AIR FRANCE KLM

# Reference Document
# 2006-07

## Global leader

240 destinations in 105 countries

3 businesses 73.5 million passengers carried

1.4 million tons of cargo transported

900 aircraft maintained

## Profitable growth

23.1 billion euros of revenues

1.2 billion euros of operating income

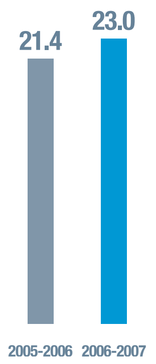
103,000 employees

This Reference Document is an unofficial translation of the French Document de Référence, which was filed with the French Autorité des Marchés Financiers on June 21, 2007, pursuant to article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by Air France-KLM for information purposes only and has not been reviewed or registered with the AMF. The French Document de Référence may be used for the purposes of a financial transaction if supplemented with an offering memorandum approved by the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French Document de Référence, the French version shall prevail.

# Key figures

## Revenues

*In billions of euros*




Revenues increased by 1.63 billion euros (+7.6%), reflecting the very strong level of activity throughout the year.

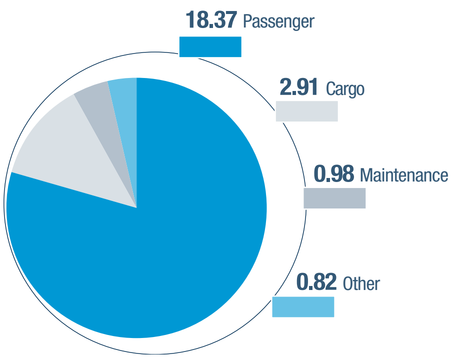
## Operating income

*In billions of euros*


Operating income showed an increase of 32.5% to 1.24 billion euros, despite an 18.7% increase in the fuel bill.

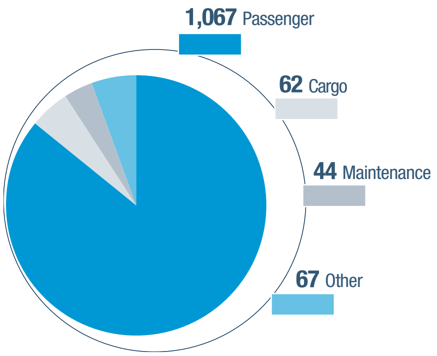
## Breakdown of revenues by activity

*In billions of euros*



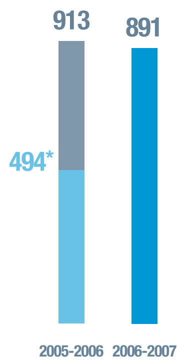

## Breakdown of operating income by activity

*In millions of euros*



## Net income, group share

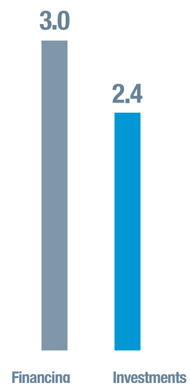
*In millions of euros*
**Excluding Amadeus*




Net earnings per share amounted to 3.35 euros at March 31, 2007. The dividend increased by 60% to 48 euro cents per share.

## Financing of investments

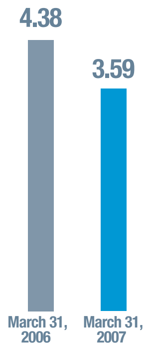
*In billions of euros*




Investments amounted to 2.38 billion euros. They were financed from operating cash flow of 2.85 billion euros and asset disposal proceeds of 160 million euros. At March 31, 2007, free cash flow amounted to 632 million euros.

## Financial structure/Gearing ratio

➤ Net Debt




➤ Gearing ratio


The balance sheet structure again improved with net debt of 3.59 billion euros, down by 789 million euros and shareholders' equity of 8.41 billion euros. The group's gearing ratio was thus reduced to 0.43 at March 31, 2007.

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# Corporate Governance

# 1.

# Board of Directors

The bylaws stipulate a maximum of eighteen Board Directors, with a six-year term of office. The minimum number of Directors' shares is 10 shares for Directors other than those representing the French State, who are not required to hold shares of the company's stock.

## Composition of the Board of Directors as at March 31, 2007

At March 31, 2007, the Board of Directors comprised 15 members:
- 10 Directors appointed by the Shareholders' Meeting;
- 2 representatives of the employee shareholders appointed by the Shareholders' Meeting;
- 3 representatives of the French State appointed by ministerial order.

In January 2007, Giancarlo Cimoli, Chairman and Chief Executive Officer of Alitalia, tendered his resignation. This seat on the Board was vacant as of March 31, 2007. Furthermore, Bruno Bézard, Director of the French State Holdings Agency, replaced Jean-Louis Girodolle as Director representing the French State (ministerial order of March 14, 2007).

### Directors appointed by the annual Shareholders' Meeting

#### Jean-Cyril Spinetta

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

First appointed: September 23, 1997

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 65,240 shares (excluding FCPE units)

Other directorships:
- Chairman and Chief Executive Officer of Air France;
- Director of Saint-Gobain;
- Director of Alcatel-Lucent;
- Director of Unilever;
- Permanent representative of Air France on the Board of Directors of Le Monde Entreprises;
- Member of the Board of Paris Europlace.

Directorships held in the last five years:
- Director of Alitalia, until January 2007;
- Chairman of the IATA Board of Governors (International Air Transport Association) from June 2004 to June 2005;
- Chairman of the AEA (Association of European Airlines) in 2001;
- Director of CNES, the French Space Agency, until December 2002.

Born October 4, 1943, Mr Spinetta is a graduate of the Institut des sciences politiques de Paris and of the Ecole nationale d'administration.

#### Leo M. van Wijk

*Vice-Chairman of the Board of Directors*

President and Chief Executive Officer of KLM until March 31, 2007

First appointed: June 24, 2004

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 500 shares.

Other directorships:
- Director of Northwest Airlines;
- Member of the Supervisory Board of Martinair, of Aegon NV, of Randstad Holding NV and of Kennemer Gasthuis;
- Member of the Advisory Board of ABN AMRO holding.

Born October 18, 1946, Mr. van Wijk, a Dutch national, holds a Masters degree in Economic Sciences.

#### Patricia Barbizet

*Chief Executive Officer and Director of Artémis*

First appointed: January 3, 2003

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 2,000 shares

Other directorships:
- Vice-Chairman of the Board of Directors of Pinault-Printemps-Redoute;
- Member of the Supervisory Board and Chief Executive Officer of Financière Pinault, Gucci and Yves Saint-Laurent;
- Director of FNAC, Bouygues, TF1 and the société nouvelle du théâtre Marigny;
- Chairman and Director of Christie's International plc;
- Artémis Permanent representative on the Board of Directors of Sebdo Le Point, and L'Agefi;
- Member of the Management Board of Château Latour;
- Chairman and Chief Executive Officer of Piasa;
- Chief Executive Officer and Director of Palazzo Grassi.

Directorships held in the last five years:
- Member and Chairman of the Supervisory Board of Yves Saint-Laurent Haute Couture and Yves Saint-Laurent Parfums;
- Artémis permanent representative on the Board of Directors of Bouygues and Rexel;
- Chairman of the Board of Directors of the société nouvelle du théâtre Marigny.

Born April 17, 1955, Ms. Barbizet is a graduate of the École supérieure de commerce de Paris.

### Frits Bolkestein

First appointed: November 22, 2005

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011

Number of shares held in the company's stock: 10 shares

Other directorships:
- Member of the Supervisory Board of De Nederlandsche Bank;
- Advisor to PricewaterhouseCoopers.

Born April 4, 1933, Mr. Bolkestein, a Dutch national, was a Member of the European Commission from 1999 to 2004.

### Jean-François Dehecq

*Chairman of the Board of Directors of Sanofi-Aventis*

First appointed: January 25, 1995

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 523 shares

Other directorships:
- Director of Veolia Environnement;
- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher;
- Chairman and Director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co ;
- Director of the French National Research Agency;
- Director of IFPMA (International Federation of Pharmaceutical Manufacturers Associations);
- Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations);
- Member of the Supervisory Board of the Agency for Industrial Innovation;
- Chairman of the National Association for Technical Research;
- Member of the French Foundation for Research into Epilepsy.

Directorships held in the last five years:
- Chief Executive Officer of Sanofi-Aventis until December 31, 2006;
- Member of the Supervisory Board of Balmain until March 2002 and of Aventis until December 2004;
- Director of Péchiney until December 2003, of Synthelabo Recherche until January 2003 and of Finance Management until September 2006;
- Director of Fujisawa Sanofi-Synthelabo Inc. until 2005;
- Chairman of CNAM (Conservatoire National des Arts et Métiers) until 2005;
- Member of the French Council of INSEAD until 2004.

Born January 1, 1940, Mr. Dehecq is a graduate of the Ecole nationale des Arts et Métiers.

### Jean-Marc Espalioux

*Chairman and Chief Executive Officer of Financière Agache Investissement*

First appointed: September 14, 2001

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 601 shares

Other directorships:
- Non-voting Director on the Supervisory Board of the Caisse Nationale des Caisses d'Epargne;
- Director of Veolia Environnement;
- Member of the Supervisory Board of groupe Flo.

Directorships held in the last five years:
- Chairman of the Management Board of Accor and Chairman of Accor UK until January 2006;
- Member of the Supervisory Board of Club Méditerranée until January 2006;
- Accor Permanent representative on the Supervisory Board of groupe Lucien Barrière until January 2006;
- Director of Vivendi Universal until 2002;
- Director of Fiat France, Crédit Lyonnais and Vivendi Environnement until 2003.

Born March 18, 1952, Mr. Espalioux is a graduate of the Institut des sciences politiques de Paris and of the Ecole nationale d'administration.

### Pierre-Henri Gourgeon

*Deputy Chief Executive Officer of Air France-KLM*

First appointed: January 25, 2005

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011

Number of shares held in the company's stock: 45,688 shares

Other directorships:
- Chief Operating Officer of Air France and Permanent representative of Air France-KLM on the Board of Directors of Air France;
- Vice-Chairman of the Board of Directors of Amadeus GTD;
- Director of Steria.

Directorships held in the last five years:
- Director of Autoroutes du Sud de la France until March 2006;
- Chairman of Amadeus GTD until September 2005;
- Chairman of Amadeus France and Amadeus France SNC until April 2002;
- Director of Amadeus France until November 2003.

Born April 28, 1946, Mr. Gourgeon is a graduate of the Ecole polytechnique and the Ecole nationale supérieure de l'aéronautique. He is also a graduate of the California Institute of Technology.

### Cornelis J.A. van Lede

First appointed: June 24, 2004

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 1,000 shares

Other directorships:
- Chairman of the Board of Directors of INSEAD (Institute of Business Administration);
- Director of Reed Elsevier, of Sara Lee Corp and of Air Liquide;
- Chairman of the Supervisory Board of Heineken;
- Member of the Supervisory Board of Philips Electronics and of Stork.

Directorships held in the last five years:
- Chairman of the Supervisory Board of De Nederlandsche Bank until 2004;
- Chairman of the Management Board of Akzo Nobel NV until 2003;
- Director of Scania AB until 2004.

Born November 21, 1942, Mr. van Lede, a Dutch national, is a former Chairman of the Management Board of Akzo Nobel.

### Floris A. Maljers

First appointed: June 24, 2004

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 500 shares

Other directorships:
- Chairman of the Board of Directors of the Rotterdam School of Management;
- Chairman of Roompot and Recreatie group;
- Director of Rand Europe.

Directorships held in the last five years:
- Chairman of Unilever NV and Vice Chairman of Unilever plc;
- Director of SHV Holdings NV;
- Director of BP plc;
- Director of Het Concertgebouw NV.

Born August 12, 1933, Mr. Maljers, a Dutch national, is a former Chairman of Unilever NV.

### Pierre Richard

*Chairman of the Board of Directors of Dexia*

First appointed: October 20, 1997

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements of the year ending March 31, 2010

Number of shares held in the company's stock: 401 shares

Other directorships:
- Chairman of the Board of Directors of Dexia Crédit Local;
- Vice-Chairman of the Board of Directors of Dexia Banque Belgique and of Dexia Banque Internationale in Luxembourg;
- Director of newspaper Le Monde, of Generali France Holding and of EDF Energies Nouvelles;
- Member of the Board of Directors as expert advisor of the European Investment Bank;
- Vice-Chairman of the French Association of Banks and member of the Executive Committee of the French Banking Federation.

Directorships held in the last five years:
- Director of Crédit du Nord until February 2007;
- Director of FSA until 2006.

Born March 9, 1941, Mr. Richard is a graduate of the Ecole polytechnique.

## Directors representing the French State

### Bruno Bézard

*Director of the French Treasury State Holdings Agency*

First appointed: March 14, 2007

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2013

Other directorships:
- Director of EDF, La Poste, Areva, France Telecom, and Thalès.

Directorships held in the last five years:
- Director of France Télévision, Renault and the SNCF.

Born May 19, 1963, Mr. Bézard is a graduate of the Ecole polytechnique and of the Ecole nationale d'administration.

### Claude Gressier

*President of the Department of Economic Affairs, Counsel General for Public Works*

First appointed: June 24, 2004

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Other directorships:
- Director of Autoroutes de France;
- Director of the SNCF.

Born July 2, 1943, Mr. Gressier is a graduate of the Ecole polytechnique, attended the Institut des sciences politiques de Paris and is qualified as a general public works engineer.

### Philippe Josse

*Director of Budget, French Ministry of Economy, Finance and Industry*

First appointed: May 16, 2006.

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2012

Other directorships:
- Director of EDF and the SNCF.

Born September 23, 1960, Mr. Josse holds a law degree and is a graduate of the Institut des sciences politiques de Paris and of the Ecole nationale d'administration.

## Directors representing employee shareholders

### Didier Le Chaton

*Representative of flight deck crew*

First appointed: January 26, 2006

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 4,032 shares and 3,186 FCPE units.

Born February 3, 1951, Mr. Le Chaton is a graduate of the Ecole nationale de l'aviation civile and a Boeing 747-400 Captain.

### Christian Magne

*Representative of the ground staff and cabin crews*

First appointed: September 14, 2001

Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010

Number of shares held in the company's stock: 233 shares and 246 FCPE units.

Born August 20, 1952, Mr. Magne is a finance executive.

## Secretary for the Board of Directors

### Jean-Marc Bardy

*Legal Counsel*

➤ Experience and training of members of the Board of Directors

| Board of Directors experience | | | | Directors' principal professional experience | | |
|---|---|---|---|---|---|---|
| **Director** | **Age at 03/31/2007** | **Date appointed to Board** | **Experience at 03/31/2007** | **Sector** | **Experience in the sector** | **Current position** |
| **Jean-Cyril Spinetta** | 63 years | September 23, 1997 | 10 years | Public Service Air Transport (Air Inter and Air France) | 14 years | Chairman and CEO of Air France-KLM and of Air France |
| **Leo van Wijk** | 60 years | June 24, 2004 | 3 years | Air Transport (KLM) | 36 years | President and CEO of KLM until March 31, 2007 |
| **Patricia Barbizet** | 52 years | January 3, 2003 | 4 years | Industrial (Renault, Pinault group) | 30 years | Chief Executive Officer and Director of Artémis |
| **Bruno Bézard** | 44 years | March 14, 2007 | 0.5 months | Public Service | 19 years | Director of the French Treasury State Holdings Agency |
| **Frits Bolkestein** | 73 years | November 22, 2005 | 1.5 years | Industrial (Shell) and Public (Dutch Parliament and European Commission) | 16 years<br>26 years | |
| **Jean-François Dehecq** | 67 years | January 25, 1995 | 12 years | Industrial (SNPA and Sanofi) | 42 years | Chairman of the Board of Directors of Sanofi-Aventis |
| **Jean-Marc Espalioux** | 55 years | September 14, 2001 | 6.5 years | Services (CGE, Accor) | 20 years | Chairman and CEO of Financière Agache Investissement |
| **Pierre-Henri Gourgeon** | 60 years | January 20, 2005 | 2 years | Aeronautics and Air Transport | 36 years | Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France |
| **Philippe Josse** | 46 years | May 16, 2006 | 11 months | Public Service | 11 years | Director of Budget |
| **Cornelis van Lede** | 65 years | June 24, 2004 | 3 years | Industrial (Shell, Akzo, Dutch Industry Federation) Consultancy (McKinsey & Company) | 36 years | Chairman of the Board of Directors of INSEAD |
| **Floris Maljers** | 73 years | June 24, 2004 | 3 years | Industrial (Unilever) | 35 years | Chairman of the Board of Directors of the Rotterdam School of Management |
| **Pierre Richard** | 66 years | October 20, 1997 | 10 years | Banking (CDC, Crédit Local de France) | 24 years | Chairman of the Dexia Board of Directors |
| **Claude Gressier** | 64 years | June 24, 2004 | 3 years | Public Service | 39 years | President of the Department of Economic Affairs, Counsel General for Public Works |
| **Didier Le Chaton** | 56 years | January 26, 2006 | 15 months | Air Transport (Air France) | 31 years | Flight Captain |
| **Christian Magne** | 54 years | September 14, 2001 | 6 years | Air Transport (Air France) | 33 years | Finance executive |

## Missions of the Board of Directors

The Board of Directors determines the orientations of the group's activities 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 addition, the Board undertakes the monitoring and verification it considers appropriate.

On June 17, 2004, the Board of Directors adopted an internal regulation, inspired by the Bouton and Viénot reports. Modified on November 23, 2004, then on August 30, 2006, this regulation specifies the terms for the organization and functioning of the Board and sets the prerogatives and duties of the Directors in terms of the rules on reporting, disclosure, confidentiality and conflict of interest. It determines, amongst other things, the powers of each of the four specialized committees established within the Board: the Audit committee, the Strategy committee, the Remuneration committee and the Appointments committee.

With the exception of the Strategy Committee, no other committee has executive officers amongst its members.

### Organization of the Board of Directors

In its meeting of June 24, 2004, the Board of Directors voted not to separate the functions of Chairman and Chief Executive Officer. Furthermore, it appointed and defined the powers of a Deputy Chief Executive Officer.

The Chairman is appointed by the Board of Directors. He has full powers to manage the company, with the exception of the limitations set forth in the internal regulation of the Board of Directors, which stipulate that the Chairman and Chief Executive Officer must obtain prior approval from the Board to conduct the following operations when their amount exceeds €150 million:

- acquire or sell any interests in any companies formed or to be formed, participate in the formation of any companies, groups or organizations, subscribe to any issues of stocks, shares or bonds; and
- grant any exchanges, with or without cash payments, on the Company's assets, stocks or securities.

The Deputy Chief Executive Officer assists the Chairman and Chief Executive Officer and has extensive powers in economic, financial, commercial and social matters. He must, however, submit contracts for over € 50 million for the signature of the Chairman and Chief Executive Officer.

#### *Independence of Directors*

The Board of Directors functions according to the principles established in the Viénot and Bouton reports relating to corporate governance. However, the Board has not been required to debate the independence of its members in the light of the criteria set by the Bouton report given the procedure for appointing a proportion of the Directors which is governed by both special legal provisions, notably for the representatives of the French State, and the agreements with KLM and, until the resignation of its representative, with Alitalia.

#### *Compliance and ethics*

The Board of Directors has adopted a Compliance Charter and a Code of Ethics.

The Compliance Charter, adopted by the Board of Directors on March 25, 2004, and modified on November 22, 2005, prohibits both corporate officers and directors of the company from trading in the company's shares during the month preceding the annual results announcement 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.

None of the members of the Board of Directors are related and, in the last five years, to the company's knowledge, no director has been subject to a fraud or other criminal conviction or to public sanction by the statutory or regulatory authorities, associated with a bankruptcy, a sequestration of goods or liquidation nor has, finally, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer.

With the exception of the agreements concluded in October 2003 between Air France, KLM and the Dutch government, there exists no arrangement or agreement between the main shareholders, customers, suppliers or other parties, in accordance with which a member of the Board of Directors has been appointed.

There is no service level contract binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

#### *Conflicts of interest*

To the company's knowledge there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. It should, however, be noted that the French State, which holds 17.9% of the Air France-KLM share capital as at March 31, 2007, also holds 68.4% of the share capital of Aéroports de Paris.

#### *Evaluation of the Board of Directors*

During the financial year, the Board of Directors commissioned an independent evaluation of its functioning.

A number of issues were addressed in this evaluation:

- the organization and the functioning of the Board of Directors,
- the composition and involvement of the Board,
- the areas in which the Board intervenes,
- the relations between the Board and the Chairman and the company's general management,
- the organization and functioning of the Committees.

Interviews with directors were given under the seal of anonymity. A summary of the results of the evaluation was presented to the Board of Directors on May 23, 2007. A forthcoming meeting of the Board of Directors will look at possible changes to the regulations currently in force.

### Functioning of the Board of Directors

The minimum number of Board of Directors meetings is set at five per year. Five to seven days before Board meetings, a file is sent to Board members, containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and prior consideration. The matters raised in meetings are presented orally or by video, followed by discussion.

Board meetings are conducted in French, however each director may speak in French or in English with simultaneous interpretation.

Secretarial services for the Board of Directors are provided by the Legal Counsel.

#### *Board activity during the 2006-07 financial year*

During the 2006-07 financial year, the Board of Directors met eight times (seven meetings in 2005-06). The meetings lasted three hours on average and the attendance rate for Directors was 87.25% (74.2% in 2005-06). Note that two directorships remained vacant in the first quarter of the year, during which three meetings of the Board of Directors took place.

During these meetings the following matters were addressed:

- interim and annual financial statements and examination of their reconciliation under US GAAP,
- budget projections,
- remuneration of corporate officers,
- transposition of the employee bylaws in the *"conventions collectives"* (collective agreements),
- growth of the group in emerging countries,
- development strategy in the leisure segment starting with the French market (establishment of transavia.com France),
- information on the breakdown of the share capital,
- delay in the A380 program,
- group organization for phase II of the merger with KLM,
- group projects with respect to renewable energies,
- fuel hedging strategy.

As in 2005-06, the Board of Directors held an annual meeting dedicated to the group's strategy in its different activities (passenger, cargo, maintenance). The group's strategic vision with respect to consolidation in the air transport sector in Europe and the United States was also discussed at the same meeting.

#### *Regulated agreements*

There were no new regulated agreements in 2006-07, the following agreements approved during the previous financial years continuing to apply:

- the service provision agreement between Air France-KLM on one side and Air France and KLM on the other,
- the cash and domiciliation agreement between Air France-KLM and Air France,
- the brand license agreement between Air France-KLM on one side and Air France and KLM on the other,
- the agreement between Air France-KLM and Air France relating to the issuance by Air France of an OCEANE convertible into Air France-KLM shares,
- the agreement relating to the compensation of the Chairman and Chief Executive Officer and of the Deputy Chief Executive Officer.

An agreement between Air France-KLM and Alitalia also existed which was subject to article L. 225-40 of the Commercial Code until the resignation of the directors in early 2007.

## The Board of Directors Committees

### The audit committee

#### *Composition*

Pursuant to the charter which governs its functioning, the audit committee must comprise between three and six members.

The committee currently comprises six members: Pierre Richard, Chairman of the committee, Jean-François Dehecq, the representative of the French State Holdings Agency, Floris Maljers, Christian Magne and Didier Le Chaton.

The principal executives responsible for accounting, legal affairs, internal control and internal audit of Air France-KLM and the subsidiaries Air France and KLM attend the meetings.

The statutory auditors attended all meetings of the audit committee held during the financial year. At the request of the Chairman of the committee, they were able to consult with committee members without the presence of the group's senior management.

#### *Missions*

The audit committee's 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 any significant risks in order to guarantee the quality of the financial information provided by the company. It approves the fees of the statutory auditors and issues prior approval for some services provided by them. The committee must also monitor the quality of procedures to ensure compliance with stock market regulations. The audit committee has the resources necessary to perform its mission and may, notably, be assisted by persons from outside the company.

The audit committee's main missions are to review the interim and annual consolidated financial statements prior to their submission to the Board of Directors and, specifically, it must examine:
- the consolidation scope,
- the relevance and permanence of the accounting methods used to draw up the financial statements,
- the principal estimates made by management,
- the principal financial risks and significant off-balance-sheet commitments,
- the comments and recommendations made by the statutory auditors and, if applicable, any significant adjustments resulting from audits,
- the program and results of external audit.

### *Activity*

During the 2006-07 financial year, the audit committee met five times (five times in 2005-06) with an attendance rate for members of 66% (81.4% in 2005-06). The meetings lasted two and a half hours on average and considered the following matters.

#### Review of the financial statements

The committee reviewed the quarterly, half-year and annual financial statements prior to their presentation to the Board of Directors. It conducted a detailed examination of the statutory auditors' report on the half-year and annual financial statements as well as the feedback on significant audits.

A special meeting was dedicated to reviewing the presentation of the financial statements under US GAAP as well as the reconciliation note between the financial statements under IFRS and under US GAAP established for the US 20-F annual report, a number of accounting differences existing between the international and US standards.

#### Internal control and internal audit

The committee paid particular attention, during each of its meetings, to the progress made on establishing internal control procedures (SOX Progress Report), aimed at ensuring that the group has the necessary control procedures to reasonably ensure that it is able to assemble, process and report the information required to comply with the Sarbanes-Oxley Act and the Financial Security Law. Thus the committee asked to be provided with information regarding the different stages of the project (documentation, testing, etc.) and the comments of the statutory auditors on these various stages.

#### Risk assessment

The audit committee also reviewed:
- the group's strategy on fuel hedging, the impact of this hedging on fuel costs and the sensitivity of fuel hedges to oil price fluctuations,
- the change in the financial situation of the KLM pension funds,
- the risks associated with the group's industrial activity (industrial and environmental risk, airworthiness and flight safety),
- the internal audit work undertaken and its results.

Finally, the audit committee was informed of developments in the ongoing competition authority investigations into the cargo sector.

## The strategy committee

### *Composition*

The strategy committee comprises seven directors: Jean-Cyril Spinetta, Chairman of the committee, Leo van Wijk, Patricia Barbizet, Philippe Josse, Claude Gressier, Didier Le Chaton and Christian Magne. The meetings are also attended by the Deputy Chief Executive Officer, the Vice President, Finance and the Secretary for the Board of Directors.

### *Missions*

The committee's responsibilities include reviewing the strategic decisions concerning the group's activities, changes in the structure of the fleet or scope of subsidiaries, the purchase or sale of aircraft-related or other assets and the air sub-contracting and alliance policy.

### *Activity*

The strategy committee met on November 10, 2006 to review the establishment of transavia.com France, a joint Air France and transavia.com subsidiary, offering low-cost, medium-haul, scheduled and charter flights out of Paris Orly to tourist destinations in Europe and the Mediterranean.

## The remuneration committee

### *Composition*

The remuneration committee comprises three directors: Jean-Marc Espalioux, Chairman of the committee, Cornelis van Lede and Pierre Richard.

### *Mission*

The remuneration committee is primarily responsible for submitting recommendations for the level of and changes to the remuneration of corporate officers. It may also be asked to give an opinion on the compensation of senior executives, as well as on the policy for stock option plans for new and existing shares.

### *Activity*

The remuneration committee met on June 12, 2006 (once in 2005-06) and the attendance rate for members was 100% (100% in 2005-06).

For the 2006-07 financial year, the committee proposed that the fixed portion of the compensation for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer, determined at the Board of Directors meeting of November 23, 2004 in respect of the 2005-06 financial year, remain unchanged.

It also proposed to set, for the 2005-06 financial year, the variable portion of the compensation at 85% of the fixed portion paid to corporate officers. This variable portion was paid during the 2006-07 financial year.

With respect to the variable portion of the compensation of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer in respect of the 2006-07 financial year, to be paid during 2007-08, the remuneration committee proposed to the Board of Directors new conditions for determining the amount. This variable compensation, which can amount to 100% of the fixed, comprises quantitative and qualitative elements:

- the quantitative portion is based on the progression in the group's operating income,
- the qualitative portion is based on four criteria (continued construction of the group, furthering the establishment of the new group management team, contribution towards Air France-KLM share price performance, proposal and implementation of the strategy adopted by the Board of Directors) whose achievement will be assessed by the committee.

## The appointments committee

### *Composition*

Comprised of three members: Jean-Marc Espalioux, Chairman of the committee, Patricia Barbizet and Jean-François Dehecq.

### *Missions*

The appointments committee is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace corporate officers, particularly in the event of unforeseen vacancies.

Until May 4, 2007, the appointments committee was also responsible for appointing the members of the Strategic Management Committee after consulting, as required, the Chairman and Chief Executive Officer of Air France-KLM and/or the KLM Supervisory Board.

### *Activity*

The appointments committee did not meet during the financial year (once in 2005-06 with a 100% attendance rate).

## Compensation

### Compensation for Directors

***Directors' fee modalities***

The Directors receive fees whose overall amount was established by the Shareholders' Meeting of June 24, 2004. The Directors' terms of remuneration are as follows:

- € 12,000 as fixed compensation; and
- € 12,000 as variable compensation based on Board of Directors and Shareholders' Meeting attendance.

Committee members receive additional fees:

- for the audit committee, the Chairman and members receive, respectively, fees of €10,000 and €6,000;
- for the other committees, the Chairman and members receive, respectively, €7,000 and €4,000.

In privatized companies, French State representatives are entitled to Directors' fees, which are paid directly to the French Treasury.

***Directors' fees paid in the 2006-07 financial year***

Given the changes during the financial year, seventeen directors were entitled to directors' fees.

| | 2006-07 | 2005-06 |
|---|---|---|
| Jean-Cyril Spinetta | € 31,000 | € 24,000 |
| Leo van Wijk | € 28,000 | € 24,000 |
| Patricia Barbizet | € 25,333 | € 26,500 |
| Bruno Bézard | € 1,333[1] | - |
| Frits Bolkestein | € 22,666 | € 7,500 |
| Giancarlo Cimoli | € 9,333[2] | € 13,500 |
| Jean-François Dehecq | € 27,333 | € 26,500 |
| Jean-Marc Espalioux | € 25,666 | € 29,000 |
| Jean-Louis Girodolle | € 19,466[1] [2] | € 28,500[1] |
| Pierre-Henri Gourgeon | € 24,000 | € 24,000 |
| Claude Gressier | € 26,666[1] | € 22,500[1] |
| Philippe Josse | € 26,666[1] | - |
| Didier Le Chaton | € 34,000 | € 7,200 |
| Cornelis J.A. van Lede | € 25,333 | € 23,500 |
| Christian Magne | € 34,000 | € 30,000 |
| Floris Maljers | € 28,666 | € 27,000 |
| Pierre Richard | € 38,000 | € 35,000 |
| Directors having left office during the 2005-06 financial year | - | € 40,500 |
| **Total** | **€ 427,461** | **€ 389,200** |

[1] *Amount paid directly to the French Treasury.*
[2] *Resigned in January 2007.*

## Remuneration of corporate officers

### *Terms of remuneration*

In line with the recommendations of the remuneration committee and in respect of their functions within Air France-KLM and in the company Air France, the Board of Directors set the 2006-07 compensation for the Chairman and Chief Executive Officer and for the Deputy Chief Executive Officer at the same level as in 2005-06, *i.e.* €750,000 and €550,000, respectively, and the target bonus in respect of the 2005-06 financial year at 85% of their compensation.

The criteria for awarding the bonus were as follows:

- 50% linked to the achievement of the results set in the budget,
- 50% linked to the achievement of new strategic objectives, including gains in market share and preservation of financial equilibrium.

As for "the commitments of any nature made by the company to the benefit of its corporate officers" stipulated in the law of July 26, 2005, note that, in its deliberation of January 15, 2004, the Board of Directors decided to set up a separate collective pension scheme for Air France senior executives, including the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer.

This pension scheme aims to guarantee these executives, once they fulfill the particular conditions for eligibility (notably 7 years' service with Air France), an annual pension benefit of between 35% and 40% of their average annual remuneration during the last three years of employment, with the amount capped, on any assumption, at 40% of average remuneration during the last three years.

No specific severance package is provided in the event of the departure of the Chairman and Chief Executive Officer or the Deputy Chief Executive Officer.

The remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of Air France-KLM is invoiced to Air France, in proportion to the time they dedicate to the latter. This represents 50% for the Chairman and Chief Executive Officer and 70% for the Deputy Chief Executive Officer, following a regulated agreement approved by the Board of Directors on November 23, 2004.

The compensation of the President and Chief Executive Officer of KLM is decided by the KLM Supervisory Board. He also benefits from a pension plan managed in accordance with Dutch law. The company contributed €186,000 to this plan in 2006-07 (€177,000 for 2005-06).

### *Remuneration and benefits paid to corporate officers*

The Board of Directors awarded Mr. Spinetta and Mr. Gourgeon the full target bonus in respect of the 2005-06 financial year, considering that the target criteria had been achieved.

| *(In euros)*<br>**(Reminder of 2005-06 figures)** | **Gross remuneration** | | | **Directors' fees**[(3)] | **Total** |
|---|---|---|---|---|---|
| | **Fixed** | **After shares-for-salary exchange offering**[(1)] | **Variable**[(2)] | | |
| **Jean-Cyril Spinetta**<br>Chairman and Chief Executive Officer | 750,000<br>(750,000) | 600,240<br>(612,720) | 637,500<br>(330,000) | 31,000<br>(24,000) | 1,268,740<br>(966,720) |
| **Pierre-Henri Gourgeon**<br>Deputy Chief Executive Officer | 550,000<br>(550,000) | 449,200<br>(457,600) | 467,500<br>(185,000) | 24,000<br>(24,000) | 940,700<br>(666,600) |
| **Leo van Wijk**<br>President and Chief Executive Officer of KLM | 675,679<br>(666,083) | - | 467,415<br>(429,731) | -<br>- | 1,143,094<br>(1,095,814) |

*(1) Mr. Spinetta and Mr. Gourgeon subscribed in April 2005 to the «Air France-KLM shares-for-salary exchange» offering to Air France employees at the time the French State sold part of its shares. They subscribed, respectively, for 65,240 and 44,769 shares.*

*(2) In respect of the previous year.*

*(3) Including directors' fees paid by group subsidiaries: Mr. Spinetta does not draw directors' fees with respect to his attendance at Air France Board meetings. Mr. Gourgeon represents Air France-KLM on the Air France Board and, thus, does not receive directors' fees. Mr. van Wijk's directors' fees are paid directly to KLM.*

### *Stock options for new or existing shares granted to the corporate officers of Air France-KLM*

The company has not established a stock option scheme for its corporate officers.

### *Stock options for new or existing shares granted to the corporate officers of Air France-KLM by the subsidiaries*

The Air France and KLM subsidiaries had issued, for their own executives or employees, stock subscription or purchase option schemes which, following the merger, have become options on Air France-KLM shares.

With respect to KLM, Mr. van Wijk, Director of Air France-KLM, benefited from the following schemes:

| Schemes in favor of KLM corporate officers and Directors | 2001 Scheme | 2004 Scheme | 2005 Scheme | 2006 Scheme |
|---|---|---|---|---|
| Number of shares able to be purchased | 28,686 | 28,686 | 25,000[1] | 25,000[2] |
| Due to expire on | October 20,2006 | June 25,2009 | July 10,2010 | July 26,2011 |
| Exercise price | 20.44 | 13.19 | 13.11 | 17.83 |
| Number of shares exercised at March 31, 2007 | 28,686 | - | - | - |
| Share options cancelled during the financial year | - | - | - | - |
| Outstanding share options | 0 | 28,686 | 25,000 | 25,000 |

[1] *Of which 16,660 options granted unconditionally and the balance subject to conditions.*
[2] *Of which 8,830 options granted unconditionally and the balance subject to conditions.*

At Air France, within the framework of the 1999 «shares-for salary-exchange» reserved for flight deck crew, Mr. Didier Le Chaton, the Director representing the flight deck crew employee shareholders, had received options in Air France shares which now entitle him to Air France-KLM shares.

| Scheme in favor of Air France flight deck crew employees having participated in the shares-for-salary exchange | 1999 Scheme |
|---|---|
| Number of shares able to be purchased | 16,610 |
| Start date | May 30, 2005 |
| Due to expire on | May 30, 2007 |
| Exercise price | 15.75 |
| Number of shares subscribed at March 31, 2007 | - |
| Share options cancelled during the financial year | - |
| Outstanding share options | 3,410 |

### *Information on stock subscription or purchase option schemes granted to Air France-KLM group employees*

| Options for stock subscription granted to employees who are not corporate officers, benefiting from the greatest number of options<br>Options exercised by employees who are not corporate officers having exercised the greatest number of options | Number of options granted/Number of shares subscribed or purchased | | | |
|---|---|---|---|---|
| | Total number of options granted/ shares purchased or subscribed | Weighted average price *(In euros)* | Allocation date | Number of shares exercised by allocation date |
| **Air France**[1] | | | | |
| Options granted in 2006-07 (10 employees) | - | - | - | - |
| Options exercised in 2005-06 (10 employees) | 50,299 | 15.75 | May 2000 | 50,299 |
| **KLM** | | | | |
| Options granted in 2006-07 (10 employees) | 145,000 [2] | 17.83 | July 2006 | - |
| Options exercised in 2006-07 (10 employees) | 267,923 | 16.47 | 2001 Plan A<br>2001 Plan B<br>2002 Plan A<br>2002 Plan B<br>2003 Plan B | 154,902<br>5,737<br>64,124<br>14,474<br>28,686 |

[1] *Scheme reserved for the flight deck crew employees who participated in the 1999 shares-for-salary exchange offering.*
[2] *One third of these share options was unconditionally granted and two thirds conditionally.*

### *Loans and guarantees granted to corporate officers of the company*

None

### *Summary of operations in the shares of Air France-KLM realized during the financial year*

| Individual concerned | Date of the operation | Nature of the operation | Unit price *(In euros)* | Operation amount *(In euros)* | Type of financial instrument | Exchange |
|---|---|---|---|---|---|---|
| **Leo van Wijk** Vice-Chairman of the Board of Directors of Air France-KLM | October 4, 2006 | Subscription<br>Sale | 20.44<br>24.26 | 586,342<br>695,922 | Shares<br>Shares | Euronext |
| **Didier Le Chaton** Director of Air France-KLM | April 3, 2006 | Sale | 18.15 | 3,629 | Shares | Euronext |
| | February 23, 2007 | Sale<br>Sale | 33.88<br>33.89 | 5,368<br>33,893 | Other financial instruments | Euronext |
| **Peter Hartman** Member of the Strategic Management Committee of Air France-KLM, Deputy Chief Executive Officer of KLM | September 21, 2006 | Subscription<br>Sale | 20.44<br>23.05 | 586,342<br>661,212 | Shares<br>Shares | Euronext |
| **Michael Wisbrun** Member of the Strategic Management Committee of Air France-KLM, Executive Vice President, KLM Cargo | October 20, 2006 | Subscription<br>Sale | 20.44<br>25.70 | 234,529<br>293,422 | Shares<br>Shares | Euronext |
| **Cees van Woudenberg** Member of the Strategic Management Committee of Air France-KLM, Director of control and internal audit, Air France-KLM | September 7, 2006 | Subscription<br>Sale | 20.44<br>21.60 | 586,342<br>619,619 | Shares<br>Shares | Euronext |
| | December 11, 2006 | Sale | 7.10 | 35,500 | Other financial instruments | Euronext |
| | December 14, 2006 | Sale | 7.80 | 23,400 | Other financial instruments | Euronext |

# Management of the Air France-KLM group

In line with the agreements concluded with KLM, a Strategic Management Committee (SMC) was established on May 6, 2004 within Air France-KLM for a period of three years. At the end of this period, the Chairman of Air France had the option of retaining the SMC or establishing another management body. The Chairman chose to replace the SMC with an Executive Committee which should assume its functions in late June, 2007.

## Strategic Management Committee

The SMC met every two weeks, alternating between Amsterdam and Paris, to take decisions, particularly with respect to the coordination of the networks and hubs, medium-term budgets and plans, fleet and investment plans as well as alliances and partnerships.

### Composition of the SMC

The SMC comprised eight members:
- the Chairman of the Air France Board of Directors (Chairman of the SMC);
- three employees of Air France exercising management functions;
- the Chairman of the KLM Management Board;
- three members who were either members of the KLM Management Board or KLM employees exercising management functions.

The members of the SMC were appointed by the Air France-KLM appointments committee after consultation and on the recommendation of the Chairman of the Air France Board of Directors for the members representing Air France and after consultation and on the recommendation of the members of the KLM Supervisory Board for the members representing KLM.

SMC members were compensated directly by the companies to which they are attached.

*(For more information on the role and powers of the SMC, please see “Information on the agreements concluded in connection with the combination between Air France and KLM”.)*

➤ Experience and training of SMC members

| At March 31, 2007 | Experience within the SMC | | | Professional experience | |
|---|---|---|---|---|---|
| | Age | Appointed | Experience | Sector | Experience |
| **Jean-Cyril Spinetta**<br>Chairman and CEO of Air France-KLM and of Air France | 63 years | May 6, 2004 | 3 years | Air Transport (Air Inter and Air France) | 14 years |
| **Leo van Wijk**<br>President and CEO of KLM | 60 years | May 6, 2004 | 3 years | Air Transport (KLM) | 36 years |
| **Pierre-Henri Gourgeon**<br>Deputy Chief Executive of Air France-KLM and Chief Operating Officer of Air France | 60 years | May 6, 2004 | 3 years | Aeronautics and air transport | 36 years |
| **Philippe Calavia**<br>Senior Executive Vice President, Finance, of Air France-KLM and Chief Financial Officer of Air France | 58 years | May 6, 2004 | 3 years | Banking, air transport (Air France) | 6 years<br>9 years |
| **Peter Hartman**<br>Deputy Chief Executive Officer of KLM | 58 years | May 6, 2004 | 3 years | Air Transport (KLM) | 34 years |
| **Bruno Matheu**<br>Senior Vice President – Marketing and Network Management, Air France | 44 years | May 6, 2004 | 3 years | Air Transport (UTA and Air France) | 21 years |
| **Michael Wisbrun**<br>Executive Vice President for Cargo, KLM | 55 years | December 8, 2004 | 2.5 years | Air Transport (KLM) | 29 years |
| **Cees van Woudenberg**<br>Director of control and internal audit, Air France-KLM | 59 years | May 6, 2004 | 3 years | Air Transport (KLM) | 18 years |

## Executive Committee

The Executive Committee will assume its functions in late June, 2007. As the SMC, it will continue to meet every two weeks, alternating between Amsterdam and Paris, to take the decisions necessary to the group's proper functioning within the framework of the strategy approved by the Board of Directors.

The Executive Committee comprises eleven members who fulfil responsibilities at the level of the Air France-KLM group while retaining their functions within each entity. They are thus remunerated by the companies to which they are attached.

## Disclosure committee

As it is listed for trading on the New York Stock Exchange and thus subject to the *Sarbanes Oxley Act,* the company decided to adopt the SEC (Securities and Exchange Commission) recommendation pursuant to article 302 and has established a disclosure committee within Air France-KLM.

### Composition of the disclosure committee

The committee is comprised of managers from the following functions within the group:

- financial communication,
- internal control,
- accounting,
- management control,
- internal audit,
- legal affairs.

The committee is supported, in addition, by those individuals responsible for the principal activities of the two companies, who participate whenever necessary in plenary meetings.

The committee reports to the Senior Executive Vice President, Finance.

### Missions

The committee assists the Chairman and Chief Executive Officer and the Senior Executive Vice President, Finance, in their mission to ensure that the company meets its obligations in matters of information dissemination to investors, the public and the competent regulatory and market authorities, notably the AMF in France, the AFM in the Netherlands and the SEC and the NYSE in the United States. Amongst other duties, the committee must:

- organize the regular evaluation of the internal control procedures relating to the accounting and financial information established by the group. These evaluations must be carried out at least once a year, with the annual evaluation required to take place at least 90 days prior to the publication of the US annual report in the form of the 20-F;
- review and approve the definitive version of draft reports, specifically the final version of the reference document and the US annual report in the form of the 20-F;
- ensure that the Chairman and Chief Executive Officer and the Senior Executive Vice President, Finance, receive all the information they may require in order to issue the certification foreseen by the *Sarbanes-Oxley Act* and the SEC regulations.

### Activity

During the 2006-07 financial year, the committee met once (three times in 2005-06) to prepare the 2006-07 reference document and the US annual report in the form of the 20-F. Following this meeting, instruction memoranda were sent to the managers of the 14 separate sections in the reference document, who then reviewed the draft sections. The final versions of the documents are reviewed by the disclosure committee.

# Stock market and shareholders

## Air France-KLM in the stock market

The Air France-KLM stock was included in the CAC 40 on June 18, 2007 and also belongs to the Euronext 100 and DJ Eurostoxx 300 indices. It is also a component of the sector indices: FTSE Cyclical services, FTSE Transport, FTSE Airlines and Airports. Finally, it figures in 4 sustainable development indices (ASPI Eurozone, FTSE4Good, DJSI World 2006 and the DJSI Stoxx 2006), as well as in the IAS French employee shareholding index.

| | 2006-07 | 2005-06 | 2004-05 |
|---|---|---|---|
| Share price high *(in euros)* | 36.30 | 20.50 | 15.33 |
| Share price low *(in euros)* | 15.93 | 11.78 | 11.28 |
| Share price on March 31 *(in euros)* | 34.15 | 19.43 | 13.87 |
| Number of shares in circulation at March 31 | 269,398,500 | 269,383,518 | 269,383,518 |
| Market capitalization at March 31 *(in euro billion)* | 9.2 | 5.2 | 3.7 |

*Source : Euronext*

## Dividend policy

Over the last three financial years, Air France-KLM paid the following dividends.

| Financial year | Net earnings per share *(In euros)* | Dividend paid *(In euros)* |
|---|---|---|
| 2004-05 | 6.61[(1)] | 0.15 |
| 2005-06 | 3.47 | 0.30 |
| 2006-07[(2)] | 3.35 | 0.48[(2)] |

[(1)] *After restatement under IFRS; amount reported to March 31, 2005: € 1.36.*
[(2)] *Subject to approval by the Shareholders' Meeting of July 12, 2007.*

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 fourth business day following the Shareholders' Meeting which approves the dividend.

## Regular dialogue with individual shareholders and investors

The Air France-KLM group provides the market with monthly reports on its activity in the form of traffic figures and quarterly reports on its results progression and strategic orientations. While the group adapts its disclosure to the profile of its shareholders and investors, all the information is available on the financial website in French and English, with certain of the information also available in Dutch.

### Investor relations

The Investor Relations department is responsible for relations with financial analysts and institutional investors. In addition to telephone conference calls or information meetings organized to coincide with results announcements, the group's directors regularly participate in road-shows in order to meet institutional investors and financial analysts in Europe, the United States and Asia. Furthermore, the Investor Day enables the latter to meet with the group's operational management.

### Relations with individual shareholders

The department responsible for Individual Shareholder Relations has a pro-active policy with respect to this investor group. Each quarter, the results are published in financial notices across an extensive range of media in France and the Netherlands. Every three months, the *Connecting* newsletter, which provides an update on the group's activity and developments in the sector, is sent by email or mail to the 7,000 members of the Shareholders' Club. This newsletter is also available in three languages on the website.

Air France-KLM also publishes an Individual Shareholders' Guide, containing all the practical information relating to the stock and the different forms of ownership in France, the Netherlands and the United States. Published in French, English and Dutch, an interactive version of this guide can be found on the website. Additional copies are available on request.

The group regularly participates, in partnership with the business press, in information meetings reserved for its individual shareholders. These are an opportunity for the group to update them on its strategy, results and issues in the sector and to respond to shareholder concerns. Site visits are also organized for Club members.

The Shareholder Relations department can be reached on toll-free number **0800 320 310** in France or by email.

Finally, the Consultative Committee for Individual Shareholders (CCRAI) established in 2000, is a forum for reflexion and suggestions on Air France-KLM communication with its individual shareholders.

## A dedicated website

The group's financial website (www.airfranceklm-finance.com) contains all the information communicated by the group (press releases, presentations, transaction notices, speeches, etc.). Documents like the Reference Document and its summarized version and the Individual Shareholders' Guide are available in interactive form, making it easier to undertake a targeted search for specific information. An email alert system enables everyone to be informed when press releases are published and to receive reminders of any financial event in the group's calendar.

The website is also available in PDA (Personal Digital Assistant) format and from cell phones by logging into www.airfranceklm-finance.mobi where you can access a simplified version of the site with the press releases, the stock price and the financial calendar.

## Awards for financial communication

In 2006, Air France-KLM's financial communication won the prize for the best annual report from an SBF 120 company. The department was also awarded third prize by Boursoscan and the *Outstanding investor relations site award* in the United States. These awards highlighted the transparency, clarity and quality of information Air France-KLM provides for all its shareholders.

# Activity

# 2.

# Market and environment

## Close ties between growth in air transport and that of the global economy

For the past twenty years, annual growth in air transport has been twice that of the global economy, driven by the growth of OECD countries, for which air transport has been key to development. Historically, the growth seen by airlines has been tied to growth in their country of origin. Currently, new zones such as China, emerging Asia or Eastern Europe are seeing very strong growth rates. In this new economic environment, the globalization of trade is the new driver for air transportation and is favoring the international development of airlines, making them less dependent on their country of origin.

## A new dynamic

After two remarkable years, 2006 again proved an exceptional year for the global economy, with a growth rate of 3.9%, close to the 2004 record of 4.1%. This was reflected in strong demand for air transportation and a 5.9% increase in international passenger traffic measured in revenue passenger-kilometers (RPK). The prospects for the next five years also remain favourable. Supported by the buoyancy of the emerging economies (China, India, Latin America, the Middle East) but also by a good performance from the US, the global economy should continue to deliver annual growth in excess of 3%. And, given the close link between demand for air transport and economic growth, we might reasonably expect annual traffic growth between Europe and the rest of the world to amount to around 6% over the same period.

While air transport is driven by global economic growth, it is also a key component of the latter. This year airlines carried nearly 2.2 billion business and leisure passengers world-wide and this figure could reach 2.7 billion by 2010.

## A sector which creates jobs

Air transport generates around 29 million jobs world-wide, whether directly indirectly or as spin-off employment (*source: ATAG, March 2006*). In Europe, each million passengers carried enables the creation of between 3,000 and 4,000 jobs. In 2005, more than 7.5 million European jobs thus depended on air transport. Airlines make an ongoing direct contribution to national wealth through different taxes and charges and the development of an activity which, by its nature, cannot be delocalized. In France, for example, the sector directly employs more than 115,000 individuals and each direct job in turn creates another indirectly, notably in aircraft manufacturing, and a further two in spin-off employment. Finally, air transport makes a significant contribution to France's foreign trade in services with a positive balance of € 0.5 billion in 2005 (€ 0.8 billion in 2004) for air transport (*source: Compte de transports, June 2006*).

## A recovery in financial performance

After a long succession of crises and five consecutive years of heavy losses (totaling 40 billion dollars), 2006 should see the global air transport sector return to more or less break even. Driven by a favorable economic environment, continued capacity growth and ongoing efficiency gains and despite a record fuel bill of 112 billion dollars (a 23% increase) the air transport industry should, based on the latest IATA estimates, report a net loss of -0.5 billion dollars for 2006. However, behind this recovery, the different regions fared very differently.

Having recorded close to 35 billion dollars of net losses over the past five years, and still loss-making to the tune of 10 billion dollars in 2004, IATA and the US Air Transport Association forecasts show the US air transport sector returning to the black in 2007. Faced with the growing structural inadequacy of their medium-haul/medium-haul hub model and the convergence of a number of negative economic factors, all the US airlines embarked, in 2001, on a long and painful adjustment process which finally seems to be paying off.

Despite the impressive growth of many Asian markets and a 2006 profit estimated by IATA at 1.7 billion dollars, the Asian airlines as a whole will have seen their performance halved in the space of two years. With a lower level of hedging than their European counterparts, they have been more badly hit by the increase in the fuel price. More generally, in a region faced with a shortage of skilled labor (particularly cabin crew), their overall cost structure is under pressure. Additionally, in a competitive passenger environment exacerbated by the liberalization process underway in the region, they have inevitably seen downwards pressure on their unit revenues. Finally, since a substantial portion of their revenues are generated in Cargo, they have been directly impacted by the relative weakness of the sector.

The European sector, on the other hand, continues to benefit from the strong economic environment. AEA member airlines posted a traffic increase of 5.2% in 2006 and a capacity increase of 4.4%, the load factor thus gaining 0.5 of a point to 76.5% (source: AEA). More than 343 million passengers (+4.5%) traveled to and from the 49 countries in the AEA scope. According to IATA estimates, the European airlines should generate net income of 2.6 billion dollars for 2006, a marked increase on the 1.6 billion reported in 2005. In a context of moderate capacity growth, the three European majors, Air France-KLM, British Airways and Lufthansa, have benefited for more than a year from the robustness in traffic, particularly "business" class, seeing significant increases in their unit revenues. This combined with better fuel hedging than their US and Asian counterparts means they have all seen improved results. However, this economic and traffic backdrop has been less positive for the other scheduled airlines in the region; since their smaller fleets and networks are less attractive to "business" class customers, they have benefited to a lesser extent from the growth in this traffic.

### A challenging environment

Since its origins, the air transport sector has had to learn to live with difficult conditions and constraints, however the trading environment has become even tougher in the past few years: oil has become expensive and is likely to remain so, ever more strict security measures, environmental concerns, saturated infrastructure, stronger passenger rights, etc., enough, when put together, to make the organization of air transport more complex and to increase its costs.

### Increasingly competitive markets

With the combined effect of the global move towards deregulation in the sector and the profound impact of the internet revolution, air transport is a sector in which competition has increased considerably. Over and above the competition between the European majors in all their areas of activity, new forms of competition have emerged and continue to develop.

In long-haul, these airlines are now confronted with the emergence of increasingly aggressive competition from local operators in most geographical areas: the rapid and ambitious development of the Gulf airlines, the emergence of new Chinese and Indian players with growing international ambitions, the redeployment of the restructured US carriers on transatlantic routes, etc.

In medium-haul, the low cost carriers have established strong market positions and continue to grow. While the sector remains characterized by a large number of players (around 35 airlines in 2006), two companies continue to dominate the market, representing, on their own, some 40% of the low cost offer. In 2006, with 28% of their flights on domestic routes and 72% intra-European, they represented nearly 30% of the capacity on the European market (measured in available seat-kilometers – ASK). Looked at in terms of the five largest European domestic markets, their market share (measured in ASK) varies significantly from one market to another: 50% in the United Kingdom, 37% in Germany, 10% in Spain, 5% in France.

Finally, in the French domestic market, air transport faces competition from the high-speed train (TGV) which dominates the market and limits low cost interest (low cost carrier market share has fallen than stagnated over the past three years). Thus, in 2006, the TGV transported an estimated 84 million passengers and continued to claim 80% of the market. Air France, with 20 million passengers, has a market share of 19% and the low cost carriers 1% with 1.3 million passengers.

# Air France-KLM strategy

### A strategy of profitable growth

The Air France-KLM group is pursuing a strategy of profitable growth in leveraging the fundamental strengths arising from the complementarities between Air France and KLM in their three principal activities (passenger, cargo and maintenance) and the significant synergies in terms of both revenues and costs. Within the framework of the merger between the two airlines, this objective is accompanied by a pragmatic approach, tailored to the needs of each activity. In passenger transport, the group has implemented coordination between networks and teams but has retained the two separate brands, Air France and KLM. In cargo, a common management structure, the Joint Cargo Team, has been established to manage sales, distribution, marketing and the network and to coordinate strategy and development. In aeronautics maintenance, the group chose to create centers of technical expertise based on the competences of each company.

The group's growth strategy also goes hand in hand with rigorous cost control, reflected in the cost savings plans deployed within the two airlines.

Finally, the 2006-07 financial year marks the end of the first three-year phase of the merger. The group is embarking on a second phase involving a greater degree of integration, thanks to the establishment of a group Executive Committee and the launch of a joint three-year cost savings plan to replace the individual plans of the two companies which ended in March 2007.

This strategy of profitable growth has resulted, over the past three years, in:
- revenues multiplied by a factor of 1.3;
- operating income multiplied by a factor of 3.4;
- a gearing ratio divided by 2.7;
- a share price multiplied by a factor of 2.3.

## Sustainable competitive advantages

### A powerful, balanced network

The Air France-KLM group disposes of the largest network between Europe and the rest of the world. Of the 178 long-haul destinations operated by AEA member airlines in the 2007 summer season, Air France-KLM accounts for 111 or 62% of the total, compared with 48% for British Airways and 44% for Lufthansa and Swiss. Furthermore, the group offers 42 unique destinations which are not served by either British Airways or Lufthansa.

Present in all the major markets, the group disposes of a balanced network. No one market dominates with a market share of above 30% of total revenues.

### Two coordinated hubs at developing airports

The group's network is coordinated around the two intercontinental hubs, Roissy-Charles de Gaulle and Amsterdam-Schiphol, which are two of the four largest transfer platforms in Europe. In effect, these hubs, which combine connecting with point-to-point traffic, are organized around airports with significant potential to develop in line with air traffic growth, thus strengthening the role of the large intercontinental transfer platforms. Furthermore, Air France will benefit from the gradual opening of new airport infrastructure between 2007 and 2012 which will provide excellent facilities for passengers and make Roissy-Charles de Gaulle a European reference model.

### A global alliance to strengthen the network

Air France and KLM play a lead role in SkyTeam, the number two global alliance in terms of market share. Bringing together ten European, American and Asian airlines, SkyTeam enables the group to respond to market needs and withstand competition in both passenger and cargo transport. In 2006, Aeroflot joined Aeromexico, Air France, Alitalia, Continental, CSA, Delta Airlines, KLM, Korean Airways and Northwest Airlines.

### A modern fleet

The group makes an ongoing investment in new aircraft and currently operates one of the most rationalized and modern fleets in the sector. Such investment has a triple advantage. With an up-to-date fleet, the group offers a greater degree of passenger comfort, achieves substantial fuel savings and respects its sustainability commitments in limiting noise disturbance for local residents and greenhouse gas emissions.

### An innovative product offer

Air France-KLM puts the customer at the heart of its strategy in offering not only the best network world-wide in terms of destinations and frequencies but also in developing an innovative product offer. This innovation is seen in fare combinability, which multiplies the routing possibilities and gives access to attractive fares, in the joint frequent flyer program, Flying Blue, born of the merger of the Air France and KLM loyalty programs, in e-services or in the development of cabin services.

### Synergies and cost-savings plans to bolster the group's profitability

The complementarities between the two airlines enable the release of significant synergies. Originally estimated at €495 million after 5 years (2008-09), such synergies have been regularly upgraded with the most recent revision standing at €865 million (+75%) over the same period. In addition, there will be new synergies to add to this total thanks, in particular, to the integration of IT which will be gradually undertaken through to 2010-11. At the end of this period, cumulative synergies should reach one billion euros.

In parallel, the two airlines are making ongoing efforts in terms of cost control. The three-year cost savings program at Air France and the KLM restructuring plan ending March 31, 2007 both achieved their objectives of €900 million of savings at Air France and 730 million at KLM. In order to manage costs more effectively the two airlines have also, for the first time, prepared a new joint three-year cost savings plan including the €212 million of cost synergies still to come. "Challenge 10" launched on April 1, 2007, is targeting total savings of €1.4 billion, or a unit cost reduction of 3% at the end of the period.

# Highlights of the year

### Market and environment

2006 saw world economic growth of 4.9% (+4.8% in 2005) and 2007 should again experience buoyant growth (+4.7%: source IMF). Passenger activity was very dynamic (+5.2% in passenger-kilometers), enabling a recovery in the air transport sector as a whole, which returned a profit of the order of $13 billion for the 2006 calendar year after 111 billion of fuel costs. The Brent price averaged $61.1 a barrel for the year compared with $54.5 one year earlier (source: IATA).

In August 2006, an attempted terrorist attack on Heathrow airport led to new security measures on board flights destined for the United Kingdom, the United States and Israel that were extended on November 6 to all flights leaving European hubs.

Finally, on March 2, 2007, the European Commission and the United States signed an open skies agreement between Europe and the United States to come into force in March 2008.

### Air France-KLM

Supported by global growth, Air France-KLM recorded a very good level of passenger activity, growing by 5.4%, and a load factor increase of 0.8 of a point to 81.4%. However, the cargo activity deteriorated during the summer of 2006, due to an imbalance in exchanges between Europe and China and a very aggressive competitive environment.

