AIR FRANCE KLM

Reference Document 2007-08

This reference document includes the annual financial report.

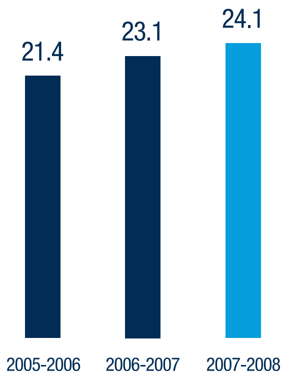
2007-08 Reference Document ı Air France-KLM

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 13, 2008, 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

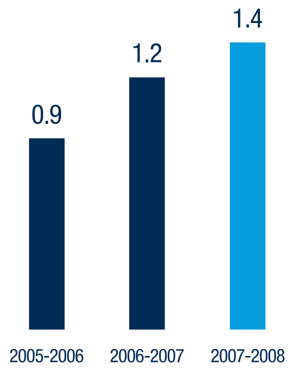
In € billion



Revenues increased by 4.5%, after a negative currency effect of 2.3%.

Income from current operations

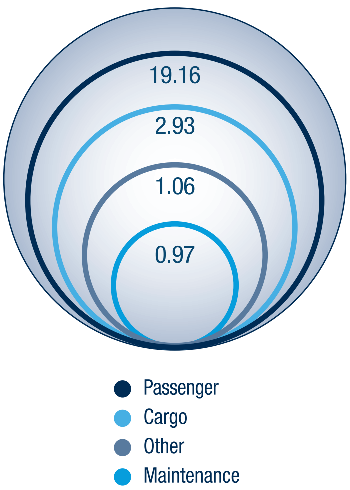
In € billion



Income from current operations reached the record level of €1.41 billion (+13.3%), increasing by 50% in the space of two years.

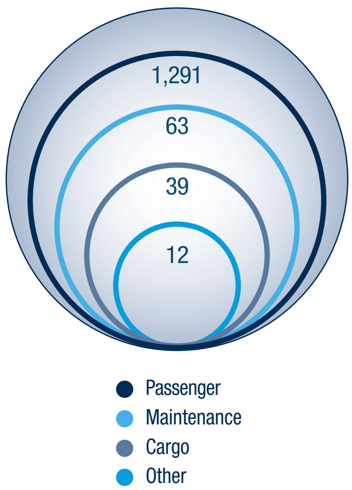
Breakdown of revenues by activity

2007-08 in € billion



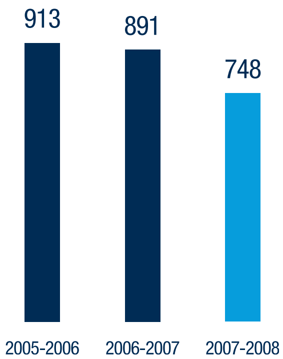
Breakdown of operating income by activity

2007-08 in € million



Net income, Group share

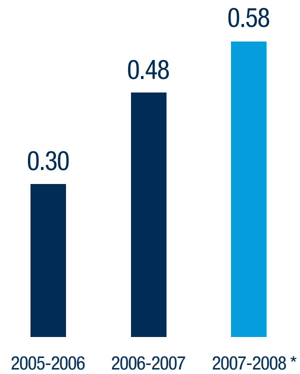
In € million



Excluding exceptional items (provision linked to the cargo investigation and gain on WAM), net income, Group share would have increased by 10.8%.

Dividend

In €

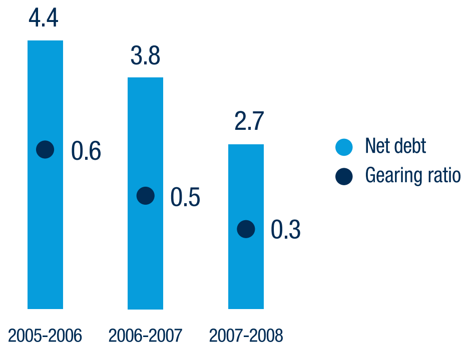


The Group has had a sustained dividend policy since it was first listed for trading in 1999.

* *Submitted for approval to the General Shareholders' Meeting of July 10, 2008.*

Financial structure

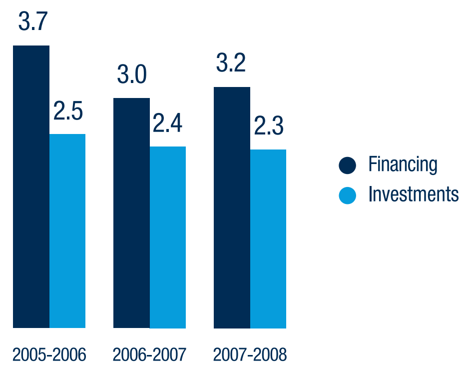
In € billion



The Group's balance sheet structure continued to improve, the gearing ratio having been halved in two years.

Investments

In € billion



The Group is pursing its ambitious fleet investment plan while generating free cash flow. For the 2007-08 financial year, €2.34 billion was invested in flight equipment, amounting to 80% of total investment and free cash flow stood at €820 million.

Corporate governance

1.

The Board of Directors

The bylaws stipulate a maximum of 18 Board directors, with a six-year term of office. Each director (with the exception of the directors representing the French State) must own at least ten shares in the company.

Composition of the Board of Directors at March 31, 2008

At March 31, 2008, 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.

Directors appointed by the General 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: 65,349 shares

Other directorships

French companies
- Chairman and Chief Executive Officer of Air France;
- Director of Saint-Gobain;
- Director of Alcatel-Lucent;
- Permanent representative of Air France on the Board of Directors of Le Monde Entreprises.

Others
- Member of the IATA (International Air Transport Association) Board of Governors (Canada);
- Member of the Board of Paris Europlace.

Directorships held in the last five years and having expired

Non-French companies
- Director of Unilever (United Kingdom) until July 2007;
- Director of Alitalia (Italy) until January 2007.

Others
- Chairman of the IATA Board of Governors (International Air Transport Association) (Canada) until June 2005.

Born October 4, 1943, Mr Spinetta is a graduate of the *Institut des Sciences Politiques de Paris* and of the *École Nationale d'Administration*.

Leo M. van Wijk

Vice-Chairman of the Board of Directors

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: 3,565 shares

Other directorships

Non-French companies
- Member of the Supervisory Board of Martinair (Netherlands);
- Member of the Supervisory Board of Aegon N.V. (Netherlands);
- Member of the Supervisory Board of Randstad Holding N.V. (Netherlands).

Directorships held in the last five years and having expired

Non-French companies
- Member of the Supervisory Board of Kennemer Gasthuis (Netherlands) until December 2007;
- Member of the Advisory Board of ABN AMRO Holding (Netherlands) until December 2007;
- President of the KLM Management Board (Netherlands) until July 2007;
- Director of Northwest Airlines (USA) until May 2007.

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: 2,270 shares

Other directorships

French companies
- Vice-Chairman of the Board of Directors of Pinault-Printemps-Redoute;
- Member of the Supervisory Board of Yves Saint-Laurent;
- Member of the Supervisory Board and Chief Executive Officer of Financière Pinault;
- Director of FNAC;
- Director of Bouygues;
- Director of TF1;
- Director of the Société nouvelle du théâtre Marigny;
- Artémis Permanent representative on the Boards of Directors of Sebdo Le Point and L'Agefi;
- Member of the Management Board of Château Latour;
- Chairman of the Board of Directors of Piasa.

Non-French companies
- Chief Executive Officer and Director of Palazzo Grassi (Italy);
- Member of the Supervisory Board of Gucci (Netherlands);
- Chairman and Director of Christie's International Plc (United Kingdom);
- Director of Tawa (United Kingdom) since July 2007.

Directorships held in the last five years and having expired

French companies
- Chairman and Chief Executive Officer of Piasa until April 2007;
- Permanent representative of Artémis on the Bouygues Board of Directors until December 2005;
- Chairman of the Société Nouvelle du Théâtre Marigny until June 2005 ;
- Chairman and member of the Supervisory Board of Yves Saint-Laurent Parfums until February 2004.

Non-French companies
- Director of Afipa (Switzerland) until October 2006.

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

Non-French companies
- Member of the Supervisory Board of de Nederlandsche Bank (Netherlands).

Others
- Chairman of Telders Foundation (Netherlands).

Directorships held in the last five years and having expired

Non-French companies
- Advisor to PricewaterhouseCoopers (Netherlands) until December 2007.

Others
- Member of the European Commission (Belgium) until November 2004.

Born April 4, 1933, Mr Bolkestein, a Dutch national, was a Member of the European Commission between 1999 and 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

French companies
- Director of Veolia Environnement.

Others
- Chairman of ENSAM (*École Nationale Supérieure d'Arts et Métiers*);
- Director of the French National Research Agency;
- Chairman of the National Association for Technical Research;
- Member of the French Foundation for Research into Epilepsy;
- Director of the *École Nationale Supérieure des Mines de Paris*;
- Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations) (Belgium).

Directorships held in the last five years and having expired

French companies
- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher until June 2007;
- Chairman and Chief Executive Officer of Sanofi-Aventis until December 31, 2006;
- Member of the Aventis Supervisory Board until December 2004;
- Director of Péchiney until December 2003.

Non-French companies
- Chairman and Director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co. (Japan) until 2006;
- Director of Fujisawa Sanofi-Synthelabo Inc. (Japan) until June 2005;
- Director of Sanofi-Synthelabo Inc. (United States) until November 2004.

Others
- Member of the Supervisory Board of the Agency for Industrial Innovation until December 2007;
- Director of UNIFEM, Finance Management until September 2006;
- Chairman of the *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 *École Nationale des Arts et Métiers*.

Jean-Marc Espalioux

Chairman of Financière Agache Private Equity

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

French companies
- Director of Veolia Environnement;
- Member of the Supervisory Board of Flo Group;
- Member of the Supervisory Board of Homair Vacances;
- Member of the Supervisory Committee of Lyparis;
- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Épargne.

Directorships held in the last five years and having expired

French companies
- Member of the Supervisory Board of Club Méditerranée until January 2006;

- Accor permanent representative on the Supervisory Board of Lucien Barrière Group until January 2006;
- Director of Fiat France, Crédit Lyonnais and Vivendi Environnement until 2003.

Non-French companies

- Chairman of Accor UK until January 2006.

Born March 18, 1952, Mr Espalioux is a graduate of the *Institut des Sciences Politiques de Paris* and of the *École 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: 45,797 shares.

Other directorships

French companies

- 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 IT Group;
- Member of the Supervisory Board of Steria.

Directorships held in the last five years and having expired

French companies

- Director of Autoroutes du Sud de la France until March 2006 ;
- Chairman of Amadeus GTD until September 2005;
- Director of Amadeus France until November 2003.

Born April 28, 1946, Mr Gourgeon is a graduate of the *École Polytechnique* and the *École 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

French companies

- Director of Air Liquide.

Non-French companies

- Chairman of the Supervisory Board of Heineken (Netherlands);
- Member of the Supervisory Board of Philips Electronics (Netherlands).

Others

- Chairman of the Board of Directors of INSEAD (Institute of Business Administration) (Canada).

Directorships held in the last five years and having expired

Non-French companies

- Member of the Supervisory Board of Stork (Netherlands) until January 2008;
- Director of Reed Elsevier (Netherlands) until May 2007;
- Director of Sara Lee Corp (Netherlands) until April 2007;
- Chairman of the Management Board of Akzo Nobel N.V (Netherlands) until 2003 and Member of the Supervisory Board of Akzo Nobel N.V until May 2007;
- Chairman of the Supervisory Board of de Nederlandsche Bank (Netherlands) until October 2004;
- Director of Scania AB (Sweden) until May 2004.

Born November 21, 1942, Mr van Lede, a Dutch national, was Chairman of the Management Board of Akzo Nobel between 1994 and 2003.

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

Non-French companies

- Chairman of Roompot Recreatie B.V (Netherlands).

Others

- Chairman of the Board of Directors of the Rotterdam School of Management (Netherlands).

Directorships held in the last five years and having expired

Non-French companies

- Director of Het Concertgebouw N.V. (Belgium) until June 2005;
- Director of SHV Holdings N.V. (Netherlands) until May 2005;
- Director of BP Plc (United Kingdom) until March 2005.

Others

- Director of Rand Europe until July 2007.

Born August 12, 1933, Mr Maljers, a Dutch national, was Chairman of Unilever N.V. between 1984 and 1994.

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

French companies

- Chairman of the Board of Directors of Dexia Crédit Local;
- Director of Generali France Holding;

- Director of EDF Energies Nouvelles;
- Member of the Supervisory Board and Director of Le Monde Group.

Non-French companies
- Vice-Chairman of the Board of Directors of Dexia Banque (Belgium);
- Director of Dexia Banque International (Luxembourg);
- Expert member of the Board of Directors of the European Investment Bank (Luxembourg).

Others
- Vice-Chairman of the French Association of Banks and member of the Executive Committee of the French Banking Federation;
- Member of the Steering Committee of Paris Europlace;
- Member of the Board of the Institut de l'Entreprise.

Directorships held in the last five years and having expired

French companies
- Director of Crédit du Nord until February 2007;
- Director of FSA until 2006.

Born March 9, 1941, Mr Richard is a graduate of the *École 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

French companies
- Director of EDF, La Poste, Areva, France Telecom, and Thalès since April 2007.

Directorships held in the last five years and having expired

French companies
- Director of France Télévision and the SNCF until April 2007;
- Director of Renault until September 2003.

Born May 19, 1963, Mr Bézard is a graduate of the *École Polytechnique* and of the *École Nationale d'Administration*.

Claude Gressier

President of the Department of Economic Affairs and Transport, 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

French companies
- Representative of the Counsel General for Public Works on the Board of Directors of the Établissement des Autoroutes de France;
- Director of the SNCF.

Born July 2, 1943, Mr Gressier is a graduate of the *École Polytechnique*, attended the *Institut des Sciences Politiques de Paris* and is qualified as a general public works engineer (*Ponts et Chaussées*).

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

French companies
- Director of EDF;
- Director of 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 *École Nationale d'Administration*.

Directors representing employee shareholders

Didier Le Chaton

Representative of flight deck crew

First appointed: July 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: 7,199 shares and 3,590 FCPE units.

Born February 3, 1951, Mr Le Chaton is a graduate of the *École 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 03/31/2008	Date appointed to Board	Experience at 03/31/2008	Sector	Experience in the sector	Current position
Jean-Cyril Spinetta	64 years	September 23, 1997	11 years	Public Service Air Transport (Air Inter and Air France)	15 years	Chairman and CEO of Air France-KLM and of Air France
Leo van Wijk	61 years	June 24, 2004	4 years	Air Transport (KLM)	37 years	Vice-Chairman of the Air France-KLM Board of Directors
Patricia Barbizet	52 years	January 3, 2003	5 years	Industrial (Renault, Pinault Group)	31 years	CEO and Director of Artémis
Bruno Bézard	44 years	March 14, 2007	1 year	Public Service	20 years	Director of the French Treasury State Holdings Agency
Frits Bolkestein	74 years	November 22, 2005	2 years	Industrial (Shell) and Public (Dutch Parliament and European Commission)	17 years/ 27 years	Member of the Supervisory Board of de Nederlandsche Bank
Jean-François Dehecq	68 years	January 25, 1995	13 years	Industrial (SNPA and Sanofi)	43 years	Chairman of the Board of Directors of Sanofi-Aventis
Jean-Marc Espalioux	56 years	September 14, 2001	7 years	Services (CGE, Accor)	21 years	Chairman of Financière Agache Private Equity
Pierre-Henri Gourgeon	61 years	January 20, 2005	3 years	Aeronautics and Air Transport	37 years	Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France
Claude Gressier	64 years	June 24, 2004	4 years	Public Service	40 years	President of the Department of Economic Affairs and Transport, Counsel General for Public Works
Philippe Josse	47 years	May 16, 2006	2 years	Public Service	24 years	Director of Budget
Didier Le Chaton	57 years	January 26, 2006	2 years	Air Transport (Air France)	32 years	Flight Captain
Cornelis van Lede	65 years	June 24, 2004	4 years	Industrial (Shell, Akzo, Dutch Industry Federation) Consultancy (McKinsey & Company)	37 years	Chairman of the Board of Directors of INSEAD
Christian Magne	55 years	September 14, 2001	7 years	Air Transport (Air France)	34 years	Finance executive
Floris Maljers	74 years	June 24, 2004	4 years	Industrial (Unilever)	36 years	Chairman of the Board of Directors of the Rotterdam School of Management
Pierre Richard	67 years	October 20, 1997	10 years	Banking (CDC, Crédit Local de France, Dexia)	25 years	Chairman of the Dexia Board of Directors

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 conflicts 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 corporate officers amongst its members.

The internal regulation is available on the website www.airfranceklm-finance.com

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 amounting to more than €50 million for signature by the Chairman and Chief Executive Officer.

Corporate governance principles and independence of the directors

The Board of Directors functions according to the governance principles in force in France as outlined in the Viénot and Bouton reports and consolidated in the AFEP-MEDEF report of October 2003, with the exception of the duration of the terms of office and the independence of Board members.

The legal duration of the term of office of Air France-KLM Board directors is six years. However, in order to come into line with the corporate governance principles and adopt the conclusions of the Board evaluation, the Board of Directors decided to submit to the General Shareholders' Meeting to be held on July 10, 2008, a resolution to reduce the directors' term of office to a four-year period and to establish a staggered renewal process.

Furthermore, the Board has not been required to debate the independence of its members in the light of the criteria set by the AFEP-MEDEF 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.

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 amended 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 15.7% of the Air France-KLM share capital as at March 31, 2008, also holds 68.4% of the share capital of Aéroports de Paris.

Evaluation of the Board of Directors

During the 2006-07 financial year, the Board of Directors commissioned an evaluation of its functioning by an independent firm.

A number of subjects were considered 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. At this meeting the discussion focused on the following matters: the positioning of the strategy committee, the stepping up of the work of the remuneration committee, the comprehensiveness of the report made to the Board of Directors on the work of the committees and the deadline for the circulation of the documents to prepare for Board of Directors meetings.

Functioning of the Board of Directors

The minimum number of Board of Directors meetings is set at five per year. Prior to 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 2007-08 financial year

During the 2007-08 financial year, the Board of Directors met 12 times (eight meetings in 2006-07). The meetings lasted two and a half hours on average and the attendance rate for directors was 80% (87.25% in 2006-07), including the five extraordinary meetings of the Board of Directors held during the year.

During these meetings the following matters were notably addressed:
- interim and annual financial statements;
- budget projections;
- status report on the alliances;
- partnership with Delta;
- consolidation in Europe and the United States;
- share exchange offer for Alitalia;
- Group organization for phase II of the business combination with KLM;
- delisting from the New York Stock Exchange;
- remuneration of the corporate officers;
- evaluation of the functioning of the Board of Directors;
- strike action;
- fuel hedging strategy;
- convergence of the Air France and KLM information systems.

As in 2006 and 2007, a Board of Directors meeting was held in 2008 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

One new regulated agreement was approved by the Board of Directors during the 2007-08 financial year, relating to the authorization given to the Chairman and Chief Executive Officer to extend a payment guarantee to Aéroports de Paris covering rents and charges owed by Air France, in return for the payment by Air France to Air France-KLM of an annual commission equivalent to 0.30% of the guaranteed outstanding until its expiry.

The following agreements approved during the previous financial years continued 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 reinvoicing of the compensation of the Chairman and Chief Executive Officer and of the Deputy Chief Executive Officer.

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, finance, internal control and 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 2007-08 financial year, the audit committee met four times (five times in 2006-07) with an attendance rate for members of 87.5% (66% in 2006-07). The meetings lasted two and a quarter hours on average.

The following matters were notably reviewed by the audit committee during the 2007-08 financial year.

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.

In June 2007, 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, there being a number of accounting differences between the international and US standards.

Delisting and deregistration in the United States

The audit committee proposed to the Board of Directors that it apply for the voluntary delisting of its ordinary shares and American Depositary Shares (ADS) from the New York Stock Exchange and for deregistration with the Securities and Exchange Commission. During its meeting of January 17, 2008, the Board of Directors decided to act on the recommendation of the audit committee. The delisting and the termination of the disclosure obligations have been effective since February 7, 2008 and the deregistration as of May 7, 2008.

Internal control and internal audit

At each of its meetings, the committee reviewed the status of internal control and internal audit. Although the company is no longer required to comply with the obligations of the Sarbanes-Oxley Act, it continues to maintain high standards of disclosure and corporate governance and a rigorous level of internal control across the Group.

Risk assessment

The audit committee also reviewed:

- the possible impact of the sub-prime crisis;
- the change in the financial situation of the KLM pension funds;
- the debt linked to the *Flying Blue* loyalty program and the accounting policy for tickets issued and not used;
- the work of internal audit and its results.

Finally, the audit committee was informed of developments in the competition authorities' 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 Senior Executive Vice-President, Finance and the Secretary for the Board of Directors.

Missions

The committee's responsibilities include reviewing the strategic orientations of 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 did not meet during the 2007-08 financial year (one meeting in 2006-07), the strategy of the Group having been presented directly to the Board of Directors.

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 the Group's senior executives, as well as on the policy for stock option plans for new and existing shares.

Activity

The remuneration committee met on June 14, 2007 and the attendance rate for members was 100% as in 2006-07.

For the 2007-08 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 for the third consecutive year.

It also proposed to set, for the 2006-07 financial year, the variable portion of the compensation paid to corporate officers at 100% of the fixed portion given the achievement of all the quantitative (progression in the Group's operating income) and qualitative (continued construction of the Group, furthering the establishment of the Group's new management team, contribution to Air France-KLM share price performance, proposal and implementation of the strategy decided by the Board of Directors) criteria set by the Board of Directors at the beginning of the financial year. This variable portion was paid during the 2007-08 financial year.

With respect, finally, to the variable portion of the compensation of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer in respect of the 2007-08 financial year, to be paid during 2008-09, the remuneration committee submitted to the Board of Directors the following criteria for determining the amount:

- a maximum bonus amounting to 150% of the fixed compensation for the Chairman and Chief Executive Officer and 120% for the Deputy Chief Executive Officer;
- a target bonus of 100% of the fixed compensation for the Chairman and Chief Executive Officer (70% for the quantitative portion and 30% for the qualitative portion) and 90% for the Deputy Chief Executive Officer (60% quantitative and 30% qualitative).

The committee also proposed that the Board of Directors adopt new modalities for the allocation of directors' fees, within the limits set by the General Shareholders' Meeting of June 24, 2004 (cf. *Compensation* section below).

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. In addition, until May 4, 2007, the appointments committee was also responsible for appointing the members of the Strategic Management Committee after consultation, as necessary, with the Chairman and Chief Executive Officer of Air France and/or the KLM Supervisory Board.

Activity

The appointments committee did not meet during the financial year.

Compensation

Compensation for directors

Directors' fee modalities

Board directors receive fees whose maximum amount (€800,000) was established by the General Shareholders' Meeting of June 24, 2004. On the recommendation of the remuneration committee, the Board of Directors decided, at its meeting of June 27, 2007, to adopt new modalities for the payment of directors' fees as follows:

- €20,000 as fixed compensation; and
- €20,000 as variable compensation based on Board of Directors and General Shareholders' Meeting attendance.

Committee members receive additional fees:

- for the audit committee, the Chairman and members receive, respectively, fees of €12,000 and €8,000;
- for the other committees, the Chairman and members receive, respectively, €7,500 and €5,000.

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

Directors' fees paid in the 2007-08 financial year

	2007-08	2006-07
Jean-Cyril Spinetta	€40,000	€31,000
Leo van Wijk	€47,000(1)	€28,000(1)
Patricia Barbizet	€40,000	€25,333
Bruno Bézard	€41,846(2)	€1,333(2)
Frits Bolkestein	€42,385	€22,666
Jean-François Dehecq	€43,385	€27,333
Jean-Marc Espalioux	€32,115	€25,666
Pierre-Henri Gourgeon	€40,000	€24,000
Claude Gressier	€38,462(2)	€26,666(2)
Philippe Josse	€26,154(2)	€26,666(2)
Didier Le Chaton	€46,462	€34,000
Cornelis J.A. van Lede	€47,385	€25,333
Christian Magne	€48,000	€34,000
Floris Maljers	€50,385	€28,666
Pierre Richard	€53,923	€38,000
Directors having left office during the financial year	-	€28,799
Total	**€637, 500**	**€427,461**

(1) Amount paid to KLM.
(2) Amount paid directly to the French Treasury.

Compensation of the 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 fixed portion of the 2007-08 compensation for the Chairman and Chief Executive Officer and for the Deputy Chief Executive Officer at the same level as in 2005-06 and 2006-07, i.e. €750,000 and €550,000 respectively. The target and maximum bonuses for the Chairman and Chief Executive Officer and for the Deputy Chief Executive Officer in respect of the 2006-07 financial year were set, respectively, at 80% and 100% of their fixed remuneration.

The criteria for determining the 2006-07 bonuses 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 market share gains and maintained financial equilibrium.

As for "the commitments of any nature made by the company to the benefit of its corporate officers" 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 principal 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 (See note 36.1 to the consolidated financial statements).

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.

Mr van Wijk stepped down as President and Chief Executive Officer of KLM following the KLM Annual General Shareholders' Meeting of July 5, 2007, but continues to be employed by KLM. Since that date he has been responsible for Alliances and IT development within the Air France-KLM Group and is also a member of the Group's Executive Committee. Mr van Wijk's compensation in 2007-08 amounted to a fixed portion of €699,125 and a variable portion of €462,041 in respect of the 2006-07 financial year. Additionally, he received a one-off payment of €1,136,124, which was provided for within his employment contract established following the merger between Air France and KLM in 2004, and whose payment was subject to his continuing activity in KLM until the age of 60 years (a condition which was satisfied in 2007). Mr van Wijk also benefits from a pension plan managed in accordance with Dutch law. The company contributed €193,000 to this plan in 2007-08 (€186,000 in 2006-07).

Remuneration and benefits paid to corporate officers by Air France-KLM and its subsidiaries

The Board of Directors awarded Mr Spinetta and Mr Gourgeon the full target bonus in respect of the 2006-07 financial year, considering that the target criteria had been achieved.

	Gross remuneration				
(In €) *(Reminder of 2006-07 figures)*	**Fixed**	**After shares-for-salary exchange offering**(1)	**Variable**(2)	**Directors' fees**(3)	**Total**
Jean-Cyril Spinetta Chairman and Chief Executive Officer	750,000 *(750,000)*	600,240 *(600,240)*	750,000 *(637,500)*	40,000 *(31,000)*	1,390,240 *(1,268,740)*
Pierre-Henri Gourgeon Deputy Chief Executive Officer	550,000 *(550,000)*	449,200 *(449,200)*	550,000 *(467,500)*	40,000 *(24,000)*	1,039,200 *(940,700)*
Leo van Wijk Vice-Chairman of the Board of Directors(4)	699,125	-	462,041 1,136,124 (5)	-	2,297,290
	(675,679)	-	*(467,415)*	-	*(1,143,094)*

(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 shareholding. They subscribed, respectively, for 65,240 and 44,769 shares, whose sale is subject to restrictions outlined in the AMF offering memorandum no. 05-055 of January 31, 2005.

(2) In respect of the previous financial year.

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

(4) Mr van Wijk was President of the KLM Management Board until July 5, 2007 and has fulfilled salaried responsibilities within KLM since that date.

(5) An exceptional payment of €1,136,124.

Loans and guarantees granted to corporate officers of the company

None.

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

Air France-KLM has not established a stock option scheme for its corporate officers.

Information on stock subscription or purchase option schemes granted to the corporate officers of Air France-KLM and to employees of the Air France-KLM Group by the subsidiaries*

	Société Air France	KLM(3)						
Date of authorization	09/28/1999(1)	05/07/2002		06/24/2003	05/04/2004	05/17/2005(4)		
Date of granting by the Board of Directors	05/30/2000	07/11/2002		06/26/2003	06/25/2004	07/26/2005	07/26/2006	07/27/2007
		(A)	(B)					
Total number of options granted *of which to corporate officers***	3,516,596 *16,610(2)*	341,350 *28,686*	119,105 -	355,379 *28,686*	463,884 *28,686*	390,609 *25,000*	411,105 *25,000*	428,850 *25,000*
Start date for option exercise	05/30/2005	07/12/2005		06/27/2006	06/26/2007	07/28/2008	07/27/2009	07/27/2010
Expiration date	05/30/2007	10/19/2007		06/30/2008	06/25/2009	07/16/2010	07/26/2011	07/25/2012
Purchase price per share	€15.75	€12.80	€10.07	€6.48	€13.19	€13.11	€17.83	€34.21
Number of shares purchased as at March 31, 2008 *of which by corporate officers***	3,403,302 *16,610(2)*	341,350 *28,686*	119,105 -	330,710 *28,686*	131,967 -	- -	- -	- -
Number of share options cancelled as at March 31, 2008	113,294	-	-	-	17,784	7,643	2,165	11,000
Outstanding share options as at March 31, 2008 *of which for corporate officers***	- -	- -	- -	24,669 -	314,133 *28,686*	382,966 *25,000*	408,940 *25,000*	417,850 *25,000*

* *The company Air France-KLM has not established a stock option scheme for its employees and/or corporate officers.*

** *Corporate officers concerned: Mr Le Chaton (Air France) and Mr van Wijk (KLM).*

(1) *Scheme reserved to Air France flight deck crew employees having participated in the 1999 shares-for-salary exchange.*

(2) *At Air France, within the framework of the 1999 "shares-for-salary-exchange" reserved for flight deck crew, Mr 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.*

(3) *KLM scheme in favor of its senior executives and corporate officers. The number of options and purchase prices indicated take into account the adjustments resulting from the merger in 2004.*

(4) *The vesting conditions of the options granted by KLM in 2005, 2006 and 2007 provide for the vesting of one third of the options on the grant date, a second third at the end of the first year following the grant date, with the final third at the end of the second year. The vesting of these options is conditional on the achievement of pre-determined performance criteria which are not market dependent.*

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

Options for stock purchase granted to employees who are not corporate officers benefiting from the greatest number of options/Options exercised by employees who are not corporate officers having exercised the greatest number of options	Number of options granted/Number of shares purchased			
	Total number of options granted/ shares purchased	Weighted average price *(In €)*	Grant date	Number of options exercised by grant date
• *Air France*[1]				
Options granted in 2007-08 (10 employees)	-	-	-	-
Options exercised in 2007-08 (10 employees)	51,280	15.75	May 2000	51,280
• *KLM*				
Options granted in 2007-08 (10 employees)	140,000[2]	34.21	July 2007	-
Options exercised in 2007-08 (10 employees)	78,656	12.91	2002 Plan A 2003 Plan B 2004 Plan B	6,206 2,869 69,581

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

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 €)*	Operation amount *(In €)*	Type of financial instrument	Exchange
Leo van Wijk Vice-Chairman of the Board of Directors of Air France-KLM	June 29, 2007	Acquisition Sale	34.39 10.10	105,405 106,824	Shares Other financial instruments	Euronext
Didier Le Chaton Director of Air France-KLM	May 10, 2007	Sale	36.54	18,270	Shares	Euronext
	May 25, 2007	Acquisition	15.75	53,755	Other financial instruments	Euronext
Peter Hartman Member of the Strategic Management Committee of Air France-KLM	June 22, 2007	Acquisition Sale	34.74 9.82	102,019 103,810	Shares Other financial instruments	Euronext
Michael Wisbrun Member of the Strategic Management Committee of Air France-KLM	June 11, 2007	Sale	11.00	46,239	Other financial instruments	Euronext

The Group Executive Committee

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 Strategic Management Committee with a Group Executive Committee which assumed its functions on October 1, 2007.

