our cash. In the cargo activity, of the five Boeing B777Fs initially planned, only two aircraft were delivered in 2008-09. Over the longer term, we are focusing on next-generation aircraft, which will increase the Group's competitiveness when the fuel price starts rising again.

Caroline Meignen: Does the crisis and its consequences call into question your sustainable development principles?

Notwithstanding the crisis, we maintain our commitment to sustainable development. As a recognized leader in this field, we must continue to lead by example. Equitable and harmonious economic development is more than ever an obligation. We were among the first to focus on this issue and we are convinced that it is both a force to federate our employees and a source of value. In this, we share the preoccupations of our customers and of all our stakeholders.

Solid
fundamentals
on which
to build





Responsiveness in the face of the crisis

Adapting to the operating environment, reinforcing our fundamentals, preserving our strengths, planning for the future and respecting our commitments are key to our strategy for weathering the economic crisis.

Adopting a pragmatic approach and...

As of the beginning of the 2008-09 financial year, given the rise in the oil price, the Group had anticipated a slowdown in demand for air transportation, opting for a moderate and flexible increase in capacity. With the deterioration in the economic environment leading to weaker demand in both the passenger and cargo activities and, in the absence of a rapid economic recovery, the Group has significantly reduced its capacity while preserving the integrity of the network and the efficiency of the hubs. For the Summer 2009 season, the reduction in capacity is 4.5% in the passenger activity and 11% in cargo. As a result, the Group has adapted its fleet plan. While the modernization of the fleet continues with the arrival of new aircraft, the Group has negotiated the deferral of aircraft deliveries, thus scaling back its investment program and preserving its cash.

...respecting our commitments

While the crisis reduces visibility, it does not call into question the commitments made by the Air France-KLM group. Building a sustainable relationship with customers, promoting a responsible social policy, combating climate change, reducing its environmental footprint and contributing to regional development remain the values at the heart of the Group's sustainable development policy.

Reinforcing our fundamentals and...

The fall in the level of activity has led to the reinforcement of the *Challenge 12* cost-savings plan, whose main sources of savings are procurement and the improvement in productivity and processes. In 2008-09 the initial objective of €430 million was successfully increased to €675 million while the target for the current financial year has also been increased to €600 million. By 2012, the Group should achieve some €2.6 billion of cost savings.

...preserving our strategic strengths

Maintaining the quality of the offer, the integrity of the network and the efficiency of the hubs is based on a targeted zone by zone reduction in capacity, taking into account economic forecasts and the competitive situation on each destination. In long-haul, this has been done by reducing frequencies to destinations served by several daily flights and, in medium haul, in maintaining the coverage of the hubs. In Paris, this reduction in capacity makes it more convenient for transfer passengers in increasing the minimum time for flight connections. The crisis is compromising neither the Group's ongoing focus on marketing innovation nor its investment in enhancing the customer offer.

Planning for the future

During the financial year, the Group concluded two strategic partnerships to take its business forward.

Air France-KLM's position on the North Atlantic, the leading air transport market, has been strengthened through a joint-venture agreement with its partner Delta. In Europe, the Group has also increased its access to the Italian market, the fourth largest, in stepping up its cooperation with Alitalia.



Preserving our strategic strengths

A resilient operating model

Networks, hubs and the alliance are all key to a strategy which is demonstrating its validity in the current environment.



A powerful, balanced network

The Air France-KLM group has the largest route network between Europe and the rest of the world. Of the 179 long-haul destinations served directly out of Europe, it offers some 110, providing two in every three passengers with a travel solution. The Group also offers 43 destinations which are not served by its competitors, thus bolstering the strength of its network. Given its presence in all the major air transportation markets, the Group has built a balanced network, with no one market representing more than 30% of passenger revenues.

The hubs, shock absorbers of the crisis

The Air France-KLM network is organized around the dual intercontinental hubs of Paris and Amsterdam, which are two of the four largest in Europe. The hubs combine connecting with point-to-point traffic. With this large-scale pooling of reduced flows, even small markets have access to the world. It also optimizes the fleet and enables the use of larger aircraft, thereby reducing noise pollution and carbon emissions.

A cornerstone of the profitable growth strategy in recent years, the dual hub system between Paris and Amsterdam is currently acting as a shock absorber thanks to the diversity of the transfer flows which are not all exposed to the crisis in the same way. It also provides an immediate solution for passengers whose direct flights have been suspended. With 29,000 weekly transfer possibilities inside periods of under two hours, Air France-KLM has the best offer in Europe. These two hubs, which are linked by some fifteen daily flights, make an effective contribution to the Group's activity.



SkyTeam, a global alliance

SkyTeam is currently the number two global alliance in terms of market share. In addition to Air France and KLM, the alliance has eight other airline members: Aeroflot, Aeromexico, Alitalia, China Southern, Continental until October 2009, CZech Airlines, Delta and Korean Air. Three associate airline members have joined them: Air Europa in Spain, Copa Airlines in Panama and Kenya Airways. While retaining their own identities and brands, the airlines work together to offer their customers a global network and services.

SkyTeam thus offers its 462 million passengers some 16,700 daily flights to 905 destinations in 169 countries. Organized around its members' major hubs, the alliance has a product offer which makes it easy for passengers to use the networks of one or several airline members during the same trip and gives them access to 400 airport lounges world-wide. Whatever their chosen airline, passengers can earn and redeem miles and, since November 2008, for the most loyal customers, use them to upgrade to business class.



SkyTeam continues to grow and consolidate its reputation. Last April, it signed a preliminary agreement with Vietnam Airlines, marking the airline's first step towards full membership of the alliance. In November 2009, SkyTeam members with operations at London Heathrow will have a co-located facility in Terminal 4 where they will share the self-service check-in kiosks and a lounge in the SkyTeam colors. Lastly, the alliance colors will be flying high by the end of the year, with each airline committed to having at least one aircraft in its fleet in the SkyTeam livery.

Innovative solutions to satisfy our customers' expectations

Investment in innovation and product quality is increasingly prioritized in order to secure customer loyalty.

Flying Blue frequent flyer program

An important contributor to the customer loyalty strategy, Flying Blue is enjoying steady growth. Launched in June 2005, Flying Blue, the frequent flyer program common to the two airlines, has increased its membership from 10 million in 2005 to 15.4 million in 2008. Flying Blue enables miles to be earned and redeemed on the flights of SkyTeam member airlines as well as with 130 air or commercial partners. It has won numerous awards recognizing it as the leading frequent flyer program in Europe.

Flying Blue members now benefit from a new search engine enabling the availability of reward tickets to be consulted over a period of two months around a chosen date. This functionality has proved very popular with internet users, as seen in the steady growth in online bookings.



Streamlining the travel experience

The Group's many technological innovations are aimed at streamlining the travel experience for its customers. e-services are used by more than half of Air France-KLM's customers who can choose the check-in channel which suits them the best: check-in at the airport using self-service kiosks or online at home or in the office. Since February 2009, check-in by mobile phone has also been available on short and medium-haul routes and, from mid-June, on flights to the French overseas departments. Passengers receive their boarding cards by SMS or MMS in the form of a bar code which they present on boarding. Lastly, since March 2009 on the Paris-Amsterdam route, Air France has been experimenting with a new automated boarding system known as Smartboarding, which combines biometric technology, RFID and thermal printing in a personalized boarding card, meaning passengers no longer need to show their identity papers once in the boarding lounge.

Securing the loyalty of our customers

In March 2009, the Air France group unveiled its new logo and aircraft livery. The airline also carried out a review of its brands aimed at making them simpler, more intelligible and more consistent. *L'Espace Première* and *L'Espace Affaires* thus became *Première* and *Affaires* while the *Tempo* economy class was re-branded as *Voyageur*.

While putting the emphasis on products destined for high contribution passengers, Air France is launching *Premium Voyageur*, a new cabin class available on some long-haul flights as of October 2009. This new class offers a greater degree of comfort than in the economy cabin at a very attractive price. It is primarily aimed at customers in small and medium-sized businesses however, during this crisis period, it is also a response aimed at stemming the flow of business passengers to economy.

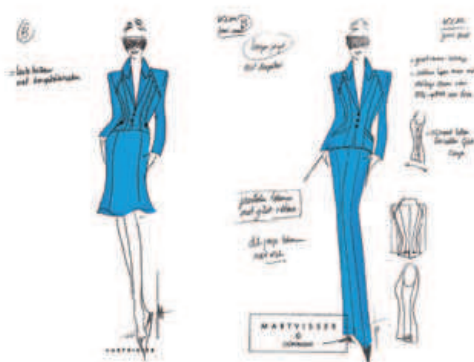


Respecting cultural nuances

With international customers now representing more than 60% of the overall total, the Group is responding to the cultural diversity of its customers. The inclusion in cabin crews of nationals from destination countries and crew training through programs such as Phoenix India, China and USA aimed at giving customers the service they expect are just two examples of the many initiatives underway. The Group also takes culinary differences into consideration and passengers traveling between Asia and Europe are offered a choice between western and local cuisine. The in-flight entertainment has been increased by the availability of movies in nine languages including Chinese, Korean and Japanese.

Enriching the customer relationship

Since the end of 2008, Air France and KLM customers have had access to Bluenity.com, an interactive platform enabling travellers to meet, share useful tips and broaden their social networks. For the Group, it increases the visibility of the brands, secures customer loyalty and generates advertising revenues. After just four months, Bluenity.com already has some 60,000 members.



In April 2010, KLM hostesses will have a new uniform created by the well-known Dutch fashion designer Mart Visser.

15.4 million members of the Flying Blue program

6,000 check-ins by mobile telephone every month

85 films offered on long-haul flights

710 self-service kiosks



The advantages of a modern fleet, managed in a flexible manner

Purchasing aircraft is a highly complex business requiring a 20-year commitment. The fleet policy must thus ensure a fleet scaled in line with the growth in traffic and deliver technical consistency while reducing the impact on the environment.



The advantages of a modern fleet

The Group has consistently invested in new aircraft and currently operates one of the most streamlined and modern fleets in the airline industry. This investment has a triple advantage in enabling the group to:

- offer its passengers a higher degree of in-flight comfort
- achieve savings on fuel consumption and maintenance costs
- respect its sustainable development commitments in reducing greenhouse gas emissions and noise pollution for local residents in airport zones.

A modern fleet

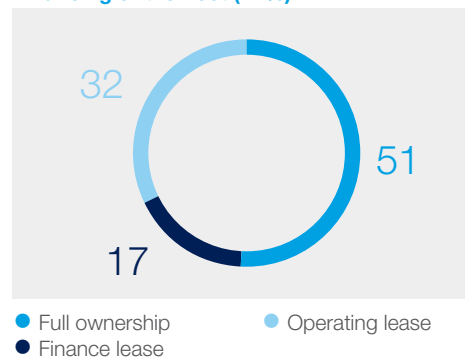
At March 31, the Air France-KLM group's fleet comprised 641 aircraft, of which 621 in operation. The main fleet consists of 429 aircraft, of which 164 are long-haul aircraft, 29 cargo aircraft and 236 medium-haul aircraft. The regional fleet comprises 212 aircraft.

