



# Keeping the Family Together

## Annual Review



# KLM Factsheet, Annual Review 2009-2010

Aviation's share of Dutch GNP almost 8 billion Euros (1.2% GNP)<sup>1</sup>

Aviation's share of total employment in the Netherlands (direct and indirect): 121,000

Aviation CO<sub>2</sub>-emissions: about 2% worldwide<sup>2</sup>

KLM's WNF agreement: CO<sub>2</sub>-neutral growth in 2007-2012

Savings on CO<sub>2</sub>-emissions by aviation with Single European Sky (SES): 16 million tonnes of CO<sub>2</sub> per annum<sup>3</sup>

Average number of KLM Group employees expressed as FTEs: about 34,000

Part-time KLM employees in the Netherlands: 37% ('09)

M/F allocation for KLM Group in the Netherlands: M: 58% F: 42% ('09)

Number of passengers, KLM NV: 22.5 million

Freight (KLM NV): 540,000 tonnes

KLM Group revenue '09/'10: 7,469 million Euros (-8.7% in relation to '08/'09)

Number of destinations for KLM from SPL: 125 (Europe: 62, intercontinental: 63) (summer '10)

KLM Group fleet: 205 aircraft (average age: 11 years)

Flying Blue Air France and KLM: more than 17.5 million members

<sup>1</sup> Source: Ministry of Transport, Public Works and Water Management

<sup>2</sup> Source: IPCC

<sup>3</sup> Source: European Commission



# Content

Factsheet	1
Part 1: Letter from the President	4
Financial results	5
Passenger Business	7
Customer focus	7
Cargo Business	8
Engineering & Maintenance Business	8
transavia.com	8
Martinair	9
Network and partnerships	9
Corporate Social Responsibility	9
Level playing field	10
Prospects	11
Part 2: The Group	12
Passenger Business	12
Network	12
Product development	13
Operational quality	14
Cargo Business	14
Engineering & Maintenance Business	14
transavia.com	15
Martinair	15
Fleet development	15
Staff	16
Safety culture	16
Part 3: Facts & Figures	18
Key figures	20
Shareholder structure	21
Traffic developments	22
Fleet composition	23
Employees	24
Consolidated balans sheet	26
Consolidated income statement	27
Consolidated cash flow statement	28

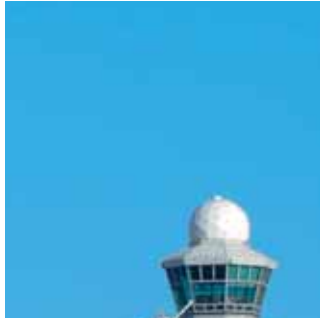
# Part 1

## Letter from the President



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





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

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

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

### Financial results

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



travel budgets, and especially due to the reduced demand for Business Class, we will have to reckon with a continuing pressure on our yields.

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

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

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

KLM's financial position has been substantially affected by the economic crisis. The highest financial priority in the fiscal year was given to keeping our cash position at an acceptable level. This was done mainly by limiting investments to committed fleet, maintenance and strategic IT projects only, and by keeping a strong focus on our working capital. Because of the economic crisis and the reduction of our capacity there was no need for fleet ex-



pansion, however we have continued our fleet renewal and modification program, an investment of EUR 431 million. Our motto 'Cash is King' is still applied throughout the organisation.

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

In order to preserve cash, a strong and successful effort was made in keeping our unit cost at a stable level. We effectively managed the transition between the foreseen



capacity growth and the actual capacity reduction within a single year and were able to stabilise our unit costs despite the 8% reduction in capacity.