During the interim period required for consultation with employee representative bodies (May to September 2007), a larger SMC was established with different terms of functioning and reporting to the Chairman and Chief Executive Officer.

The SMC, which had comprised eight members, met every two weeks, alternating between Amsterdam and Paris until May 2007, to take decisions, particularly with respect to the coordination of the networks and hubs, budgets and medium-term plans, fleet and investment plans as well as alliances and partnerships.

The Group Executive Committee meets every two weeks, alternating between Amsterdam and Paris in order to determine the Group's main orientations within the framework of the strategy approved by the Board of Directors.

The Group Executive Committee comprises eleven members who, while fulfilling responsibilities at the level of the Air France-KLM Group, retain their functions within each entity. They are thus remunerated by the companies with which they have an employment contract.

Members	Age	Professional experience	
		Sector	Experience
Jean-Cyril Spinetta Chairman and CEO of Air France-KLM and of Air France	64 years	Air transport (Air Inter and Air France)	15 years
Leo van Wijk Vice-Chairman of Air France-KLM	61 years	Air transport (KLM)	37 years
Pierre-Henri Gourgeon Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France	61 years	Aeronautic and air transport	37 years
Philippe Calavia Senior Executive Vice-President, Finance, of Air France-KLM and Air France	59 years	Banking Air transport (Air France)	7 years 10 years
Peter Hartman President of the KLM Management Board	58 years	Air transport (KLM)	35 years
Alain Bassil Senior Vice-President, Maintenance, of Air France and the Air France-KLM group	52 years	Air transport (Air France)	28 years
Christian Boireau Senior Vice-President, Commercial France, Air France	57 years	DDE – French Departmental Directorate for Equipment Air transport (Air Inter and Air France)	6 years 27 years
Frédéric Gagey Senior Executive Vice-President, Finance, KLM and Senior Vice-President, Fleet and Purchasing of the Air France-KLM group	51 years	Air transport (Air Inter, Air France et KLM)	14 years
Bruno Matheu Senior Executive Vice-President, Marketing, Revenue Management and Networks, of Air France and of the Air France-KLM group	44 years	Air transport (UTA and Air France)	22 years
Erik Varwijk Senior Vice-President, International Marketing, KLM and of the Air France-KLM group	46 years	Air transport (KLM)	19 years
Michael Wisbrun Executive Vice-President, Air France-KLM Cargo	56 years	Air transport (KLM)	30 years

Stock market and shareholder structure

Air France-KLM shares in the stock market

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. It is a component of the CAC 40 and of the Euronext 100 and DJ Eurostoxx 300 indices. The stock is also included in the sector indices FTSE Cyclical Services, FTSE Airlines and Transports. Air France-KLM is the only airline to figure in the two leading sustainable development indices, the FTSE4Good for the third consecutive year and the DJSI Stoxx 2006. Finally, the stock is also included in the French IAS employee shareholders index.

On February 7, 2008, Air France-KLM was delisted from the NYSE and its American Depositary Receipt program transferred to the OTC Market (OTCQX) under the ticker AFLYY.

The Reuters code is AIRF.PA or AIRF.AS and the Bloomberg code AF PA.

	2007-08	2006-07	2005-06
Stock price high *(In €)*	39.40	36.30	20.50
Stock price low *(In €)*	15.20	15.93	11.78
Number of shares in circulation	300,219,278	269,398,500	269,383,518
Market capitalization at March 31 *(In € billion)*	5.4	9.2	5.2

Dividend policy

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

Financial year ended	**Earnings per share** *(In €)*	**Dividend paid** *(In €)*
2005-06	3.47	0.30
2006-07	3.35	0.48
2007-08(1)	2.63	0.58

(1) Subject to approval by the Shareholders' Meeting of July 10, 2008.

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

A regular dialogue with individual shareholders and investors

The Air France-KLM Group informs the market on its activity through monthly traffic figures and quarterly on the trend in its results and strategic orientations. While the Group adapts its communication to the profile of its shareholders and investors, all the information is available on the financial website in French, English and, in certain cases, Dutch.

Relations with investors

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

Relations with individual shareholders

The department dedicated to relations with individual shareholders has a pro-active approach towards engaging with private shareholders. Each quarter, a financial notice on the results is published in a wide range of media in France and the Netherlands. Every three months, the *Connecting* newsletter, with an update on the sector and the Group's activity, 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 shareholder's guide covering all the practical information relating to the stock and the different forms of ownership in France and the Netherlands. This document is published in French, English and Dutch and an interactive version is available on the website or on request.

The Group regularly organizes and 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 airline sector and to address shareholder concerns. Site visits are also organized for members of the Shareholders' Club.

The Shareholder Relations department can be reached on a toll free number, **0800 320 310** in France or **+33 1 41 56 88 85** from outside France or by email.

Finally, the Consultative Committee for Individual Shareholders (CCRAI), established in 2000, constitutes a forum for discussion and submitting ideas on Air France-KLM relations with individual shareholders.

A dedicated website

The Group's financial website (airfranceklm-finance.com) posts all the information released by the Group (press releases, presentations, offering memoranda, speeches, etc.). Documents such as the Reference Document and its summary version, and the Shareholder's Guide are available in interactive versions, enabling a targeted search for information. An email alert system enables everyone to be informed of the publication of press releases and be reminded of any financial event in the Group's calendar.

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

Awards for financial communication

In 2006, Air France-KLM's financial communication won the award for the Best Annual Report from an SBF 120 company, third prize in the Boursoscan awards and the Outstanding investor relations site award in the United States. These awards highlighted the transparency, clarity and quality of the information made available by Air France-KLM to all its shareholders.

Disclosure Committee

Although it is no longer required to do so, Air France-KLM has decided to retain its disclosure committee established at the time the Sarbanes-Oxley Act was applied to companies listed for trading in the United States. This committee supports the financial communication department in implementing a policy of transparent, regular communication that complies with the various regulatory requirements.

Composition of the 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 the 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 Air France-KLM's Chairman and Chief Executive Officer and 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 and the AFM in the Netherlands.

Amongst other duties, the committee must:

- organize regular evaluations of the internal control procedures relating to the accounting and financial information established by the Group;
- review and approve the final version of reports, particularly the final version of the reference document.

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Activity

2.

Highlights of the 2007-08 financial year

April 2007

- Air France and KLM launch *Challenge 10*, the first joint cost savings plan.

May 2007

- Air France decides to replace its Boeing B747-400 fleet with Boeing B777-300s in order to reduce its fuel consumption and CO_2 emissions.
- transavia.com France, the Group's leisure subsidiary, is successfully launched out of Paris Orly.

June 2007

- Air France inaugurates the new S3 boarding satellite directly connected to terminals 2E and 2F at Charles de Gaulle airport (CDG).
- Air France and KLM, together with their US partners Delta and Northwest, file an application for antitrust immunity with the US Department of Transportation (DoT).
- The Air France-KLM stock is included in the CAC 40.
- Air France-KLM and China Southern open exclusive discussions with a view to creating a cargo joint-venture in China.

August 2007

- The sub-prime crisis emerges in the United States and, as the situation deteriorates, sparks a crisis of confidence in the banking sector which leads to financial market turbulence.

October 2007

- The integration of the two companies continues with the establishment of a Group Executive Committee comprised of 11 members representing the Group's main functions.
- Air France and Delta announce the signature of a joint-venture agreement on the North Atlantic.
- Following by the *Open Skies* agreement signed between the United States and Europe in March 2007, Air France-KLM announces its intention to establish operations at Heathrow as of April 2008, to operate flights bound for the United States.

November 2007

- Air France-KLM issues 19.6 million new shares in exchange for the balance of the 28.7 million BASAs having reached their expiry date that were issued at the time of the share exchange offer for KLM. A total of 99.3% of the BASAs are converted into shares for a sum amounting to €597 million.

December 2007

- Air France-KLM invites Alitalia to join the Group in launching a non-binding Share Exchange Offer.
- Air France announces the acquisition of VLM Airlines, enabling the Group to strengthen its position at London City airport.
- The European Commission sends Air France and KLM a statement of objections communicating its preliminary conclusions within the framework of the investigation launched in February 2006 into alleged anti-competitive behaviour in the European air freight sector.

January 2008

- Air France-KLM applies for the voluntary delisting of its shares from the New York Stock Exchange as of February 7, 2008, and transfers its ADR program to the OTC Market (OTCQX), enabling US investors to continue to own and trade these shares.

February 2008

- Air France and KLM are in discussions with the US Department of Justice (DoJ) within the framework of the investigation launched in February 2006 in the air freight sector into possible infringements of US competition law.

March 2008

- The Air France-KLM Group reports the best operating results in its history and achieves its target of a 7% return on capital employed.
- The terminal 2E boarding pier at CDG is reopened having been closed for four years following its collapse.
- Air France-KLM unveils its conditional Share Exchange Offer for Alitalia which is accepted by the company's Board of Directors and the Italian government. The commitment of all employees is one of the conditions. In early April, recognizing the failure of negotiations with the unions, Air France-KLM withdraws its offer.

April 2008

- On April 9, the US Department of Transportation (DoT) announces a preliminary decision to grant the application for antitrust immunity, filed in June 2007 by Air France-KLM and its US partners.

Market and environment

An economic context marked by the oil price

Buoyant in 2007…

For the fourth successive year, global growth was strong in 2007 at 4.9%, outstripping the IMF forecast by 0.2 of a point. However, the credit crisis of summer 2007 and its duration are starting to have negative repercussions. In the United States, economic growth has been softening since the 2007 fourth quarter and there now appears to be a real risk of a slowdown in western Europe. On the other hand, emerging and developing countries like China and India continue to experience very robust growth. Against this economic backdrop, the IMF revised down its global growth forecast for 2008 to 3.7% (-0.7 of a point compared with its previous forecasts published in October 2007) (*source: IMF, April 2008*).

In the air transport sector, 2007 proved to be another very good year. International traffic grew by 7.4% (+5.9% in 2006) for capacity up by 6.2%, taking the load factor to 77%. More than 2.2 billion passengers (+6%) were carried world-wide. Despite the continued rise in the oil price, the air transport industry improved its performance. Total revenues should amount to $485 billion (+7.3%). After a fuel bill of $136 billion (+23%) based on a Brent price averaging $73 a barrel, the industry should generate operating income of $16.3 billion (+26%) and an operating margin of 3.4%, equal to its 2000 level (*source: IATA*). This return to profitability has been driven by robust revenues and efforts to reduce costs other than fuel.

In this global context, the traffic of AEA member airlines grew by 5.1% on 2006 for a capacity increase of 4.2%. The load factor amounted to 77.1%, up by 0.7 of a point (*source: AEA*). The European airlines also saw improved results with $6.1 billion of operating income, an increase of nearly 13% on the previous year.

…but more challenging in 2008

The prospects for 2008 look very different. As growth in air transport demand is directly linked to global economic growth, the long-haul outlook should have remained positive (+6%), underpinned by the dynamism of the Asian and Latin American countries. However, the increase in fuel cost will require a rise in fares which will put a temporary dampener on demand and lead to restructuring in the air transport sector. There are already numerous examples of the capacity reductions, accelerated mergers and the disappearance of certain players that are likely to be the salient features of 2008. Airlines such as SAS, British Airways, Varig and Alitalia have all announced reductions in capacity. In the United States, seven small airlines have already disappeared and the majors, such as our partners Delta and Northwest, are planning mergers. An environment such as this will benefit the strong players with young fleets, efficient hubs and fuel hedging strategies to offset part of the increase in the oil price.

A changing competitive environment

New players in long-haul…

In Europe, three large European groups have emerged over the past five years and dominate long-haul traffic. Air France-KLM operates as many long-haul flights as ten European national airlines put together. Long-haul demand should remain buoyant for the next three years but only these large groups together with some niche airlines have significant development plans. New competition has, however, arisen in the form of the US majors who are seeking to develop internationally now that their domestic market which had been their focus is becoming very difficult. On April 23, 2008, Delta thus announced plans to reduce its capacity in the US market by between 9% and 11% but to continue its international expansion.

A niche segment has appeared with new *business only* airlines flying from London and Paris to New York. Their marketing approach aims to offer a so-called business class but at a lower price than that of the legacy carriers. Despite decent load factors, these companies are finding it difficult to reach the level of costs required for this model: MaxJet, a pioneer in this segment, filed for bankruptcy in December 2007, followed by Eos in April and Silverjet in May 2008. Furthermore, this model may be replicated by the traditional carriers such as British Airways which has announced a comparable product for 2009.

The Gulf airlines are growing very rapidly, supported by their governments as they seek to develop the post-oil economy. In 2004, the three leading companies, Emirates, Qatar Airways and Etihad, had a combined fleet of 100 aircraft but, by 2007, this figure had increased to 175 and could reach 316 aircraft by 2012. Organized around a long-haul/long-haul hub model, they are attractively positioned geographically for certain flows such as those between Europe and South-East Asia or Australia even if this transfer model competes with the direct flights preferred by business passengers.

...and a ground-breaking development on the North Atlantic

The North Atlantic, the leading global air transport market, is witnessing a ground-breaking change. In effect, the European Commission and the United States signed an *Open Skies* agreement on March 22, 2007 that came into force on March 30, 2008. This agreement, which replaces the different bilateral agreements, liberalizes this market in enabling any European airline to operate flights bound for the United States out of any European city. In particular, it opens Heathrow airport to competition, where access to the United States had been limited to two British and two US airlines, the other US carriers operating out of secondary airport Gatwick.

The medium-haul network in competition with the TGV and the low cost carriers

The main competitors in European medium-haul are the low cost airlines and high-speed trains, the TGV in the French domestic market and Eurostar to London. The low cost carriers are seeing steady growth. Ryanair and easyJet, the two main low cost operators, carried 11.7 million passengers in 2000 and, by 2007, this figure had risen 82.9 million. There are around 50 low cost operators with a market share of 37% in terms of capacity. Their market share is highest in Spain, representing 61% of available seats, followed by Ireland (53%) and the United Kingdom (52%). In France and the Netherlands, they are situated slightly below the European average, with 29% and 27% respectively. Furthermore, these airlines have also become significant players in the European domestic markets: in the United Kingdom, they account for more that 60% of capacity and, in Germany and Italy, more than 30%. However, according to a statement made by easyJet's representative in France in April 2008, an oil price sustainably above the $100 a barrel mark should lead to the disappearance or merger of a large number of players in this sector.

The French domestic market is dominated by the TGV high-speed train which enjoyed a market share of 80% in 2007, a two point increase on 2006 thanks to the opening of the TGV East. The number of passengers increased from 84 million to 91 million. Air France performed well in the face of this competition: although the company's market share fell by two points to 17%, the number of passengers remained unchanged at 20 million. The TGV had, for a long time, limited the capacity of the low cost airlines in the French domestic market however this should see significant growth with the opening of two new bases for easyJet, whose business model is increasingly oriented towards new, more demanding customers.

Strategy

The Air France-KLM Group is pursuing a strategy of profitable and sustainable growth in leveraging the specific strengths stemming from the complementarities between Air France and KLM in their three principle activities (passenger, cargo and maintenance). Based on these fundamental strengths, the two companies are developing significant synergies in terms of both revenues and costs. They have opted for a pragmatic approach, adapted to the challenges specific to each business. In passenger transportation, they coordinate their networks and teams but retain their brands, Air France and KLM. In cargo, the Group has created a common management structure, the Joint Cargo Team, to manage the sales, distribution, marketing and the network and to coordinate the strategy and development of the common Air France-KLM Cargo brand. In aeronautics maintenance, the Group has chosen to create centers of technical expertise based on the competences of each company.

The Group's growth strategy is accompanied by strict cost control, reflected in three-year cost savings plans.

Fundamental strengths to drive continued growth

A powerful, balanced network

The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. Thus, of the 181 long-haul destinations served directly by AEA (Association of European Airlines) member airlines in the 2008 summer season, Air France-KLM accounts for 114, or 63% of the total, compared with 39% for British Airways and 47% for Lufthansa and Swiss. Furthermore, the Group also offers 42 unique destinations which are served by neither British Airways nor Lufthansa.

Finally, given its presence in all the major markets, the Group's network is balanced, with no one market dominant, the largest market representing just 27% of passenger revenues.

Two coordinated hubs at developing airports

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

A balanced customer base

The Air France-KLM Group has a balanced customer base, half of whom travel for leisure and half for business purposes. This balance can also be found in the breakdown between transfer passengers (56%) and passengers taking direct flights (44%). Furthermore, 50% of revenues are generated by the Group's passenger loyalty strategy (frequent flyer program and corporate contracts).

A global alliance which strengthens the network

Air France and KLM play a lead role in the SkyTeam alliance, the number two global alliance in terms of market share. Bringing together eleven European, American and Asian airlines. SkyTeam enables the Group to respond to market needs and withstand competition in both passenger and cargo transportation. In 2007, China Southern joined the existing SkyTeam members Aeroflot, AeroMexico, Air France, Alitalia, Continental, CSA Czech Airlines, 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 in that it enables the Group to offer an enhanced level of passenger comfort, achieve substantial fuel savings and fulfill its sustainability commitments in reducing 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 by offering not only the best network world-wide in terms of destinations and frequencies but also in developing an innovative product offer. This innovation can be seen, specifically, 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 and in improved cabin services. New products and services are developed in keeping with the Group's environmental policy.

Cost-cutting to bolster profitability

Synergies and cost savings plans

Thanks to the complementarity between their three main activities, the two companies are generating significant synergies. Originally estimated at €495 million after five years (2008-09), these synergies have been regularly upgraded with the most recent revision standing at €750 million (+51.5%) over the same period. In addition, new synergies will further increase these amounts thanks, notably, to the integration of IT which will be gradually undertaken through to 2010-11, with a target of €1 billion. The new organization of the Group, established in October 2007, will accelerate the integration of the two companies and generate further potential for synergies.

In parallel, in order to manage costs more effectively, the two airlines have established a joint three-year cost savings plan which includes the €212 million of cost synergies still to come. The *Challenge 10* program, launched on April 1, 2007, is targeting total savings of €1.4 billion, equating to a 3% reduction in unit costs, excluding fuel, by 2009-2010. This plan is based on savings in four main areas, the first of which is linked to the renewal of the fleet. Air France has decided to accelerate the replacement of its Boeing 747-400s by Boeing 777-300s which will enter the fleet between 2007 and 2013. The cost saving is estimated at €340 million over the first three years, of which €235 million on fuel and €105 million on maintenance.

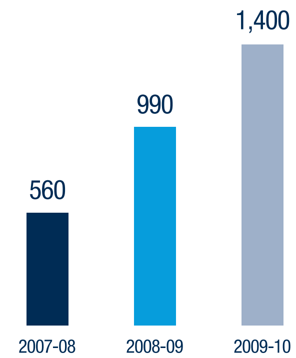
The second source of savings, amounting to €100 million, is the continued reduction in travel agent commissions outside France and the renegotiation of GDS costs.

A further €280 million of savings is expected to come from procurement, thanks to the integration of the Air France and KLM purchasing functions and the definition of common specifications for both companies.

The final and most significant source of savings, or some €680 million, concerns productivity efforts and process improvement through the non-replacement of retirees, the integration of the marketing teams outside France and the gradual integration of IT systems.

➤ ***Challenge 10*** **schedule over three years**

In € million



At March 31, 2008, the savings achieved (€536 million or 96% of the 2007-08 target), enabled a reduction in unit costs measured in EASK (equivalent available seat kilometer) of 1% on a constant currency and fuel price basis, in line with the *Challenge 10* target.

An effective fuel hedging policy

For more than a decade, the Air France-KLM Group has had a fuel hedging strategy in place in order to smooth the impact of the jet fuel price. Given the continued increase in the oil price over the past few years, this prudent strategy has proved highly effective in terms of reducing the negative impact of the increases and in giving the Group the time to adapt to this price increase which has led to fuel representing the second largest cost item for airlines after payroll expense.

Specific performance indicators(1)

Air France-KLM has chosen the following key performance indicators:
- return on capital employed, the relevant indicator for an industry which is investing heavily; and
- adjusted operating margin.

Return on capital employed measures the return on invested capital by expressing operating income as a percentage of average capital employed. The comparison of this ratio with the cost of capital shows whether the Group is creating value for its shareholders.

The adjusted operating margin strips out the accounting impact of the different methods of fleet financing and makes it easier to compare the profitability of different airlines.

(1) See definitions in the financial glossary.

Passenger activity

Passenger transportation is the Air France-KLM Group's main activity, representing nearly 80% of revenues and 92% of operating income.

The Group's passenger strategy is based on a combination of unique strengths, a commercial strategy focused on passenger satisfaction and a high degree of responsiveness enabling the company to capitalize on development opportunities and rise to the competitive challenge.

A unique combination of strengths

A powerful network

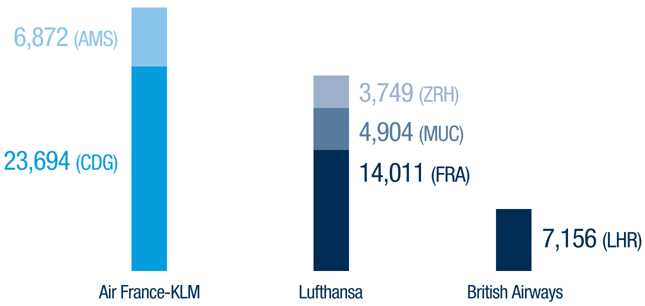
With a fleet of 543 passenger aircraft in service, the Group operates 2,500 daily flights to 258 destinations of which 134 medium-haul and 124 long-haul. Its network is organized around five hubs: Paris CDG and Amsterdam-Schiphol, the international transfer platforms, Paris Orly which covers the French domestic market, Lyons, a medium-haul hub principally reserved for European trans-regional flights and, since April 2008, London, where the Group is establishing a strong position on the US routes out of Heathrow airport and to Europe from London City Airport. During the year, 74.8 million passengers (+1.8%) traveled on the Group's network.

Two coordinated hubs

Paris CDG and Amsterdam Schiphol, the two coordinated and powerful hubs, are linked by around fifteen daily flights. They offer 30,500 weekly transfer possibilities inside periods of under two hours between European medium-haul flights and international long-haul flights. These efficient hubs contribute to the dynamism of the Group's activity with 50% of passengers transferring to connecting flights at CDG and 72% at Schiphol.

This large-scale pooling of reduced flows gives small markets world-wide access while optimizing the fleet and enabling the use of larger aircraft, thereby reducing noise and carbon emissions. Thus, the second wave at the CDG hub, organized around the arrival of 59 medium-haul flights and the departure of 21 long-haul flights, offers 1,319 possible combinations in under a two-hour period with only 80 aircraft.

➤ The highest number of flight connection opportunities in Europe



Number of weekly medium-haul/long-haul flight connection opportunities in under two hours.

The combination of the two CDG and Schiphol hubs, which is unique in Europe, enables the Air France-KLM Group to offer a large number of frequencies by destination and a wide range of flight times. A passenger can thus choose between 12 daily flights to New York, five flights to Tokyo, three flights to Johannesburg and four to Montreal. This organization is particularly attractive to both high contribution passengers looking for a direct flight and transfer passengers who also have the opportunity to optimize their trip in using the two hubs. The latter offer, which has no equivalent, has enabled the generation of €220 million of additional revenues in four years.

New facilities at Paris CDG

The upgrade in infrastructure at Paris CDG has benefited Air France customers. The gradual opening during the first half of the S3 boarding satellite with a capacity of nine million passengers, was supplemented, in March 2008, with the reopening of the terminal T2E boarding pier which regained its eight and a half million passenger capacity. Thanks to these new facillities, the service quality offered to passengers has been greatly enhanced with a significant increase in the number of gate-parked aircraft, dedicated connecting channels and more spacious lounges. This positive development will continue with the opening, in autumn 2008, of a terminal reserved for regional aircraft with a capacity of three million passengers. With this new infrastructure, Air France-KLM plans to make Paris CDG the European reference hub.

A system of alliances and partnerships

In order to meet all its customers' needs, the Group extends its offer with the SkyTeam alliance and partnerships. With eleven members in Europe (Aeroflot, Air France, Alitalia, CSA Czech Airlines and KLM), Asia

(Korean Air and China Southern), the United States (Delta, Continental and Northwest) and Mexico (AeroMexico), SkyTeam is the number two alliance globally with a market share of 19%. With 841 worldwide destinations in 162 countries linked by 16,400 daily flights, SkyTeam carried 428 million passengers in 2007. In September 2007, the alliance welcomed three new associate airline members, Air Europa (Spain), Copa Airlines (Panama) and Kenya Airways, offering 47 new destinations and close to 500 daily flights. Furthermore, local partnerships such as with JAL in Japan or Qantas in Australia also broaden the service offer.

Effective loyalty tools

Flying Blue for passengers

Launched in June 2005, *Flying Blue*, the frequent flyer program common to the two airlines, is growing steadily, membership having increased from 10 million in 2005 to 13 million in 2007. 40% of *Flying Blue* members are French or Dutch, 30% are European and 30% are from the rest of the world. Designed principally to compete with the loyalty cards of the national carriers in third-party markets and to bolster the Group's commercial presence, it enables Air France and KLM passengers to benefit from the Group's combined network. Thus, more than 10% of members travel on the two airlines, an increase of nearly three points on the previous year. It has proved a major success in Europe with 18% of card holders in the United Kingdom, 17% in Switzerland and 16% in Germany traveling on the networks of the two airlines. *Flying Blue* also enables members to collect miles that can be redeemed on flights operated by SkyTeam alliance members as well as with 130 air or commercial partners. *Flying Blue* has won numerous awards recognizing it as the leading frequent flyer program in Europe.

Flying Blue members benefit from e-services: they can consult their account, request the crediting of miles or access promotional offers on the commercial websites of the two airlines. 56% of members signed up online and 90% of reward tickets are in e-ticket form. Additionally, 37% of members have opted to receive their account statements online.

Corporate contracts for companies

The Group seeks to secure the loyalty of companies through corporate contracts. They represent nearly 50% of business revenues which, in turn, represent more than 50% of revenues from the passenger activity. This sales and marketing strategy is not just focused on large companies but is also addressed at small and medium-sized businesses for whom the Group has specially-adapted offers. Currently, there are more than 70,000 such contracts in force. International companies also benefit from global contracts, signed within the framework of the SkyTeam alliance.

A strategy of continuous innovation

The trading environment is evolving: competitors are increasing their capacity, air transport companies have new responsibilities (security, environment, consumerist policies), and customers, be they individuals or companies, are becoming more demanding and require a more customized service. Air France-KLM's response has been to implement a strategy of innovation directed at offering its customers the latest product developments.

Research and innovation

The two airlines prioritize research and marketing innovation in order to design and test new inflight and ground-based products and services. The work of the research and development teams is supported by focus groups and by Innovaction, a structured approach aimed at generating ideas which are studied and then launched. Customers are involved in this approach, either by filling in surveys or through participating in online panels and focus groups. Air France processes around 450,000 surveys and seeks the opinion of its largest custumers via a special tool, the FB@home website. KLM works with a panel of 400 internaut customers with *KLM in touch.* All this market research generates ideas for future products and services such as onboard mobile telephony, which are then tested with customers. Air France has already tested SMS or email data exchange on board a specially-equipped Airbus A318. A second trial is currently underway to study the possibility of receiving or making voice calls. In parallel, the opinions of passengers and cabin crews are polled and analyzed. The decision to mainstream text and email messaging and, possibly, voice calls on all flights will depend on the results of these tests.

New product launches

E-services

2007-08 was a productive year for new products and services. Air France and KLM installed new self-service transfer kiosks at CDG and Schiphol that display customized, updated information in ten languages on how to continue the journey, including an alternative flight and the printing of a new boarding pass in the event an onward connection is missed.

For customers planning to travel with excess baggage, Air France and KLM also offer the opportunity to purchase excess baggage vouchers via their airline websites, with a 30% discount on the price charged at the airport. Check-in and seat allocation by cell phone is now possible in addition to the same internet-based service which has proved a major success. More than 23,000 passengers check in daily on the websites and more than 12 million passengers have used this service since its launch.

Passenger comfort

The two airlines are continuously upgrading their level of passenger comfort. Air France has remodeled its ground services for *L'Espace Première* passengers departing from Paris CDG and now offers them a customized and exclusive service from the moment they arrive at the terminal to their transfer to the aircraft. KLM has enhanced the comfort of its *World Business Class* on long-haul flights in installing the new seat which will equip Air France aircraft, to which it has made a number of improvements. Since November 2007, Air France passengers have been able to enjoy the largest on board cinema, showing some 85 movies, TV series and games, together with a choice of 200 CDs.

A differentiated cultural approach

With international customers now representing more than 60% of the overall total and a development strategy turned towards Latin America and Asia, the Group plans to respond to the cultural diversity of its customers. The inclusion in cabin crews of nationals from destination countries and crew training aimed at giving customers the service they expect are just two examples of the many initiatives underway. Thus three programs, Phoenix USA, India and China, enable cabin crews to appreciate cultural differences and respond appropriately. The Group also takes into account culinary differences. During this financial year, it signed a partnership agreement with prestigious Chinese food group, South Beauty, in order to offer passengers traveling between China and Europe a choice between western and Chinese meals. Similarly, Air France has joined forces with the Indian group Oberoi to offer Indian-influenced catering, while KLM has added a Japanese touch to its Japan-bound flights thanks to its partnership with Hotel Okura Amsterdam.

The new inflight entertainment on board Air France aircraft offers movies in nine languages including Chinese, Korean and Japanese.

A responsible commercial strategy

The Group is commited to responsible development. For *Flying Blue*, its frequent flyer program, it is gradually replacing plastic membership cards with cards made of natural starch from plants. Since they are 90% composed of abundant, renewable, natural materials, they have less impact on the environment throughout their life cycle. Baggage tags are also going to be replaced with biodegradable versions. At the end of this replacement process some ten tons of PVC will have been saved. Furthermore, the Group encourages *Flying Blue* members to receive their account statements by email. Currently 37% have signed up, enabling an annual saving of more than 200 tons of paper.

The Group also offers its customers a comprehensive CO_2 offsetting program. In partnership with the WWF for KLM and Goodplanet for Air France, voluntary contributions together with the Group's various initiatives all go towards supporting projects focused on the development of renewable energies.

A pro-active response

Opportunities in the London market

The *Open Skies* agreement offers the Group an opportunity to establish operations at Heathrow in order to penetrate the largest European long-haul market to the United States. The fact that flows of high contribution traffic between New York and London are three times greater than those between New York and Paris, the leading Continental European market, gives a good idea of the depth of this market.

As of April 2008, in order to establish a meaningful network out of Heathrow, Air France and KLM made slots available to their US partners, Delta and Northwest, enabling nine daily flights to be operated, on a code share basis, to seven US cities, of which the two largest are New York and Los Angeles. The latter destination is served by a direct Air France flight, making Air France the first European airline to operate a long-haul flight between two destinations located outside its national territory.