With an average age of around ten years, the Group's fleet is one of the youngest in the business. It is also amongst the most up-to-date in Europe thanks to a long-standing commitment to renewal and modernization. In 2008-09, 17 new aircraft entered the fleet while 15 older aircraft were withdrawn.

Air France and KLM have opted for technical consistency, the aim being the economies of scale and versatility that come from focusing on the same aircraft families. This enables a reduction in unit costs on crew training, maintenance and spare parts. The Group also seeks to preserve the fleet's asset value in choosing models offering long-term operating potential. The medium-haul fleet, for example, is built around the Airbus A318 to A321 aircraft family at Air France and the Boeing B737-300 to 900 family at KLM. Nearly half the long-haul fleet is comprised of Boeing B777-200s and 300s. With 68 aircraft, the Group operates the largest fleet of this aircraft type world-wide.

Air France-KLM is committed to reducing the impact of its activities on climate change and one of the levers used to respect this commitment is the choice of modern aircraft. In eight years, the average fuel performance of the Group's aircraft, measured in liters per passenger carried over 100 kilometers, has improved by 12%, falling from 4.3 to 3.8 liters.

Financing of the fleet (in %)



641 aircraft
 164 long-haul aircraft
 29 cargo aircraft
 236 medium-haul aircraft
 212 regional aircraft

Flexible management

In a cyclical sector, flexibility enabling capacity to be fine-tuned to demand is an important optimization tool. A third of the fleet is, thus, under operating lease, allowing the restitution or extended operation of aircraft depending on requirements. The Group also includes clauses in its contracts enabling, subject to contractual notice periods, the adjustment of aircraft delivery schedules.

In order to withstand the economic crisis and in response to the adaptation of capacity to reduced demand, the Group has implemented, in addition to this flexibility, two major measures impacting the fleet plan: the rescheduling over a four-year period of the delivery of 17 aircraft under firm order and the deferral in the exercise of five options. However, the Group continues to plan for the future with 102 orders and 58 options for new aircraft.

Adaptation of the investment plan

In revising down its fleet plan, Air France-KLM is scaling back its investment program and preserving its cash. As of the 2008-09 financial year, the Group reduced its investment in the fleet, net of disposals, by some €500 million. In three years, net investment in the fleet will fall from €4.9 billion to €2 billion.



Respecting our commitments

The values of corporate social responsibility, a federating force

The Air France-KLM group maintains a responsible human resources policy vis-à-vis its 107,000 employees and continues to contribute to regional development.

Protecting employment

Whereas the current economic environment threatens employment, Air France and KLM have adopted an approach based on responsibility and solidarity which seeks to protect the jobs of its employees in leveraging a range of internal measures.

In order to offset the decline in activity since the last quarter of 2008, the two companies chose to implement a recruitment freeze and not to replace natural departures. These initial measures proved effective during the financial year with the number of staff in Air France ground operations falling by 2.5% with no redundancies. A system of mutual support has been introduced in entities where activity is temporarily reduced and employees are seconded to divisions which are short of staff. Programs to promote mobility have also been implemented.

Strengthening the skill base

Ensuring competitiveness is key to weathering the crisis and the Group is always adapting to changes in the economic, competitive and technological environment. Air France and KLM are pursuing their efforts to promote career-long vocational training. Within the French company, a three-year agreement reflects the commitment to a pro-active training policy which responds to collective and individual needs and is tailored to the requirement for new skills. Each KLM employee has the opportunity to draw up, in cooperation with their line manager, a personal development plan enabling the development of their existing skills or the acquisition of new ones.

Contributing to economic and social progress at regional level

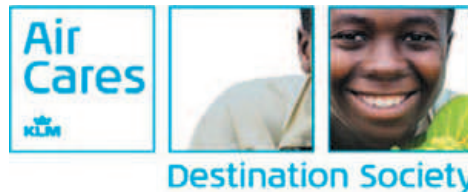
The two companies maintain a pro-active dialogue with the populations and local authorities in the regions where they are present. At Roissy and Schiphol, they communicate directly on their activities and local operations with their regional partners. Air France and KLM are, for example, respectively involved in the Consultancy Commissions on the Environment (CCEs) and in the Schiphol Review Board (CROS), which handle issues relating to noise and the environment. In addition to the direct economic activity it generates, air transportation also contributes to the creation of indirect and spin-off activities across the regional and national economy. In the *Île-de-France* region, Air France accounts for nearly 50,000 of the 118,000 employees directly linked to Roissy-CDG and Orly airports. The airline spends some €2.1 billion excluding fuel with 3,500 suppliers based in the *Île-de-France*. Schiphol airport employs 60,000 people, of which 17,300 at KLM and creates 60,000 additional jobs in spin-off activities.



Supporting humanitarian and development projects

Both Air France and KLM are aware of the crucial role they can play as airlines and have long been involved in humanitarian and development initiatives. Their many contributions range from cash donations and free transportation through to skills sponsorship and awareness campaigns. Air France provides air logistics support to more than 150 bodies, which are mostly involved in emergency health care: free transportation of passengers, medical equipment and first aid teams.

With the *AirCares* program, KLM chooses, every year, to support four NGOs working towards the United Nations Millennium Development Goals.



KLM initiatives in Kenya

The Group operates around 40% of the flights at the Nairobi hub in Kenya and the cooperation with Kenya Airways has resulted in the creation of jobs within the region. Amongst the development projects supported by KLM in Kenya, *AirCares* funds the Lorna Kiplagat foundation, *Wings of Support* has a dozen projects in the country while *Doctor2Doctor* collaborates on training with the Eldoret hospital. KLM employees also contribute to initiatives within the framework of *Volunteer Plaza* and the launch of a campaign to combat the AIDS virus in Kenya. In addition, KLM supports the Kiunga Marine National Reserve project within the framework of KLM's *Destination Nature*, a program aimed at supporting projects to promote sustainable development, the preservation of nature and biodiversity in the countries served.

Number 1

Air France is the leading private sector employer in the *Île-de-France*

120,000

direct and indirect jobs linked to Schiphol airport

8.5

millions euros: budget for the Air France Foundation children's program (2008-13).



An effective contribution to combating climate change

The airline sector contributes around 2% of the CO₂ emissions from human activity globally. In order to reduce its impact on climate change, the Air France-KLM group is taking action to reduce emissions across its businesses.

A long-term commitment on which to build our future

In 1996, Air France published its first annual environment report and, in 1999, one of its maintenance subsidiaries obtained ISO 14001 certification.

In 2003, the company joined the 2003 United Nations Global Compact while 2004 saw the signature of a sustainable development charter with its suppliers.

The Corporate Social Responsibility report can be found on the www.airfranceklm-finance.com website.

In 2009, Air France-KLM's 2007-08 Corporate Social Responsibility Report won awards in both France and the Netherlands.



Renewing the fleet

The airline sector makes a limited but growing contribution to greenhouse gas emissions. One ton of fuel consumed emits 3.15 tons of CO₂. This direct relationship between fuel consumption and greenhouse gas emissions shows that the improvement in engine efficiency is key to reducing the environmental footprint of the airline industry. Renewing the fleet in order to fly ever-more-efficient aircraft thus constitutes the Group's first lever in reducing the impact of its activity on the environment.

Identifying unnecessary fuel consumption

The Group identifies all possible fuel savings and each year achieves a reduction in CO₂ emissions per passenger. Air France-KLM is actively involved in projects to improve the management of air traffic: on the ground, in reducing taxiing time; in flight, in participating in the Single European Sky initiative and the optimization of flight paths and traffic flows. The company closely analyzes its fixed and on board equipment in order to reduce its weight. In full compliance with the safety rules, fuel is adjusted in line with flight needs to avoid any excess consumption due to carrying too much unnecessary fuel. Flight procedures are also reviewed in order to reduce consumption.

2.8 million euros dedicated by KLM to its environmental management system in 2008-09

3.7 litres per passenger carried over 100km: 2012 target

3 times less noise recorded on the ground at Orly between the Boeing B747-300s and the Boeing 777-300ERs

Research and innovation

Developing a sustainable alternative to jet fuel of fossil origin is one of the most effective ways of reducing CO₂ emissions. In September 2008, Air France and KLM signed a biofuel charter with nine other airlines, Boeing, biofuels specialist UOP, NGOs and universities.

The commitments target the development, certification and use of biofuels under conditions which respect the environment.

Calculating and offsetting carbon emissions

Air France and KLM offer their customers CO₂ emission calculators based on actual flight operating data. They take into account the type of aircraft operated, the fuel consumption, the number of passengers, and the weight of baggage and merchandise carried. Thanks to the calculator, everyone can calculate the CO₂ volume emitted during their trip and can offset this in making a financial contribution to a project which saves the same amount of CO₂, thus making their journey carbon neutral.

Henri Desportes: *What are the other environmental impacts of your activity?*

In addition to CO₂ emissions, the other impacts of our activity are noise, local emissions, water and energy consumption and the generation of waste. The Group pursues a pro-active policy aimed at reducing these different impacts, through measurement tools and the implementation of new initiatives. For example, Air France recently launched a new activity to ensure the disassembly of aircraft at the end of their lives while respecting the protection of individuals and the environment.



Planning for the future

Two strategic partnerships

The Group has strengthened its positioning on the North Atlantic and in the Italian market.

A unique partnership on the North Atlantic

In May 2008, Air France, KLM, Delta and Northwest were granted anti-trust immunity by the US Department of Transportation, authorizing them to work in a close and coordinated way on the North Atlantic through a unique joint-venture. During the 2008-09 financial year, the four partners cooperated within the framework of their respective agreements while preparing for the new joint-venture which has been in force since April 1, 2009.

With Delta and Northwest having merged, this joint-venture between the European and US market leaders creates, to the benefit of their customers, the number one operator on the North Atlantic with more than 200 daily flights linking six main hubs, Paris, Amsterdam, Atlanta, Detroit, Minneapolis and New York, with a market share of 25% and revenues of \$12 billion.

All the flights between North America, Mexico and Europe are totally integrated. Flights between North America, the Mediterranean basin, Africa, the Persian Gulf and India, and routes between Europe and Central America, Colombia, Venezuela, Peru and Ecuador are closely coordinated. This organization offers passengers an unparalleled network of destinations and connecting flights, with several daily flight solutions at different times and the opportunity to easily combine different outbound and return routes.



A strategic agreement with Alitalia

Air France-KLM chose to step up its cooperation with Alitalia through an operational partnership agreement, cemented with a 25% equity stake in the Italian company in return for €323 million on March 25, 2009. This operation has significant advantages for the two groups. Air France-KLM gains access to the Italian market, the fourth-largest in Europe, alongside a restructured and financially sound partner with a strong presence in its domestic market following the merger with competitor Air One. For its part, Alitalia has access to the leading network linking Europe to the rest of the world thanks to the dual hub system whose reach into southern Europe is extended by this partnership.



Significant synergies

The two agreements signed by Air France-KLM in early 2009 are the source of some significant synergies.

In addition to its extensive scope and the attractive offer it represents for customers, the joint-venture with Delta will enable more rationalized use of the fleet and thus a reduction in production costs. In total, the Group is anticipating synergies of around \$150 million.

The main aims of the closer cooperation with Alitalia are to strengthen the latter's positioning in the business customer segment, to share best practices and to develop the joint ventures between Air France and Alitalia and KLM and Alitalia. The two partners have estimated the potential synergies at €370 million, of which €160 million for Air France-KLM.

