

# **Air France-KLM Group**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Commission for use in the European Union

**April 1, 2008 – June 30, 2008**

# Air France-KLM Group

## CONSOLIDATED INCOME STATEMENTS

<i>In € millions</i>		<b>2008</b>	<b>2007</b>
	<i>Notes</i>		
<b>Period from April 1 to June 30,</b>			
<b>Sales</b>	<b>4</b>	<b>6 288</b>	<b>5 945</b>
Other revenues		-	-
<b>Revenues</b>		<b>6 288</b>	<b>5 945</b>
External expenses	<b>5</b>	(3 687)	(3 371)
Salaries and related costs	<b>6</b>	(1 867)	(1 729)
Taxes other than income taxes		(64)	(57)
Amortization and depreciation		(410)	(387)
Provisions		(22)	(11)
Other income and expenses		(4)	25
<b>Income from current operations</b>		<b>234</b>	<b>415</b>
Sales of aircraft equipment	<b>7</b>	4	-
Negative goodwill		-	-
Other non-current income and expenses	<b>7</b>	13	122
<b>Income from operating activities</b>		<b>251</b>	<b>537</b>
Cost of financial debt		(89)	(96)
Income from cash and cash equivalents		78	65
<b>Net cost of financial debt</b>		<b>(11)</b>	<b>(31)</b>
Other financial income and expenses	<b>8</b>	11	97
<b>Income before tax</b>		<b>251</b>	<b>603</b>
Income taxes		(75)	(174)
<b>Net income of consolidated companies</b>		<b>176</b>	<b>429</b>
Share of profits (losses) of associates		(6)	(9)
<b>Net income from continuing operations</b>		<b>170</b>	<b>420</b>
Net income from discontinued operations		-	-
<b>Net income for the period</b>		<b>170</b>	<b>420</b>
- Group		<b>168</b>	<b>415</b>
- Minority interest		2	5
Earnings per share – Group (in euros)			
- basic		0.57	1.49
- diluted		0.54	1.34

# Air France-KLM Group

## CONSOLIDATED BALANCE SHEETS

<b>Assets</b>	<b>June 30, 2008</b>	<b>March 31, 2008</b>
<i>In € millions</i>		
Goodwill	379	377
Intangible assets	486	475
Flight equipment	12 336	12 280
Other property, plant and equipment	2 188	2 193
Investments in equity associates	179	177
Pension assets	2 297	2 245
Other financial assets <i>(which includes € 736 million of deposits related to financial leases as of June 30, 2008, € 735 million as of March 31, 2008)</i>	949	956
Deferred tax assets	30	29
Other non-current assets	4 269	1 810
<b>Total non current assets</b>	<b>23 113</b>	<b>20 542</b>
Other short term financial assets <i>(which includes € 346 million of deposits related to financial leases and investments between 3 months and 1 year as of June 30, 2008, € 266 million as of March 31, 2008)</i>	385	303
Inventories	572	507
Trade accounts receivable	2 858	2 569
Income tax receivables	3	3
Other current assets	4 152	2 385
Cash and cash equivalents	4 610	4 381
<b>Total current assets</b>	<b>12 580</b>	<b>10 148</b>
<b>Total assets</b>	<b>35 693</b>	<b>30 690</b>