In October 2007, Air France and Delta concluded a joint-venture agreement based on the model established by KLM and Northwest who have been cooperating for more than a decade on the North Atlantic. This type of agreement enables joint development of the network and the sharing of revenues and costs. The joint-venture came into effect in April 2008 and its scope includes the flights linking the Air France and Delta hubs as well as the connecting flights and those departing from Heathrow. A new step in the structuring of the North Atlantic market was taken in May 2008 when the US Department of Transportation (DoT) granted antitrust immunity to the four airlines. These two joint-ventures, which currently function independently, will be able to merge in a single joint-venture as of late 2009, in line with the DoT's request. Delta and Northwest have announced their intention to merge, which should facilitate and simplify its implementation. The scope will be extended to all the transatlantic flights between the United States, Canada, Mexico and Europe and the Mediterranean basin, representing revenues of around $12 billion. The Group expects this to result in an increase of around 3% in the profitability of this network.

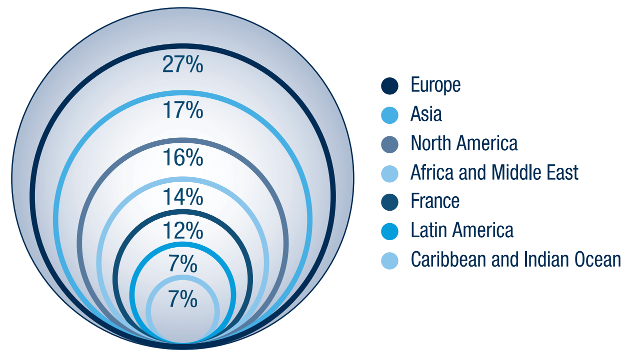
Air France is pursuing its development in the heart of London. One year ago, CityJet for Air France introduced services linking London City, an airport located close to London's new business districts, with ten new European cities. This year the company added to this network by acquiring the company VLM.

The adaptation of the medium-haul network

On the most competitive markets, the Group implements four measures to enable it to adapt and respond appropriately. In Europe and the French domestic market, the Group combines the frequency effect on routes with high traffic potential, the opening of a number of routes and productivity in operating wider-bodied aircraft. This accounts for half the increase in Air France medium-haul capacity for the 2008 summer season.

The Group has also launched a new fare scale known as Eureka, common to both Air France and KLM, with very low entry level price points, increased flexibility, a simpler structure and more finely-tuned capacity management. This new fare scale is for leisure passengers as well as business travelers from small and medium-sized companies. In the event of head-on competition from a low cost airline, the Group responds in terms of offer and price. Finally, in the leisure market, the Group launched transavia.com France in summer 2007, linking Paris Orly with medium-haul leisure destinations. This offer is in addition to that of KLM subsidiary, transavia.com Netherlands.

➤ A balanced network (as a % of scheduled passenger revenues)



A further improvement in profitability for the passenger activity

The Group strengthened its position as European leader with a market share of 26.2% within the Association of European Airlines (AEA) in terms of traffic and 8% at global level. The passenger activity remained buoyant over the course of the year with traffic growing by 3.9% despite a negative impact of 0.6% due to strike action at Air France during the 2007 fourth quarter and at Orly air traffic control in early 2008. With capacity having increased by 4.6%, the load factor amounted to a high 80.8%, slightly down on the previous year (-0.6 of a point), but still nearly 4 points above the AEA average.

Key figures by network

At March 31	Destinations *(Summer season)*		Capacity in ASK *(In million)*		Traffic in RPK *(In million)*		Load factor *(In %)*		No. of passengers *(In thousands)*		Scheduled passenger revenues *(In € million)*	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Europe	134	122	57,958	56,748	40,868	40,219	70.5	70.9	51,701	51,312	7,220	7,079
North America	23	19	53,848	50,449	45,329	43,391	84.2	86.0	6,722	6,419	2,858	2,730
Latin America	11	10	26,530	23,915	22,822	21,162	86.0	88.5	2,424	2,306	1,364	1,283
Asia/Pacific	24	24	55,312	51,791	47,806	44,934	86.4	86.8	5,565	5,209	2,962	2,686
Africa-Middle East	50	49	35,811	34,928	28,191	27,304	78.7	78.2	5,318	5,142	2,527	2,362
Caribbean/ Indian Ocean	16	16	26,854	27,236	22,211	22,500	82.7	82.6	3,065	3,096	1,255	1,201
Total	**258**	**240**	**256,314**	**245,066**	**207,227**	**199,510**	**80.8**	**81.4**	**74,795**	**73,484**	**18,186**	**17,341**

The long-haul network

After two years of strong growth, Air France-KLM's long-haul network remains dynamic (+4.4%), benefiting from global growth and the absence of over-capacity in the main markets. Against this positive backdrop, the Group was able to adjust its pricing policy to the increase in the oil price via fuel surcharges. The load factor stood at a high 83.9% (-0.7 of a point) given a 5.3% increase in capacity. With a long-haul fleet of 156 aircraft, the Group carried 23.1 million passengers (+4.2%) to 124 destinations (summer 2008) in 69 countries. The double hub (Paris and Amsterdam) gives access to 38 unique destinations offered by KLM and 54 by Air France. For the 32 joint destinations, it enables a wide choice of flight times, particularly for the transfer passenger who has the choice of transiting through either Paris or Amsterdam. As in 2006-07, this network represented around 80% of traffic and 77% of capacity. Revenues amounted to €10.97 billion, up by 6.9% despite a negative currency impact of 2.8%. This network contributed 60% of passenger revenues (+1 point), thus confirming the Group's international dimension.

All the sectors saw strong activity and stable or increased load factors with the exception of the Americas market where traffic did not keep pace with the significant growth in capacity.

The ***North and Latin American*** market is the Group's first network in terms of both traffic (33%) and capacity (31%). 9.1 million passengers (+4.8%) traveled to the 29 destinations in 10 countries. Traffic rose by 5.6% for an 8.1% increase in capacity, taking the load factor to 84.8%, 2 points down on the previous year. Revenues amounted to €4.22 billion, growth of 5.2%, despite a negative currency impact of 3.7%. Its contribution to scheduled passenger revenues remained stable at 23%.

- The Group linked Europe with 23 destinations in ***North America*** compared with 19 destinations in the previous year and increased its frequencies particularly to the United States west coast. Most of the North American destinations are served by at least two daily flights, with the most important such as New York having between four and nine daily flights, without counting the flights operated under code share with our partners. Thanks to this coverage, the Group has a market share amounting to 9.5% of total capacity. Capacity was increased by 6.7% on the 2006-07 financial year. While dollar weakness and the economic crisis since the winter had a negative impact on leisure traffic, business traffic remained robust. Overall, traffic increased by 4.5% and the load factor remained at a high 84.2% (-1.8 point). Some 6.7 million passengers chose to travel with the Group, 4.7% more than in the previous year, generating revenues of €2.86 billion, up by 4.7%, after a negative currency effect of 3.5%.
- The Air France-KLM Group offers 11 destinations in nine ***Latin American*** countries served by one daily flight on average and has a market share of 18.3% in capacity terms, making it the leading carrier out of Europe. In line with its growth strategy, the company increased its capacity by 10.9%. The return of both local and European competitors limited traffic growth to 7.8%, resulting in a 2.5 point fall in the load factor which remained, nonetheless, at a very high level (86.0%). The number of passengers increased from 2.3 million in 2006-07 to 2.4 million this year for revenues of €1.36 billion, growth of 6.4%, after a negative currency effect of 4%.

The Group flies to 23 destinations in 11 countries in the **Asia-Pacific region**. With a market share of around 12% in terms of capacity, it is the European leader in this region, particularly in Japan, where it offers three destinations served by 48 weekly flights, and China where it offers 73 weekly flights to five destinations. India is also a large market with five destinations and 44 weekly flights. Outbound from Hong Kong and Singapore, Air France offers destinations in Australia on a code share basis with Qantas. Furthermore, since November 15, 2007, the leading Chinese carrier, China Southern, has been a SkyTeam member airline. Thanks to its hub strategy at Beijing and Guanghzou but also in the north-east and far west of China, the Chinese company offers 93 domestic destinations together with 36 destinations elsewhere in Asia.

The Asia-Pacific network is the Group's second long-haul network and also ranks number two in terms of traffic. It represented 23% of overall traffic and 22% of capacity, a one point increase on the previous year. Activity was again very strong with a 6.4% progression in traffic, in line with the increase in capacity (6.8%) and a high load factor of 86.4% (-0.3 of a point). More than 5.6 million passengers (+6.8%) were carried on this network, generating revenues of €2.96 billion (+10% after a negative currency impact of 2.7%), accounting for around 16% of total scheduled passenger revenues.

With 50 destinations in 40 countries, ***Africa-Middle East*** is the Group's third long-haul network. As in 2006-07, this network accounted for 14% of traffic and capacity. Despite a build up in regional and international competition, its traffic increased by 3.2% for capacity up by 2.5%, underpinning a 0.5 point rise in the load factor to 78.7%. The Group carried 5.3 million passengers (+3.4%) and generated revenues of €2.53 billion, a 6.9% increase after a negative currency impact of 2.7%. This network contributed around 14% of total scheduled passenger revenues.

- The ***Africa*** network comprises 35 destinations in 28 countries. Since a number of countries were facing geopolitical crises, capacity was only slightly increased on the previous year (+2.7% compared with +5.3%). With traffic continuing to grow (+2.8%), the load factor stabilized at 79.8% (+0.1 of a point). The Group carried 3.5 million passengers (+3%), making it the leading European carrier to Africa with a market share of around 26% in terms of capacity. In addition to the traditional product, Air France has a specific offer, Dedicate, to facilitate business travel to oil industry-related sites and zones of economic activity in far-flung regions in Africa, where it offers five destinations. KLM has also developed a specific offer for oil and gas industry destinations with a service from Amsterdam to Houston.

- The ***Middle East*** network covers 15 destinations in 12 countries. Activity saw strong growth (+4.5%) while capacity increased by 2.2%, resulting in a 1.6 point rise in the load factor to 76.0%. Air France-KLM is the leading European carrier to this region, with a market share of around 7% in terms of capacity.

The ***Caribbean and Indian Ocea***n network offers 16 destinations in five countries. With 11% of traffic and 10% of capacity, this network is the Group's fourth long-haul network. The Caribbean network includes the French and Dutch West Indies, Guyana and Suriname. These destinations are linked between themselves and with Miami by a regional network operated by two Air France Airbus A320s. The Indian Ocean network serves Reunion Island, the Seychelles, Mauritius and Madagascar. This network has not recovered the dynamism it enjoyed prior to the health crisis of 2006. Traffic fell by 1.3% for a capacity reduction of 1.4%, the load factor remaining stable at 82.7%. The number of passengers amounted to 3 million (-1%) and revenues to €1.25 billion, up by 4.5%. Its share of total scheduled passenger revenues remained stable at 7%.

The medium-haul network

The medium-haul network is the Group's third network with 20% of traffic and 23% of capacity. It covers France, the other European countries and North Africa and totals 134 destinations in 36 countries, of which 62 operated by Air France and its regional subsidiaries BritAir, Régional and CityJet, 24 operated by KLM and its regional subsidiary KLM Cityhopper and 48 destinations served by both companies. With a fleet of 387 aircraft in operation including 189 regional aircraft, the Group carried 51.7 million passengers (+0.8%). This network mainly links Europe with the rest of the world thanks to the Group's two hubs. The French domestic market is mainly served out of Orly.

Traffic growth over the year was 1.6% for a capacity increase of 2.1%. The load factor amounted to 70.5% (-0.4 of a point) and revenues to €7.22 billion, up by nearly 2% after a negative currency effect of 1.3%. This network represented 40% of total scheduled passenger revenues.

Key figures for the passenger activity

Year ended	March 31, 2008	March 31, 2007	March 31, 2006
Number of passengers *(In thousands)*	74,795	73,484	70,015
Total passenger revenues *(In €m)*	19,156	18,366	16,942
Scheduled passenger revenues *(In €m)*	18,186	17,341	15,902
Unit revenue per ASK *(In € cents)*	7.09	7.08	6.78
Unit revenue per RPK *(In € cents)*	8.78	8.69	8.40
Unit cost per ASK *(In € cents)*	6.52	6.56	6.40
Income from current operations *(In €m)*	1,291	1,067	686

Total revenues in the passenger activity reached €19.16 billion at March 31, 2008, up by 4.3% despite a negative currency impact of 2.2%.

The increases in unit revenue per available seat-kilometer (ASK) and per revenue passenger-kilometer (RPK) were, respectively, 0.3% and 1%, or 2.5% and 3.2% on a constant currency basis. Unit cost per available seat-kilometer fell by 0.7% and by 0.9% on a constant currency and fuel price basis.

Income from current operations increased by 21% over the year to €1.29 billion, after a negative impact of around €75 million due to the various strikes at Air France. The operating margin adjusted for the portion of operating leases considered as financial charges increased from 6.8% to 7.6%.

Income from current operations has virtually doubled thanks to the significant synergies generated by the successful integration of the two companies. Over the course of the year synergies amounted to €71 million, of which €34 million from marketing and revenue management and €37 million from sales. In four years, total synergies have amounted to €423.7 million, of which €265.1 million in revenues and €158.6 million in cost savings. The additional revenues come, for example, from network rationalization, fare combinability which attracts new customers and the establishment of a single frequent flyer program which also enables cost savings as do the integration of sales teams and the sharing of lounges and airport infrastructure.

Cargo activity

Cargo is the second of the Group's activities, accounting for 12% of total revenues.

An environment marked by higher costs and tougher competition

In addition to the US economic slowdown since the last quarter of 2007 which is dampening global growth, the rise in the oil price and dollar weakness have both had negative repercussions for the cargo activity in particular. The development of the Chinese market and of trade between China and Europe underpinned continued strong demand (+4.0%) although growth was short of the average for the past decade (4.6%) (*source: IATA*). The rise in the oil price resulted in a corresponding increase in production costs. While the 18% appreciation in the euro relative to the dollar over the year did help to offset the impact of the higher oil price, it also penalized European exports, particularly those from France. The revaluation of the euro relative to other currencies such as the yen or Chinese yuan was also unfavorable, reducing the competitiveness of the European offer within an even tougher competitive environment.

Competition from shipping

Shipping remains a very significant competitor and, given the scale of Chinese demand and export potential, China has contributed to its growth. Shanghai and Shenzhen are in the process of becoming the largest ports in the world for container carriers. Shipping growth thus outpaced that of air freight during 2007. The efficiency of large tonnage ships, supported by that of port facilities has enabled marine transportation to broaden its offer and lower prices. Thus, high-tech products, whose prices are falling year on year, constitute a new target market. The integrators also continue to put pressure on prices in arbitraging between the different transportation channels.

New players

In Asia, China remains the driver of cargo growth. However, the imbalance of flows with Europe and the rise of new players is seeing a tougher market environment. Furthermore, the Gulf airlines are taking advantage of their favorable geographical positioning to increase their capacity. New companies are operating out of Amsterdam such as Jade Cargo, a joint-venture between Shenzhen Airlines and Lufthansa, and Great Wall Airlines, a Chinese company that flies to Tianjin, the leading international cargo hub in northern China. The growth of the Chinese airports for international freight traffic has been significant: Shanghai is overtaking Charles de Gaulle and Beijing is set to enter the Top 15 in 2008; in the Middle East, Dubai will enter the Top 10 this year (*source: ACI*).

A market which remains buoyant

2007 was a record year with the placing of 151 orders for cargo aircraft, the global cargo fleet entering a renewal cycle accelerated by the increase in the fuel price.

However, despite likely overcapacity, annual air freight growth is expected to average around 4.8% through to 2011.

Air France-KLM Cargo, a European and global leader

Air France-KLM Cargo, the European and world-wide market leader excluding integrators, maintained its market share measured in traffic terms (29.5% in 2007 compared with 29.6% in 2006) amongst the AEA (Association of European Airlines) member airlines and at global level (7% as in 2006). Over the financial year, the Group transported more than 1.5 million tons of freight, of which half in the holds of passenger aircraft and half in 13 dedicated cargo aircraft (16 aircraft at March 31, 2007) to 350 destinations in 175 countries.

In the face of a less buoyant environment, Air France-KLM Cargo's response has been to leverage its strengths of an integrated organization together with an attractive network and product offer and introduce measures to adapt its business.

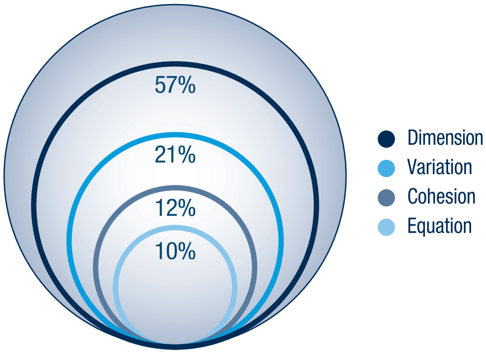
An integrated organization

In order to respond to their customers' expectations, Air France Cargo and KLM Cargo decided, in October 2005, to establish an integrated organization, the Joint Cargo Team. Thus, the sales, distribution, marketing, network management and communication as well as the strategy and development teams have all been regrouped within one integrated structure, representing more than 2,300 of the 5,750 employees working for the cargo activity.

This organization enables Air France-KLM Cargo to offer all its customers one contact point, one contract and a single network with the choice of two separate operational systems via Paris CDG or via Amsterdam Schiphol, or a combination of the two hubs.

The integration of the two cargo activities within a common structure has generated significant synergies totaling €70 million, of which €25 million during the 2007-08 financial year.

➤ **A product range tailored to specific needs (as a % of scheduled cargo revenues)**



A tailor-made product range

Air France-KLM Cargo has a product range organized around four product families which respond to the specific needs of industrial companies and the markets. This product range is also offered by the members of the SkyTeam Cargo alliance. Founded in 2000, SkyTeam Cargo brings together Air France-KLM Cargo, AeroMexico Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, Korean Air Cargo and Northwest Cargo with a network of 728 destinations. The alliance also prioritises one sole contact point together with the *one roof concept*, with most of the freight transiting the cities served by the alliance being handled in warehouses or by ground handlers that are common to all the SkyTeam Cargo members.

Equation is the Group's express shipment solution and guarantees immediate boarding, without prior reservation, on the first available flight and the shortest handling time. It contributed around 10% of revenues as in the previous year after taking into account fuel surcharges.

Variation offers solutions for the transportation of atypical merchandise, in which Air France-KLM Cargo specializes. These range from hazardous or high added-value products to live animals and over-sized parcels and the French mail service. This family contributed around 21% of revenues as in the previous year after taking into account fuel surcharges.

Cohesion is a customized logistics solution, based on a three-way contractual agreement between the shipper, the cargo agent and the airline. It thus gives customers the opportunity to establish a closer relationship with Air France-KLM Cargo and has grown steadily since its launch with its proportion of revenues increasing from 10% to 12% in the space of a year after taking into account fuel surcharges.

Dimension covers the general cargo category and offers standard airport-to-airport shipping of cargo that does not require special handling and mostly concerns consolidated shipments. Its share of revenues is gradually declining in favor of other products with higher added value and, at March 31, 2008, stood at 57% compared with 61% two years earlier, after fuel surcharges.

In order to meet the needs of its customers, Air France-KLM Cargo has also developed e-services, ranging from e-freight, which replaces paper invoices, to the *Track and Trace* tool which enables the real time status of a shipment to be tracked.

Measures to prepare for the future

The cargo activity is confronted with a number of risks, namely excess capacity, the continued high oil price and increased competition from Chinese companies on the Europe-Asia axis.

Faced with the first two risks, Air France-KLM Cargo decided to withdraw the Boeing B747-200s from the fleet early and replace them with Boeing B747-400s. The Group has, thus, been able to both adjust its capacity and replace aircraft whose energy performance is no longer compatible with its financial and environmental objectives. This policy of renewing the cargo fleet was reinforced in May 2007 by the decision to replace five Boeing B747-400 cargo aircraft with Boeing 777-200Fs which will lead to a further reduction in unit costs. Air France is the launch company with the first Boeing B777-200F scheduled for delivery in autumn 2008.

In order to participate in the development of cargo flows between Asia and Europe, as well as in Asia itself, Air France-KLM Cargo's cooperation with China Southern was stepped up with the signature, in July 2007, of a letter of intent followed, in June 2008, by a framework agreement aimed at creating a joint cargo company.

The environment is also a key concern

Air France-KLM Cargo is aware of the impact of its activity on the environment and seeks to reduce this in making the renewal of the Air France cargo fleet a key priority. The replacement of the twelve Boeing B747-200Fs by ten Boeing B747-400s with the same cargo capacity has reduced emissions in 2008 by 14% on 1998 levels. In 2012, with a fleet of nine B777-200Fs and three B747-400ERFs, the reduction will be 26%. In terms of noise energy, the benefits are even more significant since noise energy at CDG has been halved in 2008 and will be divided by four in 2012. The Group also offers its customers the opportunity to offset the CO_2 emissions involved in these flights.

Finally, in developing e-freight, the Group is saving significant quantities of paper.

2007-08: profitability impacted by the renewal of the fleet

The financial performance of the Group's cargo activity improved markedly during the second half. In the first half, traffic fell by 1.2% on stable capacity (+0.3%), resulting in a loss from current operations of €29 million whereas in the second half traffic increased by 3.1% for a 2.7% increase in capacity, generating income from current operations of €68 million. In addition to robust unit revenues during the second half, the improvement also stemmed from the renewal of the fleet.

Over the financial year, capacity increased by 2.1% and traffic by 3.4%, taking the load factor to 67.5% (+0.9 of a point). Cargo revenues progressed by 1.8%.

	Capacity in ATK *(In millions)*		Traffic in RTK *(In millions)*		Load factor *(In %)*		No. of tons *(In thousands)*		Cargo revenues *(In € million)*	
At March 31	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Europe	563	554	90	86	16.1	15.5	70	68	67	71
North and South America	5,524	5,404	3,709	3,679	67.2	68.1	484	484	849	833
Asia-Pacific	7,653	7,699	5,726	5,497	74.8	71.4	658	624	1,251	1,239
Africa - Middle East	2,056	1,825	1,287	1,132	62.6	62.1	225	205	382	354
Caribbean-Indian Ocean	1,047	1,008	553	593	52.9	58.8	73	77	190	194
Total	**16,842**	**16,490**	**11,365**	**10,986**	**67.5**	**66.6**	**1,510**	**1,458**	**2,739**	**2,691**

Asia-Pacific is still the Group's leading network, representing 45% of capacity and 50% of traffic. It remained dynamic with traffic growing by 4.2% for slightly lower capacity (-0.6%). The load factor improved by 3.4 points to 74.8%. Revenues increased by 1% to €1.25 billion.

The Americas is the second network, representing around one third of capacity, traffic and revenues. Traffic increased by 0.8% for capacity up by 2.2%, resulting in a 0.9 point fall in the load factor to 67.2%. Revenues grew by 2% to €849 million.

Africa-Middle East, the Group's third network, again proved dynamic with significant increases in both capacity (+12.7%) and traffic (+13.7%). The load factor improved by a half point to 62.6%. This network represents around 12% of capacity and traffic. Revenues grew by 7.9% to €382 million.

The Caribbean-Indian Ocean network recorded a lower level of activity, with traffic down by 6.6% and capacity up by 3.8%. The load factor fell by 5.9 points to 52.9%. Revenues, however, only fell by 2% to €190 million.

Key figures for the cargo activity

Year ending	March 31, 2008	March 31, 2007	March 31, 2006
Tonnage transported *(In thousands)*	1,510	1,458	1,428
Total cargo revenues *(In €m)*	2,928	2,908	2,882
Freight transport revenues *(In €m)*	2,739	2,691	2,673
Unit revenue per ATK *(In € cents)*	16.26	16.32	16.30
Unit revenue per RTK *(In € cents)*	24.09	24.49	24.68
Unit cost per ATK *(In € cents)*	15.89	15.84	15.07
Income from current operations *(In €m)*	39	62	166

Air France-KLM Cargo generated total revenues of €2.93 billion, up by 0.7%, after a negative currency impact of 3.6%. The recovery in unit revenues during the second half offset, excluding currency, their first-half weakness. During the financial year to March 31, 2008, unit revenue per ATK (available ton-kilometer) fell by 0.4% but rose by 3.3% excluding currency whereas unit revenue per ton-kilometer (RRTK) fell by 1.6%, an increase of 2% excluding currency. Unit cost per ATK remained flat on a constant currency and fuel price basis (-0.1%). Income from current operations fell by 37.1% to €39 million compared with €62 million at March 31, 2007. The operating margin adjusted by the portion of operating leases considered as financial charges (34%) declined from 2.7% at March 31, 2007 to 2.1% at March 31, 2008.

Since February 2006, the world-wide air cargo industry has been the subject of investigations by the European and US competition authorities into alleged illegal price fixing. As of the start of the investigations, Air France-KLM agreed to cooperate in full transparency with the competition authorities (the Department of Justice in the USA and the Directorate General for Competition in Europe). In this spirit of cooperation, the Group is still negotiating with the competition authorities, particularly in the US. With a view to reaching agreement during the 2008-09 financial year, the Group booked a €530 million provision representing, at this stage, the best estimate of the risk incurred. This provision is booked as an exceptional charge and has no incidence on the operating profitability of the cargo activity.

Maintenance activity

Aircraft maintenance is the Air France-KLM Group's third business line with third-party revenues accounting for around 4% of the Group total. These third-party revenues contribute around one third of revenues generated by the maintenance activity.

Continued growth in the aeronautics maintenance market

The aeronautics maintenance market (Maintenance, Repair & Overhaul or MRO), estimated at $45 billion in 2007, is expected to grow by around 3%[1] per year over the next decade. However, the growth will be characterized by some marked regional differences. Currently, three zones represent more than 80% of the market (North America with 36%, Europe with 27% and South-East Asia with 18%) whose growth rate is close to the market average, whereas growth in China, India and the Middle East should be significantly higher at between 8% and 15%.

Furthermore, the proportion of outsourced maintenance is growing and is expected to increase from 52% in 2007 to more than 70% within ten years. However competition is becoming more intense, with manufacturers wanting to offer their customers integrated maintenance solutions and independent players benefiting from the consolidation in this sector.

A significant dollar impact

In a market where competition is intensifying, the maintenance activities located in Europe are impacted by the devaluation in the dollar relative to the euro. In effect, contracts are negotiated principally in dollars whereas a significant portion of European MRO production costs are in euros. Despite the dollar effect, the Group's flagship Component Support Services and Engine Overhaul activities grew by more than 11% (excluding currency).

Air France Industries and KLM E&M: two specialized centers

The Group's MRO activities mainly concern two profit centers: Air France Industries (AFI) and KLM Engineering & Maintenance (KLM E&M).

AFI and KLM E&M maintain the Air France and KLM fleets as well as those of over 150 customers, handing more than 900 aircraft. The Group's total MRO revenues amounted to €2.9 billion. In order to ensure maintenance located as close as possible to the operational fleet, AFI has runway-located infrastructure, known as HMCs or hub maintenance centers, so that inspections can take place as soon as aircraft arrive at the terminal. Procedures have been optimized, enabling information to be received prior to the aircraft's arrival and maintenance and materials planned. This new infrastructure improves line maintenance and contributes to the respect of the Group's maintenance program. Subsidiary KLM UK Engineering has opened a new line maintenance center at London City airport, enabling it to offer this service to the CityJet fleet and to new third-party customers.

An evolving heavy maintenance business

New technologies have had a major impact on the heavy airframe overhaul activity. Materials are more reliable, effectively reducing the labor requirement of this business. In parallel, low cost countries have a structural advantage in these highly labor-intensive activities.

In order to contend with this trend, the Group plans to adapt its industrial facilities and call on airframe overhaul capacity in low-cost countries in order to be able to market a competitive service in this segment, while retaining its strategic expertise in the heavy maintenance of the fleets operated by the Group as well as its cabin modification capacity close to operations.

A multi-product offer tailored to customer expectations

The engineering of the Group's fleet is handled by AFI KLM E&M, giving this division a high-level of expertise and enabling it to offer customized monitoring of customer maintenance programs. From support services to line maintenance, component support, engine overhaul and cabin modification, the AFI KLM E&M multi-product offer covers the entire maintenance chain.

(1) Source: Aerostrategy 2008.

Component support products: recognized expertise

AFI and KLM are developing specific expertise which is recognized by the market and the maintenance facilities enjoy a reputation for state-of-the-art competence.

Geographical presence and customer proximity are key to the component support business. The deployment of the Group's logistics network has seen the opening of various logistics centers in three main regions: South-East Asia, China and North and South America where AMG and its subsidiaries (affiliated with the Group) ensure localized logistics and the growth in component repair capacity.

Integrated services, the strategic availability of parts inventories and the scale effects on key products are also significant drivers of competitiveness. The continuing trust and satisfaction of customers was reflected, in 2007-08, in the renewal of a number of major contracts, such as for Royal Jordanian's Airbus A340s and A321s or BRA Transportes's Boeing B737s.

Partnerships with a number of OEMs strengthen the competitive positioning of the Group while providing economies of scale. For example, the number of Boeing B777s supported by the CSP (Component Support Program) partnership between AFI and Boeing continued to grow over the financial year to 124 aircraft. A similar partnership has been developed between KLM E&M and Boeing for the new-generation Boeing B737s.

Subsidiary EPCOR, specialized in APU (Auxiliary Power Unit) overhaul, has supplemented the multi-product offer on the Boeing B737 NG, Airbus A330/340 and Boeing B777 aircraft as of this financial year.

Engine support products: economies of scale

The growth in the engine business is benefiting from the economies of scale provided by the Group fleet and from strategic partnerships with engine OEMs. AFI is increasing its engine overhaul capacity for the GE90 and is preparing for the arrival of the GP7000 destined for the Airbus A380. For its part, KLM E&M is developing its position in CF6-80 E1 overhaul (the engine for the Group's A330s) and continues to ensure the maintenance checks on General Electric's CFM56-7 engine.

Third-party revenues continue to grow with customers such as Pegasus Airlines choosing AFI KLM E&M for the maintenance of their CFM56-7B engines.

Subsidiary CRMA, which celebrated its fiftieth anniversary this year, helps underpin the growth in engine support by developing capacity in GE 90 component repair and in its combustion chamber specialization.

An ability to innovate while respecting the environment

AFI and KLM E&M combine technological innovation with the drive for productivity. The aircraft painting process developed by KLM E&M in 2007, for example, reduces the amount of product used by 15% and thus the weight of the aircraft, contributing to the reduction in fuel consumption. In the spirit of sharing best practice, Air France has adopted the engine wash system carried out in the hanger developed by KLM E&M and known as *Water Wash*.

Innovation doesn't just mean creating new technologies but also an ongoing improvement in existing systems and processes. The two companies are committed to an ongoing progress dynamic which brings together in-house momentum, customer satisfaction and business performance.

Thus, within the framework of its Quality Innovation Program (QIP), AFI encourages all its employees to submit innovative ideas known as QIPs and see them through to their implementation. In 2006, of the 5,700 QIPs put forward, 84 generated a saving of around €4 million. In 2007-08 more than 7,100 ideas were submitted.

A recognized quality system

AFI deploys an Integrated Management System providing the company with the methods and tools to ensure an ongoing improvement in performance. Thanks to this policy, in June 2007, Air France became the first aircraft maintenance operator in the world to achieve Single Global Certification. This certification covers seven aeronautical standards (ISO and EN series included) world-wide.