Fabrice Knoll: Is consolidation also a response to the crisis?

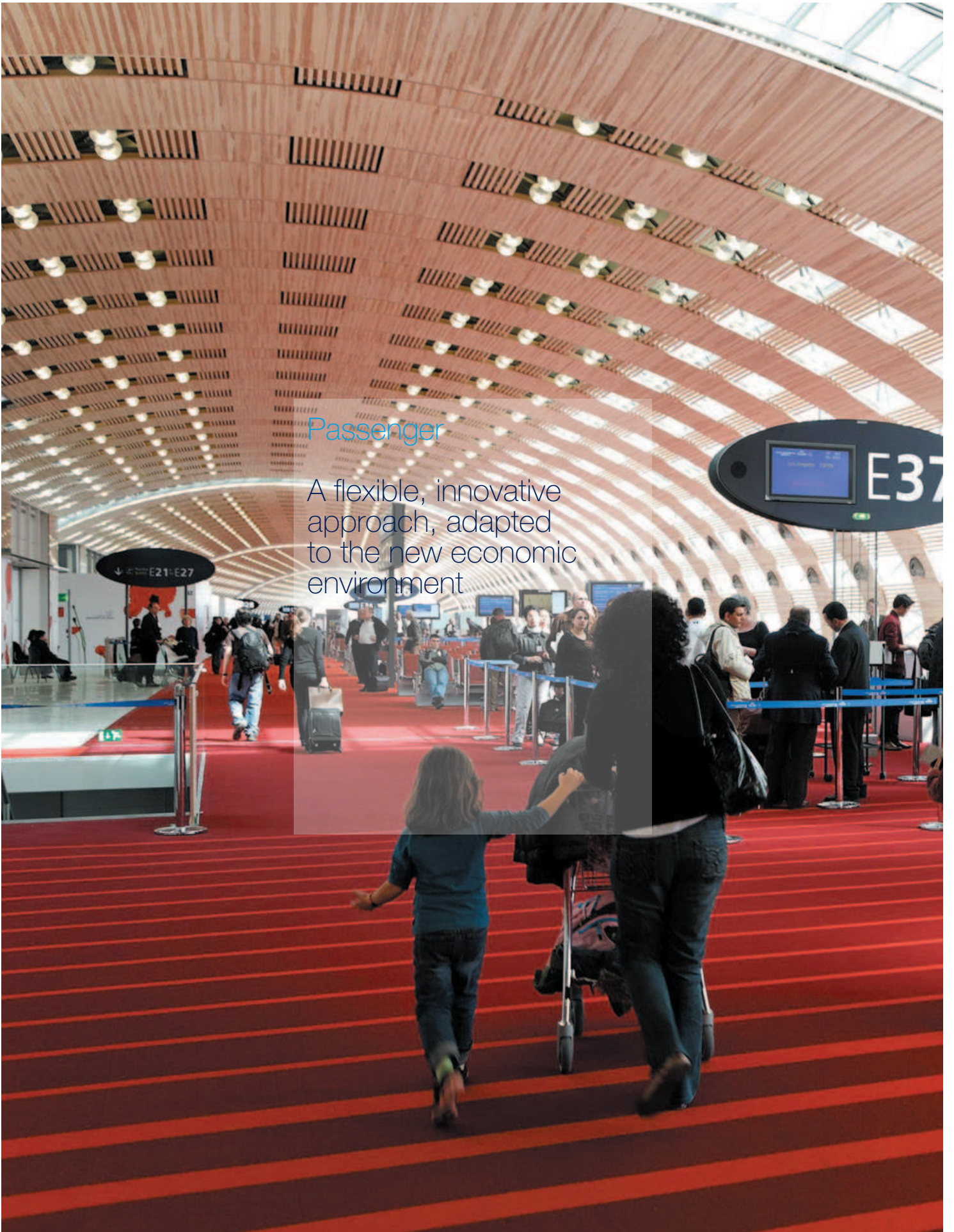
One of the industry responses to the crisis in air transportation effectively consists of restructuring and mergers to increase competitiveness, a trend taking place on both sides of the Atlantic. The merger between Delta and Northwest gives this major a 21% share in the US, the leading air transport market world-wide. In Europe, consolidation is taking place via the merger of airlines in their domestic markets, like Vueling and Clickair in Spain or Alitalia and Air One in Italy, via the strengthening of multi-national networks with the acquisition of Brussels Airlines, the British airline bmi and Austrian Airlines by Lufthansa, and by the planned merger between British Airways and Iberia. The purchase of an equity stake in Alitalia by Air France-KLM and the acquisition of Martinair by KLM are also part of this trend.



• passenger • cargo • maintenance

Complementary activities to strengthen the business





Passenger

A flexible, innovative approach, adapted to the new economic environment.

Passenger

Passenger transportation is the Air France-KLM group's main activity, representing around 80% of revenues. The global economic crisis is affecting consumption patterns and particularly expenditure on travel.

A look back at the year

Environment

The credit crunch which emerged in the summer of 2007 and the volatility in the oil price, then the financial crisis unleashed with the collapse of Lehman Brothers in September 2008 all had direct consequences for the airline industry.

Travel was one of the first areas of expenditure to be reduced. Leisure passengers are seeking the cheapest fares in increasingly turning to promotional offers. However, business travel has been the most affected. Despite a good start to the year, business traffic declined by 2.8% in volume terms with a collapse in the last few months of 2008.

Two contrasting halves

First half activity (April-September 2008) proved resilient despite an environment characterized by the first signs of an economic slowdown and a further increase in the oil price. Traffic increased by 2.8% and 40.5 million passengers (+0.9%) were carried across the networks.

The second half bore the full force of the global economic crisis which gathered pace during the final quarter of the financial year. Traffic declined by 1.2% and the number of passengers fell by 3.1% to 33.9 million.

For the year as a whole, the passenger activity saw a modest increase in traffic (+0.9%) and the load factor remained at a high 79.7%, albeit down by 1.2 points. Revenues amounted to €18.83 billion (-1.7%) and the operating loss stood at €21 million (versus income of €1.3 billion at March 31, 2008).

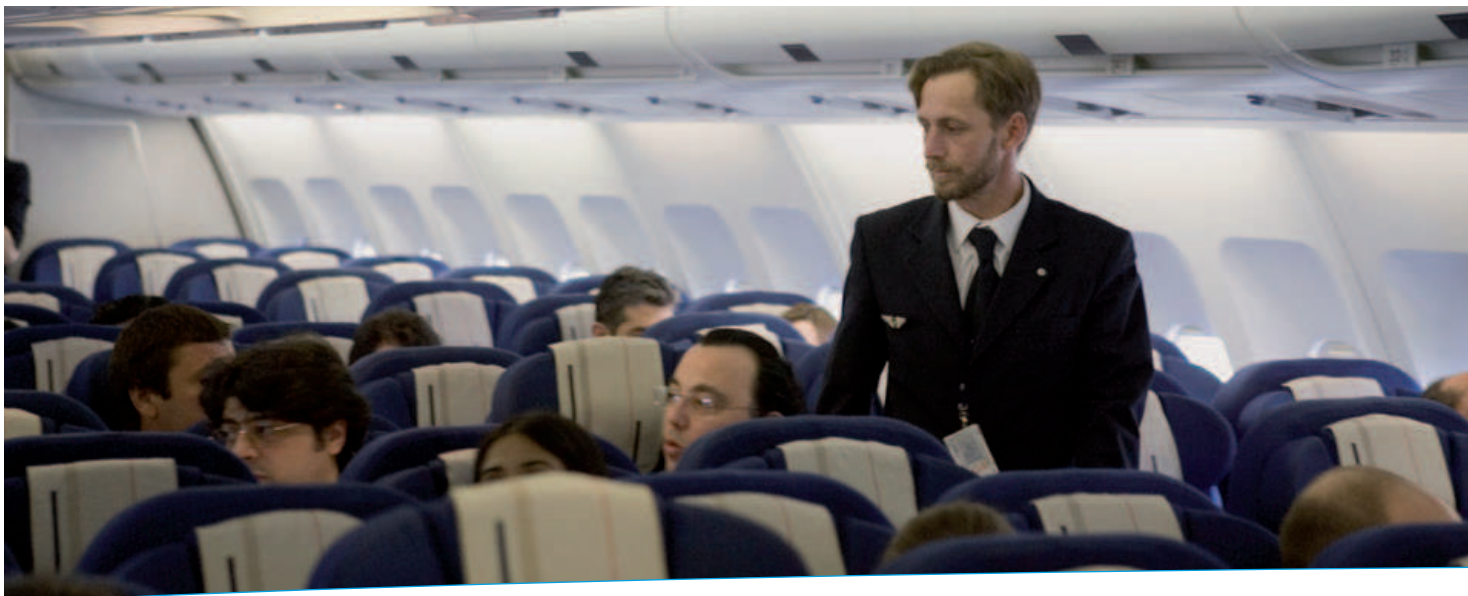
543 aircraft in operation

2,500 daily flights

80% of the Group's revenues

Jean-Louis Dervin: Air France-KLM is reducing its capacity. What are its competitors doing?

The whole industry has responded by reducing capacity. The European airlines are reducing their long-haul capacity by more than 3% and the US airlines by more than 2%. The Chinese and Indian airlines are going still further with reductions of more than 12%. Only the Gulf airlines are still planning capacity increases. In medium-haul, the trend is even more pronounced. And this holds good for both the low cost and the scheduled carriers. While the airlines are cutting their capacity, the TGV high-speed train continues its development in Europe, increasing its market share in France by one point to 81% in 2008 and the number of passengers from 91 million to 98 million. Over the same period, the number of Air France domestic passengers declined from 20 million to 19 million. Despite this lacklustre environment, we strengthened our leadership position in Europe with a market share of 26.4% within the AEA and 8.2% world-wide.



A business hit by the crisis

The long-haul network, the leading network between Europe and the rest of the world

With a fleet of 158 aircraft, the Air France-KLM group carried 23.4 million passengers on its long-haul network to 124 destinations in 69 countries, generating revenues of €10.9 billion, thus confirming the Group's international dimension.

All the sectors, with the exception of Africa-Middle East, suffered from the impact of the economic crisis with traffic growth failing to keep pace with that of capacity, leading to a 1.2 point fall in the load factor which remained, however, at a very high 82.7%.

The North and Latin American market is the Group's first network in terms of both traffic (33%) and capacity (32%). 9.4 million passengers traveled to the 31 destinations in 10 countries, generating revenues of €4.19 billion (-0.8%).

The Group served 23 destinations in 11 countries in the Asia-Pacific region, the second long-haul network, with 23% of traffic and 22% of capacity. Activity was marked by the economic slowdown in this zone, particularly since the summer of 2008. The Group carried 5.6 million passengers (+0.2%) and generated revenues of €2.8 billion (-3.5%).

The Africa-Middle East network is the Group's third long-haul network with 14% of traffic and capacity. The Group carried 5.6 million passengers (+2.7%) to the 50 destinations offered in 40 countries. Revenues amounted to €2.62 billion (+3.5%).