# Air France-KLM Group

## CONSOLIDATED BALANCE SHEETS (continued)

<b>Liabilities and equity</b> <i>In € millions</i>	<b>June 30, 2008</b>	<b>March 31, 2008</b>
Issued capital	2 552	2 552
Additional paid-in capital	765	765
Treasury shares	(120)	(119)
Reserves and retained earnings	10 065	7 338
<b>Equity attributable to equity holders of Air France-KLM</b>	<b>13 262</b>	<b>10 536</b>
Minority interest	94	78
<b>Total Equity</b>	<b>13 356</b>	<b>10 614</b>
Provisions and retirement benefits	1 445	1 439
Long-term debt	6 705	6 914
Deferred tax	2 913	1 713
Other non-current liabilities	690	819
<b>Total non-current liabilities</b>	<b>11 753</b>	<b>10 885</b>
Provisions	457	441
Current portion of long-term debt	889	905
Trade accounts payable	2 588	2 218
Deferred revenue on ticket sales	2 815	2 279
Current tax liabilities	32	25
Other current liabilities	3 599	3 151
Bank overdrafts	204	172
<b>Total current liabilities</b>	<b>10 584</b>	<b>9 191</b>
<b>Total liabilities</b>	<b>22 337</b>	<b>20 076</b>
<b>Total liabilities and equity</b>	<b>35 693</b>	<b>30 690</b>

# Air France-KLM Group

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In €millions

	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Reserves and retained earnings	Equity attributable to holders of Air France-KLM	Minority interests	Total equity
<b>March 31, 2007</b>	<b>279 365 707</b>	<b>2 375</b>	<b>539</b>	<b>(30)</b>	<b>5 415</b>	<b>8 299</b>	<b>113</b>	<b>8 412</b>
Fair value adjustment on available for sale securities	-	-	-	-	4	4	-	4
Gain / (loss) on cash flow hedges	-	-	-	-	143	143	2	145
Currency translation adjustment	-	-	-	-	2	2	-	2
Net income for the year	-	-	-	-	415	415	5	420
<b>Total of income and expenses recognized</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564</b>	<b>564</b>	<b>7</b>	<b>571</b>
Stock based compensation (ESA) and stock options	-	-	-	-	8	8	-	8
Treasury shares	-	-	-	9	-	9	-	9
Other	-	-	-	-	-	-	(3)	(3)
<b>June 30, 2007</b>	<b>279 365 707</b>	<b>2 375</b>	<b>539</b>	<b>(21)</b>	<b>5 987</b>	<b>8 880</b>	<b>117</b>	<b>8 997</b>
<b>March 31, 2008</b>	<b>300 219 278</b>	<b>2 552</b>	<b>765</b>	<b>(119)</b>	<b>7 338</b>	<b>10 536</b>	<b>78</b>	<b>10 614</b>
Fair value adjustment on available for sale securities	-	-	-	-	(1)	(1)	-	(1)
Gain / (loss) on cash flow hedges	-	-	-	-	2 556	2 556	14	2 570
Currency translation adjustment	-	-	-	-	(4)	(4)	-	(4)
Net income for the year	-	-	-	-	168	168	2	170
<b>Total of income and expenses recognized</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 719</b>	<b>2 719</b>	<b>16</b>	<b>2 735</b>
Stock based compensation (ESA) and stock options	-	-	-	-	8	8	-	8
Treasury shares	-	-	-	(1)	-	(1)	-	(1)
<b>June 30, 2008</b>	<b>300 219 279</b>	<b>2 552</b>	<b>765</b>	<b>(120)</b>	<b>10 065</b>	<b>13 262</b>	<b>94</b>	<b>13 356</b>