Investment in training

The growth in the activities depends on the professionalism and expertise of teams who are familiar with the lastest technologies. A regular program of training ensures that their knowledge is up to date and meets the needs of a number of specialist competences. It contributes to securing the loyalty of this high-quality human capital. The ambitious apprenticeship program developed over the past ten years at AFI reached a new record in this financial year in welcoming more than 400 apprentices.

A common operational model

The two companies are pursuing the deployment of a new harmonized mode of functioning, aimed at establishing the foundations of a maintenance network.

The phasing in of shared engineering responsibilities for the Group's aircraft though the establishment of the CEAs (Central Engineering Agency) was completed in 2007 and the sharing of technical and economic responsibility for PLA (Product Leadership Agency) product management of engines and components is continuing. Having set up joint sales teams in 2007, the Group is harmonizing the commercial and strategic processes which should soon result in a joint sales and marketing organization and regrouping all the Industrial Development, Marketing, Communication and Sales activities around a common strategy.

Similar process harmonization initiatives are also underway in other areas such as procurement and logistics.

Key figures for the maintenance activity

Year ended	March 31, 2008	March 31, 2007	March 31, 2006
Number of aircraft handled	900	900	800
Total revenues *(In €m)*	2,859	2,864	2,688
Third-party revenues *(In €m)*	969	977	896
Income from current operations *(In €m)*	63	44	54

The marked depreciation in the dollar which represented 6% of 2007-08 third-party revenues held back revenue growth despite strong activity in the engine overhaul and component support businesses (+11% on a constant currency basis). The development of component support services represents one of the principal drivers of growth in income from current operations.

Other activities

The main businesses in this segment are the catering and leisure activities with consolidated revenues of €990 million, representing 4% of the Group total.

Catering: a leading player

The catering activity is organized around Servair, an Air France subsidiary, which contributes 93% of the revenues of this activity and KLM subsidiary, KLM Catering Services.

Servair, the leader in the French catering market and number three globally, comprises 35 subsidiaries located in France, Italy (Air Chef), Africa, the Caribbean and the Indian Ocean. Some 17 of its production sites are ISO 2001 certified. Servair also has a number of equity interests in companies based in Spain (Newrest-Servair Espana), the United States (Flying Food Group), China and Africa. Total employees amount to 8,150, including more than 100 head cooks and 40 experts in hygiene, microbiology and quality standards. KLM Catering Services is the leader in its domestic market.

Every day of the year, the two companies provide Air France and KLM as well as their third-party airline customers with a wide range of services including:

- catering with the assembly of meal trays for passengers and crew, compliant with regulations specific to the air transport sector and the pre-preparation of meals;
- the supply or loading, in addition to meal services, of drinks, hospitality products, and newspapers and magazines, together with the washing of equipment unloaded from aircraft;
- cabin cleaning and supply.

Servair also offers its customers other services such as assistance for passengers with restricted mobility, the management of onboard sales and the supply of newspapers and magazines.

Servair has 130 airline customers with a presence at more than 70 airports world-wide. KLM Catering Services only has operations at Schiphol airport and offers its services to external customers.

Air France and KLM have chosen to work with well-known chefs. For *L'Espace Première*, Air France benefits from the advice of Guy Martin, chef at a Michelin-starred restaurant in Paris. The wines served on board are selected by Olivier Poussier, winner of the best world sommelier award in 2000. KLM has chosen Cess Helder, whose restaurant is also Michelin-starred, for its *World Business Class* cabin.

The catering activity achieved growth of 77% in external revenues, up from €188 million to €332 million. This increase was due to a very good level of activity particularly at Servair and the full consolidation of a subsidiary previously accounted under the equity method. Income from current operations rose by 69% to €27 million. This improved performance is also explained by the cost-savings plans deployed in the two subsidiaries, *Winning through change*, launched in 2005 at Servair, which delivered nearly €7 million of savings this year and *Operational Excellence* at KLM Catering Services, also launched in 2005, with a target of reducing unit costs by 2% a year over five years.

In 2007-08 Servair sold its 27% shareholding in British company Alpha Airport Group Plc and purchased 25% of the capital of Nanland Catering, the catering subsidiary of China Southern Airlines based in Canton. The latter operation is part of Servair's partnership strategy which prioritizes associations with local players that have a good knowledge of the market and its customs.

Key figures for the catering activity

Year ended	March 31, 2008	March 31, 2007	March 31, 2006
Total revenues *(In €m)*	917	739	711
External revenues *(In €m)*	332	188	145
Income from current operations *(In €m)*	27	16	7.5

Leisure: a low cost offer

The Group is developing a low cost leisure business via its transavia.com subsidiaries based in Amsterdam and Paris Orly. This offer is directed at medium-haul leisure customers and at tour operators with charter flights.

transavia.com Netherlands operates a fleet of 28 Boeing B737-700 and 800 aircraft and offers, out of Amsterdam, Eindhoven and Rotterdam, scheduled flights to 27 destinations and charter flights to 73 destinations which can also be booked by individual passengers. The airline also offers special flights and leases aircraft with or without crew. On the website customers can also find holiday accommodation with transavia.com flights and packages marketed by well-known tour operators.

transavia.com France was launched in May 2007 to capitalize on the expertise of the Dutch company and the existing tools. It has developed a network of 21 scheduled and charter destinations with a fleet of five Boeing B737-800s.

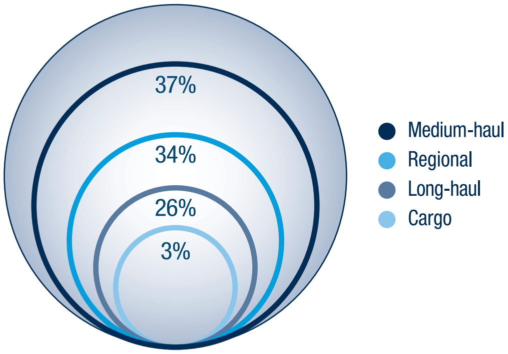
The launch costs of transavia.com France impacted the results of the leisure business but the performance of the French subsidiary is in line with the objectives that have been set.

Key figures for the leisure activity

Year ended	March 31, 2008	March 31, 2007	March 31 2006
Number of passengers *(In million)*	6.0	5.2	4.8
Total revenues *(In €m)*	673	584	512
Income from current operations *(In €m)*	2	35	23

Fleet

➤ Breakdown of the Air France-KLM fleet



At March 31, 2008, the Air France-KLM Group fleet comprised 622 aircraft, of which 607 were operational compared with, respectively, 591 and 569 aircraft at March 31, 2007. The main fleet consists of 408 aircraft (393 aircraft at March 31, 2007), of which 159 long-haul (154 at March 31, 2007), 16 cargo and 233 medium-haul aircraft (223 at March 31, 2007), including 33 aircraft in the transavia.com fleet (27 aircraft at March 31, 2007). The regional fleet comprises 214 aircraft (195 at March 31, 2007).

299 aircraft are fully owned (48% of the fleet compared with 46% one year earlier), 121 aircraft are under financial leases representing 20% of the fleet (22% at March 31, 2007) and 185 under operating leases (32% of the fleet compared with 31% at March 31, 2007). There were firm orders for 105 aircraft at March 31, 2008, including 30 orders for regional aircraft, while options stood at 63 of which 22 for regional aircraft. Orders had amounted to 47aircraft and options to 34 in the previous year.

A pro-active fleet policy

The Air France-KLM Group pursues a pro-active fleet policy whose objective is to ensure a fleet scaled in line with growth in traffic and to achieve technological consistency while reducing its environmental impact.

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 requirements, 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.

In order to preserve the fleet's asset value, the choice of aircraft is based on models offering long-term operating potential and a potentially positive 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. More than €2 million were generated during the last financial year, bringing the total since the merger of the two companies to nearly €10 million. These synergies come either from a joint approach to suppliers or from transferring aircraft between subsidiaries.

Flexibility, an optimization tool

Flexibility in the management of the fleet 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 fine-tuned to 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 an average of one third of its fleet under operating leases. This policy, implemented progressively, gives the Group a degree of leeway on around 5% of its annual capacity in returning aircraft or extending their contract periods.

Thus, over the next four financial years, the fleet plan measured in the number of seats can be scaled up or down according to requirements. In summer 2012 relative to summer 2008, the number of seats in the long-haul fleet might have either increased by 21% to support growth or fallen by 9% in the event of a slowdown in activity. For the medium-haul fleet, these figures are +5% and -11%, respectively, over the same period.

The environment: a key concern

The two airlines have decided to accelerate the rationalization of their fleets in replacing aircraft whose energy efficiency no longer corresponds with the Group's environmental standards. During the 2006-07 financial year, Air France replaced the Boeing B747-300s in its Caribbean-Indian Ocean network with Boeing B777-300ERs, thus reducing CO_2 emissions per aircraft by 21% in 2006 and 28% in 2007.

In May 2007, Air France took the decision to renew its Boeing B747-400 fleet and part of its medium-haul fleet. Consequently, 18 B747-400s, of which 13 passenger and 5 cargo aircraft, will be replaced by 18 B777s, for staged delivery between 2007 and 2013.

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. The investment made since 2000 is improving the long-haul fleet's energy efficiency, with fuel consumption per passenger over 100 kilometers reducing from 4.23 liters in 2000 to 3.44 liters in 2012, a saving of nearly 19%.

For the medium-haul fleet, it has been decided to replace the oldest Airbus aircraft. Thus 30 A320s will be replaced by 30 A320 and A321 new-generation aircraft.

In 2005-06, KLM decided to renew its Boeing B767-300ERs with Airbus A330s and Boeing B777-200s. This renewal will be complete by summer 2009.

The Air France Group fleet

The Air France Group fleet totaled 427 aircraft at March 31, 2008, including 263 aircraft in the main fleet and 164 in the subsidiaries.

The Air France fleet

The Air France fleet comprised 263 aircraft at March 31, 2008, with 255 in operation. The fleet includes 150 medium-haul, 100 long-haul and 13 cargo aircraft and has an average age of 8.8 years, including 7.2 years for the long-haul, 9.9 years for the medium-haul and 8.9 years for the cargo fleet.

Within the fleet, 161 aircraft are fully owned (61%), 12 aircraft are under financial leases (5%) and 90 aircraft under operating leases (34%).

Investment in aircraft amounted to €1.21 billion over the year (including advance payments on orders and ground-based maintenance operations). At March 31, 2008, the order book comprised 51 firm orders and 24 options.

Over the 2007-08 financial year, 14 aircraft joined the fleet and 12 were withdrawn. In the long-haul fleet, five Boeing B777-300ERs joined the fleet and one B747-300 not in operation since summer 2006 was withdrawn. Three Boeing B747-400s were transferred to the cargo fleet after conversion.

The cargo fleet underwent major renewal during this financial year. The seven remaining Boeing B747-200Fs, of which three were in the process of being sold at March 31, 2008, have been replaced with four Boeing B747-400 BCFs, of which three transferred from the passenger fleet.

In the medium-haul fleet, seven aircraft were withdrawn during the 2007-08 financial year, four Boeing 737-500s, one Airbus A319 and two first-generation Airbus A320s, while eight aircraft were added, six Airbus A321s, one Airbus A320 and one Airbus A319ER.

The withdrawal of four Boeing B737-500s completed the rationalization process in the medium-haul fleet which now comprises only aircraft in the Airbus A320 family with passenger capacities of between 123 and 206 seats. This choice enables a reduction in operating and maintenance costs due to common technical specifications for flight decks, equipment and engines.

The fleet of the regional subsidiaries

The fleet of the regional subsidiaries is organized around four aircraft families: the Embraer family at Régional, the Bombardier family at BritAir, the Fokker family common to both BritAir and Régional and the BAE fleet operated by CityJet. At March 31, 2008, the total fleet of these three subsidiaries comprised 141 aircraft, with a seat capacity of up to 100, including 134 in operation and seven non-operational (two of which at CityJet and five at Régional).

Furthermore, Air France took control of VLM whose fleet of 18 Fokker 50s entered the Group scope on March 1, 2008.

Over the financial year, Régional took delivery of the last four Embraer 190s of an initial order of six aircraft and withdrew two Embraer 120ERs and one Fokker 100. BritAir took delivery of three CRJ700s and returned three CRJ 100s.

Within the framework of the complete renewal of its fleet, CityJet acquired nine Avro RJ85s in the secondary market to replace the 13 BAE146s which were withdrawn from the fleet during the period.

The average age of the fleet in operation was 10.1 years at March 31, 2008: 9.6 years for the BritAir fleet, 9.9 years for Régional and 11.7 years instead of 18.7 for CityJet thanks to the renewal of its fleet.

Investment in aircraft amounted to €122 million over the year. Of a total fleet of 159 aircraft, 71 are fully owned (45%), 41 under financial lease (26%) and 47 under operating lease (29%). At March 31, 2008, the order book stood at 24 firm orders and 13 options, including a portion of the first grouped order placed by two Group airlines, Régional and KLM Cityhopper, for the acquisition of Embraer Ejets. This grouped order has significantly improved the purchasing conditions on these aircraft. For its part, Régional placed 14 firm orders for five Embraer 190s and nine Embraer 170s together with five options for four Embraer 190s and one Embraer 170.

The fleet of transavia.com France, the charter and low cost subsidiary launched in May 2007, comprises five Boeing B737-800s, all in operation and under operating lease.

Air France Fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
B747-400	9	6	-	-	7	7	16	13	15	13
B747-300/200	4	3	-	-	-	-	4	3	-	-
B777-200/300	25	30	4	4	15	15	44	49	44	49
A340-300	10	10	3	3	6	6	19	19	19	19
A330-200	6	6	1	1	9	9	16	16	16	16
Long-haul fleet	**54**	**55**	**8**	**8**	**37**	**37**	**99**	**100**	**94**	**97**
B747-400	2	5	-	-	4	5	6	10	6	10
B747-200	6	3	-	-	1	-	7	3	7	-
Cargo	**8**	**8**	-	-	**5**	**5**	**13**	**13**	**13**	**10**
A321	11	11	-	-	3	9	14	20	14	20
A320	52	50	-	-	16	17	68	67	68	65
A319	19	19	4	4	22	22	45	45	45	45
A318	18	18	-	-	-	-	18	18	18	18
B737-500	2	-	-	-	2	-	4	-	4	-
Medium-haul fleet	**102**	**98**	**4**	**4**	**43**	**48**	**149**	**150**	**149**	**148**
Total	**164**	**161**	**12**	**12**	**85**	**90**	**261**	**263**	**256**	**255**

Regional fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
BritAir										
Canadair Jet 100	2	2	11	11	5	2	18	15	18	15
Canadair Jet 700	3	6	9	9	-	-	12	15	12	15
F100-100	5	5	-	-	8	8	13	13	13	13
Total	**10**	**13**	**20**	**20**	**13**	**10**	**43**	**43**	**43**	**43**
CityJet										
BAE146-200/300*	5	5	1	-	14	2	20	7	20	6
AVRO RJ 85	13	14	-	-	1	9	14	23	3	22
Total	**18**	**19**	**1**	**-**	**15**	**11**	**34**	**30**	**23**	**28**
Régional										
BEECH 1900-D	3	3	1	1	1	1	5	5	-	-
EMB190	-	-	-	-	2	6	2	6	2	6
EMB145-EP/MP	2	4	17	17	9	7	28	28	28	28
EMB135-ER	2	3	3	3	4	3	9	9	9	9
EMB120-ER	8	6	-	-	-	-	8	6	8	6
F100-100	4	3	-	-	6	6	10	9	9	9
F70-70	-	5	5	-	-	-	5	5	5	5
Total	**19**	**24**	**26**	**21**	**22**	**23**	**67**	**68**	**61**	**63**
Total regional fleet	**47**	**56**	**47**	**41**	**50**	**44**	**144**	**141**	**127**	**134**

* *Including 2 aircraft sub-leased by KLM U.K. to CityJet.*

Other fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
Transavia France										
B737-800	-	-	-	-	-	5	-	5	-	5
Total	-	-	-	-	-	**5**	-	**5**	-	**5**
VLM Airlines										
Fokker 50 *	-	15	-	-	-	3	-	18	-	18
Total	-	**15**	**-**	**-**	**-**	**3**	**-**	**18**	**-**	**18**
Total other fleet	-	**15**	**-**	**-**	**-**	**8**	**-**	**23**	**-**	**23**
Total Air France Group	**211**	**232**	**59**	**53**	**135**	**142**	**405**	**427**	**383**	**412**

* *Including 10 aircraft fully owned by Air France Finance.*

The KLM Group fleet

The KLM Group fleet totaled 195 aircraft at March 31, 2008 (187 aircraft at March 31, 2007) of which 112 in the KLM fleet (105 at March 31, 2007), 55 in the regional fleet and 28 in the fleet of transavia.com. The average age of the fleet is 11.2 years, a 0.6 year increase on the previous financial year.

The KLM Fleet

The KLM fleet comprises 112 aircraft all in operation, of which 59 are long-haul, 3 are cargo and 50 medium-haul aircraft. The aircraft in the fleet have an average age of 9.7 years, including 8.9 years for the long-haul, 11.1 years for the medium-haul and 4.7 years for the cargo fleets. Thirty-three aircraft are fully owned (30%), 42 are under financial lease (37%) and 37 under operating lease (33%).

During the financial year, eight aircraft joined the fleet and one was withdrawn. In the long-haul fleet, two Boeing B777-300s, one Boeing B777-200ER and two Airbus A330-200ERs joined the fleet and the remaining Boeing B767-300ER was withdrawn. In the medium-haul fleet, three Boeing B737-800s were added to the fleet.

During the financial year, investment in aircraft amounted to €0.55 billion (including advance payments on orders and ground-based maintenance operations).

At March 31, 2008, firm orders amounted to 10 aircraft and options to 14.

The subsidiaries' fleet

The KLM Cityhopper fleet operates only one aircraft type. It comprises 55 Fokker aircraft with up to a 103-seat capacity, all in operation. The average age of the aircraft in the regional fleet is 15.2 years. There were no changes in the fleet during the financial year. The order book comprises six firm orders and nine options. Investment amounted to €9 million.

Thirty-three aircraft are fully owned (60%), 14 are under financial lease (25%) and eight under operating lease (15%).

The transavia.com Netherlands fleet comprises 28 aircraft (27 at March 31, 2007) including ten Boeing B737-700s and 18 Boeing B737-800s. They are mostly under finance leases (43%) and operating leases (53%). The average age of the fleet is 6.6 years.

There was only one change in the fleet over the course of the year, with the arrival of one Boeing B737-800 under operating lease. At March 31, 2008, the order book amounted to seven firm orders and three options.

KLM fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
B747-400	11	13	11	9	-	-	22	22	22	22
B777-300	-	2	-	-	-	-	-	2	-	2
B777-200	-	-	6	6	8	9	14	15	14	15
MD11	2	6	6	2	2	2	10	10	10	10
A330-200	-	-	6	6	2	4	8	10	8	10
B767-300	-	-	-	-	1	-	1	-	-	-
Long-haul fleet	**13**	**21**	**29**	**23**	**13**	**15**	**55**	**59**	**54**	**59**
B747-400	-	-	3	3	-	-	3	3	3	3
Cargo	**-**	**-**	**3**	**3**	**-**	**-**	**3**	**3**	**3**	**3**
B737-900	-	-	2	2	3	3	5	5	5	5
B737-800	-	-	13	13	2	5	15	18	15	18
B737-400	6	6	-	-	7	7	13	13	13	13
B737-300	6	6	1	1	7	7	14	14	14	14
Medium-haul fleet	**12**	**12**	**16**	**16**	**19**	**22**	**47**	**50**	**47**	**50**
Total	**25**	**33**	**48**	**42**	**32**	**37**	**105**	**112**	**104**	**112**

Regional fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
KLM Cityhopper										
F100	9	9	11	11	-	-	20	20	20	20
F70	18	18	3	3	-	-	21	21	21	21
F50	6	6	-	-	8	8	14	14	14	14
Total	**33**	**33**	**14**	**14**	**8**	**8**	**55**	**55**	**55**	**55**

Other fleet

Aircraft	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
Transavia Netherlands										
B737-800	6	1	7	7	4	10	17	18	17	18
B737-700	-	-	5	5	5	5	10	10	10	10
Total	**6**	**1**	**12**	**12**	**9**	**15**	**27**	**28**	**27**	**28**
Total KLM Group	**64**	**67**	**74**	**68**	**49**	**60**	**187**	**195**	**186**	**195**

Air France-KLM Group

	Owned		Finance lease		Operating lease		Total		In operation	
	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08	03/31/07	03/31/08
Total Group	**275**	**299**	**133**	**121**	**184**	**202**	**592**	**622**	**569**	**607**

Highlights of the beginning of the 2008-09 financial year

In a depressed economic environment, the Air France-KLM Group's passenger activity saw modest growth during the first two months of the financial year with traffic up by 4.3% for a capacity increase of 5.6%, taking the load factor to 79.7%, (-1 point). Unit revenue per revenue passenger-kilometer remained buoyant, supported by continued dynamic business traffic. First and business class bookings remain strong for the coming months.

The trend in the cargo activity remained positive with traffic up by 3.1% for a capacity increase of 4.1%. The load factor amounted to 66.2% (-0.7 point).

The relentless rise in the oil price has prompted the Group to adapt its activity to the environment, planning a modest and flexible increase in capacity and pro-active management of fuel surcharges.

On the basis of an oil price at $120/bbl, and a constant correlation between the Brent price and that of jet fuel, the fuel cost should rise by around $1.1 billion taking into account the efficiency of our fuel hedging strategies and a euro/$ parity of 1.56.

In order to contend with this additional cost the Group has decided to step up its *Challenge 10* cost-cutting plan in seeking a further €150 million of savings over the financial year, in addition to the €430 million already planned.

Finally, the Group is working on new sources of synergies made possible by the greater integration of the two companies.

Were the oil price to remain at its current high level for a prolonged period, the Air France-KLM Group considers that it would be very difficult to achieve its target of a post-tax return on capital employed of 8.5% for the 2009-10 financial year.

Aside from the events outlined above, there has been no significant change in the Group's financial or commercial situation since the end of the last financial year.

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Social and environmental data

3.

Social data

The average number of employees of the Air France-KLM Group was 104,659 full time equivalent for the 2007-08 financial year (+1.6%).

Financial year	2007-08	2006-07	2005-06
Ground staff	74,795	74,329	74,258
Cabin crew	21,605	20,701	20,294
Flight deck crew	8,259	8,020	7,870
Total	**104,659**	**103,050**	**102,422**

Air France-KLM's human resources and employment policy

While their human resource policies remain separate due the differences between the social legislation applying in the two countries, Air France and KLM nonetheless share a number of common values. However, in areas where the integration of the activities is moving fast, the guidelines for *working together separately* are being formalized. Finally, the Group is training the executives who will become the managers of the future in a common management culture to drive the Group's integration momentum.

The Air France-KLM European Works Council, established in February 2006, has enabled social dialogue to be stepped up at Group level. Thanks to the collaborative efforts of the members of the Works Council and the managements of Air France and KLM, a social rights and ethics charter was signed in February 2008. This charter outlines the commitments in terms of both social matters and sustainable development and reaffirms the values and fundamental rights that guide the Group's social, ethical and environmental policy.

Employment

Air France is pursuing its policy of ensuring sustainable employment and adapting to new professions based on the three-year human resources planning agreement signed in 2006. This agreement sets the framework for supporting transformational projects linked, in particular, to technological developments and their consequences for employment. Priority is given to internal resources, thus promoting professional mobility. For Air France, the aim is to remain competitive while safeguarding the Group's human capital.

In 2007-08, despite the growth in activity, the number of employees at Air France remained stable. In France, 2,239 employees were recruited on permanent contracts (*CDI*) in 2007. Recruitment of ground staff was slightly higher due to the replacement of retirement departures. Since May 6, 2006, Air France has applied the branch agreement of April 13, 2005, which provides for the retirement of employees between the ages of 60 and 65 years as long as the conditions enabling retirement on a full pension are fulfilled. In 2007, retirement departures in France concerned some 1,532 individuals. The percentage of part-time employees in France amounted to 19.8% in 2007 compared with 19% in 2006.

In 2007, Air France spent a total of €47 million on temporary staff and sub-contractors in areas that are not part of its core activities such as airport services, handling, gardiennage, cleaning and the development of special IT systems.

KLM's human resource strategy aims to facilitate operational change and secure the loyalty of highly-qualified employees within the context of a tight employment market in the Netherlands. The principles of this policy are flexibility, mobility, health and participation. Flexibility is supported by employee training and mobility along identified career paths. KLM also puts the emphasis on ethnic diversity and a policy adapted to disabled and older employees. Employees aged more than 55 years represent 6% of the total and this percentage will rise in the years to come. KLM also seeks to promote women into executive positions.

At December 31, 2007, KLM had 29,831 employees. During the year, 2,049 individuals were recruited and 1,736 left the company. The percentage of part-time employees amounted to 33% (36% one year earlier) of the overall total, 14% of men and 60% of women.

Training

In 2007, Air France spent around €271 million within the framework of its training program, representing 10.8% of the payroll and more than its obligation under French law.

The training program concerns all stages of professional life and supports employee mobility. Technical and regulatory training represented 51% of the training programs. In 2007, the rate of access to training reached 95% of total employees.

Within the framework of the French law of May 4, 2004, relating to career-long professional training, Air France is pursuing initiatives to encourage the take-up by employees of their individual training quotas (so-called *DIF* or *Droits Individuels à la Formation*), which doubled in 2007 and to increase the periods dedicated to vocational training, which more than doubled in 2007.

The programs implemented by the KLM Academy, an in-house training center for executives, are based on the common principles within the Air France-KLM Group and are an integral part of strategy in that they focus on its broader implications. Air France and KLM executives work side by side within the framework of common programs in order to establish a sound foundation for the future: Joint Executive Program, Joint Senior Management Programs, Managing Joint Teams, Managing Joint Projects.

The KLM Academy has developed *Career and Leadership* sessions for high potentials and management programs for all managers and specialist personnel within KLM. For more individual training needs, the KLM Academy has opted for open programs on management skills, project management, general management and personal effectiveness. In addition, senior managers share their experience and knowledge on a range of subjects with other KLM employees in a series of Master classes.

Compensation and sharing the value created

In accordance with the salary agreement for ground staff and cabin crew, signed in 2006 for a two-year period, the general measures at Air France represented an average increase of 2% for 2007, plus individual measures in respect of merit, promotion and seniority (or an average increase of 2.6%) and the increase (+1.6%) in bonuses and allowances.

These measures meant that the Air France increase was thus more than 1% higher than in other French companies.

The 2008 salary agreement concerning all employee categories (ground staff, cabin crew and flight deck crew) provides for a general salary increase in excess of inflation forecasts. This agreement also defines a minimum increase mechanism intended to help those on entry-level salaries and, for the first time, a provision to finance salary measures to further professional equality.

Pursuant to the agreement of August 1, 2005 and the additional clause of July 26, 2006, the results of the financial year to March 31, 2007 enabled the payment of a €67.2 million incentive payment together with a profit share distribution of €22.8 million further to the profit-share agreement signed in September 2006. For the 2007-08 financial year, the respective amounts should be €98.2 million and €25.4 million. Note that, for the 2005-06 financial year, the total incentive payment was €43.4 million.

At KLM, the general salary increase was 2.5% in 2007. The Group also has a stock option policy in order to secure the loyalty of its executives. These stock options for the purchase of Air France-KLM shares are granted subject to conditions. Their number is limited to 25,000 for members of the Management Board and between 1,000 and 10,000 for executives depending on their function. These options may only be exercised three years after their granting and for a two-year period. At March 31, 2008, 139 employees were concerned by this policy.

Social dialogue

This year Air France again pursued its policy on employee and corporate social responsibility agreements. The year was marked by the implementation of the provisions foreseen in the 2006 three-year human resources planning agreement and its additional clause signed in December 2007.

The company's commitment to corporate social responsibility and respect for diversity was pursued with the implementation of the agreements on the vocational integration of staff with disabilities, professional gender equality, internship, the diversity charter, mutual insurance and workplace medicine, etc. The signature, in July 2007, of a second clause in the incentive agreement of August 1, 2005 enables the commitment of employees to be recognized more fully. A salary agreement for 2008 concerning all employees was signed in February 2008. An interim report on the situation of ground staff was signed in December 2007, followed by a definitive agreement in April 2008.

The agreement relating to the exercise of the right to unionization, signed in March 2008, renews the foundations of the company's tradition of social dialogue.

KLM has a history of a constructive relationship with trade unions. In 2007, three collective labor agreements were signed with pilots, cabin crew and ground staff, whose main orientation, consistent with the human resources policy, is long-term employability.

Finally, the Air France social rights and ethics charter, signed in February 2008, reaffirms the Group's fundamental rights and values.

Health and safety in the workplace

In 2007, Air France pursued initiatives to ensure a continuous improvement in employee safety in applying the charter for preventive management aimed at safety in the workplace, signed in 2005 by all the operating divisions. The objective remains for the company to achieve a benchmark level in terms of workplace safety and a 30% reduction in the accident frequency coefficient by the end of 2008.

At the end of 2007, the company recorded a 262 fall in the number of workplace accidents (-8.7%). The workplace accident frequency coefficient in France stood at 5.41, the overall figure covering differences according to employee category (ground staff 3.16, cabin crew 11.26 and flight deck crew 1.67).

New contracts on targets have been signed by all the entities for 2008.

An *alcohol* charter will shortly be established while the charter for the prevention of harassment in the workplace is currently being updated with union bodies.

Air France very much regrets the occurrence of a fatal accident in the maintenance division in early 2008. An investigation has been conducted in close cooperation with the authorities. Procedures have been tightened to rule out similar accidents in the future and the companies are focusing on preventive measures in order to ensure a safer workplace environment.

At KLM, the number of occupational accidents recorded has increased by 50% due to the introduction of more efficient accident reporting tools. Consequently, the number of working days lost due to accidents saw a marked increase (54%). Thanks to the improved reporting system, KLM is in a position to implement the appropriate corrective and preventive measures more rapidly. KLM employees whose jobs are particularly strenuous, whether mentally or physically, are offered the opportunity to develop their careers by mobility either inside or outside the company.

KLM encourages employees to take responsibility for their own health and has introduced a health scan to increase awareness of the role each of us can play in this.

In 2007, the absentee rate was 5.6%, in line with its level of the two previous years.

Diversity and corporate social responsibility

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

The company's commitment was reflected in the signature of the 4th internship charter for the 2005-08 period by all the union bodies representing ground staff and cabin crew. The number of apprenticeships or vocational training contracts signed in 2007 showed an increase of more than 50%.

Through a network of associations established by the company, Air France is pursuing its equal opportunity initiatives in creating a regional momentum for access to employment. For example, *AirEmploi*, an association that 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 were implemented in partnership with the region, the French Department of Education, the Apprenticeship Training Centers (CFA), and local institutions and associations.

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

In June 2006, Air France created a recruitment website called *e-tic* which enables external candidates to submit their applications online using a universal CV. 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 ethics charter of the selection and recruitment department.

In addition to these processes, Air France commissioned an audit by the Discrimination Observatory in order to detect, statistically, any possible discrimination in recruitment. The audit reviewed the recruitment undertaken by Air France between June 2006 and February 2007, or 50,000 job applications.