The Caribbean and Indian Ocean network offers 16 destinations in five countries. With 10% of traffic and capacity, this network has not recovered the dynamism it enjoyed prior to the health crisis of 2006. Furthermore, social unrest in the French West Indies also weighed on activity at the end of the financial year. The number of passengers amounted to 3 million (-1.6%) and revenues to €1.28 billion (+2.2%).

Two airlines, the same quality of service

Air France and KLM offer their respective customers different services. While they don't necessarily seek identical products, the customers of the two airlines do nonetheless expect similar standards of service. This is why all employees of the Air France-KLM group in customer-facing roles abide by the *seven service standards* both on the ground and in flight. More than every before, in order to withstand the crisis, the two airlines are determined to together become the best European airlines in terms of the quality of their customer relationships: Air France and KLM are also committed to staff training and to setting clear and measurable quality targets.

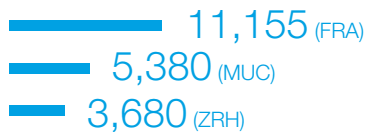
Passenger

Air France-KLM, the most connecting opportunities in Europe

Air France KLM



Lufthansa and Swiss



British Airways



Number of medium-haul/long-haul connecting opportunities in under two hours.

The medium-haul network is key for the Group

The short and medium-haul network represents 19% of traffic and 22% of the Group's capacity. It covers France, the other European countries and North Africa. The Group's regional subsidiaries, BritAir, Régional, CityJet, VLM and Cityhopper, contribute to the medium-haul activity either in linking secondary French, Dutch and European cities or in offering intra-domestic routes. The French domestic market is mostly served out of Orly, with the *La Navette* shuttle service which links Paris to the main French regional capitals.

This network is key for the Group in that it carries passengers transferring to flights bound for long-haul destinations.

This network was particularly badly hit by the difficult domestic market during the second half. With a fleet of 399 aircraft, including 198 regional aircraft, the Group carried 51 million passengers (-1.3%) for revenues of €6.98 billion (-3.3%).

**transavia.com, a low cost proposition**

Operating out of Paris and Amsterdam to medium-haul leisure destinations, transavia.com offers scheduled flights at low fares together with charter flights aimed at tour operators.

transavia.com Netherlands operates a fleet of 28 Boeing B737-700 and 800 aircraft with scheduled flights to 25 destinations and charter flights which are also accessible to individual passengers to 73 destinations. transavia.com France, launched in 2007, operates a fleet of seven Boeing B737-800s for scheduled and charter flights to 30 destinations.

During the 2008-09 financial year, the transavia group carried 6.7 million passengers, generating revenues of €877 million and operating income of €3 million.

74.5 million passengers

18.83 billion euros of revenues (-1.7%)

- 21 million euro operating loss

+ 0.9% increase in traffic

+ 2.3% increase in capacity

79.7% load factor (-1.2 points)



Cargo

A radically changed operating environment, a leadership position maintained

Cargo

The cargo activity's operating environment was radically transformed during the financial year. Air freight, the leading barometer of international trade flows, was very badly hit as of the start of the crisis.

Environment

With a slowdown since the summer of 2008, followed by a collapse as of September, air freight was badly hit by the economic recession. In seven months, between June 2008 and February 2009, the year-on-year decline in international traffic for the IATA (International Air Transport Association) scope was to gather pace from -1.3% to -22.1%. The Europe-Asia routes were the most seriously affected whereas this axis had constituted the main growth relay in recent years. While the airlines have reduced their capacity, the current crisis has resulted in an overcapacity situation which is increasing the competitive pressure.

A look back at the year

Two contrasting halves

Air France-KLM Cargo began the year in a difficult environment with a marked slowdown as of the summer of 2008. The fall in traffic was, however, offset by a strong rise in revenues. In effect, in the cargo activity, the fuel surcharges automatically keep pace with the trend in the oil price which saw a sharp increase over the summer. In the first half, traffic fell by 2.7% but revenues grew by 9.5% to €1.54 billion.

The second half saw a sudden downturn in the cargo activity, with the significant fall-off in international trade. Despite the capacity adjustments implemented by most operators, the gap between capacity and demand widened still further. On a constant scope, traffic fell by 16.7% and Air France-KLM's revenues by 13.5% to €1.31 billion.

Over the financial year and on a constant scope, traffic declined by 9.8% and the load factor fell by 4.6 points to 62.9%. Revenues stood at €2.86 billion (-2.4%) and the operating loss amounted to €207million versus income of €39 million at March 31, 2008.

- **22%** Year-on-year fall in global air freight traffic (February 2009)

Muriel Joyeux: Faced with a major economic recession whose duration is impossible to predict, how can the cargo activity protect itself in the short term while planning for the future?

Faced with the severe economic recession, we reacted immediately: as soon as the first signs of a slowdown in activity appeared in the summer of 2008, we reduced our capacity, the aim being to optimize the scale and use of the fleet in adjusting them to demand. In February 2009, capacity was 15% lower than in 2008. Furthermore, we decided to defer the delivery of new aircraft. Of the five Boeing 777Fs initially planned, only two were delivered in 2008-09. The four longest-serving Boeings were retired in April 2009, the fleet being re-focused on next-generation cargo aircraft: B777-200Fs and B747-400ERFs.

These adjustments are totally consistent with our long-term strategy, which is based on next-generation aircraft with much greater fuel efficiency. They will ensure the Group's increased competitiveness when the fuel price starts rising again.



In a difficult environment, the Group confirms its leadership position

The Group also benefits from its integrated organization which has been effective for the past three years. The Joint Cargo Team regroups sales, distribution, marketing, network management and communication as well as the strategy and development teams within one integrated structure, representing more than half the 5,700 employees working for the cargo activity.

European and global leader

Cargo is the second of the Group's activities, accounting for 12% of total revenues. In a difficult environment, Air France-KLM Cargo confirmed its position as the European and global leader, excluding integrators, with a market share of 29.1% in 2008 (29.5% in 2007) amongst the AEA (Association of European Airlines) airlines and 7% at global level. The acquisition of Martinair has enabled the Group to increase its lead over its competitors with European market share rising to 34% and its global market share to 9%.

Two major hubs and an integrated organization

Backed by two major European hubs, Air France-KLM Cargo is well positioned to weather the economic storm. Roissy-Charles de Gaulle remains the leading European cargo hub, ahead of Frankfurt and Schiphol, while the latter has a terminal specialized in handling fresh products which represent one third of shipments.

A tailor-made product range

Air France-KLM Cargo has an offer based on four product families which are also offered by the members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo regroups Air France-KLM Cargo, AeroMexico Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, Korean Air Cargo and Northwest Cargo around a network of 728 destinations.

- Equation: express shipment, priority boarding and handling, without prior reservation, on the first available flight.
- Variation: specific solutions for the transportation of atypical merchandise, in which Air France-KLM Cargo specializes: hazardous or high added-value products, live animals, over-sized parcels and the French mail service.
- Cohesion: a customized logistics solution, based on a three-way contractual agreement between the shipper, the cargo agent and the airline.
- Dimension: standard airport-to-airport shipping that does not require special handling. Its share of revenues is gradually declining in favor of other higher-value-added products.

Cargo



e-services to protect the environment

Air France-KLM Cargo is developing e-services, ranging from *e-freight*, which replaces paper invoices, to the *Track and Trace* tool which enables the customer to monitor the real-time status of a shipment.

The Group also offers its customers the opportunity to offset the CO₂ emissions arising from their economic activity.

Recent developments

On January 1, 2009, KLM took full control of Martinair. The coordination of the cargo program between the three companies Air France, KLM and Martinair was one of the first measures to be introduced following the acquisition. The cargo program will now be optimized at Group level, the aim being for the three operators to specialize in different destinations.

Furthermore, within the framework of the Air France-KLM shareholding in Alitalia, the Group has been entrusted with the marketing of the holds in the Italian company's aircraft.

1.44 million tons of cargo carried
(67%: holds of passenger aircraft,
33%: dedicated cargo aircraft)

2.8 billion euros of revenues

- 207 million euro operating loss



Maintenance

Competitive support for the Air France and KLM fleets and a leading player, contributing to the Group's results

Maintenance

In addition to the services provided to the Group's fleets, one third of the maintenance activity is realized with third-party clients.

A look back at the year

900 aircraft handled

4% of the Group's revenues

No.2 ranking amongst the global multi-product players

Environment

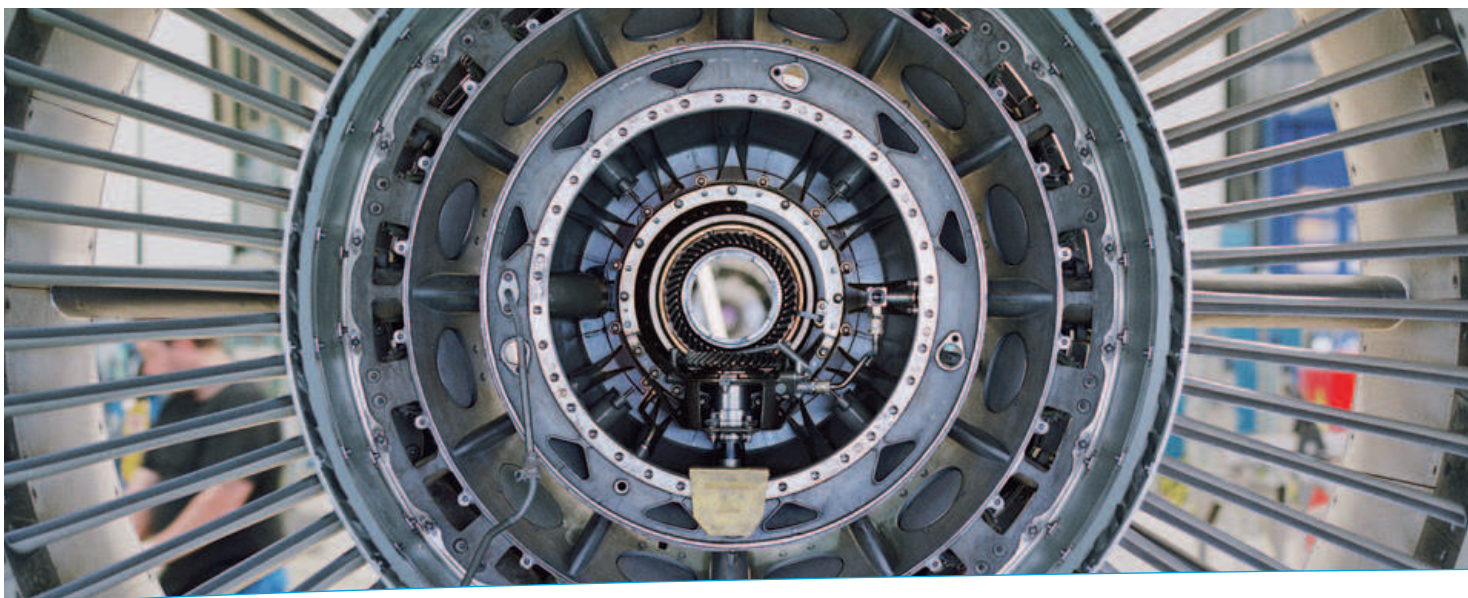
The global MRO (Maintenance, Repair, Overhaul) market, constituting the direct or outsourced expenditure by aircraft operators on maintenance and modification, is estimated at \$44 billion in 2008. It closely follows the trend in the global commercial fleets and is impacted by changes in the older-generation fleets. In early 2008, the rise in the oil price resulted in the grounding of an increased number of older-generation aircraft. At the end of the year, despite the fall in the oil price, few of these aircraft had been brought back into service given the global economic recession and the fall in both passenger and cargo traffic. The decline in global MRO spending in 2008 is thus evaluated at 2%.