In June 2006, Air France was informed of a second delay in the delivery of the Airbus A380s, the first aircraft now expected to join the fleet in the 2009 summer season, some two years behind schedule. However, Air France has taken the necessary measures to ensure that this delay does not penalize its development plan.

Since July 1, 2006, passengers have been subject to a solidarity tax when leaving French airports. This tax is collected by the airlines then paid to the French Development Agency to finance assistance for developing countries.

Within the framework of its privatisation, Air France moved, in May 2006, to the private sector regime involving additional social security charges of around €150 million over a full year.

The strong share price performance prompted the exercise of 14.5 million warrants leading to the creation of 9.9 million shares on March 31, 2007 for a sum of €193.5 million.

# Passenger activity

Passenger transportation is the Air France-KLM group's main activity, representing 80% of revenues and 86% of operating income at March 31, 2007.

## Two powerful hubs coordinated around the leading global network

Organized around two powerful hubs linked by fifteen or so daily flights, the group offers a network of 240 destinations in 105 countries, of which 118 are long-haul and 122 medium-haul.

The group's two hubs situated at Paris-Charles de Gaulle and Amsterdam-Schiphol connect medium-haul with long-haul flights, pooling low levels of passenger flows. In effect, only five European cities have the potential to exceed 100,000 passengers annually, flying to and from five intercontinental destinations. The hub is thus an economically efficient tool which limits disturbance by implementing the principle of large-scale "pooled transportation".

The Air France-KLM group has the best offer in Europe with more than 27,888 weekly (summer 2007) medium-haul/long-haul flight connections in under two hours. This organization offers passengers a significant number of frequencies per destination and thus a wide range of flight times. A passenger can, thus, choose between 11 daily flights to New York, five flights to Tokyo or four flights to Beijing or Shanghai. Journey planning can also be optimized with a passenger able to book a return flight through Paris or Amsterdam. This offer, which is unparalleled in Europe, attracts significant levels of premium transfer traffic.

Through the SkyTeam alliance, the group also strengthens its global reach with 728 destinations in 149 countries, linked by 16,615 daily flights.

With a fleet of 569 aircraft in service, operating around 2,500 daily flights, the Air France-KLM group carried 73.5 million passengers in 2006-07 (70 million in 2005-06), an increase of 5%.

## A buoyant economic environment

Within a favorable economic context generating strong demand for air transportation, the Air France-KLM group improved its load factor to a very high 81.4% thanks to a 5.4% increase in traffic and a capacity increase of 4.4%. The group also maintained its leadership position amongst AEA airlines with a market share of 27.1% in terms of traffic at the end of 2006, an improvement of around one point since the merger.

| | Destinations | | Capacity in ASK *(In million)* | | Traffic en RPK *(In million)* | | Load factor *(In %)* | | No. of passengers *(In thousands)* | | Revenues *(In €M)* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 -07 | 2005-06 | 2006-07 | 2005-06 | 2006-07 | 2005-06 | 2006-07 | 2005-06 | 2006-07 | 2005-06 | 2006-07 | 2005-06 |
| Europe | 122 | 126 | 56,748 | 53,936 | 40,219 | 37,826 | 70.9 | 70.1 | 51,312 | 48,903 | 7,079 | 6,689 |
| North America | 19 | 18 | 50,449 | 49,366 | 43,391 | 42,954 | 86.0 | 87.0 | 6,419 | 6,335 | 2,730 | 2,472 |
| Latin America | 10 | 10 | 23,915 | 22,438 | 21,162 | 19,030 | 88.5 | 84.8 | 2,306 | 2,073 | 1,283 | 998 |
| Asia/Pacific | 24 | 24 | 51,791 | 47,992 | 44,934 | 40,898 | 86.8 | 85.2 | 5,209 | 4,680 | 2,686 | 2,371 |
| Africa/Middle East | 49 | 47 | 34,928 | 32,949 | 27,304 | 25,565 | 78.2 | 77.6 | 5,142 | 4,882 | 2,362 | 2,216 |
| Caribbean/ Indian Ocean | 16 | 16 | 27,236 | 27,987 | 22,500 | 22,980 | 82.6 | 82.1 | 3,096 | 3,142 | 1,201 | 1,157 |
| **Total** | **240** | **241** | **245,066** | **234,669** | **199,510** | **189,253** | **81.4** | **80.6** | **73,484** | **70,015** | **17,341** | **15,903** |

## A buoyant long-haul network

Supported by world growth, traffic on the long-haul network confirmed its growth dynamic, increasing by 5.2% after a rise of 9.3% in the previous year. The load factor gained 0.8 of a point to 84.6% given the 4.2% increase in capacity (+7.4% at March 31, 2006). The number of passengers carried amounted to 22.2 million (+5.0%).

Revenues generated on this network rose by 11.4% to €10.26 billion, representing 59% of total scheduled passenger revenues as in the year to March 31, 2006.

The long-haul network covers 118 destinations (115 destinations in summer 2006) in 69 countries, of which 47 destinations operated by Air France and 35 destinations by KLM. Only one third of these destinations is common to both airlines. The weight of this network was little changed on last year, with 80% of traffic and 77% of the group's capacity.

All sectors saw a high level of activity with the exception of the Caribbean and Indian Ocean network which remained impacted by the chikungunya epidemic.

The **North** and **Latin American** market covers 29 destinations in 10 countries. The group's leading network in terms of traffic and capacity, it represents 32% of total traffic and 30% of capacity. The group saw a good level of activity over the year with a traffic increase of 4.1% and capacity up by 3.6%. The load factor thus saw a half point improvement to a very high 86.8%. 8.7 million passengers were carried on this network (+3.8%). Despite the weakness of the dollar, revenues amounted to €4.01 billion, growth of 15.7%. This network's proportion of scheduled passenger revenues amounts to 23% (+1 point).

- In **North America**, the group operates 19 destinations out of Paris and/or Amsterdam and disposes, thanks to its US partners, of a network covering the whole of the United States. Having launched the Detroit service in 2006, Air France will inaugurate, in summer 2007, a new service to Seattle while KLM will also increase its frequencies, particularly to the west coast of the United States. The group is the number three European airline operating over the North Atlantic out of Europe with a market share of around 10% in capacity terms. In June 2006, Air France and KLM celebrated the sixtieth anniversary of the inauguration of their New York routes. On this network, despite a one point decline, the load factor amounted to 86% (-1 point) given a traffic increase of 1% and a 2.2% increase in capacity. The group carried 6.4 million passengers (+1.5%).
- The Air France-KLM group offers 10 destinations in 8 **Latin American** countries out of Paris and/or Amsterdam. After significant capacity increases in recent years (+20.4% in 2005-06), this year saw a more moderate rise in capacity (+6.6%). Traffic remained buoyant, increasing by 11.2% (19.9% one year earlier). The load factor again improved to stand at 88.5% (+3.7 points). Air France-KLM is the European leader on this network, with a market share of around 22% in terms of capacity. The number of passengers choosing Air France-KLM increased by 11% to 2.3 million.

The **Asia-Pacific** network comprises 24 destinations in 11 countries. On September 20, 1966, Air France became the first western airline to serve China, flying to Shanghai's Hong Qiao airport. Forty years later, the Air France-KLM group has become the leading European operator to and from China in terms of passengers carried, with 69 weekly flights to five destinations. India is also an important market with 43 weekly flights to 5 destinations, followed by Japan with 3 destinations served by 48 weekly flights. In addition, out of Singapore and, since the beginning of the 2007 summer season, out of Hong Kong, Air France offers flights to Australia through a code share with Qantas. The Air France-KLM group is the leading European airline in this region with a market share of around 12% measured in terms of capacity.

The **Asian** market is ranked second of the long-haul networks and represents around 22% of total traffic (+1 point) and 21% of capacity. It saw very strong activity with growth of 9.9% in traffic and a 7.9% increase in capacity. The load factor improved by 1.5 points to 87%. These routes carried 5.2 million passengers (+11.3%). Revenues reached € 2.7 billion (+13.3%) and accounted for around 15% of total scheduled passenger revenues.

With 49 destinations in 39 countries out of Paris and/or Amsterdam, **Africa-Middle East** is the group's third long-haul network, accounting for around 14% of traffic and capacity. Activity was buoyant on this network also, with traffic growth of 6.8% and capacity increasing by 6.0%. The load factor saw a small increase (+0.6 of a point) to 78.2%. The group carried 5.1 million passengers (+5.3%) for revenues of €2.4 billion (+6.6%), representing around 14% of total scheduled passenger revenues.

- The **African** network comprises 35 destinations in 28 countries. Unlike last year, traffic was strong, growing by 7.2%, for a capacity increase of 5.3%. The load factor gained 1.4 points to 79.7%. In addition to the traditional product, Air France launched, in 2004, the Dedicate network to facilitate business travel to oil industry-related sites and zones of economic activity in far-flung regions particularly in Africa, where it offers four destinations. KLM has added to this offer to oil and gas industry destinations with a flight from Amsterdam to Houston in the United States. With a market share of around 25% in terms of capacity, Air France-KLM is the leading European carrier to Africa.
- The **Middle East** network covers 11 countries though 14 destinations. Activity was marked by conflict in this zone. Traffic grew by 5.8% whereas capacity increased by 7.8%, resulting in a 1.4 point fall in the load factor (74.4%). Air France-KLM is the leading carrier out of Europe for this region, with a market share of around 8% in terms of capacity.

The **Caribbean** and **Indian Ocean** network offers 16 destinations in 9 countries and accounts for 11% of traffic and of capacity. Since June 2006, Air France flights departing from Paris-Orly bound for Fort-de-France and Pointe-à-Pitre have operated new Boeing 777-300ERs, the latest aircraft from the Boeing family. These new aircraft are specially equipped for these destinations, generating significant fuel savings. On board, all cabin classes have been redesigned and refitted in order to offer passengers the latest technological developments as well as an improved level of service. Since January 2007, these aircraft have also served Saint-Denis de la Réunion and Cayenne in French Guiana. Every year, Air France carries more than 1.4 million passengers between Paris-Orly and the French overseas departments.

Traffic continued to be impacted by the health crisis of last year, falling by 2.1% while capacity was reduced by 2.7%. The load factor gained 0.5 of a point to a high 82.6%. The number of passengers amounted to 3.1 million (-1.5%) and revenues reached €1.2 billion, growth of 3.8%. The network's contribution to total scheduled passenger revenues remained stable at 7%.

## Strong activity in the medium-haul network

The medium-haul network covers France, the other European countries and North Africa. It totals 122 destinations (126 in summer 2006) in 36 countries, of which 46 destinations are operated by Air France and its regional subsidiaries, Régional, Brit Air and City Jet, 25 by KLM and its regional subsidiary Cityhopper and the remaining 51 by both companies. The medium-haul network principally links Europe to the rest of the world thanks to the group's two hubs. In effect, 52% and 65%, respectively, of passengers at Roissy-Charles de Gaulle and Amsterdam-Schiphol are transferring to a long-haul flight.

The French domestic point-to-point market operates out of Orly, thanks particularly to the shuttle service ("La Navette") which, since its launch in 1996, has carried close to 60 million passengers, 60% of whom traveled for professional reasons. They benefit from frequent departures scheduled throughout the day, an excellent punctuality record, access to e-services and a policy of attractive fares. Hall 2 of Paris Orly-West airport has been completely renovated in order to better meet the expectations of these customers.

Medium-haul is the group's leading network, accounting for 20% of traffic and 23% of capacity, unchanged on the previous financial year. More than 51.3 million passengers (+4.9%) traveled with the group, generating revenues of €7.1 billion, up by 5.8%, representing nearly 41% of total scheduled passenger revenues (42% at March 31, 2006). The increase in revenues reflects the sector's strong activity, with traffic rising by 6.3% for a capacity increase of 5.2%. The load factor gained 0.7 of a point to 70.9%.

## A strategy focused on the passenger

The trading environment is evolving, with competitors increasing their capacity, air transport companies having new responsibilities (security, environmental, consumerist policies) and, finally, customers, whether leisure or business, becoming more demanding and requiring a more customized service. As European leader, Air France-KLM's response has been to develop the product offer and its e-services to make travel easier and to use innovation to enhance in-flight comfort.

### An enhanced product offer

With City Jet for Air France, Air France has developed a new service out of central London which, since March 26, 2007, has offered nearly 70 daily flights linking London City with ten different European cities. This exclusive product with a check-in deadline reduced to ten minutes rather than one hour and a comprehensive e-services offer is mainly aimed at business customers.

Launched in June 2005, *Flying Blue*, the joint frequent flyer program for the two airlines, very rapidly took off. In two years, membership has risen from 10 million to 12.6 million, growth of 26%. In 2006, more than 7% of active members used the two airlines.

*Flying Blue* enables Air France and KLM passengers to benefit from the group's combined network and to earn air miles which can be used on some 16,600 daily flights operated by SkyTeam alliance member airlines as well as with 130 air or commercial partners. Flying Blue members make extensive use of e-services: more than 50% of new members signed up over the internet and 90% of reward tickets were issued in e-ticket form. To facilitate the booking of these trips, a new functionality was launched in 2006, allowing members to view on a single screen the dates available for the use of reward tickets for a period of up to two months around the date requested.

*Flying Blue* has already won five prizes, recognizing it as the leading frequent flyer program in Europe.

Since the summer of 2006, Air France and KLM have been experimenting with printing and reading baggage tags integrating RFID (Radio Frequency IDentification) chips on the baggage of passengers on flights between Roissy-Charles-de Gaulle and Amsterdam-Schiphol. This chip is encoded in the passenger's baggage tag or in the baggage containers. Captors in the airport enable the airline to track the real-time location of the baggage and to provide passengers with better information as to the delivery of their baggage, its exact location and its security. This new system of RFID baggage labeling, common to both Air France and KLM, is also used on flights between Paris and Tokyo and will be gradually extended to all the destinations served by the two airlines. In time, this new technology will replace the current bar code system.

## E-services streamlining the travel experience

Booking a flight and choosing a seat on the airlines' websites, printing a boarding card at home or from a self-service check-in kiosk and traveling with an e-ticket are just some of the "e-services applications" which respond to passenger demand for greater simplicity, transparency and control over the travel experience. However, the customer relationship is still very much the focus of Air France-KLM's business and this increased customer autonomy needs to be supported. Hence the development of the e-CRM (new Customer Relationship Management information and communication technologies) which ensures customer knowledge, acknowledgement and response. There are numerous examples, ranging from mobile internet access providing real-time personalized information whatever the place and time to ECR (Efficient Customer Response), enabling air transport variables to be managed by informing customers of delays and offering them alternative solutions by SMS or telephone.

Since April 2006, Air France and KLM passengers can check in using the websites of the two airlines for virtually all destinations. Electronic ticket holders can choose their seat number online and print their boarding card at any time between 24 hours and 30 minutes before the check-in deadline of their flight. Once at the airport, all they need do is deposit their baggage at one of the specially dedicated drop-off points and then go directly to the boarding lounge.

Every day more than 20,000 customers use the 500 Air France or KLM self-service check-in kiosks located in 63 airports world-wide. Their number has again been increased with KLM, since December 2006, being the first European airline to offer self-service check-in kiosks reserved for connecting flights. Air France intends to develop this offer as of summer 2007 and plans to have 100 of these self-service kiosks at Amsterdam-Schiphol and 70 at Roissy-Charles de Gaulle in 2008.

## Air France and KLM investing in cabin comfort

Over the next two years, KLM will invest more than €100 million in the replacement, renovation and modernization of its long-haul and medium-haul fleets as well as in the regional fleet of KLM Cityhopper. New seats will be fitted in World Business Class (WBC) on board the Boeing 747-400s and the MD-11s. The cabin interiors will be totally renovated, with new colors, new lighting and new more comfortable seats in the Boeing 737s.

Since November 2006, Air France long-haul Business Class customers have benefited from a new seat, extending to two meters in the sleeping position, one of the most spacious on the market. In May 2007, a quarter of the Air France long-haul fleet will be equipped with this seat. New seats have also been installed to enhance the comfort of passengers in classes to the rear of the aircraft.

## Key figures for the passenger business

| Year ending | March 31, 2007 | March 31, 2006 | March 31, 2005 pro forma, unaudited* |
|---|---|---|---|
| Number of passengers *(In thousands)* | 73,484 | 70,015 | 65,822 |
| Total passenger revenues *(In €m)* | 18,366 | 16,942 | 15,379 |
| Scheduled passenger revenues *(€m)* | 17,341 | 15,902 | 14,425 |
| Unit revenue per ASK *(In € cents)* | 7.66 | 6.78 | 6.53 |
| Unit revenue per RPK *(In € cents)* | 8.69 | 8.40 | 8.28 |
| Unit cost per ASK *(In € cents)* | 6.56 | 6.40 | 6.27 |
| **Operating income** *(In €m)* | **1,067** | **686** | **384** |

* *Air France and KLM consolidated over 12 months.*

Revenues in the passenger activity reached €18.37 billion (+8.4%) and operating income 1.07 billion (+56%). The operating margin adjusted for the proportion of operating leases relating to financial charges rose by 1.6 points to 6.8%.

The strong growth in the Air France-KLM group's activity was accompanied by an increase in unit revenues per revenue passenger-kilometer and per available seat-kilometer of 5.1% and 4.1% respectively on a constant currency basis. Unit costs per available seat-kilometer were flat on a constant currency and fuel price basis.

The complementarities between the two airlines enabled the release of additional synergies during the year which contributed to the good results of the passenger activity. Of a total of €96.7 million, 67.1 million came from marketing and revenue management and 29.6 million from sales. Overall, the synergies realized since the merger in the passenger activity amount to €342.7 million, of which €214.5 million from revenue and €128.2 million from cost synergies.

# Cargo activity

Cargo is the second of the group's activities, accounting for nearly 13% of total revenues.

## A more difficult air freight market in 2006 but the prospects remain favorable

After years of strong growth driven by the lowering of barriers to world trade, air freight growth has since slowed and, for the past two years, has underperformed growth in world trade itself. The slowdown in this activity is explained by a number of factors. The first is competition from sea transportation with the arrival of large-capacity ships whose performance is improving. In parallel, a number of high-tech products have seen their sale prices fall, making sea transportation more attractive in that the rise in the fuel price has led to a marked rise in air freight prices. The second explanation is the concentration of the integrators who are very strongly positioned relative to the different transportation methods, switching between them while maintaining significant pressure on pricing. The third explanation is the imbalance in exchanges between Asia, particularly China, and Europe. The flow ratio which was 1 to 2 in 2000 increased to 1 to 8 in 2006, obliging carriers to scale up their capacity to handle the most substantial flows and thus undertake half the journey in a situation of overcapacity. Finally, ground logistics are made more complicated by security constraints coupled with commercial requirements for flexibility, speed and reliability in logistics chains.

However, the air freight industry whose cycles are more pronounced than those of passenger transportation, has a promising outlook given the growth of developing countries and globalization. World traffic in million of tons should rise by 5.2% annually through to 2011 to reach 111.9 million tons (source: Roland Berger ACT Worldwide and Regional forecast 2005-10).

## Air France-KLM Cargo, the European leader for air freight

Air France-KLM Cargo, the European and world-wide market leader excluding integrators, had a market share of 29.6% in 2006 (+0.2 of a point) amongst the AEA (Association of European Airlines) member airlines and 7% globally (-0.2 of a point). Over the financial year, the group transported more than 1.4 million tons of freight, of which half in the holds of passenger aircraft and half in 16 dedicated cargo aircraft.

## An integrated organization

As of October 2005 the sales, distribution, marketing and network management, and communication of both Air France Cargo and KLM Cargo have been regrouped within one sole management entity, the Joint Cargo Team, whereas the other functions are simply coordinated. A team of 120 managers is responsible for managing and coordinating Air France-KLM Cargo's organization world-wide. As of March 31, 2007, all these functions had been integrated under one sole management, representing 2,200 of the 5,700 employees working under the Air France-KLM Cargo banner. This integration is going to be extended to the purchasing and information systems departments.

This organization enables the group to offer all its customers one contact point, one contract and a single network with the choice of two separate operational systems via Roissy-Charles de Gaulle or Amsterdam-Schiphol or a combination of the two hubs. Moreover, since August 2006, customers have a single entry point to all the services thanks to the internet site common to the two companies.

## A product offer tailored to the specific needs of customers

Air France-KLM Cargo has a product and network organized around four product families which respond to the specific needs of industrial companies and the markets:

- **Dimension** offers standard airport-to-airport transportation for cargo that does not require special handling. This generic product primarily concerns groupings and all shipments in general. It represents 55% of revenues (57% in 2005-06);
- **Cohesion** is a customized product for regular import and export shipments and just-in-time shipments integrated within a logistics chain. This product is formalized by a reciprocal contractual commitment between a shipper, cargo agent and the carriers. It represents 25% of revenues, flat on last year;
- **Variation** offers solutions for the transportation of one-off merchandise, from live animals to over-sized packages, from hazardous to high-added-value products. This product has gained two points and accounts for 8% of revenues;
- **Equation** offers express shipment and guarantees priority handling, within shorter time frames, for shipments that are loaded without prior reservation on the first available departing flight. This range of products represents 12% of revenues (+1 point).

This product range is also offered by the SkyTeam Cargo alliance. Founded in 2000, and the leading cargo alliance world-wide SkyTeam Cargo brings together eight members (AirMexico Cargo, Air France Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, KLM Cargo, Korean Air Cargo and Northwest Airlines Cargo), its reach extending to 545 destinations in 127 countries.

## A more difficult environment in 2006-07

The group's cargo activity saw a downturn in the trading environment during the summer of 2006. After a very buoyant first quarter (April-June), demand then weakened, particularly out of Europe. Air France-KLM responded by adjusting its capacity in bringing forward the retirement from the fleet of two Boeing 747-200s, whose energy performance was no longer compatible with the group's environmental and financial objectives.

Overall, capacity remained broadly stable (+0.6%) and traffic increased by 1.4% taking the load factor to 66.6% (+0.6 of a point).

| | Capacity in ATK *(In million)* | | Traffic in RTK *(In million)* | | Load factor *(In %)* | | No. of tons *(In thousands)* | | Revenues *(In €M)* | |
|---|---|---|---|---|---|---|---|---|---|---|
| **At March 31** | **2006-07** | **2005-06** | **2006-07** | **2005-06** | **2006-07** | **2005-06** | **2006-07** | **2005-06** | **2006-07** | **2005-06** |
| Europe | 554 | 544 | 86 | 85 | 15.5 | 15.6 | 68 | 70 | 71 | 76 |
| North and South America | 5,404 | 5,615 | 3,679 | 3,700 | 68.1 | 65.9 | 484 | 492 | 833 | 832 |
| Asia/Pacific | 7,699 | 7,502 | 5,497 | 5,479 | 71.4 | 73.0 | 624 | 607 | 1,239 | 1,259 |
| Africa/Middle East | 1,825 | 1,673 | 1,132 | 995 | 62.1 | 59.5 | 205 | 184 | 354 | 320 |
| Caribbean/Indian Ocean | 1,008 | 1,061 | 593 | 570 | 58.8 | 53.8 | 77 | 75 | 194 | 186 |
| **Total** | **16,490** | **16,394** | **10,986** | **10,830** | **66.6** | **66.1** | **1,458** | **1,428** | **2,691** | **2,673** |

Freight transport on the **Asian** network increased by 2.8% to 624,000 tons. Revenues fell by 1.6% to €1.24 billion. Asia remains the group's leading network, representing 50% of traffic and 47% of both capacity and cargo revenues.

The **Africa-Middle East** network saw a further strong rise in tonnage transported which increased from 184,000 tons to 205,000 tons (+11.4%). This network represents around 10% of the group's cargo activity. Traffic increased by 13.8% and capacity by 9%, producing a 2.6 point improvement in the load factor to 62.1%. Revenue growth was 11% to €354 million, accounting for 12% of cargo revenues.

The **Caribbean-Indian Ocean** network saw a capacity reduction (-4.9%) while traffic rose by 3.9%. The load factor thus increased by 5 points to 58.8%. Tonnage transported reached 77,000 tons (+3%), generating revenues of 194 million (+4.3%). This network accounts for around 5% of cargo activity.

## Key figures for the cargo activity

| Year ending | March 31, 2007 | March 31, 2006 | March 31, 2005, pro forma, unaudited* |
|---|---|---|---|
| Tonnage transported *(In thousands)* | 1,458 | 1,428 | 1,385 |
| Total cargo revenues *(In million euros)* | 2,908 | 2,882 | 2,576 |
| Freight transport revenues *(In million euros)* | 2,691 | 2,673 | 2,379 |
| Unit revenue per ATK *(In euro cents)* | 16.32 | 16.30 | 15.45 |
| Unit revenue per RTK *(In euro cents)* | 24.49 | 24.68 | 22.75 |
| Unit cost per ATK *(In euro cents)* | 15.84 | 15.07 | 14.33 |
| **Operating income** ***(In million euros)*** | **62** | **166** | **140** |

* *Air France and KLM consolidated over 12 months.*

The Air France-KLM group generated cargo revenues of €2.91 billion, a 0.9% increase on March 31, 2006. The weakness of the load factor and the use of aircraft with too-high fuel consumption held back profitability. The operating margin, adjusted for the portion of operating leases corresponding to financial charges thus fell by 3.7 points from 6.4% at March 31, 2006 to 2.7%. On a constant currency basis, the yield (RRTK) was up by 0.9% and unit revenues per available ton-kilometer (RATK) by 1.8%. The unit cost rose by 0.6% on a constant currency and fuel price basis.

Over the year, the cargo activity generated €15 million of synergies, taking the total achieved since the merger to €48 million.

# Maintenance activity

Maintenance is the Air France-KLM group's third business line with third-party revenues accounting for around 4% of the group total. Third-party revenues contribute around one third of revenues generated by the maintenance activity. This division is also responsible for maintaining the Air France and KLM fleets.

## A growth market

The aeronautics maintenance market, estimated at $41.6 billion in 2006, is expected to grow by around 4.3% per year through to 2011. However, the growth will be characterized by some marked regional differences. Currently, three zones account for more than 80% of the market (North America with 39%, Europe with 27% and South-East Asia with 17%), whose growth rate is estimated at around 3% annually, whereas growth in China, India and the Middle East is expected to be more than 9%. Finally, the proportion of sub-contracted maintenance is growing, from 32% in 1990 to a forecast 75% in 2010. However, competition is getting tougher, with manufacturers offering their customers increasingly integrated maintenance solutions and the consolidation of a number of independent players.

## Air France-KLM, global number two in multi-product aircraft maintenance

The group's MRO (Maintenance, Repair, Overhaul) activities mainly concern two profit centers: Air France Industries and KLM Engineering and Maintenance (KLM E&M). They maintain the Air France and KLM fleets as well as those of around 150 customers, handling more than 900 aircraft. The group's total MRO revenues amount to 2.9 billion euros.

The principal activities of the maintenance division are aircraft maintenance (45%) and component (23%) and engine (32%) overhaul.

## A common operational model

Air France Industries and KLM E&M have deployed an operational model based on a joint growth and investment strategy, a merger of their engineering services sales forces and close cooperation in procurement and supplier policies. Providing a single interface with the market, this business model is being supplemented by the phase-in of shared technical responsibilities for Fundamental Engineering for the group's aircraft through the creation of Central Engineering Agencies (CEAs). Product Leadership Agencies (PLAs) have also been set up to share technical and economic responsibility for product management applied to engines and components. The new division of responsibilities into "CEA" and "PLA", which was applied from 2005 for selected aircraft and engine types, was expanded in 2006 and will see further development in the coming financial year.

This operational model together with the PLA and CEA-based organization is designed to simplify business operations and lay rational foundations for an aircraft maintenance network with global ambitions. Based on targeted, profitable growth, this network will leverage the group's strengths in engine and component support products, leading to a competitive position in the field of heavy aerostructure maintenance.

## Sustained growth in engine and component support services

With respect to component and engine support services, the maintenance division has implemented a number of initiatives designed to boost growth.

### Component support services

**Partnerships** with OEMs are intended to strengthen commercial positioning and achieve economies of scale. In 2006, for example, the number of Boeing 777s supported via the partnership with Boeing grew by 30% during the year to reach 115 aircraft. Similarly, KLM E&M, through its EPCOR subsidiary, is positioned in the APU (Auxiliary Power Unit) overhaul market for the new generation Boeing 737 NG, Airbus 330/340 and Boeing 777 aircraft, in cooperation with APU manufacturer Honeywell.

**Geographical presence and proximity** to the customer are key. This takes the shape of a deployment of the group's logistics network, with the opening of logistics centers in Bangkok, to underpin the Nok Air full support contract, and Singapore, to cover the South East Asia region. Affiliate AMG and its subsidiaries act as a logistics provider for North and South America and are also boosting local component repair capabilities. The group's Hangxin Aviation Engineering subsidiary is doing likewise in China.

**Integrated services, strategic availability of parts inventories and scale effects** for flagship products are also significant drivers. The continuing trust and satisfaction of customers were reflected in 2006-07 in the renewal of major A340 support contracts with Virgin Atlantic; A340 and A319 contracts with Air Mauritius for AFI; and the strengthening position of KLM E&M in the Boeing 747-400F support market (Martinair and TNT contracts).

### Engine support products

The development of engine business activities is mainly driven by the economies of scale achieved by supporting the group fleet and strategic partnerships established with engine OEMs. Thus, in 2006, KLM E&M began overhaul operations on the CF6-80 E1 (the engine on the group's A330s) and benefited from maintenance checks on General Electric's CFM56-7 engine. Air France Industries has also worked with General Electric on developing its overhaul capability on the GE90 engine and signed two first contracts with third-party clients during the year. This partnership includes developing GE90 engine spare parts repair, undertaken by subsidiary CRMA on behalf of the group and of General Electric.

### Workload exchange partnerships

These involve shifting airframe overhaul work to sub-contractors situated in geographical zones benefiting from competitive labor costs. This also helps to consolidate turnover through the return business in the areas of engine and component support. Such partnerships also contribute to lowering the cost of the group's own airframe overhaul requirements. In 2006-07 partner airlines were TAP, Royal Air Maroc, Malev and Adria Airways for narrowbodies and Thai Airways and South African Airways for widebodied aircraft.

## Key figures for the maintenance activity

| Year ending | March 31, 2007 | March 31, 2006 | March 31, 2005, pro forma, unaudited* |
|---|---|---|---|
| Number of aircraft handled | 900 | 800 | 800 |
| Total revenues *(In million euros)* | 2,864 | 2,688 | 2,600 |
| Third-party revenues *(In million euros)* | 977 | 896 | 777 |
| **Operating income** *(In million euros)* | **44** | **54** | **48** |

* *Air France and KLM consolidated over 12 months.*

Total revenues for the maintenance activity increased by 6.6%, supported by the rise in third-party revenues (+9.1%). This growth was principally achieved in the flight equipment and engine overhaul activities. The losses recorded by the aircraft maintenance operations held back the overall profitability of the maintenance activity, operating income falling by 19% to €44 million.

During the year, the maintenance activity achieved €13 million of synergies, taking the total realized since the merger to €45 million.

# Other activities

The other activities comprise the group's airline catering activity and KLM's low-cost and charter business which generate around 3.5% of total revenues.

## Catering

The catering or airline purser activity is organized around Servair, an Air France subsidiary, and KLM subsidiary KLM Catering Services.

Every day of the year, the two companies provide Air France and KLM as well as third-party airlines with a broad range of services including food preparation, inflight meals for the various passenger classes and crews and cabin cleaning and supplies. Servair and KLM Catering Services are Air France and KLM's main catering suppliers and are leaders in their respective domestic markets.

After a crisis in the early 2000s, the catering sector is in a stabilization phase, despite the continued difficulties in a number of markets like North America. Servair and KLM Catering Services are, however, mostly focused on the European market which has been less affected.

The two companies prepare more than 65 million meal-trays per year, of which 44 million at Servair and 21 million at KLM Catering Services. In order to clearly differentiate their offer from those of the competition, Air France and KLM have chosen to work with famous chefs. For Espace Première, Air France benefits from the advice of Guy Martin, chef at the Michelin-starred Le Grand Véfour in Paris. The wines served on board are selected by Olivier Poussier, winner of the best world sommelier award in 2000. For its World Business Class, KLM chose Cees Helder, whose Rotterdam restaurant, Parkheuvel, holds three Michelin stars.

In response to the rapid changes in the catering market, Servair launched an action plan in 2005, "Winning through Change", in order to increase flexibility, adapt its cost structure and improve productivity. The plan targets savings of €27 million over three years, by transforming the catering business, reorganizing the support service functions and a procurement performance plan. Savings of more than €9 million were achieved in the 2006-07 financial year. In parallel, KLM Catering Services launched its "Operational Excellence" plan, whose objective is to reduce unit costs by 2% a year over the next five years.

The modernization of its industrial facilities is also a priority for Servair and the new handling base, opened in spring 2006 in the restricted area at Roissy-Charles de Gaulle, will soon be used to prepare meals for Air France's medium-haul flights in addition to the flights operated by Air France group airline subsidiaries.

The quality control system established by the group takes the form, within Servair, of a scientific committee which oversees 40 experts in hygiene, microbiology and quality standards who use a certified laboratory to carry out 50,000 analytical tests per year. The effectiveness of this quality control system was recognized when Air France became the first airline in the world to obtain ISO 22000 certification for the safety of its in-flight catering. This certification represents, for Air France and its customers, the guarantee that the food chain is secure and that regulatory obligations are respected.

Servair and KLM Catering Services established a common working group in 2006 in order to identify and implement synergies. This initiative is expected to deliver annual savings of €1 million.

### Key figures for the catering activity

| Year ending | March 31, 2007 | March 31, 2006 |
|---|---|---|
| Number of meal-trays prepared *(In million)* | 63 | 60 |
| Total revenues *(In million euros)* | 739 | 711 |
| Third-party revenues | 187 | 145 |
| **Operating income** ***(In million euros)*** | **16** | **7.5** |

## transavia.com

transavia.com is a KLM subsidiary specialized in charter flights for tour operators and low-cost air transportation. The company operates a fleet of 28 Boeing 737-700s and 800s out of Amsterdam-Schiphol, Eindhoven and Rotterdam airports for scheduled flights to 25 destinations and charter flights to more than 70 destinations in Europe. The company also offers special flights and leases aircraft with or without crew.

While air transport remains its core business, transavia.com is positioning itself as an online travel agent for both business and leisure travel. Since early 2006, the company's website has been offering package holidays, *transavia packagedeals,* where the flights are operated by transavia.com and the accommodation provided by Dutch tour operator partners.

During the 2006-07 financial year, the Air France-KLM group decided to develop transavia.com starting with the French market to meet the needs of the medium-haul leisure market and the demand from tour operators for charter flights. The new company, 60% owned by Air France and 40% by transavia, will be based at Orly Sud and will benefit from existing tools and expertise. Its fleet will use the same aircraft types as transavia.com. The inaugural flight destined for Porto took place on May 12, 2007 and, in coming months, the company will serve Morocco, Tunisia and Greece.

### Key figures for transavia.com

| Year ending | March 31, 2007 | March 31, 2006 | March 31, 2005 |
|---|---|---|---|
| Number of passengers *(In million)* | 5.2 | 4.8 | 4.5 |
| Revenues *(In million euros)* | 584 | 512 | 449 |
| **Operating income** *(In million euros)* | **35** | **23** | **23** |

# Fleet

## The Air France-KLM fleet

### A young fleet

At March 31, 2007, the Air France-KLM group fleet consisted of 592 aircraft, of which 569 operational compared with, respectively, 575 and 561 aircraft at March 31, 2006.

The main fleet consists of 393 aircraft, including 154 long-haul, 16 cargo and 223 medium-haul aircraft. The regional fleet comprises 195 aircraft.

275 aircraft are fully owned (46% of the fleet compared with 40% in the previous year), 133 aircraft were under financial leases representing 22% of the fleet (26% at March 31, 2006) and 184 under operating leases (31% of the fleet compared with 34% at March 31, 2006). There were firm orders for 47 aircraft at March 31, 2007, while options stood at 34 (48 and 35, respectively, at March 31, 2006).

### A pro-active fleet policy

The Air France-KLM group conducts a pro-active fleet policy whose objectives are to reflect traffic growth while maintaining a technical consistency within the fleet and reducing its impact on the environment.

The fleet policy is established according to the following principles:
- to meet the need for fleet renewal and expansion;
- to remain compatible with the group's financial capacity;
- to preserve the asset value of the fleet over the medium and long term;
- to retain a sufficient level of flexibility in the fleet plan.

The analysis of needs, whether in terms of renewal or expansion of the fleet, is based on the age curve of aircraft, the availability of replacement aircraft as well as the growth outlook in each market segment. Following this analysis, a target plan is established taking into account the forecast financial capacity of the group.

To preserve the fleet's asset value, the choice of aircraft is based on models offering long-term operating potential and an expected potentially high residual value. In addition, the group favors aircraft specifications as close as possible to industry standards in order to facilitate their eventual replacement.

Within the group, pro-active fleet management has enabled synergies. Close to €3 million were achieved over the financial year, bringing the total since the merger of the two companies to nearly €8 million. These synergies come either from a joint approach to suppliers or from the transfer of aircraft between subsidiaries.

### Flexibility, an optimization tool

Flexibility in the fleet plan is an important optimization tool in a sector which is subject to considerable and rapid change. This flexibility, achieved either through contract clauses or operating leases, allows capacity to be adjusted in line with traffic demand. In its contracts, the group provides for clauses enabling, within the limits of contractual notice periods, the adjustment of delivery schedules and/or a change in the model delivered within a family of aircraft. The group finances, on average, around one third of its fleet under operating leases. This policy, implemented progressively, gives the group a degree of leeway on around 5% of its capacity each year in returning aircraft or extending their contract periods.

Thus, over the next four financial years, the fleet plan measured in numbers of seats can be scaled up or down according to need. In summer 2011 relative to summer 2007, the number of seats in the long-haul fleet might have either increased by 21% to support growth or fallen by 3% in the event of a slowdown in traffic. For the medium-haul fleet, these figures are +12% and -12%, respectively, over the same period.

### Measures to protect the environment

The two airlines decided to accelerate the rationalization of their fleets in replacing aircraft whose energy efficiency no longer meets the group's environmental standards. During the year, Air France replaced its Boeing B747-300s in its Caribbean and Indian Ocean network with Boeing B777-300ERs, thus reducing $CO_2$ emissions per aircraft by 21% in 2006 and by 28% in 2007 for this fleet.

In May 2007, Air France decided to renew its Boeing B747-400s and part of its medium-haul fleet. Consequently, 18 B747-400s, comprising 13 passenger and 5 cargo aircraft, will be replaced by 18 B777s, for staged delivery between 2007 and 2013. This investment will improve the long-haul fleet's energy performance, reducing consumption from 4.23 liters per passenger over 100 kilometers to 3.44 liters, a saving of nearly 19%. The replacement of the B747-400s will reduce the $CO_2$ emissions of this sub-fleet by between 23% and 28% on 2006 levels by 2012.

In terms of the Airbus A320 fleet, Air France placed an order for 30 A320-21 new generation aircraft, of which 19 are to replace existing aircraft and 11 to support growth. They will be delivered between 2009 and 2012.

In 2005-06, KLM took the decision to renew its Boeing B767-300ERs with Airbus A330s and Boeing B777-200s. This renewal should be completed by summer 2009.

## The Air France group fleet

The Air France group fleet totaled 405 aircraft at March 31, 2007, including 261 aircraft in the main and 144 in the regional fleets.

### The Air France fleet

The Air France fleet comprised 261 aircraft at March 31, 2007, with 256 in operation. The fleet includes 149 medium-haul, 99 long-haul and 13 cargo aircraft and has an average age of 8.8 years, including 6.7 years for the long-haul, 9.8 years for the medium-haul and 12.8 years for the cargo fleet.

Over the year, 17 new aircraft joined the fleet and 14 were withdrawn. In addition, one Boeing B747-400 passenger aircraft is being converted to carry cargo. In the long-haul passenger fleet, 6 Boeing B777-300ERs joined the fleet and 3 were withdrawn (1 Airbus A340-300 and 2 Boeing B747-300s). Since summer 2006, Air France no longer operates Boeing B747-300s. The cargo fleet saw the arrival of a Boeing B747-400ERF.

The process of rationalizing the medium-haul fleet continued during the year with the withdrawal of 8 Boeing B737-500s and is scheduled to be completed by July 2007. The medium-haul fleet will then be organized around models in the A320 family, ranging from 123 to 206-seaters, enabling the company to benefit from a reduction in operating and maintenance costs due to common technical specifications for flight decks, equipment and engines. At March 31, 2007, 6 Airbus A318s, 2 Airbus A319s, one Airbus A320 and one Airbus 321 had joined the fleet.

Investment in aircraft during the year amounted to €1.3 billion (including advance payments on orders and ground-based maintenance operations). Of a total fleet of 261 aircraft, 164 are fully owned (63%), 12 are under financial leases (5%) and 85 under operating leases (33%). At March 31, 2007, firm orders amounted to 22 aircraft with options on 15 aircraft.

During the year, Air France was informed of a further delay in the delivery of the Airbus A380s which has been postponed from February 2008 to April 2009, thus creating a capacity deficit. However, the group has been able to accelerate the delivery of two Boeing B777-300ERs and lease a third, thus restoring the envisaged level of growth.

### The regional fleet

The regional fleet is mainly organized around four aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family common to both Brit Air and Régional and the BAE fleet operated by City Jet. It comprises 144 aircraft, with up to 100 seats, including 127 in operation and 17 non-operational, 11 of which are at City Jet and 6 at Régional.

Over the year, Régional took delivery of its first two Embraer 190s of a total order of 6 aircraft and withdrew 3 Embraer 120ERs and 5 SAAB 2000s; Brit Air took delivery of one Fokker 100 and transferred one Fokker 100 to City Jet; and City Jet acquired 14 BAE Avro RJ85s in the secondary market to replace its BAE 146 fleet. Of these 14 aircraft, 11 were undergoing maintenance at March 31, 2007. The company also took delivery of Brit Air's Fokker 100.

The average age of the fleet in operation is 11.3 years. This figure is 9.4 years for Brit Air, 18.8 years for City Jet and 9.8 years for Régional.

Investment in aircraft amounted to €150 million over the year. Of a total fleet of 144 aircraft, 47 were fully owned, 47 were under financial leases and 50 under operating lease. There were firm orders for 11 aircraft with an additional 8 under option at March 31, 2007.

## The KLM group fleet

The KLM group fleet totaled 187 aircraft at March 31, 2007, including 132 in the KLM fleet and 55 in the regional fleet.

### The KLM fleet

The KLM fleet comprises 132 aircraft, of which 131 are in operation. The fleet has 74 medium-haul, 55 long-haul and 3 cargo aircraft. The aircraft in the fleet have an average age of 9.1 years, 8.7 years for the long-haul fleet, 9.8 years for the medium-haul fleet and 3.7 years for the cargo fleet. Investment in aircraft amounted to € 0.6 billion over the year (including advance payments on orders and ground-based maintenance operations).

Over the year, 10 aircraft joined the fleet and 7 were withdrawn. Three Boeing B777-200ERs and 5 Airbus A330-200ERs joined the long-haul fleet while 7 Boeing B767-300ERs were withdrawn, the last of the B767-300s still in operation at KLM. In the medium-haul fleet, 2 Boeing B737-800 aircraft were added.

Of a total fleet of 132 aircraft, 31 are fully owned, 60 under financial lease and 41 under operating lease. At March 31, 2007, firm orders amounted to 14 aircraft with options on a further 11 aircraft.

### The regional fleet

KLM's regional fleet operates only one aircraft type. It comprises 55 Fokker aircraft with up to 103 seats, all in operation. The aircraft in the regional fleet have an average age of 14.2 years. This year, two Fokker 100s were added to the fleet. Investment amounted to €6 million.

Of a total fleet of 55 aircraft, 33 are fully owned, 14 are under financial lease and 8 are under operating lease. At March 31, 2007, there were no firm orders or options outstanding for regional aircraft.

## Air France fleet

| At March 31 | Owned | | | Finance lease | | | Operating lease | | | Total | | | In operation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| ***Long-haul fleet*** | | | | | | | | | | | | | | | |
| B747-400 | 9 | 8 | 8 | - | 1 | 1 | 7 | 7 | 7 | 16 | 16 | 16 | 15 | 16 | 16 |
| B747-300/200 | 4 | 6 | 7 | - | - | - | - | - | - | 4 | 6 | 7 | - | 4 | 5 |
| B777-200/300 | 25 | 19 | 16 | 4 | 4 | 4 | 15 | 15 | 14 | 44 | 38 | 34 | 44 | 37 | 34 |
| A340-300 | 10 | 10 | 8 | 3 | 3 | 6 | 6 | 7 | 8 | 19 | 20 | 22 | 19 | 20 | 22 |
| A330-200 | 6 | 6 | 4 | 1 | 1 | 1 | 9 | 9 | 9 | 16 | 16 | 14 | 16 | 16 | 13 |
| B767-300 | - | - | 1 | - | - | - | - | - | - | - | - | 1 | - | - | - |
| B747-400 cargo | 2 | 2 | 1 | - | - | - | 4 | 3 | 3 | 6 | 5 | 4 | 6 | 5 | 4 |
| B747-200 cargo | 6 | 5 | 5 | - | 1 | 1 | 1 | 1 | 2 | 7 | 7 | 8 | 7 | 7 | 8 |
| **Total** | **62** | **56** | **50** | **8** | **10** | **13** | **42** | **42** | **43** | **112** | **108** | **106** | **107** | **105** | **102** |
| ***Medium-haul fleet*** | | | | | | | | | | | | | | | |
| A321-100/200 | 11 | 11 | 11 | - | - | - | 3 | 2 | 2 | 14 | 13 | 13 | 14 | 13 | 13 |
| A320-100/200 | 52 | 49 | 49 | - | 3 | 3 | 16 | 16 | 15 | 68 | 68 | 67 | 68 | 66 | 67 |
| A319-100 | 19 | 20 | 18 | 4 | 4 | 4 | 22 | 21 | 21 | 45 | 45 | 43 | 45 | 44 | 43 |
| A318-200 | 18 | 12 | 9 | - | - | - | - | - | - | 18 | 12 | 9 | 18 | 12 | 9 |
| B737-300/500 | 2 | 3 | 4 | - | - | 3 | 2 | 9 | 9 | 4 | 12 | 16 | 4 | 11 | 15 |
| **Total** | **102** | **95** | **91** | **4** | **7** | **10** | **43** | **48** | **47** | **149** | **150** | **148** | **149** | **146** | **147** |
| **Total** | **164** | **151** | **141** | **12** | **17** | **23** | **85** | **90** | **90** | **261** | **258** | **254** | **256** | **251** | **249** |

## Regional fleet

| At March 31 | Owned | | | Finance lease | | | Operating lease | | | Total | | | In operation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| ***Brit Air*** | | | | | | | | | | | | | | | |
| Canadair Jet 700 | 3 | 2 | 2 | 9 | 10 | 9 | - | - | - | 12 | 12 | 11 | 12 | 12 | 11 |
| Canadair Jet 100 | 2 | 2 | 2 | 11 | 11 | 11 | 5 | 6 | 6 | 18 | 19 | 19 | 18 | 19 | 19 |
| Fokker 100-100 | 5 | 5 | 1 | - | - | - | 8 | 8 | 9 | 13 | 13 | 10 | 13 | 13 | 10 |
| **Total** | **10** | **9** | **5** | **20** | **21** | **20** | **13** | **14** | **15** | **43** | **44** | **40** | **43** | **44** | **40** |
| ***Régional*** | | | | | | | | | | | | | | | |
| Embraer RJ 145 | 2 | 2 | 2 | 17 | 17 | 17 | 9 | 9 | 9 | 28 | 28 | 28 | 28 | 28 | 28 |
| Embraer RJ 135 | 2 | 2 | 2 | 3 | 3 | 3 | 4 | 4 | 4 | 9 | 9 | 9 | 9 | 9 | 9 |
| Embraer 190 | - | - | - | - | - | - | 2 | - | - | 2 | - | - | 2 | - | |
| Embraer 120 | 8 | 8 | 7 | - | 1 | 3 | - | 2 | 3 | 8 | 11 | 13 | 8 | 9 | 10 |
| Fokker 100 | 4 | 1 | 1 | - | 1 | 1 | 6 | 7 | 5 | 10 | 9 | 7 | 9 | 9 | 6 |
| Fokker 70 | - | - | - | 5 | 5 | 5 | - | - | - | 5 | 5 | 5 | 5 | 5 | 5 |
| Beach 1900 | 3 | 3 | 6 | 1 | 1 | 1 | 1 | 1 | 1 | 5 | 5 | 8 | - | - | - |
| SAAB 2000 | - | - | - | - | - | - | - | 5 | 6 | - | 5 | 6 | - | 5 | 6 |
| **Total** | **19** | **16** | **18** | **26** | **28** | **30** | **22** | **28** | **28** | **67** | **72** | **76** | **61** | **65** | **64** |
| ***City Jet*** | | | | | | | | | | | | | | | |
| BAE146-200 | 5 | 5 | 5 | 1 | 1 | 1 | 14 | 13 | 11 | 20 | 19 | 17 | 20 | 19 | 17 |
| AVRO RJ 85 | 13 | - | - | - | - | - | 1 | - | - | 14 | - | - | 3 | - | |
| **Total** | **18** | **5** | **5** | **1** | **1** | **1** | **15** | **13** | **11** | **34** | **19** | **17** | **23** | **19** | **17** |
| **Total** | **47** | **30** | **28** | **47** | **50** | **51** | **50** | **55** | **54** | **144** | **135** | **133** | **127** | **128** | **121** |

## KLM fleet

| At March 31 | Owned | | | Finance lease | | | Operating lease | | | Total | | | In operation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| ***Long-haul fleet*** | | | | | | | | | | | | | | | |
| B747-400 | 11 | 6 | 6 | 11 | 16 | 16 | - | - | - | 22 | 22 | 22 | 22 | 22 | 22 |
| B777-200 | - | - | - | 6 | 5 | 4 | 8 | 6 | 6 | 14 | 11 | 10 | 14 | 11 | 10 |
| A330-200 | - | - | - | 6 | 3 | - | 2 | - | - | 8 | 3 | - | 8 | 3 | - |
| MD 11 | 2 | - | - | 6 | 8 | 8 | 2 | 2 | 2 | 10 | 10 | 10 | 10 | 10 | 10 |
| B767-300 | - | - | - | - | - | - | 1 | 8 | 12 | 1 | 8 | 12 | - | 8 | 12 |
| B747-400 cargo | - | - | - | 3 | 3 | 3 | - | - | - | 3 | 3 | 3 | 3 | 3 | 3 |
| Total | 13 | 6 | 6 | 32 | 35 | 31 | 13 | 16 | 20 | 58 | 57 | 57 | 57 | 57 | 57 |
| ***Medium-haul fleet*** | | | | | | | | | | | | | | | |
| B737-900 | - | - | - | 2 | 2 | 2 | 3 | 3 | 3 | 5 | 5 | 5 | 5 | 5 | 5 |
| B737-800 | 6 | 3 | 6 | 20 | 23 | 20 | 6 | 4 | 4 | 32 | 30 | 30 | 32 | 30 | 30 |
| B737-700 | - | - | - | 5 | 5 | 4 | 5 | 5 | 5 | 10 | 10 | 9 | 10 | 10 | 9 |
| B737-400 | 6 | 6 | 6 | - | - | - | 7 | 7 | 7 | 13 | 13 | 13 | 13 | 13 | 13 |
| B737-300 | 6 | 6 | 6 | 1 | 1 | 1 | 7 | 7 | 7 | 14 | 14 | 14 | 14 | 14 | 14 |
| **Total** | **18** | **15** | **18** | **28** | **31** | **27** | **28** | **26** | **26** | **74** | **72** | **71** | **74** | **72** | **71** |
| **Total** | **31** | **21** | **24** | **60** | **66** | **58** | **41** | **42** | **46** | **132** | **129** | **128** | **131** | **129** | **128** |

## Regional fleet

| At March 31 | Owned | | | Finance lease | | | Operating lease | | | Total | | | In operation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| ***KLM Cityhopper*** | | | | | | | | | | | | | | | |
| Fokker 70 | 18 | 18 | 18 | 3 | 3 | - | - | - | 3 | 21 | 21 | 21 | 21 | 21 | 20 |
| Fokker 50 | 6 | 2 | - | - | 4 | 6 | 2 | 2 | 4 | 8 | 8 | 10 | 8 | 8 | 10 |
| **Total** | **24** | **20** | **18** | **3** | **7** | **6** | **2** | **2** | **7** | **29** | **29** | **31** | **29** | **29** | **30** |
| ***KLM Cityhopper UK*** | | | | | | | | | | | | | | | |
| Fokker 100 | 9 | 7 | 1 | 11 | 11 | 14 | - | - | 1 | 20 | 18 | 16 | 20 | 18 | 16 |
| Fokker 50 | - | - | - | - | - | - | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **Total** | **9** | **7** | **1** | **11** | **11** | **14** | **6** | **6** | **7** | **26** | **24** | **22** | **26** | **24** | **22** |
| **Total** | **33** | **27** | **19** | **14** | **18** | **20** | **8** | **8** | **14** | **55** | **53** | **53** | **55** | **53** | **52** |

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# Social and environmental data

# 3.

# Social data for the Air France-KLM group

The average number of employees of the Air France-KLM group was 103,050 for the 2006-07 financial year, slightly higher than in the previous period (+0.6%).

| Financial year | 2006-07 | 2005-06 | 2004-05 |
|---|---|---|---|
| Ground staff | 74,329 | 74,258 | 74,462 |
| Cabin crew | 20,701 | 20,294 | 19,829 |
| Flight deck crew | 8,020 | 7,870 | 7,786 |
| **Total** | **103,050** | **102,422** | **102,077** |

## Air France human resources and employment policy

The merger between Air France and KLM is continuing, based on the common values of dialogue, respect, confidence and within the framework of the model “one group, two airlines and three core businesses”. Due to the differences between Dutch and French social legislation, the human resource policies remain separate, with each company pursuing its own human resources strategy while promoting joint initiatives. It is within this framework that the group is embarking on a new phase with the introduction of activities in common, notably Purchasing, IT, Sales and Marketing and Networks.

Since February 2006, an Air France-KLM European Works Council has replaced the European works councils of Air France and KLM. It ensures that employees are kept informed and consulted on matters concerning the group as well as on issues of a trans-national nature. The Council comprises 37 members, of whom 10 are French, 6 Dutch and 21 nationals of other European countries coming from 16 countries, appointed or elected for a four-year term of office. It has established a working group on the social performance indicators in order to have an overall, harmonized and comparable vision at the level of the group.

In 2006, Air France-KLM launched two training programs bringing together managers from the two companies. These seminars were run by the IMD and HEC business schools in Lausanne and Paris, respectively.

## Employment

Within a context of activity growth and further productivity gains notably due to the development of new technologies and their consequences on employment, Air France is pursuing its policy of protecting sustainable employment and adapting to new professions. The three-year agreement on the forward-looking management of jobs and skills, signed in 2006, sets the framework for supporting these major transformational projects and reflects the continuance of an Air France policy based on anticipation, transparency on the professions which are declining or growing within the group, and on professional mobility. Priority is given to internal resources. For Air France, it is a question of ongoing adaptation to achieve ever-better performance while protecting the individual.

The 2006-07 financial year again saw the workforce remain stable within the context of activity growth. In France, 1,994 employees were recruited on permanent contracts (*CDI*).

Recruitment of ground staff showed a slight increase on last year in order to replace retirement departures. Since May 6, 2006, Air France has belonged to the general social security regime and has applied the branch agreement of April 13, 2005, which foresees an official retirement age of 65 years and retirement over 60 years as long as the conditions enabling retirement on a full pension are fulfilled. Retirement departures thus concerned 1,221 individuals.

The percentage of part-time employees for the company as a whole amounted to 19% compared with 18% in 2005.

In 2006, Air France spend a total of € 37 million on interim staff and sub-contractors in areas not part of its core activities such as airport services, handling, gardiennage, cleaning and certain IT developments.

The main objectives of KLM's employment policy are to preserve employability and to control costs, based on the principles of flexibility, mobility, health and participation.

The employment market in the Netherlands is beginning to tighten with the risk of a shortage of qualified staff. Thus, KLM is increasing its cooperation with a number of training centers in order to train technical personnel.

The professional mobility of employees within the company builds their skills and prepares them for the changes necessary to maintaining the level of competitiveness.

The number of employees amounted to 30,669 at December 31, 2006. There were 1,648 new hires over the year. Part-time employment represented 36% of overall jobs, as in 2005, with 67% occupied by women.

## Professional training

Air France spent €209 million within the framework of its training program in 2006, representing 8.7% of the payroll, more than its obligation under French law.

The training program concerns all stages of professional life and promotes employee mobility. Technical and regulatory training represented around 50% of the training programs. In 2006, the rate of access to training for all personnel reached 94%.

Within the framework of the French law of May 4, 2004, on career-long professional training, Air France is pursuing initiatives to promote the consumption by employees of their individual training quotas (so-called DIF or Droits Individuels à la Formation) and to develop the periods dedicated to professional training.

There is no legal obligation to offer training under Dutch law. However, KLM sees training as a key factor in facilitating mobility and the ability to adapt to change. Hence, KLM offers its employees a wide range of training opportunities, ranging from specific job training to training in a renowned institution.

The *KLM Academy*, an in-house professional training center for KLM managers, has readapted its program to reflect the needs of operational managers who have been promoted. Finally, managers and employees recruited from other companies have access to an intensive Air France-KLM induction program. High potentials are monitored throughout their career and encouraged to develop their abilities by changing jobs. The *KLM Academy* is working on programs reserved for this group of managers.

## Compensation and sharing the value created

In accordance with the 2006-07 salary agreement for ground staff and cabin crew, the general measures at Air France represented an average increase of 1% for 2006, plus individual measures in respect of merit, promotion and seniority and the increase (+1.7%) in bonuses and allowances. In addition, an exceptional bonus of €500 was paid in April 2006 to all ground staff and cabin crew.

Pursuant to the agreement of August 1, 2005, a €43.4 million incentive payment was made in respect of the 2005-06 financial year (a €3.3 million incentive payment plus an exceptional bonus of €11 million in respect of the 2004-05 financial year). In addition to the incentive scheme, a new profit-share agreement was signed on September 28, 2006. In respect of the 2006-07 financial year, the total profit share and incentive payment made will amount to around €90 million.

Within Air France, the differences in salary between men and women are not significant for equivalent positions, levels of seniority and similar organization of working hours.

At KLM, pursuant to the collective labor agreement, the general measures for salary increases represented a rise of 1% in April 2006, with another 0.75% in January 2007. A new collective labor agreement, applicable retroactively to April 1, 2007, is being drafted.

## Social dialogue

The 2006-07 financial year saw intense activity with respect to employee and social responsibility agreements reflecting the company's sustained social commitment over the years to come.

The *"conventions d'entreprise"* (corporate collective bargaining agreements) came into force on May 6, 2006, reflecting the fact that Air France employees are now subject to general French labor law.

Faced with an environment subject to constant change and in order to maintain its competitiveness, the company needs to be in a constant process of adaptation. To support these changes, most of which have a significant impact on the professions across the business, a three-year agreement was signed on July 26, 2006 for the forward-planning of employment. This agreement enables professional changes to be anticipated and foresees procedures to acquire new skills to support professional and geographical mobility whenever this is necessary.

The company's commitment to social responsibility and diversity was strengthened by the signature and renewal of a number of agreements (Social and Vocational Integration of Staff with Disabilities, Gender Equality, Internships, Diversity Charter, Mutual Insurance and Work Place Medicine, etc).

The signature in July 2006 of an additional clause in the August 1, 2005 incentive agreement and, on September 28, 2006, of a profit-share agreement will enable the commitment of staff to be more fully recognized.

Finally, an agreement supplementing the salary agreement concerning ground staff and cabin crew, concluded for the 2006-07 period, was signed in April 2007.

KLM has established a constructive relationship with trade unions based on common interests in employment matters and currently applies three collective labor agreements: one for ground staff, one for cabin crew and one for flight deck crew.

## Health and safety in the work place

Within the framework of the deployment of the Charter for Preventive Management aimed at safety in the work place, signed in 2005 by all the Air France operational divisions, 2006 saw the implementation of a number of initiatives to ensure a continuous improvement in employee safety. The objective is to raise the company to a benchmark level in terms of work place safety and to achieve a significant reduction in the accident frequency rate over the next three years.