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

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

### Passenger Business

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

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

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

### Customer focus

We are increasingly confronted with altered market circumstances and changed customer needs. In response, a continued and amplified focus on product improvement and customer service is key to our strategy. During the fiscal year, we have successfully introduced Economy Comfort, a dedicated front section of Economy Class, in all of our widebody aircraft. We have extended the pitch to 35 inches (instead of 30 or 31 inches) in Economy



Class, which gives significant extra legroom at a slight increase in price. Another investment with a distinct positive impact on customer appreciation is our seat replacement program including audio video on demand. This fiscal year, the Economy Class sections of 6 out of our 22 Boeing 747-400s were fitted with new seats with in-flight entertainment. The modification will be completed before the end of October 2010 on all of our 747s. Furthermore, electronic business was made easier for our customers and more additional services, such as car hire, parking facilities and hotel reservations are and will become available via KLM.com. A memorable moment was the introduction of our new ladies' uniform for cabin and cockpit crew, and uniformed ground staff.

### Cargo Business

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

reduced. In the KLM Group, we temporarily transferred our full freighters to Martinair. This allowed us to derive maximum benefit from the collaborative synergy within the KLM Group.

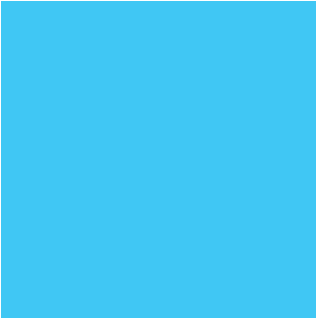
### Engineering & Maintenance Business

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

### transavia.com

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





### Martinair

As a fully owned subsidiary since December 31, 2008, the results of Martinair have been incorporated for the entire fiscal year. Martinair was also fully hit by the economic crisis, in the Passenger Business as well as the Cargo Business. Synergies between Martinair and the KLM Group were further pursued during the fiscal year.

Examples are the new joint headquarters building of Martinair and transavia.com, which has been opened in May 2010 and the joint organisation of the Cargo sales forces of Martinair, KLM and Air France.

### Network and partnerships

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

Retaining our position in the market is critical. The joint



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

### Corporate Social Responsibility

Regardless of the economic crisis and our financial performance, sustainable development continues to be a focus point on our agenda. During the fiscal year the reduction of CO<sub>2</sub> emissions was once again a prime aspect of our sustainability efforts. We are reducing CO<sub>2</sub> emissions, amongst others through initiatives such as fuel saving policies, airport vehicles powered by compressed

air ('Air Pods'), and the 'Scrap' project by which old aircraft parts are reprocessed and used to make new ones. We are also permanently looking for ways to save weight on board, which in turn saves fuel and therefore CO<sub>2</sub> emissions. For similar reasons, we are continuing to press for a rapid introduction of the Single European Sky, which is expected to lead to a reduction of CO<sub>2</sub> emissions of 10%.

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

The Dutch branch of the WWF serves as an active partner of KLM in the pursuit of its environmental goals and further sustainable development. WWF-NL chose KLM as its business partner of the year. For our customers, we offer programs to offset the CO<sub>2</sub> emissions of their travel and shipments.

We continue to take part in stakeholder dialogue, such as the 'Alders Table', an intensive Dutch consultation on the development of Schiphol Airport involving the airport authorities, KLM, air traffic control, the State, local and regional authorities and neighbouring residents. Our persistent efforts in the field of sustainable development were marked in September, when KLM and Air France occupied the top position in the Airlines sector of the Dow Jones Sustainability Index, for the fifth year in succession. We also received the 2009 Environmental Award from Airline Business, as number 1 of all airlines in the 'environmental strategy' category.

### Level playing field

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



European Airlines and others, we are advising European and national governmental bodies about the counter-productive elements of this ruling and the impact that it could have on KLM.

Another regulatory initiative that is going to have an evident impact on KLM and the European aviation sector is the introduction of a system of tradable CO<sub>2</sub> emission rights (ETS) as of 2012. KLM believes ETS can be a useful economic instrument to contain CO<sub>2</sub> emissions, provided that its design is effective, affordable and does not disturb the level playing field with other, non-European, airlines.