A market dependent on fleet trends

Whereas the European MRO players were penalized by dollar weakness relative to the euro, the market continued to grow in emerging countries, driven by the age of the fleets in service which require maintenance and overhaul. One additional factor contributed to containing the decline in the so-called open market: a confirmed trend towards increased outsourcing and functions not directly linked to operators' core businesses. Furthermore, the operational fleet of next-generation aircraft continued to grow by more than 10% over the course of the year, and specifically Airbus A320s and A330/340s and Boeing B737-NGs and B777s, aircraft on which Air France Industries (AFI) and KLM Engineering & Maintenance (KLM E&M) are particularly well positioned, delaying the impact of the economic recession on the Group's third-party client activity, with the exception of cargo clients.

Jacques-Olivier Vallet: How are you responding to tougher competition from both independent operators and aeronautics OEMs?

Our response to this competition is based on two strategic priorities. Firstly, an improvement in our performance and a reduction in our costs in minimizing, for an equivalent level of quality, the cost of heavy airframe overhaul and in containing the increase in the cost of components and materials. Secondly, growing our client portfolio in valued-added component and engine support services. On component support (braking and landing systems, for example), we are increasing physical proximity to the client and our commercial responsiveness: adapting and improving the performance of the logistics network and establishing local operations in new markets. In engine support, we intend to increasingly exploit the scale effects offered by our industrial capacity.



A comprehensive, high-performance offer

A presence in all areas of the maintenance value chain

The expertise acquired by Air France Industries and KLM Engineering & Maintenance in the engineering of the Group's fleet is the best guarantee of the high quality of its offering. Aside from the manufacturer, Air France Industries is currently the only MRO capable of overhauling the GE90 engine range while KLM E&M is the only European MRO to have received Japan Civil Aviation Bureau official authorization to carry out the maintenance, outside the Japanese archipelago, of Japanese-registered aircraft. From support services to line maintenance, component support, engine overhaul and cabin refitting, the AFI-KLM E&M multi-product offer covers the entire maintenance value chain.

An evolving heavy maintenance business

New technologies continue to drive a radical transformation in the heavy maintenance market, involving the major overhaul of aircraft during regular inspections (stripping down of the aircraft and replacement of the major components). Next-generation aircraft require considerably fewer man hours for heavy maintenance and the low-cost countries are increasing their activity in this area. AFI-KLM E&M anticipated this trend in adapting its industrial facilities and thereby already benefits from airframe overhaul capacity in low-cost countries for certain more labor-intensive operations.

Component support: recognized expertise

The component support offering developed by AFI-KLM E&M benefits from expertise which is recognized by the market in terms of integrated services and the strategic availability of component inventories together with the global reach of its operations, with logistics centers in South-East Asia, China and the Americas.

This expertise has enabled it to win the confidence of new clients, such as KingFisher, which has entrusted AFI-KLM E&M with the full component services for its 20 new Airbus A330-200s. The Group's commitment to customer satisfaction has resulted in the renewal of contracts, such as the one signed with Afriqiyah for component support on its Airbus A319 and A320 fleets.

Partnerships with a number of OEMs strengthen the Group's competitive position while generating economies of scale. For example, the number of Boeing B777s supported by the CSP (Component Support Program) partnership between Air France Industries and Boeing continued to increase, reaching 140 aircraft over the financial year. A similar partnership has been developed between KLM E&M and Boeing for the next-generation B737s.

Maintenance

Engine support: a flagship product

The growth in the engine business is underpinned by the scale effect provided by the Group fleets and from key alliances with engine OEMs. This year, Air France Industries significantly increased its GE90 engine overhaul capability. KLM E&M continued to develop its position in the overhaul of General Electric's CF6-80 E1 and bolstered its positioning on CFM International's CFM56-57 (a 50/50 joint-venture between General Electric and Safran).

AFI-KLM E&M continues its international development via strategic partnerships. The Group has created Turbine Support International (TSI), a joint-venture in association with Aviation Repair Technologies. This new entity, based in the United States, is responsible for the disassembly, inspection and repair of parts on the CF6-50, CF6-80 and CFM 56 engines and will enable both the increased use of re-certified parts and the reduction in product materials costs.



Operational synergies and a single interface with the client

AFI and KLM E&M continue to work towards establishing a joint organization aimed at developing their maintenance network through the optimum assignment of specialized product responsibilities within their respective operating units.

Finalized at the beginning of the 2008-09 financial year, the creation of a joint structure to be responsible for strategy, industrial and commercial development, the sales forces and external communication has established a single interface with clients.

Furthermore, in order to achieve the cost-savings objectives, a common procurement organization was also created through a joint maintenance department within the Air France Procurement division.

Lastly, this year saw the launch of a joint *Supply Chain: Logistics* project.

140 Boeing 777s handled via the CSP (Component Support Program) partnership between Air France Industries and Boeing

2% reduction in MRO expenditure by the aviation industry in 2008

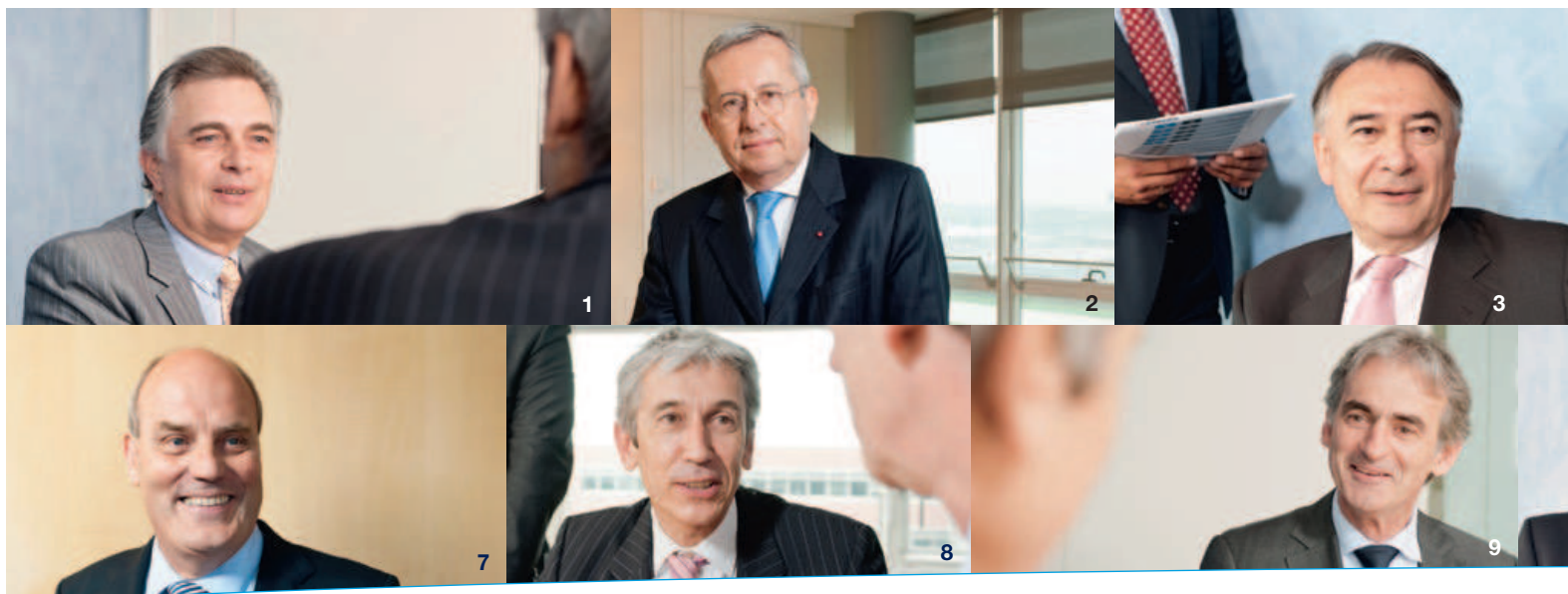
974 million euros of revenues

95 million euros of operating income



Effective
corporate
governance
to underpin
confidence





The Group Executive Committee

The Group Executive Committee determines the Group's main orientations within the framework of the strategy approved by the Board of Directors. It meets every two weeks, alternating between Amsterdam and Paris. The members of the Group Executive Committee fulfil responsibilities at the level of the Air France-KLM group while retaining their functions within each entity. They are thus remunerated by the company to which they belong.

Executive Committee members

Pierre-Henri Gourgeon (2)

Chief Executive Officer of Air France-KLM and Chief Executive Officer of Air France

Philippe Calavia (3)

Senior Executive Vice President, Finance, of Air France-KLM and of Air France

Peter Hartman (7)

President and Chief Executive Officer of KLM

Alain Bassil (5)

Executive Vice President, Maintenance, of Air France and of the Air France-KLM group

Christian Boireau (1)

Executive Vice President, Commercial France, Air France

Frédéric Gagey (9)

Chief Financial Officer of KLM and Senior Vice President, Fleet, of the Air France-KLM group

Bertrand Lebel (8)

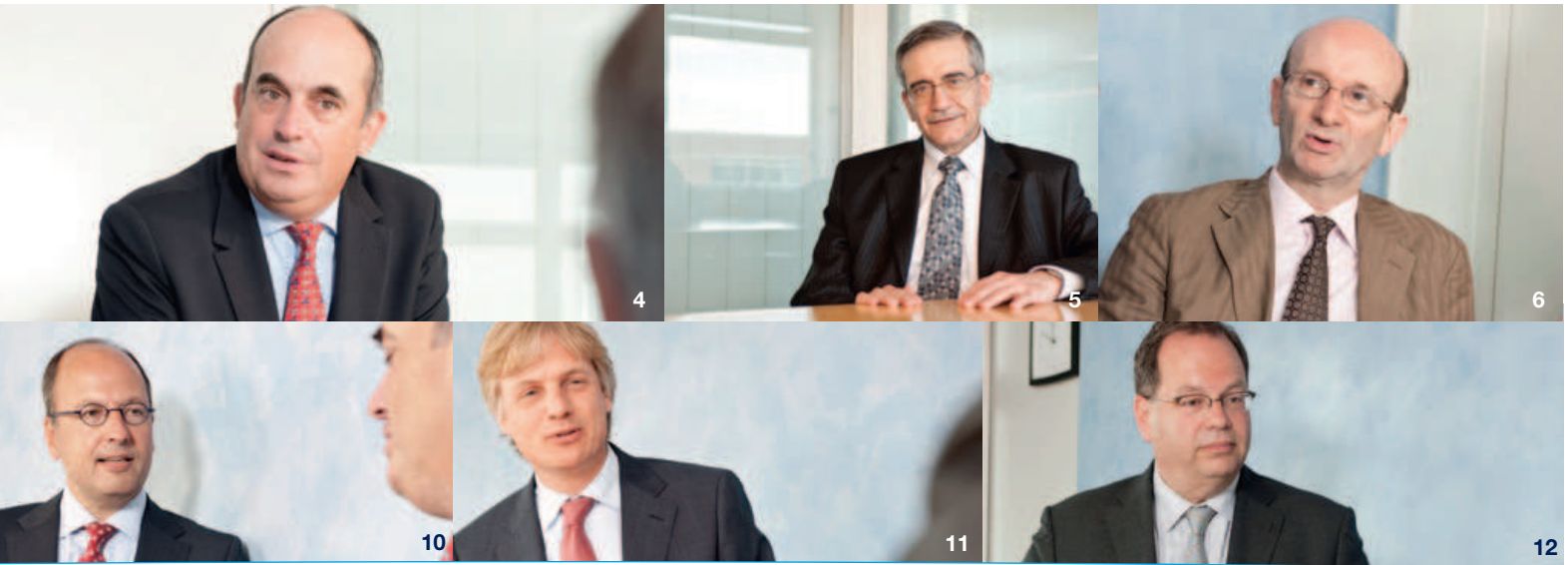
Secretary to the Executive Committee in charge of strategic planning for the Air France-KLM group