# Air France-KLM Group

## CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>In € millions</i>		
<b>Period from April 1 to June 30,</b>	<b>2008</b>	<b>2007</b>
Net income for the period – Group	168	415
Minority interests	2	5
Amortization, depreciation and operating provisions	432	398
Financial provisions	3	5
Gain on disposals of tangible and intangible assets	(20)	-
Loss / (gain) on disposals of subsidiaries and associates	(3)	(40)
Gain on WAM (ex Amadeus GTD) transaction	-	(82)
Derivatives – non monetary result	(12)	(94)
Unrealized foreign exchange gains and losses, net	(10)	(9)
Share of (profits) losses of associates	6	9
Deferred taxes	56	144
Other non-monetary items	(158)	(16)
<b>Subtotal</b>	<b>464</b>	<b>735</b>
(Increase) / decrease in inventories	(60)	(3)
(Increase) / decrease in trade receivables	(249)	(182)
Increase / (decrease) in trade payables	343	51
Change in other receivables and payables	512	476
<b>Net cash flow from operating activities before non-recurring items</b>	<b>1 010</b>	<b>1 077</b>
Payment of the ESA 2003 soulte	-	(110)
Additional contribution to pension fund	-	(198)
<b>Net cash flow from operating activities</b>	<b>1 010</b>	<b>769</b>
Acquisitions of subsidiaries and investments in associates, net of cash acquired	(5)	(5)
Purchase of property, plant and equipment and intangible assets	(597)	(720)
Proceeds on disposal of subsidiaries and investments in associates	4	79
Proceeds on WAM (ex Amadeus GTD) transaction	-	82
Proceeds on disposal of property, plant and equipment and intangible assets	119	13
Dividends received	-	2
Decrease (increase) in investments, net between 3 months and 1 year	(82)	73
<b>Net cash used in investing activities</b>	<b>(561)</b>	<b>(476)</b>
Issuance of common stock	-	193
Issuance of long-term debt	3	221
Repayments on long-term debt	(47)	(169)
Payment of debt resulting from finance lease liabilities	(220)	(62)
New loans	(12)	(22)
Repayments on loans	25	17
Dividends paid	(1)	-
Decrease in equity	-	-
<b>Net cash flow from financing activities</b>	<b>(252)</b>	<b>178</b>
<b>Effect of exchange rate on cash and cash equivalents</b>	<b>-</b>	<b>1</b>
<b>Change in cash and cash equivalents and bank overdrafts</b>	<b>197</b>	<b>472</b>
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	4 406	3 836

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **1. BUSINESS DESCRIPTION**

As used herein, the term "Air France–KLM" refers to Air France-KLM S.A., a limited liability company organized under French law excluding its consolidated subsidiaries.

The Group is headquartered in France and is one of the largest airlines in the world. The Group's core business is passenger transportation. The Group's activities also include cargo, aeronautics maintenance and other air-transport related activities, including principally catering and charter services.

The limited company Air France-KLM SA, domiciled at 2 rue Robert Esnault-Pelterie 75007 Paris – France, is the parent company of the Air France-KLM group. Air France-KLM is listed for trading in Paris (Euronext), Amsterdam (Euronext).

The Group's functional currency is the euro.

## **2. SIGNIFICANT EVENTS OF THE YEAR**

No significant event has occurred during the period.

## **3. ACCOUNTING POLICIES**

### **3.1. Accounting principles**

Accounting principles used for the interim condensed consolidated financial statements as of June 30, 2008 are the same as those used as of March 31, 2008 and described in the consolidated financial statements of the year ended March 31, 2008.

The interim condensed consolidated financial statements as of June 30, 2008 must be read in connection with the annual consolidated financial statements for the year ended March 31, 2008. They have been prepared in accordance with those IFRS as of August 5, 2008.

### **3.2. Preparation of interim condensed consolidated financial statements**

Revenues and income from current operations are characterized by their seasonal nature related to a high level of activity during the first half of the fiscal year. This phenomenon varies in magnitude depending on the year. In accordance with IFRS, revenues and the related expenses are recognized over the period in which they are realized and incurred respectively.

For the interim statements, the tax charge (current and deferred) is calculated by applying to the book income for the period the estimated annual average tax rate for the current year for each entity or tax group.

### **3.3. Use of estimates**

The preparation of the condensed consolidated financial statements in conformity with IFRS requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimations described in the note 3 of the March 31, 2008 consolidated financial statements, concerned:

- Revenue recognition related to deferred revenue on ticket sales,
- Tangible and intangible assets,
- Financial assets,
- Deferred tax assets



- Flying Blue frequent flyer program
- Provisions

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

## 4. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

The Air France-KLM Group's primary reporting format is business segmentation.

Business segments' results are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond to the current operating income and the share of results in associates. Other elements of the income statement are presented in the "not allocated" column.

Inter-segment transactions are evaluated based on normal market conditions.

The Air France-KLM Group's secondary reporting format is geographical segmentation, based on origin of sales.