The audit considered that the selection results were exemplary and the recruitment process unbiased by the real or assumed origin of the candidates, whatever the position to be filled. Both male and female candidates had the same opportunity, on the basis of their CV, to be selected to proceed to the interview and assessment stage and be recruited at the end of this process.

The application of the 2nd Gender Equality Agreement, renewed in April 2006 for the 2006-09 period, continued with, notably, a comparative review by external experts of the average remuneration for men and women. The salary agreement for 2008 is the first to make provision for pay increases in respect of professional equalization. At the end of 2007, women represented 43.8% of the overall workforce in France.

For the past fifteen years Air France has been committed to the vocational integration of staff with disabilities and the company is pursuing such initiatives within the framework of the Agreement for the Social and Vocational Integration of Staff with Disabilities for the 2006-08 period.

Despite the change in French law imposing new, more restrictive rules for calculating the target of 6% of jobs, the company continued its efforts in favor of disabled employees and the quota which had fallen to

2.66% in 2006 given the application of these rules again rose to 3.10% in 2007. Furthermore, 38 individuals were hired in 2007 (26 in 2006), enabling the achievement, in just two years, of 84% of the recruitment target set in the three-year agreement (recruitment of 75 people over three years or 25 per year).

The purchasing division has strengthened its contribution to the achievement of the hiring target by increasing the level of sub-contracting from the protected sector to 9% of the overall quota, the target being 30% by 2008.

The agreement signed in 2006 established 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 2007, more than €3 million was invested, of which 18% for employee awareness and the creation of partnerships, 54% in respect of maintained employment initiatives and 15% on training.

Air France remains committed to 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 partners other associations and NGOs working in the field of child and youth education and training, providing financial and technical support.

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

Having been voted the favorite employer in the Netherlands by students from ethnic minorities in recent years, KLM wants to encourage recruitment that reflects the diversity of society as a whole and to offer everyone equal career opportunities.

In cooperation with a scientific research firm, the company launched two pilot programs to study the feasibility of a working environment promoting sustainable employment. Rather than age, the period of time spent by employees in their functions emerged as the most important factor and initiatives are planned to increase mobility and reduce physical stress at work.

Around 10% of the Dutch population has difficulty with reading and writing and KLM believes that this problem must be on a similar scale within the company. It thus cooperates with the Dutch Reading and Writing Foundation in order to raise employee awareness of this issue, maintain a dialogue and contribute to the solution.

Each year, every KLM division offers an internship to disabled students for whom there are fewer opportunities on the labor market. If necessary, work stations are modified in order to meet their specific needs.

Women executives are offered coaching by managers of both genders working for both KLM and for other large companies in order to enable them to reach positions with a higher level of responsibility.

For more information, please see the Air France-KLM 2007-08 Corporate Social Responsibility Report.

Environmental data

For some years Air France-KLM has been committed to a growth strategy that respects the environment and these environmental concerns are now at the heart of an ambitious, common strategy across the Group.

The Air France-KLM Group is aware of its impact on climate change and is seeking to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan.

For Air France, its aim of *Setting the example in corporate social responsibility and sustainable development*, is one of the four major challenges targeted in its *VISION 2010* corporate plan. In France, within the framework of the *Grenelle de l'Environnement*, the French National Conference on the Environment, Air France signed, in January 2008, the Air Transport Sector Agreement with the French State.

Environmental management

Air France and KLM have established separate but harmonized environmental management systems based on the ISO 14001 environmental management standard.

Thus, the two environment divisions work together on a wide range of issues and carry out a common environmental reporting process through the Group's Corporate Social Responsibility Report.

Within Air France, the Executive Committee approves the environmental policy and the company's priorities, together with the orientations of the action plans and ensures the proper functioning of the monitoring system. The environmental management system is based on a decentralized structure, established in 2002, and is coordinated by the Quality, Environment and Sustainable Development department within the General Secretary's Office.

Thus, each Air France department is responsible for ensuring its regulatory compliance, controlling the environmental impact of its activities and applying the company's environmental policy through a coordinated action plan.

Each department has an environmental coordinator, generally reporting to the Quality-Safety-Environment manager, who is responsible for:

- promoting the company's environmental policy in their entity through multiple strategic, training and communication initiatives;
- coordinating the divisions' environmental initiatives and action plans;
- establishing control mechanisms, analyzing the results and identifying preventive and corrective measures.

The OSYRIS (Operational System for Reporting on Sustainability) sustainable development reporting tool, rolled out in 2006, saw its first full year of use for the assembly, reporting and consolidation of the Group's data. The aviation activities have started to use this tool and the process will be stepped up in 2008 with the introduction of a new module for calculating aircraft emissions (CO_2, CO, CxHy and NOx) for Air France.

New projects and significant renovation works undertaken by Air France's Real Estate department are systematically subject to an HEQ (High Environmental Quality) approach, which considers the overall environmental impact and seeks to save resource and reduce waste. It also targets the quality of the environment inside buildings and its adaptation to the needs of users.

The Air France subsidiaries are involved in the Group's environmental control procedures. They attend committee meetings to monitor action plans organized by the Quality, Environment and Sustainable Development department and participate in the implementation of various environmental projects such as environmental reporting or regulatory monitoring. They contribute to the effort to reduce the Group's environmental footprint.

In 1999, KLM deployed an ISO 14001-compliant environmental management system. Within the framework of its commitment to developing its environmental policy, KLM has implemented an extensive annual program aimed at ensuring a continuous improvement in environmental performance, guaranteeing environmental management and actively developing internal and external communication.

KLM's subsidiaries have established their own environmental policies and management systems to implement the environmental policy in their area and introduced measures aimed at compliance with legal and regulatory requirements relating to the environment. They have also identified targets in order to improve their environmental performance. The environmental results of KLM CityHopper and KLM Catering Services are included in KLM's environmental performance indicators.

Environmental evaluation or certification programs

This policy of ISO 14001 certification is part of a strategy focused on integrated environmental management systems. This international standard is based on the Deming total quality model: plan, do (implement), check and management review. For each of the companies, the processes identified are planned, monitored and verified by audits in order to ensure their conformity with environmental standards.

In addition to the certification by site already obtained, Air France is aiming for ISO 14001 certification in July 2008 for all Air France activities carried out using its own resources and the airline's facilities in Continental France. All KLM's activities, with the exception of the ground operations at the outstations, are ISO 14001 certified.

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

The reference framework and monitoring tool for regulatory compliance (*REVER*) deployed by Air France in 2005 with the help of Huglo-Lepage, a consultancy specialized in environmental law, enables each Air France activity to be aware of any relevant legislative changes, and facilitates access to regulatory documents thanks to a search engine. Air France subsidiaries Régional and BritAir also have access to a similar tool.

The year saw the verification of the environmental score (ICPE) of the facilities in all Air France divisions but also in its subsidiary Servair. Numerous site audits were carried out in order to ensure their classification (subject to notification and authorization) with regard to the thresholds set by decree by departmental prefects. This systematic monitoring of activities which are subject to classified site regulations is also undertaken for sub-contactor activities located in premises made available by Air France.

An audit of all the requirements to be respected within the framework of ISO 14001 must be carried out each year. The entities are responsible for verifying their regulatory compliance and their procedures are, in turn, monitored by internal and external audits. The results of these checks and audits as well as the monitoring of corrective measures are regularly reviewed by the Air France and KLM Boards.

In order to ensure compliance with the legal and regulatory requirements relating to KLM's ground operations outside the Netherlands, KLM has also established an environmental code of best practice in its outstations.

Environmental risk management

The identification and management of environmental risks is an integral part of the ISO 14001 management system. Within the framework of these systems, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the action plans of the different entities.

A feedback system has been deployed in all Air France operating divisions, which records environmental incidents, enabling prevention plans to be established and implemented for risks at Group level.

Greenhouse gas emissions

Controlling its greenhouse gas emissions is a strategic priority for the Air France-KLM Group and is reflected in its *Climate Action Plan*:

- support for the Kyoto protocol which sets a global target of reducing greenhouse gas emissions by 5% on 1990 levels by 2012 and the inclusion of air transportation in the European Emissions Trading System, the terms of which need to be realistic and pragmatic. Of the six gases listed in the protocol, only CO_2 is produced by air transportation;
- continued fleet modernization and support for aeronautics research to achieve greater aircraft energy efficiency;
- availability to customers of a CO_2 emissions calculator based on our actual operating data, together with carbon offsetting offers;
- support for environmental programs developed by NGOs;
- evaluation of a pro-active initiative for the promotion of renewable energies;
- mobilization of the entire Group around ambitious environmental action plans aimed, in particular, at reducing the emissions linked to the ground operations.

Air France and KLM are continuing to develop their operational model organized around the hubs and to optimize operating procedures.

Before the end of 2008, the European Union will finalize the draft directive initiated in December 2006, aimed at including aviation in the European Exchange Trading System.

Air France-KLM supports this initiative and opposes any taxation or bidding mechanism which would not, in its opinion, constitute an appropriate solution to the climate change problem.

Soil use conditions

Consistent with the precautionary principle, Air France's Real Estate department has sub-soil samples taken prior to any new construction at a site in order to check for the possible presence of underground pollutants. This measure protects future buildings and their occupants from any health risk which might emerge over time. Within the framework of its Montaudran industrial site clean-up, Air France uses the most up-to-date technologies in order to set exemplary standards.

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

Measures taken to reduce water consumption

In recent years, Air France has considerably reduced its water consumption, thanks to the control of processes, the accountability of teams and the environmentally-friendly design of tools and work stations. The measures taken to reduce consumption include the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems. Servair, in particular, continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

Measures taken to limit noise emissions

The entire Air France-KLM fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm in terms of the noise quality of civil aircraft.

In 2007, Air France took further steps to improve its fleet's noise performance. In the medium-haul fleet, the remaining Boeing B737s were replaced with Airbus A318s and A319s, with an optimum, reduced noise footprint. In the long-haul and cargo fleets, Air France intensified its renewal effort, with the retirement of the remaining Boeing B747-200s and their replacement by Boeing B747-400s with improved noise performance.

In addition to renewing its fleet, Air France deploys the following measures to reduce the noise impact of its operations:
- application of *less noise* procedures;
- reduction of night traffic: at CDG, Air France has given up all its night slots with the exception of one, or 725 annual slots of the 818 abandoned by the airlines as a whole;
- Airport Noise Tax (TNSA) payments which are used for sound-proofing the homes of local residents.

Measures taken to improve energy efficiency

For Air France-KLM, the main drivers of energy efficiency in both the air and ground operations are:

Air operations
- the renewal of the fleet to ensure that it comprises modern aircraft with amongst the best performance standards in the market;
- the continuous improvement of operational procedures linked to aircraft and ground vehicles in order to reduce fuel consumption.

Ground operations
- the renewal of the vehicle fleet and engines to increase the share of electrical propulsion (the aim being to increase the proportion of electrically-powered engines from 34% to 58% by 2020);
- the monitoring, via an IT system, of the fuel consumption of registered vehicles;
- the half-year reporting of energy consumption in the company's different divisions;
- employee awareness initiatives on energy saving;
- the inclusion of energy saving at the design stage for our new facilities (commitment to the HQE approach).

Within the framework of this approach, Air France is currently engaged in a solar energy project at the Valbonne site which regroups the IT services, with a view to covering the site's electricity consumption.

Since 1989, KLM has deployed a range of electricity-saving measures, enabling a 46% reduction in its electricity 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 pursuing an extensive fleet renewal program for both aircraft and ground support vehicles. The renewal of the aircraft fleet will result in a significant improvement 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 the activities. In the event of a claim, deductibles will apply.

As for risk prevention, the main Air France divisions and subsidiaries exposed to environmental risk have in-house QSE (Quality Safety Environment) units, which regularly participate in site sensitivity studies, particularly when these are required by insurers.

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

Indemnities paid and actions carried out to repair environmental damage

Indemnities linked with air transportation operations

In 2007, Air France paid €15.2 million in Airport Noise Tax (*TNSA*). The TNSA is a tax paid at the ten largest French airports, whose proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise. In addition, Air France is actively involved in Advisory Committees for Resident Assistance (*CCARs*) at airports subject to the noise tax, the CCARs being the bodies responsible for supervising the use of noise tax proceeds.

In 2007, KLM paid €23.7 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

Indemnities and actions linked to ground operations

At the Montaudran site, maintenance operations had left highly diverse traces of hydrocarbons, solvents and even metal deposits in the soil and underground. Air France obtained approval from the French administration for the clean up of 85% of the ground at the site. This major, complex project has involved both soil and groundwater decontamination. The pollutants having been identified are mainly metals (arsenic, chromium, mercury, nickel, lead zinc), volatile organohalogenated compounds (trichloroethylene, tetrachloroethylene, vinyl chloride) and hydrocarbons together with benzenes, toluene, ethylbenzene and xylene. Soil contaminated with hydrocarbons was treated under ventilated tents, then in biopile, whereas soil contaminated with OHCs was treated under ventilated tents at the site. Treating the soil under tent cover avoids any propagation of pollutant gases. Soil which cannot be reused has been evacuated through approved channels. Nearly 60,000 tonnes of soil have thus been excavated and treated. Saturated zones (groundwater) have been decontaminated by underground injections of oxidative products. All the studies and works represented a €3.5 million cost for Air France.

Environmental expenditure and investment

Air France-KLM's policy is to fully integrate environmental management in the business operations. This means that it is difficult to identify environmental expenditure and investment exactly.

Air France collates information on environmental expenditure and investment for three divisions (Air France Industries, Air France Cargo and Operations).

KLM does, however, itemize a list of the most significant expenditures that can be directly linked to environmental legislation or management. This concerns expenditures relating to noise disturbance and the sound-proofing mentioned in the above section. KLM also estimates that the 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 for the 2007-08 financial year.

In 2007-08, KLM expenditure linked to waste and waste water treatment and cleaning processes amounted to €2.3 million. During this year, approximately €3.2 million was spent on KLM's environmental management system (including payroll costs), external communication and on initiatives to encourage staff to use the public transport system.

For more information, please see Air France-KLM's 2007-08 Corporate Social Responsibility Report.

Note on the methodology for the reporting of performance indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, the environmental and social performance indicators were defined in order to integrate the recommendations of European and French legislation, such as the French law on the New Economic Regulations (*Les Nouvelles Regulations Economiques*).

Reporting scope

The Air France-KLM Group social reporting consolidation scope covers 95% of Group employees and includes Air France and KLM subsidiaries over which the Group has at least 50% control. This represents approximately 80% of the employees in the Air France subsidiaries and 85% in KLM subsidiaries.

Air France consolidated subsidiaries: AFSL, BritAir, Blue Link, CityJet, CRMA, Régional, Servair Group (ACNA, Bruno Pegorier, OAT, Servair SA), Sodexi.

KLM consolidated subsidiaries: Cynific, KES (KLM Equipment Services), KHS (KLM Health Services), KLM Ground Services Limited, KLM Cityhopper (UK and BV), Transavia, KCS (KLM Catering Services).

The environmental reporting scope for the Group's ground activities covers 99% of the sites in France and 95% of the sites in the Netherlands.

The Air France consolidated subsidiaries are BritAir, Régional, CRMA, Sodexi, Servair and Transavia, the latter for the period from May 2007 to December 2007. The KLM consolidated subsidiaries are KLC, KES, KCS and KHS.

The consolidation scope for the environmental reporting of the Air France-KLM Group's air operations covers the flights operated by Air France and its BritAir, Régional and CityJet subsidiaries and the flights operated by KLM and its KLM Cityhopper subsidiary.

The reporting period is based on the calendar year to ensure comparability with the social performance indicators of other French companies and the national figures for greenhouse gases.

Reporting tools

Social indicators

The indicators are collated and consolidated using the Osyris sustainable development reporting tool deployed in all Air France-KLM Group subsidiaries. The quality and consistency of reporting is ensured through the inclusion within Osyris of precise definitions of each indicator in both French and English as a guide to contributors, as well as through consistency tests.

The consolidation of the Group's social data is carried out by the Air France sustainable development department.

Environmental indicators

The environmental indicators are collated via two separate reporting tools, one for Air France and one for KLM, available to every entity except Transavia. The consistency of reporting is ensured by common definitions, available in both French and in English, included in the Osyris reporting tool. The Air France environmental department is responsible for consolidating the data for the Air France-KLM Group in Osyris.

Details on the methodology

Social indicators

At Air France-KLM Group level, the guidelines for the social performance indicators and the scope are established in an instruction memorandum approved by the Statutory Auditors.

Recruitment on permanent contracts (CDI)

For Air France, the calculation of the number of employees recruited under permanent contracts includes those initially recruited on a fixed-term contract who were transferred to a permanent contract during the year.

For KLM, only employees hired directly on a permanent contract are taken into account.

Health and safety - absenteeism

Since the criteria used to define workplace accidents differ between France and the Netherlands, the Air France and KLM performance indicators are not comparable.

Thus, cases of barometric otitis and lumbago are recorded as workplace accidents in France, representing 40% of the workplace accidents reported by Air France, whereas they are recorded as sick leave by KLM, pursuant to Dutch law.

Air France only records accidents involving time off work, pursuant to French law, whereas KLM records accidents not involving time off work once they have met the criteria enabling them to qualify as an accident. The frequency and severity rates are calculated based on theoretical working hours for each employee in the two companies.

This year, Air France introduced a new system for tracking days lost due to workplace accidents. Due to an operational problem in its deployment phase, Air France has not been able to calculate the severity rate for 2007.

The system implemented by KLM for recording the number of days lost to absenteeism does not yet include data on the days lost due to workplace accidents.

Training

KLM does not yet have a centralized reporting system on training since the disclosure of this information is not required by Dutch law but the company is currently developing such a system.

Number of disabled employees

Due to differences in legislation between France and the Netherlands, the data on disabled employees are not comparable.

For Air France, the number of disabled employees reported are those for whom a valid certificate, pursuant to French law, is available, whatever the individual's ability to perform the tasks involved in his or her position.

For KLM, an individual is considered to be disabled if unable to carry out his or her work as an able-bodied individual due to a handicap. In the Netherlands, an employee recruited with a handicap cannot be recorded as such in order to avoid any discrimination between employees. For that reason, KLM is not able to supply statistics on the recruitment of disabled employees.

Environmental indicators

At Air France-KLM Group level, the reporting and consolidation principles are outlined in a document entitled the *Environment Instruction Memorandum*, which is updated annually. The assembly of data, calculation methodologies and operational consolidation are defined in procedures which are specific to Air France and KLM, but which are harmonized.

Water consumption

The consumption of drinking water is taken into account for all ground activities. Water consumed on board flights is not included.

Gas consumption

The conversion of the quantity of gas used as energy is carried out taking into account the quality of gas specific to France and the Netherlands.

Non-hazardous industrial waste

The waste resulting from the demolition or construction of buildings is not taken into account.

Heavy metals

The scope of this indicator was redefined in 2007 in order to harmonize the reporting of data between Air France and KLM. The engineering and maintenance divisions of both Air France and KLM now report on seven metals (Cd, Cr, Cu, Ni, Pb, Sn, Zn).

Emissions from ground operations

Air France's annual CO_2, SO_2 and NOX emissions from vehicles and ground support equipment have been estimated for the 2007 full year on the basis of the half-year figures for June to December 2007.

SO_2 emissions from air operations

The calculation is based on the sulphur content of the fuel loaded, respectively, in Amsterdam and Paris-CDG, applied to all fuel used during the year by KLM and Air France.

Within the framework of an approach based on continuous improvement, the methodologies used for certain key performance indicators have been more tightly defined. When these changes have a significant impact on the data, comparison with the figures for previous years' figures is not possible.

One of the Statutory Auditors' report on the review of a selection of environmental and social indicators of Air France-KLM Group for the year ended December 31, 2007

In accordance with the assignment entrusted to us and in our capacity as statutory auditors of Air France-KLM S.A., we have performed certain review procedures which enable us to provide:

- a reasonable assurance on the indicator related to CO_2 emissions from the Air France-KLM Group flight operations during the year ended December 31, 2007. Such indicator is identified by the sign ✓✓;
- a moderate assurance on the environmental and social indicators ("the data") selected by the Air France-KLM Group and identified by the sign ✓ for the year ended December 31, 2007.

Such data are disclosed in the table entitled "environmental and social information of Air France-KLM Group" both in the 2007-2008 Reference Document and in the 2007-2008 Corporate Social Responsibility Report.

The conclusions presented below relate solely to these data and not to the Corporate Social Responsibility Report taken as a whole.

The data have been prepared under the responsibility of the Sustainability Department of the Air France-KLM Group, in accordance with the internal environmental and social reporting protocols ("the protocols"), available at Air France-KLM headquarters.

It is our responsibility to express an opinion on these indicators, based on our review.

Nature and Scope of the Review

We performed a review to provide the assurance that the selected data are free of material misstatement. The work performed on the data identified by the sign ✓ enables us to provide a moderate level of assurance. The work performed on the data identified by the sign ✓✓ is more extensive and enables us to provide a reasonable level of assurance.

- We assessed the protocols relevancy, reliability, comprehensibility and completeness.
- We interviewed the persons in charge of the reporting process at the parent company level as well as at the selected entities [1] level.
- We carried out detailed test work at the selected entities. Such selected entities represent from 40 to 100% of the consolidated environmental data and 84% of the Group total headcount for social indicators. For the selected entities, we ensured that the protocols were understood and implemented; we verified the calculations, performed consistency checks and reconciled the data with the supporting documentation.
- We audited the source data used in the calculation of CO_2 emissions from the Group's flight operations.
- We verified that the data used in the calculation of CO_2 emission from flight operations were properly derived from Air France and KLM information systems.
- We also verified, on a sample basis, the calculations and the combination of the data at Air France-KLM Group level.

When carrying out our procedures, we used the assistance of our Environment and Sustainable Development experts.

Comments

- Both environmental and social protocols of the Air France-KLM Group are prepared on a fiscal year basis, consistently with the requirements for French companies to establish their social annual reports ("Bilans Sociaux") and their annual greenhouse gases national inventories as of December 31 of each year whilst the Group's financial information is prepared as of and for the year ended March 31 of each year
- The Group used an automated reporting tool to collect and consolidate the social and environmental data of the Group, enhancing as such the reliability and the consistency of the data collected. The functionalities of the reporting tool should nevertheless be further developed, notably in relation to the consolidation phase.

We have the following matters to report regarding the procedures related to reporting protocols for environmental data:

- The definitions of environmental indicators have been harmonized between Air France and KLM. Some definitions should still be clarified, notably in relation to waste and waste water indicators.

We have the following matters to report regarding the procedures related to reporting protocols for social data:

- Due to differing regulatory requirements in France and in the Netherlands, certain social indicators are presented individually and not on a consolidated basis for Air France and KLM. Such indicators thus cannot be compared.

*(1) **Environment**: Direction Générale Air France (Roissy, Orly, Villeneuve le Roi), Direction générale de l'Exploitation Air France (Roissy and Orly), Air France Cargo Roissy, Direction du siège Air France Roissy, SI at Vilgénis, Servair, 1Acna Roissy and KLM Schiphol **for ground operations**.*
*Air France, CityJet, BritAir, Regional, KLM and City Hopper **for flight operations**.*
***Social**: Air France France, Servair S.A., KLM, City Hopper.*

- Appropriate reporting tools and systems shall be implemented to improve the completeness of the data reported. For instance, safety and training indicators have not all been reported or have been reported by a limited number of entities.

Conclusion

Reasonable assurance

Based on the procedures carried out since February 2008 both at Air France and KLM headquarters, we consider that our test work on the calculation of the CO_2 emissions from flight operations of the Air France-KLM Group give a reasonable basis for the following opinion.

In our opinion, the data identified by the sign ✓✓ has, in all material aspects, been prepared in accordance with the above-mentioned protocols.

Moderate assurance

Based on our review, we have nothing to report that causes us to believe that the environmental and social data identified by the sign ✓ have not, in all material aspects, been prepared in accordance with the above-mentioned protocols.

Paris La Defense and Neuilly-sur-Seine, June 3, 2008

KPMG Audit

Department of KPMG S.A.

Jean Luc Decornoy

Partner

Jean Paul Vellutini

Partner

Environmental indicators for the Air France-KLM Group

Air France-KLM air operations

Environmental indicators		Unit	2005	2006	2007	Pro forma change	2007 Air France Group	2007 KLM
Consumption								
Consumption of raw materials: fuel ✓✓		000 tons	8,373	8,537	8,589	+1%	5,504	3,085
Emissions								
Greenhouse gas emissions	CO_2 ✓✓	000 tons	26,422	26,914	27,075	+1%	17,336	9,739
Emissions of substances contributing to acidification and eutrophication	NOx	000 tons	131.9	133.5	135.0	+1%	91.6	43.4
	Of which low altitude (< 3 000 ft) ✓	000 tons	7.6	8.4	8.5	-1%	6.4	2.1
	SOx ✓	tons	6,421	6,856	11,072	NC	9,549	1,523
	Of which low altitude (< 3 000 ft)	tons	441	428	836	NC	747	89
In-flight fuel jettison	Occurences of fuel jettison ✓		21*	23*	42	NA	23 *	19
	Fuel jettisoned ✓	tons	1,046	1,758	1,443	-16%	809 *	634
Other emissions	HC	000 tons	4.0	3.5	3.6	-13%	1.9	1.7
	Of which low altitude (< 3 000 ft) ✓	000 tons	1.1	1.2	1.1	-6%	0.8	0.3
Noise impact								
Global noise energy indicator** ✓		10^{12} kJ	1.79	1.66	1.70	0.35%	1.3 **	0.4

Air France Group: all AF flights operated by Air France, BritAir, Régional and CityJet.

NA: not available.

NC: not comparable (change in the calculation method).

✓ *Figures verified by KPMG for 2007 (moderate level of assurance).*

✓✓ *Figures verified by KPMG for 2007 (reasonable level of assurance)*

* *Air France only.*

** *All AF flights, except code share.*

Air France-KLM ground operations

Environmental indicators			Unit	2005	2006	2007	Pro forma change	2007 Air France Group[1]	2007 KLM Group[2]
Consumption									
Water consumption ✓			000 m³	1,210	1,054	1,074	1.9%	809	265
Energy consumption	Electricity consumption ✓		MWh	386,839	393,265	425,502	8.2%[3]	326,561	98,941
	Energy consumption for heating/cooling	Super-heated, water ✓	MWh	146,939	146,158	145,056	- 0.8%	145,056	0
		Iced, water ✓	MWh	4,148	9,977	16,065	31.0% [3]	16,065	0
		DFO ✓	MWh	7,927	4,741	2,074	-56.3% [4]	2,074	0
		Gas ✓	MWh	237,196	163,899*	171,407	4.6%	81,520	89,887
Emissions									
Greenhouse gas emissions (by heating/cooling process, by vehicles and ground support equipment)	CO_2 ✓		tons	75,893	75,238	79,388	5.5%	36,211	43,176
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds ✓		tons	188 [a]	187 [a]	123	NIL	71	52
Emissions of substances contributing to acidification and eutrophication	NOx ✓		tons	221 [b]	178 [b]	784	NIL	521	263
	SO_2 ✓		tons	2 [b]	3 [b]	14	NIL	12.4	1.6
Waste									
Waste production	Quantity of non-hazardous industrial waste ✓		tons	46,715	42,316	69,176	63.5%[3]	50,720	18,455 **
	Quantity of hazardous industrial waste ✓		tons	5,721	5,465	5,520	0.3%	4,455	1,065
	% of hazardous industrial waste recycled ✓		%	NC	NC	54.1	NA	47.0	83.9

Environmental indicators		Unit	2005	2006	2007	Pro forma change	2007 Air France Group(1)	2007 KLM Group(2)
Effluents								
Effluents contributing to acidification and eutrophication	Nitrogen compounds	kg	3,468 (c)	9,119 (c)	268	NIL	52	217
	Phosphorus compounds	kg	322 (d)	489 (d)	121	NIL	109	12.30
Heavy metals	Heavy metals (Cd, Cr, Cu, Ni, Pb, Sn, Zn) ✓	kg	78 (d)	51 (f)	22	NIL	19	2.47

✓ *Indicator verified by KPMG for 2007 (moderate level of assurance).*
* *Air France data only.*
** *Waste from the construction/demolition of buildings is not included in this indicator.*
(1) *Air France and subsidiaries: Régional, BritAir, Transavia.comFrance, Servair, Sodexi, CRMA.*
(2) *KLM and subsidiaries: KLC, KES, KCS and KHS.*
(3) *This variation comes from a major change in Servair reporting scope in 2007 (Servair scope was extended to its catering activity in France outside the Paris basin and to its cabin cleaning activity outside Paris). The pro forma figures for Servair couldn't be established for 2007.*
(4) *DFO consumption for power generators reported separately in 2007.*
(5) *Scope completely redefined in 2007: DGI and KLC only.*
(a) *Figures on a IATA year basis for Air France.*
(b) *KLM data only.*
(c) *Nitrates only.*
(d) *Phosphates only.*
(e) *Heavy metals taken into account: CrVI, Cd, Ni, Cu, Pb.*
(f) *Heavy metals taken into account: Cr, Cd, Cu, Ni, Pb.*

Social indicators for the Air France-KLM Group

1. Consolidated NRE social data for the Air France-KLM Group

	Air France-KLM Group				Air France Group *				KLM Group **			
					Total AF Group		of which AF		Total KLM Group		of which KLM	
	2005(1)	2006	2007	07/06	2006	2007	2006	2007	2006(2)	2007	2006(2)	2007
Total staff (permanent and fixed-term contracts) ✓	**103,966**	**111,092**	**110 369**	**-0.7%**	**74,354**	**74,959**	**63,613**	**63,598**	**36,738**	**35,410**	**30,669**	**29,831**
Staff under permanent contract ✓	***N/A***	***N/A***	***103,772***	***N/A***	***61,382***	***71,416***	***61,382***	***61,459***	***N/A***	***32,356***	***N/A***	***28,143***
Ground staff	73,683	77,300	76,177	-1.5%	53,876	53,798	45,231	44,649	23,424	22,379	19,599	18,708
Cabin crew	22,833	24,987	25,545	2.2%	15,166	15,728	14,184	14,648	9,821	9,817	8,587	8,506
Flight deck crew	7,450	8,805	8,647	-1.8%	5,312	5,433	4,198	4,301	3,493	3,214	2,483	2,617
Recruitment on a permanent contract (3)												
Ground staff		2,788	3,012	8.0%	2,307	2,593	1,811	1,940	481	419	318	385
Cabin crew		926	931	0.5%	730	843	629	833	196	88	196	50
Flight deck crew		410	566	38.0%	204	325	134	188	206	241	46	238
Total ✓		**4,124**	**4,509**	**9.3%**	**3,241**	**3,761**	**2,574**	**2,961**	**883**	**748**	**560**	**673**
Departures (4)												
Total departures ground staff		4,458	5,161	15.8%	2,557	2,960	2,036	2,411	1,901	2,201	1,165	1,465
Total departures cabin crew		1,329	1,121	-15.7%	477	339	360	259	852	782	284	214
Total departures Flight deck crew		200	342	71.0%	117	248	69	141	83	94	46	57
Total departures ✓		**5,987**	**6,624**	**10.6%**	**3,151**	**3,547**	**2,465**	**2,811**	**2,836**	**3,077**	**1,495**	**1,736**
Retirements ✓		2,696	2,611	-3.2%	1,159	1,169	834	765	1,537	1,442	952	857
Redundancy ✓ (incl. economic)		726	1,118	54.0%	542	605	239	326	184	513	184	513
Retirements ✓		1,714	2,018	17.7%	1,369	1,666	1,321	1,624	345	352	326	333
Deaths ✓		117	143	22.2%	81	107	71	96	36	36	33	33