These initiatives notably concerned the establishment of a handbook for senior and middle management providing guidelines on the day-to-day control of risks, the implementation of a joint information system promoting synergies in the reduction of accidents and broad-based specific training programs destined for both employees and managers.

At the end of 2006, the industrial accident frequency coefficient in France amounted to an overall 5.54, with divergent results according to employee category (ground staff 3.51, cabin crew 11.68, flight deck crew 1.89).

In 2006, Air France safety expenditure amounted to nearly €9 million.

At KLM, the Occupational Safety and Environment Board is responsible for evaluating accidents as well as monitoring reports and corrective measures. 2006 was marked by a fatal accident within KLM maintenance. An inquiry was conducted by the competent authorities in cooperation with the company's management. Its findings did not call into question the company's safety procedures but the latter have nonetheless been strengthened in order to avoid another similar accident.

The total number of occupational accidents involving time off work increased by 11% and the number of working days lost due to accidents increased by 25%. The increase in the number of accidents is linked to the development of tools enabling such accidents to be recorded. The company considers that it, thus, has an efficient basis on which to found corrective measures.

Legislative changes in the Netherlands with respect to health and safety in the work place are being integrated in KLM policy.

KLM considers employee well-being as an important part of the employment framework. Thus, prevention campaigns as well as assistance in bicycle purchase or with sports club membership are offered to employees. Finally KLM-Cargo employees now have access to a gym.

The absentee rate stabilized at 5.6% in 2006.

## Diversity and social responsibility

Air France is pursuing its employment policy based on social integration through employment and a respect for diversity.

Air France's commitment to internship saw ten years of agreements backed by a broad consensus within the company reaffirmed by the 4th internship charter for the 2005-08 period signed by all the union bodies representing ground staff and cabin crew.

Over the past decade, 10,000 interns have benefited from training, of whom 2,500 were apprentices and 50% women. At the end of their internship contract, 90% of these interns were offered employment within the main professional activities (aeronautics maintenance, operations, sales and marketing, IT, cabin and flight deck crew).

Through a network of associations established by the company, Air France is pursuing its equal opportunity initiatives in driving regional momentum for access to employment. For example, *AirEmploi*, which provides information on air transport professions, or *Jérémy,* the association of French airport companies, which promotes the hiring of young job-seekers for the airport professions, the implementation of a team responsible for liaising with the *Foundation de la Deuxième Chance* to support projects enabling individuals in great personal difficulty to emerge from these situations, the signature on March 1, 2007 of a framework-agreement for the 2007-2012 period between the IPE school engineers association and the French Education Ministry enabling the secondment of 11 Air France engineers to the French Department of Education in order to strengthen the cooperation between business and education, etc.

All these initiatives are implemented in partnership with the region, the French Department of Education, the Apprenticeship Training Centers (CFA), and territorial institutions and associations.

Air France is active in developing the regions in which it operates. Thus, at Roissy-Charles de Gaulle, the company established and supports the *Pays de Roissy-Charles de Gaulle* association which, in bringing together companies, elected representatives and local residents, enables projects concerning economic development, housing, transportation, culture, training and research to come to fruition.

In June 2006, Air France implemented a recruitment website called “e-tic” which enables external candidates to submit their application online using an universal resume. Furthermore, since December 2005, any individual likely to use the selection tools, consult job application files or have access to confidential information is obliged to respect the ethical and moral obligations set out in the ethical recruitment charter.

Within the company, the 2nd Gender Equality Agreement, renewed in April 2006 for the 2006-09 period, is based on the definition of objectives and initiatives accompanied by performance indicators to be used in monitoring them.

This should enable the progress achieved through concrete measures such as information and training for human resource managers or the realization of a study with external experts to analyze average remuneration for men and women to be quantified.

At the end of 2006, women represented 42.4% of the overall work force.

For the past fifteen years, Air France has been committed to the vocational integration of staff with disabilities. This policy was pursued in 2006 with the renewal of the Agreement for the Social and Vocational Integration of Staff with Disabilities for the 2006-08 period.

For the sixth time and despite the change in French law imposing new, more restrictive rules for accounting for the target of 6% of employment, the company pursued its efforts on behalf of disabled employees. In 2006, there were 26 hires and the target for 2007 is for a further 32. The purchasing division is participating in the realization of the hiring target in increasing the level of sub-contracting from the protected sector with a target of achieving 30% of the obligation by 2008.

The agreement signed in 2006 set a budget of €9 million for the 2006-08 period intended, in particular, to finance schemes to ensure maintained employment, to adapt work stations and for training initiatives, etc.

In 2006, nearly €2.2 million was invested (40% in respect of maintained employment, 12% for the adaptation of work stations, 12% for training initiatives, etc.).

Air France has long been involved in assisting disadvantaged groups, notably though the Air France Foundation, established in 1992, whose vocation is to support projects to help children and young people who are sick, disabled or in difficulty in France or in other countries where Air France is present.

The Foundation works in partnership with associations and NGOs working in the field of child and youth education and training, providing them with financial and technical support.

The Foundation also supports projects advanced by Air France employees when they are already committed to associations assisting children.

In 2006, as in 2005, KLM was voted favorite employer in the Netherlands by students from ethnic minorities, following a survey conducted by Intermediar and Ebbinge.

KLM continued to pursue initiatives conducted in cooperation with Schiphol airport to combat youth unemployment and give underprivileged young people access to training. The company also continued its work with the Dutch Reading and Writing Foundation offering adult literacy courses.

Within the framework of its collective labor agreement, KLM guarantees its employees who have lost at least 35% of their capacity continued employment within KLM or helps them find work outside the company. Union bodies approved this initiative which is unique to the Netherlands.

KLM Aircares and the Amsterdam university medical center signed a partnership to improve medical treatment for children in Kenya. Specialists employed by the university work with Kenyan doctors to provide them with additional training.

Following the tsunami, three charitable foundations linked to KLM joined forces to establish a center for handicapped children in Medan, Indonesia.

In cooperation with the Amsterdam museum of photography, KLM assists young photographers through the Paul Huf prize.

*For more information, please see the 2006-07 Air France-KLM Corporate Social Responsibility Report.*

| | AF[1] | | | | KL[2] | | | | AF Subsidiaries[3] | | | KLM Subsidiaries[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **06/05** | **2004** | **2005** | **2006** | **05/06** | **2004** | **2005** | **2006** | **2006** |
| **Headcount at 12/31 (permanent contracts and fixed term contracts)** | | | | | | | | | | | | |
| Ground staff | 45,387 | 45,688 | 45,231 | (1%) | 19,366 | 19,550 | 19,599 | 0% | 8,666 | 8,445 | 8,645 | 3,825 |
| Cabin crew | 13,582 | 13,947 | 14,184 | 2% | 7,895 | 8,163 | 8,587 | 5% | 671 | 723 | 982 | 1,234 |
| Cockpit crew* | 4,187 | 4,177 | 4,198 | 1% | 2,269 | 2,333 | 2,483 | 6% | 898 | 940 | 1,114 | 1,010 |
| **Total** | **63,156** | **63,812** | **63,613** | **0%** | **29,530** | **30,046** | **30,669** | **2%** | **10,235** | **10,108** | **10,741** | **6,069** |
| **% of women per category at 12/31** | | | | | | | | | | | | |
| Ground staff | 39% | 40% | 41% | 2% | 24% | 25% | 30% | 21% | 33% | 33% | 34% | 42% |
| Cabin crew | 66% | 66% | 65% | -1% | 84% | 84% | 83% | 0% | 80% | 79% | 77% | 85% |
| Cockpit crew | 5% | 5% | 6% | 15% | 4% | 4% | 4% | 2% | 4% | 3% | 4% | 6% |
| ***% of women at 12/31*** | **43%** | **43%** | **44%** | **2%** | **40%** | **41%** | **43%** | **4%** | **34%** | **34%** | **34%** | **45%** |
| **Organization of working hours** | | | | | | | | | | | | |
| % of women working part time | 33% | 33% | 33% | 6% | 63% | 68% | 67% | -1% | N.A. | N.A. | 13% | 41% |
| % of men working part time | 10% | 9% | 8% | -5% | 8% | 14% | 14% | 2% | N.A. | N.A. | 5% | 10% |
| ***Percentage of part time staff*** | **19%** | **18%** | **19%** | **5%** | **35%** | **36%** | **36%** | **0%** | **8%** | **8%** | **6%** | |
| Amounts paid to temporary work companies *(€M)* | 18.1 | 25 | 30 | 20% | N.A. | N.A. | N.A. | N.A. | 25.6 | 23 | N.A. | |
| **Recruitement by permanent contract** | | | | | | | | | | | | |
| Ground staff* | 637 | 994 | 1,231 | 24% | 420 | 981 | 912 | -7% | 402 | 496 | 496 | 163 |
| Cabin crew* | 387 | 519 | 629 | 21% | 349 | 518 | 576 | 11% | 8 | 2 | 133 | 0 |
| Cockpit crew* | 152 | 112 | 134 | 20% | 97 | 112 | 196 | 75% | 38 | 44 | 70 | 160 |
| **Total*** | **1,176** | **1,625** | **1,994** | **23%** | **866** | **1,611** | **1,841** | **14%** | **448** | **542** | **699** | **323** |
| **Departures** | | | | | | | | | | | | |
| Ground staff | 1,017 | 1,135 | 1,297 | 14% | 3,276 | 1,016 | 790 | -22% | 417 | 496 | 459 | 736 |
| Cabin crew** | 276 | 317 | 360 | 14% | 296 | 232 | 253 | 9% | 8 | 54 | 59 | 568 |
| Cockpit crew** | 112 | 116 | 94 | -19% | 88 | 97 | 46 | -53% | 14 | 48 | 14 | 37 |
| **Total** | **1,405** | **1,568** | **1,751** | **12%** | **3,660** | **1,345** | **1,495** | **11%** | **439** | **598** | **532** | **1,341** |
| Retirements | 976 | 1,060 | 1,221 | 15% | 363 | 332 | 290 | -13% | 60 | 47 | 48 | 19 |
| Redundancies (incl. economic) | 172 | 157 | 158 | 1% | 393 | 532 | 184 | -65% | 231 | 293 | 303 | 734 |
| Resignations | 188 | 250 | 279 | 12% | 2,861 | 450 | 582 | 29% | 142 | 205 | 325 | 585 |
| Deaths | 69 | 101 | 68 | -33% | 43 | 31 | 33 | 6% | 6 | 10 | 10 | 3 |

| | AF[1] | | | | KL[2] | | | | AF Subsidiaries[3] | | | KLM Subsidiaries[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 06/05 | 2004 | 2005 | 2006 | 05/06 | 2004 | 2005 | 2006 | 2006 |
| **Absenteeism**[5] | | | | | | | | | | | | |
| **Due to illness**[5] | | | | | | | | | | | | |
| Ground staff | 3.3% | 3.3% | 3.1% | -6% | 6.5% | 5.9% | 5.4% | -8% | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | 5.8% | 6.8% | 5.4% | -21% | 5.1% | 5.4% | 6.3% | 17% | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | 2.1% | 2.7% | 2.4% | -12% | 4.3% | 4.2% | 3.9% | -7% | N.A. | N.A. | N.A. | N.A. |
| **Due to work accidents**[5] | | | | | | | | | | | | |
| Ground staff | 0.5% | 0.5% | 0.7% | 43% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | 0.8% | 0.9% | 0.9% | 0% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | 0.2% | 0.2% | 0.2% | -9% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| **Due to maternity**[5] | | | | | | | | | | | | |
| Ground staff | 0.9% | 0.9% | 1.1% | 26% | 0.5% | 0.4% | 0.4% | 0% | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | 3.9% | 3.8% | 3.8% | 0% | 2.2% | 2.1% | 2.0% | -5% | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | 0.3% | 0.4% | 0.3% | -17% | 0.2% | 0.1% | 0.1% | 0% | N.A. | N.A. | N.A. | N.A. |
| Number of collective agreements | *3* | *9* | *22* | | *4* | *3* | *3* | | N.A. | N.A. | N.A. | |
| **Health and safety**[6] | | | | | | | | | | | | |
| Industrial Injury Frequency Rate (IIFR)[6] | *34* | *34.2* | *33.43* | -2% | *11.06* | *11.16* | *11.07* | *-0.01* | N.A. | N.A. | N.A. | N.A. |
| Severity of industrial accidents[6] | 0.93 | 0.88 | 0.85 | -3% | 0.09 | 0.1 | 0.1 | 0.14 | N.A. | N.A. | N.A. | N.A. |
| Spending on safety *(€m)* | 18.2 | 12.2 | 9 | -26% | 0.8 | 4.2 | N.A. | | 3.0 | 2.2 | N.A. | N.A. |
| Total industrial accidents[6] | *3,029* | *3,113* | *3,006* | -3% | *526* | *528* | *539* | 0.02 | N.A. | N.A. | N.A. | 198 |
| Number of fatal industrial accidents | *0* | *1* | *1* | N.A. | *0* | *0* | *1* | | 0 | 0 | 0 | 0 |
| **Training** | | | | | | | | | | | | |
| % of total payroll devoted to training | 8.7% | 8.7% | 8.7% | 0% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Ground staff | 5.6% | 5.4% | 5.6% | 3% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | 8.9% | 8.9% | 8.7% | -3% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | 15.5% | 16.3% | 16.0% | -2% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Total number of hours of training | | 43 | 47 | 10% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Ground staff | | 33 | 36 | 9% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | | 36 | 37 | 4% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | | 166 | 181 | 9% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |

| | AF(1) | | | | KL(2) | | | | AF Subsidiaries(3) | | | KLM Subsidiaries(4) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **06/05** | **2004** | **2005** | **2006** | **05/06** | **2004** | **2005** | **2006** | **2006** |
| Participation rate (number of agents trained/workforce) | | *92%* | *94%* | 2% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Ground staff | N.A | *90%* | *91%* | 1% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cabin crew | N.A | *95%* | *99%* | 4% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| Cockpit crew | N.A | *98%* | *100%* | 2% | N.A. | N.A. | N.A. | | N.A. | N.A. | N.A. | N.A. |
| **Disabled staff** | | | | | | | | | | | | |
| Number of disabled workers(7) | 1,759 | 1,878 | 1,320 | | 1,336 | 1,211 | 1,125 | -7% | 250 | 236 | 208 | |
| Employment rate (reference French law of February 11, 2005, applicable from January 1, 2006) | *6.2%* | *6.6%* | *2.6%* | | *N.A.* | *N.A.* | | | N.A. | N.A. | N.A. | |
| Number of disabled workers recruited during the year | *31* | *25* | *26* | *4%* | N.A. | N.A. | | | N.A. | N.A. | 2 | |

***Data in italics concerns only Air France in France and KLM in the Netherlands***

*N.A. NA Not available*
*(1) Air France mainland and French territories and dominions + expatriates + local sales personnel, excluding data in italics.*
*(2) KLM Holland + local personnel (KL international), excluding data in italics*
*(3) AF subsidiaries included: Britair, City Jet, CRMA, Cygnific, Fréquence Plus, Servair group, Régional, Sodexi, representing 90% of all the subsidiaries*
*(3)* The results are calculated excluding City Jet personnel.*
*(4) KL subsidiaries included: KCS, KES, KHS, KLC UK, KLC BV, KLM ground service, Transavia, KLM UK Engineering Ltd.*
*(5) The absentee rates are not comparable between Air France and KLM, different calculation methods being used*
*(6) The information relating to work place accidents at Air France and KLM are not comparable. This difference is mostly explained by the fact that barotraumatic otitis and lumbagos, representing the primary causes of work place accidents at Air France, are not taken into account by KLM.*
*(7) Reference to the law of February 11, 2005, applicable as of January 1, 2006. Due to the new scope, the results are not shown.*
*(7)* For Air France: the new regulation excludes disabled employees who have not been in activity for at least 6 months; for KLM: the 'non-salaried staff' are taken into account.*
** It was not possible to update certain data from 2005, but their impact is not significant.*
*** Modified data: City Jet recruitment has been added.*

# Environmental data

For Air France-KLM, the environment has always been a key consideration in its development. Beyond the continuous investment dedicated to renewing the fleet with aircraft achieving ever-better environmental performance, the environment is a collective commitment for Air France and KLM involving all the employees of the companies and their subsidiaries.

The two airlines have two separate environmental systems adapted to their individual contexts. However, the two environment departments work together on a large number of matters, particularly on the creation of a common environmental reporting mechanism or the establishment of the company's sustainability report.

The impact of air transport activity on climate change is, furthermore, the subject of a joint Air France and KLM policy.

## Environmental management

In 2002, the executive management of Air France decided to establish a decentralized structure for its environment function, whose coordination was entrusted to the Environment and Sustainable Development Department within the General Secretary's office.

The Air France departments are responsible for ensuring regulatory compliance and for the environmental impact of their activities. Each department applies the company's environmental policy in its own area through a dedicated action plan and appoints its own environmental liaison officer who reports to the Quality-Safety-Environment manager.

The role of environmental liaison officers is to:

- promote the company's environmental policy in their entity through multiple strategic, training and communication initiatives;
- coordinate the departments' environmental initiatives and action plans;
- establish control mechanisms, analyze the results and identify preventive and corrective measures.

Environmental responsibilities were the subject of a survey across the entire organization. At senior management level, the Executive Committee is responsible for environmental matters. Each department appoints an environmental liaison officer in charge of coordinating environmental initiatives and keeping management informed.

At Executive Committee level, the Corporate Environmental Center assists, advises and monitors environmental developments. The environmental performance and audit results are regularly presented to the Occupational Safety and Environment Board.

2006 saw the introduction of an OSYRIS (Operational System for ReportIng on Sustainability) sustainable development reporting tool with the help of French company Enablon. The environment module of this tool, based on an internet technology, is intended to enable the assembly and consolidation of environmental data in all Air France departments and subsidiaries and for the KLM group. The project involved all the environmental players within Air France. The tool, at present limited to ground-based operations, will enable environmental performance to be monitored and objectives to be set.

The subsidiaries of Air France are involved in the group's environmental control procedures. They attend committee meetings to monitor action plans organized by the Environmental and Sustainable Development Department and participate in the implementation of various environmental projects such as environmental reporting and the regulatory monitoring mechanism. They report using the same methodology and they are asked to participate in efforts to ascertain the group's environmental footprint.

In 1999, KLM implemented an ISO 14001 compliant environmental management system. This international standard is based on the Derning total quality model: plan, do (implement), check (i.e. audits, management review) and act (corrective measures).

In line with its commitment to developing its environmental policy, KLM has introduced a KLM-wide annual program to ensure a continuous improvement in its environmental performance, guarantee environmental management and actively develop internal and external communication.

KLM subsidiaries are responsible for their own environmental management systems and have integrated environmental management into their business operations in various ways. All the subsidiaries have implemented measures to ensure compliance with applicable environmental legislation and regulations and have defined objectives to improve their environmental performance. The environmental results of KLM Cityhopper and KLM Catering Services are included in KLM's environmental indicators.

### Environmental evaluation or certification programs

Air France is steadily working towards achieving ISO 14001 certification, which is included in the scope of IMS (integrated management system) certification. Air France Industries has decided to aim for environmental excellence within the Integrated Management System by respecting ISO 14001 principles through a single, multi-standard, multi-site certification to cover its entire scope. Subsidiary Servair also obtained ISO 14001 certification this year for its cleaning centers in the Paris area.

In other areas of the business such as Air France Cargo or Operations, the ISO 14001 principles serve as the basis for the environmental management system.

All KLM's activities, with the exception of ground operations at the outstations are ISO 14001 certified. The relevant processes are planned, controlled and checked by audits to guarantee compliance with all environmental requirements. Furthermore, the management system is reviewed annually by the Executive Committee. ISO 14001 was recently revised and KLM has had to integrate these changes in its management system. The revised standard requires a more thorough evaluation of all areas in which the company may have an impact. KLM is thus checking if it needs to develop its current policy on supply chain management beyond the purchasing procedures.

### Measures taken to guarantee the Air France-KLM group's compliance with legal and regulatory requirements relating to the environment.

Huglo-Lepage, a consultancy specialized in environmental law, was commissioned by Air France in 2005 to set up a reference framework and mechanism to monitor regulatory compliance (*REVER*). This reference framework, available to all the operational divisions, was developed to assemble all the regulatory texts relevant to each activity and to give each local entity access to those specifically concerning them thanks to a sorting system. Subsidiaries Air France Régional and BritAir were involved in the project and use the legal reference framework.

In all divisions of the company (Air France Cargo, Operations, Air France Industries) but also in the subsidiaries (Servair) 2006 saw the deployment of a procedure to verify the environmental score of our facilities (ICPE). Numerous site audits were carried out in order to ensure their classification (subject to declaration and authorization) with regard to the thresholds set by decree by departmental prefects. Air France is committed to a policy of systematically monitoring the activities subject to classified facilities regulations. The monitoring of sub-contractor activities is also ensured in premises made available by Air France.

For KLM, the principles of the ISO 14001 standard (2004 version) serve as the basis for its management system. In this regard, an audit of all requirements to be respected must be completed each year. The business units are responsible for monitoring their regulatory compliance and their procedures are checked by internal and external audits. The results of these checks and audits as well as the monitoring of corrective measures are regularly evaluated by KLM's Management Board. All significant environmental incidents are monitored and reported to the authorities.

Furthermore, to ensure compliance with the legal and regulatory requirements relating to KLM's ground operations outside the Netherlands, KLM has established a code of good environmental practice in its outstations.

## Environmental risk management

At Air France, risk control is founded on a precise evaluation of existing risks. For Air France Industries' facilities with ISO 14001 certification, the identification and management of risks is an integral part of the certification standards. In the other sites, audits are undertaken in order to map the environmental risks associated with the activities.

The identification and management of environmental risks is an integral part of KLM's ISO 14001 management system. Every year, the relevant business units check and update their environmental procedures to identify environmental risk and to define mitigating measures. Internal and external audit teams are tasked with monitoring procedures and implementing corrective measures. Environmental risks are included in the KLM global risk management system established quarterly. Within the framework of these systems, risks are identified, their impact evaluated and proposals for action established.

The requirements in terms of prevention or corrective action are implemented by the different entity action plans.

Furthermore, the implementation, in 2007, of the OSYRIS reporting tool module for collating data on environmental incidents within all Air France operational divisions at the level of every site in France enables the definition and implementation of risk prevention plans at group level.

### Greenhouse gas emissions

The Kyoto protocol specified for 2012 an objective of reducing greenhouse gas emissions by 5% on 1990 levels. Of the six gases listed in the protocol, only $CO_2$ is produced by air transport.

For several years, Air France has been committed to reducing emissions in three main ways:
- the renewal of its fleet, introducing aircraft with ever-better environmental performance;
- the coordination of the operational model around the hubs;
- the optimization of operational procedures.

In December 2006, the European Union published a draft directive aimed at including air transport in the emissions trading scheme. Air France-KLM supports this initiative and is opposed to taxes or fees which, in the company's view, do not constitute a response to the climate change issue.

### Soil use conditions

Air France has chosen to systematically apply an H.Q.E (High Quality Environment) approach for all its new construction projects and is aiming for certification for the tertiary buildings.

The first project to be included in this approach is the rehabilitation of the former Air Inter headquarters, to which the management of the information services division will move in late 2008.

The H.Q.E approach looks at the overall environmental impact and seeks to save resources consumed and to reduce waste. It also focuses on the quality of the environment within buildings and whether it is adapted to the needs of users.

KLM has remedied all relevant soil or groundwater contamination outside its buildings. Where the removal has been partial, containment measures have been implemented and have proven effective.

### Measures taken to limit water consumption

In recent years, Air France-KLM has considerably reduced its water consumption, thanks to the control of processes, team accountability and the environmentally-friendly design of tools and work stations. The measures taken to reduce consumption include the installation of water meters, the re-use of rinsing water and the replacement of systems pumping ground water by closed-loop or alternative systems. Servair, notably, this year implemented tools to keep a close track of the consumption of their industrial washing machines, which use a lot of water.

### Measures taken to limit noise emissions

In addition to the ongoing actions taken by Air France to limit the noise impact of its operations:

- the renewal of its fleet, with the early withdrawal from service of its noisiest aircraft (B747-200 and 300);
- the application of “less noise” procedures;
- the cessation of flights between midnight and five o’clock in the morning at Roissy-Charles de Gaulle (with the sole exception of the flight arriving from Nouméa);
- participation in soundproofing programs for local residents.

The following measures with respect to 2006 are worthy of note:

- Air France Industries decided to rehabilitate the former Concorde run-up area for the A320s, integrating all the latest workplace and environmental safety standards which go beyond what is required by regulation. This run-up area is, in fact, seen as a laboratory for workplace and environmental safety. It has been fitted with sound suppressors which considerably reduce noise propagation and is equipped to ensure the best currently-available protection for employees;
- Régional has also established a new special run-up zone at its Clermont-Ferrand base to limit the noise impact on local communities.

### Measures taken to improve energy efficiency

For Air France, the main drivers of energy efficiency are:

- the renewal of the fleet to ensure that it comprises modern aircraft with world-class performance standards;
- the renewal of the vehicle fleet and engines to increase the proportion which is electrically powered (the aim is to increase the share of electric engines from 39% to 58% by 2020);
- the continuous improvement of operational procedures linked to aircraft and ground vehicles in order to limit fuel consumption;
- the monitoring by an IT system of fuel consumption in registered vehicles;
- the policy of installing meters at Air France sites to ensure the monitoring of water and energy consumption;
- the half-yearly reporting of energy consumption in the company’s different departments;
- employee awareness initiatives on energy saving;
- the inclusion of energy saving at the design stage for our new facilities (commitment to HQE).

Since 1989, KLM has implemented a range of energy saving measures, enabling a 46% reduction in energy consumption. KLM has concluded, with the Dutch Ministry of Economic Affairs, the second multi-year energy agreement on the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 6% to 20% as of 2007. KLM is implementing an extensive fleet renewal program for both aircraft and ground support vehicles. Aircraft fleet renewal, in particular, results in further improvements in energy efficiency.

### Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risks up to a sum of € 50 million per claim and per year, with lower specific limits depending on location and/or activity. In the event of a claim, deductibles will apply.

As for risk prevention, the main divisions of Air France and its subsidiaries exposed to environmental risk have QSE (Quality Safety Environment) units, which regularly participate in site sensitivity studies, particularly where this is required by the insurers.

KLM has no specific financial provisions or guarantees for environmental risk because the regular financial provisions of KLM are applicable.

### Indemnities paid and actions carried out to repair environmental damage

#### *Indemnities linked with air transport operations*

In 2006, Air France paid €0.3 million in noise fines in respect of 2005, mostly for infringement of Roissy airport regulations to prevent noise pollution. The company also paid €16.4 million of noise tax for all its operations in mainland France. The proceeds of this tax are dedicated to ensuring that local residents are properly sound-proofed. Air France is actively involved in the Environmental Advisory Committee and the Advisory Committee for Resident Assistance, which are responsible for ensuring that these funds are put to the most effective use.

In 2006, KLM paid nearly €22.4 million in noise taxes for sound-proofing and compensation for loss of value in properties around Schiphol airport in respect of article 77 of Dutch aviation law.

#### *Indemnities and actions linked to ground operations*

The second phase in the rehabilitation and clean-up of the Montaudran industrial site should be concluded by the end of 2007. This is being done subsequent to a formal demand from the French Regional

Industry, Research and Environmental Agency (DRIRE) following the cessation of activities at the site and involved no legal proceedings against Air France. Air France has invested nearly €3.5 million in this operation since 2004.

Additionally, in 2006, Air France Industries paid €45,000 in respect of the tax on pollutive activities.

### *Environmental expenditure and investment*

Some information on environmental expenditure is available concerning Air France's three operating divisions (Air France Industries, Air France Cargo, Operations Division). The consolidated figures are as follows:

- €1.9 million identifiable as environmental expenditure (works, backfitting to meet standards, etc.);
- €0.5 million on spending to maintain facilities of an environmental nature (waste water treatment plants, retention containers, waste water circuits, etc.).

The process for assembling information concerning environmental expenditure is still very new to Air France and additional efforts are required to ensure comprehensive coverage, whether in terms of scope or the exhaustiveness of the information.

It is KLM's policy to fully integrate environmental management in the business operation. This means that it is not possible to determine environmental expenditure and benefit exactly. However, KLM lists the most significant expenditure that can be directly related to environmental legislation or environmental management. This concerns expenditure relating to noise and to the soundproofing mentioned in the above section on indemnities paid and actions taken to repair environmental damage.

KLM estimates that regulations concerning noise resulting in the alteration of take-off and landing procedures and in flight path diversions to avoid densely populated areas around Schiphol airport cost the airline €10 million in the 2006-07 financial year.

In 2006-07, KLM expenditure on waste water treatment and cleaning processes amounted to €2.3 million. Over the year, approximately €3.2 million was spent on KLM's environmental system (including payroll costs, external environmental communication and on initiatives to encourage staff to use the public transport system.

*For more information please see Air France-KLM's 2006-07 Corporate Social Responsibility Report.*

## Environmental indicators for the Air France-KLM group

In 2005-06, under the aegis of Air France-KLM's disclosure committee, with the participation of the statutory auditors, an instruction memorandum relating to the environmental performance indicators and the reporting scope retained was established.

In the environmental area, the reporting scope retained for the Air France group is that of Société Air France and its main subsidiaries (Servair SA, Brit Air, Régional, ACNA and CRMA). For KLM, the information presented includes KLM and its subsidiary, KLM Cityhopper.

### Air France-KLM air operations

| Environmental indicators | | Unit | 2004-05 | 2005-06 | 2006-07 | Pro forma change | 2006-07 Air France | 2006-07 KLM |
|---|---|---|---|---|---|---|---|---|
| **Consumption** | | | | | | | | |
| Consumption of raw materials: fuel | | ktons | 8,020 | 8,373 | 8,537 | 2% | 5,479 | 3,058 |
| **Emissions** | | | | | | | | |
| Greenhouse gas emissions | $CO_2$ | ktons | 25,327 | 26,422 | 26,914 | 2% | 17,260 | 9,654 |
| | $NO_x$ | ktons | 123.5 | 131.9 | 133.5 | 1.2% | 91.2 | 42.3 |
| | Of which low altitude (< 3,000 ft) | ktons | 7.5 | 7.6 | 7.7*** | | 5.4*** | 2.3 |
| | $SO_x$ | tons | 4,605 | 6,421 | 6,856 | 1% | 4,202 | 2,281 |
| Emissions of substances contributing to acidification and eutrophication | Of which low altitude (< 3,000 ft) | tons | 330 | 441 | 428 | (4%) | 268 | 180 |
| | Occurrences of fuel jettison | | 20* | 21* | 23* | 10% | 23 | NA |
| In-flight fuel jettison | Fuel jettisoned | tons | 1,343 | 1,046 | 1,758 | 68% | 1,100 | 658 |
| | HC | ktons | 4.2 | 4.0 | 3.5 | (13%) | 2.44 | 1.11 |
| Other emissions | Of which low altitude (< 3,000 ft) | ktons | 1.2 | 1.1 | 1.0*** | | 0.74*** | 0.29 |
| **Noise impact** | | | | | | | | |
| Global noise energy indicator** | | $10^{12}$ KJ | 1.81 | 1.79 | 1.66 | (7.3%) | 1.35 | 0.31 |

* *Air France data only.*
** *Data computed on calendar year for Air France.*
*** *Not including Air France subsidiaries.*

### Air France-KLM ground operations

| Environmental Indicators | | | Unit | 2004 | 2005 | 2006 | Pro forma change | 2006 Air France | 2006 KLM |
|---|---|---|---|---|---|---|---|---|---|
| **Consumption** | | | | | | | | | |
| Water consumption | | | m3 thousands | 1,230 | 1,210 | 1,054 | (13%) | 794 | 260 |
| Energy consumption | Electricity consumption | | MWh | 371,986 | 386,839 | 393,265 | 1.7 | 291,802 | 101,462 |
| Energy consumption | Energy consumption | Superheated water | MWh | 156,371 | 146,939 | 146,158 | (0.5%) | 146,158 | 0 |
| Energy consumption | Energy consumption | Iced water | MWh | 3,020 | 4,148 | 9,977 | 74% | 9,977 | 0 |
| Energy consumption | Energy consumption | DFO | MWh | 10,204 | 7,927 | 4,741 | (40%) | 4,741 | 0 |
| Energy consumption | Energy consumption | Gas | MWh | 252,706 | 237,196 | 163,899* | NR | 67,289 | 96,610 |
| Energy consumption | Consumption of renewable energies | | MWh | 0 | 0 | 0 | | 0 | 0 |
| **Emissions** | | | | | | | | | |
| Greenhouse gas emissions | $CO_2$ | | tons | 76,235 | 75,893 | 75,238 | (5.1%) | 31,649 | 43,689 |
| Emissions of substances contributing to photochemical pollution | Emissions of volatile organic compounds (weight contained in products used)** | | tons | 252 | 188 | 187 | 0.5 | 128 | 59 |
| Emissions of substances contributing to acidification and eutrophication | $NO_x$*** | | tons | 245 | 221 | 178 | (20%) | ND | 178 |
| Emissions of substances contributing to acidification and eutrophication | $SO_x$*** | | tons | 1 | 2 | 3 | | ND | 3 |
| **Waste** | | | | | | | | | |
| Waste production | Quantity of ordinary industrial waste | | tons | 48,966 | 46,715 | 42,316 | (9.4%) | 25,382 | 16,934 |
| Waste production | Quantity of special industrial waste | | tons | 4,975 | 5,721 | 5,465 | (4.5%) | 4,286 | 1,178 |
| Waste production | % of waste recycled | | % | 37%* | 28%* | 27%* | | 24% | 32% |
| **Waste water** | | | | | | | | | |
| Effluents contributing to acidification and eutrophication | Nitrates | | kg | 5,387 | 3,468 | 9,119 | 163% | 6,646 | 2,472 |
| Effluents contributing to acidification and eutrophication | Phosphoruses | | kg | 926 | 322 | 489 | 52% | 484 | 5 |
| Toxic metals | Toxic metals (CrVi, Cd, Ni, Cu, Pb) | | kg | 63 | 78 | 51 | (35%) | 48 | 3.3 |

* *Data updated this year based on conversion factors which are not consistent between Air France and KLM.*

** *Data calculated on the IATA year for Air France.*

*** *KLM data only.*

# Risks and risk management

# 4.

# Risk factors

## Risks linked to the European air transport industry

### Risks linked to the cyclical and seasonal nature of the air transport industry

The group's activities are affected by local, regional and international economic conditions. Periods of sluggish economic activity and crises are likely to affect demand for transport, both for tourism and for business travel, and have an impact on the group's financial results. Furthermore, during such periods, the group may have to accept the delivery of new aircraft or may be unable to sell unused aircraft on acceptable financial terms.

The airline industry is seasonal, with lower demand in Europe during the winter months. Consequently, the operating results for the first (April to September) and second halves (October to March) of the financial year are not comparable.

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

The group's activities are highly regulated, notably with regard to traffic rights and operating standards (with the most important concerning security, aircraft noise, airport access and the allocation of time slots). Additional laws and regulations and tax increases (aeronautical and airport) could lead to an increase in operating expenses or reduce the group's revenues. The ability of transporters to operate international lines is liable to be affected by amendments to agreements between governments. As such, future laws or regulations could have a negative impact on the group's activity.

### Risks linked to terrorist attacks, threats of attacks, geopolitical instability, epidemics or threats of epidemics

The attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines saw falling revenues and rising costs linked notably to the fall in demand and to higher insurance and security costs. Certain aircraft also saw their value drop. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated, particularly in the Asian network. Any future attack, threat of an attack, military action, epidemic or perception that an epidemic could occur, could have a negative impact on the group's passenger traffic.

### Unfair competition risks between EU and US airlines

Following the events of September 11, 2001, the US airlines received substantial subsidies from the US federal authorities in terms of insurance, security or pension fund liabilities. Moreover, four of the largest companies filed for Chapter 11 protection, allowing them to restructure without calling into question their medium-term capacity development plans. Thus the US air carriers have benefited and continue to benefit from a significant competitive advantage over their European competitors operating on North Atlantic routes.

### Risk of loss of flight slots

Due to the saturation at major European airports, all air carriers must obtain flight slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Under this regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The regulation does not provide for any exemptions for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question.

The European Commission, however, decided to amend Regulation 95/93, temporarily suspending the rule governing the loss of unused flight slots following September 11, the conflict in Iraq and the SARS epidemic, the European carriers having been forced to reduce their capacity to adjust to these crises.

### Environmental risks

The air transport industry is governed by numerous environmental regulations and laws, focusing notably on issues such as noise exposure, gas emissions, the use of dangerous substances and the handling of waste products and contaminated sites. Over the last few years, the French, Dutch, European and US authorities have adopted various regulations, especially regarding noise pollution and the age of aircraft, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

In December 2006, the European Commission decided to include air transport in the emissions trading scheme (ETS) as of 2011, the details of which have yet to be defined.

Compliance with the various environmental regulations could lead to additional costs for the group and impose new restrictions on its subsidiaries with regard to their equipment and facilities, which could have a negative effect on the group's activity, financial position or results..

## Risks linked to the group's activity

### Risks linked to the dilution of Air France-KLM's stake in KLM

The Dutch State has an option to subscribe to a certain number of preferential KLM B shares, enabling it to hold a majority of voting rights in KLM. The Dutch State can exercise this option if another country included on a set list of countries were to consider that a significant percentage of KLM shares is no longer held by Dutch shareholders and, as such, could impose significant restrictions on KLM's airline operations towards its territory. If the Dutch State were to exercise its option, Air France-KLM's economic rights in KLM would remain the same, but its percentage of voting rights would be diluted.

### Risks linked to assurances given to KLM and the Dutch State

In connection with the combination of Air France and KLM, certain assurances were given to the Dutch State in order to maintain the quality of the KLM network at Schiphol, involving certain obligations for both Air France and KLM. In addition, Air France-KLM has given KLM certain other assurances with a view to safeguarding some of the founding principles of their combination. These assurances could limit the group's capacity to adjust to changes in its economic and competitive environment and could have a negative impact on its activities and financial situation.

### Risks linked to commitments made by Air France in relation to the European Commission

For the European Commission to authorize Air France's combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to the possibility of making landing and takeoff slots available to rival airlines at certain airports. The implementation of these commitments is not expected to have a significant negative impact on the activities of Air France and KLM.

The appeal submitted in June 2004 by easyJet against the European Commission decision to authorize the combination between Air France and KLM was rejected by the Court of First Instance on July 4, 2006.

### Risks linked to competition from other air and rail transport operators

The air transport industry is highly competitive. The deregulation of the European market on April 1, 1997 and competition between carriers has led to a reduction in fares and an increase in the number of competitors.

On March 22, 2007, the European Commission and the United States signed an open skies agreement applicable from March 2008. Whereas airlines are currently only authorized to operate flights to the United States from their country of origin, this agreement will authorize any European airline to operate flights to the United States out of any airport. This agreement could increase competition for Roissy-Charles de Gaulle and Schiphol but will also enable Air France and KLM to extend their networks and strengthen cooperation within SkyTeam.

On its short and medium-haul flights to and from France, the Netherlands and other European countries, the group competes with alternative means of transportation. More specifically, the high-speed TGV train system in France competes directly with the Air France *Navette*, a shuttle service between Paris and the major French cities. Air France and KLM's flights to London are in direct competition with the Eurostar train service. An extension of high-speed train networks in Europe is likely to have a negative impact on the activity and economic results of the group.

Air France and KLM also face competition from low-cost airlines. The percentage of routes on which Air France and KLM are in competition with these airlines has risen sharply over the last ten years. This competition is expected to continue or even intensify and could have a negative impact on the group's business and economic situation.

### Risks linked to changes in commercial alliances

The maintenance and development of strategic relations and alliances with partner companies will be critical for the group's activity. Air France and KLM are members of the SkyTeam alliance, which also comprises Aeromexico, Alitalia, CSA Czech Airlines, Continental, Delta Airlines, Korean Air, Northwest and, since April 2006, Aeroflot. The success of the alliance depends in part on the strategies pursued by the various partners, over which Air France and KLM have a limited level of control. The lack of development of an alliance or the decision by certain members not to fully participate in or to withdraw from the alliance could have a negative impact on the activity and financial position of the group.

The airline sector is expected to see increased consolidation, notably through alliances. As such, the loss of or failure to develop these strategic alliances could have a negative impact on the group's business and financial position.

In June 2006, the European Commission expressed a certain number of objections concerning the SkyTeam alliance. Air France and its partners responded to these objections in October 2006. In the event that the European Commission were to maintain its position, Air France and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at certain airports.

### Risks linked to financing

Air France and KLM have been able to finance their capital requirements by securing loans against their aircraft, which represent attractive collateral for lenders. This may not be the case in the future. Any prolonged obstacle preventing the raising of capital would reduce the group's borrowing capabilities and any difficulty in finding financing under acceptable conditions could have a negative impact on its activity and economic results.

### Risks linked to social conflicts and the negotiation of collective agreements

Personnel costs account for around 30% of the operating expenses of Air France-KLM. As such, the level of salaries has an impact on operating results. The profitability of the group could be affected if it were unable to conclude collective agreements under satisfactory conditions. Any strike or cause for work to be stopped could have a negative impact on the group's activity and economic results.

### Risks linked to the use of third-party services

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

# Risk management

## Market risk management

Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chief Operating Officer and the Chief Financial Officer of Air France and the Chief Executive Officer and the Chief Financial Officer of KLM.

The RMC meets each quarter to review group reporting of the risks relating to the fuel price, the principal currency exchange rates and interest rates, and to decide on the hedging to be implemented, targets for hedging ratios, the time periods for the respect of these targets and, potentially, the preferred types of hedging instrument. The aim is to reduce the exposure of Air France-KLM and, thus, to preserve budgeted margins.

The decisions taken by the RMC are implemented by the cash management and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Regular meetings are held between the fuel purchasing and cash managements of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties. In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used so long as it is qualifies as hedging within IFRS. Any deviation from this principle must be approved by the group's Senior Executive Vice President, Finance. As a general rule, trading and speculation is prohibited.

The cash management departments of each company circulate information on the level of cash and cash equivalents to their respective executive managements on a daily basis. Every month, a detailed report including, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is transmitted to the executive managements.

The policy on fuel hedging is the responsibility of the fuel purchasing departments which are also in charge of purchasing fuel for physical delivery.

Counterparty quality is verified by the financial departments and a weekly report supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels and the resulting net prices. All this data covers the current and next three financial years. Furthermore, a weekly Air France-KLM group report (known as the SMC Report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

The use of hedging aims to reduce the exposure of Air France-KLM and, thus, to preserve the budgeted margins. The instruments used are futures and options. In-house procedures governing risk management prohibit the use of instruments that can be characterized as trading instruments. As a general rule, trading and speculation are strictly prohibited.

### Currency risk

Most of the group's revenues are generated in euros. However, because of its international activities, the group incurs a foreign exchange risk on the main global currencies, particularly on the US dollar followed, to a lesser extent, by sterling and the yen. Therefore, any changes in the exchange rates for these currencies in relation to the euro will have an impact on the group's financial results.

With regard to the US dollar, since expenditures such as fuel, operating lease or component costs exceed the level of revenue, the group is a net buyer which means that any significant appreciation in the dollar against the euro could result in a negative impact on the group's activity and financial results.

Conversely, Air France-KLM is a net seller of the yen and of sterling, the level of revenues in these currencies exceeding expenditure. As a result, any significant decline in these currencies against the euro could have a negative effect on the group's activity and financial results.

In order to reduce their currency exposure, Air France and KLM have both adopted hedging strategies.

For the US dollar, both companies have a systematic hedging policy designed to cover approximately 30% of their net exposure over a sliding 12 months. This percentage may be increased to 75% over the financial year according to market conditions and expectations. In particularly favourable market conditions, the hedging period may be extended to several financial years.

For the other currencies, hedging levels depend on market conditions and may reach 70% of the exposure for the current year and, in certain cases, the next few financial years if conditions are very favourable.

Aircraft and spare parts are purchased in US dollars, meaning that the group is highly exposed to a rise in the dollar against the euro for its aeronautics investments. The hedging policy provides for minimum systematic hedging of 30% of the exposure at the beginning of the financial year. In highly favorable market conditions, as currently, hedging may reach 95% of the exposure of the forthcoming four or five years.

The exchange rate risk on the group's financial debt is limited. At March 31, 2007, 90% of the group's net debt, after taking into account derivative instruments, was issued in or converted into euros, thereby sharply reducing the risk of currency fluctuations on the debt.

| 2007-08 operating exposure *(In currency million)* | US Dollar (USD) | Pound sterling (GBP) | Yen (JPY) |
|---|---|---|---|
| Net position before management | (2,810) | 540 | 68,600 |
| Currency hedge | 1,750 | (200) | (10,700) |
| **Net position after management** | **(1,060)** | **340** | **57,900** |

Despite this active hedging policy, not all exchange rate risks are covered, notably in the event of a major currency fluctuation. The group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the group's business and financial results.

### Interest rate risk

At both Air France and KLM, most financial debt is based on floating-rate instruments in line with market practice. However, given the historically low level of interest rates, Air France and KLM have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates. After swaps, the Air France-KLM group's net debt contracted at fixed rates represents 75% of the overall total.

Given this policy, at March 31, 2007, the group had negative net exposure to interest rates, the cash invested at variable rates exceeding the debt at floating rates. Air France-KLM is thus exposed to a fall in interest rates.

| 2007-08 operating exposure *(In euro million)* | One year* | > one year** |
|---|---|---|
| Financial liabilities | 5,056 | 3,634 |
| Financial assets | 4,686 | 553 |
| Net exposure before hedging | 370 | 3,081 |
| Hedging | (2,455) | 2,455 |
| **Net exposure after hedging** | **(2,085)** | **5,536** |

* *Fixed rate < 1 year + floating rate.*
** *Fixed rate > 1 year.*

### Equity risk

Air France and KLM cash resources are not invested in the equity market (whether directly or in the form of equity mutual funds).

However at March 31, 2007, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies totalling a net €44.4 million. An overall fall of 1% would represent a risk of €0.4 million.

### Fuel price risk

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy for the whole of the Air France-KLM group, based on the following principles:

- *Minimum hedge percentage:*
  - quarter underway: 65% of the volumes consumed,
  - quarter 1 to quarter 4: 65% of the volumes consumed,
  - quarter 5 to quarter 8: 45% of the volumes consumed,
  - quarter 9 to quarter 12: 25% of the volumes consumed,
  - quarter 12 to quarter 16: 5% of the volumes consumed.
- *Underlyings:*
  For the current financial year, at least 30% of volumes consumed are hedged in Jet. Beyond this minimum in Jet for the current financial year, the choice of underlying is at the discretion of Air France and of KLM provided that this choice is based on compatible underlyings as defined by IAS 39.
  For subsequent years, the choice of underlying is at the discretion of Air France and KLM provided that this choice is based on compatible underlyings as defined by IAS 39.
- *Instruments*
  The instruments used within the framework of the strategy must be compatible with IAS 39.

At March 31, 2007, Air France-KLM group fuel exposure stood as follows:

| *(In USD million except average purchase price in $)* | **2007-08 financial year** | **2008-09 financial year** | **2009-10 financial year** | 2010-11 financial year |
|---|---|---|---|---|
| Gross expenditure before hedging | 6,764 | 7,100 | 7,285 | 7,280 |
| Hedge percentage | 75.4% | 43% | 20% | 11% |
| Gain on hedging | 536 | 480 | 135 | 25 |
| Net expenditure | 6,228 | 6,620 | 7,150 | 7,255 |
| Average purchase price in Brent IPE equivalent | 61.7 | 64.0 | 67.5 | 67.4 |

The position of the Air France-KLM group with regard to fuel exposure is available on the website, updated weekly (www.airfranceklm-finance.com).

## Liquidity risks

For the Air France-KLM group, the balance of the cash flows tied to capital expenditures at March 31, 2007 was more than covered by the cash flows from operating activities, allowing the group to generate free cash flow of €632 million. The gearing ratio again improved, falling from 0.56 one year previously to 0.43 at March 31, 2007. The average cost of the group's debt – after swaps – amounted to 4.43% at March 31, 2007.

At March 31, 2007, Air France had an undrawn credit facility of €1.2 billion negotiated with an expanded pool of 19 banks, of which €85 million matures in April 2010, €10 million in April 2011 and €1.01 billion in April 2012 following the application of an extension clause.

This credit facility is subject to Air France respecting the following financial covenants:

- net interest charges added to one third of operating lease payments must not represent more than one third of gross operating result added to operating lease payments;
- non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured debts.

These ratios are calculated every six months and were amply respected as at March 31, 2007.

The Air France group favors long-term financing for its investments. It has, notably, diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003 (see note 30.6 of the notes to the consolidated financial statements) and the issuance of bonds convertible into new or existing shares, OCÉANEs, in April 2005 (see note 30.3 of the notes to the consolidated financial statements). Finally, in September 2006, Air France issued €550 million of euro-denominated bonds, with a 4.75% coupon, maturing on January 22, 2014 (see note 30.4 of the notes to the consolidated financial statements). An additional €200 million was raised in April 2007, assimilable with the first tranche.

To finance its aircraft, KLM is able to access the export credit system, which enables the company to benefit from the guarantee of leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. During the year, KLM also concluded several financing deals in the banking market for the refinancing of existing aircraft.

KLM has a fully available €540 million credit facility maturing July 2010, negotiated with a consortium of international banks.

Overall, the group believes that the conditions for access to the financial market for its two principal subsidiaries Air France and KLM, cash resources of €3.9 billion at March 31, 2007 and the available credit facilities reflect prudent liquidity risk management.

In coming years, the two subsidiaries will continue to be responsible for their own financing strategies, enabling each of the subsidiaries to fully capitalize on the relationships they have built up with their partner banks. Moreover, this segmentation ensures that KLM can continue to make use of export credit financing facilities. This does not stop the two companies exchanging information on their financing strategies and the type of operations planned.

## Investment risks

The cash resources of Air France and KLM are primarily invested in liquid, short-term instruments, such as money market and dynamic money market mutual funds, on which the recommended investment horizon is a maximum of 36 months.

Cash notes or certificates of deposit rated A1 or P1 are also used. A portion of KLM's liquid assets are invested in foreign-currency AAA-rated bonds, in order to reduce the currency risk on the debt.

## Insurance risk coverage

### The group's insurance strategy

As of December 1, 2004, Air France and KLM have pooled their airline risks on the insurance market in order to capitalize on the size of the group.

### Insurance policies taken out by Air France

In connection with its air transport activities, Air France has taken out an airline insurance policy on behalf of itself, its French and European airline subsidiaries and its former subsidiary Air Ivoire, covering damage to aircraft, liability in relation to passengers and general liability to third parties. In accordance with French legislation, this policy has been taken out with a leading French underwriter, La Réunion Aérienne, and co-insurers which include the French insurers AXA and AFA and an international reinsurance company.

The policy covers the civil liability of Air France for up to 2 billion dollars as well as specific cover against terrorist acts for damage caused to third parties for up to 1 billion dollars.

Additionally, Air France participates in the payment of claims for damage to its aircraft through a reinsurance company whose maximum liability is limited to 2.5 million dollars annually.

Finally, in line with its risk management and financing policy to improve the protection of its activities, employees and assets, Air France has taken out a number of policies to insure its industrial sites, property portfolio and activities ancillary to air transport, with different levels of cover depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

Air France has also taken out a number of specific or local policies in order to comply with the regulations in force in the countries in which it has a representative office.

### Insurance policies taken out by KLM

KLM has taken out an airline insurance policy to cover its operational risks and those of its subsidiaries Martinair Holland BV and Kenya Airways Ltd to cover damage to aircraft, liability in relation to passengers and general liability to third parties in connection with its activity. It covers KLM's civil liability for up to 2 billion dollars as well as specific cover against terrorist acts for damage caused to third parties for up to 1 billion dollars.

In addition, KLM participates in the payment of claims for damage to its aircraft through a reinsurance company whose maximum liability is limited.

Finally, in line with its risk management and financing policy to improve protection for its activities, employees and assets, KLM has set up a range of policies to insure its industrial sites, property portfolio and ancillary activities, with different levels of cover depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

### Exceptional events and disputes

In connection with the normal exercise of their activities, the company and its subsidiaries are involved in disputes, for which they are not necessarily required to book provisions in their accounts (see note 29.3 of the notes to the consolidated financial statements).

# Report of the Chairman of the Board of Directors on internal control

## I - Conditions for preparing and organizing the work of the Board of Directors

See Corporate Governance section.

## II - Rules and principles of corporate governance and organization of the two companies of the Air France-KLM group

See "Additional information – Information on the agreements concluded in connection with the combination between Air France and KLM".

## III - Internal control procedures

### Definition and goal of internal control

Air France-KLM has chosen COSO (Committee Of Sponsoring Organisation of the Treadway Commission) standards to define the internal control for the group and the two Air France and KLM sub-groups.

According to this standard, internal control represents a system defined and implemented by the group's Executive Management, managers and employees that is designed to provide a reasonable level of assurance that the following objectives are achieved:

- the performance and optimization of operations;
- the reliability of the accounting and financial information;
- compliance with the laws and regulations in force.

The standards are based on the following principal components:

- the control environment;
- the risk assessment;
- the control operations;
- the information and communication;
- the monitoring of internal control.

The standards correspond to a specific set of actions, tasks, practices and controls for each of the company's functions.

One of the objectives of the internal control system is to prevent and control the risks linked to the company's activities, as well as the risks of error or fraud, notably in the areas of accounting, finance and revenue management.

As with any control system, it is unable to provide an absolute guarantee that such risks have been totally eliminated

### Risk analysis process

A strategic and operational risk analysis process is now carried out on a quarterly basis, enabling the divisions and the Audit Committee to monitor the main risks. The risks faced by each group entity and the action plans implemented at each of them to minimize them are notified to the Internal Audit unit responsible for overseeing the process by Internal Control Managers designated by the divisions. The quarterly risk reports are presented to the management bodies, and especially to the SMC, before they are presented to the Audit Committee.

### Internal control project

To ensure that the internal control process complies with the new legal obligations, two projects were initiated in 2004:

- one at KLM, known as the SOX program; and
- one at Air France, known as the Internal Control Project.

These are specifically to meet the requirements of the Sarbanes-Oxley Act (because the shares of Air France-KLM are listed for trading on the NYSE) and those of the French Financial Security law.

The existence of these two projects within each sister company reflects the nature of the Air France-KLM group composed of a holding company and two major subsidiaries, Air France and KLM.

An Air France-KLM steering committee, which met six times during the fiscal year under review, oversees the coherence of processes, the timetable for the two projects, and the remediations undertaken as regards any deficiencies encountered.

The mission assigned by the Chairman and Chief Executive Officer of Air France-KLM, in addition to compliance with laws, is to improve management efficiency through broader use of internal control by all players in both companies.

A group internal control and audit division has been in place since April 2005. Internal Control Managers were also appointed in each Air France-KLM group entity deemed to be significant as regards its impact on the group's financial statements.

## General internal control structure

The structure described below is a summary of the organization set up in each of the two sub-groups, as discussed in the Chairman's reports on internal control of Air France and KLM. At the request of the Air France-KLM holding company, the Dutch company, KLM, has established a report on internal control in accordance with the French Financial Security Law.

This organization takes into consideration the structure of the group's two companies, characterized by the existence of three principal businesses (passengers, cargo and maintenance) and with subsidiaries representing a minority percentage of the two companies' business and revenue. Because of the interdependence of each of the businesses, this structure involves a number of transverse and sometimes complex processes.

## The Board of Directors

The Board of Directors is the corporate body that directs and controls the management of the group; for this purpose, the Board works with the Strategic Management Committee (SMC) to ensure the successful operation of the Air France-KLM group, relying on advice from the specialist committees mentioned in the Corporate Governance section.

## Strategic Management Committee

The Strategic Management Committee is tasked with defining joint strategic decisions on commercial, financial, technical and operational issues for the two companies; the organization and operations of the Committee are described in the section «Additional information – Information on the agreements concluded in connection with the combination between Air France and KLM».

## Financial responsibilities

These are performed by each of the two companies within the organization that was in place at the time of the merger and they report to the Strategic Management Committee.

However, in April 2005, a financial division was created for the holding company. This division is responsible for consolidation operations (accounting rules and principles and consolidation of Air France-KLM results), financial reporting (management reporting, estimates, budgets, investment plans, medium-term plan), and financial communication (preparation of annual reports, quarterly publications, press releases, relations with investors and market authorities).

## Internal audit

The management of a group such as Air France-KLM is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies stronger internal control functions in order to provide Executive Management with the assurance that this autonomy is being used correctly by each entity. Internal control is vital for effective governance, both at the Board of Directors level and at the level of the group's various businesses.

In order to strengthen internal control, Air France-KLM has established internal audit departments notable for their independence. The very presence of such a department is an impetus to effective risk management and internal control.

Internal audit is an independent department intended to improve the group's various processes. It helps the group achieve its stated goals by providing a systematic and formal approach with which to evaluate and strengthen the efficiency of the following processes: decision-making, risk management, internal control, and governance. The internal audit department objectively reviews the reliability of the overall internal controls implemented by the group, as well as the controls implemented for the specific processes of each line of business.

Air France and KLM each have internal audit departments that existed prior to the creation of the Air France-KLM group and which operate as much on the level of the two airlines as on the level of their subsidiaries.

Under the group's governance rules, each company has retained its internal audit department; the coordination of internal audit at the Group level has nevertheless been effective since the beginning of fiscal year 2005-06. The group's Internal Audit Director, who was appointed at the beginning of fiscal year 2005-2006 and who has global responsibility, provides the coordination.

The internal audit department performs audits at the level of the holding company, its subsidiaries and sub-subsidiaries at the request of the Audit Committee, the SMC or the Boards of Directors. Audits are conducted in collaboration with the auditors of the two airlines. There are 39 auditors (excluding management structure).

The internal audit department reports on its work to the Chairman, to the Executive Committee of Air France, to the Managing Board of KLM, as well as to the Audit Committee of the Air France and KLM holding company.

In order to carry out its mission, the internal audit department, which operates within the framework of the internal audit charter drawn up by the Audit Committee of the parent company Air France-KLM, either initiates its own actions or intercedes at the request of the SMC, the Audit Committee, or the Board of Directors.

An annual schedule of activities is established and presented to the SMC and to the holding company's Audit Committee.

The different types of audits performed are:

- operational audits for the purpose of reviewing the effectiveness of group procedures in matters of internal control;
- thematic audits devoted to a common theme among several functions or entities or centered around the company's projects;
- specific audit missions undertaken at the request of general management or the heads of operational units to ascertain that internal control is properly implemented in the entities;
- ICT audits following the creation of a new IT audit team.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including risks with corresponding recommendations. The auditees then establish corrective action plans and a follow-up is conducted in the next few months. Finally, the internal audit department reports its work in a summary document presented on a quarterly basis to the SMC, as well as to the holding company's audit committee.

### Prevention of ticketing fraud

The internal audit department includes a Fraud Prevention department that acts to prevent risks relating to the fraudulent use of stolen, falsified or illegally paid tickets and improperly acquired Flying Blue miles.

### Legal functions

The legal departments of both companies perform a consulting mission for their management and for decentralized organizations in legal matters, transport law, corporate law and insurance law. They systematically draw up an inventory of the disputes in process in order to assess the corresponding provisions booked as liabilities. In April 2005, a legal department was created within the holding company.

The insurance departments are responsible for identifying risk sectors of the group that might impact the operations and financial results in order to reduce or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms. They also manage claims and advise entities of the group on limiting and controlling their risks.

An aviation insurance policy for the entire Air France-KLM group was contracted at the end of 2004 covering civil liability, hull loss and risks of war, which are the major financial and legal risks of any airline.

# IV - Standards

## Organization of responsibilities

The organization of each company has been defined to ensure compliance with the principles of secure and efficient operations. It especially takes into account the regulatory requirements governing air transport, notably with regards to air transportation, ground operations, engineering and maintenance as well as catering and security.

The managers of the entities and subsidiaries concerned are required to apply these principles and organization at their level, and ensure that the organization charts, job definitions and the procedures defined by business process are up to date. They must ensure their coherence and adequacy and that these are taken into account in the main information systems and appropriately integrated within the organization.