### Prospects

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

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

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

### Peter Hartman

President and CEO, KLM



# Part 2

## The Group



### Passenger Business

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

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

### Network

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

In the fiscal year our network was enhanced by the



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

### Product development

Even in the midst of the economic crisis, KLM continued to invest in product development. During the fiscal year in question, Economy Comfort was introduced, a dedicated front section of Economy Class, providing extra comfort for passengers. Economy Comfort offers added legroom and a more relaxed reclining position for a slight increase in price. At Amsterdam Airport Schiphol, new ideas for the 'next generation' gates are being tested, which should result in faster service and greater convenience for

passengers. There is also a special priority lane and a dedicated waiting area for premium passengers.

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

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

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

Our on-board catering product was also invigorated, with contributions from top chefs such as Sergio Herman and Margot Janse. In February 2010, KLM introduced 'Delicious' – a new private label representing the highest quality, fresh and sustainably sourced food – in Economy Class for our intercontinental flights. Our efforts in the



field of Corporate Social Responsibility were rewarded by the global Seafood Champion Award, for the use of sustainably sourced fish in our cuisine. When buying fresh fish, KLM ensures that this is MSC (Marine Stewardship Council) certified or from the green list of WWF. In case the fish of the green list is not available, KLM makes sure the fish purchased is not on the red list of WWF.

### Operational quality

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

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

### Cargo Business

Because of the ongoing economic crisis the demand for air freight fell dramatically during 2009. In response, capacity was reduced by 14%, and a number of full freighters were grounded. The emphasis is now on cargo transport in the lower decks (bellies) of passenger aircraft and our combi-aircraft. The full freighters are only used as an ad-

dition on routes with significant cargo flows. Network synergies have been created, as a result of arrangements between AIR FRANCE KLM Cargo and Martinair Cargo and a reduction in overlapping destinations. Cargo took several measures to react to the substantial decrease of its revenues. Radical cost management, reduction of employees through internal mobility and natural attrition, postponement of major investments and efficiency enhancements were implemented throughout the organisation. As a result of an improved balance in terms of capacity and demand, slight margin improvements could be achieved during the second half of the fiscal year 2009/10. Even though first signs of a cautious recovery could be noticed during the last quarter of 2009, revenues are still far below the pre crisis level. The economic situation will continue to have an influence on Cargo during 2010. Structural improvements to the entire cargo process are necessary and have been initiated during the fiscal year.

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

### Engineering & Maintenance Business

As in the previous fiscal year KLM Engineering & Maintenance showed a different picture than the rest of KLM, by



achieving its targets despite the economic crisis. Financial results were satisfactory and the business performed well in operational terms. As a result of the improved operational performance the non-quality costs were reduced. Aircraft maintenance, both for narrow and widebody aircraft, exhibited substantial and permanent improvements on all fronts. Engineering & Maintenance deliberately aims for a 'lean' production process, where all unnecessary steps and activities are removed from the process. The result is an organisation that is continually improving and becoming more efficient, from the inside out. With a view to improving operational performance even further, a start was made on replacing the existing maintenance system. This new system was used for the first time during this fiscal year for the maintenance of the Boeing 737 fleet.

### **transavia.com**

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

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

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

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

### **Martinair**

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

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

### **Fleet development**

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



Fokker 100s, twelve Fokker 50s of KLM/KLM Cityhopper and two Boeing 767-300ERs of Martinair left the fleet over the past year.

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

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

## Staff

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

KLM is doing everything possible to keep the KLM family together during this crisis and to avoid any forced layoffs in The Netherlands. During the fiscal year, part of the temporary contracts were not extended as a matter of principle, and any vacancies that arose were filled internally by KLM employees. Because these employees' former jobs

were not occupied, the result was a reduction in the total number of positions. Since September 2008, the process has resulted in a reduction of more than 3,500 FTEs.

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

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

## Safety culture

KLM aims to achieve the highest possible level of safety in the aviation industry. A key element of our operation is to never compromise on safety. Continuous and effortless



attention is being paid to the training of our pilots. Also, much attention is given to the training of other employees, such as those working in operational and technical functi-

ons. The campaigns to increase the awareness on occupational safety have been continued during the fiscal year.