* *Air France: Air France in Continental France, the French territories, and international personnel; Air France Group: Air France and subsidiaries.*

** *KLM: KLM Netherlands and international personnel; KLM Group: KLM and subsidiaries.*

✓ *Indicators verified by KPMG for 2007 (moderate level of assurance).*

(1) *Does not include KLM outstation (international) staff (approximately 8% of the Group total).*

(2) *2006 figure: the part-time percentages do not include KLM outstation staff (approximately 3% of total Group staff).*

(3) *2006: including KLM recruitment on fixed-term contracts and Air France recruitment including international; hence a different number for recruitment between 2007 and the previous years.*

(4) *KLM 2007 departures: a significant increase due to the transfer of the “KLM Facility Services” department to Sodexho Altys. (2007: 513 and 2006: 184).*

(5) *2006: not including CityJet.*

	Air France-KLM Group				Air France Group *				KLM Group **			
					Total AF Group		of which AF		Total KLM Group		of which KLM	
	2005(1)	2006	2007	07/06	2006	2007	2006	2007	2006(2)	2007	2006(2)	2007
Percentage of women (permanent and fixed-term contracts)(5) ✓		***42.4%***	***42.7%***	***0.7%***	***42.0%***	***42.6%***	***43.7%***	***44.2%***	***43.2%***	***43.1%***	***43.0%***	***42.3%***
Ground staff		37.2%	37.1%	-0.2%	39.4%	39.6%	40.7%	41.1%	32.0%	31.2%	25.0%	29.2%
Cabin crew		72.5%	72.3%	-0.3%	65.3%	65.6%	65.7%	64.7%	83.5%	83.0%	84.0%	83.0%
Flight deck crew		5.0%	5.3%	6.8%	5.2%	5.8%	5.8%	6.2%	4.7%	4.6%	4.0%	4.1%
Part-time employment on permanent and fixed-term contracts(5)												
Percentage of female part-time employees ✓		38.3%	39.7%	3.7%	30.7%	31.1%	32.0%	33.7%	53.3%	55.7%	68.0%	60.0%
Percentage of male part-time employees ✓		9.1%	9.5%	4.4%	7.6%	7.5%	8.2%	8.0%	12.3%	13.7%	14.0%	14.0%
Percentage of part-time employees ✓		***21.5%***	***22.2%***	***3.3%***	***17.3%***	***17.6%***	***19.0%***	***19.4%***	***30.0%***	***31.8%***	***36.0%***	***33.2%***

* *Air France: Air France in Continental France, the French territories, and international personnel; Air France Group: Air France and subsidiaries.*

** *KLM: KLM Netherlands and international personnel; KLM Group: KLM and subsidiaries.*

✓ *Indicators verified by KPMG for 2007 (moderate level of assurance).*

(1) *Does not include KLM outstation (international) staff (approximately 8% of the Group total).*

(2) *2006 figure: the part-time percentages do not include KLM outstation staff (approximately 3% of total Group staff).*

(3) *2006: including KLM recruitment on fixed-term contracts and Air France recruitment including international; hence a different figure for recruitment between 2007 and the previous years.*

(4) *KLM 2007 departures: a significant increase due to the transfer of the "KLM Facility Services" department to Sodexho Altys. (2007: 513 and 2006: 184).*

(5) *2006: not including CityJet.*

2. Other social data for the Air France Group (according to local legislation)

2.1. Air France in Continental France, the French overseas territories and outstation staff*

	2006	2007	07/06
Absenteeism			
Due to illness			
Ground staff ✓	*3.1%*	*2.6%*	***-16%***
Cabin crew ✓	*5.4%*	*4.9%*	***-9%***
Flight deck crew ✓	*2.4%*	*2.0%*	***-17%***
Due to work accidents			
Ground staff ✓	*0.5%*	*0.4%*	***-20%***
Cabin crew ✓	*0.9%*	*0.8%*	***-11%***
Flight deck crew ✓	*0.2%*	*0.2%*	***0%***

	2006	2007	07/06
Maternity leave[(1)]			
Ground staff ✓	*1.1%*	*0.8%*	**-27%**
Cabin crew ✓	*0.9%*	*1.1%*	**26%**
Flight deck crew ✓	*0.3%*	*0.1%*	**-67%**
Health and safety[(2)]			
Total industrial accidents ✓	3,006	2,812	**-6%**
Number of fatal workplace accidents ✓	0	1	
Industrial Injury Frequency rate ✓	33.4	30.7	**-8%**
Severity rate of industrial accidents ✓	0.9	NA	
Training			
Percentage of total payroll devoted to training ✓	***8.7%***	***10.8%***	***24%***
Ground staff ✓	*5.6%*	*6.7%*	***21%***
Cabin crew ✓	*8.7%*	*10.8%*	***24%***
Flight deck crew ✓	*16.0%*	*20.0%*	***25%***
Total number of hours of training per employee ✓	***47***	***54***	***15%***
Ground staff ✓	*36*	*37*	***2%***
Cabin crew ✓	*37*	*48*	***28%***
Flight deck crew ✓	*181*	*229*	***27%***
Participation rate (number of agents trained/workforce) ✓	***94%***	***95%***	***0%***
Ground staff ✓	*91%*	*91%*	***1%***
Cabin crew ✓	*99%*	*100%*	***1%***
Flight deck crew ✓	*100%*	*100%*	***0%***
Disabled staff			
Total number of ground staff with disabilities ✓	1,343	1,489	***11%***
Ratio of disabled employees (under French law) ✓	*2.6%*	*3.1%*	***19%***
Total number of ground staff with disabilities recruited during year ✓	*26*	*38*	***46%***
Collective agreements			
Number of agreements signed during the year	*22*	*11*	

✓ *Indicators verified by KPMG for 2007 (moderate level of assurance).*
* *Data in italics concerns only Air France in Continental France and the French overseas territories.*
(1) *2007 figure, change in calculation method (pregnant cabin crew occupying a ground position now recorded differently).*
(2) *Due to an IT problem linked to the change in reporting system for the severity indicator, the severity rate cannot be calculated accurately for 2007.*

2.2. Air France subsidiaries [3]

	2006	2007	07/06
Health and safety			
Total number of workplace accidents ✓	1,035	989	-4%
Disabled staff			
Number of ground staff employees with disabilities ✓	208	235	***13%***
Number of ground staff employees with disabilities recruited during the year ✓	2	4	***100%***
Training [4]			
Participation rate (number of agents trained/workforce) ✓	***NA***	***92%***	
Ground staff ✓	NA	86%	
Cabin crew ✓	NA	88%	
Flight deck crew ✓	NA	99%	
Total number of hours of training per employee ✓	***NA***	***31***	
Ground staff ✓	NA	19	
Cabin crew ✓	NA	51	
Flight deck crew ✓	NA	87	

✓ *Indicators verified by KPMG for 2007 (moderate level of assurance).*

(3) *Air France subsidiaries: BritAir, Blue Link, CRMA, Régional, Servair Group (ACNA, Bruno Pegorier, OAT, Servair SA), Sodexi.*

(4) *Data calculated for BritAir, Blue Link, CRMA, Régional, Servair Group.*

3. Other data for KLM (according to local legislation)

3.1 KLM

	2006	2007	07/06
Absenteeism			
Due to illness			
Ground staff ✓	5.4	5.7	***6%***
Cabin crew ✓	6.3	5.8	***-8%***
Flight deck crew ✓	3.9	4.2	***8%***
Maternity leave			
Ground staff ✓	0.4	0.4	***0%***
Cabin crew ✓	2	2	***0%***
Flight deck crew ✓	0.1	0.1	***0%***
Health and savety(2)			
Total industrial accidents ✓	539	1,098	***104%***
Number of fatal workplace accidents ✓	1	0	
Industrial Injury Frequency rate ✓	11.1	22.7	***105%***
Severity rate of industrial accidents ✓	0.1	0.2	***54%***
Disabled staff(3)			
Number of ground staff employees with disabilities ✓	1,125	902	***-20%***
Collective agreements			
Number of agreements signed during the year	3	3	

3.2. KLM subsidiaries (1)

	2006	2007	07/06
Health and safety(4)			
Total industrial accidents ✓	198	156	***-21%***
Number of fatal workplace accidents ✓	0	0	
Industrial Injury Frequency rate ✓	N/A	27.4	
Severity rate of industrial accidents ✓	N/A	0.2	

✓ *Indicators verified by KPMG for 2007 (moderate level of assurance).*
(1) *KLM subsidiaries: Cynific, KES, KHS, KLM ground services Limited, KLM Cithopper (UK and BV), Transavia, KLM Catering Services.*
(2) *Due to an improvement in the reporting system, the reported data is much more complete, which explains the change with respect to the data reported last year.*
(3) *Due to legislative changes, the number of disabled employees has fallen.*
(4) *Frequency and severity rates are calculated without Transavia.*

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Risks and risk management

4.

Risk factors

Risks relating to the air transport industry

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

The air transport industry is seasonal, with demand weakest 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. Local, regional and international economic conditions can also have an impact on the Group's activities and, thus, its financial results. Periods of sluggish economic activity and crises are likely to affect demand for transportation, both for tourism and for business travel. Furthermore, during such periods, the Group may have to accept delivery of new aircraft or may be unable to sell unused aircraft under acceptable financial conditions.

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

Air transport activities are subject to a high degree of regulation, notably with regard to traffic rights and operating standards (the most important of which relate to 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 carriers to operate international routes 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, the threat of attacks, geopolitical instability, epidemics and threats of epidemics

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs principally due to a 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 in Asia. 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.

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 did, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots following September 11, the war in Iraq and the SARS epidemic.
(See section 6 - Legislative and regulatory environment).

Environmental risks

The air transport industry is subject to numerous environmental regulations and laws relating, amongst other things, to aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste products and contaminated sites. Over the last few years, the French, Dutch, European and US authorities have adopted various regulations, notably 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 transportation in the Emissions Trading Scheme (ETS) as of 2011, the details of which have yet to be defined.

The draft directive aimed at including the air transport sector in the Emissions Trading Scheme for fixed sources (EU-ETS) should be finalized during 2008.

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.
(See section 3 - Environmental data).

Risks linked to the oil price

The significant increase in the oil price over the last few years and its acceleration in the past six months represents a risk for the air transport industry particularly if the economic environment does not allow airlines to adapt their pricing strategies in introducing new fuel surcharges, if airlines are no longer able to implement effective hedging strategies or if, for the European airlines, the dollar were to appreciate markedly against the euro. *(See section 4 - Risk management)*.

Risks linked to the Group's activity

Risks linked to commitments made by Air France 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.

Risks linked to competition from other air and rail transport operators

The air transport industry is extremely competitive. The liberalization of the European market on April 1, 1997 and the resulting competition among carriers has led to a reduction in airfares and an increase in the number of competitors.

The *Open Skies* agreement between the European Commission and the United States has been in force since March 2008. European airlines are thus authorized to operate flights to the United States from any European airport. While this agreement could increase competition for Charles de Gaulle and Schiphol, it has also enabled Air France and KLM to extend their networks and strengthen cooperation within the SkyTeam alliance.

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. In particular, the high-speed TGV rail network 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 rail networks in Europe is likely to have a negative impact on the Group's activity and financial results.

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 increased markedly over the past decade.
(See section 2 - Activity).

Risks linked to changes in commercial alliances

The maintenance and development of strategic relationships and alliances with partner airlines will be critical for the Group's activity. Air France and KLM are members of the SkyTeam alliance, which also comprises Aeroflot, Aeromexico, Alitalia, CSA Czech Airlines, China Southern, Continental, Delta Airlines, Korean Air and Northwest as well as a number of associate airline members. 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. However, Air France and KLM have had joint-venture agreements lasting ten years with their respective partners Delta and Northwest who are strengthening their cooperation. Furthermore, in May 2008, the DoT (US Department of Transportation) confirmed the positive response it had given, in October 2007, to the application for antitrust immunity filed by the European and US (excluding Continental) members of SkyTeam. *(See section 2 - Activity)*.

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 ability and any difficulty in finding financing under acceptable conditions could have a negative impact on its activity and economic results.

Risks linked to labor disruptions 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 labor agreements under satisfactory conditions. Any strike or cause for work to be stopped could have a negative impact on the Group's activity and financial results.
(See section 3 - Social data).

Risks linked to the use of third-party services

The Group's activities depend 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 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.

Market risks and their management

Organization of the Air France-KLM Group

The aim of Air France-KLM's risk management strategy is to reduce the Group's exposure to these risks so as to contain earnings volatility. 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 President and CEO and 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, interest rates and counterparties 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 types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the cash management and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the risks of its subsidiaries.

Regular meetings are held between the fuel purchasing and cash management departments of the two 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 exception to this rule 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 daily on the level of cash and cash equivalents to their respective executive managements. The level of Air France-KLM cash is communicated on a weekly basis to the Group's executive management.

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. The executive managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of all the positions, the percentages hedged as well as the breakdown of instruments and underlyings used, the average hedge levels and the resulting net prices. All this data covers the current and next four financial years. Furthermore, a weekly Air France-KLM Group report (known as the GEC Report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update. These procedures are outlined in the Report of the Chairman on internal control.

Market risk management

Currency risk

Most of the Air France-KLM Group's revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company.

The principal exposure relates to the US dollar followed, to a lesser extent, by sterling and the yen.

Since expenditure on items such as fuel, operating leases or components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars, 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 financial results.

The management of the Group's exchange rate risk is effected on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

Operations

Concerning the US dollar, the two companies have a systematic hedging policy designed to cover 30% of the net exposure over a rolling 12 months. This percentage may be increased to 75% over the financial year as a function of 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.

2008-09 operating exposure *(In millions)*	**US Dollar (USD)**	**Sterling (GBP)**	**Yen (JPY)**
Net position before management	(3,979)	524	75,147
Currency hedge	2,123	(72)	(23,775)
Net position after management	(1,856)	452	51,372

The maximum impact on income before tax of a 10% currency variation in absolute value relative to the euro is shown in the following table.

	US Dollar	**Pound sterling**	**Yen**
(In € million)	107	4	15

Investment

Aircraft and spare parts are purchased in US dollars, meaning that the Group is exposed to a rise in the dollar relative to the euro in terms of its investment in flight equipment. The hedging strategy 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 90% of the exposure of the forthcoming four or five years.

(In $ million)	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Investments	(1,527)	(1,876)	(1,365)	(1,077)
Currency hedge	1,394	1,715	1,221	955
Hedge ratio	91%	91%	89%	89%

Exposure on the debt

The exchange rate risk on the debt is limited. At March 31, 2008, 90% of the Group's net debt, after taking into account derivative instruments, was euro-denominated, thereby sharply reducing the risk of currency fluctuations on the debt.

Despite this pro-active hedging strategy, not all exchange rate risks are covered, notably in the event of a major fluctuation in currencies in which the debt is denominated. The Group and its subsidiaries might then encounter difficulties in managing currency risks, which could have a negative impact on the Group's activity and financial results. *(See section 5 - Notes 32.2 and 32.4 to the consolidated financial statements)*.

Interest rate risk

At both Air France and KLM, debt is generally contracted in 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 in order to reduce interest expenses and limit their volatility.

After swaps, the Air France-KLM Group's net debt contracted at fixed rates represents 76% of the overall total.

Given this policy, at March 31, 2008, the Group had negative net exposure to interest rates, the cash being invested at floating rates exceeding the debt at floating rates. Air France-KLM is thus exposed to a fall in interest rates. *(See section 5 - Notes 32.2 and 32.4 to the consolidated financial statements)*.

2007-08 exposure to interest rates *(In € million)*	One year*	> 1 year**
Financial liabilities	4,682	512
Financial assets	1,077	3,297
Net exposure before hedging	3,065	(2,785)
Hedging	-	1,710
Net exposure after hedging	3,605	(1,075)

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

** *Fixed rate > 1 year.*

Taking into account the position to be renewed at less than one year, the interest rate exposure is low, since any 1% variation in interest rates over twelve months would have an impact of €25 million.

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, 2008, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies worth 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 defined by the RMC 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 distillates, of which 20% must be in Jet fuel.

After this minimum in distillates 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 compliant underlyings as defined by IAS 39.

For subsequent financial years, the choice of underlying is at the discretion of Air France and of KLM provided that this choice is based on compliant underlyings as defined by IAS 39.

- **Instruments**

The instruments used within the framework of the strategy must be compliant with IAS 39.

At March 31, 2008, Air France-KLM fuel exposure stood as follows:

(In $ million except average purchase price in $)	2008-09	2009-10	2010-11	2011-12
Gross expenditure before hedging	10,114	9,963	9,923	10,067
Hedge percentage	75%	55%	35%	16%
Gain on hedging	2,130	1,484	894	337
Net expenditure	7,985	8,479	9,028	9,730
Average purchase price in Brent IPE equivalent	74	80	87	94

Based on a market price of $121 (spot price at May 9, 2008) and a euro/dollar parity of 1.56, the fuel bill after hedging for the 2008-09 financial year is estimated at €5.73 billion. On a constant correlation between the Brent price and the jet fuel price, a 10% increase in the Brent price compared with the market price of May 9, 2008 would lead to a 3% increase in the fuel bill after hedging and 9% if the price of Brent were to increase by 20%. Were the Brent price to fall by 10% compared with the price at May 9, 2008, the fuel bill after hedging would fall by around 8% and by 14% were the Brent price to fall by 20%. *(See section 5 - Notes 32.2 and 32.4 to the consolidated financial statements).*

Liquidity risks

For the Air France-KLM Group, the balance of the cash flows tied to capital expenditures at March 31, 2008 was more than covered by the cash flows from the operating activities, enabling the Group to generate free cash flow of €820 million, €188 million more than in the year to March 31, 2007. The gearing ratio again improved, falling from 0.45 one year previously to 0.25 at March 31, 2008. The average cost of the Group's debt – after swaps – amounted to 4.53% at March 31, 2008 (4.43% at March 31, 2007).

At March 31, 2008, 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 €1.11 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 the 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 at March 31, 2008.

The Air France Group prioritizes long-term financing for its investments. It also diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003 and the issuance of bonds convertible into new or existing shares, OCEANEs, in April 2005. Finally, in September 2006, Air France issued €550 million of euro-denominated bonds, with a 4.75% coupon, maturing on January 22, 2014. An additional €200 million was raised in April 2007, fully fungible with the first tranche. *(See section 5 - Notes 30.3, 30.4 and 30.6 to the consolidated financial statements).*

To finance its aircraft, KLM is able to access the export credit system, which enables the company to take advantage of guarantees from the leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. KLM has 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 in July 2010, negotiated with a consortium of international banks.

For its part, the Air France-KLM holding company put in place a ten-year credit facility of €250 million in October 2007.

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 €4.4 billion at March 31, 2008 and the available credit facilities reflect prudent liquidity risk management.

In future years, the two subsidiaries will continue to be responsible for their own financing strategies, enabling each to fully capitalize on the relationships they have built up with their partner banks. Moreover, this segmentation ensures that KLM can continue to take advantage 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, KLM and Air France-KLM are invested so as to maximize the return for a very low level of risk. Consequently, they are not invested in the mortgage loan market or the securitization market, nor in any structured product having been significantly affected by the financial crisis.

In order to take advantage of market opportunities linked to the widening in credit spreads, cash resources are mainly invested in certificates of deposits with leading banks, as well as in some money market mutual funds since the summer of 2007.

A portion of KLM's liquid assets is invested in foreign-currency AAA-rated bonds, in order to reduce the currency risk on the debt.
(See section 5 - Note 32.1 to the consolidated financial statements).

Insurance risks

Since December 1, 2004, Air France and KLM have pooled their airline risks on the insurance market in order to capitalize on the scale effect. There are no material risks within the Air France-KLM Group that are not insured.

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 was taken out with Axa, a leading French underwriter and with co-insurers with international reputations.

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

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 annually.

Finally, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, Air France has taken out a number of policies to insure its industrial sites, property portfolio and activities ancillary to air transportation, 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 B.V and Kenya Airways Ltd to cover damage to aircraft, liability with respect to passengers and general third-party liability in connection with its activity. It covers KLM's civil liability for up to $2 billion and also includes specific cover against terrorist acts for damage caused to third parties for up to $1 billion.

In addition, KLM participates in the payment of claims for damage to its aircraft through a reinsurance company whose maximum liability is limited to $3.6 million annually.

Finally, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, KLM has taken out a number of policies to insure its industrial sites, property portfolio and activities ancillary to air transportation, 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 which either result in provisions being booked in the consolidated financial statements or information being included in the notes to the consolidated financial statements as to the possible liabilities. *(See section 5 - Notes 29.2 and 29.3 to the consolidated financial statements).*

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

In order to establish this report, the Chairman consulted with the Directors of Internal Control and Audit, the latter being given responsibility for assembling the information necessary to the production of the aforementioned report provided by the different Air France-KLM entities.

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 continued to use the 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 General Management, executives and employees, 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 general managements, the main subsidiaries and the audit committee to monitor the principal risks. The risks faced by each Group entity and the action plans implemented at each to minimize them are notified to the Internal Audit unit responsible for overseeing the process by Internal Control Coordinators designated by the entities. The quarterly risk reports are presented to the management bodies (notably the Group Executive Committee), prior to their presentation to the audit committee.

Internal control network

An Internal Control division and a Group Internal Audit division have been operational since April 2005. Internal Control Coordinators have also been appointed in each Air France-KLM Group entity considered to be significant by virtue of its impact on the Group's financial statements.

General internal control structure

The structure described below is a summary of the organization in place in each of the two sub-groups as outlined in the Chairman's reports on internal control by 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), the subsidiaries of these companies representing only a minority percentage of their businesses and revenues. 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; to this end, the Board works with the Group Executive Committee to ensure the successful operation of the Air France-KLM Group, supported by advice from the specialist committees mentioned in the Corporate Governance section.

Group Executive Committee

The Group Executive Committee, as the Strategic Management Committee until May 2007, is tasked with defining the common strategic decisions on commercial, financial, technical and operational issues for the two companies; its definition and functioning is outlined in the Corporate Governance and Other Information sections of this document.

Financial functions

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

However, in April 2005, a finance division was created within 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 announcements, press releases, relations with investors and the 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 the Group's management with the reasonable 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 an internal audit department which is characterized by its 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 to achieve its stated goals by providing a systematic and formal approach with which to evaluate and strengthen the effectiveness 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 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 at both the level of the two airlines and at 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 Group level has, nevertheless, been effective since the beginning of the 2005-06 financial year. The Group's Internal Audit Director, who was appointed at the beginning of the 2005-06 financial year and has overall responsibility, ensures 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 Group Executive Committee or the Boards of Directors. Audits are conducted in collaboration with the internal auditors of the two airlines. There are 39 auditors (excluding management structure)

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

In order to carry out its mission, the internal audit department, which operates within the framework of the internal audit charter established by the audit committee of the parent company Air France-KLM, either acts on its own initiative or intervenes at the request of the audit committee or the Board of Directors.

An annual schedule of activities is established and submitted to the Group Executive Committee and to the audit committee of the holding company for approval.

The different types of audits performed are:

- operational audits dedicated to reviewing the effectiveness of the Group's internal control procedures;
- thematic audits focused on a theme common to several functions or entities or centered around the company's projects;
- specific audit missions undertaken at the request of the 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 within internal audit.

Completed investigations are summarized in a report that presents the mission's conclusions and highlights its findings, including the 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 on its work in a summary document presented on a quarterly basis to the Group Executive Committee, 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 affairs department was created within the holding company.

Insurance functions

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 the Group's entities on reducing 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, aircraft 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 effective operations. It specifically takes into account the regulatory requirements governing air transportation, notably with regard to air operations, 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 organizational 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

Air France, KLM and their respective subsidiaries have a social rights and ethics charter that reflects their commitment to corporate social responsibility. This charter's corporate and ethical policy is based on respect for individuals 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 signed for the benefit of employees. The legal purpose of this charter 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 which should be applicable from next year addressing, in particular, compliance with laws and regulations, conflicts of interest, confidentiality, safeguarding of assets, environmental protection, corporate social responsibility and intellectual property.

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

Internal audit charter

The terms of the Air France-KLM Group's 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 business and defines its sphere of operation.

It also specifies the operating methods and the different phases of the missions carried out together with the summary reports on their execution.

Procurement quality manual

The *Common Working Platform* document, currently being established, outlines the Group's procurement policy, the purchasing processes and the related documents applicable within the Group, which are designed principally 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 exceeded.

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 approval by the administrative authorities issuing the authorizations (DGAC, IVW-DL, FAA, etc.);
- management systems: the quality manual of each company and related general procedures.

Passenger service: seven standards relating to services covering the entire passenger service chain form the basis of the Air France-KLM Group's ambition in terms of service quality.

V - Summary information on the 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 transportation 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;
- the charter/low cost business comprising the leisure and charter activities of Transavia Holland and Transavia France.

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 Group Executive Committee, which is the major governance body described in section I above. This governance body is supported 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 85 and 76 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 Group balance sheet.

The forward-looking management of the Air France-KLM Group is organized on the basis of the following three key procedures:

- the broad strategic orientations of the Air France-KLM Group are defined and prioritized within 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, covers a three-year time horizon for each of the two companies in terms of growth, investment and human resources combined with comprehensive economic figures presented and discussed in December of each year by the Group Executive Committee with specifically-defined action plans for revenues and costs;

- the budgets for the IATA year, which include the first year of the MMT 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 the closing of the financial statements

Finance processes

Investments are managed by each company in accordance with its own procedures. Major investments, particularly in aircraft, are submitted for approval to the Group Executive Committee (fleet, acquisitions, disposals, etc.).

Hedging 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 President and CEO and the Chief Executive Officer and the Chief Finance 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 forthcoming quarters, with different durations depending on the markets, the hedging ratios to be achieved, the time period for meeting these targets 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 the delegation of 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 companies. 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 hedge strategies aim 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, or the Chief Finance Officer of KLM. 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 finance departments of the Air France-KLM parent company and its subsidiaries.

The Group is principally comprised of the two operational sub-groups, Air France and KLM, which prepare their own consolidated financial statements prior to their consolidation within the Air France-KLM financial statements.

The accounting information reported 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 the presentation of the financial statements must comply with the format circulated by the Group.

All companies within the Group refer to the Accounting Procedures Manual which is based on the international financial reporting standards governing the establishment of the financial statements of European listed companies for financial years starting as of January 1, 2005.

As part of their legal mission, the parent company's Statutory Auditors review the information reported by the principal consolidated entities. The consolidated and parent company financial statements are submitted to the Management, then reviewed by the auditors (half-year and annual financial statements only) prior to their closing. They are then presented to the audit committee, which meets every quarter for the closing of the financial statements.

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 process known as the 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, per available seat-kilometer, per 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 available information then, once the accounting result is known, produce a monthly document that summarizes the business and key financial data and analyzes 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 financial year. The monthly report is presented to the Group Executive 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 meet customer expectations.

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 management.

In addition to the regulatory approvals which enable each company to carry out its activities, progress is recognized in the achievement of certifications from independent bodies, notably, for example:
- IOSA certification (IATA Operational Safety Audit) obtained in 2005;
- ISO 9001 (2000 version) certification for management systems efficiency (60 entities certificated at Air France 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 supervision methods.

Internal monitoring

Internal monitoring conducted by the quality assurance departments includes:
- an audit program (covering in particular 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

External monitoring, conducted by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and specialized certification bodies, takes the form of audits of the 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

The monitoring of partners, whether they be sub-contractors or suppliers, is undertaken within the framework of the regulatory monitoring program approved by the Civil Aviation Authorities. Code share partnerships are subject to additional IOSA certification requirements, the recognition by the profession of flight safety standards.

In terms of the control of the monitoring process, the supervision of the effective implementation of preventive/corrective actions resulting from this overall monitoring is overseen by the quality assurance departments coordinated within each airline.

Support procedures and processes

Information systems

The control processes cover the information and telecommunication systems and are based on formalized procedures that have achieved ISO 9001 certification at Air France (certification renewed after an initial three-year period). At KLM they are based on a specific modeling of the information systems processes (Management Enterprise Architecture/ MEA Babylon). These processes were reviewed within the framework of the Sarbanes-Oxley Act for the 2006-07 financial year, further improving their effectiveness. For the financial year ended March 31, 2008, this review was carried out within the framework of the French Financial Security Law and the work on internal control decided by the Group after the deregistration with the SEC.

The mechanisms put in place aim to ensure:
- the reliability of the IT and telecommunications systems;
- data integrity through appropriate resources, infrastructure and controls;
- the continuity of IT services and the availability of the data on the production sites through a 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 infrastructure 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 gradually establish a coordinated and optimized organization lead 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), thus defining a common security policy for information systems.

Procurement

The activity of the Purchasing department is based on a procurement 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 separate responsibilities (buyer, referrer, supplier), the establishment of contracts and the use of internet technologies. The directors 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 the evaluation of internal control relating to 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 also had to comply with the provisions of the US Sarbanes-Oxley Act in that it was listed for trading on the New York Stock Exchange. In order to satisfy the provisions of the Act's Article 404, which applied for the first time to Air France-KLM for the financial year ended March 31, 2007, as of 2004 a range of initiatives were implemented within the different Air France-KLM entities designed to generate the momentum to effectively mobilize those involved in internal control in order to achieve the three objectives of realizing and optimizing operations, generating reliable accounting and financial information, and complying with the laws and regulations in force.

The internal control project aimed at complying with the requirements of the Sarbanes-Oxley Act was structured around the following key 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

Each Group division or executive management has been evaluated on the basis of the five COSO components of its internal control using evaluation questionnaires corroborated by independent existence and effectiveness tests.

Air France and KLM have also established whistle blower procedures and formalized the anti-fraud program together with a procedure for identifying and testing the effectiveness of the control environment.

Similarly, overall control of the information systems has been the subject of formalized evaluation.

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

Based on an analysis of the significant entries in the consolidated financial statements and an assessment of risks, the Group has identified the significant companies and, within these entities, the processes that make a significant contribution to the establishment of the financial statements.

For each of these significant processes, process and key control documentation has been established together with existence and effectiveness testing.

At the time of the delisting from the New York Stock Exchange and deregistration with the SEC (Securities and Exchange Commission) the Air France-KLM Group Executive Committee and audit committee decided to maintain high standards and to capitalize on the work already undertaken (in rationalizing this) to comply with the Sarbanes-Oxley Act, in order to anchor its principles within the framework of the Group's day-to-day management.

The Group's various major divisions and subsidiaries had thus evaluated the effectiveness of internal control over financial information as at March 31, 2008.

The SOA approach being mainly orientated towards financial disclosure, the new internal control framework for the 2008-09 financial year may be extended to other Group processes and activities as a function of the decisions of the Executive Management.

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 processing of accounting and financial information

Year ended March 31, 2008

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 French 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, 2008.

It is the Chairman's responsibility to describe in his report the preparation and organization of the Board's work and the internal control procedures implemented by the Company. It is our responsibility to report to you on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with French professional standards applicable in France. These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures mainly consisted in:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report and existing documentation are based;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information given in respect of the Company's internal control procedures relating to the preparation and processing of the accounting and financial 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 Defense and Neuilly-sur-Seine, June 3, 2008

The Statutory Auditors

KPMG Audit

Department of KPMG S.A.