## Charters and manuals

The Air France group has a corporate and ethical charter that reflects its commitment to being a socially responsible enterprise, basing its corporate and ethical policy on respect for people at the professional, social and citizenship levels.

The Air France group has also published a charter for the prevention of harassment in the workplace, which complies with French legislation and is part of a contractual approach through agreements in favor of employees; the legal purpose is to set forth the principles of prevention, define the actions, stress the legal and human responsibility of everyone and establish internal prevention procedures.

For its part, the KLM group has published a code of conduct applicable from April 2007 addressing, in particular, the subjects of laws and regulations, conflicts of interest, confidentiality, protection of assets, environmental protection, corporate social responsibility and intellectual property.

KLM has also implemented a code of ethics intended for employees in the finance department.

### Internal audit charter

The terms of the Air France-KLM group internal audit charter were determined by the Audit Committee of the Air France-KLM holding company in November 2005.

The internal audit charter defines the mission, objectives and responsibilities of the Audit department and guarantees its independence as well as the conditions under which the department functions. In accordance with the national and international professional code of ethics, it formalizes the position of audit within the company and defines its sphere of action. It also specifies the operating methods and the different performance and summary phases of the missions carried out.

### Procurement quality manual

The Common Working Platform document currently being established describes the purchasing processes and related documents applicable within the group, which are mainly designed to ensure an impartial and objective selection of suppliers and service providers.

It also includes the purchasing Ethical Charter, which defines the rules of conduct for all employees when dealing with suppliers or service providers, and informs all those involved in the process of the limits that must not be crossed.

### Quality system

The Air France and KLM quality systems are based on the following principal external and internal standards.

### External standards

- Regulations: national regulations (based on European regulations) and applicable general laws, international standards (ICAO, IATA, etc.);
- Passenger service: European commitments of the Association of European Airlines (AEA), service commitments of those involved in air transportation (airports);
- Management and the environment, the ISO 9000 and 14000 standards.

### Internal standards

These represent the application of the external standards, tailored to the processes of each company:

- regulations: operating, maintenance and security manuals and the related general procedures, which are mostly subject to formal validation by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.);
- management systems: the quality manual of each company and related general procedures.

Furthermore, Air France has covered the entire customer service chain leading to service certification.

## V - Summary information on internal control procedures

## Management procedures and processes

These procedures are based on the organization and structure of the group's companies. The following businesses are common to the two Air France and KLM sub-groups:

- the passenger business, which includes all operations involved in the transport of passengers, including the network, marketing, sales and production departments that provide the services required for air and ground operations;
- the cargo business that conducts cargo marketing and operations;
- the industrial business responsible for maintenance and engineering operations for the airframes, components and engines.

Until the end of the financial year ending March 31, 2007, only KLM operated a low cost/charter business covering the leisure and charter activities of KLM and operated by its wholly-owned transavia.com subsidiary. This activity will also be operational at Air France as of May 2007.

Finally, the central support functions of Human Resources, Finance in the broad sense, Administrative Services and Information Systems are specific to each of the companies.

Strategic decisions in the commercial, financial, technical and operational areas are coordinated by the Strategic Management Committee (SMC), which is the major governance body described in Chapter II above. This governance body was supplemented, in April 2005, by departments at the holding company level in the areas of finance, legal/administrative services for the Board of Directors, internal control/audit and relations with the European bodies and coordination of the SkyTeam alliance.

Air France and KLM respectively control 82 and 67 subsidiaries and sub-subsidiaries. Only three Air France subsidiaries and one KLM subsidiary generate third-party revenues in excess of €100 million. The companies Air France and KLM alone represent more than 90% of the group's revenues and 95% of the total balance sheet.

The provisional management of the Air France-KLM group is organized on the basis of three structural approaches:

- the broad strategic orientations of the Air France-KLM group are defined and prioritized in the context of a "Group Strategic Framework" (GSF) that brings together the executives of Air France and KLM at a fall seminar;
- the Medium-Term target (MTT), which represents the expression of this vision, with a three-year horizon for each of the two companies in terms of growth, investments and human resources combined with comprehensive economic figures presented and discussed in December of each year by the Strategic Management Committee with a definition of action plans for revenues and costs;
- the budgets for the fiscal year, which include the first year of the MTT and are established by cost centers and consolidated at the level of each company, and then at the level of the Air France-KLM group.

## Financial procedures and processes and year-end

### Finance processes

Investments are managed by each company in accordance with its own procedures. Major investments, particularly in aircraft, are subject to the approval of the Strategic Management Committee (fleet, acquisitions, disposals, etc.).

### Coverage of risks

The management of Air France–KLM market risks is led by the Risk Management Committee (RMC), which comprises the Chief Operating Officer and the Chief Financial Officer for Air France and the Chief Executive Officer and the Chief Financial Officer for KLM.

This committee meets at the beginning of each quarter and decides, after examining the group reports, on the hedges to be set up during the coming quarters, with different durations depending on the markets: the hedging ratios to be achieved, the time period for meeting these objectives and, potentially, the preferred type of hedging instruments. These decisions are then implemented in each company by the Cash Management and Fuel Purchasing departments in compliance with the procedures for delegating powers. Regular meetings are organized between the Fuel Purchasing departments of the two companies, as well as between the Cash Management departments in order to exchange information on the hedging instruments, the strategies planned and the counterparties.

The Air France and KLM cash positions are monitored daily and are the subject of a monthly report to the finance departments of the two groups. These reports include interest rate and currency positions, the portfolio of hedging operations, a summary of investments and financing by currency and a capital rationing tracking statement by counterparty.

Fuel hedges are covered in a weekly report forwarded to the executive managements of Air France and KLM.

The establishment of hedges aims to reduce the exposure of Air France-KLM and therefore to preserve budgeted margins. The instruments used are futures, swaps and options. The internal risk management procedures prohibit instruments characterized as trading instruments unless specifically authorized by the Senior Executive Vice President, Finance. Generally speaking, no trading or speculation is authorized.

### Accounting and financial statements process

The consolidated financial statements of the Air France-KLM group are prepared on the basis of the data provided by the financial departments of the holding company and its subsidiaries.

The group is primarily composed of the two operational sub-groups, Air France and KLM, which prepare their own consolidated statements prior to their consolidation within the Air France-KLM accounts.

The accounting information provided by the various departments of the company and subsidiaries must comply with the group's accounting rules, methods and standards defined by the parent company, and set out, as of this year, in a Group Accounting Procedures Manual distributed to all entities consolidated in the Air France-KLM Group.

As part of their legal mission to certify the consolidated and individual financial statements, the statutory auditors conduct a complete review of the information provided by the various consolidated entities.

The consolidated and individual statements are submitted to Management, then reviewed by the statutory auditors (half-year and annual financial statements only) before they are presented to the Audit Committee, which meets every quarter to close the accounts.

In accordance with European Council regulation No. 1606/2002 adopted on July 19, 2002, the group's consolidated financial statements are drawn up in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union for financial years from April 1, 2005.

Air France-KLM, which is listed in France, the Netherlands and the United States, is also required to prepare and file consolidated financial statements in the United States according to US accounting standards.

As with the financial statements prepared according to IFRS as adopted by the European Union, the financial statements prepared according to US accounting standards are presented to the statutory auditors for certification and are then presented to the Audit Committee.

### Revenue reporting process

This process is performed in each of the companies and makes it possible to communicate weekly revenues to management. Air France has also set up a "progressive revenue" process that makes it possible to know the estimated amount of passenger revenues with only a two-day time lag for its own operations and those of franchisee subsidiary airlines.

In addition, departments for passenger and cargo activities in each company analyze the results by market and by route (unit revenues, per passenger-kilometer, available seat-kilometer, revenue ton-kilometer, etc.).

### Management reporting process

The management control departments coordinate the reporting process and, at the beginning of month m+1, establish a management estimate based on the information available then, once the accounting result is known, produce a monthly document that summarizes the business and key financial data and then analyze the results They also routinely analyze economic performance for the past month with the principal departments and subsidiaries of the companies and estimate the results for the coming months up to the end of the current fiscal year. The monthly report is presented to the Strategic Management Committee. In April 2005, a group management reporting unit was created.

## Operational procedures and processes

### Quality system management

Both the Air France and KLM quality manuals describe all the general provisions of the quality system implemented in each of the two companies, i.e. the overall organization, management processes, and the procedures and resources required to implement quality management and satisfy customers.

In each department of the two companies, a quality review takes stock of the operation of the quality management system and measures the performance of the main processes supervised by the department.

In addition to the regulatory approvals, which allow each company to carry out its activities, recognition of the progress made is reflected in certifications obtained from independent bodies, notably:

- IOSA certification (IATA Operational Safety Audit) obtained in 2005;
- ISO 9001-2000 certification for management systems efficiency (60 entities certificated at Air France as at March 31, 2005);
- ISO 14001 certification for the validation of environmental systems.

### Quality assurance

The control of operational processes is based primarily on three means of supervision.

Internal monitoring conducted by the quality assurance departments which includes:

- an audit program (focusing on the areas of organization and management, flight operations, flight preparation, ground and freight handling, hazardous goods, engineering and maintenance);
- regular monitoring of operations with incident analysis and routine use of debriefing;
- proactive prevention processes.

External monitoring conducted by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, takes the form of audits of operating principles and of the specific internal monitoring system. Air France and KLM are also regularly audited by their customers or their partners.

Monitoring of partners, whether they be sub-contractors or suppliers. In particular, charter companies, franchisees or code sharing companies are generally subject to a preliminary audit, then a twice-yearly audit as part of the IOSA certification process or by dedicated SkyTeam auditors.

The effective implementation of preventive/corrective actions resulting from this global monitoring is supervised by the quality assurance departments coordinated by each airline.

## Support procedures and processes

### Information systems

The control processes cover information and telecommunication systems and rely on a formalization of the procedures, which have earned ISO 9001 certification at Air France (certification renewed after an initial three-year period) and are based at KLM on a special modelling of the information systems processes (Management Enterprise Architecture/MEA Babylon). These processes have been reviewed on the basis of the Sarbanes-Oxley Act, further improving their efficiency.

The mechanisms put in place aim to ensure:

- the reliability of the IT and telecommunications resources;
- data integrity through appropriate resources, infrastructure and controls;
- the continuity of IT services and the availability of the data on the production sites with a common local contingency strategy, secure architecture and a security system covering external access points;
- the confidentiality of information based on national laws and the security of IT infrastructures through the establishment of secure, monitored and effective accesses.

The managements of the two companies ensure that the resources and expertise required by the IT systems to meet strategic objectives are developed.

Project management and software application development tools are deployed, namely the Tempo method for Air France and the Prince 2 (project management) and Stemband (development) methodologies at KLM.

The work carried out in connection with internal control projects and the ongoing project to set up a coordinated and optimized organization led to action plans designed to strengthen internal control, particularly as regards risks such as business continuity.

Finally, in 2005-06, Air France and KLM published the Security Information Manual (ISM –ISO 17799 standard) defining a common information systems security policy.

### Procurement

The activity of the Procurement department is based on a purchasing policy designed to provide entities with suitable products and services at the required time and at the best possible cost of ownership.

This is achieved by applying a purchasing policy focused on the expertise of the buyers, with separation of responsibilities (buyer, referrer, supplier), the establishment of contracts and the use of internet technologies.

The Heads of purchasing at Air France and KLM manage the network of buyers of each company through regular meetings and the presentation of the companies' purchasing performance indicators.

A Procurement coordination committee periodically brings together the purchasing departments of Air France and KLM to develop joint programs and share best practices.

## VI - Summary of evaluations of internal control on accounting and financial information

In addition to the need to comply with French internal control regulations as required by the French Financial Security Law (Loi de Sécurité Financière), the Air France-KLM group, because it is listed on the New York Stock Exchange, must also comply with the provisions of the US Sarbanes-Oxley Act. To satisfy the provisions of the Act's Article 404, which applies for the first time to Air France-KLM for the fiscal year ended March 31, 2007, a range of initiatives has been implemented since 2004 designed to generate sufficient momentum to effectively mobilize those involved in internal control so that they achieve the three objectives of carrying out and optimizing operations, generating reliable accounting and financial information, and complying with the laws and regulations in force.

The internal control program designed to satisfy the requirements of the Sarbanes-Oxley Act is structured around the following components: an annual evaluation of the Air France-KLM group control environment, and a detailed evaluation of the controls carried out on accounting and financial information at significant process level.

### Evaluation of the control environment

Within this framework, work has been carried out in the group to evaluate the work of the following corporate governance bodies:

- Board of Directors;
- Audit Committee;
- Internal Audit.

Each group department or division has been evaluated on the basis of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and efficiency tests.

Similarly, fraud prevention and general controls of information systems have been formally evaluated.

### Detailed evaluation of key controls on financial and accounting information at significant process level

A definition of the corporate model was developed using the corporate accounts and an assessment of risks. This identified a series of significant entities (main entities and subsidiaries) and within those entities a series of processes that make a significant contribution to the generation of financial statements. For each of these significant processes, process and key control documentation was drafted and existence and efficiency tests were carried out.

The group continued its evaluation program during the fiscal year. The SMC and the Audit Committee received regular progress reports concerning the evaluation of internal controls.

### Summary of evaluation pursuant to Section 404

The first evaluation report pursuant to Section 404 of the Sarbanes-Oxley Act will be produced at the end of June 2007 when the Air France-KLM group's 20-F document is published.

# Statutory Auditors' report

Prepared in accordance with Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Air France-KLM S.A. with respect to the internal control procedures for the preparation and treatment of financial and accounting information.

*(This is a free translation into English of the original French text and is provided solely for the convenience of English speaking readers.)*

Year ended March 31, 2007

To the Shareholders,

In our capacity as statutory auditors of Air France-KLM S.A., and in accordance with Article L. 225-235 of the Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended March 31, 2007.

In his report, the Chairman reports on the conditions for the preparation and organization of the Board's procedures and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information and assertions set out in the Chairman's report on the internal control procedures for the preparation and treatment of financial and accounting information.

We performed our procedures in accordance with the professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the Chairman's report on the internal control procedures for the preparation and treatment of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures for the preparation and treatment of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures for the preparation and treatment of financial and accounting information, contained in the report of the Chairman of the Board of Directors, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Paris-La Défense and Neuilly-sur-Seine, June 21, 2007

The Statutory Auditors

| KPMG Audit<br>Department of KPMG S.A. | | Deloitte & Associés |
|---|---|---|
| Jean-Luc Decornoy<br>Partner | Jean-Paul Vellutini<br>Partner | Pascal Pincemin<br>Partner |

# Financial report

# 5.

# Comments on the financial statements

## 1. Consolidated results for the year ended March 31, 2007

The Air France-KLM consolidation scope at March 31, 2007, showed little change on that of the previous financial year.

| *(In euro millions)* | March 31, 2007 | March 31, 2006 | March 31, 2005 pro forma, unaudited[3] |
|---|---|---|---|
| Revenues | 23,073 | 21,448 | 19,467 |
| Income from current operations | 1,240 | 936 | 553 |
| Income from operating activities | 1,233 | 1,455[1] | 1,931[4] |
| Net income from continuing activities | 887 | 921 | 1,632 |
| **Net income, group share** | **891** | **913**[2] | **1,704**[4] |
| **Basic earnings per share** *(In euros)* | **3.35** | **3.47** | **6.59** |

(1) *Including the 504 million euro pre-tax capital gain on Amadeus.*
(2) *Including the 419 million euro net capital gain on Amadeus.*
(3) *Air France and KLM consolidated over 12 months.*
(4) *Including the reversal of the €1.35 billion of negative goodwill on the first-time consolidation of KLM.*

### 1.1. Revenues

Revenues rose by 7.6% after a negative currency impact of 0.8% to €23.07 billion for capacity up by 3.8% measured in EASK (equivalent available seat-kilometers). Unit revenue per equivalent available seat-kilometer rose by 3.9% (+4.7% excluding currency).

### 1.2. Operating expenses

Operating expenses increased by 6.4% to €21.83 billion. This increase would have been 3.8% excluding fuel costs. Unit cost per equivalent available seat-kilometer rose by 2.8% but would have been broadly unchanged on a constant currency and fuel price basis (-0.2%).

### External expenses

At March 31, 2007, external expenses were up by 8.0% at €13.10 billion. Excluding fuel, this increase was kept to 3.5%.

| *(In euro millions)* | Financial year to March 31 | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 pro forma unaudited[(1)] |
| Aircraft fuel | 4,258 | 3,588 | 2,721 |
| Chartering costs | 646 | 605 | 565 |
| Aircraft operating leases | 600 | 637 | 611 |
| Landing fees and en route charges | 1,705 | 1,610 | 1,504 |
| Catering | 419 | 405 | 399 |
| Handling charges | 1,232 | 1,203 | 1,100 |
| Aircraft maintenance costs | 894 | 777 | 683 |
| Commercial and distribution costs | 1,201 | 1,232 | 1,435 |
| Other external expenses | 2,145 | 2,070 | 1,898 |
| **Total** | **13,100** | **12,127** | **10,916** |

(1) *Air France and KLM consolidated over 12 months.*

The main changes are as follows:

- Aircraft fuel
  Fuel purchases amounted to €4.26 billion compared with 3.59 billion at March 31, 2006 (+18.7%), reflecting a 2% increase in volumes, a 20% increase in the fuel price after hedging and a favorable currency impact of 3%;
- Landing fees and en route charges
  Landing fees and en route charges increased by 5.9% to €1.71 billion compared with 1.61 billion at March 31, 2006. This rise relates to the increase in traffic and en route charges in the African zone and of landing fees in Africa and France;
- Handling charges
  Handling charges increased by 2.4% to €1.23 billion in line with activity;
- Aircraft maintenance costs
  These amounted to €894 million, a rise of 15.1% at March 31, 2007, due to a reclassification of engine lease costs previously included within other external charges and which amounted to €30 million;
- Commercial and distribution costs
  At €1.20 billion, commercial and distribution costs fell by 2.5% (€1.23 billion at March 31, 2006). This reduction is linked to the continued fall in commissions following the 2005 transition to zero commissions for travel agencies;
- Other external expenses
  Other external expenses amounted to €2.15 billion at March 31, 2007, compared with 2.07 billion at March 31, 2006, an increase of 3.6%. They include, amongst other items, building rents, telecommunications costs, insurance and fees.

### Salaries and related costs

Salaries and related costs rose by 5.2% to €6.69 billion with the average headcount stable at 103,050. Some 50% of this increase was due to social security charges which increased by 12.8% (impact of the change in the unemployment insurance scheme at Air France).

### Taxes other than income taxes

Taxes other than income taxes amounted to €263 million compared with €228 million in the previous year.

### Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1.79 billion compared with 1.73 billion at March 31, 2006 (+3.6%). Amortization increased by 7.6%, reflecting the investment made by the group.

### 1.3. Income from current operations

Income from current operations increased by 32.5% to €1.24 billion (vs. €936 million at March 31, 2006). The adjusted operating margin[1] was 6.3% (+0.9 points).

The contribution to revenues and current operating income by sector of activity was as follows:

| | Year ended March 31, 2007 | | Year ended March 31, 2006 | | Year ended March 31, 2005[1] | |
|---|---|---|---|---|---|---|
| | Revenues | Income from current operations | Revenues | Income from current operations | Revenues | Income from current operations |
| Passenger | 18,366 | 1,067 | 16,942 | 686 | 15,379 | 384 |
| Cargo | 2,909 | 62 | 2,882 | 166 | 2,576 | 140 |
| Maintenance | 977 | 44 | 896 | 54 | 799 | 25 |
| Other | 821 | 67 | 728 | 30 | 713 | 4 |
| **Total** | **23,073** | **1,240** | **21,448** | **936** | **19,467** | **553** |

[1] *Pro forma, unaudited Air France and KLM consolidated over 12 months.*

### 1.4. Income from operating activities

Income from operating activities amounted to €1.23 billion compared with 1.46 billion at March 31, 2006, the latter figure including, notably, the pre-tax capital gain of €504 million relating to Amadeus shares tendered in the public exchange offer by WAM in July 2005.

### 1.5. Net cost of financial debt

Net financial charges fell by 37.5% to €140 million compared with 224 million at March 31, 2006, mainly due to financial income generated by cash management and the reduction in debt.

### 1.6. Net income, Group share

Pre-tax income from fully integrated companies amounted to €1.12 billion. After a tax charge of €248 million giving an effective tax rate of 22.2% compared with 21.3% in the previous financial year, and a 17 million euro positive contribution from associates (-23 million at March 31, 2006), net income, group share amounted to €891 million compared with €913 million in the previous financial year. The contribution to net income by quarter was, respectively, €245 million at June 30, 2006, €373 million at September 30, 2006, €229 million at December 31, 2006 and €44 million at March 31, 2007.

Earnings per share amounted to €3.35 against €3.47 at March 31, 2006. Diluted earnings per share amounted to €3.05 (€3.25 at March 31, 2006).

*(1) Operating income adjusted for the portion of operating leases corresponding to financial charges (34%)*

## 2. Air France-KLM parent company results

The agreements for the business combination between Air France and KLM provided for the formation of a holding company. The former Air France, now known as Air France-KLM, contributed almost all its assets and liabilities to a company which re-assumed the name Air France. Air France-KLM is the group's holding company and owns the operating subsidiaries Air France and KLM.

As a holding company, Air France-KLM has no operational activity. Its activity comprises royalties paid by the two operational subsidiaries for use of the Air France-KLM logo, less financial communication expenses, auditors' fees and payroll costs for corporate officers. The operating results thus amounted to a 2 million euro loss. After taking into account €157 million of dividends including an Air France interim dividend of €75 million in respect of the 2006-07 financial year, net income amounted to €157 million.

Pursuant to the provisions of articles 39 and 223 of the French tax code relating to non-tax-deductible expenses and charges, note that there were no amounts of this nature during the year.'

## 3. Subsequent events and outlook

The only event arising subsequent to the closure of the financial statements was the announcement made by the group on its new aircraft orders, the details of which can be found in the Fleet section of this document.

For the 2007-08 financial year, the Air France-KLM group is targeting capacity growth of around 5%. The company's assumptions are for a slight increase in unit revenues on a constant currency basis and a euro/dollar exchange rate of 1.35. The fuel bill is expected to increase by €340 million to €4.6 billion based on a jet fuel price of $ 700 a ton. Furthermore, the new cost savings plan "Challenge 10" will contribute savings amounting to 560 million for the current year. The first quarter will be affected by adverse calendar effects in May. However activity, both in terms of traffic and advance bookings, is in line with expectations.

Assuming current market conditions are maintained, the group's objective for this year is to generate a further improvement in operating income and a return on capital employed of 7%, two years ahead of schedule, reflecting the next phase of value creation.

# Investment and financing

The Air France-KLM group's capital expenditure on tangible and intangible assets and on the acquisition of subsidiaries and equity interests amounted to €2.4 billion in the year ended March 31, 2007 compared with €2.6 billion the previous year. This was financed from operating cash flow of €2.85 billion. Proceeds from asset disposals were €160 million (€227 million at March 31, 2006). Free cash flow stood at €632 million at March 31, 2007 compared with 339 million a year earlier, to which were added 817 million in cash from the Amadeus transaction.

The group's cash position amounted to €3.9 billion, including 0.6 billion of investment securities immobilized over 3 and 12 months, a 200 million euro improvement. Furthermore, the group still has 1.7 billion in available credit facilities.

The balance sheet was further strengthened over the year with a 789 million euro reduction in net debt to €3.59 billion and stockholders' equity of €8.41 billion. The gearing ratio thus declined from 0.56 at March 31, 2006 to 0.43 at March 31, 2007.

## Investment

| *(In euro millions)* | 2006-07 | 2005-06 | 2004-05[1] |
|---|---|---|---|
| Acquisition of intangible assets | (37) | (30) | (23) |
| Investment in flight equipment | (2,000) | (2,190) | (1,800) |
| Other investment in property, plant & equipment | (341) | (324) | (347) |
| Acquisition of subsidiaries and investments in associates, net of cash acquired | (25) | (58) | 506[2] |
| Proceeds on disposals of subsidiaries and equity interests | 43 | 35 | 109 |
| Proceeds on disposals of property, plant and equipment, and intangible assets | 160 | 227 | 157 |
| Net cash received from Amadeus transaction | - | 817 | - |
| Dividends received | 6 | 10 | 25 |
| Net decrease (increase) in investments between 3 months and 1 year | 331 | (294) | 116 |
| **Net cash used in investing activities** | **(1,863)** | **(1,807)** | **(1,257)** |

(1) *Unaudited proforma, Air France and KLM consolidated over 12 months.*
(2) *Including the € 575 million of KLM cash on its acquisition date.*

Investment in tangible and intangible assets represented €2.38 billion, of which 2.0 billion in flight equipment (2,2 billion at March 31, 2006). The acquisition of aircraft (see section on the Fleet) and advance payments amounted to €1.2 billion while other investment in flight equipment also included the capitalization of overhaul costs in line with IAS 16 and the capitalization of aircraft spare parts. Ground investment reached €341 billion and included different industrial equipment and facilities. Intangible investment amounting to 37 million related to software purchases.

Cash disbursed to pay for acquisitions of subsidiaries and equity interests amounted to €25 million (€58 million to March 31, 2006) and mainly related to the acquisition of 2% of Club Med for €17 million and Euronext shares for €5 million.

Proceds on disposals of subsidiaries and equity interests amounted to €43 million, mainly on the sale of Euronext shares (€6.7 million) and the exercise of options on Air France-KLM shares within the framework of the stock option scheme for pilots (€30 million).

Proceeds disposals of property, plant and equipment and intangibles amounted to €160 million (€227 million in 2005-06), of which 91 million on the sale of aircraft (1 A319 aircraft, 3 B747s, 1 B737 and 2 Embraer 120s) and €69 million on the disposal of other assets. Dividends received from unconsolidated subsidiaries amounted to €6 million compared with €10 million in the previous year. Finally, income on investments made for periods of between 3 months and one year was down by €331 million compared with a €294 million increase one year earlier.

Overall, cash flows used in investing activities showed a net disbursement of €1.86 billion compared with €1.81 billion in the 2005-06 financial year.

## Financing

| *(In euro millions)* | 2006-07 | 2005-06 | 2004-05 |
|---|---|---|---|
| Issuance of long-term debt | 1,240 | 1,410 | 858 |
| Repayments on long-term debt | (714) | (523) | (288) |
| Payment of debt on finance lease liabilities | (866) | (580) | (381) |

The group's debt principally serves to finance investment in flight equipment. At March 31, 2007, 80% of long-term debt was guaranteed by pledged or mortgaged assets. During the year, the group contracted €1.24 billion of new debt (1.41 billion at March 31, 2006) including the 550 million euro bond issue described in note 30.4 of the notes to the consolidated financial statements. In parallel, the group repaid €714 million of long-term borrowings (€523 million in 2005-06) and 866 million of debt relating to finance lease liabilities (€580 million in 2005-06).

# Property, plant and equipment

## Property, plant and equipment of the Air France-KLM group

| **Net book value** *(In euro millions)* | **2006-07** | **2005-06** | **2004-05** |
|---|---|---|---|
| ***Flight equipment*** | ***11,551*** | ***11,017*** | ***10,394*** |
| Land and buildings | 1,263 | 1,265 | 1,191 |
| Equipment and machinery | 361 | 336 | 313 |
| Assets in progress | 145 | 126 | 163 |
| Others | 238 | 228 | 228 |
| **Total other property and equipment** | **2,007** | **1,955** | **1,895** |

Information on flight equipment is given in the Fleet section of this document and orders for flight equipment are the subject of note 34 in the notes to the consolidated financial statements. After the fleet, land and buildings are the second largest category of tangible assets for the Air France-KLM group and are described in detail below.

## The Air France-KLM group's land and buildings

The breakdown of surface area by business unit is as follows:

| **Approximate surface area** *(In $m^2$)* | **Air France group**[1] | **KLM group** | **Total** |
|---|---|---|---|
| Operations | 402,000 | 202,000 | 604,000 |
| Cargo | 339,000 | 93,000 | 432,000 |
| Maintenance | 658,000 | 179,000 | 837,000 |
| Support | 656,000 | 113,000 | 769,000 |
| **Total** | **2,055,000** | **587,000** | **2,642,000** |

[1] *in metropolitan France.*

The main changes were, for Air France, the restitution of a 14,000 $m^2$ hangar at Le Bourget and an 11,200 m2 warehouse at Aulnay and the coming on line of a 3,000 m2 coordination center at the Roissy-Charles de Gaulle hub.

Investments were financed as follows:

| | Air France group | KLM group | Total |
|---|---|---|---|
| Fully owned | 44% | 89% | 54% |
| Finance lease | 13% | - | 12% |
| Operating lease | 43% | 11% | 34% |
| **Total** | **100%** | **100%** | **100%** |

The minimum future payments on operating leases relating to buildings amounted to €1.2 billion at March 31, 2007 (see note 33.2 of the notes to the consolidated financial statements).

The major part of the Air France group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Geographically, the main sites are as follows:

| Sites | Approximate surface area (in m²) | Type of financing |
|---|---|---|
| ***Air France group*** | | |
| Roissy-Charles de Gaulle airport | 841,000 | Ownership, finance lease, rental |
| Orly airport | 437,000 | Ownership, rental |
| Toulouse | 71,000 | Ownership, finance lease |
| Vilgénis | 45,000 | Ownership |
| Le Bourget | 44,000 | Rental |
| Montreuil | 36,000 | Rental |
| Valbonne | 17,000 | Ownership |
| ***KLM group*** | | |
| Schiphol airport | 33,000 | Operating lease |
| Schiphol Centrum | 135,000 | Ownership |
| Schiphol Oost | 318,000 | Ownership, oprating lease |
| Schiphol Rijk | 23,000 | Ownership, operating lease |
| Schiphol Noord | 22,000 | Ownership |
| Amstelveen | 29,000 | Ownership |
| Others | 27,000 | Operating lease |

The main rental contracts concern:

| Sites | Approximate surface area (in $m^2$) | Type of financing |
|---|---|---|
| ***Air France group*** | | |
| Commercial head office, Montreuil | 20,000 | Commercial lease |
| Hangar H4 at CDG | 35,000 | Agreement |
| Hangar Hbn6 at Orly | 45,000 | Agreement |
| ***KLM group*** | | |
| Schiphol | 37,500 | Commercial lease |

## Assets in progress

The main construction projects underway at Air France are:

- the 26,000 $m^2$ A380 hangar at Roissy-Charles de Gaulle, representing an investment of around €47 million with completion expected in spring 2008;
- the construction of the 16,500 $m^2$ maintenance center at the Roissy hub, costing an estimated €27 million with completion expected in June 2007;
- the development of the 15,000 $m^2$ satellite 3 at CDG2 for €24 million with completion expected in June 2007;
- the rehabilitation of the 14,000 $m^2$ Orly Sud head office, representing a 22 million euro investment with completion expected in late 2008.

The KLM group currently has no outstanding commitments to large-scale investment projects.

# Consolidated financial statements

Year ended March 31, 2007

## Consolidated income statements

| *(In euro millions)* **Period from April 1 to March 31** | Notes | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| ***Sales*** | 5 | ***23,073*** | ***21,448*** | ***18,978*** |
| Other revenues | | 4 | 4 | 5 |
| ***Revenues*** | | ***23,077*** | ***21,452*** | ***18,983*** |
| External expenses | 6 | (13,100) | (12,127) | (10,629) |
| Salaries and related costs | 7 | (6,689) | (6,357) | (5,994) |
| Taxes other than income taxes | | (263) | (228) | (225) |
| Amortization and depreciation | 8 | (1,782) | (1,656) | (1,561) |
| Provisions | 8 | (8) | (72) | (28) |
| Other income and expenses | 9 | 5 | (76) | 4 |
| ***Income from current operations*** | | ***1,240*** | ***936*** | ***550*** |
| Sales of aircraft equipment | 10 | 13 | 2 | 19 |
| Negative goodwill | 4 | - | 5 | 1,354 |
| Other non-current income and expenses | 10 | (20) | 512 | 4 |
| ***Income from operating activities*** | | ***1,233*** | ***1,455*** | ***1,927*** |
| Cost of financial debt | | (407) | (392) | (347) |
| Income from cash and cash equivalents | | 267 | 168 | 125 |
| ***Net cost of financial debt*** | ***11*** | ***(140)*** | ***(224)*** | ***(222)*** |
| Other financial income and expenses | 11 | 25 | (31) | (8) |
| ***Income before tax*** | | ***1,118*** | ***1,200*** | ***1,697*** |
| Income taxes | 12 | (248) | (256) | (133) |
| ***Net income of consolidated companies*** | | ***870*** | ***944*** | ***1,564*** |
| Share of profits (losses) of associates | 20 | 17 | (23) | 73 |
| ***Net income from continuing operations*** | | ***887*** | ***921*** | ***1,637*** |
| Net income from discontinued operations | 13.1 | - | - | 59 |
| **Net income for the period** | | **887** | **921** | **1,696** |
| **Group** | | **891** | **913** | **1,710** |
| **Minority interest** | | **(4)** | **8** | **(14)** |
| Earnings per share – Group *(in euros)* | 14.1 | | | |
| ♦ basic | | 3.35 | 3.47 | 6.61 |
| ♦ diluted | | 3.05 | 3.25 | 6.60 |
| Earnings per share from continuing operations *(in euros)* | 14.2 | | | |
| ♦ basic | | 3.33 | 3.50 | 6.33 |
| ♦ diluted | | 3.03 | 3.28 | 6.32 |

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

## Consolidated balance sheets

| **Assets** *(In euro millions)* | **Notes** | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
|---|---|---|---|---|
| *Goodwill* | 15 | 204 | 208 | 205 |
| Intangible assets | 16 | 424 | 428 | 437 |
| Flight equipment | 18 | 11,551 | 11,017 | 10,394 |
| Other property, plant and equipment | 18 | 2,007 | 1,955 | 1,895 |
| Investments in equity associates | 20 | 228 | 204 | 577 |
| Pension assets | 21 | 2,097 | 1,903 | 1,767 |
| Other financial assets *(which includes €835 million of deposits related to financial leases as of March 31, 2007, €895 million as of March 31, 2006 and €875 million as of March 31, 2005)* | 22 | 1,095 | 1,182 | 1,113 |
| Deferred tax assets | 12.5 | 26 | 7 | 140 |
| Other non-current assets | 25 | 604 | 1,082 | 336 |
| ***Total non-current assets*** | | ***18,236*** | ***17,986*** | ***16,864*** |
| Other short term financial assets (which includes €631 million of deposits related to financial leases and investments between 3 months and 1 year as of March 31, 2007, €889 million as of March 31, 2006, €632 million as of March 31, 2005) | 22 | 689 | 932 | 654 |
| Inventories | 23 | 360 | 340 | 382 |
| Trade accounts receivable | 24 | 2,610 | 2,518 | 2,272 |
| Income tax receivables | | 7 | 1 | 6 |
| Other current assets | 25 | 1,271 | 1,756 | 969 |
| Cash and cash equivalents | 26 | 3,497 | 2,946 | 2,047 |
| ***Total current assets*** | | ***8,434*** | ***8,493*** | ***6,330*** |
| **Total assets** | | **26,670** | **26,479** | **23,194** |

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

## Consolidated balance sheets (continued)

| **Liabilities and equity** *(In euro millions)* | **Notes** | **March 31, 2007** | **March 31, 2006** | **March 31, 2005** |
|---|---|---|---|---|
| Issued capital | 27.1 | 2,375 | 2,290 | 2,290 |
| Additional paid-in capital | 27.2 | 539 | 430 | 384 |
| Treasury shares | 27.3 | (30) | (58) | (19) |
| Reserves and retained earnings | 27.4 | 5,415 | 5,072 | 3,254 |
| ***Equity attributable to equity holders of Air France-KLM*** | | ***8,299*** | ***7,734*** | ***5,909*** |
| Minority interest | | 113 | 119 | 111 |
| ***Total Equity*** | | ***8,412*** | ***7,853*** | ***6,020*** |
| Provisions and retirement benefits | 29 | 1,387 | 1,453 | 1,516 |
| Long-term debt | 30 | 7,419 | 7,826 | 7,889 |
| Deferred tax | 12.5 | 891 | 839 | 313 |
| Other non-current liabilities | 31 | 401 | 417 | 481 |
| ***Total non-current liabilities*** | | ***10,098*** | ***10,535*** | ***10,199*** |
| Provisions | 29 | 225 | 192 | 124 |
| Current portion of long-term debt | 30 | 1,098 | 1,260 | 1,044 |
| Trade accounts payable | | 2,131 | 2,039 | 1,901 |
| Deferred revenue on ticket sales | | 2,217 | 2,062 | 1,656 |
| Current tax liabilities | | 21 | 167 | 8 |
| Other current liabilities | 31 | 2,335 | 2,269 | 1,980 |
| Bank overdrafts | 26 | 133 | 102 | 262 |
| ***Total current liabilities*** | | ***8,160*** | ***8,091*** | ***6,975*** |
| **Total liabilities** | | **18,258** | **18,626** | **17,174** |
| **Total liabilities and equity** | | **26,670** | **26,479** | **23,194** |

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

## Consolidated statements of changes in stockholders' equity

| *(In euro 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 |
|---|---|---|---|---|---|---|---|---|
| *April 1, 2004* | *219,780,887* | *1,868* | *261* | *(18)* | *1,268* | *3,379* | *87* | *3,466* |
| Currency translation adjustment | - | - | - | - | 3 | 3 | (1) | **2** |
| Net income for the year | - | - | - | - | 1,710 | 1,710 | (14) | **1,696** |
| **Total of income and expenses recognized** | **-** | **-** | **-** | **-** | **1,713** | **1,713** | **(15)** | **1,698** |
| Issuance of share capital | 49,602,631 | 422 | 346 | - | - | 768 | - | **768** |
| Contribution of assets | - | - | (206) | - | 206 | - | - | **-** |
| Cost of exchange offer | - | - | (17) | - | - | (17) | - | **(17)** |
| Share purchase plan (“ Offre Réservée aux Salariés: ORS ”) | - | - | - | - | 69 | 69 | - | **69** |
| Stock options | - | - | - | - | 6 | 6 | - | **6** |
| Dividends paid | - | - | - | - | (17) | (17) | (1) | **(18)** |
| Treasury shares | - | - | - | (1) | 9 | 8 | - | **8** |
| Change in the scope of consolidation | - | - | - | - | - | - | 40 | **40** |
| *March 31, 2005* | *269,383,518* | *2,290* | *384* | *(19)* | *3,254* | *5,909* | *111* | *6,020* |
| Fair value adjustment on available for sale securities | - | - | - | - | (4) | (4) | - | **(4)** |
| Gain/(loss) on cash flow hedges | - | - | - | - | 1,055 | 1,055 | 4 | **1,059** |
| Currency translation adjustment | - | - | - | - | 4 | 4 | - | **4** |
| Net income for the year | - | - | - | - | 913 | 913 | 8 | **921** |
| **Total of income and expenses recognized** | **-** | **-** | **-** | **-** | **1,968** | **1,968** | **12** | **1,980** |
| Stock based compensation (ESA) | - | - | - | - | (80) | (80) | - | **(80)** |
| Stock component of convertible bonds (Oceane) | - | - | 46 | - | - | 46 | - | **46** |
| Dividends paid | - | - | - | - | (40) | (40) | (1) | **(41)** |
| Treasury shares (note 27.3) | - | - | - | (39) | - | (39) | - | **(39)** |
| Change in the scope of consolidation | - | - | - | - | - | - | (3) | **(3)** |
| Other | - | - | - | - | (30) | (30) | - | **(30)** |
| *March 31, 2006* | *269,383,518* | *2,290* | *430* | *(58)* | *5,072* | *7,734* | *119* | *7,853* |
| Fair value adjustment on available for sale securities | - | - | - | - | - | **-** | | |
| Gain/(loss) on cash flow hedges | - | - | - | - | (501) | **(501)** | (1) | **(502)** |
| Currency translation adjustment | - | - | - | - | (2) | **(2)** | (1) | **(3)** |
| Net income for the year | - | - | - | - | 891 | **891** | (4) | **887** |
| **Total of income and expenses recognized** | **-** | **-** | **-** | **-** | **388** | **388** | **(6)** | **382** |

| *(In euro 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 |
|---|---|---|---|---|---|---|---|---|
| Stock based compensation (ESA) | - | - | - | - | 33 | **33** | - | **33** |
| Issuance of share capital | 9,982,189, | 85 | 109 | - | - | **194** | - | **194** |
| Dividends paid | - | - | - | - | (80) | **(80)** | (8) | **(88)** |
| Treasury shares (note 27.3) | - | - | - | 28 | - | **28** | - | **28** |
| Change in consolidation | - | - | - | - | - | **-** | 8 | **8** |
| Other | - | - | - | - | 2 | **2** | - | **2** |
| **March 31, 2007** | **279,365,707** | **2,375** | **539** | **(30)** | **5,415** | **8,299** | **113** | **8,412** |

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

## Consolidated statements of recognized income and expenses

| *(In euro millions)* | March 31, 2007 | March 31, 2006 | March 31, 2005 |
|---|---|---|---|
| ***Fair value adjustment on available for sale securities*** | | | |
| Impact of the first application of IAS 32 and IAS 39 recorded in equity | - | (3) | - |
| Valuation gains/(losses) taken to equity | - | (1) | - |
| Transferred to profit or loss on sale | - | - | - |
| ***Cash flow hedges*** | | | |
| Impact of the first application of IAS 32 and IAS 39 recorded in equity | - | 1,168 | - |
| Gains/(losses) taken to equity | (1,535) | 428 | - |
| Transferred to profit or loss on sale | 771 | - | - |
| Currency translation adjustment | (2) | 4 | 3 |
| ***Tax on items taken directly to or transferred from equity*** | | | |
| ***Impact of the first application of IAS 32 and IAS 39 recorded in equity*** | - | (397) | - |
| Gains/(losses) taken to equity | 263 | (144) | - |
| ***Income and expenses directly recognized in equity*** | ***(503)*** | ***1,055*** | ***3*** |
| Net income for the period – group | 891 | 913 | 1,710 |
| **Income and expenses directly recognized in equity for the period – Group** | **388** | **1,968** | **1,713** |
| Income and expenses directly recognized in equity – Minority interest | (6) | 12 | (15) |
| **Total recognized income and expenses for the period** | **382** | **1,980** | **1,698** |

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

## Consolidated statements of cash flows

| *(In euro millions)* **Period from April 1 to March 31** | **Notes** | **2007** | **2006** | **2005** |
|---|---|---|---|---|
| Net income for the period – Group | | 891 | 913 | 1,710 |
| Minority interests | | (4) | 8 | (14) |
| Amortization, depreciation and operating provisions | 8 | 1,790 | 1,728 | 1,589 |
| Financial provisions | 11 | 10 | 24 | 6 |
| Gain on disposals of tangible and intangible assets | | (44) | (46) | (19) |
| Loss/(gain) on disposals of subsidiaries and associates | | (1) | (2) | (66) |
| Gain on Amadeus GTD transaction | 20 | (16) | (504) | - |
| Derivatives – non monetary result | 11 | (43) | (6) | - |
| Unrealized foreign exchange gains and losses, net | | (5) | 8 | 4 |
| Negative goodwill | 4 | - | (5) | (1,354) |
| Share of (profits) losses of associates | 20 | (17) | 23 | (73) |
| Deferred taxes | 12 | 244 | 98 | 139 |
| Other non-monetary items | | (112) | (182) | (143) |
| **Subtotal** | | **2,693** | **2,057** | **1,779** |
| (Increase)/decrease in inventories | | (20) | (18) | (16) |
| (Increase)/decrease in trade receivables | | (184) | (215) | 42 |
| Increase/(decrease) in trade payables | | 228 | 96 | 313 |
| Change in other receivables and payables | | 133 | 736 | (127) |
| ***Net cash flow from operating activities*** | | ***2,850*** | ***2,656*** | ***1,991*** |
| Acquisitions of subsidiaries and investments in associates, net of cash acquired | 37 | (25) | (58) | 506 |
| Purchase of property, plant and equipment and intangible assets | 19 | (2,378) | (2,544) | (2,131) |
| Proceeds on disposal of subsidiaries and investments in associates | 37 | 43 | 35 | 109 |
| Proceeds on Amadeus GTD transaction | 20 | - | 817 | - |
| Proceeds on disposal of property, plant and equipment and intangible assets | | 160 | 227 | 157 |
| Dividends received | | 6 | 10 | 25 |
| Decrease (increase) in investments, net between 3 months and 1 year | | 331 | (294) | 116 |
| ***Net cash used in investing activities*** | | ***(1,863)*** | ***(1,807)*** | ***(1,218)*** |

| *(In euro millions)* **Period from April 1 to March 31** | Notes | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Issuance of long-term debt | | 1,240 | 1,410 | 858 |
| Repayments on long-term debt | | (714) | (523) | (288) |
| Payment of debt resulting from finance lease liabilities | | (866) | (580) | (381) |
| Proceeds from new loans | | (89) | (155) | (101) |
| Repayments on loans | | 52 | 97 | 22 |
| Dividends paid | | (88) | (41) | (24) |
| Decrease in equity | | - | - | (33) |
| ***Net cash flow from financing activities*** | | ***(465)*** | ***208*** | ***53*** |
| ***Effect of exchange rate on cash and cash equivalents*** | | ***(2)*** | ***2*** | ***(5)*** |
| ***Change in cash and cash equivalents and bank overdrafts*** | | ***520*** | ***1,059*** | ***821*** |
| **Cash and cash equivalents and bank overdrafts at beginning of period** | | **2,844** | **1,785** | **964** |
| **Cash and cash equivalents and bank overdrafts at end of period** | 26 | **3,364** | **2,844** | **1,785** |
| ***Income tax paid (flow included in operating activities)*** | | ***(309)*** | ***(4)*** | ***22*** |
| ***Interest paid (flow included in operating activities)*** | | ***(451)*** | ***(364)*** | ***(312)*** |
| ***Interest received (flow included in operating activities)*** | | ***299*** | ***154*** | ***123*** |

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

# Notes to the consolidated financial statements

## Note 1 Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM, a holding company organized under French Law. The term "Group" concerns Air France-KLM together with 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 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) and New York (NYSE).

The group's functional currency is the euro.

## Note 2 Significant events of the year

On March 22, 2007, the Council of the European Union transport ministers approved the air transport agreement of March 2, 2007 between the European Union and the United States of America. Beginning April 1, 2008, European and American airlines will have access to all the markets between the European Union and the United States.

## Note 3 Accounting policies

### 3.1. Accounting principles

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the group adopted International Financial Reporting Standards ("IFRS") as adopted by the European Commission ("EU") for use in the European Union for the first time in its consolidated financial statements for the Year ended March 31 2006, which includes comparative financial statements for the Year ended March 31 2005.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board ("IASB"). The Group has, however, determined that the financial information for the periods presented would not differ substantially had the group applied IFRS as published by the IASB.

IFRS 1, "First-time adoption of International Financial Reporting Standards", which in particular describes the specific rules for a first-time adopter, was applied based on the standards and related interpretations effective at the reporting date of its first annual IFRS consolidated financial statements (*i.e.* March 31, 2006) and since the date of transition to IFRS (*i.e.* April 1, 2004) as well as throughout all periods presented.

The consolidated financial statements were approved by the Board of Directors on May 3, 2007.

In accordance with the option offered by IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement" relating to financial instruments, such standards were applied effective April 1, 2005.

In addition, the Group opted for the early adoption of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" for its fiscal period beginning April 1, 2004.

### 3.2. Use of estimates

The preparation of the 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 consolidated financial statements and the reported amounts of revenues and expenses. The significant areas of estimations are described in the following notes:

- note 3.6 – Revenue recognition related to deferred revenue on ticket sales;
- notes 3.13 and 3.12 – Tangible and intangible assets;
- note 3.10 – Financial assets;
- note 3.21 – Deferred tax assets;
- note 3.7 – Flying Blue frequent flyer program;
- notes 3.17, 3.18 and 3.19 – 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.

## 3.3. Consolidation principles

### 3.3.1. Subsidiaries

Companies in which the group exercises exclusive control are fully consolidated. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

Minority interests are presented within equity and on the income statement separately from Group stockholders' equity and the Group's net income.

### 3.3.2. Interest in associates and joint ventures

Companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are accounted for using the equity method; the ability to exercise significant influence is presumed to exist when the group holds more than 20% of the voting rights.

In addition, companies in which the group exercises joint control related to a contractual agreement are accounted for using the equity method.

The consolidated financial statements include the group's share of the total recognized gains and losses of associates and joint ventures from the date that significant influence starts until the date that significant influence ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's profit or loss. The investor's share of those changes is recognized directly in the Group's equity.

The Group's share of losses of an associate that exceed the value of the Group's interest and net investment (long term receivables) in this entity are not accounted for, unless:

- the Group has incurred contractual obligations; or
- the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer consolidated and are valued at the carrying value on the date of withdrawal from the consolidation scope.

### 3.3.3. Intragroup operations

All intragroup balances and transactions, including income, expenses and dividends are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.

Gains and losses realized on internal sales with associates and joint control entities are eliminated, to the extent of the Group's interest in the associate or joint control entity, only when they do not represent an impairment.

### 3.3.4. Closing date

With the exception of a few non-significant subsidiaries and equity affiliates that close their books on December 31, all Group companies are consolidated based on annual financial statements closing March 31.

## 3.4. Translation of foreign companies' financial statements and transactions in foreign currencies

### 3.4.1. Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- with the exception of the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting translation adjustment is recorded in the "Translation adjustments" item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign currency rate in effect at the closing date.

### 3.4.2. Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated at the rates ruling at balance sheet date or at the rate of the related hedge for assets resulting from firm commitments documented in fair value hedge relationships.

The corresponding exchange rate differences are recorded in the group's consolidated income statements. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note "3.10. Financial instruments, valuation of financial assets and liabilities".

## 3.5. Business combinations

### 3.5.1. Business combinations that occurred before the transition date to IFRS (i.e. before April 1, 2004)

In accordance with the IFRS 1 exemption, business combinations that occurred prior to April 1, 2004 (essentially Air Inter and UTA) have not been accounted for in accordance with IFRS 3.

Business combinations that occurred prior to April 1, 2004 were accounted for in accordance with French GAAP. Under French GAAP certain acquired assets and liabilities were not adjusted to fair value at the time of the acquisition, or in the case of step acquisitions, the fair values of the assets acquired and liabilities assumed were assessed during the initial step of the acquisition.

#### *3.5.2. Business combinations that occurred subsequent to April 1, 2004*

Business combinations are accounted for using the purchase method in accordance with IFRS 3. In accordance with this standard, all assets, liabilities assumed and contingent liabilities are at fair value measured at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition.

Assets meeting the criteria of IFRS 5, as described in note 3.22, are recorded at the lower of their net book value and their fair value less costs to sell.

Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control on the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired is no longer amortized, but instead is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Should the difference between the cost of acquisition and the fair value of identifiable assets acquired and liabilities assumed be negative, the resulting negative goodwill is recognized immediately in the income statement.

### 3.6. Sales

Sales related to air transportation operations are recognized when transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Upon issue, both passenger and cargo tickets are recorded as "Deferred revenue on ticket sales".

Revenues representing the value of tickets that have been issued, but which will never be used, are recognized as revenues at the date the tickets are issued. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales on third party maintenance contracts are recorded based on the stage of completion.

### 3.7. Loyalty programs

Until June 1, 2005, each of the two sub-groups (Air France and KLM) comprising the Group had its own frequent flyer program: "Fréquence Plus" and "Flying Dutchman". Each program allowed members to acquire "miles" as they flew on Air France, KLM or with other partner companies. These miles entitled members to a variety of benefits such as free flights with the two companies.

Subsequent to the acquisition of KLM, a joint frequent flyer program "Flying Blue" was launched in June 2005 combining the miles accumulated from the two previous programs.

The probability of air miles being converted into award tickets is estimated using a statistical method.

The value of air miles is estimated based on the specific terms and conditions for the use of free tickets. This estimate takes into consideration the discounted marginal cost of the passenger concerned (*e.g.* catering, ticket issue costs, etc.) and discounted cost of the miles used on participating partner companies.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred revenue on ticket sales" as debt on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognized.

The Group also sell miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognized as revenue immediately.

### 3.8. Distinction between income from current operations and income from operating activities

The Group has considered it relevant to the understanding of the Group's financial performance to present on the face of the income statement a subtotal inside the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have little predictive value due to their nature, frequency and/or materiality.

Those elements can be divided in three categories:

- elements that are both very infrequent and material, such as the recognition in the income statement of negative goodwill and the Amadeus GTD transaction;
- elements that have been incurred for both periods presented and may recur in future periods but for which (i) amounts have varied from period to period, (ii) the group believes that amounts to be incurred in future periods will continue to vary materially in amount and nature such as sales of aircraft equipment and disposals of other assets;
- elements that are by nature unpredictable and non-recurring, if they are material such as restructuring costs. The group considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to the other.

### 3.9. Earnings per share

Earnings per share are calculated by dividing net income attributable to equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding does not include treasury shares.

Diluted earnings per share are calculated by dividing the net income attributable to equity holders of Air France-KLM adjusted for the effects of dilutive instrument exercise, by the average number of shares outstanding during the period, adjusted for the effect of all potentially-dilutive ordinary shares.

### 3.10. Financial instruments, valuation of financial assets and liabilities

The Group has applied standards IAS 32 and IAS 39 since April 1, 2005.

#### *3.10.1. Valuation of trade receivables and non-current financial assets*

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Group and are recorded at fair value, then subsequently using the amortized cost method less impairment losses, if any.

#### *3.10.2. Investments in debt and equity securities*

Investments in debt and equity securities qualifying as assets available for sale are stated at fair value in the Group's balance sheet. For publicly-traded securities, the fair value is considered to be the market price. For other securities, if the fair value cannot be reliably estimated, it equals the acquisition cost less impairment, if any.

Potential gains and losses, except for impairment charges, are recorded in a specific component of equity " Derivatives and available for sale securities reserves" If there is an indication of impairment of the financial asset, the amount of the loss is recorded in the income statement for the period.

#### *3.10.3. Derivative instruments*

The group uses various derivative instruments to hedge its exposure to the risks of changes in interest rates, exchange rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to the rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Prior to April 1, 2005, the Group applied the following accounting policies:

- forward exchange contracts and foreign currency swaps were used to hedge foreign currency exchange rate exposures. Unrealized gains and losses on these investments were deferred and recorded against the carrying amount of the hedged asset or liability on firm commitments. Contract premiums were amortized on a straight line basis over the term of the hedge arrangement;
- the Group entered into various interest rate swaps to manage its interest rate exposure. These swaps are used to modify the instruments from fixed rate to variable rate or variable rate to fixed rate. The difference between interest payable and receivable was recognized as interest expense or interest income;
- the petroleum options premiums were accounted for in the income statement on an accrual basis. The difference between interest payable and receivable on petroleum swaps was recognized as operating income or expense.

Effective April 1, 2005:

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39.

These derivative instruments are recorded on the group's consolidated balance sheet at their fair value. The method of accounting for changes in fair value depends on the derivative instruments classification. There are three classifications:

- *derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as earnings;
- *derivatives classified as cash flow hedge*: the changes in fair value are recorded in equity for the effective portion and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income or financial losses;
- *derivatives classified as trading*: changes in the derivative fair value are recorded for as financial income or losses.

#### *3.10.4. Convertible bonds*

Convertible bonds are financial instruments comprised of two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the group's equity is calculated by the difference between such value and the bond's nominal value at issue. The difference between the financial expense recorded and the amounts effectively paid out is added, at each closing, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

#### 3.10.5. Trading financial assets, cash and cash equivalents

**Trading financial assets (at fair value through the income statement)**

Trading financial assets are made up of financial assets held for trading (SICAV, FCP, treasury bills, certificates…) that the Group intends to sell in the near term to realize a capital gain, or that are part of a portfolio of identified financial instruments managed collectively and for which there is evidence of a practice of short-term profit taking. They are classified in the balance sheet as current financial assets. Furthermore, the Group did not designate any asset at fair value through the income statement upon option.

**Cash and cash equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### 3.10.6. Long-term debt

Long-term debt is recognized initially at fair value. Subsequently to initial recognition, long-term debt is recorded at amortized cost using the effective interest method. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial income or expense over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, *i.e.* the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

### 3.11. Goodwill

Goodwill represents the excess of the cost of a business combination over the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 was not modified at the time international standards were adopted, on April 1, 2004, in accordance with IFRS 1.

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. The impairment recorded, as discussed in note 3.14, may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the acquisition cost, there is negative goodwill which is recognized and immediately reversed in the Group's income statement.

At the time of the sale of a subsidiary, an equity affiliate or a jointly controlled entity, the amount of the goodwill attributable to the sold entity is included in the calculation of the income from the sale.

### 3.12. Intangible assets

Intangible assets are recorded at initial cost less accumulated amortization and any accumulated impairment losses.

Identifiable intangible assets acquired with a finite useful life are amortized over their useful life from the date they are available for use.

Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in note 3.14 is recorded.

Intangible assets with a finite useful life are amortized on a straight line basis over the following periods:

- Software 1 to 5 years
- Customer relationships 5 to 12 years

### 3.13. Property, plant and equipment

#### 3.13.1. Specific rule applicable to the IFRS transition opening balance sheet

In accordance with IFRS 1, the Group has elected to value certain of its aircraft at the date of transition to IFRS (April 1, 2004) at their fair value and to use this fair value as deemed cost.

This treatment thus allows the Group to have a portion of its fleet recorded at fair value (fair value was used when accounting for KLM's business combination at May 1, 2004).

The fair value exercise was based on independent valuation by third parties.

#### 3.13.2. Principles applicable since April 1, 2004

Property, plant and equipment are recorded at the historical acquisition or manufacturing cost, less accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Insofar as investment installments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are recorded as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (*e.g.* maintenance on airframes and engines, excluding parts with limited useful lives).

#### *3.13.3. Flight equipment*

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value.

IFRS requires an annual review of the residual value and the amortization schedule. During the operating cycle, in developing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframes and engines (excluding parts with limited useful lives) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components are recorded in the consolidated balance sheet as fixed assets. The useful lives vary from 3 to 20 years depending on the technical properties of each item.

#### *3.13.4. Other property, plant and equipment*

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

- Buildings — 20 to 40 years
- Fixtures and fittings — 8 to 15 years
- Flight simulators — 10 to 20 years
- Equipment and tooling — 5 to 15 years

#### *3.13.5. Leases*

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related profit or losses are accounted for as follows:

- they are recognized immediately when it is clear that the transaction is established at fair value;
- if the sale price is below fair value, any profit or loss is recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used; and
- if the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as finance income over the lease term. No loss is recognized unless the asset is impaired.

### 3.14. Impairment

In accordance with IAS 36, "Impairment of Assets", the Group reviews at each balance sheet date whether there is any indication of impairment of tangible and intangible assets. If such an indication exists, the recoverable value of the assets is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and its value in use. The value in use is determined using discounted cash flow assumptions established by management.

When it is not possible to estimate the recoverable value for an individual asset, this asset is grouped together with other assets which form a cash generating unit (CGU).

Therefore, the Group has determined that the lowest level at which assets shall be tested are CGU, which correspond to group's operating segments (see segment information).

When the recoverable value of a CGU is lower than its carrying value, an impairment charge is recognized. When applicable, this impairment loss is allocated first to the goodwill, the remainder is allocated to the other assets of the CGU *pro rata* on the basis of the carrying amount of each asset in the unit.

The recoverable value of the CGUs is their value in use determined, notably, by the use of a discount rate corresponding to the Group's weighted average cost of capital and a growth rate reflecting the market assumptions specific to the activities.

### 3.15. Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

### 3.16. Treasury shares

Air-France-KLM shares held by the Group are recorded as a deduction from the group's consolidated equity at the acquisition cost.

Subsequent sales are recorded directly in equity. No gains or losses are recognized in the Group's income statement.

As the Group has applied IAS 32 and 39 effective April 1, 2005, treasury shares held to fulfill stock options are classified until that date as marketable securities at their acquisition cost. The carrying amount of such shares is depreciated if necessary. Effective April 1, 2005, such shares are recorded as a reduction of the Group's equity.

### 3.17. Employee Benefits

The Group's obligation in respect of defined benefit pension plans and termination indemnities on retirement are calculated, in accordance with IAS 19, using the projected units of credit method, factoring in the specific economic conditions in the various countries concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.

In accordance with IFRS 1, the Group has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS through the Group's equity.