# Part 3

## Facts and figures





## Key figures

Consolidated figures in millions euros, unless stated otherwise	2009/10	2008/09*	2007/08	2006/07
*Including Martinair from January until March 2009				
Revenues	7,469	8,182	8,028	7,698
Expenses	7,754	8,023	7,277	7,095
Income from current operations	(285)	159	751	603
As a % of operating revenues	(3.8)	1.9	9.4	7.8
(Loss)/Profit for the year	(383)	(193)	291	516
Capital employed	4,398	4,490	4,675	4,612
Return on capital employed (%)	(7.0)	1.7	8.3	10.4
Net-debt-to-equity ratio	118	72	57	87

## Traffic figures

<b>Passenger</b>				
Traffic (in millions of revenue passenger-kilometers, RPK)	74,129	76,667	75,073	72,367
Capacity (in millions of available seat-kilometers, ASK)	90,168	93,992	90,563	86,478
Passenger load factor (%)	82.2	81.6	82.9	83.7
<b>Cargo</b>				
Traffic (in millions of revenue ton freight-kilometers, RTFK)	6,301	5,163	4,947	4,823
Capacity (in millions of available ton freight-kilometers, ATFK)	8,712	7,603	6,675	6,511
Cargo load factor (%)	72.3	67.9	74.1	74.1

## Financial position

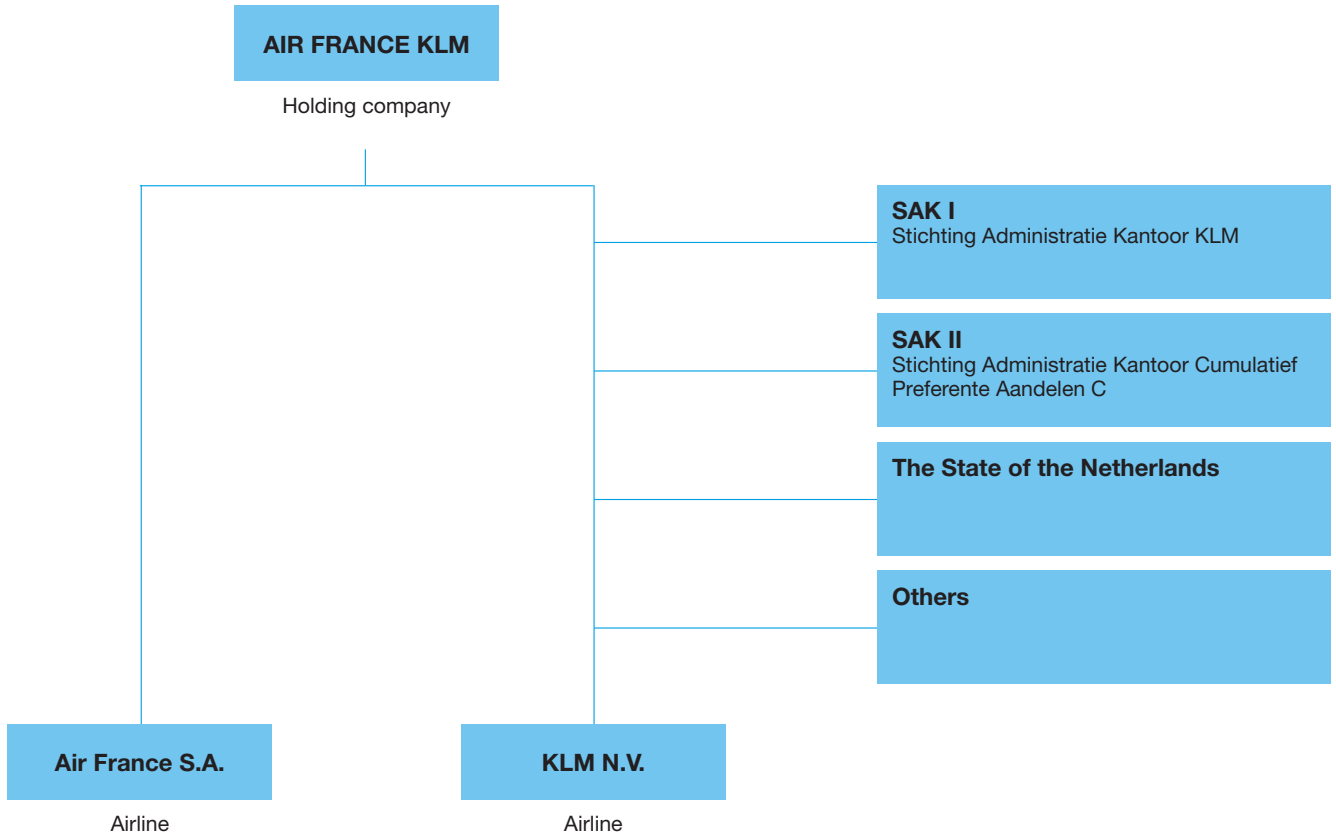
Cash flow from operating activities	(259)	503	999	754
Cash flow from investing activities (excluding (increase)/decrease in short-term deposits and commercial paper)	(481)	(493)	(460)	(616)