Jean-Luc Decornoy
Partner

Jean-Paul Vellutini
Partner

Deloitte & Associés

Pascal Pincemin
Partner

This is a free translation into English of the statutory auditors' report issued in French prepared in accordance with Article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board on the internal control procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.

Financial report 5.

Investments and financing

The Air France-KLM Group's capital expenditure on tangible and intangible assets together with the acquisitions of subsidiaries and equity interests amounted to €2.61 billion at March 31, 2008 compared with €2.40 billion one year earlier. This was financed from operating cash flow of €2.59 billion, after the payment of a balance of €110 million to the French State in respect of the 2003 shares-for-salary exchange and a voluntary payment of €198 million to reduce the Group's pension liabilities. Proceeds from disposals of property, plant and equipment amounted to €282 million (€160 million at March 31, 2007) while proceeds on the sale of financial interests were €284 million. Free cash flow stood at €820 million at March 31, 2008 compared with €632 million one year earlier.

The Group's cash position increased by some €500 million to €4.39 billion, including €185 million of investment securities immobilized for between 3 and 12 months. In addition, the Group still has credit facilities of €1.99 billion subscribed by Air France, KLM and Air France-KLM, an increase of €250 million following a credit facility established by Air France-KLM during the year. Between April and November 2007, the exercise date, the exercise of the warrants issued at the time of the Air France/KLM share exchange generated cash proceeds of €404 million at Air France-KLM level.

The balance sheet was further strengthened over the year with a €1.1 billion reduction in net debt to €2.7 billion and stockholders' equity of €10.5 billion. The Group's gearing ratio thus declined from 0.45 at March 31, 2007 to 0.25 at March 31, 2008.

Investments

(In € million)	**2007-08**	**2006-07**	**2005-06**
Acquisition of intangible assets	(92)	(37)	(30)
Investment in flight equipment	(1,900)	(2,000)	(2,190)
Other property, plant and equipment	(348)	(341)	(324)
Acquisition of subsidiaries	(272)	(25)	(58)
Proceeds on disposals of subsidiaries and equity interests	84	43	35
Proceeds on disposals of property, plant and equipment and intangible assets	282	160	227
Net cash received from the WAM/Amadeus transaction	284	-	817
Dividends received	5	6	10
Net decrease (increase) in investments over 3 months to 1 year	349	331	(294)
Net cash used in investing activities	(1,608)	(1,863)	(1,807)

Investment in tangible and intangible assets amounted to €2.34 billion (€2.38 billion at March 31, 2007), of which €1.94 billion in flight equipment. The acquisition of aircraft (see section on the Fleet) and advance payments amounted to €1.74 billion while other investment in flight equipment also included the capitalization of overhaul costs in line with IAS 16 and the capitalization of certain aircraft spare parts. Ground investment amounted to €348 million and included various industrial facilities and equipment. Intangible investment, amounting to €92 million, related to the purchase of software and capitalized IT development.

Cash disbursed to pay for acquisitions of subsidiaries and equity interests amounted to €272 million (€25 million to March 31, 2007) and mainly related to the acquisition of VLM Airlines (and to 10 Fokker 50 aircraft operated by VLM), KLM shares and Air France-KLM's own shares.

Proceeds on disposals of subsidiaries and equity interests generated €84 million of cash, principally from the sale of Alpha Airports Plc shares (€69 million).

Proceeds on disposals of property, plant and equipment and intangible assets amounted to €282 million (€160 million in 2006-07) including €247 million on the sale of aircraft (principally three Boeing B747s, 10 Boeing B737s and 2 Airbus A320s).

The dividends received from unconsolidated subsidiaries amounted to €5 million compared with €6 million the previous year.

Finally, income on investments over periods of between 3 months and one year fell by €349 million compared with a €331 million reduction one year earlier.

Overall, cash flows used in investing activities showed a net disbursement of €1.6 billion compared with €1.86 billion during the 2006-07 financial year.

Financing

(In € million)	**2007-08**	**2006-07**	**2005-06**
Capital increase	597	-	-
Issuance of new debt	681	1,240	1,410
Reimbursement of debt	(414)	(714)	(523)
Reimbursement of debt on finance lease liabilities	(886)	(866)	(580)

The Group's debt principally serves to finance the investment in flight equipment. At March 31, 2008, 78% of long-term debt was guaranteed by pledged or mortgaged assets.

During the year, the Group issued €681 million of new debt (€1.24 billion in 2006-07) including, in April 2007, an additional €200 million tranche of the bond issue described in note 30.4 of the notes to the consolidated financial statements.

In parallel, the Group repaid €414 million of borrowings (€714 million in 2006-07) and €886 million of debt relating to finance lease liabilities (€866 million in 2006-07).

Property, plant and equipment

Property, plant and equipment of the Air France-KLM Group

Net book value *(In € million)*	2007-08	2006-07	2005-06
Flight equipment	**12,280**	**11,551**	**11,017**
Other property, plant and equipment			
Land and buildings	1,281	1,263	1,265
Equipment and machinery	410	361	336
Assets in progress	221	145	126
Others	281	238	228
Total other property and equipment	**2,193**	**2,007**	**1,955**

Information on flight equipment is given in the Fleet section of this document and orders for flight equipment are covered in note 34 of the notes to the consolidated financial statements. After the fleet, land and buildings is the second largest category of tangible assets for the Air France-KLM Group and is 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		KLM Group		Air France-KLM	
At March 31	2008	2007	2008	2007	2008	2007
Operations	418,000	402,000	202,000	202,000	620,000	604,000
Cargo	339,000	339,000	93,000	93,000	432,000	432,000
Maintenance	653,000	658,000	179,000	179,000	832,000	837,000
Support	477,000	656,000	113,000	113,00	590,000	769,000
Total	**1,887,000**	**2,055,000**	**587,000**	**587,000**	**2,474,000**	**2,642,000**

Air France Group

Only the Air France buildings (87% of the property, plant and equipment of the Air France Group) are the subject of commentary, of which 86% is situated in Continental France. The main change in the surface area of support premises is due to the fact that parking strips are not included whereas they were last year.

The main changes were the coming on line of a 13,000 m^2 maintenance center, 7,000 m^2 of floor space at satellite 3 and 6,000 m^2 of office space for the CDG station. Two maintenance buildings representing 14,300 m^2 were demolished at CDG and Orly.

KLM Group

The KLM Group did not record any significant changes over the year.

Financing

	Air France Group	KLM Group	Total
Fully owned	54%	89%	54%
Finance lease	10%	-	8%
Operating lease	46%	11%	38%
Total	**100%**	**100%**	**100%**

The minimum future payments on operating leases relating to buildings amounted to €1.79 billion at March 31, 2008 (see note 33.2 to the consolidated financial statements).

Most of the Air France Group's facilities are based in airport zones where land availability is subject to occupancy agreements or long-term leases. Only 9% of the fully owned or finance leased premises belong to the real estate portfolio controlled by Air France.

Geographical breakdown of the sites

Sites	Approximate surface area (In m²)	Type of financing
Air France Group		
Roissy-CDG airport	675,000	Ownership, finance lease, rental
Orly airport	427,000	Ownership, rental
Toulouse	71,000	Ownership, finance lease, rental
Vilgénis	47,000	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, operating lease
Schiphol Rijk	23,000	Ownership, operating lease
Schiphol Noord	22,000	Ownership
Amstelveen	29,000	Ownership
Others	27,000	Operating lease

Main rental contracts

Sites	Approximate surface area (In m²)	Type of financing
Air France Group		
Commercial head office, Montreuil	20,000	Commercial lease
Hangar H4 at CDG	35,000	Agreement
Hangar H8N6 at Orly	45,000	Agreement
KLM Group		
Schiphol	37,500	Commercial lease

Assets in progress

The main construction projects underway at Air France are as follows:

- a cargo terminal at Orly amounting to 6,000 m² at a cost of €5 million for completion in August 2008;
- the rehabilitation of the 14,000 m² Orly Sud head office, representing a €27 million investment with completion expected in late August 2008;
- the 26,000 m² A380 hangar at Roissy-Charles de Gaulle, representing an investment of around €47 million with completion expected in spring 2008;
- terminal 2G reserved for regional aircraft at CDG for €4 million to come into service in September 2008;
- the completion of a 3,000 m² building at the CDG cargo terminal in late 2008 representing an investment of €8 million and 8,000 m² of docks for delivery in March 2009 at a cost of €9 million;
- the construction of the 16,500 m² maintenance center at the Roissy hub, costing an estimated €27 million with completion expected in March 2009.

The KLM Group currently has no outstanding commitments to large-scale construction projects.

Comments on the financial statements

Consolidated results

The Air France-KLM consolidation scope at March 31, 2008 reflected the deconsolidation, in June 2007, of Alpha Plc which had previously been equity accounted at 26%, the full integration of Servair subsidiary Air Chef, which had previously been equity accounted and the inclusion of VLM, consolidated since March 1, 2008. The scope includes 161 subsidiaries, of which the two principal subsidiaries Air France and KLM account for 90% of revenues and 80% of the balance sheet. The other subsidiaries are mainly involved in air transportation (BritAir, Régional, CityJet, transavia.com and VLM since March 1, 2008), cargo, maintenance, catering (Servair Group and KLM Catering Service) or aircraft financing activities.

(In € million)	March 31, 2008	March 31, 2007	March 31, 2006
Sales	24,114	23,073	21,448
Income from current operations	1,405	1,240	936
Income from operating activities	1,272	1,233	1,455
Net income from continuing operations	767	887	921
Net income, Group share	748	891	913
Basic earnings per share, Group *(In €)*	2.63	3.35	3.47

Sales

Sales rose by 4.5% after a negative currency impact of 2.3% to €24.11 billion for production measured in EASK (equivalent available seat-kilometers) up by 4.8%. Unit revenue per equivalent available seat-kilometer was stable (-0.1%) but rose by 2.3% on a constant currency basis.

Operating expenses

Operating expenses increased by 4% to €22.71 billion. This increase was limited to 3.2% excluding fuel costs. Unit cost per EASK fell by 0.6% and by 1% on a constant currency and fuel price basis.

External expenses

At March 31, 2008, external expenses were up by 5.5% at €13.8 billion. On a constant fuel cost basis, this increase was limited to 3.1%.

	Financial year to March 31		
(In € million)	2008	2007	2006
Aircraft fuel	4,572	4,258	3,588
Chartering costs	658	646	605
Aircraft operating lease costs	611	600	637
Landing fees and en route charges	1,755	1,705	1,610
Catering	470	419	405
Handling charges and other operating costs	1,331	1,232	1,203
Aircraft maintenance costs	1,038	894	777
Commercial and distribution costs	1,176	1,201	1,232
Other external charges	2,203	2,145	2,070
Total	**13,814**	**13,100**	**12,127**

The main changes were as follows:

Aircraft fuel

Fuel purchases amounted to €4.57 billion compared with €4.26 billion at March 31, 2007 (+7.4%), reflecting a 3% increase in volumes, a 14% increase in the fuel price after hedging and a favorable currency impact of 9%.

Landing fees and en route charges

Landing fees and en route charges increased by 2.9% to €1.76 billion compared with €1.71 billion at March 31, 2007. These are charges paid by airlines for en route air navigation services (air traffic control) and airport approach. They also include airport taxes including landing and parking fees and passenger taxes. The rates are set by airports after consultation with users.

Catering

Catering costs which relate to services supplied on board the Group's and customers' aircraft increased by 12.2% to €0.47 billion largely due to the full integration within the Group scope, as of July 1, 2007, of the company Air Chef which had previously been equity accounted.

Handling charges and other operating costs

Handling charges cover aircraft handling on the ground, flight personnel layover expenses as well as any compensation paid to customers due to operating irregularities. The amounts are established subject to contract for aircraft handling, by regulation and commercial practice with regard to customer compensation and by labor agreements for cabin and flight crew layover expenses. Handling charges amounted to €1.33 billion, up by 8.0% (+6.7% excluding compensation paid at the time of the autumn 2007 strikes).

Aircraft maintenance costs

These include the maintenance of aircraft and amounted to €1.04 billion, a rise of 16.1% at March 31, 2008, due to the accounting reclassification of certain spare parts from flight equipment to inventories.

Commercial and distribution costs

At €1.18 billion, commercial and distribution costs fell by 2.1% due to the transition to zero commission for travel agents which began in 2005 and the renegotiation of GDS costs.

Other external charges

Other external expenses amounted to €2.20 billion at March 31, 2008, compared with €2.15 billion at March 31, 2007, an increase of 2.7%. They include, principally, rental charges, telecommunications costs, insurance and fees.

Salaries and related costs

Salaries and related costs rose by 4.9% to €7.02 billion for an average headcount of 104,659 during the period (+1.6% and +0.9% on a constant scope).

Amortization, depreciation and provisions

Amortization, depreciation and provisions totaled €1.62 billion compared with €1.79 billion at March 31, 2007. The slight reduction is due to the reclassification of certain spare parts from flight equipment to inventories.

Income from current operations

Income from current operations amounted to €1.41 billion compared with €1.24 billion at March 31, 2007. The adjusted operating margin[1] was 6.7% (+0.4 of a point).

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

Year ended *(In € million)*	March 31, 2008		March 31, 2007		March 31, 2006	
	Revenues	Income from current operations	Revenues	Income from current operations	Revenues	Income from current operations
Passenger	19,156	1,291	18,366	1,067	16,942	686
Cargo	2,928	39	2,909	62	2,882	166
Maintenance	969	63	977	44	896	54
Others	1,061	12	821	67	728	30
Total	**24,114**	**1,405**	**23,073**	**1,240**	**21,448**	**936**

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

Income from operating activities

Income from operating activities amounted to €1.27 billion compared with €1.23 billion at March 31, 2007.

This includes, notably, the €284 million capital gain on the WAM transaction as well as a €530 million provision (€493 million after tax) booked by the Group on the basis of the current status of the ongoing antitrust investigations into the cargo sector.

Net cost of financial debt

Net interest charges fell by 29.3% to €99 million compared with €140 million at March 31, 2007, reflecting the reduction in net debt. The Group also benefited from the increase in interest rates since its cash invested at floating rates exceeds the amount of debt contracted at floating rates after hedging.

Net income, Group share

Income before tax of fully integrated companies amounted to €1.15 billion.

After a tax charge of €358 million, reflecting an effective tax rate of 31.2% compared with 22.2% in the previous financial year, a negative €24 million contribution from associates and minority interests of €19 million, net income, Group share amounted to €748 million compared with €891 million in the year to March 31, 2007.

The contribution to net income by quarter was, respectively, €415 million at June 30, 2007, €736 million at September 30, 2007, €139 million at December 31, 2007 and a €542 million negative at March 31, 2008, after, for this fourth quarter, the provision booked in respect of the ongoing cargo investigation.

Basic earnings per share amounted to €2.63 at March 31, 2008 compared with €3.35 at March 31, 2007. Diluted earnings per share stood at €2.47 (€3.05 at March 31, 2007).

Air France-KLM parent company results

As a holding company, Air France-KLM has no operating activity.

Its activity comprises royalties paid by the two operating subsidiaries for use of the Air France-KLM logo, less financial communication expenses, statutory auditors' fees and costs linked to the remuneration for corporate officers. The operating result thus amounted to a modest €3 million loss.

After dividends received of €221 million, including an Air France interim dividend in respect of the 2007-08 financial year amounting to €50 million, net income stood at €198 million.

Consolidated financial statements

Year ended March 31, 2008

Consolidated income statement

Period from April 1 to March 31, *(In € million)*	Notes	2008	2007	2006
Sales	***5***	***24,114***	***23,073***	***21,448***
Other revenues		4	4	4
Revenues		***24,118***	***23,077***	***21,452***
External expenses	6	(13,814)	(13,100)	(12,127)
Salaries and related costs	7	(7,018)	(6,689)	(6,357)
Taxes other than income taxes		(250)	(263)	(228)
Amortization and depreciation	8	(1,606)	(1,782)	(1,656)
Provisions	8	(17)	(8)	(72)
Other income and expenses	9	(8)	5	(76)
Income from current operations		***1,405***	***1,240***	***936***
Sales of aircraft equipment	10	9	13	2
Negative goodwill	4	40	-	5
Other non-current income and expenses	10	(182)	(20)	512
Income from operating activities		***1,272***	***1,233***	***1,455***
Cost of financial debt		(387)	(407)	(392)
Income from cash and cash equivalents		288	267	168
Net cost of financial debt	***11***	***(99)***	***(140)***	***(224)***
Other financial income and expenses	11	(24)	25	(31)
Income before tax		***1,149***	***1,118***	***1,200***
Income taxes	12	(358)	(248)	(256)
Net income of consolidated companies		***791***	***870***	***944***
Share of profits (losses) of associates	20	(24)	17	(23)
Net income from continuing operations		***767***	***887***	***921***
Net income from discontinued operations	13	-	-	-
Net income for the period		***767***	***887***	***921***
- Group		***748***	***891***	***913***
- Minority interests		***19***	***(4)***	***8***
Earnings per share – Group ***(in €)***	14.1			
♦ basic		2.63	3.35	3.47
♦ diluted		2.47	3.05	3.25
Earnings per share from continuing operations ***(in €)***	14.2			
♦ basic		2.69	3.33	3.50
♦ diluted		2.53	3.03	3.28

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

Consolidated balance sheet

Assets *(In € million)*	**Notes**	**March 31, 2008**	**March 31, 2007**	**March 31, 2006**
Goodwill	15	377	204	208
Intangible assets	16	475	424	428
Flight equipment	18	12,280	11,551	11,017
Other property, plant and equipment	18	2,193	2,007	1,955
Investments in equity associates	20	177	228	204
Pension assets	21	2,245	2,097	1,903
Other financial assets *(including €735 million of deposits related to financial leases as of March 31, 2008, €835 million as of March 31, 2007 and €895 million as of March 31, 2006)*	22	956	1,095	1,182
Deferred tax assets	12.5	29	26	7
Other non-current assets	25	1,810	604	1,082
Total non-current assets		***20,542***	***18,236***	***17,986***
Other short-term financial assets *(including €266 million of deposits related to financial leases and investments between 3 months and 1 year as of March 31, 2008, €631 million as of March 31, 2007, €889 million as of March 31, 2006)*	22	303	689	932
Inventories	23	507	360	340
Trade accounts receivable	24	2,569	2,610	2,518
Income tax receivables		3	7	1
Other current assets	25	2,385	1,271	1,756
Cash and cash equivalents	26	4,381	3,497	2,946
Total current assets		***10,148***	***8,434***	***8,493***
Total assets		**30,690**	**26,670**	**26,479**

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

Consolidated balance sheet (continued)

Liabilities and equity *(In € million)*	**Notes**	**March 31, 2008**	**March 31, 2007**	**March 31, 2006**
Issued capital	27.1	2,552	2,375	2,290
Additional paid-in capital	27.2	765	539	430
Treasury shares	27.3	(119)	(30)	(58)
Reserves and retained earnings	27.4	7,338	5,415	5,072
Equity attributable to equity holders of Air France-KLM		***10,536***	***8,299***	***7,734***
Minority interests		78	113	119
Total equity		***10,614***	***8,412***	***7,853***
Provisions and retirement benefits	29	1,439	1,387	1,453
Long-term debt	30	6,914	7,419	7,826
Deferred tax	12.5	1,713	891	839
Other non-current liabilities	31	819	401	417
Total non-current liabilities		***10,885***	***10,098***	***10,535***
Provisions	29	441	225	192
Current portion of long-term debt	30	905	1,098	1,260
Trade accounts payable		2,218	2,131	2,039
Deferred revenue on ticket sales		2,279	2,217	2,062
Current tax liabilities		25	21	167
Other current liabilities	31	3,151	2,335	2,269
Bank overdrafts	26	172	133	102
Total current liabilities		***9,191***	***8,160***	***8,091***
Total liabilities		**20,076**	**18,258**	**18,626**
Total liabilities and equity		**30,690**	**26,670**	**26,479**

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

Consolidated statement of changes in stockholders' equity

(In € million)	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, 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) and stock options	-	-	-	-	(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***
Stock based compensation (ESA) and stock options	-	-	-	-	35	35	-	***35***
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 scope	-	-	-	-	-	-	8	***8***
March 31, 2007	***279,365,707***	***2,375***	***539***	***(30)***	***5,415***	***8,299***	***113***	***8,412***

Consolidated statement of changes in stockholders' equity (continued)

(In € million)	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
March 31, 2007	***279,365,707***	***2,375***	***539***	***(30)***	***5,415***	***8,299***	***113***	***8,412***
Fair value adjustment on available for sale securities	-	-	-	-	9	9	-	***9***
Gain/(loss) on cash flow hedges	-	-	-	-	1,260	1,260	13	***1,273***
Currency translation adjustment	-	-	-	-	8	8	(2)	***6***
Net income for the year	-	-	-	-	748	748	19	***767***
Total of income and expenses recognized	***-***	***-***	***-***	***-***	***2,025***	***2,025***	***30***	***2,055***
Stock based compensation (ESA) and stock option	-	-	-	-	32	32	-	***32***
Issuance of share capital	20,853,571	177	226	-	-	403	-	***403***
Dividends paid	-	-	-	-	(134)	(134)	(3)	***(137)***
Treasury shares (note 27.3)	-	-	-	(89)	-	(89)	-	***(89)***
Change in consolidation scope	-	-	-	-	-	-	(62)	***(62)***
March 31, 2008	**300,219,278**	**2,552**	**765**	**(119)**	**7,338**	**10,536**	**78**	**10,614**

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

Consolidated statement of recognized income and expenses

(In € million)	March 31, 2008	March 31, 2007	March 31, 2006
Fair value adjustment on available for sale securities:			
Impact of the first application of IAS 32 and IAS 39 recorded in equity	-	-	(3)
Change in fair value recognized directly in equity	9	-	(1)
Change in fair value transferred to profit or loss	-	-	-
Cash flow hedges:			
Impact of the first application of IAS 32 and IAS 39 recorded in equity	-	-	1,168
Effective portion of changes in fair value hedge recognized directly in equity	2,348	7	428
Change in fair value transferred to profit or loss	(534)	(771)	-
Currency translation adjustment	***8***	***(2)***	***4***
Tax on items recognized directly in or transferred from equity:			
Impact of the first application of IAS 32 and IAS 39 recorded in equity	-	-	(397)
Income/(expense) recognized directly in equity	(554)	263	(144)
Income and expenses directly recognized in equity attributable to holders of Air France-KLM	***1,277***	***(503)***	***1,055***
Net income for the period – Group	748	891	913
Total of income and expenses recognized for the period – Group	**2,025**	**388**	**1,968**
Total of income and expenses recognized for the period – Minority interest	30	(6)	12
Total recognized income and expenses for the period	**2,055**	**382**	**1,980**

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

Consolidated statements of cash flows

Period from April 1 to March 31, *(In € million)*	Notes	2008	2007	2006
Net income for the period – Group		748	891	913
Minority interests		19	(4)	8
Amortization, depreciation and operating provisions	8	1,623	1,790	1,728
Financial provisions	11	17	10	24
Gain on disposals of tangible and intangible assets		(43)	(44)	(46)
Loss/(gain) on disposals of subsidiaries and associates		(46)	(1)	(2)
Gain on WAM (ex Amadeus GTD) transactions	20	(284)	(16)	(504)
Derivatives – non monetary result	11	(65)	(43)	(6)
Unrealized foreign exchange gains and losses, net		27	(5)	8
Negative goodwill	4	(40)	-	(5)
Share of (profits) losses of associates	20	24	(17)	23
Deferred taxes	12	261	244	98
Other non-monetary items		214	(112)	(182)
Subtotal		**2,455**	**2,693**	**2,057**
(Increase)/decrease in inventories		(70)	(20)	(18)
(Increase)/decrease in trade receivables		69	(184)	(215)
Increase/(decrease) in trade payables		118	228	96
Change in other receivables and payables		330	133	736
Net cash flow from operating activities before non-recurring items		***2,902***	***2,850***	***2,656***
Payment of the ESA 2003 balance		(110)	-	-
Additional contribution to pension fund		(198)	-	-
Net cash flow from operating activities		***2,594***	***2,850***	***2,656***
Acquisitions of subsidiaries and investments in associates, net of cash acquired	37	(272)	(25)	(58)
Purchase of property, plant and equipment and intangible assets	19	(2,340)	(2,378)	(2,544)
Proceeds on disposal of subsidiaries and investments in associates	37	84	43	35
Proceeds on WAM (ex Amadeus GTD) transactions	20	284	-	817
Proceeds on disposal of property, plant and equipment and intangible assets		282	160	227
Dividends received		5	6	10
Decrease (increase) in investments, net between 3 months and 1 year		349	331	(294)
Net cash used in investing activities		***(1,608)***	***(1,863)***	***(1,807)***

Period from April 1 to March 31, *(In € million)*	Notes	2008	2007	2006
Increase in capital		597	-	-
Issuance of long-term debt		681	1,240	1,410
Repayments on long-term debt		(414)	(714)	(523)
Payment of debt resulting from finance lease liabilities		(886)	(866)	(580)
New loans		(53)	(89)	(155)
Repayments on loans		79	52	97
Dividends paid		(137)	(88)	(41)
Decrease in equity		(10)	-	-
Net cash flow from financing activities		***(143)***	***(465)***	***208***
Effect of exchange rate on cash and cash equivalents and bank overdrafts		***2***	***(2)***	***2***
Change in cash and cash equivalents and bank overdrafts		***845***	***520***	***1,059***
Cash and cash equivalents and bank overdrafts at beginning of period		3,364	2,844	1,785
Cash and cash equivalents and bank overdrafts at end of period	26	4,209	3,364	2,844
Income tax paid (flow included in operating activities)		(96)	(309)	(4)
Interest paid (flow included in operating activities)		(410)	(451)	(364)
Interest received (flow included in operating activities)		288	299	154

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 SA, a limited liability company organized under French law excluding its consolidated subsidiaries.

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

The limited company Air France-KLM SA, domiciled at 2 rue Robert Esnault-Pelterie 75007 Paris – France, is the parent company of the Air France-KLM Group. Air France-KLM is listed for trading in Paris (Euronext), Amsterdam (Euronext). Air France-KLM has not been listed for trading in New York (NYSE) since February 7, 2008.

The Group's functional currency is the euro.

Note 2 Significant events of the year

The current year income before tax includes a capital gain of €284 million relating to the WAM (ex Amadeus GTD) transaction described in note 20 and a cargo investigation provision amounting to €(530) million before tax (see note 29.2).

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.

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).

The consolidated financial statements were approved by the Board of Directors on May 21, 2008.

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.

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 main estimates 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 by virtue of 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 the ability to exercise significant influence commences to the date it 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 with a December 31 closing date, all Group companies are consolidated based on financial statements for the year ended 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 in effect on the 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 statement. 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 fair value of identifiable assets acquired and liabilities assumed exceed the cost of acquisition, 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 carried (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 sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of the miles sold representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognized as revenue immediately.

3.8. Distinction between income from current operations and income from operating activities

The Group considers it relevant to the understanding of its financial performance to present on the face of the income statement a subtotal within the income from operating activities. This subtotal, named "Income from current operations", excludes those elements that have little predictive value due to their nature, frequency and/or materiality.

Such elements can be divided into three categories:

- elements that are both very infrequent and material, such as the recognition in the income statement of negative goodwill;
- elements that have been incurred for both periods presented and may recur in future periods but for which (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 or gains/(losses) resulting from specific transactions. The Group considers that materiality must be assessed not only by comparing the amount concerned with the income (loss) from operating activities of the period, but also in terms of changes in the item from one period to the other.

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

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 exchange rates, changes in interest 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 interest 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.

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 classification of the derivative instruments. There are three classifications:

- *derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through the 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 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. Financial assets, cash and cash equivalents

Financial assets at fair value through profit and loss

Financial assets are made up of financial assets at fair value through profit and loss (French mutual funds such as SICAVs and FCPs, treasury bills, certificates, etc.) 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 entity sold 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.

Starting April 1, 2007, software development costs are capitalized and amortized over their useful lives. At that date, the Group equipped itself with the necessary tools to enable the tracking by project of all the stages of development, and particularly the internal and external costs directly related to each project during its development phase.

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;
- 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).

Thus, the Group has determined that the lowest level at which assets shall be tested are the CGUs, which correspond to the 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 being 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.

3.17. Employee Benefits

The Group's obligations 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 exceed 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.

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.

In July 2007, the IASB issued IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". This interpretation has confirmed definitively the accounting treatment applied by the Group and the recognition on the balance sheet of pension fund surplus at the KLM sub-group level.

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.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess. Such amounts are 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 for 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. For the Group, this latter only affects the Shares-for-Salary exchange realized in 1998.

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 salary cost with a corresponding increase to equity over the period for which the rights vest. The compensation 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 affiliates

KLM

In January 2008, the Group acquired an additional 1.25% of the share capital of KLM. After this acquisition Air France-KLM held 98.75% of the common shares representing 49% of KLM voting rights. This operation involved a negative goodwill amounting to €40 million that has been directly recognized as an operating profit under "negative goodwill".

Based on the Air France-KLM ownership not only of voting shares but also of financial interest, and the mode of functioning of the Group Executive Committee (that replaces the Group's Strategic Management committee since June 2007), 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.

VLM Airlines

On February 14, 2008, the Group bought 100% of the shares of the regional airline VLM Airlines. The business airline based in Antwerp manages a fleet of 19 aircraft, offering flights from Amsterdam, Antwerp, Brussels, Groningen (via Amsterdam), the Isle of Man, Jersey, Luxembourg, Manchester and Rotterdam to London City. The acquisition cost of VLM's shares amounted to €178 million. Following the acquisition of this entity, goodwill amounting to €166 million was recognized.

The VLM Airlines' contribution to revenues and results over a one-month period (March 2008) is not significant.

4.2. Disposal of subsidiaries

On June 8, 2007 the Group sold its shares in Alpha Plc resulting in a capital gain of €40 million. Alpha Plc, previously held at 26%, was accounted for under the equity method in the Group's consolidated financial statements.

No significant disposal of subsidiaries occurred during the years ended March 31, 2007 and 2006.

Note 5 Information by activity and geographical area

The Group's primary reporting format is business segmentation.

The results, assets and liabilities of the business segments 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; 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 "non allocated" column.

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

The 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

The Group's 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, 2008

(In € million)	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	19,995	2,945	2,859	1,694	-	27,493
Intersegment sales	(839)	(17)	(1,890)	(633)	-	(3,379)
External sales	***19,156***	***2,928***	***969***	***1,061***	***-***	***24,114***
Income from current operations	1,291	39	63	12	-	1,405
Income from operating activities	1,291	39	63	12	(133)	1,272
Share of profits (losses) of associates	-	-	-	-	(24)	(24)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(123)	(123)
Income taxes	-	-	-	-	(358)	(358)
Net income from continuing operations	***1,291***	***39***	***63***	***12***	***(638)***	***767***
Net income from discontinued operations	***-***	***-***	***-***	***-***	***-***	***-***
Depreciation and amortization for the period	(1,094)	(112)	(226)	(174)	-	(1,606)
Other non monetary items	42	(18)	17	(161)	(530)	(650)
Total assets	**14,752**	**1,142**	**2,344**	**2,136**	**10,316**	**30,690**
Segment liabilities	3,559	96	383	587	7,490	12,115
Financial debt and equity	-	-	-	-	18,575	18,575
Total liabilities and equity	**3,559**	**96**	**383**	**587**	**26,065**	**30,690**
Purchase of property, plant and equipment and intangible assets	***1,800***	***117***	***238***	***185***	***-***	***2,340***

Non-allocated assets amounting to €10.3 billion are mainly financial assets held by the Group, comprising marketable securities for €4.1 billion, pension assets for €2.2 billion and derivatives for €3.4 billion.