Bruno Matheu (4)

Executive Vice President, Marketing, Revenue Management and Network, of Air France and of the Air France-KLM group

Édouard Odier (6)

Executive Vice President, Information Systems, of Air France and of the Air France-KLM group



Frank de Reij (10)

Executive Vice President, Procurement, of the Air France-KLM group

Erik Varwijk (11)

Executive Vice President, Commercial Passenger Business, KLM and Executive Vice President, International and the Netherlands of the Air France-KLM group

Michael Wisbrun (12)

Executive Vice President of KLM Cargo and of Air France-KLM Cargo

Rodolphe Vermeulen:
Why was the composition of the Group Executive Committee changed in 2009?

Originally comprising eleven members, the Group Executive Committee has had twelve members since early 2009: three members were appointed on the departure from the Executive Committee of Jean-Cyril Spinetta and Leo van Wijk. The three new members are:

- Bertrand Lebel, Secretary to the Executive Committee in charge of strategic planning for the Air France-KLM group
- Édouard Odier, Executive Vice President, Information Systems, of Air France and the Air France-KLM group
- Frank de Reij, Executive Vice President, Procurement, of the Air France-KLM group

These new members of the Executive Committee are in response to the organization implemented to reinforce the integration of the two companies and generate new cost savings and synergies.



The Board of Directors

The Board of Directors determines the orientations of the company's activity and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the company and settles, in its deliberations, the matters which concern it. In 2009, it decided to separate the functions of Chairman and Chief Executive Officer of Air France-KLM. During the 2008-09 financial year, there were ten meetings of the Board of Directors.

The Board of Directors

Composition of the Board of Directors at March 31, 2009

- | | | |
|--|--|--|
| <p>1. Jean-Cyril Spinetta
Chairman of the Air France-KLM Board of Directors</p> | <p>6. Jean-Marc Espalioux
Chairman of Financière Agache Private Equity</p> | <p>11. Cornelis J.A. van Lede
Chairman of the Board of Directors of INSEAD</p> |
| <p>2. Leo M. van Wijk
Vice-Chairman of the Board of Directors</p> | <p>7. Philippe Josse
Director of Budget, French Ministry of Economy, Finance and Industry</p> | <p>12. Floris A. Maljers
Chairman of the Board of Directors of the Rotterdam School of Management</p> |
| <p>3. Patricia Barbizet
Chief Executive Officer and Director of Artémis</p> | <p>8. Didier Le Chaton
Flight captain – representative of the flight deck crew</p> | <p>13. Pierre Richard
Director of Generali France Holding, EDF Energies Nouvelles</p> |
| <p>4. Frits Bolkestein
Member of the Supervisory Board of de Nederlandsche Bank</p> | <p>9. Christian Magne
Finance executive - representative of the ground staff and cabin crew</p> | <p>14. Bruno Bézard
Director of the French Treasury State Holdings Agency</p> |
| <p>5. Jean-François Dehecq
Chairman of the Sanofi-Aventis Board of Directors</p> | <p>10. Pierre-Henri Gourgeon
Chief Executive Officer of Air France-KLM</p> | <p>15. Claude Gressier
President of the Economy, Transport and Networks unit, Counsel General for the Environment and Sustainable Development</p> |



Organization of the Board of Directors

Separation of the functions of Chairman and Chief Executive Officer

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

Composition of the Board of Directors

The Air France-KLM Board of Directors may comprise up to 18 members, with a four-year period of office. At March 31, 2009, the Board of Directors comprised 15 members, of whom ten are directors appointed by the General Shareholders' Meeting, two are representatives of the employee shareholders appointed by the General Shareholders' Meeting and three are representatives of the French State appointed by ministerial order.

Corporate governance principles and independence of the directors

The Board of Directors functions in accordance with the governance principles in force in France as outlined in the AFEF-MEDEF Corporate Governance Code updated in 2008. However, given the specific rules governing the appointment of the Board directors representing the French State and employee shareholders, Air France-KLM does not comply in full with the AFEF-MEDEF Code guidelines with regard to the proportion of independent directors within the Board of Directors and the audit committee.

After having reviewed the situation of each Board director, the Board of Directors meeting of March 26, 2009, established that eight of the directors may not be considered to be independent and that seven directors may be considered to be independent.

Compliance and ethics

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

Huguette Rolet: What are the respective responsibilities of the Chairman and Chief Executive Officer?

The Chairman of the Board has no executive powers. His role is to organize and direct the work of the Board of Directors and report to the General Shareholders' Meeting.

The Chief Executive Officer is invested with the broadest powers to act in the company's name in all circumstances within the limits set forth in the internal regulations of the Board of Directors, which are available on the company's website.

The Board of Directors committees

The audit committee

On March 26, 2009, the Board of Directors decided to increase the number of audit committee members from six to seven, given the range and importance of its work. The principal executives responsible for accounting, legal affairs, finance, internal control and audit of Air France-KLM and of the subsidiaries Air France and KLM attend the meetings. Its principal missions are to review the interim and annual consolidated financial statements in order to inform the Board of Directors of their content, to ensure that they are reliable and exhaustive and that the information they contain is of high quality, including the forecasts provided to shareholders and the market. It evaluates the consistency and effectiveness of the internal control procedures and examines the material risks in order to guarantee the quality of the financial information provided by the company. During the 2008-09 financial year, the audit committee met three times.

The remuneration committee

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

Information on the compensation of the executive directors can be found on the company's website in accordance with the AFEP-MEDEF recommendations by which the Group abides.

The appointments committee

This committee comprises three Board directors. The appointments committee, which is responsible for proposing Board director candidates to the Board of Directors as well as to replace the executive directors, particularly in the event of unforeseen vacancies, met on September 5, 2008. After hearing the opinion of the Chairman and Chief Executive Officer, it decided to propose to the Board of Directors the separation of the functions of Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM and to appoint Mr Spinetta and Mr Gourgeon to the respective functions of Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM as of January 1, 2009.

Experience of members of the Board of Directors

Director	Age at 31/03/2009	Board of Directors' experience		Professional experience	
		Date appointed to the Group	Date appointed to the Air France-KLM Board	Sector	Current position
Jean-Cyril Spinetta	65 years	23/09/1997	15/09/2004	Public Service, Air Transport (Air Inter and Air France)	Chairman of the Board of Directors of Air France-KLM and of Air France
Pierre-Henri Gourgeon	62 years	20/01/2005	20/01/2005	Aeronautics and air transport	Chief Executive Officer of Air France-KLM and Air France
Leo van Wijk	62 years	24/06/2004	15/09/2004	Air transport (KLM)	Vice-Chairman of the Air France-KLM Board of Directors
Patricia Barbizet ^{*(3)}	53 years	03/01/2003	15/09/2004	Industry (Renault, Pinault group)	CEO and Director of Artémis
Bruno Bézard ⁽¹⁾	45 years	14/03/2007	14/03/2007	Public Service	Director of the French Treasury State Holdings Agency
Frits Bolkestein*	75 years	22/11/2005	22/11/2005	Industry (Shell) and Public (Dutch Parliament and European Commission)	Member of the Supervisory Board of de Nederlandsche Bank
Jean-François Dehecq ^{*(1)(3)}	69 years	25/01/1995	15/09/2004	Industry (SNPA and Sanofi)	Chairman of the Board of Directors of Sanofi-Aventis
Jean-Marc Espalioux ^{*(2)(3)}	57 years	14/09/2001	15/09/2004	Services (CGE, Accor)	Chairman of Financière Agache Private Equity
Claude Gressier ⁽¹⁾	65 years	24/06/2004	15/09/2004	Public Service	President of the Economy, Transport and Networks unit, Counsel General for the Environment and Sustainable Development
Philippe Josse	48 years	16/05/2006	16/05/2006	Public Service	Director of Budget
Didier Le Chaton ⁽¹⁾	58 years	26/01/2006	26/01/2006	Air Transport (Air France)	Flight Captain
Cornelis van Lede ^{*(2)}	66 years	24/06/2004	15/09/2004	Industry (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	Chairman of the Board of Directors of INSEAD
Christian Magne ⁽¹⁾	56 years	14/09/2001	15/09/2004	Air Transport (Air France)	Finance executive
Floris Maljers ^{*(1)}	75 years	24/06/2004	15/09/2004	Industry (Unilever)	Chairman of the Board of Directors of the Rotterdam School of Management
Pierre Richard ^{*(1)(2)}	68 years	20/10/1997	15/09/2004	Banking (CDC, Crédit Local de France, Dexia)	Director of Generali France Holding, Expert advisor to the European Investment Bank

* Directors considered to be independent

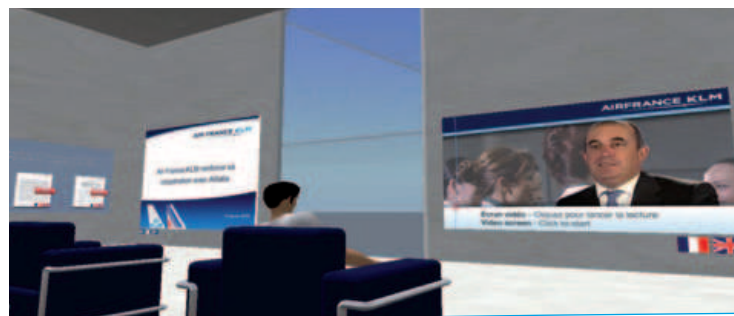
(1) Member of the Audit committee

(2) Member of the Remuneration committee

(3) Member of the Appointments committee

Transparency
at the heart
of our
relationship
with our
shareholders





Being a shareholder

An ongoing dialogue with shareholders

Air France-KLM has chosen to establish a regular, detailed and transparent dialogue with its shareholders.

The Air France-KLM Group keeps the market informed on its activity through monthly traffic figures and quarterly reports on the trend in its results and strategic orientations. All of this information is available on the Group's financial website in French and English: www.airfranceklm-finance.com.