## KLM Group staff (average number of full-time equivalents)

		**		
Permanent	30,888	31,445	28,508	28,740
Temporary	1,689	2,512	2,497	1,781
Employed by KLM	32,577	33,957	31,005	30,521
Agency staff	1,455	2,049	1,997	2,034
<b>KLM Group Total</b>	<b>34,032</b>	<b>36,006</b>	<b>33,002</b>	<b>32,555</b>

\*\*Martinair 2008/09 annualised

## Shareholder structure



AIR FRANCE KLM holds:

1. all KLM priority shares and a proportion of the common shares, together representing 49% of the voting and economic rights in KLM;
2. the depositary receipts issued by Stichting Administratie Kantoor KLM (SAK I) on common KLM shares and on the cumulative preference shares A;
3. the depositary receipts issued by Stichting Administratie Kantoor Cumulatief Preferente Aandelen C (SAK II) on the cumulative preference shares C.

The depositary receipts carry the beneficial (economic) ownership, but not the voting rights of the underlying KLM shares.

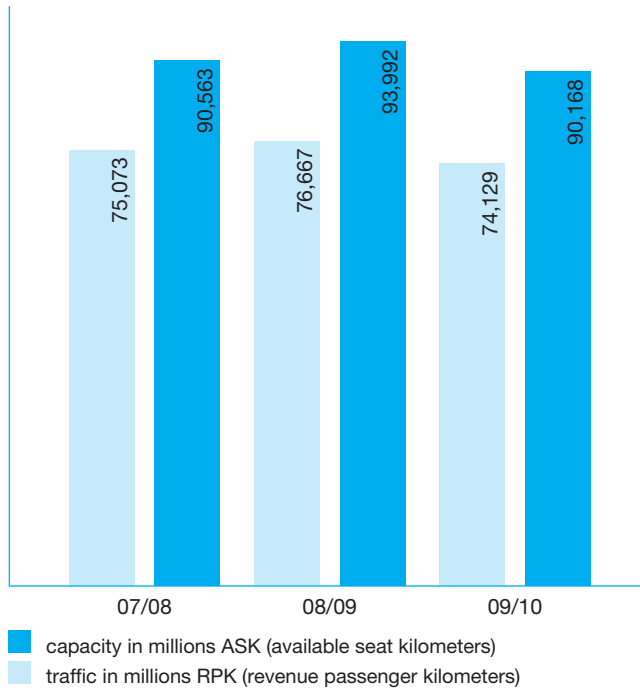
Stichting Administratie Kantoor (SAK I) has 33.16% of the voting rights in KLM on the basis of common shares and cumulative preference shares A.

Stichting Administratie Kantoor Cumulatief Preferente Aandelen C (SAK II) has 11.25% of the voting rights in KLM.