Only segment revenue is allocated by geographical sales area.

### **Business segments**

**Passenger:** Passenger operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code, including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third party airlines and services linked to IT systems.

**Cargo:** Cargo operating revenues come from freight transport on flights under the companies' codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

**Maintenance:** Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally.

**Other:** The revenues from this segment come primarily from catering supplied by the Group to third-party airlines and from charter flights operated primarily by Transavia.

### **Geographical segments**

Group activities are broken down into five geographical regions :

- Europe and North Africa
- Caribbean, French Guiana and Indian Ocean
- Africa, Middle East
- Americas, Polynesia
- Asia and New Caledonia

## 4.1. Information by business segment

- Three month period ended June 30, 2008

<i>In € millions</i>	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	5 183	767	716	501	-	7 167
Intersegment sales	(232)	(5)	(478)	(164)	-	(879)
<b>External sales</b>	<b>4 951</b>	<b>762</b>	<b>238</b>	<b>337</b>	-	<b>6 288</b>
Income from current operations	179	17	15	23	-	234
Income from operating activities	179	17	15	23	17	251
Share of profits (losses) of associates	-	-	-	-	(6)	(6)
Net cost of financial debt and other financial income and expenses	-	-	-	-	-	-
Income taxes	-	-	-	-	(75)	(75)
<b>Net income from continuing operations</b>	<b>179</b>	<b>17</b>	<b>15</b>	<b>23</b>	<b>(64)</b>	<b>170</b>

- Three month period ended June 30, 2007

<i>In € millions</i>	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	4 965	693	716	404	-	6 778
Intersegment sales	(203)	(4)	(473)	(153)	-	(833)
<b>External sales</b>	<b>4 762</b>	<b>689</b>	<b>243</b>	<b>251</b>	-	<b>5 945</b>
Income from current operations	396	(17)	13	23	-	415
Income from operating activities	396	(17)	13	23	122	537
Share of profits (losses) of associates	-	-	-	-	(9)	(9)
Net cost of financial debt and other financial income and expenses	-	-	-	-	66	66
Income taxes	-	-	-	-	(174)	(174)
<b>Net income from continuing operations</b>	<b>396</b>	<b>(17)</b>	<b>13</b>	<b>23</b>	<b>5</b>	<b>420</b>

## 4.2. Information by geographical area

### Sales by geographical area

- Three month period ended June 30, 2008

<i>In € millions</i>	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	3 282	87	270	706	368	4 713
Other passenger sales	231	-	1	4	2	238
<b>Total passenger</b>	<b>3 513</b>	<b>87</b>	<b>271</b>	<b>710</b>	<b>370</b>	<b>4 951</b>
Scheduled cargo	352	8	47	97	213	717
Other cargo sales	28	1	2	6	8	45
<b>Total cargo</b>	<b>380</b>	<b>9</b>	<b>49</b>	<b>103</b>	<b>221</b>	<b>762</b>
Maintenance	236	-	-	-	2	238
Others	327	6	4	-	-	337
<b>Total</b>	<b>4 456</b>	<b>102</b>	<b>324</b>	<b>813</b>	<b>593</b>	<b>6 288</b>

- Three month period ended June 30, 2007

	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
<i>In € millions</i>						
Scheduled passenger	3 063	83	270	752	352	4 520
Other passenger sales	184	11	8	14	25	242
<b>Total passenger</b>	<b>3 247</b>	<b>94</b>	<b>278</b>	<b>766</b>	<b>377</b>	<b>4 762</b>
Scheduled cargo	290	9	47	84	212	642
Other cargo sales	30	1	2	7	7	47
<b>Total cargo</b>	<b>320</b>	<b>10</b>	<b>49</b>	<b>91</b>	<b>219</b>	<b>689</b>
Maintenance	241	-	-	-	2	243
Others	243	5	3	-	-	251
<b>Total</b>	<b>4 051</b>	<b>109</b>	<b>330</b>	<b>857</b>	<b>598</b>	<b>5 945</b>