Starting April 1, 2004, any actuarial gains or losses resulting from changes in actuarial assumptions are recognized in the Group's income statement only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan assets at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plan.

#### *3.17.1. Specific information related to the recognition of some pension plan assets*

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR"). Questions have been raised as to how such MFR might affect the recognition of a pension net asset that otherwise would be recognized under IAS 19 in respect of the surplus in a plan and thus, how the Group should account for certain pension asset surpluses of KLM in its consolidated financial statements.

Recognition of a pension net asset under IAS 19 is subject to interpretation. Because of this situation, and for the accounting treatment of companies of the KLM group, an interpretation of IAS 19 has been requested from the IFRIC, the interpretation technical body of the IASB.

#### *3.17.2. Accounting for the pension fund surplus for the year-end closing*

Although the IFRIC has yet to deliver its final conclusions, the Group has defined its accounting position based on various publications, and particularly the "IFRIC Update" dated September 2005 and the "IFRIC D19", published on August 24, 2006, whose comments period ended on October 31, 2006.

According to these, the KLM pension fund surplus must be fully recognized in the balance sheet.

### 3.18. Provisions for restitution of aircraft under operating leases

For certain operating leases, the Group is contractually committed to restitute aircraft to a defined level of potential. The Group accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

The restitution costs for airframes and engines relating to operating lease contracts are provisioned.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess. Such amount is subsequently amortized on a straight line basis over the period during which the potential exceeds the restitution condition. Any remaining capitalized excess potential upon termination of a lease is reimbursable by the lessor.

### 3.19. Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.

The effect of the time value of money is presented as a component of financial income.

Restructuring provisions are recognized once the group has established a detailed and formal restructuring plan which has been announced to the parties concerned.

### 3.20. Equity and debt issuance costs - redemption premiums

Debt issuance costs are amortized as financial expenses over the term of the loans using the effective interest method.

Common stock issuance costs are deducted from additional paid-in capital.

### 3.21. Deferred taxes

The Group records deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for exceptions described in IAS 12.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets related to temporary differences and carry forwards are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

A deferred tax liability is also recognized in the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event recorded directly as equity. In such a case, they are recorded directly in equity.

### 3.22. Non-current assets held for sale and discontinued operations

Non-current assets or groups of assets intended for sale meet the criteria of such a classification if their carrying amount will be recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets was classified as a non-current asset held for sale.

The Group determines on each closing date whether any assets or group of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to non-current assets to be sold are also presented on a separate line in liabilities on the balance sheet.

Non-current assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented separately from the results from continuing operations in the income statement.

### 3.23. Share-based compensation

Pursuant to the transitional provisions of IFRS 2, only the share based plans awarded after November 7, 2002, for which the rights did not vest by April 1, 2004, were valued and recorded as salaries and related costs. The other plans are not valued and remain unrecognized. This latter category affects only the Shares-for-Salary Exchange realized in 1998 for which stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option schemes is determined using the Black-Scholes model. This model takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is estimated to be the fair value of the services rendered by the employees in consideration for the options received. It is recognized as a salary cost with a corresponding increase to equity over the period during which the rights vest. This salary cost is adjusted, if applicable, to take into account the number of options effectively vested.

# Note 4 Changes in the scope of consolidation

## 4.1. Acquisition of KLM

On April 5, 2004, Air France proposed a public exchange offer to shareholders of KLM common shares. The exchange ratio was set at 11 Air France shares and 10 Air France warrants for 10 KLM shares and 11 Air France American Depositary Shares (ADS), and 10 Air France American Depositary Warrants (ADW) for 10 KLM American Depositary Shares. As a result, Air France launched an initial offer that ended May 3, 2004.

Pursuant to Dutch law, Air France decided to launch, under the same conditions, a supplementary offer period which opened on May 4, 2004 and ended on May 21, 2004.

On that date, KLM shareholders had tendered a total of 45,093,299 common shares, representing approximately 96.33% of KLM common shares.

Following the acquisition of additional shares after the closing date of the operation, Air France, which became Air France-KLM, held 97.30% of the common shares representing 49% of KLM voting rights.

Based on the Air France-KLM ownership not only of voting shares but also of financial interest, and on the mode of functioning of the Group's strategic management committee, Air France-KLM has the power to decide the group's financial and operational strategies and, therefore, controls KLM. KLM is therefore fully consolidated in Air France-KLM consolidated financial statements.

Pursuant to the provisions of IFRS 3, the acquisition of KLM has been accounted for using the purchase method.

### *Acquisition price*

The consideration paid for the acquisition of the 96.33% of KLM's common shares by Air France was based on the market price of the Air France share at the two closing dates of the exchange offer (May 3 and 21, 2004).

Warrants issued as part of the transaction were also valued at those dates. The fair value of the warrants issued was calculated using the Black-Scholes model. Assumptions were made on the expected volatility of the share price resulting from the combination, the expected dividend paid by the combined companies for the financial year, the average maturity of the warrants and the discount rate.

In accordance with the provisions of IFRS 3, the additional costs directly attributable to KLM's acquisition were included in the acquisition price. They consisted primarily of the fees paid for accounting, legal, valuation and banking services.

The acquisition price is comprised as follows:

| | Shares | Price *(in euros)* | Consideration *(In euro millions)* |
|---|---|---|---|
| ***Air France-KLM shares issued*** | | | |
| May 3, 2004 | 45,938,857 | 14.65 | 673 |
| May 21, 2004 | 3,663,774 | 12.81 | 47 |
| ***Subscription warrants issued*** | | | |
| May 3, 2004 | 41,762,597 | 1.07 | 45 |
| May 21, 2004 | 3,330,702 | 0.98 | 3 |
| Shares acquired after the closing of the second offer on May 21 | | | 5 |
| Preferred and priority shares | | | 15 |
| Value of the shares which the Dutch State agreed to sell | | | 20 |
| Transaction costs | | | 14 |
| Stock options (stock options/rights related to appreciation of the shares) | | | 9 |
| **Total acquisition price** | | | **831** |

Transaction costs amounted to €30 million, from which €16 million has been deducted from the additional paid-in capital related to the shares issuance.

***Fair value of the assets and liabilities acquired***

| **Assets and liabilities acquired at April 30, 2004** *(In euro millions)* | **Fair value as published in consolidated financial statements as of September 30, 2005** | **Adjustments on pension** | **Fair value adjusted by adjustments on pension** |
|---|---|---|---|
| *Goodwill* | - | - | - |
| Intangible assets | 435 | - | 435 |
| Flight equipment | 3,549 | - | 3,549 |
| Other property, plant and equipment | 805 | - | 805 |
| Investments in equity associates | 193 | - | 193 |
| Pension assets | 959 | 665 | 1,624 |
| Other financial assets | 569 | - | 569 |
| Deferred tax assets | - | - | - |
| Other assets | 235 | (31) | 204 |
| Inventories | 206 | - | 206 |
| Account receivables | 720 | - | 720 |
| Income tax receivables | - | - | - |
| Cash and cash equivalents | 719 | - | 719 |
| ***Total assets*** | ***8,390*** | ***634*** | ***9,024*** |
| Provisions and retirement benefits | 319 | 154 | 473 |
| Long-term debt | 4,153 | - | 4,153 |
| Other liabilities | 920 | - | 920 |
| Trade payables | 402 | - | 402 |
| Deferred revenue on ticket sales | 486 | - | 486 |
| Current tax liabilities | 181 | 165 | 346 |
| ***Total liabilities*** | ***6,461*** | ***319*** | ***6,780*** |
| Percentage acquired | 97.30% | 97.30% | 97.30% |
| **Net assets acquired** | **1,877** | **306** | **2,183** |
| Acquisition price | 831 | - | 831 |
| **Negative goodwill** | **1,046** | **306** | **1,352** |

It was impracticable to disclose in the group's consolidated financial statements the IFRS carrying amount for each class of KLM's assets, liabilities and contingent liabilities immediately before the combination as KLM did not prepare its consolidated financial statements in accordance with IFRS prior to the acquisition. The above presented data correspond to the IFRS fair value balance sheet of KLM.

### *Adjustments on pension*

As explained in note 3.17.2, the Group has made a decision with regard to the recognition of the KLM pension surplus. The re-computation of KLM's pension obligations led to a €306 million increase in the negative goodwill, of which €251 million related to the cancellation (net of tax) of the asset ceiling on the pilots' pension plan and the finalization of the pension plan valuation for €55 million net of tax.

### *Recognition of negative goodwill*

Based on the fair valuation of KLM's assets and liabilities at the acquisition date, KLM's first consolidation resulted in the share acquired of the net fair value of KLM's identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost by €1 352 million, including the recognition of the net pension asset related to the pilot retirement plan.

The negative goodwill was immediately and totally recognized as an operating profit. In the version of consolidated financial statements for the year ended as of March 31, 2005 published in the condensed consolidated financial statements as of and for the six-month period ended September 30, 2005, the negative goodwill reversal was limited to €424 million, awaiting the IFRIC decision (see note 3.17.2).

### *Revenues and net income of KLM integrated in the group's financial statements as of March 31, 2005*

The public exchange offer closed in May 2004; KLM's contribution to operating revenues and net income over an eleven-month period (from May 2004 to March 2005) amounts to €5,919 million and €1,601 million, respectively.

### *Air France-KLM Proforma consolidated income statement as of March 31, 2005*

The *pro forma* consolidated income statement for the Year ended March 31 2005 assuming KLM was acquired on April 1, 2004 and including the month of April 2004 under IFRS is as follows:

| **Twelve months period ended March 31** *(In euro millions)* | **2005 Pro forma Unaudited** |
|---|---|
| ***Sales*** | ***19,467*** |
| Other revenues | 5 |
| ***Revenues*** | ***19,472*** |
| External expenses | (10,916) |
| Salaries and related costs | (6,136) |
| Taxes other than income taxes | (227) |
| Amortization and depreciation | (1,601) |
| Provisions | (32) |
| Other income and expenses | (7) |
| ***Income from current operations*** | ***553*** |
| Sales of aircraft equipment | 19 |
| Negative goodwill | 1,354 |
| Other non-current income and expenses | 5 |
| ***Income from operating activities*** | ***1,931*** |
| Cost of financial debt | (356) |
| Income from cash and cash equivalents | 127 |
| ***Net cost of financial debt*** | ***(229)*** |
| Other financial income and expenses | (10) |
| ***Income before tax*** | ***1,692*** |
| Income taxes | (133) |
| ***Net income of consolidated companies*** | ***1,559*** |
| Share of profits (losses) of associates | 73 |
| ***Net income from continuing operations*** | ***1,632*** |
| Net income from discontinued operations | 59 |
| ***Income for the period*** | ***1,691*** |
| ♦ **Group** | **1,704** |
| ♦ Minority interests | (13) |
| **Earning per share - group (in euros)** | |
| ♦ *basic* | *6.59* |
| ♦ *diluted* | *6.58* |
| **Net income from continuing operations per share (in euros)** | |
| ♦ *basic* | *6.31* |
| ♦ *diluted* | *6.30* |

### 4.2. Disposal of subsidiaries

No significant disposal of subsidiaries occurred during the Year ended March 31, 2007 and 2006.

On December 30, 2004, Air France-KLM Group sold its subsidiary Amadeus France SNC, in which it held 66% of voting rights, to Amadeus GTD (entity 23.4% held by the group as of March 31, 2005).

The net assets of Amadeus France at the date of sale amounted to €(1) million. The sale price of €66 million was paid wholly in cash.

## Note 5 Information by activity and geographical area

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

Business segments' results, assets and liabilities 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:

- as far as the income statement is concerned, to the current operating income and the share of results in associates;
- as far as the balance sheet is concerned, to intangible assets, flight equipment and other property, plant and equipment, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits.

Other elements of the income statement and of the balance sheet 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.

The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the group's assets (flight equipment) cannot be allocated to a geographical 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 to 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.

### 5.1. Information by business segment

Assets allocated by business segment comprise goodwill, intangible and tangible assets, investments in equity associates and account receivables.

Liabilities allocated by business segment comprise provision for restitution of aircraft, provision for pension, other provisions when they can be allocated, and deferred revenue on ticket sales.

*Year ended March 31, 2007*

| *(In euro millions)* | Passenger | Cargo | Maintenance | Other | Non allocated | Total |
|---|---|---|---|---|---|---|
| Total sales | 19,141 | 2,932 | 2,864 | 1,428 | - | 26,365 |
| Intersegment sales | (775) | (23) | (1,887) | (607) | - | (3,292) |
| ***External sales*** | ***18,366*** | ***2,909*** | ***977*** | ***821*** | ***-*** | ***23,073*** |
| Income from current operations | 1,067 | 62 | 44 | 67 | - | 1,240 |
| Income from operating activities | 1,067 | 62 | 44 | 67 | (7) | 1,233 |
| Share of profits (losses) of associates | 1 | 1 | 1 | 14 | - | 17 |
| Net cost of financial debt and other financial income and expenses | - | - | - | - | (115) | (115) |
| Income taxes | - | - | - | - | (248) | (248) |
| ***Net income from continuing operations*** | ***1,068*** | ***63*** | ***45*** | ***81*** | ***(370)*** | ***887*** |
| ***Net income from discontinued operations*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** |
| Depreciation and amortization for the period | (1,126) | (105) | (445) | (106) | - | (1,782) |
| Other non monetary items | 104 | - | 22 | (353) | - | (227) |
| **Total assets** | **12,609** | **906** | **1,819** | **1,690** | **9,646** | **26,670** |
| Segment liabilities | 3,039 | 90 | 143 | 308 | 6,029 | 9,609 |
| Financial debt and equity | - | - | - | - | 17,061 | 17,061 |
| **Total liabilities and equity** | **3,039** | **90** | **143** | **308** | **23,090** | **26,670** |
| **Purchase of property, plant and equipment and intangible assets** | **1,971** | **76** | **141** | **190** | **-** | **2,378** |

Non-allocated assets amounting to €9.6 billion are mainly financial assets held by the group, comprising marketable securities for €3.2 billion, pension assets for €2 billion, financial assets for €1.8 billion and derivatives for €1 billion.

Non-allocated liabilities amounting to €6 billion, mainly comprise trade payables for €2.1 billion, tax and employee-related liabilities for €1.2 billion, deferred tax for €0.9 billion and derivatives for €0.4 billion. Financial debts and equity are not allocated.

### *Year ended March 31 2006*

| *(In euro millions)* | Passenger | Cargo | Maintenance | Other | Non allocated | Total |
|---|---|---|---|---|---|---|
| Total sales | 17,635 | 2,907 | 2,688 | 1,350 | - | 24,580 |
| Intersegment sales | (693) | (25) | (1,792) | (622) | - | (3,132) |
| ***External sales*** | ***16,942*** | ***2,882*** | ***896*** | ***728*** | ***-*** | ***21,448*** |
| Income from current operations | 686 | 166 | 54 | 30 | - | 936 |
| Income from operating activities | 686 | 166 | 54 | 30 | 519 | 1,455 |
| Share of profits (losses) of associates | (41) | - | - | 18 | - | (23) |
| Net cost of financial debt and other financial income and expenses | - | - | - | - | (255) | (255) |
| Income taxes | - | - | - | - | (256) | (256) |
| ***Net income from continuing operations*** | ***645*** | ***166*** | ***54*** | ***48*** | ***8*** | ***921*** |
| ***Net income from discontinued operations*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** | ***-*** |
| Depreciation and amortization for the period | (1,014) | (131) | (397) | (114) | - | (1,656) |
| Other non monetary items | (78) | (7) | (22) | (450) | - | (557) |
| **Total assets** | **11,411** | **1,511** | **1,859** | **792** | **10,906** | **26,479** |
| Segment liabilities | 3,123 | 104 | 168 | 107 | 5,936 | 9,438 |
| Financial debt and equity | - | - | - | - | 17,041 | 17,041 |
| **Total liabilities and equity** | **3,123** | **104** | **168** | **107** | **22,977** | **26,479** |
| **Purchase of property, plant and equipment and intangible assets** | **1,816** | **216** | **264** | **123** | **125** | **2,544** |

Non-allocated assets amounting to €10.9 billion are mainly financial assets held by the group, comprising cash and cash equivalent for €2.9 billion, derivatives for €2 billion, other financial assets for €2.1 billion (including deposits and marketable securities), pension assets for €1.9 billion.

Non-allocated liabilities amounting to €5.9 billion, mainly comprise tax and employee-related liabilities (including deferred tax) for €2.2 billion, derivatives for €0.4 billion and trade payables and other creditors for €3.1 billion.

Financial debts and equity are not allocated.

***Year ended March 31 2005***

| *(In euro millions)* | Passenger | Cargo | Maintenance | Other | Non allocated | Total |
|---|---|---|---|---|---|---|
| Total sales | 15,471 | 2,516 | 2,578 | 1207 | - | 21,772 |
| Intersegment sales | (438) | (22) | (1,801) | (533) | - | (2,794) |
| ***External sales*** | ***15,033*** | ***2,494*** | ***777*** | ***674*** | ***-*** | ***18,978*** |
| Income from current operations | 382 | 138 | 26 | 4 | - | 550 |
| Income from operating activities | 382 | 138 | 26 | 4 | 1,377 | 1,927 |
| Share of profits (losses) of associates | 22 | - | - | 51 | - | 73 |
| Net cost of financial debt and other financial income and expenses | - | - | - | - | (230) | (230) |
| Income taxes | | | | | (133) | (133) |
| ***Net income from continuing operations*** | ***404*** | ***138*** | ***26*** | ***55*** | ***1,014*** | ***1,637*** |
| ***Net income from discontinued operations*** | ***-*** | ***-*** | ***-*** | ***-*** | ***59*** | ***59*** |
| Depreciation and amortization for the period | (831) | (199) | (395) | (136) | - | (1,561) |
| Other non monetary items | (25) | - | 2 | 367 | - | 344 |
| **Total assets** | **10,455** | **1,364** | **1,714** | **1,478** | **8,183** | **23,194** |
| Segment liabilities | 2,678 | 84 | 140 | 110 | 4,967 | 7,979 |
| Financial debt and equity | - | - | - | - | 15,215 | 15,215 |
| **Total liabilities and equity** | **2,678** | **84** | **140** | **110** | **20,182** | **23,194** |
| **Purchase of property, plant and equipment and intangible assets** | **1,499** | **173** | **223** | **142** | **94** | **2,131** |

Non-allocated assets amounting to €8.2 billion are mainly financial assets held by the group, comprising cash and cash equivalents for €2 billion, derivatives for €0.4 billion, other financial assets for €1.8 billion (including deposits and marketable securities) and pension assets for €1.8 billion.

Non-allocated liabilities amounting to €5 billion, mainly comprise tax and employee-related liabilities (including deferred tax) for €1.2 billion, trade payables and other creditors for €3.3 billion.

Financial debts and equity are not allocated.

### 5.2. Information by geographical area

***Sales by geographical area***

**Year ended March 31, 2007**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 11,743 | 361 | 1,097 | 2,786 | 1,354 | 17,341 |
| Other passenger sales | 767 | 63 | 33 | 58 | 104 | 1,025 |
| ***Total passenger*** | ***12,510*** | ***424*** | ***1,130*** | ***2,844*** | ***1,458*** | ***18,366*** |
| Scheduled cargo | 1,190 | 36 | 184 | 348 | 933 | 2,691 |
| Other cargo sales | 148 | 4 | 8 | 25 | 33 | 218 |
| ***Total cargo*** | ***1,338*** | ***40*** | ***192*** | ***373*** | ***966*** | ***2,909*** |
| Maintenance | 968 | - | - | - | 9 | 977 |
| Others | 794 | 19 | 8 | - | - | 821 |
| **Total** | **15,610** | **483** | **1,330** | **3,217** | **2,433** | **23,073** |

**Year ended March 31, 2006**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 10,791 | 363 | 1,065 | 2,458 | 1,225 | 15,902 |
| Other passenger sales | 736 | 61 | 44 | 81 | 118 | 1,040 |
| ***Total passenger*** | ***11,527*** | ***424*** | ***1,109*** | ***2,539*** | ***1,343*** | ***16,942*** |
| Scheduled cargo | 1,169 | 36 | 170 | 337 | 961 | 2,673 |
| Other cargo sales | 139 | 5 | 8 | 25 | 32 | 209 |
| ***Total cargo*** | ***1,308*** | ***41*** | ***178*** | ***362*** | ***993*** | ***2,882*** |
| Maintenance | 887 | - | - | - | 9 | 896 |
| Others | 708 | 16 | 4 | - | - | 728 |
| **Total** | **14,430** | **481** | **1,291** | **2,901** | **2,345** | **21,448** |

**Year ended March 31, 2005**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 9,718 | 348 | 939 | 1,997 | 1,097 | 14,099 |
| Other passenger sales | 700 | 57 | 33 | 48 | 96 | 934 |
| ***Total passenger*** | ***10,418*** | ***405*** | ***972*** | ***2,045*** | ***1,193*** | ***15,033*** |
| Scheduled cargo | 1,081 | 41 | 157 | 266 | 756 | 2,301 |
| Other cargo sales | 131 | 5 | 7 | 23 | 27 | 193 |
| ***Total cargo*** | ***1,212*** | ***46*** | ***164*** | ***289*** | ***783*** | ***2,494*** |
| Maintenance | 769 | - | - | - | 8 | 777 |
| Others | 642 | 21 | 11 | - | - | 674 |
| **Total** | **13,041** | **472** | **1,147** | **2,334** | **1,984** | **18,978** |

***Traffic sales by geographical area of destination***

**Year ended March 31, 2007**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 7,079 | 1,201 | 2,362 | 4,013 | 2,686 | 17,341 |
| Scheduled cargo | 71 | 194 | 354 | 833 | 1,239 | 2,691 |
| **Total** | **7,150** | **1,395** | **2,716** | **4,846** | **3,925** | **20,032** |

**Year ended March 31, 2006**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 6,689 | 1,157 | 2,216 | 3,469 | 2,371 | 15,902 |
| Scheduled cargo | 76 | 186 | 320 | 832 | 1,259 | 2,673 |
| **Total** | **6,765** | **1,343** | **2,536** | **4,301** | **3,630** | **18,575** |

**Year ended March 31, 2005**

| *(In euro millions)* | Europe, North Africa | Caribbean, French Guiana, Indian Ocean | Africa, Middle East | Americas, Polynesia | Asia, New Caledonia | Total |
|---|---|---|---|---|---|---|
| Scheduled passenger | 6,049 | 1,123 | 1,923 | 2,942 | 2,062 | 14,099 |
| Scheduled cargo | 76 | 183 | 297 | 699 | 1,046 | 2,301 |
| **Total** | **6,125** | **1,306** | **2,220** | **3,641** | **3,108** | **16,400** |

## Note 6 External expenses

| **Year ended March 31** *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Aircraft fuel | 4,258 | 3,588 | 2,653 |
| Chartering costs | 646 | 605 | 558 |
| Aircraft operating lease costs | 600 | 637 | 595 |
| Landing fees and en route charges | 1,705 | 1,610 | 1,460 |
| Catering | 419 | 405 | 391 |
| Handling charges and other operating costs | 1,232 | 1,203 | 1,072 |
| Aircraft maintenance costs | 894 | 777 | 653 |
| Commercial and distribution costs | 1,201 | 1,232 | 1,404 |
| Other external expenses | 2,145 | 2,070 | 1,843 |
| **Total** | **13,100** | **12,127** | **10,629** |

"Other external expenses" correspond mainly to rent and insurance costs.

The group expenses advertising costs as "commercial and distribution costs" in the year incurred. Advertising expense was €181 million, €158 million and €129 million for the years ended March 31, 2007, 2006 and 2005, respectively.

## Note 7 Salaries and number of employees

### Salaires and related costs

| Year ended March 31<br>*(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Wages and salaries | 4,899 | 4,677 | 4,438 |
| Net periodic pension cost | 130 | 193 | 208 |
| Social contributions | 1,566 | 1,388 | 1,313 |
| Expenses related to share-based compensation | 32 | 29 | 69 |
| Other expenses | 62 | 70 | (34) |
| **Total** | **6,689** | **6,357** | **5,994** |

The group pays contributions for a multi-employer plan in France, the CRPN (public pension fund for crew). This plan is accounted for as a defined contribution plan.

### Average number of employees

| Year ended March 31 | 2007 | 2006 | 2005 |
|---|---|---|---|
| Flight deck crew | 8,020 | 7,870 | 7,786 |
| Cabin crew | 20,701 | 20,294 | 19,829 |
| Ground staff | 74,329 | 74,258 | 74,462 |
| **Total** | **103,050** | **102,422** | **102,077** |

## Note 8 Amortization, depreciation and provisions

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Amortization and depreciation*** | | | |
| Intangible assets | 42 | 39 | 30 |
| Flight equipment | 1,488 | 1,371 | 1,280 |
| Other property, plant and equipment | 252 | 246 | 251 |
| ***Total*** | ***1,782*** | ***1,656*** | ***1,561*** |
| ***Provisions*** | | | |
| Fixed assets | - | - | 34 |
| Inventories | - | 1 | - |
| Trade receivables | 5 | 12 | 7 |
| Risks and contingencies | 3 | 59 | (13) |
| ***Total*** | ***8*** | ***72*** | ***28*** |
| **Total** | **1,790** | **1,728** | **1,589** |

A description of changes in amortization and impairment is included in notes 16 and 18.

The detail of changes in inventory impairment is included in notes 23, 24 and 25.

The movements in provisions for risks and charges are detailed in note 29.

## Note 9 Other income and expenses

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Joint operation of routes | (8) | (61) | (47) |
| Operations-related currency hedges | 3 | 25 | 12 |
| Other | 10 | (40) | 39 |
| **Total** | **5** | **(76)** | **4** |

## Note 10 Other non-current income and expenses

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Sales of aircraft equipment** | **13** | **2** | **19** |
| Gain on Amadeus GTD transaction | 16 | 504 | - |
| Restructuring costs | (36) | (1) | (21) |
| Disposal of subsidiaries and affiliates | - | 3 | (1) |
| Compensation on slot swaps | - | 4 | 17 |
| Loss for future disposal of aircraft | (20) | - | - |
| Other | 20 | 2 | 9 |
| **Other non-current income and expenses** | **(20)** | **512** | **4** |

### Gain on Amadeus GTD transaction

Please refer to note 20.

### Restructuring costs

Restructuring costs for the Year ended March 31, 2007 mainly correspond to the abolition of the flight engineer' position linked to the expected withdrawal from service of the oldest Boeing B747 cargo aircraft.

### Disposal of subsidiaries and affiliates

No significant disposal of subsidiaries or affiliates occurred during the years ended March 31, 2007 and 2006.

During the Year ended March 31, 2005, the group sold Amadeus France SNC. The impact of this disposal is described in note 13.

### Loss for future disposal of aircraft

AFPL recorded a loss of €20 million relating to an aircraft destined to be sold.

### Other

As of March 31, 2007, this line comprises a €13 million capital gain on the disposal of the land at the Montaudran site.

## Note 11 Net cost of financial debt and other financial income and expenses

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| ***Income from cash and cash equivalents*** | | | |
| Income from marketable securities | 71 | 52 | 36 |
| Other financial income | 196 | 116 | 89 |
| | **267** | **168** | **125** |
| ***Cost of financial debt*** | | | |
| Loan interests | (200) | (205) | (284) |
| Lease interests | (241) | (220) | (83) |
| Capitalized interests | 38 | 40 | 25 |
| Other financial expenses | (4) | (7) | (5) |
| | **(407)** | **(392)** | **(347)** |
| ***Net cost of financial debt*** | ***(140)*** | ***(224)*** | ***(222)*** |
| ***Other financial income and expenses*** | | | |
| Foreign exchange gains (losses), net | (3) | (13) | (2) |
| Change in fair value of financial assets and liabilities | 43 | 6 | - |
| Net (charge) release to provisions | (10) | (24) | (6) |
| Other | (5) | - | - |
| | **25** | **(31)** | **(8)** |
| **Total** | **(115)** | **(255)** | **(230)** |

The interest rate used in the calculation of capitalized interest is 4.60% for the year ended March 31, 2007, 3.76% for the year ended March 31, 2006 and 3.80% for the year ended March 31, 2005.

Net foreign exchange results for the period include an unrealized net gain/(loss) of €5 million, €(8) million for the year ended March 31, 2006 and € (4) million for the year ended March 31, 2005. The impact related to currency derivatives amounted to €(13) million for the year ended March 31, 2007 and €(4) million for the year ended March 31, 2006.

Net charge to provisions includes an unrealized loss on shares of Alitalia for an amount of €9 million, as a result of the stock price decreasing significantly during the year ended March 31, 2007.

Net charge to provisions includes an unrealized loss on shares of Alitalia for an amount of €9 million, as a result of the stock price decreasing significantly during the year ended March 31, 2006.

# Note 12 Income taxes

## 12.1. Income tax charge

Income before tax and income taxes for the years ended March 31, 2007, 2006 and 2005 is analyzed as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Income before tax*** | | | |
| France | 630 | (136) | 202 |
| Foreign | 488 | 1,336 | 1,495 |
| **Total** | **1,118** | **1,200** | **1,697** |
| ***Current tax expense*** | | | |
| France | - | (157) | (7) |
| Foreign | (4) | (1) | - |
| **Total** | **(4)** | **(158)** | **(7)** |
| ***Deferred tax income/(expense)*** | | | |
| France | (222) | 4 | (118) |
| Foreign | (22) | (102) | (21) |
| **Total** | **(244)** | **(98)** | **(139)** |

Current and deferred income taxes are detailed as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Current tax expense*** | ***(4)*** | ***(158)*** | ***(7)*** |
| Charge for the year | (4) | (158) | (7) |
| Adjustment of previous current tax charges | - | - | - |
| ***Deferred tax income/(expense) from continuing operations*** | ***(244)*** | ***(98)*** | ***(126)*** |
| Change in temporary differences | (146) | (54) | (114) |
| Change in tax rates | 80 | 17 | 30 |
| (Use)/recognition of tax loss carryforwards | (178) | (61) | (42) |
| ***Income tax (expense)/income from continuing operations*** | ***(248)*** | ***(256)*** | ***(133)*** |
| Tax on the net income from discontinued operations | - | - | (13) |
| **Total income tax (expense)/credit** | **(248)** | **(256)** | **(146)** |

The current tax charge relates to the amounts paid or payable in the short term to the tax authorities in respect of the financial year, in accordance with the regulations prevailing in various countries and any applicable treaties.

### 12.2. Deferred tax recorded directly in equity

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Hybrid instruments | - | (24) | - |
| Cash flow hedge | 264 | (541) | - |
| **Total** | **264** | **(565)** | **-** |

### 12.3. Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | | **2006** | | **2005** | |
|---|---|---|---|---|---|---|
| **Income before tax** | | **1,118** | | **1,200** | | **1,697** |
| Theoretical tax calculated with the standard tax rate in France | 34.43% | 385 | 34.43% | 414 | 34.93% | 593 |
| Differences in French/foreign tax rates | | (36) | | (17) | | (14) |
| Negative goodwill | | - | | (2) | | (473) |
| Non deductible expenses | | 12 | | 51 | | 27 |
| Income taxed at non-current tax rates | | - | | (135) | | 7 |
| Non-taxable income | | (7) | | (2) | | (16) |
| Use of tax loss carryforwards | | (16) | | (4) | | (8) |
| Change in tax rate | | (80) | | (17) | | (30) |
| Adjustment of previous current tax charges | | 8 | | (4) | | 2 |
| Tax on Amadeus GTD reserves | | - | | - | | 41 |
| TSDI settlement | | - | | (28) | | - |
| Other | | (18) | | - | | 4 |
| **Income tax expenses** | **22.2%** | **248** | **21.3%** | **256** | **7.8%** | **133** |

The tax rate applicable in France was set at 34.43% by the 2006 French Finance Law for financial years ending after January 1, 2007.

In Netherlands, the tax rate has decreased from 29.6% to 25.5% beginning January 1, 2007.

### 12.4. Unrecognized deferred tax assets (basis)

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Temporary differences | 128 | 98 | 89 |
| Tax losses | 300 | 355 | 373 |
| Tax losses at non-current tax rates | - | 100 | 106 |
| **Total** | **428** | **553** | **568** |

As of March 31, 2007, unrecognized deferred tax assets mainly represent subsidiary tax loss carryforwards prior to the Air France group's tax integration, as well as tax loss carry forwards in certain subsidiaries in the United Kingdom.

Pursuant to Article 89 of the French Finance Law (loi de finances) for 2004, approved on December 18, 2003, tax losses may now be carried forward for an unlimited period of time. These new provisions apply to financial years starting as of January 1, 2004, as well as to losses to be carried forward at the end of the financial year preceding January 1, 2004.

In the Netherlands, fiscal losses can be carried forward for an unlimited period.

### 12.5. Deferred tax recorded on the balance sheet

| *(In euro millions)* | April 1, 2006 | Amounts recorded in income | Amounts recorded in equity | Reclassification | March 31, 2007 |
|---|---|---|---|---|---|
| Intangible assets | 103 | (14) | - | - | 89 |
| Flight equipment | 616 | (45) | 45 | - | 616 |
| Other property, plant and equipment | 153 | (16) | - | - | 137 |
| Investments in equity associates | - | - | - | - | - |
| Other non-current financial assets | (96) | (4) | - | - | (100) |
| Pension assets | 547 | (11) | - | (7) | 529 |
| Other non-current assets | 277 | 2 | (118) | - | 161 |
| Other short term financial assets | 2 | (5) | - | - | (3) |
| Other current assets | 280 | (8) | (144) | - | 128 |
| Provisions and retirement benefits – non-current | 20 | 42 | - | - | 62 |
| Long-term debt | (448) | 71 | - | - | (377) |
| Other non-current liabilities | (38) | 33 | (22) | - | (27) |
| Provisions – current | (34) | (9) | - | - | (43) |
| Short term portion of long-term debt | (96) | 73 | - | - | (23) |
| Other current liabilities | (21) | (12) | (3) | - | (36) |
| Others | 33 | (34) | (22) | 7 | (16) |
| Deferred tax corresponding to fiscal losses | (466) | 181 | - | 53 | (232) |
| **Deferred tax (Asset)/Liability** | **832** | **244** | **(264)** | **53** | **865** |

| *(In euro millions)* | April 1, 2005 | Amounts recorded in income | Amounts recorded in equity | Reclassification | March 31, 2006 |
|---|---|---|---|---|---|
| Intangible assets | 111 | (8) | - | - | 103 |
| Flight equipment | 691 | (76) | 1 | - | 616 |
| Other property, plant and equipment | 121 | 32 | - | - | 153 |
| Investments in equity associates | 46 | (46) | - | - | - |
| Other non-current financial assets | (103) | 8 | (1) | - | (96) |
| Pension assets | 522 | 25 | - | - | 547 |
| Other non-current assets | 7 | (1) | 271 | - | 277 |
| Other short term financial assets | 1 | - | 1 | - | 2 |
| Other current assets | 4 | (47) | 323 | - | 280 |
| Provisions and retirement benefits – non-current | (71) | 91 | - | - | 20 |
| Long-term debt | (517) | 44 | 25 | - | (448) |
| Other non-current liabilities | (1) | 1 | (38) | - | (38) |
| Provisions – current | (24) | (10) | - | - | (34) |
| Short term portion of long-term debt | (40) | (56) | - | - | (96) |
| Other current liabilities | (7) | 3 | (17) | - | (21) |
| Others | (39) | 76 | - | (4) | 33 |
| Deferred tax corresponding to fiscal losses | (528) | 62 | - | - | (466) |
| **Deferred tax (Asset)/Liability** | **173** | **98** | **565** | **(4)** | **832** |

| *(In euro millions)* | April 1, 2004 | Amounts recorded in income | Acquisition of KLM | March 31, 2005 |
|---|---|---|---|---|
| Intangible assets | (3) | (22) | 136 | 111 |
| Flight equipment | 833 | 131 | (273) | 691 |
| Other property, plant and equipment | 57 | (18) | 82 | 121 |
| Investments in equity associates | 5 | 41 | - | 46 |
| Other non-current financial assets | (99) | (2) | (2) | (103) |
| Pension assets | - | (75) | 597 | 522 |
| Other non-current assets | (1) | 8 | - | 7 |
| Other short term financial assets | 1 | 13 | (13) | 1 |
| Inventories | - | (2) | 2 | - |
| Account receivables | - | (7) | 7 | - |
| Other current assets | (26) | 30 | - | 4 |
| Cash and cash equivalents | 3 | (3) | - | - |
| Provisions and retirement benefits – non-current | (76) | 12 | (7) | (71) |
| Long-term debt | (509) | (5) | (3) | (517) |
| Other non-current liabilities | - | (1) | - | (1) |
| Provisions – current | 3 | (27) | - | (24) |
| Short term portion of long-term debt | (27) | (13) | - | (40) |
| Other current liabilities | (5) | 14 | (16) | (7) |
| Others | (38) | 15 | (16) | (39) |
| Deferred tax corresponding to fiscal losses | (391) | 49 | (186) | (528) |
| **Deferred tax (Asset)/Liability** | **(273)** | **138** | **308** | **173** |

## Note 13 Discontinued operations

During the years ended March 31, 2007 and March 31, 2006, the Group initiated no disposal process which could be considered as a "discontinued operation".

As of December 30, 2004 the Group sold its shares in Amadeus France SNC to Amadeus GTD. This company's activity was to distribute the Amadeus booking system in France. The conditions allowing its classification as a "discontinued activity" occurred as of April 1, 2004. Amadeus France SNC was therefore reclassified from April 1, 2004 until December 30, 2004. Previously, Amadeus France SNC's activity was disclosed in the "Passenger" segment.

### 13.1. Net income from discontinued operations

Information regarding discontinued operations:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Sales | - | - | 71 |
| Expenses | - | - | (65) |
| Gain on disposal | - | - | 66 |
| Income before tax | - | - | 72 |
| Income taxes | - | - | (13) |
| **Net income from discontinued operations** | **-** | **-** | **59** |

For the year ended March 31 2005, the gain on the disposal of subsidiaries and affiliates (€66 million) is mainly due to the sale of Amadeus France SNC to Amadeus GTD at December 30, 2004. This company was previously fully consolidated in the Air France-KLM consolidated financial statements. Between April 1, 2004 and December 30, 2004, the disposal date, operations of Amadeus France SNC have been classified as discontinued operations.

### 13.2. Impact on the cash flow statement of discontinued operations

Amadeus France's contribution to the cash flows statement of the Group is as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Cash flows from operating activities | - | - | 6 |
| Cash flows from investing activities | - | - | 66 |
| Cash flows from financing activities | - | - | (4) |

## Note 14 Earnings per share

Basic earnings per share are calculated by dividing the income for the period – Group share by the average number of shares outstanding during the period.

Diluted earnings per share are calculated by dividing the income for the period – Group share adjusted of effects of dilutive instruments' exercise, by the average weighted number of shares outstanding during the period, adjusted for the effect of all dilutive potential ordinary shares.

### 14.1. Income for the period – Group share per share

***Reconciliation of income used to calculate earnings per share***

| Year ended March 31<br>*(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Income for the period – Group share*** | ***891*** | ***913*** | ***1,710*** |
| Dividends to be paid to priority shares | - | - | - |
| ***Income for the period – Group share***<br>*(used to calculate basic earnings per share)* | ***891*** | ***913*** | ***1,710*** |
| Impact of potential ordinary shares: | | | |
| ♦ interest paid on convertible bonds *(net of tax)* | 11 | 10 | - |
| **Income for the period – Group share**<br>*(used to calculate diluted earnings per share)* | **902** | **923** | **1,710** |

***Reconciliation of the number of shares used to calculate earnings per share***

| Year ended March 31 | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Weighted average number of:*** | | | |
| ♦ Ordinary shares issued | 269,386,917 | 269,383,518 | 264,898,897 |
| ♦ Treasury stock held regarding stock option plan | (3,306,962) | (5,107,510) | (4,440,889) |
| ♦ Treasury stock held in stock buyback plan | (65,157) | (852,430) | (1,752,865) |
| ***Number of shares used to calculate basic earnings per share*** | ***266,014,798*** | ***263,423,578*** | ***258,705,143*** |
| ***Weighted average number of ordinary shares:*** | | | |
| ♦ Conversion of convertible bonds | 22,609,756 | 20,628,132 | - |
| ♦ Conversion of warrants | 6,474,815 | - | - |
| ♦ Exercise of stock options | 1,084,072 | 175,362 | 189,861 |
| **Number of potential ordinary shares:** | **30,168,643** | **20,803,494** | **189,861** |
| **Number of ordinary and potential ordinary shares**<br>*(used to calculate diluted earnings per share)* | **296,183,441** | **284,227,072** | **258,895,004** |

## 14.2. Net income from continuing operations

### *Reconciliation of income used to calculate net income from continuing operations per share*

Income used to calculate net income from continuing operations per share breaks down as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Net income from continuing operations*** | ***887*** | ***921*** | ***1,637*** |
| Dividends to be paid to priority shares | - | - | - |
| ***Net income from continuing operations*** *(used to calculate basic earnings per share)* | ***887*** | ***921*** | ***1,637*** |
| Impact of potential ordinary shares: | | | |
| ♦ interest paid on convertible bonds *(net of tax)* | 11 | 10 | - |
| **Net income from continuing operations** *(used to calculate diluted earnings per share)* | **898** | **931** | **1,637** |

### *Reconciliation of the number of shares used to calculate net income from continuing operations per share*

The reconciliation of the number of shares used to calculate net income from continuing operations per share is presented in note 14.1.

## 14.3. Net income from discontinued operations per share

### *Net income from discontinued operations per share*

| Year ended March 31 *(In euros)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Net income from discontinued operations per share (basic)** | **-** | **-** | **0.23** |
| **Net income from discontinued operations per share (diluted)** | **-** | **-** | **0.23** |

***Reconciliation of income used to calculate net income from discontinued operations per share***

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| ***Net income from discontinued operations*** | - | - | *59* |
| Dividends to be paid to priority shares | | | |
| ***Net income from discontinued operations*** *(used to calculate basic earnings per share)* | - | - | 59 |
| Impact of potential ordinary shares: | | | |
| ♦ interest paid on convertible bonds *(net of tax)* | | | |
| **Net income from discontinued operations** *(used to calculate diluted earnings per share)* | **-** | **-** | **59** |

***Reconciliation of the number of shares used to calculate net income from discontinued operations per share***

The reconciliation of the number of shares used to calculate net income from discontinued operations per share is presented in note 14.1.

### 14.4. Non dilutive instruments

***As of March 31, 2007***

As of March 31, 2007, there were no non-dilutive instruments.

***As of March 31, 2006***

As of March 31, 2006, non-dilutive instruments comprised 45,090,617 equity warrants for new or existing shares, described in note 27.1 (45,093,299 as of March 31, 2005), and 3,821,040 stock options described in note 28, for an average exercise price of €15.59 (4,763,763 stock options for an average exercise price of €15.76 as of March 31, 2005).

***As of March 31, 2005***

Following the exchange offer for KLM shares into Air France-KLM shares 45,093,299 equity warrants for new or existing shares were issued in May 2004. These instruments are described in note 27.1.

### 14.5. Instruments issued after the closing date

No instrument was issued after the closing date.

## Note 15 Goodwill

### Detail of consolidated goodwill

| Year ended March 31 *(In euro millions)* | 2007 | | | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gross value | Impair-ment | Net value | Gross value | Impair-ment | Net value | Gross value | Impair-ment | Net value |
| UTA | 112 | - | 112 | 112 | - | 112 | 112 | - | 112 |
| Régional | 60 | - | 60 | 60 | - | 60 | 60 | - | 60 |
| Britair | 18 | - | 18 | 18 | - | 18 | 18 | - | 18 |
| Cityjet | 11 | - | 11 | 11 | - | 11 | 11 | - | 11 |
| Others | 3 | - | 3 | 7 | - | 7 | 4 | - | 4 |
| **Total** | **204** | **-** | **204** | **208** | **-** | **208** | **205** | **-** | **205** |

All the goodwill has been allocated to the " Passenger " business.

### Movement in net book value of goodwill

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Opening balance** | **208** | **205** | **202** |
| Additions | (1) | 3 | 3 |
| Reclassification | (3) | - | - |
| Disposals | - | - | - |
| **Closing balance** | **204** | **208** | **205** |

## Note 16 Intangible assets

| *(In euro millions)* | Trademarks and slots | Customers relationships | Other intangible assets | Total |
|---|---|---|---|---|
| ***Gross value*** | | | | |
| ***Amount as of April 1, 2004*** | ***26*** | ***-*** | ***135*** | ***161*** |
| Additions | - | - | 23 | **23** |
| KLM acquisition | 280 | 107 | 48 | **435** |
| ***Amount as of March 31, 2005*** | ***306*** | ***107*** | ***206*** | ***619*** |
| Additions | 1 | - | 29 | **30** |
| Disposals | (2) | - | (11) | **(13)** |
| Transfer | - | - | 3 | **3** |
| ***Amount as of March 31, 2006*** | ***305*** | ***107*** | ***227*** | ***639*** |
| Additions | 3 | - | 35 | **38** |
| Disposals | - | - | (3) | **(3)** |
| Transfer | - | - | 2 | **2** |
| ***Amount as of March 31, 2007*** | ***308*** | ***107*** | ***261*** | ***676*** |
| ***Depreciation and impairment*** | | | | |
| ***Amount as of April 1, 2004*** | ***(2)*** | ***-*** | ***(135)*** | ***(137)*** |
| Charge to depreciation | - | (15) | (15) | **(30)** |
| Transfers | 2 | - | (17) | **(15)** |
| ***Amount as of March 31, 2005*** | ***-*** | ***(15)*** | ***(167)*** | ***(182)*** |
| Charge to depreciation | - | (18) | (21) | **(39)** |
| Releases on disposal | - | 2 | 11 | **13** |
| Transfer | - | - | (3) | **(3)** |
| ***Amount as of March 31, 2006*** | ***-*** | ***(31)*** | ***(180)*** | ***(211)*** |
| Charge to depreciation | - | (16) | (26) | **(42)** |
| Releases on disposal | - | - | 3 | **3** |
| Transfer | - | - | (2) | **(2)** |
| ***Amount as of March 31, 2007*** | ***-*** | ***(47)*** | ***(205)*** | ***(252)*** |
| ***Net value*** | | | | |
| as of April 1, 2004 | 24 | - | - | **24** |
| as of March 31, 2005 | 306 | 92 | 39 | **437** |
| as of March 31, 2006 | 305 | 76 | 47 | **428** |
| **As of March 31, 2007** | **308** | **60** | **56** | **424** |

Trademarks KLM and Transavia and slots (takeoff and landing) were acquired by the Group as part of the acquisition of KLM. These intangible assets have an indefinite useful life as the nature of the assets means they have no time limit.

## Note 17 Impairment

Concerning the methodology used for the asset impairment test, the Group has allocated all goodwill and intangible assets with indefinite lives to the cash-generating units (CGU), which correspond to Group's businesses (refer to "Accounting policies").

The net book value of the "passenger" business tested includes €201 million relating to goodwill and €308 million relating to intangible assets with indefinite useful lives.

The recoverable value of the passenger CGU, the main CGU of the Group, which corresponds to its value in use, has been determined using:

- the future discounted cash flows of the middle-term target validated by the management made for the three years after the date of the test; and
- the discounted cash flows with a rate of increase which reflect the market consensus on the business.

They amount to 5% a year from year four to year ten, and 2% thereafter.

The discount rates are 7% and 7.4% for the years ended March 31, 2007 and 2006, respectively. They correspond to the weighted average cost of the Group's capital.

As of March 31, 2007, the sensitivity of the recoverable value of the passenger CGU to the variation of one point of the discount rate or of the rate of increase would not have any consequences regarding impairment.

## Note 18 Tangible assets

| *(In euro millions)* | Flight equipment | | | | | Other tangible assets | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Leased aircraft | Assets in progress | Other | Total | Land and buildings | Equipment and machinery | Assets in progress | Other | Total | |
| ***Gross value*** | | | | | | | | | | | |
| ***Amount as of April 1, 2004*** | ***4,343*** | ***1,452*** | ***624*** | ***1,155*** | ***7,574*** | ***1,234*** | ***594*** | ***73*** | ***683*** | ***2,584*** | ***10,158*** |
| Additions | 439 | 174 | 261 | 914 | 1,788 | 100 | 80 | 79 | 91 | 350 | **2,138** |
| Disposals | (512) | (108) | - | (326) | (946) | (52) | (32) | - | (32) | (116) | **(1,062)** |
| KLM acquisition | 1,026 | 1,997 | 235 | 291 | 3,549 | 553 | 144 | 80 | 28 | 805 | **4,354** |
| Transfer | 328 | 203 | (69) | (299) | 163 | 77 | 7 | (69) | (4) | 11 | **174** |
| Currency translation adjustment | (28) | 211 | (20) | (1) | 162 | - | - | - | (1) | (1) | **161** |
| ***Amounts as of March 31, 2005*** | ***5,596*** | ***3,929*** | ***1,031*** | ***1,734*** | ***12,290*** | ***1,912*** | ***793*** | ***163*** | ***765*** | ***3,633*** | ***15,923*** |
| Additions | 613 | 62 | 1,030 | 511 | 2,216 | 49 | 62 | 169 | 52 | 332 | **2,548** |
| Disposals | (227) | (101) | (52) | (302) | (682) | (19) | (37) | (7) | (21) | (84) | **(766)** |
| Changes in consolidation scope | - | - | (32) | - | (32) | - | 7 | - | 2 | 9 | **(23)** |

| *(In euro millions)* | Flight equipment | | | | | Other tangible assets | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Leased aircraft | Assets in progress | Other | Total | Land and buildings | Equip-ment and machi-nery | Assets in progress | Other | Total | |
| Transfer | 231 | 310 | (853) | 324 | 12 | 139 | 26 | (199) | (23) | (57) | **(45)** |
| Currency translation adjustment | 11 | - | 14 | - | 25 | - | (2) | - | - | (2) | **23** |
| ***Amounts as of March 31, 2006*** | ***6,224*** | ***4,200*** | ***1,138*** | ***2,267*** | ***13,829*** | ***2,081*** | ***849*** | ***126*** | ***775*** | ***3,831*** | ***17,660*** |
| Additions | 662 | 397 | 547 | 431 | 2,037 | 116 | 100 | 56 | 75 | 347 | **2,384** |
| Disposals | (259) | (31) | (30) | (335) | (655) | (59) | (22) | - | (16) | (97) | **(752)** |
| Changes in consolidation scope | - | (5) | - | (11) | (16) | - | (2) | - | - | (2) | **(18)** |
| Fair value hedge | - | - | 111 | - | 111 | - | - | - | - | - | **111** |
| Transfer | 1,352 | (131) | (597) | (636) | (12) | 34 | 9 | (37) | (3) | 3 | **(9)** |
| Currency translation adjustment | (7) | 5 | 1 | - | (1) | - | (1) | - | - | (1) | **(2)** |
| **Amounts as of March 31, 2007** | **7,972** | **4,435** | **1,170** | **1,716** | **15,293** | **2,172** | **933** | **145** | **831** | **4,081** | **19,374** |
| ***Depreciation and impairment*** | | | | | | | | | | | |
| ***Amounts as of April 1, 2004*** | ***(528)*** | ***(103)*** | ***-*** | ***(436)*** | ***(1,067)*** | ***(640)*** | ***(436)*** | ***-*** | ***(485)*** | ***(1,561)*** | ***(2,628)*** |
| Charge to depreciation | (508) | (444) | - | (362) | (1,314) | (106) | (69) | - | (76) | (251) | **(1,565)** |
| Realases on disposal | 282 | 25 | - | 300 | 607 | 25 | 21 | - | 24 | 70 | **677** |
| Changes in consolidation scope | - | - | - | - | - | 2 | - | - | 22 | 24 | **24** |
| Transfer | (90) | 83 | - | (143) | (150) | - | (1) | - | (23) | (24) | **(174)** |
| Currency translation adjustment | 26 | 4 | - | (2) | 28 | (2) | 5 | - | 1 | 4 | **32** |
| ***Amounts as of March 31, 2005*** | ***(818)*** | ***(435)*** | ***-*** | ***(643)*** | ***(1,896)*** | ***(721)*** | ***(480)*** | ***-*** | ***(537)*** | ***(1,738)*** | ***(3,634)*** |
| Charge to depreciation | (591) | (294) | - | (485) | (1,370) | (110) | (73) | - | (64) | (247) | **(1,617)** |
| Realases on disposal | 171 | 39 | - | 245 | 455 | 14 | 33 | - | 17 | 64 | **519** |
| Transfer | (32) | 32 | - | - | - | 1 | 7 | - | 37 | 45 | **45** |
| Currency translation adjustment | 3 | (1) | - | (3) | (1) | - | - | - | - | - | **(1)** |
| **Amounts as of March 31, 2006** | **(1,267)** | **(659)** | **-** | **(886)** | **(2,812)** | **(816)** | **(513)** | **-** | **(547)** | **(1,876)** | **(4,688)** |

| *(In euro millions)* | Flight equipment | | | | | Other tangible assets | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Leased aircraft | Assets in progress | Other | Total | Land and buildings | Equip-ment and machi-nery | Assets in progress | Other | Total | |
| Charge to depreciation | (716) | (311) | - | (461) | (1,488) | (115) | (72) | - | (65) | (252) | **(1,740)** |
| Loss for future disposal | (20) | - | - | - | (20) | - | - | - | - | - | **(20)** |
| Realases on disposal | 209 | 25 | - | 329 | 563 | 24 | 19 | - | 14 | 57 | **620** |
| Changes in consolidation scope | - | 5 | - | 4 | 9 | - | 1 | - | - | 1 | **10** |
| Transfer | (300) | 36 | - | 271 | 7 | (2) | (7) | - | 5 | (4) | **3** |
| Currency translation adjustment | 3 | (4) | - | - | (1) | - | - | - | - | - | **(1)** |
| **Amounts as of March 31, 2007** | **(2,091)** | **(908)** | **-** | **(743)** | **(3,742)** | **(909)** | **(572)** | **-** | **(593)** | **(2,074)** | **(5,816)** |
| ***Net value*** | | | | | | | | | | | |
| As of April 1, 2004 | 3,815 | 1,349 | 624 | 719 | **6,507** | 594 | 158 | 73 | 198 | ***1,023*** | **7,530** |
| As of March 31, 2005 | 4,778 | 3,494 | 1,031 | 1,091 | **10,394** | 1,191 | 313 | 163 | 228 | ***1,895*** | **12,289** |
| As of March 31, 2006 | 4,957 | 3,541 | 1,138 | 1,381 | **11,017** | 1,265 | 336 | 126 | 228 | ***1,955*** | **12,972** |
| **As of March 31, 2007** | **5,881** | **3,527** | **1,170** | **973** | **11,551** | **1,263** | **361** | **145** | **238** | **2,007** | **13,558** |

Note 35 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 34 and 35.

The net value of tangible assets financed under capital lease amounts to €3,811 million as of March 31, 2007 against €3,912 million as of March 31, 2006 and €3,710 million as of March 31, 2005.

## Note 19 Capital expenditure

The detail of investments in property, plant and equipment and intangible assets presented in the consolidated cash flow statements is as follows:

| **Year ended March 31** *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Acquisition of tangible assets | 2,384 | 2,548 | 2,138 |
| Acquisition of intangible assets | 38 | 30 | 23 |
| Accounts payable on acquisitions and capitalized interests | (44) | (34) | (30) |
| **Total** | **2,378** | **2,544** | **2,131** |

# Note 20 Equity affiliates

## Movements over the period

The table below presents the movement in equity affiliates:

| *(In euro millions)* | WAM Acquisition (Amadeus GTD) | Alpha Plc | Martinair | Kenya Airways | Other | Total |
|---|---|---|---|---|---|---|
| ***Value of share in investment as at March 31, 2004*** | 287 | 31 | - | - | 21 | **339** |
| Share in net income of equity affiliates | 50 | 3 | 9 | 9 | 2 | **73** |
| Distributions | (8) | (2) | - | - | - | **(10)** |
| Changes in consolidation scope | - | - | 146 | 22 | 7 | **175** |
| Transfers and reclassifications | - | 2 | - | - | - | **2** |
| Currency translation adjustment | - | (2) | - | - | - | **(2)** |
| ***Value of share in investments as of March 31, 2005*** | ***329*** | ***32*** | ***155*** | ***31*** | ***30*** | ***577*** |
| Share in net income of equity affiliates | 14 | 4 | (59) | 15 | 3 | **(23)** |
| Distributions | - | (3) | (1) | (2) | (1) | **(7)** |
| Changes in consolidation scope | - | - | - | - | 5 | **5** |
| First application of IAS 32 and 39 | (30) | - | - | - | - | **(30)** |
| Amadeus transaction | (313) | - | - | - | - | **(313)** |
| Transfers and reclassifications | - | - | (3) | 5 | (5) | **(3)** |
| Currency translation adjustment | - | - | - | - | (2) | **(2)** |
| ***Value of share in investment as of March 31, 2006*** | ***-*** | ***33*** | ***92*** | ***49*** | ***30*** | ***204*** |
| Share in net income of equity affiliates | - | - | (7) | 11 | 13 | **17** |
| Distributions | - | (3) | - | - | (1) | **(4)** |
| Change in consolidation scope | - | - | - | - | 18 | **18** |
| Transfers and reclassifications | - | - | (1) | - | (2) | **(3)** |
| Currency translation adjustment | - | - | - | - | (4) | **(4)** |
| **Value of share in investment as of March 31, 2007** | **-** | **30** | **84** | **60** | **54** | **228** |

**As of March 31, 2007,** the ownership structure of WAM Acquisition is as follows: 22.08% Air France, 11.04% Iberia, 11.04% Lufthansa, 50.34% Amadelux Investments and 5.5% by the management. The ownership structure of Alpha plc is as follows: 27% Servair; the other shareholders are mainly institutional investors. The KLM and P&O Nedlloyd groups each held 50% of the capital of Martinair.

KLM held 26% of the capital of Kenya Airways.

During the Year ended March 31, 2007, the WAM General Shareholders' Meeting, held on March 28, 2007, decided on a dividend distribution of €68 million. The Group's share amounts to €16 million and has been recorded in "Other non-current income and expenses".

**As of March 31, 2006,** the ownership structure of WAM Acquisition was as follows: 23.4% Air France, 11.7% Iberia, 11.7% Lufthansa and 53.2% Amadelux Investments.

As of March 31, 2005, Air France-KLM owned a 23.36% interest in Amadeus, a Spanish company, which was accounted for as an equity method investment.

In July 2005, private equity funds (the "financial investors") structured a leveraged buy out of Amadeus whereby WAM Acquisition S.A. ("WAM"), a newly created and highly leveraged company tendered all Amadeus class A and class B shares in cash. Air France-KLM's portion of the total price paid in cash by the financial investors was €1,022 million at the date of the transaction.

Simultaneously, Air France-KLM and the financial investors entered into an investing agreement, whereby Air France-KLM invested €129 million in common stock of WAM (which represented an identical stake that it had in Amadeus, *i.e.* 23.36%). Additionally, Air France-KLM agreed to provide a shareholder loan to WAM for an amount of €76 million. Such loan is subordinated to the senior credit agreement, bears interest and matures in 2020. There were no other equity instruments issued by WAM.

Beyond the investment and shareholder loan in WAM, the Group has not guaranteed any debt or entered into any "make-well agreements" that may require it to infuse cash into WAM under any circumstances.

Based on the above-described terms of the transaction, Air France-KLM considered that it contributed its historical stake (23.36%) in Amadeus to WAM for an identical stake in WAM plus a net cash distribution, WAM being the same company as Amadeus, only more leveraged. The Group's economic interest in the Amadeus business was not reduced. Therefore, the Group accounted for the transaction as the receipt of a large distribution from an equity affiliate, with no reduction in ownership. Consistent with IFRS, such distribution was first reflected as a reduction of the carrying value of WAM. The amount of distribution in excess of the carrying value of WAM was then recognized as income as WAM's distribution is not refundable by agreement or law and Air France-KLM is not liable for the obligations of the equity affiliate or otherwise committed to provide financial support to the affiliate.