Interacting with the financial community

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

A Consultative Committee making pro-active suggestions on behalf of individual shareholders

The Consultative Committee for Individual Shareholders (CCRAI), established in 2000, constitutes a forum for discussion and submitting ideas on Air France-KLM's relations with individual shareholders. Its members communicate their questions, suggestions and requests during quarterly meetings. These are then followed up with recommendations and special studies into particular areas on behalf of Air France-KLM.

Sub-groups also convene in addition to plenary meetings to review specific issues. This annual report was the subject of a Committee meeting during which members suggested ideas and contributed to its realization.

Committee members are there to liaise between individual shareholders and the Group. They regularly accompany the teams responsible for financial communication to meetings with individual shareholders and to information meetings, the *Actionaria* trade show and the General Shareholders' Meeting.

The Committee comprises 16 members who are all representative of the Group's shareholder base and the list of members can be found on the www.airfranceklm-finance.com website.

A dedicated interactive shareholder space on the Group's financial website

The Group has developed a shareholder space containing:

- interactive versions of published documents: the reference document and annual report, the e-mag, the shareholder handbook
- the interactive share price
- all the documents relating to the General Shareholders' Meeting
- the Shareholders' Newsletter
- the Consultative Committee space
- an email address to which to forward any questions
- the financial calendar.

Shareholders can also consult all the press releases on the website as well as presentations made to analysts at the time of the quarterly, half-year and annual results announcements.

An email alert system enables everyone to be kept informed of the posting online of press releases and to be reminded of any event in the Group's calendar.

The website is also available in a PDA (personal digital assistant) version and from mobile phones by logging into www.airfranceklm-finance.mobi.

In November 2008, Air France-KLM invited its shareholders to discover a new space in the Second Life universe dedicated to information and dialogue on the Group's financial news. In creating this *island in the sky* the Group seeks to provide a new platform where shareholders can meet and share information.

A dedicated toll free number

Between Monday to Friday, from 10h30 to 12h30 and from 14h30 to 17h30, a member of the financial communication team is available to answer your questions on a toll free number (0800 320 310) in France.

Outside these periods, a voice server reports the Air France-KLM opening and closing share prices.

Information meetings

Air France-KLM regularly organizes and participates, in partnership with the business press, in information meetings in the French regions to which its shareholders are invited. These meetings are an opportunity for the Group to update them on its strategy, results and issues in the airline sector. The dates and places of these meetings are also announced in the *Connecting* newsletter, on the website and in the partner media.



A Shareholders' Club

The Shareholders' Club is aimed at maintaining a regular, constructive dialogue with shareholders. It currently has some 7,000 members and is open to any Air France-KLM shareholder owning a minimum of 50 shares in bearer or registered form.

As a member of the Shareholders' Club, every shareholder receives:

- The quarterly *Connecting* newsletter, with an update on financial news, the key financial information on the Group and special features on activity in the air transport industry. The newsletter is sent out by email or mail and is also available in the shareholder space on the website.
- Invitations to site visits. These are an opportunity for Club members to gain a behind-the-scenes insight into the Group and learn more about its businesses in meeting professionals from the passenger, cargo and maintenance activities.
- Invitations to meetings in the French regions.

Awards for financial communication

In 2006, Air France-KLM's financial communication won the award for the Best Annual Report from an SBF 120 company, third prize in the Boursoscan awards and the Outstanding investor relations site award in the United States. In 2007, Air France-KLM won first prize for Shareholder Democracy and first prize for the Corporate Governance Dynamic. Lastly, in 2009, the Group won the award for the best investor relations in terms of sustainable development. This trophy, awarded by the SFAF, Opinion Way, IR Intelligence and the Forum des Relations Investisseurs, recognizes the Franco-Dutch group's achievements in this area.

René Chateaufort: How do you keep employee shareholders informed?

We produce a regular in-house newsletter called *Actions* which is circulated to all employees, many of whom are shareholders in the Group. This newsletter takes a pedagogical approach in explaining the various financial and stock market issues faced by companies and their shareholders and supplements the information made available internally through other channels. A dedicated toll free number and a website complete the information for employee shareholders which regularly wins awards.

Practical information for shareholders

Direct registered shares

Air France-KLM has mandated Société Générale to manage the shares in direct registered form.

Holders of direct registered shares have three main advantages:

- They benefit from free custodial fees which are paid by the Group
- They receive the convening notice to the General Shareholders' Meeting
- They can consult their securities account statements and transaction notifications and place stock market orders directly by telephone or via the voice server and on Société Générale's dedicated website.

Transferring shares to the direct registered form

Any shareholder, irrespective of the number of shares they own, can transfer their Air France-KLM shares into direct registered form. They just need to fill in a form available on request from Société Générale and return it to their financial intermediary.

Shareholders can also make an initial purchase in direct registered form. To place this order, they only need send a written request to Société Générale. On receipt of the letter, Société Générale then sends out an information pack which must be returned accompanied by the required information.

Administered registered shares

Every shareholder can also transfer their shares into administered registered form. They are managed in the same way as bearer shares which means that shareholders do not benefit from free custodial fees. They do, however, receive the convening notice to the General Shareholders' Meeting.

Securities services

In France

Société Générale
Division de la clientèle Émetteurs
GSSI/GIS/NPO
32, rue du Champ-de-Tir
BP 81236 – 44312 Nantes Cedex 3
Nomilia voice server: 0825 820 000
(+ 33 2 51 85 67 89)
Website: www.nominet.socgen.com

In the Netherlands

ABN AMRO Effecten
Postbus 3200
4800 De Breda
Tel: + 31 76 579 94 55

In the United States

Citibank Shareholders Services
250 Royal Street
Canton, MA 02021
Tel: +1 877 CITI ADR (877 248 42 37)
Email: Citibank@shareholders-online.com

Shareholder reference information

The Air France-KLM stock

Air France-KLM is listed for trading on Euronext Paris and Amsterdam and in ADR form on the OTC Market in New York.

Codes and tickers

Market: Eurolist Section A
ISIN: FR0000031122
OTC Market: AFLYY
Reuters: AIRF.PA and AIRF. AS
Bloomberg: AF FP

Included in the following main indices

Indices: CAC 40 and Euronext 100, SBF 120 and SBF 250

Sustainable development indices: DJSI World and DJSI STOXX (Super Sector Leader), ASPI Eurozone, Ethibel Sustainability Index Excellence Global, FTSE4Good Index

Other indices: Euronext FAS IAS

Characteristics

Number of shares: 300,219,278 fully paid up shares at March 31, 2009 with a nominal value of €8.50, the shareholder free to choose whether to hold them in registered or bearer form.

One share, one voting right

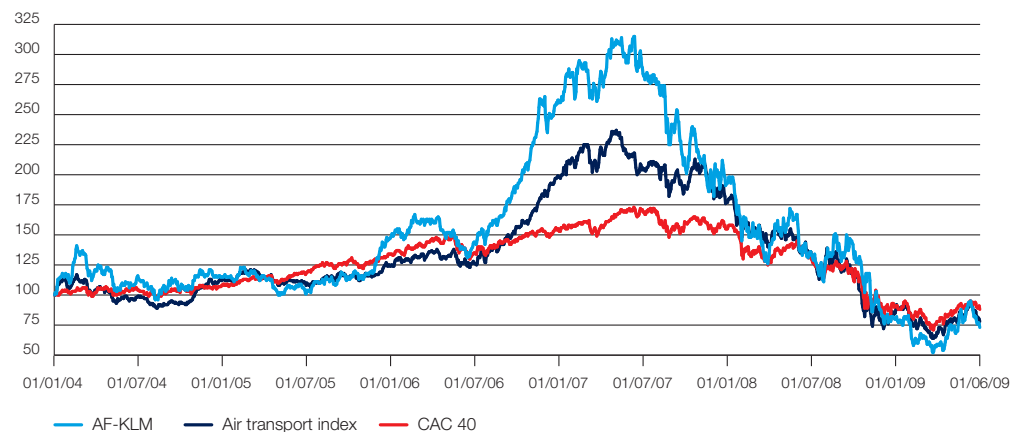
Each share confers one voting right and there are no specific rights attached to the shares.

Shareholder breakdown

French State:	15.7%
Employees and former employees:	12.0%
Individual shareholders:	14.0%
Institutional investors:	56.3%
Treasury stock:	2%

Air France-KLM in the stock market

Base 100 in 2004/Data to June 19, 2009



Securities conferring entitlement to shares

In April 2005, the company Air France issued 21,951,219 bonds convertible and/or exchangeable into Air France-KLM new or existing shares with a 15-year maturity raising €450 million. These bonds have a unit value of €20.50 and mature on April 1, 2020. The annual coupon is 2.75% payable annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020. The allocation ratio is 1.03 shares for each 2.75% 2005-2020 bond.

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares for a total of €661 million. These bonds have a unit value of €11.80 and the annual coupon is 4.97%. The allocation ratio is one share for one bond. The bonds are reimbursable at par on April 1, 2015.

Dividend policy

Financial year	Earnings per share (in €)	Dividend paid (in €)
2005-06	3.47	0.30
2006-07	3.35	0.48
2007-08	2.63	0.58

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

In view of the difficult environment the Group is facing, the Board of Directors decided not to propose a dividend in respect of the 2008-09 financial year.



Summary consolidated financial statements



Key figures 2008-09

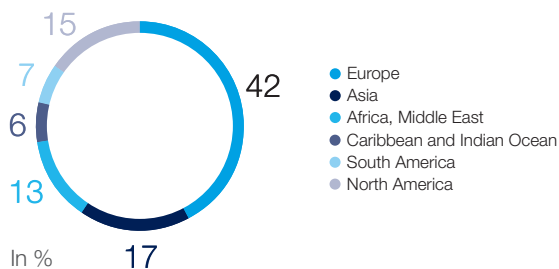
The annual results reflect the deterioration in the operating environment during the second half.

Revenues

Revenues amounted to €23.97 billion for the financial year (-0.6%) after a negative currency impact of 1.9%. The breakdown was €18.8 billion (-1.7%) for the passenger activity, €2.9 billion (-2.4%) for the cargo activity, €974 million (+0.5%) for the maintenance activity and €1.3 billion (+23.2%) for the other activities.



Breakdown of revenues by geographical zone



Breakdown of revenues by activity



EBITDAR*

A measure of management performance which corresponds to the difference between revenues and operating expenses excluding operating leases, depreciation, amortization and provisions. It amounted to €2.21 billion (-41.5%), or 9.2% of revenues at March 31, 2009.

* Earnings before interest, taxes, depreciation, amortization and rentals

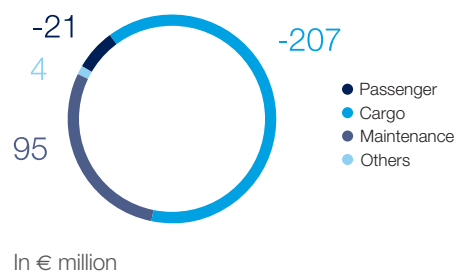


Income/(loss) from current operations

After operating leases, depreciation, amortization and provisions, the loss from current operations amounted to €129 million versus income of €1.4 billion at March 31, 2008. The adjusted operating margin stood at 0.4% (-6.3 points).