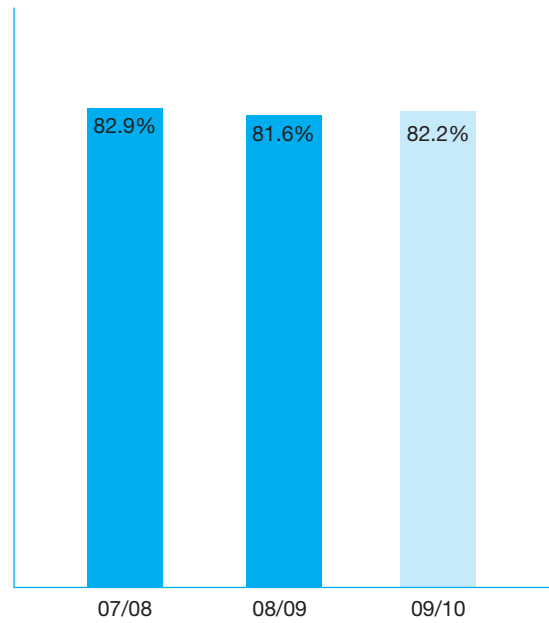
The State of the Netherlands has the cumulative preference shares A, which represent 5.92% of the voting and economic rights. The State of the Netherlands has had an option to take an interest of up to 50.1% in the issued capital of KLM in certain air political circumstances. The Dutch State has used the possibilities for renewal.

The remaining shareholders hold 0.67% of the voting and economic rights of KLM.