The gain recognized by the Group during the year ended March 31, 2006 was computed as follows (in euro millions):

| | |
|---|---|
| Cash received from WAM | 1,022 |
| Investment in cash for WAM Equity | (129) |
| Shareholders' loan in cash | (76) |
| Equity investment in Amadeus before the transaction | (313) |
| **Gain recognized** | **504** |

Additionally, the Group did not recognize its earnings in WAM following the leveraged buy out transaction. The Group will resume recognizing its share of earnings in WAM in accordance with IAS 28 only when Air France-KLM's share of WAM's cumulative net income equals the gain recognized in the transaction.

The ownership structure of Alpha plc was as follows: 27% by Servair; the other shareholders were mainly institutional investors.

The KLM and P&O Nedlloyd groups each held 50% of the capital of Martinair. An impairment charge has been recorded on the Group's investment in Martinair for an amount of €59 million recorded in "Share of profits (losses) of associates".

KLM held 26% of the capital of Kenya Airways.

**As of March 31, 2005**, Air France held 23.4% of Amadeus GTD, Iberia 18.3%, Lufthansa 5% and the general public 53.3%. Amadeus was listed for trading on a regulated market and the market value of Amadeus shares owned by the Group amounted to €1,003 million.

The ownership structure of Alpha plc was as follows: 27% by Servair; the other shareholders were mainly institutional investors.

The KLM and P&O Nedlloyd groups each held 50% of the capital of Martinair.

KLM held 26% of the capital of Kenya Airways.

## Simplified financial statements of the main equity affiliates

The equity affiliates as of March 31, 2007 mainly concerned the following companies, in which the Group has a significant influence:

- **WAM Acquisition**
  WAM Acquisition is the holding company of the Amadeus group. The Amadeus group develops booking tools and technology solutions dedicated to business and leisure travels. This expertise makes it the global partner of choice for: travel agents, rail and airlines operators, hotel chains, car rental companies. Furthermore, the Amadeus group also partners businesses involved in the reservation and management of business travel.
- **Alpha Airport PLC (group publishing consolidated financial statements)**
  The Alpha Airports group provides retail and catering services for airlines and airports. The group operates over 200 retailing and catering outlets in 83 airports in 15 countries across five continents. The group's inflight catering business offers a comprehensive range of catering logistics, flight catering and management services for over 100 airlines.
- **Martinair (group publishing consolidated financial statements)**
  Located in the Netherlands, Martinair's core business is the air transport of passengers and freight out of Amsterdam.
- **Kenya Airways**
  Kenya Airways is a Kenyan airline based in Nairobi.

The financial information for the principal equity affiliates for the years ended March 31, 2005, 2006 and 2007 ( excluding consolidation adjustments) is presented below.

| *(In euro millions)* | WAM Acquisition (Amadeus GTD) | Alpha Plc | Martinair | Kenya Airways |
|---|---|---|---|---|
| | **12/31/2004** | **01/31/2005** | **12/31/2004** | **03/31/2004** |
| % holding as of March 31, 2005 | 23.4% | 26.2% | 50.0% | 25.0% |
| Operating revenues | 2,057 | 715 | 959 | 313 |
| Operating income | 343 | 22 | 23 | 28 |
| Net income | 208 | 13 | 13 | 13 |
| Stockholder's equity as of March 31, 2005 | 942 | 62 | 318 | 89 |
| **Total assets** | **1,675** | **243** | **682** | **310** |
| **Total liabilities and stockholder's equity** | **1,675** | **243** | **682** | **310** |
| | **07/31/2005 (one month)** | **01/31/2006** | **12/31/2005** | **03/31/2005** |
| % holding as of March 31, 2006 | 23.4% | 26.1% | 50.0% | 25.0% |
| Operating revenues | 180 | 807 | 1,121 | 464 |
| Operating income | (68) | 30 | 22 | 73 |
| Net income/loss | (89) | 20 | 17 | 43 |
| Stockholders' equity as of March 31, 2006 | 21 | 62 | 322 | 122 |
| **Total assets** | **5,252** | **294** | **710** | **465** |
| **Total liabilities and stockholders' equity** | **5,252** | **294** | **710** | **465** |
| | **12/31/2006 (5 months)** | **01/31/2007** | **12/31/2006** | **03/31/2006** |
| % holding as of March 31, 2007 | 22.1% | 26.0% | 50.0% | 25.0% |
| Operating revenues | 1,076 | 830 | 1,236 | 580 |
| Operating income | 47 | 12 | (17) | 90 |
| Net income/loss | (80) | 5 | (13) | 53 |
| Stockholders' equity as of March 31, 2007 | (156) | 61 | 281 | 197 |
| **Total assets** | **5,577** | **288** | **703** | **791** |
| **Total liabilities and stockholders' equity** | **5,577** | **288** | **703** | **791** |

### Other information

The share of WAM Acquisition's loss that has not been recorded in the Group's consolidated financial statements amounted to €(18) million for the year ended March 31, 2007. Given the negative net equity after neutralization of the sum reinvested by the Air France-KLM group, its contribution to the consolidated financial statements is nil.

The closing date for the WAM Acquisition financial statements has changed. The duration of the financial year ended December 31, 2006 is, thus, five months. The loss of the previous year ended July 31, 2006 amounted to €(116) million, corresponding to a Group share of €(26) million.

### Carrying value of listed equity affiliates

The carrying value of the Group's stakes in listed equity affiliates is as follows at March 31, 2007:

| *(In euro millions)* | % interest | Net value | Market value* |
|---|---|---|---|
| Alpha Plc | 26% | 30 | 47 |
| Kenya Airways | 25% | 60 | 130 |

* *Based on stock price as of March 31, 2007.*

## Note 21 Pension assets

| Year ended March 31<br>*(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Opening balance*** | ***1,903*** | ***1,767*** | ***23*** |
| Net periodic pension cost for the period | (13) | (115) | (106) |
| Contributions paid to the funds | 207 | 249 | 226 |
| Acquisition of KLM | - | - | 1,624 |
| Currency translation adjustment | - | 2 | - |
| **Closing balance** | **2,097** | **1,903** | **1,767** |

The detail of these pension assets is presented in note 29.1.

## Note 22 Other financial assets

| Year ended March 31 *(In euro millions)* | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Current | Non-current | Current | Non-current |
| Marketable securities | 533 | - | 865 | - | 578 | - |
| Treasury shares | - | - | - | - | - | 27 |
| Loans and receivables | 123 | 1,075 | 65 | 1,130 | 45 | 986 |
| Miscellaneous financial assets | 33 | 1 | 2 | 24 | 31 | 75 |
| Financial assets available for sale | - | 73 | - | 77 | - | 57 |
| Other | - | - | - | - | - | 15 |
| ***Gross value*** | ***689*** | ***1,149*** | ***932*** | ***1,231*** | ***654*** | ***1,160*** |
| ***Impairment at opening*** | ***-*** | ***(49)*** | ***-*** | ***(47)*** | ***-*** | ***(44)*** |
| New impairment charge | - | (5) | - | (2) | - | (3) |
| ***Impairment at closing*** | ***-*** | ***(54)*** | ***-*** | ***(49)*** | ***-*** | ***(47)*** |
| **Total** | **689** | **1,095** | **932** | **1,182** | **654** | **1,113** |

### Loans and receivables

Loans and receivables mainly include deposits on flight equipment operating and capital leases.

### Financial assets available for sale

| *(In euro millions)* | Fair Value | % interest | Stockholder's equity | Net income | Stock price *(in euros)* | Closing date |
|---|---|---|---|---|---|---|
| **As of March 31, 2007** | | | | | | |
| Alitalia(*) | 26 | 2.00% | 1,237 | (221) | 0.944 | December 2006(***) |
| Club Med(*) | 17 | 2.00% | 514 | 5 | 43.87 | October 2006 |
| Opodo | - | 5.60% | 22 | (35) | NA | December 2005 |
| Voyages Fram | 9 | 8.70% | 123 | (5) | NA | December 2006 |
| Others | 21 | | | | | |
| **Total** | **73** | | | | | |
| **As of March 31, 2006** | | | | | | |
| Alitalia(*)(**) | 32 | 2.00% | 1,462 | (167) | 1.15 | December 2005 |
| Austrian Airlines(*) | 4 | 1.50% | 566 | (129) | 8.39 | December 2005 |
| Opodo | 3 | 5.94% | (4) | (50) | NA | December 2004 |
| Voyages Fram | 9 | 8.70% | 123 | (17) | NA | December 2004 |
| Others | 29 | | | | | |
| **Total** | **77** | | | | | |
| **As of March 31, 2005** | | | | | | |
| Alitalia(*) | 16 | 2.00% | 1,264 | (520) | 0.228 | December 2004 |
| Austrian Airlines(*) | 9 | 1.50% | 631 | 40 | 7.87 | December 2004 |
| Opodo | - | 8.30% | (15) | (64) | NA | December 2003 |
| Voyages Fram | 9 | 8.7% | 142 | (15) | NA | December 2003 |
| Others | 23 | | | | | |
| **Total** | **57** | | | | | |

*(*) Listed company.*
*(**) A reverse stock split occurred during the financial year, which replaced 30 old shares with 1 new share.*
*(***) Because consolidated accounts for the year ended December 31, 2006 are not available, the amount of shareholder's equity and net result are communicated based on the half-year figures as of June 30, 2006.*

## Note 23 Inventory and work in progress

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Aeronautical spare parts | 332 | 331 | 305 |
| Other supplies | 126 | 134 | 125 |
| Production work in progress | 4 | 2 | 55 |
| ***Gross value*** | ***462*** | ***467*** | ***485*** |
| ***Opening valuation allowance*** | ***(127)*** | ***(103)*** | ***(116)*** |
| Charge allowance | (8) | (29) | - |
| Use of allowance | 9 | 5 | - |
| Releases of allowance no longer required | - | - | 13 |
| Reclassification | 24 | - | - |
| **Closing valuation allowance** | **(102)** | **(127)** | **(103)** |
| **Net value of inventory** | **360** | **340** | **382** |

## Note 24 Trade accounts receivable

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Passenger | 1,448 | 1,330 | 977 |
| Cargo | 380 | 392 | 330 |
| Maintenance | 352 | 303 | 382 |
| Airlines | 459 | 503 | 438 |
| Other | 62 | 97 | 247 |
| ***Gross value*** | ***2,701*** | ***2,625*** | ***2,374*** |
| ***Opening valuation allowance*** | ***(107)*** | ***(102)*** | ***(99)*** |
| Charge to allowance | (14) | (17) | (30) |
| Use of allowance | 16 | 12 | 27 |
| Reclassification | 14 | - | - |
| **Closing valuation allowance** | **(91)** | **(107)** | **(102)** |
| **Net value** | **2,610** | **2,518** | **2,272** |

## Note 25 Other assets

| Year ended March 31 *(In euro millions)* | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Current | Non-current | Current | Non-current |
| Suppliers with debit balances | 71 | - | 70 | - | 153 | - |
| State | 83 | - | 79 | 7 | 82 | - |
| Derivative instruments | 456 | 589 | 1,022 | 973 | 88 | 299 |
| Prepayments | 223 | - | 294 | - | 304 | - |
| Other debtors | 445 | 15 | 296 | 102 | 347 | 37 |
| ***Gross value*** | ***1,278*** | ***604*** | ***1,761*** | ***1,082*** | ***974*** | ***336*** |
| ***Opening valuation allowance*** | ***(5)*** | ***-*** | ***(5)*** | ***-*** | ***(5)*** | ***-*** |
| Charge to allowance | (4) | - | - | - | - | - |
| Use of allowance | 3 | - | - | - | - | - |
| Release of allowance no longer required | 1 | - | - | - | - | - |
| Reclassification | (2) | - | - | - | - | - |
| **Closing valuation allowance** | **(7)** | **-** | **(5)** | **-** | **(5)** | **-** |
| **Net realizable value of other assets** | **1,271** | **604** | **1,756** | **1,082** | **969** | **336** |

## Note 26. Cash, cash equivalents and bank overdrafts

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Negotiable debt securities | 15 | 25 | 32 |
| Mutual funds (SICAV) | 3,234 | 2,062 | 963 |
| Bank deposits | - | 639 | 654 |
| Cash in hand | 248 | 220 | 398 |
| **Total cash and cash equivalents** | **3,497** | **2,946** | **2,047** |
| Bank overdrafts | (133) | (102) | (262) |
| **Cash, cash equivalent and bank overdraft** | **3,364** | **2,844** | **1,785** |

## Note 27 Equity attributable to equity holders of Air France-KLM SA

### 27.1. Issued capital

As of March 31, 2007, the issued capital of Air France-KLM comprised 279,365,707 fully paid-up shares. Each share is entitled to one vote. The nominal value of each share amounts to 8.5 euros.

***Authorized stock***

Since July 12, 2005, the shareholders have delegated to the Board of Directors the power to carry out any capital increase (other than by way of an in-kind contribution), provided that this increase has been previously authorized by the shareholders.

Pursuant to the Combined Ordinary and Extraordinary Shareholders' Meeting of Air France-KLM held on July 12, 2005, the Board of Directors has the authority, to issue ordinary shares and securities giving access via any and all means, immediately or in the future, to existing shares or shares to be issued by the Group, for a maximum amount of 66,905,034 shares.

***Breakdown of stock and voting rights***

The breakdown of stock and voting rights is as follows:

| Year ended March 31 | *% of capital* | | | *% of voting rights* | | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2007** | **2006** | **2005** |
| French State | 18% | 18% | 23% | 18% | 19% | 24% |
| Employees and former employees | 11% | 14% | 12% | 11% | 14% | 12% |
| Treasury shares | 1% | 2% | 2% | - | - | - |
| Other | 70% | 66% | 63% | 71% | 67% | 64% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

The item "Employees and former employees" includes shares held by employees and former employees identified in funds or by a Sicovam code.

***Other securities giving access to common stock***

Following the Exchange Offer, 45,093,299 Equity Warrants for new or existing shares (Bons d'Acquisition et/ou de Souscription d'Actions (BASA) were issued. Three BASAs give the holder the right to purchase and/or subscribe to 2.066 new or existing shares of Air France-KLM stock, with a par value of 8.50 euros, at an exercise price of 20 euros per Air France-KLM share. BASA holders will have the option, at any time during a 24-month period beginning November 2005, to obtain new or existing shares, at the Group's discretion, upon exercise of the BASA.

During the year ended March 31, 2007, 14,503,347 BASA were exercised, leading to the issuance of 9,982,189 shares and to the exchange of 5,106 existing shares.

As of March 31, 2007, 30,587,270 BASA remain floating.

The maximum potential increase in the equity capital of Air France-KLM is €408 million.

### 27.2. Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Equity part of hybrid instruments | 46 | 46 | - |
| Other paid-in capital | 493 | 384 | 384 |
| **Total** | **539** | **430** | **384** |

### 27.3. Treasury shares

| | Treasury shares | |
|---|---|---|
| | *Number* | *(In euro millions)* |
| ***March 31, 2005*** | ***1,299,538*** | ***(19)*** |
| Change in the period | 2,850,597 | (39) |
| ***March 31, 2006*** | ***4,150,135*** | ***(58)*** |
| Change in the period | (2,088,796) | 28 |
| **March 31, 2007** | **2,061,339** | **(30)** |

As of March 31, 2007, the Group held 2,060,365 shares of its own stock within the framework of stock option programs. The Group also held 974 shares of its own stock within the framework of a liquidity agreement approved by the Shareholders' Meeting of July 12, 2005. All these treasury shares are classified as a reduction of equity.

As at March 31, 2005, shares held by the Group within the framework of stock option programs were classified as marketable securities amounting to €27 million, Air France-KLM having implemented IAS 32 and 39 as of April 1, 2005 and in accordance with the exemption provided by IFRS 1.

### 27.4. Reserves and retained earnings

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Legal reserve | 46 | 46 | 46 |
| Distributable reserve | 973 | 1,055 | 1,133 |
| Derivatives and available for sale securities reserves | 550 | 1,051 | - |
| Aggregate results of consolidated subsidiaries | 2,955 | 2,007 | 365 |
| Net income (loss) | 891 | 913 | 1,710 |
| **Total** | **5,415** | **5,072** | **3,254** |

As of March 31, 2007, the legal reserve of €46 million represents 2% of Air France-KLM's issued capital. French company law requires that a limited company (société anonyme) allocate 5% of its unconsolidated statutory net result each year to this legal reserve until it reaches 10% of the Group's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year. This restriction on the payment of dividends also applies to each of the French subsidiaries on an individual statutory basis.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

The Board of Directors proposed a dividend distribution of €134 million (€0.48 per share) subject to shareholder approval at the annual general shareholders' meeting to be held on July 12, 2007.

## Note 28 Share based compensation

### Outstanding share-based compensation plans

| Plans | Grant date | Number of shares granted | Start date for option exercise | Date of expiry | Exercise price *(In euros)* | Number of options exercised as of 03/31/2007 |
|---|---|---|---|---|---|---|
| ***Stock-options plans*** | | | | | | |
| Air France – ESA 1998 options | 05/30/2000 | 3,516,596 | 05/31/2005 | 05/31/2007 | 15.75 | 2,774,313 |
| KLM - Plan A | 06/30/2001 | 343,642 | 06/30/2004 | 10/20/2006 | 20.44 | 331,023 |
| KLM - Plan B | 06/30/2001 | 114,162 | 06/30/2004 | 10/20/2006 | 16.22 | 114,162 |
| KLM - Plan A | 06/30/2002 | 341,350 | 06/30/2004 | 10/19/2007 | 12.80 | 313,589 |
| KLM - Plan B | 06/30/2002 | 119,105 | 06/30/2004 | 10/19/2007 | 10.07 | 110,501 |
| KLM | 06/30/2003 | 355,379 | 06/30/2004 | 06/30/2008 | 6.48 | 321,531 |
| KLM | 06/30/2004 | 463,884 | 06/30/2004 | 06/25/2009 | 13.19 | - |
| KLM | 07/31/2005 | 390,609 | 07/31/2005 | 07/16/2010 | 13.11 | - |
| KLM | 07/31/2006 | 411,105 | 07/31/2006 | 07/26/2011 | 17.83 | - |

### Other plans

| Plans | Grant date | Number of shares granted | Date of expiry | Exercise price *(In euros)* | Number of shares exercised as of 03/31/2007 |
|---|---|---|---|---|---|
| Air France - ESA(*) 1998 pilots | 05/01/1999 | 15,023,251 | 06/10/2033 | 14.00 | 15,023,251 |
| Air France-KLM - ESA(*) 2003 | 02/01/2005 | 12,612,671 | 02/21/2005 | 14.00 | 12,612,671 |
| Air France-KLM – ORS(**) | 02/01/2005 | 8,414,273 | 02/21/2005 | 14.30 | 8,414,273 |

*(*) ESA: Shares-for-salary exchange.*
*(**)ORS: Offer reserved for employees.*

KLM stock-option plans granted from 2000 through 2004 vest over a three year period.

The vesting conditions of the options granted by KLM on July 31, 2006 and 2005 are such that one third of the options vest at grant date with further one-third after expiration of one and two years, respectively. Vesting is conditional on KLM achieving predetermined non-market performance criteria.

➤ Changes in options

| | Average exercise price *(In euros)* | Number of options |
|---|---|---|
| ***Options outstanding as of April 1, 2004*** | ***15.75*** | ***3,516,596*** |
| KLM acquisition | 13.54 | 1,771,941 |
| Options forfeited during the period | 15.75 | (19,659) |
| Options exercised during the period | 7.31 | (112,673) |
| Options granted during the period | - | - |
| ***Options outstanding as of March 31, 2005*** | ***15.18*** | ***5,156,205*** |
| ***Of which: options exercisable at March 31, 2005*** | ***13.97*** | ***1,659,268*** |
| Options forfeited during the period | 21.36 | (108,802) |
| Options exercised during the period | 13.82 | (1,406,655) |
| Options granted during the period | 13.11 | 390,609 |
| ***Options outstanding as of March 31, 2006*** | ***15.28*** | ***4,031,357*** |
| ***Of which: options exercisable at March 31, 2006*** | ***15.28*** | ***4,031,357*** |
| Options forfeited during the period | 14.30 | (10,741) |
| Options exercised during the period | 16.05 | (2,445,791) |
| Options granted during the period | 17.83 | 411,105 |
| **Options outstanding as of March 31, 2007** | **14.87** | **1,985,930** |
| ***Of which  options exercisable at March 31, 2007*** | **14.87** | **1,985,930** |

➤ Options by range of exercise prices

| Range of exercise prices per share | Number of options | Weighted average remaining life *(Years)* | Weighted average exercise price per share *(In euros)* |
|---|---|---|---|
| From 5 to 10 euros per share | 33,848 | 1.25 | 6.48 |
| From 10 to 15 euros per share | 869,476 | 2.68 | 13.11 |
| From 15 to 20 euros per share | 1,082,606 | 1.75 | 16.54 |
| **Total** | **1,985,930** | **2.15** | **14.87** |

### 28.1. Plans granted prior to November 7, 2002

In accordance with the transitional provisions of IFRS 2, only plans granted after November 7, 2002 and not yet vested as of April 1, 2004 have been valued and recorded as salary expense. IFRS 2 is therefore not applicable to the plans described below:

On October 28, 1998, Air France signed an agreement granting Air France shares to pilots in return for a reduction in salary (these shares being attributed by the French State, the major shareholder at the time). The offer was launched on May 1, 1999 and closed on May 31, 1999. By the end of the offer, 15,023,251 shares were allocated to pilots. Payment for these shares, priced at €14, was to be made through a reduction in salary spread over (i) a 7 year period for 10,263,001 shares and (ii) the remaining career of pilots for the remaining 4,760,250 shares.

For the year ended March 31, 2007, 1,916 shares had been returned. For the year ended March 31, 2006, 12,477 shares had been returned. For the year ended March 31, 2005, 26,160 shares had been returned.

Moreover, within the same agreement, Air France also granted 3,516,596 stock purchase options on May 30, 2000 to certain of its employees. These options will be exercisable at €15.75 per share between May 31, 2005 and May 31, 2007. These options were granted without vesting conditions of service and were considered vested at their grant date May 30, 2000.

As of March 31, 2007, 1,906,243 of these options had been exercised and none forfeited. As of March 31, 2006, 868,070 of these options had been exercised and 50,290 forfeited. As of March 31, 2005, none of these options had been exercised and 19,659 had been forfeited

## 28.2. Plans granted after November 7, 2002

### *Stock-option plans*

Prior to the combination with Air France, members of the Management Board and the key executives of KLM had been granted KLM stock options.

Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004, so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares.

The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

The fair value of these options, amounting to €10 million, was determined at the acquisition date of KLM (i.e. May 1, 2004) using the Black and Scholes model with the following assumptions:

| | |
|---|---|
| Fair value at grant date *(in euro millions)* | 10 |
| Share price *(in euros)* | 16.61 € |
| Option exercise price *(in euros)* | Between €6.48 and €32.86 |
| Historical volatility of dividends on the shares | 33.7% |
| Option duration | Between 0.46 and 4.17 years |
| Share's expected dividend yield | 1.40% |
| Risk free interest rate | Between 2.06% and 3.26% |

The fair market value of the options given by KLM after its acquisition by Air France has been determined using the Black & Scholes pricing model and the following assumptions:

| | Plan granted on July 31, 2006 | Plan granted on July 31, 2005 |
|---|---|---|
| Fair value at grant date *(in euro millions)* | 2 | 1 |
| Share price *(in euros)* | €19.33 | €13.50 |
| Option exercise price *(in euros)* | €17.83 | €13.11 |
| Historical volatility of dividends on the shares | 25.23% | 22.29% |
| Option duration | 5 years | 5 years |
| Share's expected dividend yield | 1.14% | 3.22% |
| Risk free interest rate | 3.99% | 2.88% |

***2003 Shares-for-salary exchange (ESA 2003)***

On February 1, 2005, the Group launched a shares-for-salary exchange scheme, in which all Air France employees residing in France were offered the opportunity to purchase Air France-KLM shares at a price of €14 per share in exchange for wage concessions over a 6-year period. The offer was limited to a maximum of 13,186,853 ordinary shares. At the date the offer was closed, February 21, 2005, Air France employees had acquired 12,612,671 Air France-KLM shares.

These shares were granted by the French State, the largest Air France-KLM shareholder, subject to a €109 million payment by Air France-KLM. The wage concessions cover the period from May 2005 to May 2011.

In the event an employee leaves the Group prior to the end of the six-year period, the unvested shares are returned to Air France which, in turn, returns them to the French State. The fair value of the services provided under the shares-for-salary exchange scheme was calculated on the basis of the market price of the Air France-KLM share on the date the offer was closed, namely 14.30 euros and amounts to €180 million. The corresponding salary expense covers the acquisition period of voting rights from May 2005 to May 2011. Each installment, corresponding to the annual decrease of salary, is treated as a separate grant. The ESA 2003 plan share-based payment is therefore recognized on a straight-line basis over the requisite service period for each separately vested portion.

***Offer Reserved for Employees (ORS)***

Pursuant to the privatization law of August 6, 1986, the French State, the main Air France-KLM shareholder, on February 1, 2005 offered employees the opportunity to subscribe to Air France-KLM shares under the following preferential conditions:

- a subscription price at a 20% discount to the market price of the Air France-KLM share;
- the allocation of bonus shares;
- an employer's contribution of up to 40% of the amount subscribed by employees;
- payment facilities.

The offering covered a maximum of 8,414,273 shares. At the close of the offer, on February 21, 2005, the entire offering had been taken up. No vesting conditions were applicable after the allocation date of this scheme. The service cost within the framework of this scheme was calculated on the basis of the Air France-KLM share price at the date on which the offer closed, namely 14.30 euros, except for the employer's contribution which was accounted for on the basis of its nominal value. Given that this scheme was not subject to any vesting condition, a cost of €69 million was recorded in the Year ended March 31, 2005.

***Salary expenses related to share-based compensation***

| **Year ended March 31** *(In euro millions)* | **Note** | **2007** | **2006** | **2005** |
|---|---|---|---|---|
| ESA 2003 | | (31) | (29) | - |
| ORS | | - | - | (69) |
| Stock option plan | | (1) | - | - |
| **Salary expense** | **7** | **(32)** | **(29)** | **(69)** |

## Note 29 Provisions and retirement benefits

| *(In euro millions)* | Retirement benefits note 29.1 | Restitution of aircraft | Restructuring | Litigation | Others | Total |
|---|---|---|---|---|---|---|
| ***Amount as of April 1, 2004*** | ***658*** | ***279*** | ***13*** | ***64*** | ***51*** | **1,065** |
| New provision | 102 | 139 | 18 | 12 | 89 | **360** |
| Use of provision | (50) | (108) | (45) | (7) | (23) | **(233)** |
| Reversal of unnecessary provisions | - | (31) | - | (2) | - | **(33)** |
| Acquisition of KLM | 347 | 67 | 59 | - | - | **473** |
| Currency translation adjustment | (4) | 5 | 3 | - | 3 | **7** |
| Discount impact | - | 1 | - | - | - | **1** |
| ***Amount as of March 31, 2005*** | ***1,053*** | ***352*** | ***48*** | ***67*** | ***120*** | **1,640** |
| *On which: non-current* | 1,053 | 281 | 16 | 61 | 105 | **1,516** |
| *current* | - | 71 | 32 | 6 | 15 | **124** |
| New provision | 74 | 136 | 1 | 63 | 39 | **313** |
| Use of provision | (129) | (129) | (31) | (14) | (18) | **(321)** |
| Reversal of unnecessary provisions | - | - | (1) | - | - | **(1)** |
| Currency translation adjustment | 7 | - | - | - | - | **7** |
| Discount impact | - | 7 | - | - | - | **7** |
| ***Amount as of March 31, 2006*** | ***1,005*** | ***366*** | ***17*** | ***116*** | ***141*** | **1,645** |
| *On which: non-current* | 1,005 | 261 | - | 66 | 121 | **1,453** |
| *current* | - | 105 | 17 | 50 | 20 | **192** |
| New provision | 117 | 144 | 35 | 23 | 45 | **364** |
| Use of provision | (130) | (121) | (13) | (6) | (67) | **(337)** |
| Reversal of unnecessary provisions | - | (4) | - | (2) | (2) | **(8)** |
| Currency translation adjustment | (2) | (3) | - | - | - | **(5)** |
| Discount impact | - | (8) | - | - | - | **(8)** |
| Reclassification | - | - | - | (39) | - | **(39)** |
| **Amount as of March 31, 2007** | **990** | **374** | **39** | **92** | **117** | **1,612** |
| *On which: non-current* | 990 | 221 | 32 | 32 | 112 | **1,387** |
| *current* | | 153 | 7 | 60 | 5 | **225** |

Movements in provisions for retirement benefits which have an impact on the income statement are recorded in “salaries and related costs”.

Movements in provisions for restructuring which have an impact on the income statement are recorded in “other non-current income and expenses” when the plans covered have a material impact.

Movements in provisions for restitution of aircraft which have an impact on the income statement are recorded in “provisions” except for discount impact which is recorded in “other financial income and expenses”.

Movements in provisions for litigation and in provisions for other risks and charges which have an impact on the income statement are recorded, depending on their nature, in the different captions of the income statement. As of March 31, 2007, a new provision of €11 million has been recorded in “other non-current income and expenses” corresponding to a fiscal risk other than income tax.

## 29.1. Retirement benefits

The Group has a large number of retirement and other benefits plans for the majority of its employees. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located. Several of the plans are defined benefit plans.

The €7,627 million increase in obligation and €8,912 million increase in the value of the plan’s pension fund assets were due to the acquisition of KLM, as of April 30, 2004. These amounts correspond to the fair value of obligations and plan assets at the date of the inclusion of KLM in the consolidation scope. They are shown in the breakdown of pension benefit obligations and other benefits on the line “Acquisition of KLM”.

The Group has accounted for the actuarial gains and losses directly in equity as of April 1, 2004, the transition date to IFRS, in accordance with the exemptions provided by IFRS 1.

Since April 1, 2004, the Group amortizes actuarial gains and losses if at the beginning of the period the net unrealized actuarial gain or loss exceeds 10% of the greater of the projected obligation or the market value of plan assets.

### *Ceiling of the pension fund surplus*

For a certain number of pensions obligations, the Group funds pensions funds.

The obligations of KLM Group are for the most part funded in accordance with Dutch regulation and the Group’s collective agreement. With regard to the level of coverage of the commitments, particularly for the pilots’ program, significant “safeguard” constraints force the Group to be always in a position of “over-coverage”.

### *Actuarial assumptions used*

Actuarial valuations of the Group’s benefit obligation were computed as of March 31, 2007, 2006 and 2005. These calculations include:

- assumptions on staff turnover, life expectancy and salary inflation;
- a retirement age of 55 to 65 depending on localizations and applicable laws;
- discount rates used to determine the actuarial present value of the projected benefit obligations are as follows:

| Year ended March 31 | 2007 | 2006 | 2005 |
|---|---|---|---|
| Euro zone | Between 4.3% and 4.75% | Between 4.1% and 4.5% | Between 4.5% and 5.25% |
| United Kingdom | 5.24% | Between 4.8% and 4.9% | Between 5.3% and 5.4% |
| USA-Canada | Between 5.1% and 6.0% | Between 4.8% and 5.8% | Between 5.25% and 6.5% |
| Other countries | Between 1.7% and 11.0% | Between 1.7% and 15.25% | Between 1.9% and 11% |

♦ Expected long-term rates of return for plan assets are as follows:

| Year ended March 31 | 2007 | 2006 | 2005 |
|---|---|---|---|
| Euro zone | Between 4.0% and 7.0% | Between 4.0% and 7.0% | Between 5.0% and 7.0% |
| United Kingdom | Between 4.9% and 6.8% | Between 6.1% and 6.8% | 6.8% |
| USA-Canada | Between 5.5% and 7.0% | Between 6.1% and 6.8% | Between 6.8% and 7.5% |
| Other countries | Between 4.3% and 10.6% | Between 0.5% and 12.0% | Between 4.8% and 11% |

Expected average long-term rates of return for plan assets have been determined based on the expected long-term rates of return of the different asset classes: equities, bonds, real estate or other weighted according to the asset allocation strategy in these schemes. A risk premium is used for each asset class with reference to a market risk free rate.

♦ Assumption on increase in healthcare costs:

| Year ended March 31 | 2007 | 2006 | 2005 |
|---|---|---|---|
| Netherlands | 4.45% | 7.25% | - |
| USA-Canada | Between 8% and 10.0% | 10.0% | 8.5% |

The sensitivity of the annual charge and the obligation to the variation in healthcare costs of the schemes is as follows:

| *(In euro millions)* | Sensitivity of the assumptions for Year ended March 31, 2007 |
|---|---|
| **Increase by 1% of healthcare costs** | |
| Impact on the cost | 1 |
| Impact on the obligation | 4 |
| **Decrease by 1% of healthcare costs** | |
| Impact on the cost | (1) |
| Impact on the obligation | (4) |

On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

| Year ended March 31 | Pension benefits | | | Other benefits | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Discount rate | 4.51% | 4.49% | 4.55% | 5.64% | 4.49% | 4.55% |
| Salary inflation rate | 2.62% | 2.70% | 2.91% | - | - | - |
| Expected long-term rate of return on plan assets | 5.70% | 5.70% | 5.13% | - | - | - |

### *Changes in benefit obligations*

The following chart details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended March 31, 2007, 2006 and 2005.

| *(In euro millions)* | Pension benefits | | | Other benefits | | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2007** | **2006** | **2005** |
| ***Benefit obligation at beginning of year*** | ***10,921*** | ***10,313*** | ***1,680*** | ***74*** | ***115*** | ***3*** |
| Service cost | 368 | 359 | 275 | - | 2 | 2 |
| Interest cost | 489 | 461 | 447 | 2 | 6 | 5 |
| Employees' contribution | 40 | 36 | 32 | - | - | - |
| Plan amendments | 150 | 49 | 16 | - | - | - |
| Acquisition of KLM | - | - | 7,528 | - | - | 99 |
| Settlements/curtailments | (28) | (11) | (1) | (20) | (55) | - |
| Benefits paid | (423) | (398) | (352) | (2) | (5) | (8) |
| Actuarial loss/(gain) | 68 | 106 | 707 | 4 | 8 | 14 |
| Currency translation adjustment | (3) | 6 | (19) | (4) | 3 | - |
| ***Benefit obligation at end of year*** | ***11,582*** | ***10,921*** | ***10,313*** | ***54*** | ***74*** | ***115*** |
| *Including benefit obligation resulting from schemes totally or partly financed* | *11,419* | *10,802* | *10,161* | - | - | - |
| *Including not-financed benefit obligation* | *163* | *119* | *152* | *54* | *74* | *115* |
| ***Fair value of plan assets at beginning of year*** | ***12,538*** | ***10,782*** | ***1,024*** | **-** | **-** | **-** |
| Actual return on plan assets | 921 | 1,747 | 913 | - | - | - |
| Employers' contributions | 323 | 358 | 261 | - | - | - |
| Employees' contributions | 40 | 37 | 32 | - | - | - |
| Acquisition of KLM | - | - | 8,912 | - | - | - |
| Settlements/curtailments | (6) | (6) | - | - | - | - |
| Benefits paid by the assets | (408) | (383) | (345) | - | - | - |
| Currency translation adjustment | (4) | 3 | (15) | - | - | - |
| ***Fair value of plan assets at end of year*** | ***13,404*** | ***12,538*** | ***10,782*** | **-** | **-** | **-** |

| *(In euro millions)* | Pension benefits | | | Other benefits | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| ***Funded status*** | 1,822 | 1,617 | 469 | (54) | (74) | (115) |
| Unrecognized prior service cost | 190 | 59 | 25 | - | - | - |
| Unrecognized actuarial (gains)/losses | (857) | (710) | 322 | 6 | 6 | 13 |
| Prepaid (accrued) pension cost | 1,155 | 966 | 816 | (48) | (68) | (102) |
| Amounts recorded in the balance sheet(*) | | | | | | |
| Pension asset (note 21) | 2,097 | 1,903 | 1,767 | - | - | - |
| Provision for retirement benefits | (942) | (937) | (951) | (48) | (68) | (102) |
| **Net amount recognized** | **1,155** | **966** | **816** | **(48)** | **(68)** | **(102)** |
| ***Net periodic cost*** | | | | | | |
| Service cost | 368 | 359 | 275 | - | 2 | 2 |
| Interest cost | 489 | 461 | 447 | 2 | 6 | 5 |
| Expected return on plan assets | (714) | (616) | (532) | - | - | - |
| Settlement/curtailment | (18) | (8) | - | (16) | (44) | - |
| Amortization of prior service cost | 19 | 12 | 15 | - | - | - |
| Amortization of unrecognized actuarial (gain) loss | (1) | 16 | (4) | 1 | 4 | - |
| Other | - | (1) | - | - | - | - |
| **Net periodic cost** | **143** | **223** | **201** | **(13)** | **(32)** | **7** |
| **Amount of obligation calculated with salaries at the end of the year (Accumulated Benefit Obligation):** | | | | | | |
| All plans | 10,018 | 9,656 | 9,081 | - | - | - |
| Plans with an accumulated benefit obligation in excess of plan assets | 986 | 965 | 1,793 | - | - | - |

*(*) Except for those pension plans for which the balance is a net asset fully recorded as a non-current asset, all the obligation is recorded as non-current liabilities.*

The benefit obligation, fair value of plan assets and experience adjustments are as follows:

| *(In euro millions)* As of March 31, 2007 | Benefit obligation | Fair value of plan assets | Funded status | Experience adjustments on | |
|---|---|---|---|---|---|
| | | | | Benefit obligation | Plan asset |
| | 11,636 | 13,404 | 1,768 | 230 | 212 |

***Asset allocation***

The weighted average allocation of funds invested in Group pension plans as of March 31, 2007, 2006 and 2005 is as follows:

| Year ended March 31 | Funds invested | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Equities | 41% | 40% | 50% |
| Bonds | 44% | 48% | 37% |
| Real estate | 6% | 10% | 10% |
| Insurer assets | 8% | - | - |
| Short term investments | 1% | 0% | 2% |
| Other | - | 2% | 1% |
| **Total** | **100%** | **100%** | **100%** |

***Expected cash outflows***

The table below shows the expected cash outflows on pensions and other post-employment benefits over the next ten years:

| *(In euro millions)* | Pensions and similar benefits |
|---|---|
| *Estimated contribution to be paid in year 2007-08* | *371* |
| ***Estimated benefit payments*** | |
| 2008 | 417 |
| 2009 | 437 |
| 2010 | 460 |
| 2011 | 475 |
| 2012 | 505 |
| 2013-2017 | 2,669 |

## 29.2. Other provisions

***Provisions for the restitution of aircraft under operating leases***

The provisions for the restitution of aircraft under operating leases correspond to the commitments made by Air France-KLM under the aircraft operating leases signed with lessors at the time its financial statements are established.

***Restructuring provision***

The restructuring provisions relate to detailed, formal restructuring plans which have been communicated to the employees involved.

KLM had booked, prior to May 1, 2004, a restructuring provision amounting to €75 million, to cover redundancy costs associated with the execution of a cost-cutting program. At the date of acquisition by the Group, this provision amounted to €59 million. The remaining provision was €2 million, €8 million and €32 million as of March 31, 2007, 2006 and 2005, respectively.

The new provision recorded this year relates to a restructuring plan for flight deck crew on an aircraft type to be withdrawn from Air France fleet.

***Provision for litigation with third parties***

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions were recorded whenever circumstances rendered it necessary.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

***Other provisions***

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group).

### 29.3. Contingent liabilities

The Group is involved in several disputes, and the potential losses have not been recorded in the consolidated financial statements.

The Group was definitively removed by the Court of Appeals of Richmond, Virginia on December 9, 2004, from in the HALL action, the name of one of the travel agents who had filed a class action suit against American and European airlines, including Air France and KLM, accusing them of illegal agreements to reduce the commissions collected on the sale of airline tickets.

A lawsuit based on the same complaints, filed by fifty travel agents acting individually against the same airlines is still pending in the Federal Court of the Northern District of Ohio. However, given the small number of agents involved in this action, the financial stakes for the Group are not significant. No provisions have been recorded in connection with this suit.

In the dispute between Servair a subsidiary of the Group, and its employees for payment of meal times, all judgments issued to date by the courts have dismissed the claims of the employees involved. Only one proceeding with 255 employees is still pending before the Labor Board. This action, like the preceding cases, is considered to be not relevant by the Group and no provisions have been recorded.

As of February 14, 2006, authorities from the EU Commission and the US Department Of Justice (DOJ) presented themselves at the offices of Air France and KLM, as well as most airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air shipping services. Skyteam Cargo, a Company in which Air France held shares, was subject to the same investigations.

Air France-KLM as well as Air France and KLM are cooperating with these investigations.

As of March 31, 2007, over 140 purported class action lawsuits were filled in the US against air cargo operators including Air France-KLM, Air France, KLM and/or related entities. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including various surcharges in air cargo services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief amounting to triple amount of compensatory damages. These actions have been transferred and consolidated before the US District Court of the Eastern District of New York. The consolidated case is currently in the pleading process, with the first consolidated amended complaint filed by the plaintiffs in February 2007. Air France and KLM intend to defend these cases vigorously.

At this time, Air France-KLM is unable to predict the outcome of these investigations requested by antitrust and civil litigation authorities, or the amount of penalties and compensatory damages which could be due.

On July 20, 2006, Air France was placed under formal investigation for (i) possible illegal employment practices and (ii) being a possible accessory to misappropriation of funds by Pretory, a company that supplied on board safety guards to Air France for flights to the US or other destinations following the September 11 terrorist attacks.

Air France has denied any illegal practice and immediately filed an appeal against the judge's decision. As of March 31, 2007, this appeal was still pending before the Paris Court of Appeal.

To the Group's knowledge, there is no other litigation, arbitration or other threatened or pending disputes that could have or has had in the recent past a material impact on the financial position, earnings, business or holdings of the group.

## Note 30 Financial debt

| Year ended March 31<br>*(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| ***Non-current financial debt*** | | | |
| Perpetual subordinated loan stock in Yen | 204 | 226 | 225 |
| Perpetual subordinated loan stock in Swiss francs | 258 | 265 | 270 |
| Repackaged perpetual loans | - | 122 | 152 |
| OCEANE (convertible bonds) | 386 | 382 | - |
| Bonds | 550 | - | - |
| Capital lease obligations | 3,917 | 4,668 | 5,008 |
| Other long-term debt | 2,104 | 2,163 | 2,234 |
| **Total** | **7,419** | **7,826** | **7,889** |
| ***Current financial debt*** | | | |
| Perpetual subordinated loan stock | 122 | 25 | 23 |
| Capital lease obligations (current portion) | 657 | 763 | 444 |
| Accrued interest | 95 | 107 | 79 |
| Other | 224 | 365 | 498 |
| **Total** | **1,098** | **1,260** | **1,044** |

During the year ended March 31, 2007, the Group reimbursed in advance debt amounting to €409 million, without penalty.

### 30.1. Perpetual subordinated loan stock

#### *30.1.1 Perpetual subordinated loan stock in Yen*

The perpetual subordinated loan stock in yen was issued by KLM in 1999 for a total amount of 30 billion yen, *i.e.* €204 million as of March 31, 2007.

The perpetual subordinated loan stock in Yen is subject to the payment of a coupon considered to be fixed-rate (5.065% on a 10 billion yen portion, and 4.53% on a 20 billion yen portion) after swaps.

The debt is perpetual; the date of reimbursement is, however, expected to be August 28, 2019. The debt's reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the yen. The borrower would also have to reimburse the issuer for all reasonable legal fees.

This debt is subordinated to all other existing and future KLM debts.

#### *30.1.2 Perpetual subordinated loan stock in Swiss francs*

The perpetual subordinated loan stock in Swiss francs was issued by KLM in two tranches in 1985 and 1986 for a total original amount of 500 million Swiss francs. The subordinated loan amounts to 420 million Swiss francs, *i.e.* €258 million as of March 31, 2007.

This loan is subject to the payment of a coupon considered to be fixed-rate (5¾% on a 270 million Swiss francs portion and 2⅞% on a 150 million Swiss francs portion) for the years ended as of March 31, 2007, 2006 and 2005.

This debt is subordinated to all other existing and future KLM debts.

### 30.2. Repackaged perpetual loan securities

The Group issued two repackaged perpetual loan securities, one in June 1989 and the other in May 1992, for respective approximate amounts of €381 million and €395 million.

The first issue, restructured as a loan in 1998, was repurchased by Air France during the financial year to March 31, 2006.

Interest paid by Air France on the nominal amount of the debt is recorded as financial expenses. Interest received from the zero coupon deposit (or equivalent) is offset against financial expense, and the counterpart from the debt. The net debt balance is repaid over 15 years. As of March 31, 2007, the 1992 perpetual loan represents a current portion amounting to €122 million.

In France, the tax regime for perpetual loans was approved by the tax authorities and interests is thus deductible for the portion effectively received.

### 30.3. OCEANE (Convertible bonds)

On April 22, 2005, Air France issued convertible bonds maturing in 15 years. The conversion option allows for conversion and/or exchange at any time into new or existing Air France-KLM shares (OCEANE). 21,951,219 bonds were issued for a total amount of €450 million. Each bond has a nominal value of €20.50.

The maturity date was fixed at April 1, 2020. Bonds holders may ask for reimbursement as of April 1, 2012 and April 1, 2016. Air France holds a call option triggering early cash reimbursement which can be exercised starting April 1, 2010 under certain conditions prompting OCEANE holders to convert into Air France-KLM stocks. The annual coupon is 2.75% payable in arrears at the end of each period ended April 1.

The conversion period of these bonds started as of June 1, 2005 and ends March 23, 2020.

Upon issue of this convertible debt, Air France-KLM recorded a debt of €379 million, corresponding to the present value of future payments for interest discounted at the rate of a similar bond without a conversion option.

The option value was evaluated by deducting this debt value from the total nominal amount (*i.e.* €450 million) and was recorded in equity (see note 27.2).

### 30.4. Bonds

On September 11, 2006, the company Air France, a subsidiary of the Air France-KLM group issued €550 million of bonds maturing on January 22, 2014. The characteristics of these bonds are as follows:

- amount: €550 million;
- coupon: 4.75%;
- starting date: September 11, 2006;
- settlement date: September 22, 2006;
- maturing date: January 22, 2014.

### 30.5. Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

| **As of March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| ***Aircraft*** | | | |
| Future minimum lease payments – due dates | | | |
| N+1 | 813 | 979 | 671 |
| N+2 | 624 | 974 | 974 |
| N+3 | 603 | 632 | 946 |
| N+4 | 610 | 682 | 581 |
| N+5 | 535 | 648 | 495 |
| Over 5 years | 1,968 | 2,381 | 2,227 |
| **Total** | **5,153** | **6,296** | **5,894** |
| *Including interest* | *873* | *1,224* | *713* |
| *Principal* | *4,280* | *5,072* | *5,181* |
| ***Buildings*** | | | |
| Future minimum lease payments – due dates | | | |
| N+1 | 42 | 45 | 35 |
| N+2 | 42 | 44 | 35 |
| N+3 | 41 | 44 | 34 |
| N+4 | 41 | 42 | 33 |
| N+5 | 41 | 41 | 32 |
| Over 5 years | 215 | 273 | 211 |
| **Total** | **422** | **489** | **380** |
| *Including interest* | *131* | *133* | *112* |
| *Principal* | *291* | *356* | *268* |
| ***Other property, plant and equipment*** | ***3*** | ***3*** | ***3*** |

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in note 22.

## 30.6. Other long-term debt

Other long-term debt breaks down as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Flight equipment securitization | 367 | 394 | 421 |
| Reservation of ownership clause and mortgage debt | 1,059 | 1,747 | 1,966 |
| Other long term debt | 902 | 387 | 345 |
| **Total** | **2,328** | **2,528** | **2,732** |

### *Flight equipment securitization*

In July 2003, Air France finalized the securitization of flight equipment for an amount of €435 million.

This financing arrangement was secured by a portfolio of sixteen aircraft valued at €525 million. Three ten-year debt tranches were issued:

- a senior A1 floating rate tranche of €98 million with a final maturity of July 20, 2013. As of March 31, 2007, this tranche's book value amounted to €71 million, compared with €82 million as of March 31, 2006 and €93 million as of March 31, 2005;
- a senior A2 fixed rate (4,575%) non amortized tranche of €194 million with a final maturity of July 20, 2013;
- a mezzanine floating rate B tranche of €143 million with a final maturity of July 20, 2013. As of March 31, 2007, this tranche's book value amounted to €102 million, compared with €118 million as of March 31, 2006 and €135 million as of March 31, 2005.

The floating rate of the A1 and B tranche averaged 4.37% for the period ended March 31, 2007 compared with 4.03% for the period ended March 31, 2006 and with 3.81% as of March 31, 2005.

### *Mortgage debt*

Mortgage debt is a debt secured by a mortgage on an aircraft. The mortgage is filed at the national civil aviation authority (the DGAC in France) in order to be publicly available to third parties. A mortgage grants to the mortgagee a right to enforce the security (by order of a judge) the sale of the asset and a priority claim on the sale proceeds in line with the amount of the loan, the balance reverting to the other creditors.

## 30.7. Maturity analysis

The maturities of long-term debts break down as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| **Maturities in** | | | |
| N+1 | 1,098 | 1,260 | 1,044 |
| N+2 | 814 | 1,081 | 1,205 |
| N+3 | 698 | 883 | 957 |
| N+4 | 734 | 749 | 840 |
| N+5 | 662 | 763 | 680 |
| Over 5 years | 4,511 | 4,350 | 4,207 |
| **Total** | **8,517** | **9,086** | **8,933** |

### 30.8. Currency analysis

The breakdown of all long-term debt by currency after impact of derivative instruments is as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Euro | 7,669 | 7,938 | 7,629 |
| US dollar | 659 | 792 | 890 |
| Swiss franc | 268 | 274 | 281 |
| Yen | 1 | 22 | 29 |
| Pound Sterling | 74 | 59 | 100 |
| Other | 1 | 1 | 4 |
| Cross currency interest rate swap | (155) | - | - |
| **Total** | **8,517** | **9,086** | **8,933** |

### 30.9. Credit lines

The Group had credit lines amounting to €1,756 million as of March 31, 2007. The two main credit lines, undrawn as of March 31, 2007, amounted respectively, to €1,200 million and to €540 million. They mature in April and July 2010, respectively. Moreover, the Group had medium term credit lines of 16 million (€15 million had been drawn as of March 31, 2007), maturing between April 2007 and March 2011.

## Note 31 Other liabilities

| Year ended March 31 *(In euro millions)* | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Current | Non-current | Current | Non-current |
| Tax liabilities | 359 | - | 352 | - | 234 | - |
| Employee-related liabilities | 928 | - | 882 | - | 739 | 3 |
| Non-current assets' payables | 205 | - | 178 | - | 214 | - |
| Financial derivatives | 219 | 249 | 220 | 154 | 88 | 218 |
| Deferred income | 43 | - | 57 | - | 128 | - |
| Other | 581 | 152 | 580 | 263 | 577 | 260 |
| **Total** | **2,335** | **401** | **2,269** | **417** | **1,980** | **481** |

# Note 32 Financial instruments

## 32.1. Derivative instruments

➤ Year ended March 31, 2007

| **Book value** *(In euro millions)* | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **non-current** | **current** | **non-current** | **current** |
| ***Currency exchange risk (operating and financial operations)*** | | | | |
| Fair value hedge | 5 | 2 | 96 | 50 |
| Cash flow hedge | 17 | 30 | 11 | 32 |
| ***Interest rate risk (operating and financial operations)*** | | | | |
| Cash flow hedge | 61 | 1 | 23 | 2 |
| Fair value hedge | 27 | 16 | 90 | 34 |
| Trading derivatives | 50 | - | 9 | 1 |
| ***Commodities risk*** | | | | |
| Fair value hedge | - | - | - | - |
| Cash flow hedge | 429 | 407 | 20 | 100 |

➤ Year ended March 31 2006

| **Book value** *(In euro millions)* | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **non-current** | **current** | **non-current** | **current** |
| ***Currency exchange risk (operating and financial operations)*** | | | | |
| Fair value hedge | 16 | 11 | 26 | 42 |
| Cash flow hedge | - | 47 | - | 25 |
| ***Interest rate risk (operating and financial operations)*** | | | | |
| Cash flow hedge | 36 | 3 | 35 | 4 |
| Fair value hedge | 108 | 24 | 73 | - |
| Trading derivatives | 49 | - | 9 | - |
| ***Commodities risk*** | | | | |
| Fair value hedge | - | - | - | - |
| Cash flow hedge | 764 | 937 | 11 | 149 |

➤ As of April 1, 2005 (date of first implementation of IAS 32 and 39)

| Book value<br>*(In euro millions)* | Assets non-current | Assets current | Liabilities non-current | Liabilities current |
|---|---|---|---|---|
| ***Currency exchange risk (operating and financial operations)*** | | | | |
| Fair value hedge | 1 | 13 | 140 | 98 |
| Cash flow hedge | - | 26 | 3 | 22 |
| ***Interest rate risk (operating and financial operations)*** | | | | |
| Cash flow hedge | (5) | - | 77 | 5 |
| Fair value hedge | 123 | 1 | 137 | 2 |
| Trading derivatives | 69 | - | 23 | - |
| ***Commodities risk (operating and financial operations)*** | | | | |
| Fair value hedge | - | - | - | - |
| Cash flow hedge | 674 | 663 | 38 | 124 |

### *Interest rate derivatives:*

### *Exposure to interest rate risk*

In order to manage interest rate risk, on short-term and long–term borrowings, the Group uses instruments with the following nominal values as of the balance sheet date:

➤ Year ended March 31, 2007

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturity between 1 and 5 years: 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | Mtm* |
|---|---|---|---|---|---|---|---|---|
| ***Operations qualified as cash flow hedging*** | | | | | | | | |
| Interest rate swaps | 3,749 | 330 | 467 | 421 | 280 | 261 | 1,990 | 38 |
| ***Operations qualified as fair value hedging*** | | | | | | | | |
| Interest rate swaps | 1,349 | 160 | 538 | 118 | 182 | 190 | 161 | (82) |
| Others | 1 | 1 | - | - | - | - | - | - |
| ***Operations qualified as trading activities*** | ***915*** | ***424*** | ***153*** | ***67*** | ***13*** | ***15*** | ***243*** | ***40*** |
| **Total** | **6,014** | **915** | **1,158** | **606** | **475** | **466** | **2,394** | **(4)** |

* *Marked-to-market: fair value.*

➤ Year ended March 31 2006

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturity between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Operations qualified as cash flow hedging*** | | | | | | | | |
| Interest rate swaps | 3,742 | 491 | 340 | 494 | 279 | 238 | 1,900 | - |
| ***Operations qualified as fair value hedging*** | | | | | | | | |
| Interest rate swaps | 2,082 | 356 | 476 | 359 | 276 | 205 | 410 | 59 |
| ***Operations qualified as trading activities*** | 641 | 87 | 25 | 167 | 68 | 14 | 280 | 40 |
| **Total** | **6,465** | **934** | **841** | **1,020** | **623** | **457** | **2,590** | **99** |

* *Marked-to-market: fair value.*

➤ As of April 1, 2005 (date of first implementation of IAS 32 and 39)

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturity between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Operations qualified as cash flow hedging*** | | | | | | | | |
| Interest rate swaps | 2,280 | 352 | 384 | 217 | 377 | 79 | 871 | (87) |
| Others | 5 | 2 | 3 | - | - | - | - | - |
| ***Operations qualified as fair value hedging*** | | | | | | | | |
| Interest rate swaps | 1,780 | 113 | 100 | 375 | 587 | 141 | 464 | (15) |
| Others | 3 | 2 | 1 | - | - | - | - | - |
| ***Operations qualified as trading activities*** | | | | | | | | |
| *Interest* rate swaps | 507 | 10 | 76 | 13 | 146 | 6 | 256 | 46 |
| **Total** | **4,575** | **479** | **564** | **605** | **1,110** | **226** | **1,591** | **(56)** |

* *Marked-to-market: fair value.*

These instruments have different purposes:

- Hedging price risk relating to fixed-rate financial debt:
  - In contracting a fixed-rate debt, the Group is exposed to an opportunity risk if the rate decreases. Given the current level of market rates compared with the fixed contractual rates on part of its debt, the Group entered into a number of fixed to floating-rate swaps;
- Hedging of cash-flow risk relating to floating-rate financial debt:
  - The Group has sought to fix the rate of certain floating-rate loans and has thus entered into a number of floating to fixed-rate swaps.

Based on the hedging arrangements, the Group's interest rate exposure breaks down as follows:

| Year ended March 31 *(In euro millions)* | 2007 | | | | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Before hedging | | After hedging | | Before hedging | | After hedging | | Before hedging | | After hedging | |
| | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate | Base | Average interest rate |
| ***Fixed-rate financial assets and liabilities*** | | | | | | | | | | | | |
| ***Fixed-rate financial assets*** | ***1,855*** | ***4.5%*** | ***1,861*** | ***4.5%*** | ***770*** | ***6.7%*** | ***770*** | ***6.7%*** | ***930*** | ***6.0%*** | ***930*** | ***6.0%*** |
| Repackaged perpetual loans | 36 | 10.3% | 36 | 10.3% | 147 | 10.1% | 147 | 10.1% | 175 | 10.1% | 175 | 10.1% |
| Perpetual subordinated loans | 448 | 4.9% | 492 | 4.9% | 491 | 4.4% | 491 | 4.4% | 495 | 4.8% | 495 | 4.8% |
| OCEANE (convertible bond) | 386 | 2.8% | 386 | 4.2% | 382 | 4.4% | 382 | 4.4% | - | - | - | - |
| Bonds | 550 | 4.8% | 550 | 4.8% | - | - | - | - | - | - | - | - |
| Other financial debts | 2,534 | 6.6% | 4,920 | 4.6% | 3,175 | 6.5% | 5,221 | 4.8% | 3,919 | 6.0% | 4,957 | 4.8% |
| *Cross currency interest rate swap* | - | | (155) | - | | - | - | - | - | - | - | - |
| ***Fixed-rate financial liabilities*** | ***3,954*** | ***5.9%*** | ***6,229*** | ***4.6%*** | ***4,195*** | ***6.2%*** | ***6,241*** | ***4.9%*** | ***4,589*** | ***6.0%*** | ***5,627*** | ***6.0%*** |
| ***Floating-rate financial assets and liabilities*** | | | | | | | | | | | | |
| ***Floating-rate financial assets*** | ***3,427*** | ***5.5%*** | ***3,420*** | ***5.7%*** | ***3,967*** | ***2.8%*** | ***3,967*** | ***2.8%*** | ***2,366*** | ***2.3%*** | ***2,366*** | ***2.3%*** |
| Repackaged perpetual loans | 85 | 4.1% | 85 | 4.1% | - | - | - | - | - | - | - | - |
| Perpetual subordinated loans | 15 | 4.1% | 15 | 4.1% | - | - | - | - | - | - | - | - |
| Other financial debts | 4,463 | 4.1% | 2,188 | 4.2% | 4,891 | 3.0% | 2,845 | 3.0% | 4,344 | 2.9% | 3,306 | 2.8% |
| Bank overdraft | 133 | - | 133 | - | 102 | - | 102 | - | 262 | - | 262 | - |
| ***Floating-rate financial liabilities*** | ***4,696*** | ***4.1%*** | ***2,421*** | ***4.2%*** | ***4,993*** | ***3.0%*** | ***2,947*** | ***3.0%*** | ***4,606*** | ***2.9%*** | ***3,568*** | ***2.8%*** |

### *Exposure to exchange rate risk*

#### Current operations

Although the Group's reporting currency is the euro, part of its cash flow is denominated in other currencies, such as the US dollar, the yen, the pound sterling and the Swiss franc. Commercial activities also generate and incur income and expenses in foreign currencies. The Group's policy is to hedge against exchange risks related to forecast cash surpluses or shortfalls in each of the principal currencies (US dollar, yen, non-euro European currencies). Hedging is achieved through forward sales or purchase contracts and/or option-based strategies.

#### Acquisition of flight equipment

Capital expenditure for flight equipment is denominated in US dollars. The Group hedges on the basis of projected fluctuations in the US dollar exchange rate via forward sales and purchases and/or option-based strategies.

#### Long-term debt and capital leases

A number of loans are denominated in foreign currencies so as to diversify sources of funding and take into account cash surpluses generated in various currencies. In order to hedge against the risk of exchange rate fluctuations on debt and capital leases, currency rate swaps are used. This is a micro-hedging mechanism matched specifically to the borrowing to which it relates.

Nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging instrument:

➤ Year ended March 31, 2007

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Exchange risk (cash flow hedging of operating flows)*** | ***2,791*** | ***2,274*** | ***281*** | ***81*** | ***49*** | ***65*** | ***41*** | ***4*** |
| *Exchange rate options* | | | | | | | | |
| - US Dollar | 1,300 | 1,098 | 202 | - | - | - | - | (13) |
| - Pound sterling | 160 | 160 | - | - | - | - | - | 2 |
| - Yen | 56 | 53 | 3 | - | - | - | - | 2 |
| *Forward purchases* | | | | | | | | |
| - US Dollar | 558 | 348 | 48 | 44 | 45 | 41 | 32 | (15) |
| *Forward sales* | | | | | | | | |
| - US Dollar | | | | | | | | |
| - Euro | 88 | 41 | 14 | 33 | - | - | - | 2 |
| - Yen | 19 | 19 | - | - | - | - | - | 2 |
| - Pound sterling | 262 | 262 | - | - | - | - | - | 2 |
| - Swiss franc | 35 | 35 | - | - | - | - | - | - |
| - Singapore Dollar | 12 | 12 | - | - | - | - | - | - |
| - Norwegian Krone | 102 | 102 | - | - | - | - | - | - |
| - Czech Krone | 12 | 12 | - | - | - | - | - | - |
| - Swedish Krona | 61 | 61 | - | - | - | - | - | 1 |
| - Polish New Zloty | 8 | 8 | - | - | - | - | - | - |
| - Korean Won | 26 | 26 | - | - | - | - | - | - |

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| *Others* | | | | | | | | |
| - Euro | 69 | 14 | 14 | 4 | 4 | 24 | 9 | (2) |
| - US Dollar | 23 | 23 | - | - | - | - | - | 23 |
| ***Exchange risk (Fair value hedging of flight equipment acquisition)*** | ***2,496*** | ***749*** | ***561*** | ***641*** | ***315*** | ***83*** | ***147*** | ***(139)*** |
| *Forward purchases* | | | | | | | | |
| - US Dollar | 2,446 | 725 | 548 | 628 | 315 | 83 | 147 | (139) |
| - Pound sterling | 32 | 6 | 13 | 13 | - | - | - | - |
| - Yen | 4 | 4 | - | - | - | - | - | - |
| *Exchange rate options of US Dollar* | 14 | 14 | - | - | - | - | - | - |
| ***Exchange risk (trading)*** | ***21*** | ***21*** | - | - | - | - | - | - |
| *Forward purchases of US Dollar* | *21* | *21* | - | - | - | - | - | - |
| **Total** | **5,308** | **3,044** | **842** | **722** | **364** | **148** | **188** | **(135)** |

* *Marked-to-market: fair value.*

➤ Year ended March 31 2006

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Exchange risk (cash flow hedging of operating flows)*** | ***2,092*** | ***1,907*** | ***76*** | ***26*** | ***15*** | ***15*** | ***53*** | ***23*** |
| *Exchange rate options* | | | | | | | | |
| - US Dollar | 736 | 700 | 36 | - | - | - | - | (1) |
| - Pound sterling | 105 | 92 | 13 | - | - | - | - | 2 |
| - Yen | 78 | 78 | - | - | - | - | - | 7 |
| - Canadian dollar | 11 | 11 | - | - | - | - | - | (1) |
| - Other | 41 | - | 12 | 12 | 1 | 1 | 15 | - |
| *Forward purchases* | | | | | | | | |
| - US Dollar | 617 | 522 | 15 | 14 | 14 | 14 | 38 | 11 |
| *Forward sales* | | | | | | | | |
| - US Dollar | 2 | 2 | - | - | - | - | - | - |
| - Yen | 69 | 69 | - | - | - | - | - | 3 |
| - Pound sterling | 177 | 177 | - | - | - | - | - | 3 |
| - Swiss franc | 36 | 36 | - | - | - | - | - | 1 |
| - Singapore Dollar | 30 | 30 | - | - | - | - | - | (1) |
| - Norwegian Krone | 87 | 87 | - | - | - | - | - | - |
| - Swedish Krona | 61 | 61 | - | - | - | - | - | - |
| - Polish New Zloty | 9 | 9 | - | - | - | - | - | - |
| - Korean Won | 33 | 33 | - | - | - | - | - | (1) |
| ***Exchange risk (Fair value hedging of flight equipment acquisition)*** | ***2,746*** | ***849*** | ***800*** | ***628*** | ***400*** | ***62*** | ***7*** | ***(41)*** |
| *Forward purchases of US dollars* | *2,746* | *849* | *800* | *628* | *400* | *62* | *7* | *(41)* |
| **Total** | **4,838** | **2,756** | **876** | **654** | **415** | **77** | **60** | **(18)** |

* *Marked-to-market: fair value.*

➤ As of April 1, 2005 (date of first application of IAS 32 and 39)

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Exchange risk (cash flow hedging of operating flows)*** | ***2,067*** | ***1,929*** | ***138*** | **-** | **-** | **-** | **-** | ***1*** |
| *Exchange rate options* | | | | | | | | |
| - US Dollar | 651 | 651 | - | - | - | - | - | (9) |
| - Pound sterling | 66 | 66 | - | - | - | - | - | - |
| - Yen | 60 | 44 | 16 | - | - | - | - | 10 |
| - Swiss franc | 22 | 22 | - | - | - | - | - | 1 |
| *Forward purchases* | | | | | | | | |
| - US Dollar | 621 | 499 | 122 | - | - | - | - | (2) |
| *Forward sales* | | | | | | | | |
| - Yen | 93 | 93 | - | - | - | - | - | 2 |
| - Pound sterling | 321 | 321 | - | - | - | - | - | (1) |
| - Swiss franc | 40 | 40 | - | - | - | - | - | - |
| - Singapore Dollar | 28 | 28 | - | - | - | - | - | - |
| - Norwegian Krone | 87 | 87 | - | - | - | - | - | - |
| - Swedish Krona | 70 | 70 | - | - | - | - | - | - |
| - Polish New Zloty | 8 | 8 | - | - | - | - | - | - |
| ***Exchange risk (Fair value hedging of flight equipment acquisition)*** | ***2,079*** | ***882*** | ***372*** | ***365*** | ***337*** | ***123*** | **-** | ***(224)*** |
| Forward purchases of US dollars | 1,850 | 653 | 372 | 365 | 337 | 123 | - | (215) |
| Forward sales of US dollars | 11 | 11 | - | - | - | - | - | - |
| Exchange rate options of US dollars | 218 | 218 | - | - | - | - | - | (9) |
| **Total** | **4,146** | **2,811** | **510** | **365** | **337** | **123** | **-** | **(223)** |

* *Marked-to-market: fair value.*

### *Commodity risk linked to fuel prices*

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

**➤ Year ended March 31, 2007**

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Commodity risk (cash flow hedging operating flows)*** | ***6,338*** | ***3,105*** | ***1,760*** | ***902*** | ***569*** | ***2*** | ***-*** | ***716*** |
| *Swap* | 2,624 | 1,352 | 581 | 574 | 115 | 2 | - | 366 |
| Options | 3,714 | 1,753 | 1,179 | 328 | 454 | - | - | 350 |

* *Marked-to-market: fair value.*

**➤ Year ended March 31 2006**

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Commodity risk (cash flow hedging operating flows)*** | ***5,548*** | ***2,854*** | ***1,120*** | ***1,042*** | ***532*** | ***-*** | ***-*** | ***1,540*** |
| *Swap* | 3,194 | 1,415 | 902 | 432 | 445 | - | - | 637 |
| Options | 2,354 | 1,439 | 218 | 610 | 87 | - | - | 903 |

* *Marked-to-market: fair value.*

**➤ As of April 1, 2005 (date of first application of IAS 32 and 39)**

| *(In euro millions)* | Nominal | Maturity below 1 year | Maturities between 1 and 5 years | | | | | Mtm* |
|---|---|---|---|---|---|---|---|---|
| | | | 1-2 years | 2-3 years | 3-4 years | 4-5 years | + 5 years | |
| ***Commodity risk (cash flow hedging operating flows)*** | ***4,575*** | ***2,274*** | ***1,291*** | ***605*** | ***405*** | ***-*** | ***-*** | ***1,175*** |
| *Swap* | 1,772 | 1,037 | 454 | 155 | 126 | - | - | 108 |
| Options | 2,803 | 1,237 | 837 | 450 | 279 | - | - | 1,067 |

* *Marked-to-market: fair value.*

***Counterparty risk management***

Transactions which can lead to counterparty risk for the Group are as follows:

- temporary financial investments;
- derivative instruments;
- trade receivables.

- Financial investments are diversified, in blue-chip securities with top tier banks.
- Group transactions on derivative instruments have the sole aim of reducing its overall exposure to exchange and interest rate risks in its normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties with no counterparty risk.
- Counterpart risk relating to trade receivables is limited due to the large number and geographical diversity of customers comprising the trade receivables portfolio.

At March 31, 2007 as in the years to March 31, 2006 and 2005 the Group did not identify any significant counterparty risk.

## 32.2. Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They bear the following inherent limitations:

- market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates;
- estimated amounts as of March 31, 2007, 2006 and 2005 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

The application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

- *cash, trade receivables, other receivables, short-term bank facilities, trade payable and other payables:*
  The Group believes that, due to their short-term nature, net book value can be deemed a reasonable approximation of market value;
- *marketable securities, investments and other securities:*
  The market value of securities is determined based mainly on the market price or the prices available on other similar securities. Where no comparable exists, the Group uses their book value, which is deemed a reasonable approximation of market value in this instance;
- *borrowings, other financial debts and loans:*
  Floating-rate loans and financial debts are recorded at net book value.
  The market value of fixed-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features;
- *Off balance-sheet instruments:*
  The market value of off-balance-sheet instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2007, 2006 and 2005 calculated using the year-end market rate.

Market values calculated in this way are shown in the table below:

| *(In euro millions)* | March 31, 2007 | | March 31, 2006 | | April 1, 2005 (date of first adoption of IAS 32 and 39) | |
|---|---|---|---|---|---|---|
| | Net book value | Estimated market value | Net book value | Estimated market value | Net book value | Estimated market value |
| ***Financial assets*** | | | | | | |
| Investment securities | 73 | 73 | 69 | 69 | 56 | 56 |
| Loans | | | | | | |
| Fixed-rate | 329 | 346 | 351 | 362 | 890 | 887 |
| Floating-rate | 126 | 126 | 151 | 151 | 81 | 81 |
| Marketable securities | 3,788 | 3,788 | 3,587 | 3,587 | 2,216 | 2,216 |
| Interest rate derivative instruments | | | | | | |
| Interest rate swaps | 156 | 156 | 220 | 220 | 188 | 188 |
| Exchange rate derivative instruments | | | | | | |
| Exchange rate options | 15 | 15 | 21 | 21 | 11 | 11 |
| Forward currency contracts | 16 | 16 | 54 | 54 | 29 | 29 |
| Currency swap | 23 | 23 | - | - | - | - |
| Commodity derivative instruments | | | | | | |
| Petroleum swaps and options | 836 | 836 | 1,700 | 1,700 | 1,337 | 1,337 |
| ***Financial liabilities*** | | | | | | |
| Bonds(*) | | | | | | |
| Fixed-rate | 936 | 856 | 382 | 548 | - | - |
| Perpetual subordinated loans | 584 | 584 | 638 | 633 | 670 | 649 |
| Other borrowings and financial debt | | | | | | |
| Fixed-rate | 2,534 | 2,549 | 3,175 | 3,182 | 3,919 | 4,146 |
| Variable-rate | 4,368 | 4,368 | 4,891 | 4,891 | 4,344 | 4,344 |
| Interest rate derivative instruments | | | | | | |
| Interest rate swaps | 159 | 159 | 121 | 121 | 244 | 244 |
| Exchange derivative instruments | | | | | | |
| Exchange rate options | 24 | 24 | 15 | 15 | 18 | 18 |
| Forward currency contracts | 163 | 163 | 78 | 78 | 245 | 245 |
| Currency swap | 1 | 1 | - | - | - | - |
| Commodity derivative instruments | | | | | | |
| Petroleum swaps and options | 120 | 120 | 160 | 160 | 162 | 162 |

*(*) the fixed rate bonds comprise the OCEANE (convertible bonds) issued in April 2005, as well as the new €550 million bond issued in September 2006 by Air France.*

**OCEANE**: *The market value of €368 million, was determined based on the bond's market price as of March 31, 2007. This market value includes the fair value of the debt component (amount of €386 million in the financial statements as of March 31, 2007) as well as the fair value of the conversion option recorded in equity for €64 million.*

**New bond**: *Air France issued a new bond in September 2006 for €550 million with a 4.75% interest rate. The bond matures on January 22, 2014 and the market value is €552 million.*

## Note 33 Lease commitments

### 33.1. Capital leases

The debt related to capital leases is detailed in note 30.

### 33.2. Operating leases

The minimum future payments on operating leases are as follows:

| Year ended March 31<br>*(In euro millions)* | Minimum lease payments | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| ***Flight equipment*** | | | |
| *Due dates* | | | |
| N + 1 | 637 | 645 | 631 |
| N + 2 | 555 | 580 | 531 |
| N + 3 | 427 | 457 | 438 |
| N + 4 | 369 | 354 | 345 |
| N + 5 | 282 | 298 | 256 |
| Over 5 years | 516 | 613 | 573 |
| **Total** | **2,786** | **2,947** | **2,774** |
| ***Buildings*** | | | |
| *Due dates* | | | |
| N + 1 | 146 | 106 | 144 |
| N + 2 | 130 | 102 | 119 |
| N + 3 | 118 | 90 | 107 |
| N + 4 | 102 | 79 | 88 |
| N + 5 | 95 | 67 | 73 |
| Over 5 years | 654 | 592 | 633 |
| **Total** | **1,245** | **1,036** | **1,164** |

The expense relating to operating leases for flight equipment amounted to €600 million for the year ended March 31, 2007, to €637 million for the year ended March 31 2006 and to €595 million for the Year ended March 31 2005.

The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

## Note 34 Flight equipment orders

Due dates for commitments in respect of flight equipment orders are as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| N+1 | 870 | 989 | 1,157 |
| N+2 | 571 | 951 | 608 |
| N+3 | 688 | 731 | 422 |
| N+4 | 416 | 545 | 537 |
| N+5 | 287 | 137 | 121 |
| > 5 years | - | 135 | 117 |
| **Total** | **2,832** | **3,488** | **2,962** |

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate.

The number of aircraft on firm order as of March 31, 2007 fell by one unit compared with March 31, 2006 to 47 units. The number of options decreased by one unit over the same period to reach 34 aircraft. These movements can be explained by:

- the delivery of seventeen aircraft over the period;
- new orders: eleven firm orders and twelve options;
- the conversion of eleven options into firm orders, and the cancellation of two options;
- the change in the financing of the Embraer order involving a six unit reduction in the backlog.

Furthermore, in early October, Airbus signalled a significant change in the scheduled A380-800 deliveries to the Group, the first deliveries being postponed from summer 2008 to summer 2009.

### Long-haul fleet

#### *Passenger*

The Group took delivery of three Airbus A330s and seven Boeing B777. As far as the Boeing B777s are concerned, it also confirmed two options and took out a further two options.

As of March 31, 2007, the Group's backlog for the long-haul fleet comprised firm orders for ten Airbus A380s and eleven Boeing B777s, as well as options on four Airbus A380s and eight Boeing B777s.

#### *Cargo*

The Group has an outstanding order with Boeing for eight B777F (five firm orders and three options), the new cargo unit based on the B777-200LR and the B777-300ER. The first deliveries will begin during the winter of 2008-09.

### Medium-haul fleet

The Group took delivery of six Airbus A318s, and one Boeing B737. As far as the Boeing B737 is concerned, it placed a new firm order for nine aircraft and confirmed two options. Additionally, two options were cancelled: one for an Airbus A318 and one for an Airbus A320.

As of March 31, 2007, the Group's backlog comprised ten Boeing B737 under firm order as well as eight Boeing B737 and three Airbus A318 under option.

### Regional fleet

The Group placed an order with Canadair for three CRJ700 and 16 CRJ1000 (eight firm orders and eight options). The order for six Embraer ERJ 190 does not appear because of the change in the financing terms for these aircraft.

The group's commitments concern the following aircraft:

| Aircraft type | | To be delivered in | N+ 1 | N+ 2 | N+ 3 | N+ 4 | N+ 5 | Beyond N+5 |
|---|---|---|---|---|---|---|---|---|
| ***A318*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | ***2*** | ***1*** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | 6 | - | - | - | - | - |
| | | Options | - | 1 | 2 | 1 | - | - |
| | As of March 31, 2005 | Firm orders | 3 | 3 | - | - | - | - |
| | | Options | - | 5 | 2 | - | - | - |
| ***A319*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | |
| | As of March 31, 2005 | Firm orders | 2 | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| ***A320*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | - | - | - | - | - | - |
| | | Options | - | 1 | - | - | - | - |
| | As of March 31, 2005 | Firm orders | - | - | - | - | - | - |
| | | Options | - | 2 | 1 | - | - | - |
| ***A330*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | 3 | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| | As of March 31, 2005 | Firm orders | 6 | 2 | - | - | - | - |
| | | Options | - | - | 1 | - | - | - |
| ***A380*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | ***5*** | ***3*** | ***2*** | **-** |
| | | ***Options*** | **-** | **-** | **-** | ***1*** | ***2*** | ***1*** |
| | As of March 31, 2006 | Firm orders | - | 2 | 3 | 3 | 1 | 1 |
| | | Options | - | - | - | - | 1 | 3 |
| | As of March 31, 2005 | Firm orders | - | - | 3 | 5 | 1 | 1 |
| | | Options | - | - | - | 1 | 1 | 2 |
| ***B737*** | ***As of March 31, 2007*** | ***Firm orders*** | ***4*** | ***6*** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | ***2*** | ***5*** | ***1*** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | 1 | 1 | - | - | - | - |
| | | Options | - | 2 | 9 | 4 | - | - |
| | As of March 31, 2005 | Firm orders | 1 | - | - | - | - | - |
| | | Options | - | 2 | 4 | 4 | 1 | - |

| Aircraft type | | To be delivered in | N+ 1 | N+ 2 | N+ 3 | N+ 4 | N+ 5 | Beyond N+5 |
|---|---|---|---|---|---|---|---|---|
| ***B747*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| | As of March 31, 2005 | Firm orders | 1 | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| ***B777*** | ***As of March 31, 2007*** | ***Firm orders*** | ***6*** | ***4*** | ***1*** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | ***5*** | ***3*** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | 7 | 6 | 1 | 2 | - | - |
| | | Options | - | - | 1 | 4 | 3 | - |
| | As of March 31, 2005 | Firm orders | 5 | 5 | 2 | - | - | - |
| | | Options | - | - | 2 | 4 | - | - |
| ***B777 F*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | ***3*** | ***2*** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | ***1*** | ***2*** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | - | - | 3 | 2 | - | - |
| | | Options | - | - | - | 1 | 2 | - |
| | As of March 31, 2005 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| ***Embraer*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | 3 | 3 | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| | As of March 31, 2005 | Firm orders | 5 | 2 | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| ***CRJ 700*** | ***As of March 31, 2007*** | ***Firm orders*** | ***3*** | **-** | **-** | **-** | **-** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | **-** |
| | As of March 31, 2006 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| | As of March 31, 2005 | Firm orders | 1 | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| ***CRJ 1000*** | ***As of March 31, 2007*** | ***Firm orders*** | **-** | **-** | ***1*** | ***4*** | ***3*** | **-** |
| | | ***Options*** | **-** | **-** | **-** | **-** | **-** | ***8*** |
| | As of March 31, 2006 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |
| | As of March 31, 2005 | Firm orders | - | - | - | - | - | - |
| | | Options | - | - | - | - | - | - |

## Note 35 Other commitments

### 35.1. Commitments made

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Call on investment securities | 3 | 3 | 23 |
| Put on investment securities | (6) | (3) | (2) |
| Warranties, sureties and guarantees | 109 | 98 | 105 |
| Mortgaged or secured assets | 5,997 | 7,572 | 7,593 |
| Other purchase commitments | 73 | 187 | 167 |

The restrictions and pledges as of March 31, 2007 were as follows:

| *(In euro millions)* | Starting date of pledge | End of pledge | Amount pledged | NBV of balance sheet entry concerned | Corresponding % |
|---|---|---|---|---|---|
| Intangible assets | | | | 424 | |
| Tangible assets | March 98 | October 2019 | 5,657 | 13,558 | 41.72% |
| Financial assets | May 92 | October 2019 | 615 | 1,784 | 34.47% |
| **Total** | | | **6,272** | **15,766** | **39.78%** |

### 35.2. Commitments received

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Warranties, sureties and guarantees | 245 | 198 | 145 |
| Other | 83 | 133 | 3 |

Warranties, sureties and guarantees are principally comprised of letters of credit from financial institutions.

## Note 36 Related parties

### 36.1. Transactions with the principal executives

Directors and their relatives hold less than 0.05% of the voting rights.

Advantages granted to the three principal executives are detailed as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Short term benefits | 3.4 | 2.9 | 2.2 |
| Post employment benefits | 5.0 | 1.6 | 3.7 |
| **Total** | **8.4** | **4.5** | **5.9** |

Fees paid during the year ended March 31, 2007 but concerning the Year ended March 31 2006, for attendance at Board meetings amounted to €0.4 million.

### 36.2. Transactions with other related parties

Cumulated amounts of transactions with related parties for the financial years ended March 31, 2007, 2006 and 2005 are as follows:

| **Year ended March 31** *(In euro millions)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| ***Assets*** | | | |
| Net trade accounts receivable | 130 | 114 | 90 |
| Other current assets | 2 | - | - |
| Other non-current assets | 10 | 8 | 14 |
| **Total** | **142** | **122** | **104** |
| ***Liabilities*** | | | |
| Trade accounts payable | 61 | 128 | 120 |
| Other current liabilities | 49 | - | 32 |
| Other long-term liabilities | 82 | 93 | 92 |
| **Total** | **192** | **221** | **244** |
| Net sales | 291 | 281 | 394 |
| Landing fees and other rents | (553) | (571) | (570) |
| Other selling expenses | (214) | (209) | (268) |
| Passenger service | (87) | (91) | (37) |
| Other | (21) | (19) | (16) |
| **Total** | **(584)** | **(609)** | **(497)** |

As a part of its normal business, the Group enters into transactions with related parties among which transactions with state-owned and governmental entities such as the Defense Ministry, the Paris Airport Authority (“Aéroports de Paris”, or “ADP”) and the French civil aviation regulator (“DGAC”). Air France-KLM considers that such transactions are concluded on terms equivalent to those of transactions with third parties. The most significant transactions are described below:

#### *Aéroport De Paris (ADP)*

- Land and property rental agreements
- Airport and passenger related fee arrangements.

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Group in connection with the above mentioned arrangements amounted to €524 million, €500 million and €446 million for the periods ended March 31, 2007, 2006 and 2005.

#### *Defense Ministry*

Air France-KLM has entered into contracts with the French Defense Ministry to maintain certain aircraft of the French Air Force. The net revenue derived from such arrangements amounted to €125 million for the year ended March 31, 2007, €110 million for the year ended March 31 2006, and €139 million for the year ended March 31 2005.

#### *DGAC*

The civil aviation regulator is the French State service organization which manages security and safety in French air space. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services amounting to €106 million for the year ended March 31, 2007, €98 million for the year ended March 31, 2006, and €112 million for the year ended March 31, 2005.

#### *Transactions with equity affiliates*

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned Amadeus GTD (which became WAM Acquisition). For the year ended March 31, 2007, total transactions with Amadeus GTD amounted to a gain of €69 million compared with €68 million for the year ended March 31, 2006 and €100 million for the year ended March 31 2005 and a charge of €189 million compared with €177 million for the year ended March 31 2006 and €226 million for the year ended March 31 2005. The Group also conducted business with Martinair, with revenues amounting to €33 million for the year ended March 31, 2007, €26 million for the year ended March 31 2006 and €60 million for the year ended March 31 2005. Moreover, the Group contracted Martinair’s services whose total cost amounted to €28 million for the year ended March 31, 2007, €35 million for the year ended March 31 2006 and €70 million for the year ended March 31 2005.

During the period, Air France-KLM executed transactions with the other equity affiliates, including Heathrow Cargo Handling, Alpha Airport Plc and Air Chef. Total transactions realized with these equity affiliates were not significant for the periods ended March 31, 2007, 2006 and 2005.

## Note 37 Cash flow statement

### 37.1. Acquisition of subsidiaries and investments in associates

Net cash disbursements related to acquisition of subsidiaries and investments in associates were as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cash disbursement for acquisitions | (25) | (58) | (69) |
| Cash from acquired subsidiaries | - | - | 575 |
| **Net cash disbursement** | **(25)** | **(58)** | **506** |

***Year ended March 31, 2007***

The cash disbursement relating to acquisitions corresponds mainly to the purchase of 2% of Club Med for €17 million.

***Year ended March 31, 2006***

The cash disbursement relating to acquisitions corresponds mainly to the subscription to the Alitalia capital increase amounting to €25 million, the acquisition of KLM's shares for a total of €13 million, to the acquisition of shares in Aero Maintenance group (AMG) for an amount of €12 million and of Airlinair shares for an amount of €4 million.

***Year ended March 31, 2005***

The acquisition of subsidiaries and stakes mainly corresponds to KLM's cash at the acquisition date for an amount of €575 million and the acquisition of treasury shares for an amount of €32 million.

Additional shares were purchased in Servair and Air Chef for respective amounts of €3 million and €4 million.

### 37.2. Disposal of subsidiaries

Net proceeds from the disposal of subsidiaries can be analysed as follows:

| Year ended March 31 *(In euro millions)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Proceeds from disposals | 43 | 35 | 109 |
| Cash of disposed subsidiaries | - | - | - |
| **Net proceeds from disposals** | **43** | **35** | **109** |

***Year ended March 31, 2007***

Net proceeds from disposals mainly correspond to the sale of treasury shares for €30 million.

***Year ended March 31, 2006***

Net proceeds from disposals mainly correspond to the sale of treasury shares for €22 million and to the sale of Air Austral shares for €9 million.

***Year ended March 31, 2005***

Net proceeds from disposals mainly correspond to the sale of the holding in Amadeus France for a total amount of €91 million, to capital stock reimbursement by Opodo (€4 million).

### 37.3. Non cash transactions

During the year ended March 31, 2007, the Group exchanged land located close to Schiphol (Netherlands) for shares in Schiphol Logistics Park CV. The valuation of the land and of the shares amounted to €24 million. The entity Schiphol Logistics Park CV is equity accounted. Neither the disposal of the land nor the acquisition of Schiphol Logistics Park CV shares has an impact in the cash flow statement.

During the year ended March 31 2006, there was no significant non-cash transaction.

During the year ended March 31 2005, there was no significant non-cash transaction.

## Note 38 Subsequent events

There has been no significant event subsequent to year end.

## Note 39 Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after January 1, 2007, were not adopted early by the Group for the preparation of these consolidated financial statements. The Group is currently studying the impact of their implementation on the consolidated accounts. This analysis is not expected to result in any significant impacts:

- the amendment to IAS 1 related to disclosures on capital, effective for periods beginning on or after January 1, 2007;
- the standard IFRS 7 "Financial Instruments: Disclosures", effective for periods beginning on or after January 1, 2007;
- the standard IFRS 8 "Operating Segments", effective for periods beginning on or after January 1, 2009;
- the interpretation IFRIC 8 "Scope of IFRS2", effective for periods beginning on or after May 1, 2006;
- the interpretation IFRIC 9 "Reassessment of embedded derivatives", effective for periods beginning on or after June 1, 2006;
- the interpretation IFRIC 10 "Interim financial reporting and impairment", effective for periods beginning on or after November 1, 2006;
- the interpretation IFRIC 11 "IFRS 2-group and treasury shares transactions", effective for periods beginning on or after March 1, 2007;
- the interpretation IFRIC 12 "Service concession arrangements", effective for periods beginning on or after January 1, 2008.

Standard IFRS 8, as well as interpretations IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been adopted by the European Union.

Other new standards, interpretations and amendments to existing standards are not applicable to the Group.

## Note 40 Comparative figures

Certain amounts relating to prior years have been reclassified to conform with the presentation of this year's financial statements. This reclassification had no impact on previously reported net income or stockholders' equity.

Following additional analysis on provisions for restitution for the year ended March 31, 2006, an sum of €37 million, corresponding to use of the provision, has been reclassified from "aircraft maintenance costs", where the amount had been inappropriately recorded, to "Provisions". This reclassification has an impact on the presentation of the consolidated income statement, on the consolidated cash flow statement, on external charges (note 6), on amortization, depreciation and provisions (note 8) and on provisions and retirement benefits (note 29).

Furthermore, following the harmonization of the allocation of the fuel surcharges within the Group, the figures disclosed for the year ended March 31, 2006 regarding traffic sales by geographical area (note 5.2) have been modified.

## Note 41 Consolidation scope as of March 31, 2007

The scope includes 149 fully consolidated entities and 30 equity affiliates

### 41.1. Consolidated entities

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Air France SA | Multisegment | 100 | 100 |
| KLM N.V. | Multisegment | 97 | 49 |
| Air France Services LTD | Passenger | 100 | 100 |
| Brit Air | Passenger | 100 | 100 |
| City Jet | Passenger | 100 | 100 |
| Cygnific (UK) Limited | Passenger | 97 | 49 |
| Cygnific B.V. | Passenger | 97 | 49 |
| Fréquence Plus Services | Passenger | 100 | 100 |
| IAS Asia Incorporated | Passenger | 97 | 49 |
| IASA Incorporated | Passenger | 97 | 49 |
| Icare | Passenger | 100 | 100 |
| International Airline Services Europe Limited | Passenger | 97 | 49 |
| International Airline Services Limited | Passenger | 97 | 49 |
| International Airline Services Offshore Limited | Passenger | 97 | 49 |
| International Marine Airline Services Limited | Passenger | 97 | 49 |
| International Marine Airline Services Limited Liability Company | Passenger | 97 | 49 |
| KLM Cityhopper B.V. | Passenger | 97 | 49 |
| KLM Cityhopper UK LTD | Passenger | 97 | 49 |
| KLM Ground Services Limited | Passenger | 97 | 49 |
| KLM Luchtvaartschool B.V. | Passenger | 97 | 49 |
| Lyon Maintenance | Passenger | 100 | 100 |
| Régional Compagnie Aérienne Européenne | Passenger | 100 | 100 |
| Société d'Exploitation Aéronautique | Passenger | 100 | 100 |
| Stichting Studentenhuisvesting Vliegveld Eelde | Passenger | 97 | 49 |
| Blue Crown B.V. | Cargo | 97 | 49 |
| CSC India | Cargo | 97 | 49 |
| Mexico Cargo Handling | Cargo | 100 | 100 |
| Road Feeder Management B.V. | Cargo | 97 | 49 |
| Sodexi | Cargo | 60 | 60 |
| Air France Industrie US | Maintenance | 100 | 100 |
| CRMA | Maintenance | 100 | 100 |
| European Pneumatic Component Overhaul And Repair (EPCOR) B.V. | Maintenance | 97 | 49 |
| Guangzhou Hangxin Avionics CO. LTD | Maintenance | 41 | 80 |

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Hangxin Hitech Resources Holding LTD | Maintenance | 41 | 80 |
| Harbin Hangxin Avionics CO. LTD | Maintenance | 41 | 80 |
| KLM UK Engineering Limited | Maintenance | 97 | 49 |
| Reenton Development Limited | Maintenance | 51 | 51 |
| Shanghai Hangxin Aero Mechanics CO. LTD | Maintenance | 41 | 80 |
| ACNA | Other | 98 | 100 |
| ACSAIR | Other | 50 | 51 |
| Aeroform | Other | 98 | 100 |
| Aerosur | Other | 98 | 100 |
| Afrique Catering | Other | 50 | 51 |
| Air France Finance | Other | 100 | 100 |
| Air France Finance Ireland | Other | 100 | 100 |
| Air France Partnairs Leasing NV | Other | 45 | 45 |
| Air UK (Jersey) Limited | Other | 97 | 49 |
| Air UK Leasing Limited | Other | 97 | 49 |
| Aircraft Maintenance Amsterdam B.V. | Other | 97 | 49 |
| Airgo B.V. | Other | 97 | 49 |
| Airport Medical Services B.V. | Other | 78 | 49 |
| All Africa Airways | Other | 80 | 80 |
| AMA Holding B.V. | Other | 97 | 49 |
| Amsterdam Schipol Pijpleiding Beheer B.V. | Other | 58 | 49 |
| Amsterdam Schipol Pijpleiding C.V. | Other | 70 | 49 |
| Aquila Invest B.V. | Other | 97 | 49 |
| Base Handling | Other | 98 | 100 |
| Blue Yonder II B.V. | Other | 97 | 49 |
| Blue Yonder IX B.V. | Other | 97 | 49 |
| Blue Yonder X B.V. | Other | 97 | 49 |
| Blue Yonder XI B.V. | Other | 97 | 49 |
| Blue Yonder XII B.V. | Other | 97 | 49 |
| Blue Yonder XIII B.V. | Other | 97 | 49 |
| Blue Yonder XIV B.V. | Other | 97 | 49 |
| Bruneau Pegorier | Other | 98 | 100 |
| Cari | Other | 98 | 100 |
| Catering FDF | Other | 50 | 51 |
| Catering PTP | Other | 50 | 51 |

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Cell K16 Insurance Company | Other | 97 | 0 |
| Centre De Production Alimentaire | Other | 98 | 100 |
| Culin'Air Paris | Other | 55 | 56 |
| Dakar Catering | Other | 49 | 50 |
| ETS Equipment Techno Services | Other | 97 | 49 |
| European Catering Services | Other | 98 | 100 |
| GIE Jean Bart | Other | 10 | 10 |
| GIE Servcenter | Other | 98 | 100 |
| GIE Surcouf | Other | 100 | 100 |
| Heeswijk Holding B.V. | Other | 97 | 49 |
| Jet Chef | Other | 98 | 100 |
| KES Airport Equipment Fuelling B.V. | Other | 97 | 49 |
| KES Airport Equipment Leasing B.V. | Other | 97 | 49 |
| Kleur Invest B.V. | Other | 97 | 49 |
| KLM Airline Charter B.V. | Other | 97 | 49 |
| KLM Catering Services Schipol B.V. | Other | 97 | 49 |
| KLM Equipment Services B.V. | Other | 97 | 49 |
| KLM Financial Services B.V. | Other | 97 | 49 |
| KLM Flight Crew Services GmbH | Other | 97 | 49 |
| KLM Health Services B.V. | Other | 97 | 49 |
| KLM International Charter B.V. | Other | 97 | 49 |
| KLM International Finance Company B.V. | Other | 97 | 49 |
| KLM Oliemaatschappij B.V. | Other | 97 | 49 |
| KLM UK Holdings Limited | Other | 97 | 49 |
| KLM UK Limited | Other | 97 | 49 |
| Kroonduif B.V. | Other | 97 | 49 |
| Lyon Air Traiteur | Other | 98 | 100 |
| Mali Catering | Other | 70 | 99 |
| Management Maatschappij B.V. | Other | 97 | 49 |
| Martinique Catering | Other | 91 | 93 |
| Mauritanie Catering | Other | 25 | 51 |
| Occabot Beheer B.V. | Other | 97 | 49 |
| O'Fionnagain Holding Company Limited | Other | 100 | 100 |
| Orion-Staete B.V. | Other | 97 | 49 |
| Orly Air Traiteur | Other | 98 | 100 |
| Ouagadougou Catering Services | Other | 98 | 100 |

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Passerelle | Other | 98 | 100 |
| Pelican | Other | 100 | 100 |
| PHK Freight Services B.V. | Other | 97 | 49 |
| PMAIR | Other | 50 | 51 |
| Prestair | Other | 98 | 100 |
| Pyrhelio-Staete B.V. | Other | 97 | 49 |
| Quasar-Staete B.V. | Other | 97 | 49 |
| Rigel-Staete B.V. | Other | 97 | 49 |
| ROSC Limited | Other | 97 | 49 |
| Saveur du Ciel | Other | 98 | 100 |
| Servair (Cie d'exploitation des services auxiliaires aériens) | Other | 98 | 98 |
| Servair SATS | Other | 50 | 51 |
| Servantage | Other | 98 | 100 |
| Servcleaning | Other | 98 | 100 |
| Servling | Other | 98 | 100 |
| Skychef | Other | 54 | 55 |
| Skylogistic | Other | 98 | 100 |
| Societe Immobiliere Aeroportuaire | Other | 98 | 100 |
| Sogri | Other | 95 | 97 |
| Sori | Other | 49 | 50 |
| Special Meals Catering | Other | 98 | 100 |
| Spica-Staete B.V. | Other | 97 | 49 |
| Takeoff 1 Limited | Other | 100 | 100 |
| Takeoff 10 Limited | Other | 100 | 100 |
| Takeoff 11 Limited | Other | 100 | 100 |
| Takeoff 12 Limited | Other | 100 | 100 |
| Takeoff 13 Limited | Other | 100 | 100 |
| Takeoff 14 Limited | Other | 100 | 100 |
| Takeoff 15 Limited | Other | 100 | 100 |
| Takeoff 16 Limited | Other | 100 | 100 |
| Takeoff 2 Limited | Other | 100 | 100 |
| Takeoff 3 Limited | Other | 100 | 100 |
| Takeoff 4 Limited | Other | 100 | 100 |
| Takeoff 5 Limited | Other | 100 | 100 |
| Takeoff 6 Limited | Other | 100 | 100 |
| Takeoff 7 Limited | Other | 100 | 100 |

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Takeoff 8 Limited | Other | 100 | 100 |
| Takeoff 9 Limited | Other | 100 | 100 |
| Toulouse Air Traiteur | Other | 50 | 51 |
| Transavia Airlines BV | Other | 97 | 49 |
| Transavia Airlines C.V. | Other | 97 | 49 |
| Transavia France | Other | 99 | 100 |
| Travel Industry Systems B.V. | Other | 97 | 49 |
| Uileag Holding Company Limited | Other | 100 | 100 |
| Weblok B.V. | Other | 97 | 49 |

### 41.2. Equity affiliates

| Entity | Segment | % interest | % control |
|---|---|---|---|
| Financière LMP | Passenger | 20 | 20 |
| Société Nouvelle Air Ivoire | Passenger | 39 | 49 |
| Teamtrackers SA | Passenger | 49 | 49 |
| Teamtrackers SRO | Passenger | 49 | 49 |
| Heathrow Cargo Handling | Cargo | 50 | 50 |
| Aero Maintenance group | Maintenance | 39 | 39 |
| Shangdong Xiangyu Aero-Technology Services LTD | Maintenance | 8 | 20 |
| Singapore Hangxin Aviation ENG. PTE | Maintenance | 12 | 30 |
| Spairliners | Maintenance | 50 | 50 |
| Air Chef | Other | 49 | 50 |
| Alpha Airports group PLC | Other | 26 | 27 |
| Baan Tara Development LTD | Other | 97 | 49 |
| Baan Tara Holding LTD | Other | 97 | 49 |
| Flying Food Catering | Other | 48 | 49 |
| Flying Food Miami | Other | 48 | 49 |
| Flying Food San Francisco | Other | 43 | 44 |
| Flying Food Services | Other | 48 | 49 |
| International Aerospace Management Company S.C.R.L. | Other | 19 | 20 |
| Kenya Airways Limited | Other | 25 | 26 |
| Logair | Other | 49 | 50 |
| Lome Catering SA | Other | 17 | 35 |
| Macau Catering Services | Other | 17 | 34 |
| Martinair Holland N.V. | Other | 49 | 49 |
| Pavillon d'Oc Traiteur | Other | 34 | 35 |
| Schipol Logistics Park CV | Other | 51 | 49 |
| Serep | Other | 38 | 39 |
| Servair Eurest | Other | 34 | 35 |
| Sesal | Other | 39 | 40 |
| Terminal One Groupe Association | Other | 25 | 25 |
| WAM | Other | 22 | 23 |

# Statutory Auditors' report on the consolidated financial statements

*(This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditors' report, whether qualified or not, explanatory paragraphs separate from and presented below the audit opinion discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. Such report, together with the statutory auditors' report addressing financial reporting in management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.)*

Year ended March 31, 2007

To the Shareholders,

In accordance with our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Air France-KLM S.A. for the year ended March 31, 2007.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

## I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as of March 31, 2007 and the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

## II. Justification of assessments

Pursuant to Article L. 823-9 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

- Notes 3.2, 3.13 and 3.14 to the consolidated financial statements describe the estimates and assumptions that Air France-KLM's management was required to make regarding the impairment of fixed assets. We have examined the data and assumptions on which these impairment losses were based as well as the procedures for implementing impairment tests, as described in the notes;
- Air France-KLM's management is required to make estimates and assumptions relating to the recognition of revenue arising from issued but unused tickets, in accordance with the terms and conditions described in Notes 3.2 and 3.6 to the consolidated financial statements. Our procedures consisted in analyzing the data used, assessing the assumptions made and reviewing the calculations performed;
- Notes 3.17 and 29.1 specify the accounting policies for employee benefits. These benefits and obligations were evaluated by external actuaries. Our procedures consisted in examining the data used, assessing the assumptions made and verifying that the information included in Note 29.1 to the consolidated financial statements were appropriate. In addition, Note 3.17.2 to the consolidated financial statements outlines the accounting policies applied for the recognition of the pension fund surplus in the absence of a final IFRIC interpretation on this issue. We verified that the accounting treatment complies with the "IFRIC Update" dated September 2005 and IFRIC D19 published on August 24, 2006 and for which the comment period ended on October 31, 2006.

These assessments are part of our audit approach to the consolidated financial statements taken as a whole and therefore contribute to the expression of the opinion given in the first part of this report.

## III. Specific procedures

We have also verified the information given in the Group's management report in accordance with professional standards applicable in France. We have no comment to report as to its fair presentation nor its consistency with the consolidated financial statements.

Paris-La Défense and Neuilly-sur-Seine, June 21, 2007
The Statutory Auditors

| KPMG Audit<br>Department of KPMG S.A. | | Deloitte & Associés |
|---|---|---|
| Jean-Luc Decornoy<br>Partner | Jean-Paul Vellutini<br>Partner | Pascal Pincemin<br>Partner |

# Parent company financial statements

Year ending March 31, 2007

## Income statement

| **Period from April 1 to March 31** *(In euro millions)* | **notes** | **2007** | **2006** |
|---|---|---|---|
| Other income | 2 | 19 | 16 |
| ***Total operating income*** | | ***19*** | ***16*** |
| External expenses | 3 | (17) | (16) |
| Taxes and related payments | | (1) | (7) |
| Salaries and related costs | | (3) | (3) |
| ***Total operating expenses*** | | ***(21)*** | ***(26)*** |
| **Income from operations** | | **(2)** | **(10)** |
| Financial income | | 164 | 18 |
| Financial expenses | | (11) | (12) |
| ***Net financial income*** | 4 | ***153*** | ***6*** |
| ***Earnings before tax and extraordinary items*** | | ***151*** | ***(4)*** |
| Non-recurring income | | 7 | 22 |
| Non-recurring expenses | | (5) | (21) |
| **Extraordinary income (loss)** | 5 | **2** | **1** |
| Income tax | 6 | 4 | 1 |
| **Net earnings** | | **157** | **(2)** |

## Balance sheet

| Assets *(In euro millions)* | Notes | March 31, 2007 | March 31, 2006 |
|---|---|---|---|
| Long-term investments | 7 | 3,888 | 3,894 |
| ***Fixed assets*** | | ***3,888*** | ***3,894*** |
| Trade receivables | 10 | 12 | 11 |
| Miscellaneous receivables | 10 | 194 | 34 |
| Subscribed capital unpaid yet | 10 | 85 | - |
| Marketable securities | 8 | 9 | 1 |
| **Current assets** | | **300** | **46** |
| **Total Assets** | | **4,188** | **3,940** |

| Liabilities *(In euro millions)* | notes | March 31, 2007 | March 31, 2006 |
|---|---|---|---|
| Capital *(including 2,290 paid)* | 9.1 | 2,375 | 2,290 |
| Additional paid-in capital | | 492 | 384 |
| Reserves | | 1,023 | 1,105 |
| Income for the year | | 157 | (2) |
| ***Shareholders' equity*** | 9.2 | ***4,047*** | ***3,777*** |
| Accounts payable: | | 9 | 7 |
| Including trade payables and related accounts | | *7* | *5* |
| Other accounts payable | | *2* | *2* |
| Miscellaneous debts | | 132 | 156 |
| ***Debts*** | 10 | ***141*** | ***163*** |
| **Total Liabilities** | | **4,188** | **3,940** |

# Notes

The information hereafter constitutes the notes to the financial statements for the year ended March 31, 2007.

It is an integral part of the financial statements.

The financial period covered 12 months from April 1, 2006 to March 31, 2007.

Air France-KLM is listed in France, the Netherlands and the United States.

Air-France-KLM establishes consolidated financial statements.

## 1. Accounting policies and procedures

Generally accepted accounting policies were applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and the basic assumptions in order to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial years;
- and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

Since April 1, 2005 the Company has applied CRC regulations No. 2002-10 dated December 12, 2002 regarding depreciation and impairment of assets and No. 2004-06 dated November 23, 2004 regarding the definition, recognition and valuation of assets. In view of the accounting principles the Company applied previously, the implementation of these two regulations had no impact on its shareholders' equity at April 1, 2005.

### Main methods used

#### *Long-term investments*

Companies' equity investments and other capitalised securities are presented on the balance sheet at their acquisition cost net of provisions for impairment, if necessary. A provision for impairment is constituted as soon as the fair value is less than the acquisition value. Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

The fair value of securities corresponds to the value in use for the Company. This is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference. With regard to equity investments of non-consolidated companies whose shares are listed, the value in use corresponds to the market price, except for cases where other elements can provide a more appropriate valuation.

#### *Accounts receivable*

Accounts receivable are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

#### *Marketable securities*

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

#### *Foreign currency transactions*

Current expense and income transactions in foreign currencies are recognised at the average exchange rate for each month concerned.

Accounts payable and receivable in foreign currencies are valued at the exchange rate in effect at March 31, 2007.

Unrealised losses and gains are recognised as assets and liabilities on the balance sheet. Provisions are established for unrealised losses, except for the following cases:

- transactions where the currency and the term contribute to a global exchange position; and
- exchange hedging contracts involving the payment of future investment deliveries.

#### *Debts*

Debts are valued at their nominal amount.

#### *Dividends received*

Dividends are recognised as earnings when they are approved by the companies' competent bodies (*i.e.* the Board of Directors or the General Shareholders' Meeting depending on the local regulations).

## 2. Other income

This primarily involves royalties of €16 million paid by Air France and KLM at March 31, 2007 to use the "Air France-KLM" brand.

## 3. External expenses

| **Period from April 1 to March 31** *(In euro millions)* | **2007** | **2006** |
|---|---|---|
| Acquisition costs for securities | - | 2 |
| Statutory auditor fees | 3 | 3 |
| Insurance | 2 | 2 |
| Subcontracting re-invoiced by Air France and KLM | 6 | 5 |
| Financial communication expenses | 4 | 4 |
| Other *(less than €1 million)* | 2 | - |
| **Total** | **17** | **16** |

## 4. Financial income

This section groups interest paid or received, exchange losses and gains, and allocations and write-backs of financial provisions. It breaks down as follows:

| **Period from April 1, to March 31** *(In euro millions)* | **2007** | **2006** |
|---|---|---|
| Interests on current account | (5) | (3) |
| *including related companies* | *(5)* | *(3)* |
| Financial income from equity investments[(1)] | 157 | 9 |
| *including related companies* | *157* | *9* |
| Other financial income | 7 | 7 |
| *including related companies* | *7* | *6* |
| Allocations to provisions[(2)] | (6) | (9) |
| Write-backs of provisions[(3)] | - | 2 |
| **Total** | **153** | **6** |

(1) *For the financial year ended March 31, 2007, this amount includes €15 million of dividends paid by KLM, €67 million of dividends paid by Air France and €75 million interim dividends receivable from Air France.*

(2) *Net allocation to provisions of €6 million for Alitalia shares at March 31, 2007 vs. €7 million at March 31, 2006.*

(3) *Treasury shares.*

## 5. Extraordinary income

Extraordinary income at March 31, 2007 amounted to €2 million for the sale of Euronext shares held from April 2006 to December 2006. The Euronext shares were sold for €7 million and had a net carrying amount of €5 million.

## 6. Income tax

Air France, which is now Air France-KLM, has benefited from the tax consolidation scheme since April 1, 2002.

Air France-KLM is the parent company for the tax consolidation. The consolidation scope primarily includes Air France-KLM, Air France, regional French companies and, since January 1, 2005, Servair and its subsidiaries.

The tax consolidation agreement is based on the so-called neutrality method and places each member company of the tax group in the situation that it would have been in without consolidation.

For this financial year the tax consolidation group generated a full rate (34.33%) taxable income of €53 million that the tax consolidation group's previously generated tax losses were charged against.

The tax consolidation group's losses carried forward amount to €582 million.

The subsidiaries of the tax consolidation scope, that are beneficiary pay Air France-KLM a tax consolidation bonus of €4 million.

## 7. Long-term investments

### 7.1. Gross value

*(In euro millions)*

| Gross value | Beginning of year | Acquisitions Capital increases | Transfers or sales | End of year |
|---|---|---|---|---|
| Equity investments | 3,907 | - | - | 3,907 |
| Other long-term investments | - | - | - | - |
| **Total** | **3,907** | **-** | **-** | **3,907** |

### 7.2. Equity investments

*(In euro millions)*

| Companies | Gross value at beginning of year | Acquisitions | Sales | Gross value at end of year |
|---|---|---|---|---|
| Air France (formerly Air Orient) | 3,060 | - | - | 3,060 |
| KLM | 802 | - | - | 802 |
| Alitalia | 45 | - | - | 45 |
| **Total** | **3,907** | **-** | **-** | **3,907** |

The decrease in Alitalia's share price resulted in the recognition of a net additional provision of €6 million.

| *(In euro millions)* Companies | Provisions at beginning of year | Allocations | Write-backs | Provisions at end of year |
|---|---|---|---|---|
| Alitalia | 13 | 6 | - | 19 |
| ***Impairment*** | ***13*** | ***6*** | ***-*** | ***19*** |
| **Net Value** | **3,894** | **-** | **-** | **3,888** |

## 8. Marketable securities

| *(In euro millions)* | March 31, 2007 | | March 31, 2006 | |
|---|---|---|---|---|
| | Carrying amount | Market value | Carrying amount | Market value |
| Treasury shares | - | - | 1 | 1 |
| Money market fund[(1)] | 9 | 9 | - | - |
| **Total** | **9** | **9** | **1** | **1** |

[(1)] *Cash invested as part of a liquidity agreement, subscribed with a bank.*

## 9. Shareholders' equity

### 9.1. Distribution of share capital and voting rights

| At March 31 | *% of capital* | | *% of voting rights* | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| French government | 18% | 18% | 18% | 19% |
| Employees and former employees[(1)] | 11% | 14% | 11% | 14% |
| Shares held by the group | 1% | 2% | - | - |
| Public | 70% | 66% | 71% | 67% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

[(1)] *Personnel and former employees identified in the fund or by a Sicovam code.*

The share capital distributed above is fully paid-up and comprised of 279,365,707 shares with a nominal value of €8.50. Each share confers one voting right. The number of shares above includes the 9,982,189 new shares issued by Air France-KLM as part of the BASA conversion. The capital increase was recognised at March 31, 2007.

### *Reminder*

On April 5, 2004, Air France proposed a share exchange offer to holders of common KLM shares. The exchange parity was 11 Air France shares and 10 warrants to acquire and/or subscribe to Air France shares (BASA) for 10 KLM shares and 11 Air France American Depositary Shares (ADS) and 10 Air France American Depositary Warrants (ADW) for 10 KLM New York Registry Shares. Three BASAs gave their holder the right to acquire and/or subscribe to two Air France shares at the exercise price of €20 per Air France share. The BASAs' maturity date is 3-1/2 years after May 6, 2004 and they can be exercised as of November 6, 2005. The ADWs have the same terms and exercise price for conversion into Air France ADS or shares as the BASAs.

At the end of the main offer and supplementary offer on May 21, 2004, Air France had issued 49,602,631 new shares and 45,903,299 BASAs.

Pursuant to the decision of Air France's Extraordinary General Shareholders' Meeting on September 15, 2004, Air France contributed the bulk of its assets to its subsidiary, Air France – Compagnie Aérienne (formerly Air Orient).

The same day, these two companies were "re-named," Air France becoming Air France – KLM and Air France – Compagnie Aérienne becoming Société Air France.

### *Events of the year*

Through a notice published in the BALO (French equivalent of the Gazette) on March 12, 2007, BASA holders were informed by Air France-KLM that the BASA allocation ratio had been adjusted: the new ratio is 2.066 Air France-KLM shares for 3 BASAs. At March 31, 2007, 14,495,688 Air France-KLM warrants (BASA) had been exercised, equal to 9,982,189 shares.

Consequently, the number of Company shares was increased to 279,365,707 shares at this date and the share capital was increased to €2,374,608,509.50.

Therefore, Air France-KLM recognised a capital increase of €85 million and an increase in additional paid-in capital of €108 million.

During the year, 7,659 BASAs were converted and exchanged for 5,106 existing shares.

## 9.2. Statement of changes in shareholders' equity

*(In euro millions)*

| Source of movements | Capital | Additional paid-in capital | Reserves | Earnings for the year | Shareholders' equity |
|---|---|---|---|---|---|
| ***At March 31, 2006*** | ***2,290*** | ***384*** | ***1,105*** | ***(2)*** | ***3,777*** |
| Allocation of earnings | - | - | (2) | 2 | - |
| Dividends distributed | - | - | (80) | - | (80) |
| Conversion of BASAs | 85 | 108 | - | - | 193 |
| Earnings for the period | - | - | - | 157 | 157 |
| **At March 31, 2007** | **2,375** | **492** | **1,023** | **157** | **4,047** |

## 10. Maturity of accounts receivable and accounts payable

| At March 31, 2007<br>*(In euro millions)*<br>**Accounts receivable** | Gross amount | Up to one year | More than one year | Related companies |
|---|---|---|---|---|
| ***Current assets*** | | | | |
| Trade receivables and related accounts | 12 | 12 | - | 12 |
| Miscellaneous receivables (including tax receivables)(1) | 279 | 276 | 3 | 76 |
| **Total** | **291** | **288** | **3** | **88** |

*(1) €193 million were paid on April 5, 2007 for the new Air France-KLM shares created in exchange for the converted BASAs (see note 9.1). Air France will pay Air France-KLM, before July 12, 2007, €75 million interim dividends (see note 4).*

| *(In euro millions)*<br>**Accounts payable** | Gross amount | Up to one year | More than one year | Related companies |
|---|---|---|---|---|
| Trade payables and related accounts | 7 | 7 | - | 4 |
| Taxes and social contributions due | - | - | - | - |
| Other accounts payable | 2 | 2 | - | - |
| Miscellaneous payables | 132 | 132 | - | 132 |
| **Total** | **141** | **141** | **-** | **136** |

## 11. Commitments

### KLM shares

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government will sell its cumulative A preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer occurs during the first three years following the business combination.

In the latter case, the foundation will issue, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates will confer to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KM will have the option to exchange the share certificates against the cumulative A preferred shares, which it can hold directly.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (for a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

### Bank guarantee

In July 2005 Air France filed a €3.3 million claim with the tax authorities concerning the 2002 professional tax for the Aéropostale operating company. Since Air France became Air France-KLM as of September 15, 2004, the tax authorities recorded this claim in the name of Air France-KLM.

Pending their decision, the tax authorities requested a bank guarantee.

Société Générale granted the guarantee to Air France-KLM for €3.3 million.

On February 23, 2007 the Minister of Finance decided to grant Air France-KLM tax relief of €3 million.

Consequently, the tax authorities will ask the Société Générale to lift the bank guarantee.

## 12. List of subsidiaries and equity investments

*(In euro millions)*

| Companies or Groups of companies | SIREN No. | Capital | Shareholders' equity other than capital after earnings | Share of capital held | Carrying amount of shares held – Gross | Carrying amount of shares held – Net | Loans & advances granted and not reimbursed | Amount of security and guarantees given | Revenues (excl. tax) for last financial year | Net profit or loss for last financial year | Dividends cashed during the past financial year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Detailed information about each investment whose gross value exceeds €15 million* | | | | | | | | | | | |
| ***1. Subsidiaries (held at more than 50%)*** | | | | | | | | | | | |
| Air France (formerly Air Orient France)[1] | 420 495 178 | 1,901 | 2,457 | 100% | 3,060 | 3,060 | - | - | 14,357 | 311 | 142 |
| KLM (Netherlands)[1] | - | 94 | 2,931 | 97,50% | 802 | 802 | - | - | 7,698 | 516 | 15 |
| ***2. Equity investments (held at less than 50%)*** | | | | | | | | | | | |
| Alitalia (Italy)[2] | - | 1,297 | (60) | 2% | 45 | 26 | - | - | 2,043 | (221) | - |

[1] *Statutory financial statements at March 31, 2007.*

[2] *Since the consolidated financial statements at December 31, 2006 were unavailable, the half-year financial statements at June 30, 2006 were used.*

## 13. Estimated value of the portfolio

| *(In euro millions)* | Amount at beginning of year gross carrying amount | net carrying amount | estimated value | Amount at end of year gross carrying amount | net carrying amount | estimated value |
|---|---|---|---|---|---|---|
| *Portfolio fractions valued* | | | | | | |
| ***Alitalia*** | | | | | | |
| based on the net equity at 06/30/2006 | 45 | 32 | 29 | 45 | 26 | 25 |
| based on the market price at 03/31/2007 | - | - | 32 | - | - | 26 |
| ***Air France*** | | | | | | |
| at cost | 3,060 | 3,060 | - | 3,060 | 3,060 | - |
| based on the company's net equity at 03/31/2007 | - | - | 4,149 | - | - | 4,358 |
| ***KLM*** | | | | | | |
| at cost | 802 | 802 | - | 802 | 802 | - |
| based on the company's net equity at 03/13/2007 | - | - | 2,495 | - | - | 2,949 |

## 14. Items concerning related companies

| *(In euro millions)* | | Amount |
|---|---|---|
| Trade receivables & related accounts | | 12 |
| *including Air France* | *11* | |
| *KLM* | *1* | |
| Miscellaneous receivables | | 279 |
| *including Air France* | *75* | |
| Trade payables and related accounts | | 7 |
| *including Air France* | *4* | |
| Miscellaneous payables | | 132 |
| *including Air France* | *128* | |
| *Brit Air* | *2* | |

## 15. Litigation

As of February 14, 2006, authorities from the EU Commission and the US Department Of Justice (DOJ) presented themselves at the offices of Air France and KLM, as well as most airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air shipping services. Skyteam Cargo, a Company in which Air France held shares, was subject to the same investigations.

Air France-KLM as well as Air France and KLM are cooperating with these investigations.

As of March 31, 2007, about 140 purported class action lawsuits were filled in the US against air cargo operators including Air France-KLM, Air France, KLM and/or related entities. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including various surcharges in air cargo services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief amounting to triple amount of compensatory damages. These actions have been transferred and consolidated before the US District Court of the Eastern District of New-York. The consolidated case is currently in the pleading process, with the first consolidated amended complaint filed by the plaintiffs in February 2007. Air France and KLM intend to defend these cases vigorously.

At this time, Air France-KLM is unable to predict the outcome of these investigations requested by antitrust and civil litigation authorities, or the amount of penalties and compensatory damages which could be due.

## 16. Unrestricted agreements

- Tax consolidation agreement.
- Invoicing Air France and KLM a flat-rate share of the Civil Liability insurance premium for the Board members and Executive Officers.

## 17. Remuneration of corporate executives

Remuneration of corporate executives for the period amounts to €2.2 million.

## 18. Subsequent events

On April 5, 2007, €193 million were invested in a money market fund, corresponding to payment for the new Air France-KLM shares issued in exchange for the converted BASAs (see note 9.1).