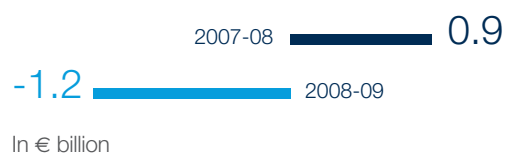


Breakdown of income/(loss) from current operations by activity



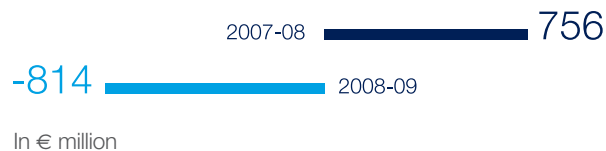
Income/(loss) before tax

The loss before tax of €1.2 billion was mainly due to €911 million of financial charges, of which 78% related to the fall in the oil price which led Air France-KLM to recognize the decline in the fair value of its hedging instruments.



Net income/(loss), Group share

The net loss, Group share stood at €814 million versus net income of €756 million at March 31, 2008. The loss per share amounted to €2.76 versus earnings per share of €2.66 at March 31, 2008.



Investments

Operating cash flow of €798 million and proceeds from aircraft disposals of €141 million were insufficient to fund the totality of tangible and intangible investments.



Net debt

Net debt amounted to €4.4 billion at March 31, 2009, an increase of €1.7 billion. The gearing ratio stood at 78% of shareholders' equity, which was impacted by the €3.3 billion negative change in the fair value of hedging instruments.



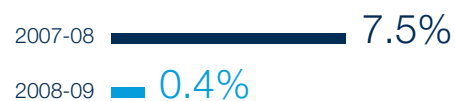
Cash position

At March 31, 2009, the Group had cash of €4.3 billion and available credit lines of €1.2 billion.

€4.3 billion

Return on capital employed

This ratio measures the return on invested capital by expressing operating income as a percentage of average capital employed. Comparing this ratio with the cost of capital shows whether the Group is creating value for its shareholders. The average weighted cost of capital amounted to 7% at March 31, 2009, unchanged on March 31, 2008.



Summary consolidated financial statements

Financial year ended March 31, 2009

Consolidated balance sheet

Assets In € million	March 31, 2009	March 31, 2008
Goodwill	400	377
Intangible assets	559	475
Flight equipment	12,125	12,280
Other property, plant and equipment	2,313	2,193
Investments in equity associates	446	177
Pension assets	2,499	2,245
Deferred tax assets	811	29
Other non-current assets	629	1,810
Total non-current assets	20,720	20,542
Assets held for sale	93	-
Inventories	527	507
Trade accounts receivable	2,038	2,569
Income tax receivables	2	3
Other current assets	1,065	2,385
Cash and cash equivalents	3,748	4,381
Total current assets	8,053	10,148
Total assets	28,773	30,690

Liabilities and equity In € million	March 31, 2009	March 31, 2008
Issued capital	2,552	2,552
Additional paid in capital	765	765
Treasury shares	(124)	(119)
Reserves and retained earnings	2,429	6,702
Equity attributable to equity holders of Air France-KLM	5,622	9,900
Minority interests	54	75
Total equity	5,676	9,975
Provisions and retirement benefits	1,334	1,439
Long-term debt	7,864	6,914
Deferred tax	339	1,416
Other non-current liabilities	2,170	819
Total non-current liabilities	11,707	10,588
Liabilities relating to assets held for sale	7	-
Provisions	480	441
Current portion of long-term debt	1,353	905
Trade accounts payable	1,887	2,218
Deferred revenue on ticket sales	3,048	3,215
Current tax liabilities	11	25
Other current liabilities	4,322	3,151
Bank overdrafts	282	172
Total current liabilities	11,390	10,127
Total liabilities and equity	28,773	30,690

Consolidated income statement

Period from April 1 to March 31 (in € million)	2009	2008 (adjusted)
Sales	23,970	24,123
Other revenues	5	4
Revenues	23,975	24,127
External expenses	(14,930)	(13,814)
Salaries and related costs	(7,317)	(7,018)
Taxes other than income taxes	(250)	(250)
Amortization and depreciation	(1,604)	(1,606)
Provisions	(115)	(17)
Other income and expenses	112	(8)
Income/(loss) from current operations	(129)	1,414
Sales of aircraft equipment	5	9
Negative goodwill	17	40
Other non-current income and expenses	(86)	(182)
Income/(loss) from operating activities	(193)	1,281
Cost of financial debt	(368)	(387)
Income from cash and cash equivalents	268	288
Net cost of financial debt	(100)	(99)
Other financial income and expenses	(911)	(24)
Income/(loss) before tax	(1,204)	1,158
Income taxes	439	(359)
Net income/(loss) of consolidated companies	(765)	799
Share of profits/(losses) of associates	(42)	(24)
Net income/(loss) from continuing operations	(807)	775
Net income/(loss)	(807)	775
Group	(814)	756
Minority interests	7	19
Earnings/(loss) per share - Group (in €)		
♦ basic	(2.76)	2.66
♦ diluted	(2.76)	2.49

Consolidated statement of cash flows

Period from April 1 to March 31 (In € million)	2009	2008 (adjusted)
Net income, Group	(814)	756
Minority interests	7	19
Amortization, depreciation and operating provisions	1,719	1,623
Financial provisions	14	17
Gain on disposals of tangible and intangible assets	(22)	(43)
Loss/(gain) on disposals of subsidiaries and associates	(13)	(46)
Gain on WAM (excluding Amadeus GTD) transactions	-	(284)
Reversal of provision for cargo investigation	(225)	-
Derivatives—non-monetary result	333	(65)
Unrealized foreign exchange gains and losses, net	6	27
Negative goodwill	(17)	(40)
Share of (profits)/losses of associates	42	24
Deferred taxes	(340)	262
Other non-monetary items	(188)	16
Subtotal	502	2,266
(Increase)/decrease in inventories	8	(70)
(Increase)/decrease in trade receivables	676	69
Increase/(decrease) in trade payables	(401)	118
Change in other receivables and payables	13	211
Net cash flow from operating activities	798	2,594
Acquisitions of subsidiaries and investments in associates, net of cash acquired	(348)	(272)
Purchase of property, plant and equipment and intangible assets	(2,043)	(2,340)
Proceeds on disposal of subsidiaries and investments in associates	16	84
Proceeds on WAM (excluding Amadeus GTD) transactions	-	284
Proceeds on disposal of property, plant and equipment and intangible assets	141	282
Dividends received	6	5
Decrease/(increase) in investments, net between three months and one year	(246)	349
Net cash used in investing activities	(2,474)	(1,608)
Increase in capital	1	597
Issuance of long-term debt	1,899	681
Repayments on long-term debt	(312)	(414)
Payment of debt resulting from finance lease liabilities	(573)	(886)
New loans	(58)	(53)
Repayment on loans	149	79

Period from April 1 to March 31 (in € million)	2009	2008 (adjusted)
Dividends paid	(177)	(137)
Decrease in equity	-	(10)
Net cash flow from financing activities	929	(143)
Effect of exchange rate on cash and cash equivalents and bank overdrafts	4	2
Change in cash and cash equivalents and bank overdrafts	(743)	845
Cash and cash equivalents and bank overdrafts at beginning of period	4,209	3,364
Cash and cash equivalents and bank overdrafts at end of period	3,466	4,209
Income tax (paid)/reimbursed (flow included in operating activities)	89	(96)
Interest paid (flow included in operating activities)	(372)	(410)
Interest received (flow included in operating activities)	224	288

Air transport glossary

AEA

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometres traveled.

Available ton-kilometers (ATK)

Total number of tons available for the transportation of cargo, multiplied by the number of kilometres traveled.

Coordinated airport

Airport where a coordinator has been appointed to allocate landing and take off slots according to rules established in advance. All large European Union airports are coordinated.

Biometry

Technique allowing the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Cabotage

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Capacity

Capacity is measured in available seat-kilometers

Catering

In-flight catering involves the planning and preparation of meals and the assembly of meal trays destined to be served on board an aircraft.

Code share

In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each under their own brand, their own IATA code and their own flight number. Code sharing may take two forms. In the first case, the two airlines purchase and sell seats to and from each other at an agreed price. The airline which has purchased the seats then markets them under its brand and at its fares. In the second case, under the system known as free flow, the two airlines are allowed to sell all the seats on the flights involved. Each airline retains the revenues generated on the flight it operates and remunerates the other airline for the number of seats the latter has sold on its aircraft.

Combi

Aircraft whose main deck is equipped for the transportation of both passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

DGAC

Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL

Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

E-services

Range of ground services offered by Air France and KLM to their passengers, based on new information technologies. e-services notably enable passengers to check in using self-service kiosks or via the airlines' websites as well as the use of electronic tickets.

EASA

European Aviation Safety Agency. EASA develops safety and environmental protection expertise in civil aviation in order to assist the European institutions to establish legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticketing

All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces the traditional paper ticket.

Equivalent available seat-kilometer (EASK)

Measure of production after conversion of cargo tons into equivalent available seats.

Equivalent revenue passenger-kilometers (ERPK)

Overall measure of traffic after conversion of cargo tons into equivalent revenue passenger-kilometers.

Fare combinability

System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's Schiphol hub and a journey with an onward flight connection at Air France's Roissy-Charles de Gaulle hub. With fare combinability, customers benefit from more frequencies via one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

Fuel hedging

Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price. Two financial products, options and swaps, are used in this type of mechanism.

FAA

Federal Aviation Administration. Body responsible for civil aviation security in the United States.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

High contribution

Fare classes corresponding to business or first class.

Hub

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer opportunities for customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with commercial and financial support services.

IATA year

Financial year for many airlines, including Air France-KLM, which runs from April 1 to March 31 the following year. This system makes it possible to track changes in activity more effectively based on the seasons defined by IATA, i.e. a summer season and a winter season.

ICAO

The International Civil Aviation Organisation, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation world-wide. It establishes the standards and regulations required to ensure the safety, security, efficiency and continuity of aviation operations as well as the protection of the environment.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to and from world-wide destinations.

Over-reservation or over-booking

Over-reservation or over-booking consists of accepting more bookings than seats available. Practiced by all airline companies and permitted by European legislation, this allows many passengers per year to find a seat on board aircraft by freeing up additional seats. Airlines usually have a passenger compensation policy.

Point-to-point traffic

Traffic between two airports, excluding all passengers prolonging their trip with a connecting flight.

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking a better balance between the load factor and the fares offered.

Revenue per passenger per kilometer

Unit revenue for one paying passenger carried over one kilometer

Revenue per ton per kilometer

Unit revenue for one ton of cargo carried over one kilometer

Revenue passenger-kilometer (RPK)

Total number of paying passengers carried multiplied by the number of kilometers traveled.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is carried.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operating and maintenance of aircraft.

Airline security involves all the measures taken by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media impact offered by such activity. Airline security notably includes baggage screening and the questioning of passengers.

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of seven months.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Segment

Section of a flight between two destinations. The number of passengers is calculated by segment carried

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration, etc.)

Ton-kilometers transported

Total number of tons transported multiplied by the number of kilometres covered.

Traffic

Traffic is measured in revenue passenger-kilometers

Unit revenue

In the passenger business, corresponds to the revenue for one available seat or for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over five months.

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