### Traffic sales by geographical area of destination

- Three month period ended June 30, 2008

	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
<i>In € millions</i>						
Scheduled passenger	1 983	287	614	1 083	746	4 713
Scheduled cargo	22	50	103	223	319	717
<b>Total</b>	<b>2 005</b>	<b>337</b>	<b>717</b>	<b>1 306</b>	<b>1 065</b>	<b>5 430</b>

- Three month period ended June 30, 2007

	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
<i>In € millions</i>						
Scheduled passenger	1 912	258	568	1 079	703	4 520
Scheduled cargo	17	46	92	197	290	642
<b>Total</b>	<b>1 929</b>	<b>304</b>	<b>660</b>	<b>1 276</b>	<b>993</b>	<b>5 162</b>

## 5. EXTERNAL EXPENSES

<i>In € millions</i>	2008	2007
<i>Three month period ended June 30,</i>		
Aircraft fuel	1 359	1 093
Chartering costs	165	160
Aircraft operating lease costs	150	151
Landing fees and en route charges	455	443
Catering	124	110
Handling charges and other operating costs	340	322
Aircraft maintenance costs	262	264
Commercial and distribution costs	282	306
Other external expenses	550	522
<b>Total</b>	<b>3 687</b>	<b>3 371</b>

“Other external expenses” correspond mainly to rent and insurance costs.

## 6. SALARIES AND NUMBER OF EMPLOYEES

### Salaries and related costs

<i>In € millions</i>	<b>2008</b>	<b>2007</b>
<b>Three months period ended June 30,</b>		
Wages and salaries	1 340	1 263
Net periodic pension cost	41	14
Social contributions	437	408
Expenses related to share-based compensation	7	8
Other expenses	42	36
<b>Total</b>	<b>1 867</b>	<b>1 729</b>

### Average number of employees

<i>Three month period ended June 30,</i>	<b>2008</b>	<b>2007</b>
Flight deck crew	8 553	8 164
Cabin crew	22 741	21 452
Ground staff	75 406	74 362
<b>Total</b>	<b>106 700</b>	<b>103 978</b>

Increase of salaries and related costs and of average number of employees is particularly explained by movements in the perimeter after June 30, 2007 (consolidation of Air Chef and acquisition of VLM) and also by activities development of Transavia France during the year ended March 31, 2008.

## 7. SALES OF AIRCRAFT EQUIPMENT AND OTHER NON-CURRENT INCOME AND EXPENSES

<i>Three month period ended June 30,</i> <i>In € million</i>	<b>2008</b>	<b>2007</b>
<b>Sales of aircraft equipment</b>	<b>4</b>	<b>-</b>
Compensation on slot swaps	14	-
Disposal of subsidiaries and affiliates	3	40
Gain on WAM (ex Amadeus GTD) transaction	-	82
Other	(4)	-
<b>Other non-current income and expenses</b>	<b>13</b>	<b>122</b>

- **Three month period ended June 30, 2007**

During the three month period ended June 30, 2007, the Group sold its shares in Alpha recording a gain on disposal of €40 million. The company Alpha, previously held at 26%, was accounted according to the equity method in the Group's accounts.

The gain on WAM (ex Amadeus GTD) transaction that amounts to € 82 million, corresponds to the reimbursement of the shareholders' loan for an amount of €76 million and to interest payment for €6 million. The loan had been neutralized in the operation of reinvestment of Air France-KLM within the LBO operation initiated in July 2005.

## **8. OTHER FINANCIAL INCOME AND EXPENSES**

- **Three month period ended June 30, 2008**

Other financial income and expenses comprises, for the three month period ended June 30, 2008, the change in fair value of financial assets and liabilities for €12 million.

- **Three month period ended June 30, 2007**

Other financial income and expenses comprises, for the three month period ended June 30, 2007, the change in fair value of financial assets and liabilities for €94 million.

## **9. SUBSEQUENT EVENTS**

There has been no significant event since the close of the period.