## Five-year financial summary

| Year ended March 31 | 2003 *Air France published figures* | 2004 *Air France published figures* | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| ***1. Share capital at year end*** | | | | | |
| ***Share capital*** | ***1,868,137,539*** | ***1,868,137,539*** | ***2,289,759,903*** | ***2,289,759,903*** | ***2,374,608,509,5*** |
| Number of ordinary shares outstanding | 219,780,887 | 219,780,887 | 269,383,518 | 269,383,518 | 279,365,707 |
| Maximum number of shares that may be created: | | | | | |
| ♦ By bond conversion | | | | 21,951,219 | 22,609,756 |
| ♦ By exercise of subscription rights | | | 30,062,199 | 30,060,411 | 21,064,433 |
| ***2. Transactions and results for the year*** *(In euro thousand)* | | | | | |
| Net revenues | 11,730,679 | 11,344,755 | - | - | - |
| Net income before income tax, employee profit-sharing net depreciation, amortization and provisions | 628,753 | 507,682 | (30,307) | (4,031) | 158,721 |
| Income tax | (1,777) | 15,945 | (3,426) | (997) | (4,465) |
| Employee profit-sharing for the year | - | - | - | - | - |
| Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions | (217,624) | (452,558) | (33,359) | (1,506) | 157,744 |
| Distributed net income | 13,014 | 13,347 | 40,407 | 80,783 | - |
| ***3. Per share data*** | | | | | |
| Net income after income tax and employee profit-sharing but before net depreciation, amortization and provisions | 2.86 | 2.24 | (0.1) | 0.019 | 0.58 |
| Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions | (0.99) | (2.06) | (0.12) | (0.006) | 0.56 |
| Dividend per share | 0.06 | 0.05 | 0.15 | 0.30 | 0.48(1) |
| ***4. Employees*** | | | | | |
| Average number of employees during the year | 59,731 | 59,788 | | | |
| Total payroll costs *(In euro thousand)* | 2,528,771 | 2,639,480 | | | |
| *Employee welfare contributions and similar charges (Social Security, employee organizations, etc.) (In euro thousand)* | 907,126 | 975,878 | | | |

*(1) Based on the resolution to be submitted to the Shareholders' Meeting to be held on July 12, 2007.*

# Statutory Auditors' report on the financial statements

*(This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditors' report, whether qualified or not, explanatory paragraphs separate from and presented below the audit opinion discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. Such report, together with the statutory auditors' report addressing financial reporting in management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.)*

Year ended March 31, 2007

To the Shareholders,

In accordance with our appointment as statutory auditors by your Annual General Meeting, we hereby report to you, for the year ended March 31, 2007, on:

- the audit of the accompanying financial statements of Air France-KLM S.A.;
- the justification of our assessments;
- the specific procedures and disclosures required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

## I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the Company as of March 31, 2007 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

## II. Justification of assessments

Pursuant to Article L. 823-9 of the French Commercial Code governing the justification of our assessments, we draw your attention to the following:

- Note 1 to the financial statements outlines the accounting rules and methods relating to the recognition and measurement of long-term investments. As part of our assessment of the Company's accounting policies, we verified the appropriateness of the aforementioned accounting methods and the information provided in Notes 7.2 and 13 of the financial statements and satisfied ourselves as to their correct application.

These assessments were performed as part of our audit approach for the financial statements taken as a whole and therefore contributed to the expression of the opinion in the first part of this report.

## III. Specific procedures and information

We have also performed the specific verifications required by law, in accordance with professional standards applicable in France.

We have no comments to report as to:

- the fair presentation and consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information in the management report of the Board of Directors relating to remunerations and benefits granted to the relevant directors and commitments given to them in connection with, or after, their appointment, termination or change in function.

In accordance with French law, we have verified that the management report of the Board of Directors contains the appropriate information relating to the acquisition of shares and controlling interests and the identity of shareholders in terms of capital and voting rights.

Paris-La Défense and Neuilly-sur-Seine, June 21, 2007

The Statutory Auditors

KPMG Audit
Department of KPMG S.A.

Jean-Luc Decornoy
Partner

Jean-Paul Vellutini
Partner

Deloitte & Associés

Pascal Pincemin
Partner

# Statutory Auditors' report on regulated agreements and commitments

*(This is a free translation into English of the original French text and is provided solely for the convenience of English speaking readers. It should be understood that the agreements and commitments reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.)*

Year ended March 31, 2007

To the Shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on regulated agreements and commitments.

## Agreements and commitments entered into by the Company in the current year

We are not required to ascertain whether any agreements or commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements and commitments of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of Article R.225-31 of the French Commercial Code, to evaluate the benefits arising from these agreements and commitments prior to their approval.

We hereby inform you that no agreements or commitments to which Article L. 225-38 of the French Commercial Code would be applicable have been brought to our attention.

## Continuing agreements and commitments which were entered into in prior years

Moreover, in accordance with the French Commercial Code, we have been informed of the following agreements and commitments, which were approved during previous years and which were applicable during the period:

### Services agreement between Air France-KLM and KLM

- Person concerned:

Leo Van Wijk, Director of Air France-KLM and Chairman of the KLM Management Board.

- Nature, purpose and terms and conditions:

Air France-KLM and its subsidiary KLM entered into a services agreement, for the purpose of providing Air France-KLM with the means to operate, particularly in accounting, administrative, financial and legal matters. Accordingly, KLM undertakes to provide, at the request of Air France-KLM, its assistance and services in such matters. These services will be invoiced to Air France-KLM.

This agreement was authorized by the Board of Directors on September 1, 2005.

During the year ended March 31, 2007, your Company paid €1,978,428 with respect to this agreement.

### Agreement between Air France-KLM and Air France

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement, for the purpose of organizing financial and legal relations between the two companies with respect to the issuance by Air France of convertible and/or exchangeable bonds for new or existing Air France-KLM shares.

The terms of this agreement stipulate:
- the remuneration paid by Air France to Air France-KLM in consideration for the option granted to bondholders to request the conversion of their bonds into Air France-KLM shares;
- should this option be exercised by the bondholder, the conditions in which Air France-KLM shall hand over new or existing shares (or a combination of both), and deliver to the centralizing agent the corresponding number of shares;
- the terms and conditions covering the payment by Air France to Air France-KLM of the amount corresponding to the value of the bonds that are to be converted or exchanged.

This agreement was authorized by the Board of Directors on September 1, 2005.

During the year ended March 31, 2007, your Company collected €6,494,233 with respect to this agreement.

### Trademark licensing agreement between Air France-KLM and KLM

♦ Person concerned:
Leo Van Wijk, Director of Air France-KLM and Chairman of the KLM Management Board.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary KLM entered into a licensing agreement for the "Air France-KLM" trademark.

This agreement was authorized by the Board of Directors on September 1, 2005.

During the year ended March 31, 2007, your Company collected €5,108,481 with respect to this agreement.

### Trademark licensing agreement between Air France-KLM and Air France

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into a licensing agreement for the "Air France-KLM" trademark.

This agreement was authorized by the Board of Directors on September 1, 2005.

During the year ended March 31, 2007, your Company collected €10,864,609 with respect to this agreement.

### Services agreement between Air France-KLM and Air France

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement, for the purpose of defining the conditions under which Air France will provide, at the request of Air France-KLM, technical and administrative support services to Air France-KLM. These accounting, administrative, legal and IT nature will be invoiced at cost.

During the year ended March 31, 2007, your Company paid €4,463,867 with respect to this agreement.

### Cash agreement between Air France-KLM and Air France

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement in order to provide Air France-KLM with a credit line. This cash agreement bears interest at EONIA +60 points.

As of March 31, 2007, the amount payable by Air France-KLM to Air France in respect of this cash agreement totaled €127,583,000.

During the year ended March 31, 2007, your Company was invoiced €5,633,873 in interest with respect to this agreement.

### Domiciliation agreement between Air France-KLM and Air France

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France.

♦ Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement for the domiciliation and use of the premises of the registered office of Air France-KLM.

During the year ended March 31, 2007, your Company paid €229,035 with respect to this agreement.

### Agreement relating to the remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer

♦ Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and Air France and Pierre-Henri Gourgeon, Director of Air France-KLM and Air France (as representative of Air France-KLM).

♦ Nature, purpose and terms and conditions:
The remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of Air France-KLM is invoiced to Air France based on the percentage of activity devoted to Air France.

During the year ended March 31, 2007, your Company collected €1,684,191 with respect to this agreement.

### Cross shareholding agreement with Alitalia

♦ Person concerned:
Giancarlo Cimoli, Director of Air France-KLM (until January 17, 2007) and Alitalia.

♦ Nature, purpose and terms and conditions:
A cross shareholding agreement was entered into between Air France and Alitalia under which the companies agree to hold a 2% reciprocal shareholding. This agreement became effective in January 2003.

We conducted our work in accordance with professional standards applicable in France; those standards require that we agree the information provided to us with the relevant source documents.

Paris-La Défense and Neuilly-sur-Seine, June 21, 2007

The Statutory Auditors

KPMG Audit
Department of KPMG S.A.

Jean-Luc Decornoy
Partner

Jean-Paul Vellutini
Partner

Deloitte & Associés

Pascal Pincemin
Partner

# Additional information

# 6.

# History

## Two companies born on the same day

**October 7, 1919**

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its Colonies.

**October 7, 1933**

Air France is born out of the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

**1934**

First KLM transatlantic flight from Amsterdam to Curaçao using a Fokker F-XVIII Snip.

## 1945-1990 – Air transport and the two companies take off

**1945-46**

Air France is nationalized.

KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights between Europe and New York in DC-4s, from Paris with Air France and from Amsterdam with KLM. At this time the flight takes nearly 24 hours.

Air France and KLM are equipped with Constellations and engage in mutual assistance.

**1958**

Air France and KLM inaugurate the polar route, flying from Paris or Amsterdam to Tokyo via the North Pole.

**1959-1960**

Dawn of the jet era: Air France brings the first Caravelle and Boeing 707 aircraft into service, reducing the duration of the Paris-New York flight to 8 hours. KLM brings its first Douglas DC-8 aircraft into service.

**1961**

Air France bases its operations and maintenance at Orly Sud.

**1967**

First KLM flight takes off from the new Schiphol airport.

**1970-71**

Boeing 747 aircraft first used on long-haul routes by Air France in 1970 and KLM in 1971.

**1974-1982**

Air France operations established at the new Terminal 1 at Roissy-Charles de Gaulle, then CDG 2 in 1982.

**1976**

Concorde is commissioned, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes and then Paris-New York in 1977, connecting the two cities in 3 hours 45 minutes.

### 1989–2004 Development of the two 'majors'

**1989**

Conclusion of an alliance, the first in the history of air transport, between KLM and the US company Northwest Airlines.

**1990**

Air France acquires UTA (Union des Transports Aériens), founded in 1963.

**1991**

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and Netherlines and increases its share holding in transavia from 40 to 80%.

**1992**

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own interest in this company with that of UTA.

KLM establishes the first European medium-haul–long-haul transfer platform at Schiphol airport.

First 'Open Sky' agreement between the Netherlands and the United States.

**1993**

All KLM and Northwest Airlines flights between Europe and the United States are operated by a joint venture.

**1996**

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul–long-haul hub at Roissy-Charles de Gaulle.

**1997**

Air France Europe is merged with Air France.

**1999**

Air France is listed on the Monthly Settlement Market of the Paris stock exchange for the first time on February 22, 1999.

**2000**

Air France, Aeromexico, Delta Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and CityJet.

**2001**

'Open Sky' agreement concluded between France and the United States.

Alitalia and CSA Czech Airlines join SkyTeam.

**2002**

SkyTeam is the only alliance in the world to benefit from anti-trust immunity on its transatlantic and transpacific flights.

### 2004 Creation of Air France-KLM, the leading European air transport group

**2003**

September 30: Air France and KLM announce their intention to merge, through a public exchange offer.

**2004**

April 5: Air France launches its public exchange offer (PEO) for the ordinary KLM shares.

May 5: Air France-KLM shares listed for trading on Euronext Paris and Amsterdam as well as on the New York Stock Exchange.

May 6: Privatization of Air France, following the transfer of the majority of its shares to the private sector with the dilution of the French State's share holding.

September 15: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries, Air France and KLM.

KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December 9: The French State reduces its shareholding from 44% to 23%.

**2005**

January and April: KLM and Air France no longer pay commission to travel agents

March and April: the French State sells 21 million shares to Air France employees, thus reducing its shareholding to 18.6%

April:

First-time adoption of IFRS.

Launch of the Flying Blue frequent flyer program, born of the merger between the two airlines' loyalty programs.

Issue, by Air France, of 450 million euros worth of 21,951,219 convertible bonds (OCEANEs), convertible at any time into Air France-KLM shares.

July: Air France tenders its Amadeus shares in the public exchange offer launched by WAM. This transaction generates a pre-tax capital gain of €504 million and cash of €817 million after a 23% shareholding is taken in WAM.

Air France-KLM named 'Airline of the Year'.

# General information

### Corporate name

Air France-KLM

### Registered office

2, rue Robert Esnault-Pelterie, 75007 Paris

### Mailing address

45, rue de Paris, 95747 Roissy-CDG Cedex
Tel: +33 41 56 78 00

### Legal status

French limited liability company (Société Anonyme) with a Board of Directors.

### Legislation

French law.
Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003 relating to air transport companies and notably Air France. The law of April 9, 2003 amended the Civil Aviation Code, introducing a provision designed to safeguard the nationality of air transport companies whose securities are admitted to trading on a regulated market.

### Incorporation and expiry dates

Incorporated on: April 23, 1947.
Due to expire on: July 3, 2045 barring early liquidation or extension.

### Corporate purpose (Article 2 of the bylaws)

The primary purpose of Air France-KLM is to hold a direct or indirect interest in the capital of air transport companies and more generally stakes in any companies in France or elsewhere, whose purpose is related to the air transport business.

### Trade register

Paris Trade and Company Register: 552 043 002
APE Code: 741 J

### Consultation of legal documents

Air France-KLM legal and corporate documents may be consulted at 45, rue de Paris, 95747 Roissy-CDG Cedex, or requested by calling the following toll-free number in France 0 800 320 310 or + 33 1 41 56 88 85 from outside France and from the French overseas territories.

### Financial year

The financial year runs from April 1 to March 31 of the following year.

### Appropriation of profits

After approving the financial statements and taking due note of the profits available for distribution, shareholders vote in Shareholders' Meetings to decide on the total or partial distribution of such profits (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable profits to one or more reserve accounts.

### Relations between Air France-KLM and its subsidiaries

Air France-KLM and its subsidiaries Air France and KLM have signed agreements whose aim is to define the conditions under which Air France and KLM will provide technical and administrative support services to Air France-KLM. These accounting, administrative, legal and IT services are invoiced at cost price and were approved by previous Shareholders' Meetings (see Regulated Agreements in the Board of Directors section of this document).

# Information relating to the share capital

## Share capital

At March 31, 2007, the share capital of Air France-KLM comprised 279,365,707 fully paid up shares with a nominal value of 8.5 euros, held in registered or bearer form according to shareholder preference.

Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

### Variations in the share capital over the last three financial years

| Financial year to: | Total capital | Number of shares |
|---|---|---|
| March 31, 2005 | 2,289,759,903 | 269,383,518 |
| March 31, 2006 | 2,289,759,903 | 269,383,518 |
| March 31, 2007 | 2,374,608,510 | 279,365,707 |

At March 31, 2007, following the exercise of 14,506,029 warrants exchangeable into new or existing Air France-KLM shares (BASA) issued at the time of the exchange offer for KLM stock, 9,982,189 new shares were created. They were admitted for trading on Eurolist as of April 13, 2007.

### Authorizations to increase the capital

The Extraordinary Shareholders' Meeting of July 12, 2005, authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM capital.

| Nature of the operation | Maximum amount of issues, nominal sum | Balance available at March 31, 2007 |
|---|---|---|
| Capital increase via the issue of shares or other securities giving rights to the capital | | |
| ♦ with preferential subscription rights | 500 million euros | 500 million euros |
| ♦ without preferential subscription rights | 500 million euros | 500 million euros |
| Capital increase through capitalization of reserves and/or additional paid-in capital | 500 million euros | 500 million euros |
| Capital increase reserved for members of an employee savings scheme | 3% of the capital at the time of the issue | - |
| Issue of securities giving the right to debt instruments without giving rise to a capital increase | 1 billion euros | 1 billion euros |

## Securities conferring entitlement to shares

### Warrants for new or existing shares

In May 2004, 45,093,300 subscription warrants for new or existing shares (BASA) were created to remunerate KLM shareholders, with the following characteristics: three warrants giving their holder the right to acquire or subscribe for two Air France-KLM shares at an exercise price of 20 euros per share between November 6, 2005 and November 6, 2007.

Further to the payment of dividends from the 'other reserves' account in respect of the financial years ended March 31, 2004, 2005 and 2006, and in order to maintain the rights of warrant holders, an adjustment was made in line with the stipulations of the warrant issue contract. The allocation ratio for holders of subscription warrants for new/or existing shares was thus modified to 2.066 Air France-KLM shares at a price of 40 euros for three warrants. The identical adjustment was also made for the corresponding American Depositary Warrants.

As of March 31, 2007, 30,587,270 warrants conferring entitlement to shares were still outstanding.

### Bonds convertible and/or exchangeable into Air France-KLM shares (OCEANEs)

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable at any time into new and/or existing Air France-KLM shares, with a 15-year maturity, for a total amount of 450 million euros. These bonds have a nominal unit value of 20.50 euros and mature on April 1, 2020. The annual coupon is 2.75%, paid annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020.

Further to the payment of dividends from the 'other reserves' account in respect of the financial year closed March 31, 2006, and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-2020 issue contract.

The allocation ratio for holders of bonds convertible or exchangeable into Air France-KLM new or existing shares was thus changed to 1.03 shares for each 2.75% 2005-2020 bond.

At March 31, 2007, no bonds had been converted or exchanged into shares.

## Authorization to buy back Air France-KLM's own shares

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 12, 2006 authorized the Board of Directors, for a period of 18 months, to trade its own shares. The maximum purchase price was set at 30 euros and the minimum sale price at 8.5 euros. Air France-KLM agreed not to acquire more than 5% of its stock. The objectives of this buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the group's employees or directors and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition.

As of March 31, 2007, the Air France-KLM group held 2,060,365 shares within its subsidiaries to satisfy the exercise of the different stock option plans. The book value of Air France-KLM treasury stock amounted to 30 million euros at March 31, 2007.

Pursuant to this authorization, between July 13, 2006 and March 31, 2007, the number of shares purchased amounted to 1,890,257 at an average price of 28.18 euros and the number of shares sold amounted to 1,891,257 shares at an average price of 28.45 euros. During the financial year and pursuant to this and the previous contract, the number of shares purchased amounted to 2,939,107 at an average price of 24.64 and the number of shares sold amounted to 2,960,154 at an average price of 24.79 euros.

## Shareholder structure of Air France-KLM

### Breakdown of the capital and of voting rights

The variation in the shareholder structure of Air France-KLM in the last three financial years is linked to:

- the sale of 21 million shares to Air France employees in two tranches, the first 8.4 million tranche in March 2005 followed by a second tranche of 12.6 million shares in April 2005 ;
- the creation of 9.9 million shares linked to the exercise of 14.5 million warrants at March 31, 2007.

| Financial year to | % of share capital | | | % of voting rights | | |
|---|---|---|---|---|---|---|
| | March 31, 2007 | March 31, 2006 | March 31, 2005 | March 31, 2007 | March 31, 2006 | March 31, 2005 |
| Number of shares and voting rights | 279,365,707 | 269,383,518 | 269,383,518 | 277,292,894 | 265,233,113 | 262,430,930 |
| French State | 17.9% | 18.6% | 23.2% | 18.0% | 18.9% | 23.8% |
| Current and former employees | 11.3% | 14.1% | 11.7% | 11.4% | 14.3% | 11.7% |
| Treasury stock | 0.7% | 1.5% | 2.4% | - | - | - |
| Free float | 70.1% | 65.8% | 62.7% | 70.6% | 66.8% | 64.5% |

### Shareholders analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification. This operation has been carried out every quarter since the French State's shareholding was reduced in December 2004.

269,398,500 shares were taken into account for the TPI (identifiable bearer shares) analysis as at March 31, 2007. This figure includes 14,982 new shares delivered over the financial year but excludes the 9.9 million new shares created on March 31 since the latter were only delivered at the beginning of April 2007.

The TPI analysis as at March 31, 2007 was carried out on the basis of the following thresholds: intermediaries holding a minimum of 160,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 97.3% of the capital were identified and 53,386 shareholders listed, of whom 36,575 individual shareholders.

Based on the TPI analysis of March 31, 2007, restated pursuant to the bylaws that define French nationality, Air France-KLM is more than 50% held by French shareholders and, as a result, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met, the majority of the company's voting rights being held by foundations subject to Dutch law.

51.4% of Air France-KLM is owned by French interests (57% at March 31, 2006) and more than 75% by European institutions as was the case at March 31, 2006. The principal European countries are the United Kingdom (14%), Germany (4%), Belgium (3%), the Netherlands and Luxembourg (2%). North American institutions hold 24% of the share capital (13.5% at March 31, 2006), of which 5% in ADR form.

Air France-KLM is not aware of the existence of any shareholder pact or agreement whose implementation could lead to a change of control.

### Shareholders holding more than 0.5% of the share capital

On the basis of declarations available at March 31, 2007, the following shareholders hold 0.5% or more of Air France-KLM share capital.

| Shareholders | Number of shares | % of share capital | Market value |
|---|---|---|---|
| AQR Capital | 2,743,472 | 1.0 | 93,689,569 |
| Barclays | 14,795,692 | 5.5 | 505,272,882 |
| Citadel | 1,606,300 | 0.6 | 54,855,145 |
| CNCE | 1,387,009 | 0.5 | 47,366,357 |
| Deephaven | 1,368,300 | 0.5 | 46,727,445 |
| DNCA Finance | 1,400,842 | 0.5 | 47,838,754 |
| Donald Smith & Company | 6,883,567 | 2.5 | 235,073,813 |
| Tocqueville Finance | 1,647,000 | 0.6 | 56,245,050 |
| UBS | 1,800,438 | 0.6 | 61,484,958 |

## Legal and statutory investment thresholds

Pursuant to Article L.233-7 of the French Commercial Code, Article 13 of the Air France-KLM bylaws stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof lower than 5%, must notify Air France-KLM by registered mail with delivery receipt within 15 days of the date on which the threshold is exceeded.

Notice must be given under the same conditions each time a further 0.5% of the capital and voting rights is crossed up to 50%. These obligations are applicable when thresholds are crossed in either direction.

The aforementioned obligations under the bylaws do not replace the legal obligation to inform Air France-KLM and the French securities regulator (the Autorité des Marchés Financiers) within five trading days if the capital and voting right thresholds stipulated by law are exceeded.

Furthermore, if the 10% and 20% capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF of its objectives for the next 12 months within 15 days. This notification is subject to the conditions and sanctions set forth in Article L.233-14 of the Commercial Code. In addition, in the event of failure to comply with this notification requirement and at the request of one or more shareholders holding at least 0.5% of the capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings for a period of two years following compliance with notification procedures.

Additionally, any shareholder acquiring over 2% of Air France-KLM's voting rights is required to transfer these securities to registered form within 15 days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

## Identification of shareholders

### Identification of holders of bearer shares

The Shareholders' Meeting of September 25, 1998 authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at Shareholders' Meetings. Pursuant to the new Articles L.360-1 to L.360-4 of the Civil Aviation Code, as amended under the French law of April 9, 2003, listed French air transport companies are authorized to incorporate a provision into their bylaws allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relative to their nationality. This is because, over time, changes in the shareholding structure of an air transport company whose shares are traded on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

## Statutory provisions concerning shareholders

### Identification and monitoring of shareholders

Articles 9 and following of the Air France-KLM bylaws set the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. However, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors must decide to reduce this 2% threshold to 10,000 shares.

When Air France-KLM has published a notice informing the shareholders and the public that non-French shareholders own, directly or indirectly, 45% of Air France-KLM's capital or voting rights, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form. The group may at any time and at its own cost submit a request to the organization responsible for the compensation of securities to provide full details regarding the identification of holders of Air France-KLM securities conferring immediate or future entitlements to vote at its Shareholders' Meetings, as well as information on the quantity of shares held by each of them.

Article 10 of the bylaws specifies the information that must be provided to Air France-KLM by shareholders, whether private individuals or corporate bodies, subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder.

Article 11 of the Air France-KLM bylaws specifies the conditions under which the Board of Directors may exercise its right to approve new shareholders.

### Formal notice to sell and mandatory sale of shares

Article 15 of the Air France-KLM bylaws stipulates the information that Air France-KLM must publish and distribute to inform the public that over 45% of the capital or voting rights is held by shareholders who are not of French nationality.

Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to protect its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations.

# Information on trading in the Air France-KLM stock

Air France-KLM is listed for trading on the Paris and Amsterdam stock markets (Euronext Paris and Amsterdam) as well as on the NYSE in ADS (American Depositary Share) form. The stock code is ISIN FR0000031122 in Paris and Amsterdam while, in New York, the ticker is AKH.

The Reuters code for the stock is AIRF.PA or AIRF.AS and the Bloomberg code AF PA.

In April 2005, Air France launched an issue of bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANE) with a fifteen-year maturity amounting to 450 million euros. These bonds have a nominal value of 20.50 and are convertible, at will by the holder, at any time. Their securities code is ISIN FR0010185975 and they are quoted only on Euronext Paris.

## Transactions in Air France-KLM shares in the last 18 months

Since the volumes of shares traded on Amsterdam Euronext and the NYSE are not significant, specific information on them is not provided.

| Euronext Paris Shares | Trading days | Average price *(In €)* | Share price range *(In €)* High | Low | Volume | Amount *(In €m)* |
|---|---|---|---|---|---|---|
| **2005** | | | | | | |
| October | 21 | 14.12 | 14.73 | 13.61 | 25,439,962 | 360.8 |
| November | 22 | 14.71 | 16.11 | 13.97 | 33,313,550 | 500.7 |
| December | 21 | 17.43 | 18.39 | 15.79 | 39,785,372 | 685.1 |
| **2006** | | | | | | |
| January | 22 | 18.33 | 19.00 | 17.45 | 43,384,319 | 796.3 |
| February | 20 | 19.47 | 20.50 | 18.37 | 37,378,318 | 731.2 |
| March | 23 | 19.61 | 19.93 | 19.07 | 28,993,931 | 563.2 |
| April | 18 | 18.95 | 20.22 | 17.81 | 29,718,741 | 559.9 |
| May | 22 | 17.65 | 18.78 | 16.38 | 34,222,524 | 603.9 |
| June | 22 | 16.89 | 18.45 | 15.93 | 37,049,428 | 627.3 |
| July | 21 | 18.52 | 19.59 | 17.01 | 56,446,800 | 1,026.3 |
| August | 23 | 19.97 | 21.36 | 18.76 | 46,843,835 | 936.3 |
| September | 21 | 22.57 | 23.89 | 21.29 | 46,642,301 | 1,050.0 |
| October | 22 | 25.65 | 28.03 | 23.60 | 52,220,793 | 1,338.1 |
| November | 22 | 30.30 | 33.35 | 27.84 | 71,290,817 | 2,176.4 |
| December | 19 | 31.08 | 32.37 | 29.74 | 24,881,498 | 761.8 |
| **2007** | | | | | | |
| January | 22 | 33.90 | 35.59 | 31.77 | 39,712,909 | 1,345.0 |
| February | 20 | 34.84 | 36.30 | 31.11 | 35,329,589 | 1,219.4 |
| March | 22 | 33.21 | 34.95 | 31.30 | 40,370,116 | 1,322.4 |
| April | 19 | 36.88 | 38.28 | 33.62 | 27,748,890 | 1,023.6 |

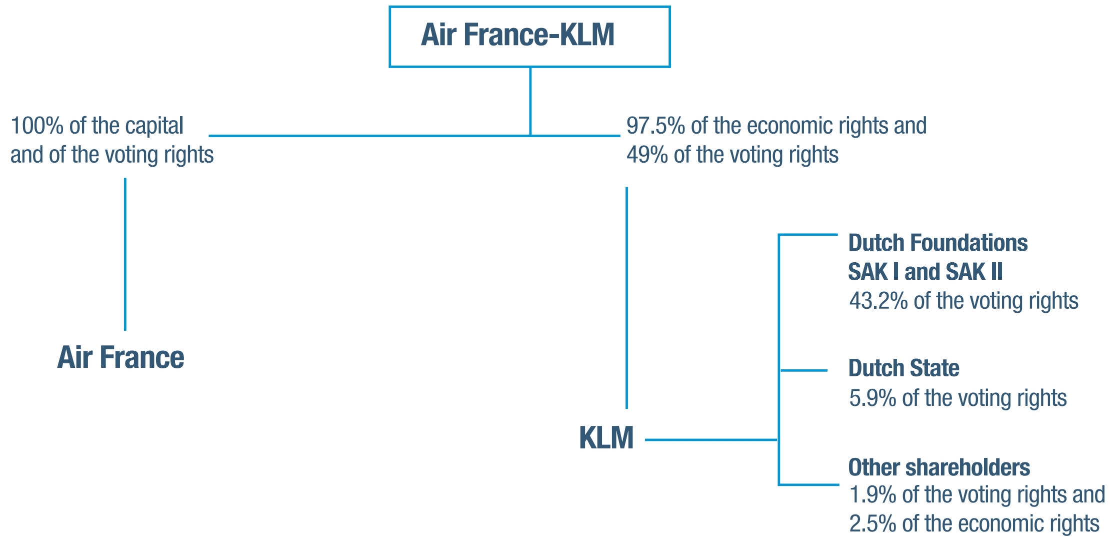
*Source : Euronext*

| OCEANE 2.75% | Trading days | Average price *(In €)* | Trading range *(In €)* High | Low | Volume |
|---|---|---|---|---|---|
| **2005** | | | | | |
| October | 21 | 21.93 | 22.00 | 20.36 | 1,114 |
| November | 22 | 21.79 | 22.50 | 21.00 | 10,145 |
| December | 21 | 22.88 | 23.10 | 22.55 | 1,547 |
| **2006** | | | | | |
| January | 22 | 24.00 | 24.48 | 23.60 | 33,998 |
| February | 20 | 24.41 | 28.00 | 21.65 | 3,194 |
| March | 23 | 25.67 | 26.00 | 25.30 | 1,755 |
| April | 18 | 24.63 | 25.90 | 23.50 | 125 |
| May | 22 | 22.80 | 23.50 | 21.71 | 4,280 |
| June | 22 | 23.53 | 24.70 | 22.90 | 1,230 |
| July | 21 | 23.14 | 24.60 | 21.74 | 2,810 |
| August | 23 | 23.09 | 24.90 | 21.82 | 305 |
| September | 21 | 25.19 | 26.20 | 24.50 | 3,456 |
| October | 22 | 28.08 | 29.64 | 27.50 | 26,301 |
| November | 22 | 31.62 | 33.75 | 28.04 | 6,476 |
| December | 19 | 31.98 | 34.20 | 29.01 | 915 |
| **2007** | | | | | |
| January | 22 | 35.91 | 36.50 | 34.90 | 5,590 |
| February | 20 | 35.54 | 37.00 | 32.42 | 3,735 |
| March | 22 | 35.42 | 37.00 | 33.50 | 2,795 |
| April | 19 | 37.66 | 38.10 | 36.00 | 2,281 |

*Source : Euronext*

# Information on the agreements concluded in connection with the combination between Air France and KLM

In connection with the agreements concluded between Air France and KLM for the creation of the Air France-KLM group, various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.




## Agreements on the shareholding structure

KLM set up two Dutch foundations, SAK I and SAK II to handle, for a three-year period, the administration of KLM shares transferred as part of the combination operations and acquired by Air France[1]. SAK I and SAK II are each managed by Boards of Directors comprised of three members. One member is appointed by Air France[1], one by KLM and the third, acting as Chairman, is appointed by the first two. The majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be of Dutch nationality and live in the Netherlands. Board decisions are taken unanimously.

In return for the shares transferred to SAK I and SAK II, Air France[1] received share certificates enabling it to benefit from all the economic rights associated with the underlying shares. SAK I and SAK II, however, retain the voting rights linked to these shares. These voting rights are exercised by the two Boards of Directors of SAK I and SAK II in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France[1], in the best interests of KLM, Air France-KLM and its shareholders.

Further to an agreement of April 2, 2007 between Air France[1] and KLM, the two foundations SAK I and SAK II were maintained for an unspecified period with the same purpose. However, this agreement stipulates that Air France[1] may, at any time after May 6, 2007, end this administered shareholding structure for the KLM shares held by SAK I and SAK II and proceed to consolidate the economic rights and voting rights on the shares.

### Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France and KLM concluded the following agreements with the Dutch State.

*(1) Which became Air France-KLM following the creation of the holding company in September 2004.*

### Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France's[1] share capital. As such, the Dutch State will sell its cumulative preferential A shares to Air France[1] or to SAK I in the name of and on behalf of Air France[1] if the transfer takes place during the first three years following the combination. In the second case, SAK I will issue share certificates for Air France[1] corresponding to the cumulative preferential A shares transferred to SAK I. These share certificates will confer all the economic rights associated with the shares to Air France[1], while the corresponding voting rights will be exercised by SAK I until the share certificates have been exchanged by Air France[1] against the said shares.

At the end of the initial three-year period, Air France[1] will be entitled to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly. The Dutch State benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France[1] at any time.

### Amendments made to the Dutch State's option and the related agreements

Since 1994, the Dutch State has benefited from an option to subscribe for preferential KLM B shares, enabling it to increase its stake to 50.1% of the capital and voting rights of KLM irrespective of the amount of capital issued by KLM when the said option is exercised.

If the Dutch State considers it necessary and reasonable, it may exercise its option, after consultation with KLM, if another country were to limit KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals. This option is based on the Chicago Convention and bilateral air service agreements according to which KLM's operational right to operate air transport services on international lines generally depends on the obligation for a majority or a significant percentage of the capital to be held by Dutch or other European nationals or for the effective control of KLM to be exercised by Dutch or European nationals.

Air France, KLM and the Dutch State signed an agreement on October 16, 2003 to amend certain terms of the existing option for the Dutch State. In accordance with the amended terms of the option, the Dutch State may exercise its option if another country, representing a key market served by KLM, provides written notice that it intends to limit or terminate KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals.

The Dutch State's amended option was initially set for a period of three years from October 13, 2003, and was renewable on three occasions by the Dutch State for periods of twelve months each. It was renewed for a period of twelve months on March 9, 2007.

The agreement with the Dutch State also stipulates that the parties will discuss upstream and in good faith the need to exercise the amended option for the Dutch State and the corresponding schedule, although such discussions will not necessarily represent a prior authorization right for Air France. After exercising the option, the Dutch State will be required to inform Air France, at least every six months, of progress made on discussions with the countries contesting KLM's traffic rights. The amended option also states that the Dutch State will exercise the voting rights associated with the preferential B shares acquired as a result of this option being exercised, in accordance with the best interests of KLM, Air France-KLM and its shareholders and the corporate governance guidelines indicated in the global agreement.

If after exercising the amended option, the Dutch State establishes that KLM's key markets are no longer threatened, KLM will be required to buy back the preferential B shares with a view to cancelling them, at a price equal to the amount paid at the time of the issue of the preferential B shares, increased to factor in the amount of any dividends accrued but not yet paid. Such a buyback operation will not affect the Dutch State's option, which will remain in force as stipulated.

*(1) Which became Air France-KLM following the creation of the holding company in September 2004.*

## Assurances given to the Dutch State

On October 16, 2003, Air France and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

### The following assurances given to the Dutch State will be applicable for an eight-year period, up to May 5, 2012

Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licenses, and will continue to fulfill all of the conditions required for the maintenance of these licenses.

Working with the relevant Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are necessary for running international lines.

To this end, if an economic decision to shut a service down was likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision.

Air France and KLM confirmed that passenger traffic on flights out of Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on these two airports.

Air France and KLM agreed that the cargo activities at the Roissy-CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group. Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

### The following assurances given to the Dutch State will be applicable for a five-year period up to May 5, 2009

Subject to any measures for adaptations required in the event of a crisis, the passenger traffic at Roissy-CDG will not be developed in such a way that it is significantly detrimental to the existing portfolio of key destinations operated by KLM out of Schiphol, provided that the said destinations maintain their economic interest for the Air France-KLM group. Similarly, passenger traffic at Schiphol will not be developed in such a way that it is significantly detrimental to the current portfolio of key Air France destinations operated out of Roissy-CDG.

The Air France-KLM group will be able to transfer up to five key KLM destinations, which will become destinations operated by Air France out of Roissy-CDG, insofar as the transfer of these lines is accompanied by the symmetrical transfer of five Air France destinations that will then be operated by KLM out of Schiphol.

Subject to any measures for adaptations required in the event of a crisis, the Air France-KLM group's cargo activity at Roissy-CDG will not be developed in such a way that it is significantly detrimental to KLM's global cargo activity at Schiphol. Similarly, the Air France-KLM group's cargo activity at Schiphol will not be developed in such a way that it is significantly detrimental to Air France's global cargo activity operated out of Roissy-CDG.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State has agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months,
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

Any action or decision to be taken while the assurances given to KLM are still in force that could result in a change in these assurances, including amongst other things a change in the articles of association of the Dutch foundation, Fondation des Assurances KLM, in that it would affect the assurances given to the Dutch State, is subject to the prior agreement of the Dutch State.

## Assurances given to KLM

In order to safeguard the long-term interests of each party as well as the interests of the Air France-KLM group and its shareholders, Air France has given KLM the following assurances:

- Air France and KLM recognize the importance of human resources and the need to develop and maintain centers of excellence within the Air France-KLM group. They agree that promotions will be based on merit and skills with no discrimination. Similarly, any restructuring operations will be carried out in accordance with the principle of non-discrimination,
- Air France and KLM confirm that passenger traffic on flights out of Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on these two airports,
- in setting up a combined integrated network, Air France and KLM intend to optimize the current portfolio of Air France and KLM destinations in favour of the Air France-KLM group, while seeking to maintain and ensure the long-term development of lines operated by the two companies for flights to or from Roissy-CDG and Schiphol.

The balanced nature of this long-term development will be determined based on the following factors:

- a common economic strategy and, for the establishment of business plans for the two airlines, a common objective of global profitability and financial solidity,
- the suitability of business plans for the development of traffic flows,
- a reasonable division of new opportunities between the two networks, in line with natural traffic flows and the economic conditions applicable to each of the two hubs,
- subject to the aforementioned criteria, the development of one hub must not be detrimental to the other hub, its existing portfolio of key destinations and its potential development. A transfer of destinations from one hub to another will not be authorized unless this option is of obvious interest and significance for the combined operational entities or it is offset by the symmetrical transfer of another destination.

Air France and KLM agreed not to operate flights from the two hubs to any long-haul destination serviced up until this point by only one of the companies from its hub, subject to certain conditions. Air France and KLM will continue to use their respective codes: “AF” and “KL”.

On lines between the Netherlands and France, Air France and KLM will optimize the use of their fleet, crews and ground services in order to reduce costs by eliminating non-use of aircraft at night and optimizing schedules and capacities. Air France and its subsidiaries will serve the hubs at Roissy-CDG, Clermont-Ferrand and Lyon. KLM and KLM Cityhopper will serve the Schiphol hub, with no less than 50% of flights.

Air France and KLM agreed that the cargo activity and its potential for growth out of Roissy-CDG and Schiphol are vital to the success of their cooperation. They agreed to ensure the balanced development of capacity at each hub including, if economically justified, investments in cargo planes or aircraft conversions in order to maintain the capacity and development of cargo destinations, and investments to develop the capacity of cargo infrastructures for hubs. The Air France-KLM group’s business plan aims to maintain the long-term development of each hub.

The fair nature of this long-term development will be determined on the following basis:

- a common economic strategy and, for the establishment of business plans for the two companies, a common objective of global profitability and financial solidity;
- the suitability of such business plans for the development of the air cargo transport market;
- the development of one hub will not be detrimental to the cargo activity at the other hub, subject to all the measures for adaptations required in the event of a crisis.

Air France and KLM agreed to draw up a “cargo agreement”, which will not impede the potential integration of Martinair into the Air France-KLM group if this is beneficial for the two parties and strengthens the position of Schiphol. Air France will not block the project, subject to a review of the lines operated by the two airlines and a comparison of the benefits, synergies and risks involved including the securing of acceptable conditions for the operation to be approved by the Dutch and European authorities.

Air France and KLM agreed that the combination should lead to an increase in the portfolio of products offered by the Air France-KLM group in terms of engineering and maintenance services. Air France and KLM agreed that for commercial and heritage reasons, the identity of each party should be preserved.

Air France and KLM agreed to continue using, for as long as they believe it to be necessary, their brands and logos, of which they recognize the value and heritage, until the Air France-KLM group has acquired an equivalent or higher level of recognition and Air France and KLM will make every effort to retain the term “Royal” for KLM.

The assurances given to KLM entered into effect on May 5, 2004 and will continue to apply for a five-year period until May 5, 2009, it being understood that, at the end of a three-year period, the assurances given relative to the passenger and cargo networks, the hubs and the engineering and maintenance activities will be revised jointly by Air France and KLM in order to take the current and future Air France-KLM group environment into consideration.

Following discussions between Air France and KLM, it was jointly agreed that there was no reason, at the end of this three-year period, to modify the assurances.

## Mechanism to ensure compliance with the assurances given

Air France and KLM set up a Dutch foundation, the “Fondation des Assurances KLM”, in order to facilitate the formation of binding advices on the interpretation of assurances given to the Dutch State and KLM. The Fondation des Assurances KLM comprises two committees, which issue binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France Board of Directors appear to contravene the assurances given to the Dutch State or KLM. The Foundation was established for a period of eight years through to May 6, 2012, subject to one of the committees not being affected by a possible contravention of the assurances on this date. In this case the foundation will only be liquidated after having given its opinion on the alleged contravention.

When giving its opinions, the Foundation must act in the best interests of KLM, the Air France-KLM group and its shareholders. The Foundation is managed by a board of four independent directors:

- one appointed by Air France;
- one appointed by KLM;
- one appointed by the Dutch State;
- one appointed by the other three directors.

The director appointed by Air France has double voting rights with regard to the appointment of the fourth director.

Notices relative to a possible contravention of the assurances given to the Dutch State will be issued by a committee comprised of the director appointed by Air France, the director appointed by the Dutch State and the director appointed by the other directors.

Notices relative to a possible contravention of the assurances given to KLM will be issued by a second board comprising the director appointed by Air France, the director appointed by KLM and the director appointed by the other directors. The submission of a case to the Foundation's relevant board relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France Board of Directors may be carried out by either the Dutch State with regard to the assurances given to it, or by several members of the KLM Supervisory Board acting together with regard to the assurances given to KLM.

If the relevant committee of the Fondation des Assurances de KLM issues a mandatory notice indicating that the decision that was submitted to it contravenes the assurances given, the KLM Supervisory Board, the KLM Management Board or the Air France Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The two committees will take their decisions based on a majority of votes.

At March 31, 2007, no cases had been submitted to the Foundation's committees.

## Strategic Management Committee (SMC)

Under the agreements signed with KLM, a Strategic Management Committee (the 'SMC') was formed within Air France-KLM on May 6, 2004 for a period of three years. After May 6, 2007, the Chairman of the Air France Board of Directors could decide whether to retain the SMC or create another equivalent body. The Chairman of Air France chose to disband the Strategic Management Committee and replace it with an Executive Committee which will assume its functions on June 24, 2007.

### Functioning of the SMC during the 2006-07 financial year

The SMC meets every two weeks, alternating between Amsterdam and Paris. The members of the SMC are appointed by the Air France-KLM appointments committee after consultation and on the recommendation of the Chairman of the Air France Board of Directors for the members representing Air France and exercising management functions; and after consultation and on the recommendation of the members of the KLM Supervisory Board for the three members representing KLM, who are either members of the Management Board of KLM or KLM employees exercising management functions.

SMC members are compensated directly by the companies to which they are attached.

### Members of the SMC

The SMC comprises eight members:

- the Chairman of the Air France Board of Directors (Chairman of the SMC);
- three employees of Air France exercising management positions;
- the Chairman of the KLM Management Board;
- three members who are either members of the KLM Management Board or KLM employees exercising management positions.

The SMC is chaired by the Chairman of the Air France Board of Directors, who has a casting vote in most decisions, with the exception of 'reserved' decisions.

The members of the SMC are appointed by the Air France-KLM appointments committee after consultation and on the recommendation of the Chairman of the Board of Directors of Air France for the three members representing Air France and performing management duties, and after consultation and on the recommendation of the Chairman of the KLM Supervisory Board for the appointment of the three members who are either members of the KLM Management Board or KLM employees performing management functions.

### Role and responsibilities of the SMC

SMC decisions express the joint position of Air France and KLM on all significant strategic decisions relating to commercial, financial, technical and operational issues, particularly as regards:

- the strategy of the Air France-KLM group towards its competitors, partners and the public authorities;
- the definition of the strategy for network management including the development of the hubs, significant changes in the network structure, the introduction of routes operated by both airlines, agreements with other carriers, the division of traffic rights between KLM and Air France if there is a European decision to lift restrictions on nationality;
- the financing, debt strategy and significant investments in terms of the fleet, information systems and any other significant projects;
- significant financial investments and partnerships, cooperation/alliance agreements with strategic air carrier partners;
- the purchasing policy;
- budgets and medium-term planning to ensure they are compatible with the strategy agreed by the SMC;
- the appointment of key personnel within Air France and KLM (selected on the basis of lists prepared by Air France and KLM, respectively);
- the addition of new airlines to the Air France-KLM group;
- the human resources policy on issues shared by several companies of the group;
- any decision concerning the Dutch airline Martinair, in which KLM is a shareholder;
- any reserved decision or decision subject to prior consultation (such as those described below).

The SMC makes mandatory recommendations on the matters listed above to the Board of Directors of Air France and the KLM Supervisory and Management Boards. The Chairman of the KLM Management Board, the Chairman of the Board of Directors of Air France and any Chairman, Board member or key employee of the combined entities or of their subsidiaries, depending on the case, may not take or implement any decisions that come under the competence of the SMC unless the latter has previously issued its binding recommendation. The SMC also acts as mediator in the event of disagreements about the application of bilateral commercial agreements or the management of entities jointly held or managed by Air France and KLM.

Operational sub-committees have been established under the direction of the Strategic Management Committee to handle matters such as the network, pricing and revenue management, sales and distribution, products and brands, the loyalty program, engineering and maintenance, information technologies, the regulatory environment and the marketing agreements.

### Role and responsibilities of the Chairman of the SMC

The Chairman of the SMC chairs SMC meetings and has a casting vote in the event an equal number of votes is cast on all of the issues requiring submission to the SMC, with the exception of the following reserved decisions. The Chairman of the SMC was required, until 2007, to consult the Chairman of the KLM Management Board before using his casting vote relating to the following decisions:

- coordination of the available capacity of Air France and KLM, the schedule and determination of the days for service on shared destinations;
- coordination in order to avoid unfair practices against the other entity by any partner that has signed an alliance with Air France or KLM, and;
- the schedules for passenger transportation between France and the Netherlands.

The following reserved matters must receive a unanimous vote by all SMC members:

- any decision that modifies the assurances given to KLM;
- any decision whose purpose or effect is;
- the combination or creation of common activities within the operational activities of Air France and KLM existing as of October 16, 2003 such as the integration into a joint structure of the catering or cargo businesses or any general reorganization of the operational activities following the divestment or termination of a business by Air France and KLM;
- a change in the assignment of key management personnel or of an entire operational activity between Air France and KLM;
- the schedule, development or implementation of any decision relating to the two issues described above, or
- the decision to enter into an intra-group agreement on terms other than normal, current terms.

Any decision by the SMC to reject an operation relating to a reserved decision will be binding.

The Executive Committee which succeeds the SMC is part of the evolution in the group's organization and the strengthening of its integration.

# Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after ratification.

## Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

- 1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State;
- 2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the 'transit right';
- 3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State;
- 4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State and unload them in its State of origin;
- 5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States;
- 6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State;
- 7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin;
- 8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

## European legislation

### European Open Sky

Within the European Union, these eight freedoms are completed, since April 1, 1997, by common legislation that creates a homogenous regulatory situation for all European carriers. All European airlines may freely operate and, in particular, perform cabotage operations within a single European airspace. Furthermore, any resident of an EU Member State may now hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State.

This framework eliminates the need for bi-lateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

### Open Sky between Europe and the United States

On March 22, the European Union Council of Ministers unanimously approved the air transport agreement established on March 2, 2007 between European and US negotiators. This agreement, which introduces a broad degree of liberalization in air services between the European Union and the United States offering numerous commercial opportunities to US and EU carriers, was signed on April 30, 2007 at the Summit between the European Union and the United States. It is expected to come into force on March 30, 2008. The agreement will replace the so-called 'open sky' bilateral agreements, signed by the majority of EU Member States with the United States, certain provisions of which the European Court of Justice had deemed contrary to Community law. The authorized agreement thus constitutes the recognition by the EU's major aviation partner of the concept of an EU airline.

A second phase of negotiations should open, at the latest, by June 2008 and address, in particular, a new liberalization of access to the market, the definition of a new policy in terms of ownership and control of the US carriers, issues relating to the environment as well as the limitations which could exist in terms of access to airport infrastructure.

### Passenger rights

Passenger rights in the European Union are defined by regulations applied in 2005. They apply to all flights — both scheduled and unscheduled — departing from an airport located in a Member State of the European Union, and established common rules for indemnification and assistance, if embarkation is refused or delayed substantially, a flight is cancelled, or class is downgraded.

In the area of overbooking, air carriers are above all encouraged to develop their policy to call for volunteers. If this policy does not prevent refusals for boarding, the passengers affected receive an indemnification, calculated on the basis of the final destination mileage zone and the delay in terms of the initial arrival time. This indemnification may vary from €250 to €600.

In addition, when a flight is delayed for at least five hours, passengers may request reimbursement for their ticket (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

If a flight is cancelled, the air carrier's obligations are based on the carrier's ability to react to inform the passenger. The earlier the carrier informs the passenger, the fewer constraints it has.

If these obligations are not met, the passenger may claim an indemnity that varies from €250 to €600, on the basis of the final destination mileage zone and the time period in which he or she was rescheduled.

Finally, a passenger who is seated in a class lower than the reservation class will now benefit from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone.

## International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transport: the Montreal Convention, the Chicago Convention and the Rome Convention.

### The Montreal Convention (1999)

The Montreal Convention, signed in May 1999 by more than 50 States, aims to provide better protection for victims for damages suffered. This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first level that sets an objective liability for the air transport company of up to 100,000 Special Drawing Rights (SDR);
- a second level, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages are exclusively a result of the acts of a third party.

Furthermore, with regard to compensation, the rule relative to the regional authority of courts has been extended.

### The Chicago Convention (1944)

The Convention relating to international commercial aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic airspace and their relations with one another.

Signed in December 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 189 signatory States in all areas of civil aviation.

### The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France or the Netherlands.

## Other legal aspects of Air France-KLM's activities

### Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. This regulation concerns most European (London, Paris, Frankfurt, Milan, Madrid, Amsterdam) and Asian (Bangkok, Tokyo, Hong Kong, Singapore,...) airports. In the United States, with the exception of John F. Kennedy Airport (New York) and O'Hare Airport (Chicago), access to airports is controlled by other regulations based on the assignment of boarding gates.

For airports within the EU, each Member State, with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, designates an individual or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:
- Airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- The coordinator first allocates slots to airlines that already had slots the previous season (known as 'grandfather' rights) for past operators;
- Once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- A pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a transporter or have become available for any other reason;
- The coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators in proportion to the slots allocated previously; any remaining slots are also allocated based on the same procedure.

An allocated slot that is not used is reclaimed and re-allocated to another airline. Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:
- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

The grandfather rights of long-standing users give established airlines a decisive commercial competitive edge over other airlines on saturated airports because they already enjoy the best slots in their principal airports in terms of both quality and quantity.

# Glossary

## 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 at the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

### 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.

### Electronic ticketing

All the travel 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.

### 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.

### 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.

### 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.

### Catering

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

### Combo

Aircraft whose the 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.

### Fare combinability

System which offers customers on destinations served by both Air France and KLM to choose between an outbound trip via KLM's Amsterdam hub and an inbound trip with Air France via Paris, or vice-versa, benefiting from the advantages of two half return tickets. With fare combinability, customers benefit from more frequencies from each of the hubs, on the inbound or outbound trip.

### Fuel hedging

Financial mechanism aimed at protecting Air France-KLM from risk involved in increased fuel prices. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price.

### Slot

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

### 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 for Air France and KLM passengers, based on new information technology. E-services notably allow passengers to check in using self-service kiosks or via the companies' websites as well as the use of electronic tickets.

### 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.

### EASA

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

### 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.

### Premium

Tariff classifications 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 has 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 options for connections available to the 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.

### 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.

### Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the offer of worldwide destinations.

### ICAO

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

### Code share

In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

### Ramp

Airport support activity, particularly runway maintenance and safety

### Revenue passenger-kilometer (RPK)

Total number of paying passengers multiplied by the number of kilometers that they have flown.

### Revenue ton-kilometer (RTK)

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

### Unit revenue

In the passenger business, corresponds to the revenues for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenues for one ton transported over one kilometer.

### Revenue management

Technique designed to optimize revenue on flights, by constantly seeking the balance between the cargo load factor and the rates offered.

### 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 7 months.

### 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 5 months.

### Airline 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 includes the measures implemented by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media exposure offered by such activity. Airline security notably includes luggage screening and the questioning of passengers.

### Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometers flown.

### Over-reservation or over-booking

Over-reservation or over-booking means accepting a higher number of reservations than seats available. Practiced by all airline companies and allowed 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 indemnification policy.

### Sub-fleet

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

### Occupancy rate or passenger load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK).

### Available ton-kilometers (ATK)

Total number of tons available for the transport of freight, multiplied by the number of kilometres covered.

### Ton-kilometers transported

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

### Point-to-point traffic

Traffic between two airports, excluding all passengers connecting with another flight.

### Segment

Section of a flight between two destinations.

## Financial Glossary

### ADR

American Depositary Receipt. Air France-KLM is listed for trading on the New York Stock Exchange under ADR form. The ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars.

### ADW

American Depositary Warrant. The ADWs correspond to warrants listed for trading on the New York Stock Exchange.

### *BASA (Bons d'acquisition et/ou de souscription d'actions)*

Equity warrants. An equity warrant gives the right to subscribe to one or several shares at a price fixed in advance for a pre-determined period.

### Share capital

Corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

### Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

### Stockholders' equity

Stockholders' equity represents the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

### Revenues

Revenues corresponds to the total revenues generated by the Air France-KLM group in its three core activities (passenger, cargo, maintenance) and its ancilliary activities.

### ESA

Shares-for-salary exchange.

### IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies in drawing up their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

### ISIN

International Securities Identification Number.

### OCEANE

Bonds convertible into new or existing shares.

### OPE

Offre Publique d'Echange. A public exchange offer (PEO) is an offer to purchase shares in a target company in exchange for shares in the company initiating the offer.

### ORS

Offer reserved for employees. Within the context of privatizations, the State sells a tranche of shares to employees of the company at preferential conditions.

### Gearing ratio

The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the company's financial independence: the lower it is, the greater the company's margin for manoeuvre.

### Operating income

Operating income is the amount remaining after operating expenses (external expenses, payroll, amortization and provisions) have been deducted from revenues. It shows what the company earns from its principal activity before the impact of financial and exceptional items.

### Earnings per share

Earnings per share corresponds to net income divided by the number of shares.

### Net income, Group share

Corresponds to the share of operating income reverting to shareholders after net financial charges, exceptional items and taxation. Net income can be distributed in the form of dividends or retained as reserves, thus increasing the company's stockholders' equity.

### TPI

Identifiable bearer shares. 'TPI' analysis enables a company to identify its shareholders holding stock in bearer form.

### US GAAP

Generally Accepted Accounting Principles in the United States. Accounting standards generally adopted in the United States.

### Equity warrant

A warrant gives the right to purchase or sell a share at a fixed exercise price within a pre-determined time period. Warrants are created by financial institutions who ensure their distribution and trading.

# Information and control

## Person responsible for the reference document

I hereby certify that, to the best of my knowledge, and having taken all reasonable precautions to this effect, that the information contained in this reference document reflects reality and that no information has been omitted that would be likely to change the significance thereof. I have obtained an end-of-engagement letter from the statutory auditors, in which they state that they have verified the information regarding the financial situation and the financial statements contained here within and have reviewed the entire reference document.

The reports of the Statutory Auditors on the consolidated financial statements and on the parent company financial statements at March 31, 2005, figuring, respectively, on pages 183 and 194 of the Reference Document filed on June 29, 2005, under the number D.05-590, contain the points they highlight.

Jean-Cyril Spinetta
Chairman and Chief Executive Officer

## Statutory auditors

### Incumbent statutory auditors

#### Deloitte et Associés

185, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine
represented by Pascal Pincemin
Renewal for six years submitted for approval to the Shareholders' Meeting of September 15, 2004.
Start of first mandate: September 25, 1998

#### KPMG Audit

Division of KPMG SA
1, cours Valmy - 92923 Paris La Défense
represented by Jean-Luc Decornoy and Jean-Paul Vellutini
Appointed for six years by the Shareholders' Meeting of September 25, 2002
Start of first mandate: September 25, 2002

### Deputy statutory auditors

#### B.E.A.S.

7/9, Villa Houssaye - 92200 Neuilly-sur-Seine
represented by Alain Pons
Renewal for six years submitted for approval to the Shareholders' Meeting of September 15, 2004
Start of first mandate: September 25, 1998

#### SCP Jean-Claude André et Autres

2 bis, rue de Villiers - 92300 Levallois-Perret
represented by Jean-Claude André
Appointed for six years by the Shareholders' Meeting of September 25, 2002
Start of first mandate: 25 September, 2002

## Person responsible for financial information

Dominique Barbarin
Tel. 33 1 41 56 88 60

## Information included by reference

Pursuant to article 28 (EC) n°809/2004, the following information is included by reference in this reference document.

### 2005-06 financial year

The reference document for the 2005-06 financial year was filed with the Autorité des Marchés Financiers on June 29, 2006 under the number D.06-666. The consolidated financial statements are presented on pages 134 to 229 and the Statutory Auditors' certification on page 230.

### 2004-05 financial year

The reference document for the 2004-05 financial year was filed with the Autorité des Marchés Financiers on June 29, 2005 under the number D.05-0950. The consolidated financial statements are presented on pages 113 to 182 and the Statutory Auditors' certification on page 183.

### Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably the:

- 2006-07, 2005-06, 2004-05 and 2004-03 reference documents filed with the Autorité des Marchés;
- financial press releases (traffic, quarterly, half-year and annual results);
- transaction notices;
- financial presentations;
- company bylaws.

# Fees of the Statutory Auditors

| | KPMG network including KPMG N.V. | | | |
|---|---|---|---|---|
| | 2006-07 | | 2005-06 | |
| *(in euro thousands)* | *Amount* | *%* | *Amount* | *%* |
| **Audit** | | | | |
| Statutory audit, certification, review of stand-alone and consolidated accounts | 7,486 | 89% | 3,650 | 75% |
| Other accessory services and other audit services | 735 | 9% | 885 | 18% |
| **Subtotal** | **8,221** | **98%** | **4,535** | **93%** |
| **Other services** | | | | |
| Legal, Tax and corporate | 165 | 2% | 324 | 7% |
| Information technology | - | - | - | - |
| Internal audit | - | - | - | - |
| Other | - | - | - | - |
| **Total Air France-KLM** | **8,386** | **100%** | **4,859** | **100%** |

| | Deloitte & Associés | | | |
|---|---|---|---|---|
| | 2006-07 | | 2005-06 | |
| *(in euro thousands)* | *Amount* | *%* | *Amount* | *%* |
| **Audit** | | | | |
| Statutory audit, certification, review of stand-alone and consolidated accounts | 6,976 | 97% | 3,661 | 75% |
| Other accessory services and other audit services | 188 | 3% | 1,200 | 25% |
| **Subtotal** | **7,164** | **100%** | **4,861** | **100%** |
| **Other services** | | | | |
| Legal, Tax and corporate | - | - | - | - |
| Information technology | - | - | - | - |
| Internal audit | - | - | - | - |
| Other | - | - | - | - |
| **Total Air France-KLM** | **7,164** | **100%** | **4,861** | **100%** |

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www.airfranceklm-finance.com