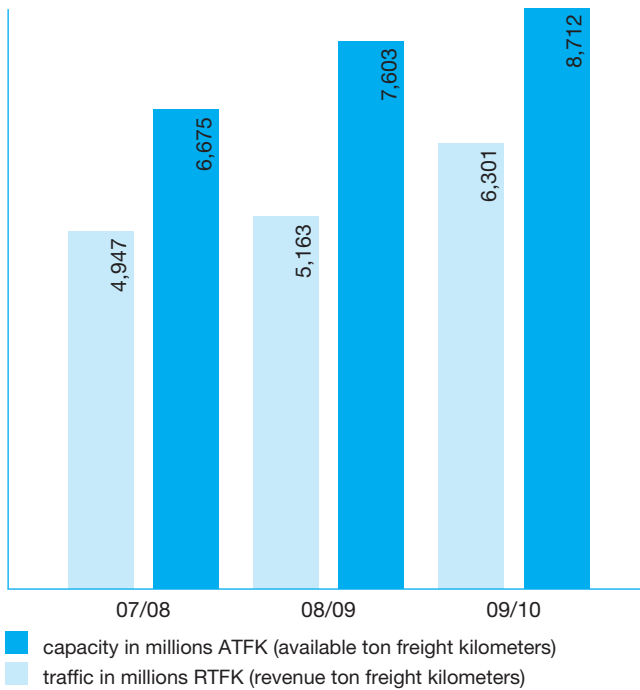
### Passenger Traffic



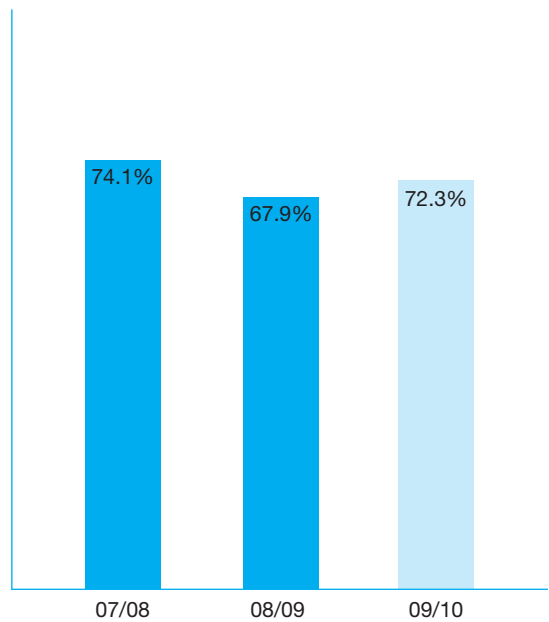
### Passenger load factor



### Cargo Traffic



### Cargo load factor



08/09 including 3 months Martinair Cargo

09/10 including full year Martinair Cargo

## Fleet composition KLM Group

		Average age in years*	Total number of aircraft
Boeing 747-400 PAX	wide body	20.0	6
Boeing 747-400 Combi	wide body	15.9	16
Boeing 747-400 ER Freighter	wide body	6.7	4
Boeing 747-400 BC Freighter	wide body	-	1
Boeing 777-300 ER	wide body	1.5	4
Boeing 777-200 ER	wide body	5.5	15
MD-11	wide body	15.1	10
MD-11 Freighter	wide body	14.1	7
Boeing 767-300 ER	wide body	-	4
Airbus A330-200	wide body	4.1	10
Boeing 737-900	narrow body	7.2	5
Boeing 737-800	narrow body	9.8	40
Boeing 737-700	narrow body	3.6	16
Boeing 737-400	narrow body	18.4	9
Boeing 737-300	narrow body	17.6	7
Embraer 190	regional	0.6	13
Fokker 100	regional	15.9	5
Fokker 70	regional	14.3	26
Training aircraft			7
<b>Total consolidated fleet</b>		<b>11.0</b>	<b>205</b>

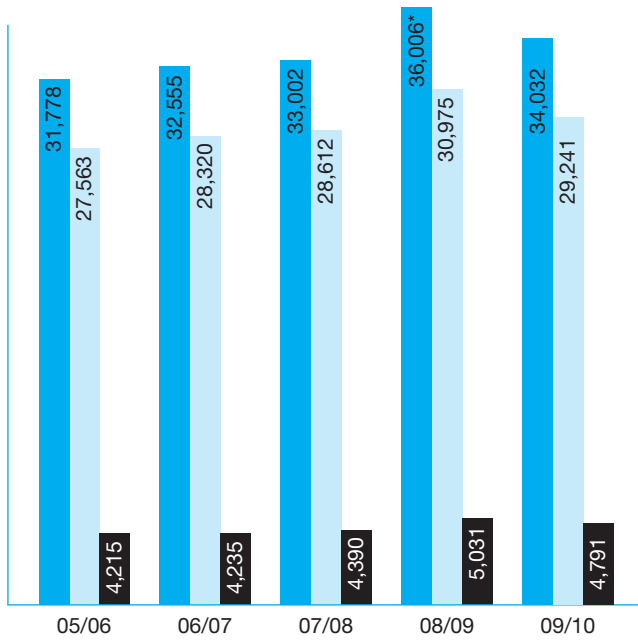
\* Excluding operating leases and training aircraft. The average age including operating leases is 10.3 years



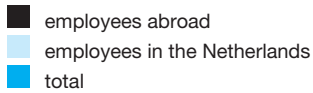


## KLM Group employees

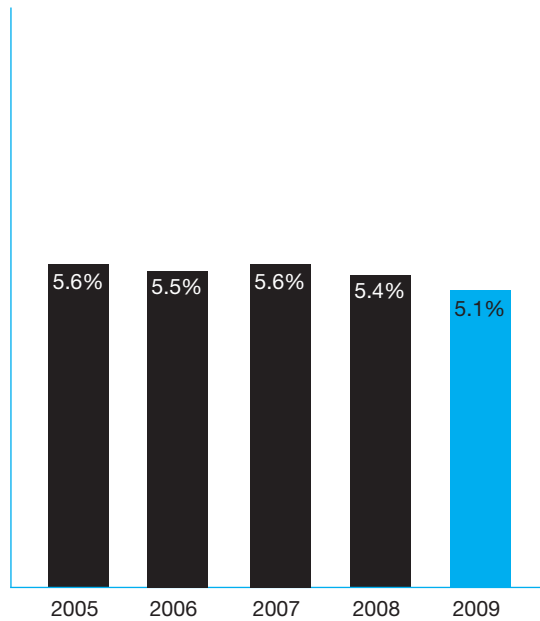
(average number of full-time equivalents including agency staff in the Netherlands and abroad)



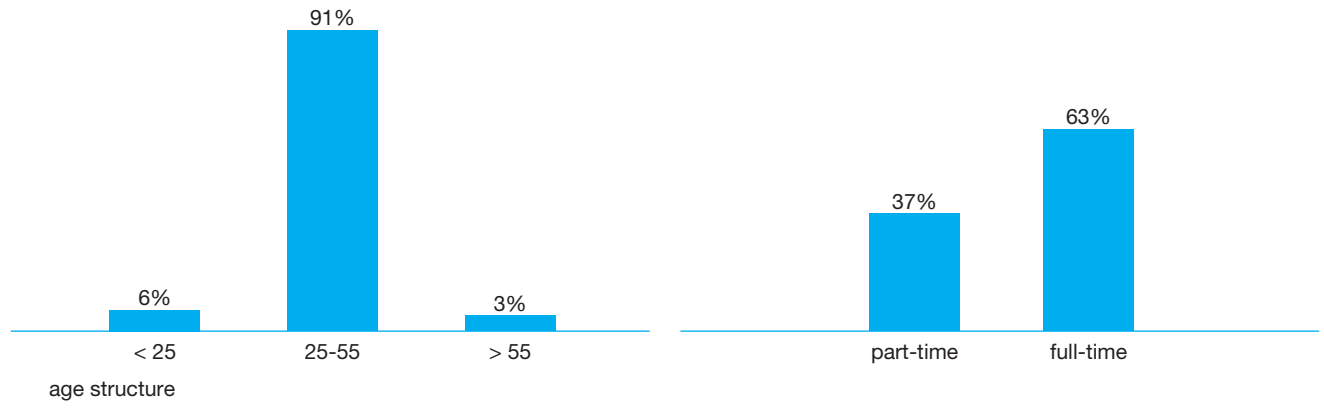
\* including Martinair on an annual basis



## Absenteeisme at KLM



Staff diversity 2009



## Consolidated balance sheet

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

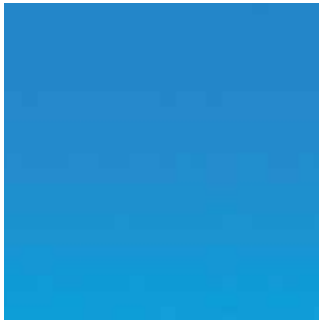
## Consolidated income statement

In millions of Euros	2009/10	2008/09
<b>Revenues</b>	<b>7,469</b>	<b>8,182</b>
<b>Expenses</b>		
External expenses	(5,119)	(5,526)
Employee compensation and benefit expense	(2,150)	(1,919)
Depreciation and amortisation	(546)	(510)
Other income and expenses	61	(68)
<b>Total expenses</b>	<b>(7,754)</b>	<b>(8,023)</b>
<b>Income from current operations</b>	<b>(285)</b>	<b>159</b>
Other non-current income and expenses	(91)	(11)
<b>Income from operating activities</b>	<b>(376)</b>	<b>148</b>
Gross cost of financial debt	(165)	(202)
Income from cash and cash equivalents	67	132
<b>Net cost of financial debt</b>	<b>(98)</b>	<b>(70)</b>
Other financial income and expense	(16)	(286)
<b>Pre-tax income</b>	<b>(490)</b>	<b>(208)</b>
Income tax benefit	114	62
<b>Net result after taxation of consolidated companies</b>	<b>(376)</b>	<b>(146)</b>
Share of results of equity shareholdings	(7)	(47)
<b>Loss for the year</b>	<b>(383)</b>	<b>(193)</b>
<b>Attributable to:</b>		
Equity holders of the Company	(383)	(194)
Minority interest	-	1
	<b>(383)</b>	<b>(194)</b>

## Consolidated cash flow statement

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

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



## Colophon

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#### Graphic design & printing

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