Non-allocated liabilities amounting to €7.5 billion, mainly comprise trade payables for €2.2 billion, tax and employee-related liabilities for €1.4 billion, deferred tax for €1.7 billion and derivatives for €1.7 billion.

Financial debts and equity are not allocated.

Year ended March 31, 2007

(In € million)	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	-	-	-	-	17	17
Net cost of financial debt and other financial income and expenses	-	-	-	-	(115)	(115)
Income taxes	-	-	-	-	(248)	(248)
Net income from continuing operations	***1,067***	***62***	***44***	***67***	***(353)***	***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 € million)	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	-	-	-	-	(23)	(23)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(255)	(255)
Income taxes	-	-	-	-	(256)	(256)
Net income from continuing operations	***686***	***166***	***54***	***30***	***(15)***	***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.

5.2. Information by geographical area

Sales by geographical area

Year ended March 31, 2008

(In € million)	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	12,489	368	1,117	2,807	1,405	18,186
Other passenger sales	729	55	35	54	97	970
Total passenger	***13,218***	***423***	***1,152***	***2,861***	***1,502***	***19,156***
Scheduled cargo	1,231	36	206	363	903	2,739
Other cargo sales	122	4	8	25	30	189
Total cargo	***1,353***	***40***	***214***	***388***	***933***	***2,928***
Maintenance	959	-	-	-	10	969
Others	1,027	23	11	-	-	1,061
Total	**16,557**	**486**	**1,377**	**3,249**	**2,445**	**24,114**

Year ended March 31, 2007

(In € million)	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 € million)	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**

Traffic sales by geographical area of destination

Year ended March 31, 2008

(In € million)	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	7,220	1,255	2,527	4,222	2,962	18,186
Scheduled cargo	67	190	382	849	1,251	2,739
Total	**7,287**	**1,445**	**2,909**	**5,071**	**4,213**	**20,925**

Year ended March 31, 2007

(In € million)	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 € million)	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**

Note 6 External expenses

Year ended March 31 *(In € million)*	**2008**	**2007**	**2006**
Aircraft fuel	4,572	4,258	3,588
Chartering costs	658	646	605
Aircraft operating lease costs	611	600	637
Landing fees and en route charges	1,755	1,705	1,610
Catering	470	419	405
Handling charges and other operating costs	1,331	1,232	1,203
Aircraft maintenance costs	1,038	894	777
Commercial and distribution costs	1,176	1,201	1,232
Other external expenses	2,203	2,145	2,070
Total	**13,814**	**13,100**	**12,127**

"Other external expenses" correspond mainly to rent and insurance costs.

The increase of "aircraft maintenance costs" is mainly due to the reclassification of spare parts from flight equipment to inventories as described in note 23.

Note 7 Salaries and number of employees

Salaries and related costs

Year ended March 31 *(In € million)*	**2008**	**2007**	**2006**
Wages and salaries	5,151	4,899	4,677
Net periodic pension cost	106	130	193
Social contributions	1,647	1,566	1,388
Expenses related to share-based compensation	30	32	29
Other expenses	84	62	70
Total	**7,018**	**6,689**	**6,357**

The Group pays contributions to 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	2008	2007	2006
Flight deck crew	8,259	8,020	7,870
Cabin crew	21,605	20,701	20,294
Ground staff	74,795	74,329	74,258
Total	**104,659**	**103,050**	**102,422**

Note 8 Amortization, depreciation and provisions

Year ended March 31 *(In € million)*	2008	2007	2006
Amortization and depreciation			
Intangible assets	44	42	39
Flight equipment	1,295	1,488	1,371
Other property, plant and equipment	267	252	246
	1,606	**1,782**	**1,656**
Provisions			
Inventories	4	-	1
Trade receivables	(1)	5	12
Risks and contingencies	14	3	59
	17	**8**	**72**
Total	**1,623**	**1,790**	**1,728**

The decrease of the "depreciation of flight equipment" is mainly due to the reclassification of spare parts from flight equipment to inventories as described in note 23.

A description of changes in amortization and impairment is included in notes 16 and 18.

The detail of changes in inventory and trade receivables 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 € million)*	2008	2007	2006
Joint operation of routes	(3)	12	(111)
Operations-related currency hedges	(24)	3	25
Other	19	(10)	10
Total	**(8)**	**5**	**(76)**

Note 10 Other non-current income and expenses

Year ended March 31 *(In € million)*	2008	2007	2006
Sales of aircraft equipment	***9***	***13***	***2***
Gain on WAM (ex Amadeus GTD) transactions	284	16	504
Provision for cargo investigation	(530)	-	-
Restructuring costs	2	(36)	(1)
Disposal of subsidiaries and affiliates	46	-	3
Compensation on slot swaps	22	-	4
Loss for future disposal of aircraft	-	(20)	-
Other	(6)	20	2
Other non-current income and expenses	***(182)***	***(20)***	***512***

Gain on WAM (ex Amadeus GTD) transactions

Please refer to note 20.

Provision for cargo investigation

Please refer to note 29.2

Restructuring costs

Restructuring costs for the year ended March 31, 2007 mainly correspond to the abolition of the flight engineer's position linked to the expected withdrawal from service of the oldest Boeing B747 cargo aircraft.

Disposal of subsidiaries and affiliates

On June 8, 2007 the Group sold its shares in Alpha Plc resulting in a capital gain of €40 million. Alpha Plc, previously held at 26%, was accounted under the equity method in the Group's consolidated financial statements.

No significant disposal of subsidiaries or affiliates occurred during the years ended March 31, 2007 and 2006.

Loss for future disposal of aircraft

During the year ended March 31, 2007, AFPL recorded a loss of €20 million relating to an aircraft to be sold.

Other

As of March 31, 2008, this line primarily comprises the costs relating is the review of Alitalia's financial statements. This review not having resulted in the acquisition of Alitalia, the costs have been recorded in the income statement.

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 € million)*	**2008**	**2007**	**2006**
Income from marketable securities	113	71	52
Other financial income	175	196	116
Income from cash and cash equivalents	***288***	***267***	***168***
Loan interest	(225)	(200)	(205)
Lease interest	(187)	(241)	(220)
Capitalized interest	46	38	40
Other financial expenses	(21)	(4)	(7)
Cost of financial debt	***(387)***	***(407)***	***(392)***
Net cost of financial debt	***(99)***	***(140)***	***(224)***
Foreign exchange gains (losses), net	(71)	(3)	(13)
Change in fair value of financial assets and liabilities	65	43	6
Net (charge) release to provisions	(17)	(10)	(24)
Other	(1)	(5)	-
Other financial income and expenses	***(24)***	***25***	***(31)***
Total	**(123)**	**(115)**	**(255)**

The interest rate used in the calculation of capitalized interest is 4.82% for the year ended March 31, 2008, 4.60% for the year ended March 31, 2007 and 3.76% for the year ended March 31, 2006.

The net foreign exchange result includes an unrealized net gain/(loss) of €(27) million for the year ended March 31, 2008, €5 million for the year ended March 31, 2007 and €(8) million for the year ended March 31, 2006.

The change in fair value of financial assets and liabilities corresponds mainly to the ineffective part of the variation of the fair value of hedge derivatives.

The net charge to provisions for the years ending March 31, 2008, 2007 and 2006, includes an unrealized loss on Alitalia shares amounting to €13 million, €9 million and €9 million respectively, as a result of the significant fall in the stock price during the respective years.

Note 12 Income taxes

12.1. Income tax charge

Current and deferred income taxes are detailed as follows:

Year ended March 31 *(In € million)*	2008	2007	2006
Current tax expense	***(97)***	***(4)***	***(158)***
Charge for the year	(97)	(4)	(158)
Adjustment of previous current tax charges	-	-	-
Deferred tax income/(expense) from continuing operations	***(261)***	***(244)***	***(98)***
Change in temporary differences	(222)	(146)	(54)
Change in tax rates	-	80	17
(Use)/recognition of tax loss carryforwards	(39)	(178)	(61)
Income tax (expense)/income from continuing operations	***(358)***	***(248)***	***(256)***
Tax on the net income from discontinued operations	-	-	-
Total income tax (expense)/ credit	**(358)**	**(248)**	**(256)**

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 € million)*	2008	2007	2006
Hybrid instruments	-	-	(24)
Cash flow hedge	(558)	264	(541)
Total	**(558)**	**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 € million)*	2008		2007		2006	
Income before tax		***1,149***		***1,118***		***1,200***
Theoretical tax calculated with the standard tax rate in France	34.43%	396	34.43%	385	34.43%	414
Differences in French/foreign tax rates		(43)		(36)		(17)
Negative goodwill		(10)		-		(2)
Non deductible expenses		143		12		51
Income taxed at non-current tax rates		(1)		-		(135)
Non-taxable income		(85)		(7)		(2)
Use of tax loss carryforwards		(6)		(16)		(4)
Change in tax rate		-		(80)		(17)
Adjustment of previous current tax charges		-		8		(4)
Tax on Amadeus GTD reserves		-		-		-
TSDI settlement		(31)		-		(28)
Other		(5)		(18)		-
Income tax expenses	**31.2%**	**358**	**22.2%**	**248**	**21.3%**	**256**

The tax rate applicable in France was set at 34.43% by the 2007 French Finance Law for fiscal years beginning January 1, 2008.

In the Netherlands, the tax rate amounts to 25.5% at March 31, 2008 and has not changed since the previous year.

12.4. Unrecognized deferred tax assets (basis)

Year ended March 31 *(In € million)*	2008	2007	2006
Temporary differences	106	128	98
Tax losses	294	300	355
Tax losses at non-current tax rates	-	-	100
Total	**400**	**428**	**553**

As of March 31, 2008, unrecognized deferred tax assets mainly represent subsidiary tax loss carry forwards prior to the Air France Group's tax consolidation, as well as tax loss carry forwards in certain subsidiaries in the United Kingdom.

In the Netherlands and in France, tax losses can be carried forward for an unlimited period.

12.5. Deferred tax recorded on the balance sheet

(In € million)	April 1, 2007	Amounts recorded in income	Amounts recorded in equity	Reclassification	March 31, 2008
Intangible assets	89	13	-	-	102
Flight equipment	616	151	108	(2)	873
Other property, plant and equipment	137	32	-	-	169
Investments in equity associates	-	-	-	-	-
Other non-current financial assets	(100)	198	-	-	98
Pension assets	529	37	-	(4)	562
Other non-current assets	161	(161)	379	37	416
Other short term financial assets	(3)	(2)	-	-	(5)
Other current assets	128	3	424	(13)	542
Provisions and retirement benefits – non-current	62	28	-	(2)	88
Long-term debt	(377)	(30)	(7)	-	(414)
Other non-current liabilities	(27)	(13)	(285)	-	(325)
Provisions – current	(43)	28	-	-	(15)
Short term portion of long-term debt	(23)	(29)	-	-	(52)
Other current liabilities	(36)	(13)	(56)	13	(92)
Others	(16)	(20)	(5)	(37)	(78)
Deferred tax corresponding to fiscal losses	(232)	39	-	8	(185)
Deferred tax (Asset)/Liability	**865**	**261**	**558**	**-**	**1,684**

(In € million)	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 € million)	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**

Note 13 Discontinued operations

During the years ended March 31, 2008, 2007 and 2006, the Group initiated no disposal process which could be considered as a "discontinued operation".

Note 14 Earnings per share

Basic earnings per share are calculated by dividing the income for the period – Group share by the average weighted number of shares outstanding during the period.

Diluted earnings per share are calculated by dividing the income for the period – Group share adjusted for the effects of dilutive instruments' exercise, by the average weighted number of shares outstanding during the period, adjusted for the number of shares which would be created on the exercise of all existing dilutive instruments.

14.1. Income for the period – Group share per share

Reconciliation of income used to calculate earnings per share

Year ended March 31 *(In € million)*	**2008**	**2007**	**2006**
Income for the period – Group share	***748***	***891***	***913***
Dividends to be paid to priority shares	-	-	-
Income for the period – Group share *(used to calculate basic earnings per share)*	***748***	***891***	***913***
Impact of potential ordinary shares:			
♦ interest paid on convertible bonds (net of tax)	11	11	10
Income for the period – Group share *(used to calculate diluted earnings per share)*	***759***	***902***	***923***

Reconciliation of the number of shares used to calculate earnings per share

Year ended March 31	2008	2007	2006
Weighted average number of:			
♦ Ordinary shares issued	287,730,391	269,386,917	269,383,518
♦ Treasury stock held regarding stock option plan	(1,648,899)	(3,306,962)	(5,107,510)
♦ Treasury stock held in stock buyback plan	(232,110)	(65,157)	(852,430)
♦ Other treasury stock	(1,173,801)	-	-
Number of shares *(used to calculate basic earnings per share)*	***284,675,581***	***266,014,798***	***263,423,578***
Weighted average number of ordinary shares:			
♦ Conversion of convertible bonds	22,609,143	22,609,756	20,628,132
♦ Conversion of warrants	-	6,474,815	-
♦ Exercise of stock options	481,656	1,084,072	175,362
Number of potential ordinary shares	***23,090,799***	***30,168,643***	***20,803,494***
Number of ordinary and potential ordinary shares *(used to calculate diluted earnings per share)*	***307,766,380***	***296,183,441***	***284,227,072***

14.2. Net income from continuing operations per share

Reconciliation of income used to calculate net income from continuing operations per share

Year ended March 31 *(In € million)*	2008	2007	2006
Net income from continuing operations	***767***	***887***	***921***
Dividends to be paid to priority shares	-	-	-
Net income from continuing operations *(used to calculate basic earnings per share)*	***767***	***887***	***921***
Impact of potential ordinary shares:			
♦ Interest paid on convertible bonds (net of tax)	11	11	10
Net income from continuing operations *(used to calculate diluted earnings per share)*	***778***	***898***	***931***

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. Non dilutive instruments

As of March 31, 2008

As of March 31, 2008, non-dilutive instruments correspond to 417,850 stock options (after forfeited), described in note 28, for an average exercise price of €34.21.

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, and 3,821,040 stock options described in note 28, for an average exercise price of €15.59.

14.4. 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 € million)*	2008			2007			2006		
	Gross value	Impairment	Net value	Gross value	Impairment	Net value	Gross value	Impairment	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
VLM	166	-	166	-	-	-	-	-	-
Others	10	-	10	3	-	3	7	-	7
Total	**377**	**-**	**377**	**204**	**-**	**204**	**208**	**-**	**208**

All the goodwill concerns the "Passenger" business.

Movement in net book value of goodwill

Year ended March 31 *(In € million)*	2008	2007	2006
Opening balance	***204***	***208***	***205***
Acquisitions	167	(1)	3
Reclassification	6	(3)	-
Disposals	-	-	-
Closing balance	**377**	**204**	**208**

During the year ended March 31, 2008, the Group acquired 100% of the company VLM (see note 4) involving the recognition of goodwill amounting is €166 million.

Note 16 Intangible assets

(In € million)	Trademarks and slots	Customer relationships	Other intangible assets	Total
GROSS VALUE				
Amounts as of March 31, 2005	***306***	***107***	***206***	***619***
Additions	1	-	29	30
Disposals	(2)	-	(11)	(13)
Transfer	-	-	3	3
Amounts as of March 31, 2006	***305***	***107***	***227***	***639***
Additions	3	-	35	38
Disposals	-	-	(3)	(3)
Transfer	-	-	2	2
Amounts as of March 31, 2007	***308***	***107***	***261***	***676***
Additions	1	-	90	91
Change in scope	-	-	3	3
Disposals	-	-	(12)	(12)
Transfer	-	-	1	1
Amounts as of March 31, 2008	***309***	***107***	***343***	***759***
DEPRECIATION AND IMPAIRMENT				
Amounts as of March 31, 2005	***-***	***(15)***	***(167)***	***(182)***
Charge to depreciation	-	(18)	(21)	(39)
Releases on disposal	-	2	11	13
Transfer	-	-	(3)	(3)
Amounts as of March 31, 2006	***-***	***(31)***	***(180)***	***(211)***
Charge to depreciation	-	(16)	(26)	(42)
Releases on disposal	-	-	3	3
Transfer	-	-	(2)	(2)
Amounts as of March 31, 2007	***-***	***(47)***	***(205)***	***(252)***
Charge to depreciation	-	(17)	(27)	(44)
Releases on disposal	-	-	12	12
Transfer	-	-	-	-
Amounts as of March 31, 2008	***-***	***(64)***	***(220)***	***(284)***
NET VALUE				
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
as of March 31, 2008	**309**	**43**	**123**	**475**

The KLM and Transavia brands 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 the Group's businesses (refer to "Accounting policies").

As of March 31, 2008, the net book value of the "passenger" business includes €377 million relating to goodwill and €309 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 mid-term target validated by the management made for the three years after the date of the test; and
- the discounted cash flows with a growth rate which reflects 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%, 7% and 7.4% for the years ended March 31, 2008, 2007 and 2006, respectively. They correspond to the weighted average cost of the Group's capital.

At the date of testing, the sensitivity of the recoverable value of the passenger CGU to a one point variation in the discount or growth rates would not have any consequences regarding impairment.

Note 18 Tangible assets

(In € million)	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											
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)
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***

(In € million)	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	
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***
Additions	492	28	1,210	211	1,941	92	105	205	82	484	2,425
Disposals	(493)	(43)	-	(280)	(816)	(53)	(25)	(1)	(71)	(150)	(966)
Changes in consolidation scope	12	-	-	15	27	-	1	2	4	7	34
Fair value hedge	-	-	335	-	335	-	-	-	-	-	335
Transfer	975	(112)	(901)	(24)	(62)	63	24	(130)	35	(8)	(70)
Currency translation adjustment	(12)	(21)	-	(1)	(34)	-	(4)	-	(3)	(7)	(41)
Amounts as of March 31, 2008	**8,946**	**4,287**	**1,814**	**1,637**	**16,684**	**2,274**	**1,034**	**221**	**878**	**4,407**	**21,091**
Depreciation and impairment											
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)
Releases 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 € million)	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	
Amounts as of March 31, 2006	**(1,267)**	**(659)**	**-**	**(886)**	**(2,812)**	**(816)**	**(513)**	**-**	**(547)**	**(1,876)**	**(4,688)**
Charge to depreciation	(716)	(311)	-	(461)	(1,488)	(115)	(72)	-	(65)	(252)	(1,740)
Loss for future disposal	(20)	-	-	-	(20)	-	-	-	-	-	(20)
Releases 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)***
Charge to depreciation	(801)	(281)	-	(213)	(1,295)	(119)	(76)	-	(72)	(267)	(1,562)
Releases on disposal	267	40	-	284	591	36	22	-	69	127	718
Changes in consolidation scope	(3)	-	-	(10)	(13)	-	(1)	-	(2)	(3)	(16)
Transfer	71	(19)	-	(24)	28	(1)	1	-	-	-	28
Currency translation adjustment	9	17	-	1	27	-	2	-	1	3	30
Amounts as of March 31, 2008	**(2,548)**	**(1,151)**	**-**	**(705)**	**(4,404)**	**(993)**	**(624)**	**-**	**(597)**	**(2,214)**	**(6,618)**
Net value											
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
As of March 31, 2008	**6,398**	**3,136**	**1,814**	**932**	**12,280**	**1,281**	**410**	**221**	**281**	**2,193**	**14,473**

Note 35 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 34 and 35.

The net book value of tangible assets financed under capital lease amounted to €3,417 million as of March 31, 2008 against €3,811 million as of March 31, 2007 and €3,912 million as of March 31, 2006.

Note 19 Capital expenditure

The detail of capital expenditures for tangible and intangible assets presented in the consolidated cash flow statements is as follows:

Year ended March 31 *(In € million)*	2008	2007	2006
Acquisition of tangible assets	2,290	2,384	2,548
Acquisition of intangible assets	91	38	30
Accounts payable on acquisitions and capitalized interest	(41)	(44)	(34)
Total	**2,340**	**2,378**	**2,544**

Note 20 Equity affiliates

Movements over the period

The table below presents the movement in equity affiliates:

(In € million)	WAM Acquisition (Amadeus GTD)	Alpha Plc	Martinair	Kenya Airways	Other	Total
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 investments 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)
Changes in consolidation scope	-	-	-	-	18	18
Transfers and reclassifications	-	-	(1)	-	(2)	(3)
Currency translation adjustment	-	-	-	-	(4)	(4)
Carrying value of share in investments as of March 31, 2007	***-***	***30***	***84***	***60***	***54***	***228***
Share in net income of equity affiliates	-	(1)	(33)	8	2	(24)
Distributions	-	-	-	(2)	(1)	(3)
Changes in consolidation scope	-	(29)	-	-	(4)	(33)
Transfers and reclassifications	-	-	-	-	-	-
Other variations	-	-	9	-	6	15
Currency translation adjustment	-	-	-	(4)	(2)	(6)
Carrying value of share in investments as of March 31, 2008	***-***	***-***	***60***	***62***	***55***	***177***

As of March 31, 2008, the ownership structure of WAM Acquisition was as follows: 22.08% Air France, 11.04% Iberia, 11.04% Lufthansa, 50.34% Amadelux Investments and 5.50% management.

On June 8, 2007 the Group sold its shares in Alpha Plc, previously held at 26%.

The KLM and P&O Nedlloyd groups each held 50% of the capital of Martinair.

KLM held 26% of the capital of Kenya Airways.

The €284 million gain on the WAM (ex Amadeus GTD) transaction corresponds to a €202 million reimbursement of the share capital, a €76 million reimbursement of shareholders' loan and a €6 million interest payment. The shares and the loan had been recognized at a value of nil in the Air France-KLM reinvestment transaction within the LBO operation initiated in July 2005.

Martinair's contribution to the share of profits (losses) of associates includes a provision for risk estimated on the basis of the status of the discussions related to the inquiry of the US Department Of Justice (DOJ) into an alleged conspiracy to fix the price of air shipping services. The Group's share of this provision is €11 million after tax.

As of March 31, 2007, the ownership structure of WAM Acquisition was as follows: 22.08% Air France, 11.04% Iberia, 11.04% Lufthansa, 50.34% Amadelux Investments and 5.5% management.

Servair owned 27% Alpha plc; the other shareholders of Alpha plc 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.

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 under the equity method.

In July 2005, private equity funds (the "financial investors") structured a leveraged buy out of Amadeus whereby WAM Acquisition SA ("WAM"), a newly created and highly leveraged company launched a tender offer for all the 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 WAM common stocks (which represented a stake identical to the one it had owned in Amadeus, i.e. 23.36%). Additionally, Air France-KLM agreed to provide a shareholder loan to WAM amounting to €76 million. This 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 in return 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, this 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 € million):

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% 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 amounting to €59 million recorded in "Share of profits (losses) of associates".

KLM held 26% of the capital of Kenya Airways.

Simplified financial statements of the main equity affiliates

The equity affiliates as of March 31, 2008 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 travel. This expertise makes it the global partner of choice for travel agents, rail and airline operators, hotel chains and car rental companies. Furthermore, the Amadeus group also partners businesses involved in the reservation and management of business travel.
- **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 € million)	WAM Acquisition (Amadeus GTD)	Alpha Plc	Martinair	Kenya Airways
	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%	25.4%
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%	25.4%
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**
	12/31/2007		**12/31/2007**	**03/31/2007**
% holding as of March 31, 2008	22.1%	-	50.0%	25.7%
Operating revenues	2,986	-	951	646
Operating income	468	-	(61)	85
Net income/loss	202	-	(69)	45
Stockholders' equity as of March 31, 2008	(635)	-	242	235
Total assets	**5,528**	**-**	**642**	**839**
Total liabilities and stockholders' equity	**5,528**	**-**	**642**	**839**

Other information

The share of WAM Acquisition's result that has not been recorded in the Group's consolidated financial statements amounted to €45 million for the year ended March 31, 2008. 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 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.

Note 21 Pension assets

Year ended March 31 *(In € million)*	2008	2007	2006
Opening balance	***2,097***	***1,903***	***1,767***
Net periodic pension cost for the period	7	(13)	(115)
Contributions paid to the funds	142	207	249
Currency translation adjustment	(1)	-	2
Closing balance	***2,245***	***2,097***	***1,903***

The detail of these pension assets is presented in note 29.1.

Note 22 Other financial assets

Year ended March 31 *(In € million)*	2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current
Financial assets available for sales						
Shares	-	78	-	73	-	77
Assets at fair value through profit and loss						
Marketable securities	185	-	533	-	865	-
Loans and receivables						
Loans and receivables	91	934	123	1,075	65	1,130
Miscellaneous financial assets	27	-	33	1	2	24
Gross value	***303***	***1,012***	***689***	***1,149***	***932***	***1,231***
Impairment at opening	***-***	***(54)***	***-***	***(49)***	***-***	***(47)***
New impairment charge	-	(4)	-	(5)	-	(2)
Use of provision	-	2	-	-	-	-
Impairment at closing	***-***	***(56)***	***-***	***(54)***	***-***	***(49)***
Total	**303**	**956**	**689**	**1,095**	**932**	**1,182**

Loans and receivables

Loans and receivables mainly include deposits on flight equipment operating and capital leases.

Financial assets available for sale

(In € million)	Fair Value	% interest	Stockholder's equity	Net income	Stock price *(in euros)*	Closing date
As of March 31, 2008						
Alitalia(*)	13	2.00%	726	(211)	0.48	December 2007(***)
Club Med(*)	13	2.00%	490	(8)	33.95	October 2007
Opodo	-	5.60%	(33)	(55)	NA	December 2006
Voyages Fram	9	8.70%	ND	ND	NA	December 2007
Others	43					
Total	**78**					
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**					

(*) Listed company.
(**) A reverse stock split occurred during the financial year, which replaced 30 old shares with 1 new share.
(***) Because the consolidated financial statements for the year ended December 31 are not available, the amount of shareholder's equity and net result are communicated based on the half-year figures as of June 30.

Note 23 Inventory and work in progress

Year ended March 31 *(In € million)*	2008	2007	2006
Aeronautical spare parts	499	332	331
Other supplies	175	126	134
Production work in progress	5	4	2
Gross value	***679***	***462***	***467***
Opening valuation allowance	***(102)***	***(127)***	***(103)***
Charge to allowance	(12)	(8)	(29)
Use of allowance	8	9	5
Releases of allowance no longer required	-	-	-
Reclassification	(66)	24	-
Closing valuation allowance	***(172)***	***(102)***	***(127)***
Net value of inventory	***507***	***360***	***340***

Only spare parts allowing using the fleet are classified in “aeronautical assets”. According to this analysis, €87 million were reclassified from flight equipment to inventories as of April 1, 2007.

Note 24 Trade accounts receivable

Year ended March 31 *(In € million)*	2008	2007	2006
Passenger	1,318	1,448	1,330
Cargo	374	380	392
Maintenance	301	352	303
Airlines	579	459	503
Other	78	62	97
Gross value	***2,650***	***2,701***	***2,625***
Opening valuation allowance	***(91)***	***(107)***	***(102)***
Charge to allowance	(17)	(14)	(17)
Use of allowance	25	16	12
Reclassification	2	14	-
Closing valuation allowance	***(81)***	***(91)***	***(107)***
Net value	***2,569***	***2,610***	***2,518***

Note 25 Other assets

Year ended March 31 *(In € million)*	2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current
Suppliers with debit balances	71	-	71	-	70	-
State	93	-	83	-	79	7
Derivative instruments	1,575	1,807	456	589	1,022	973
Prepayments	185	-	223	-	294	-
Other debtors	465	3	445	15	296	102
Gross value	***2,389***	***1,810***	***1,278***	***604***	***1,761***	***1,082***
Opening valuation allowance	***(7)***	***-***	***(5)***	***-***	***(5)***	***-***
Charge to allowance	-	-	(4)	-	-	-
Use of allowance	-	-	3	-	-	-
Release of allowance no longer required	1	-	1	-	-	-
Reclassification	2	-	(2)	-	-	-
Closing valuation allowance	***(4)***	***-***	***(7)***	***-***	***(5)***	***-***
Net realizable value of other assets	***2,385***	***1,810***	***1,271***	***604***	***1,756***	***1,082***

Note 26 Cash, cash equivalents and bank overdrafts

Year ended March 31 *(In € million)*	2008	2007	2006
Negotiable debt securities	49	15	25
Mutual funds (SICAV)	3,059	3,234	2,062
Bank deposits	943	-	639
Cash in hand	330	248	220
Total cash and cash equivalents	***4,381***	***3,497***	***2,946***
Bank overdrafts	(172)	(133)	(102)
Cash, cash equivalents and bank overdrafts	***4,209***	***3,364***	***2,844***

Note 27 Equity attributable to equity holders of Air France-KLM SA

27.1. Issued capital

As of March 31, 2008, the issued capital of Air France-KLM comprised 300,219,278 fully paid-up shares. Each share is entitled to one vote.

The nominal value of each share amounts to €8.50.

The change in the number of issued shares is as follows:

As of March 31 *(In number of shares)*	2008	2007	2006
At the beginning of the period	***279,365,707***	***269,383,518***	***269,383,518***
Issuance of shares for BASA exercise	20,853,046	9,982,189	-
Issuance of shares for OCEANE conversion	525	-	-
At the end of the period	***300,219,278***	***279,365,707***	***269,383,518***
Of which: number of shares issued and paid	*300,219,278*	*279,365,707*	*269,383,518*
number of shares issued and not paid	-	-	-

The shares that make up the issued capital of Air France-KLM are subject to no restriction nor priority for dividend distribution or reimbursement of the issued capital.

Authorized stock

The Extraordinary Shareholders' Meeting of July 12, 2007, 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 with a global ceiling of €500 million corresponding to 58,823,529 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*		
	2008	2007	2006	2008	2007	2006
French State	16%	18%	18%	16%	18%	19%
Employees and former employees	11%	11%	14%	11%	11%	14%
Treasury shares	2%	1%	2%	-	-	-
Other	71%	70%	66%	73%	71%	67%
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

Equity warrants (BASA)

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 gave 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, at an exercise price of €20 per Air France-KLM share. BASA holders had 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 BASAs.

Between April 1 and November 6, 2007, the date of the end of the program, 30,280,575 BASAs were exercised, leading to the issuance of 20,853,046 shares.

The total number of BASAs exercised during the exchange period was 44,783,922, corresponding to 99.3% of the total number of BASAs issued.

OCEANE

Please refer to note 30.3.

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 € million)*	**2008**	**2007**	**2006**
Equity part of hybrid instruments	46	46	46
Other paid-in capital	719	493	384
Total	**765**	**539**	**430**

27.3. Treasury shares

	Treasury shares	
	(Number)	*(In € million)*
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)***
Change in the period	3,271,102	(89)
March 31, 2008	***5,332,441***	***(119)***

As of March 31, 2008, the Group held 1,560,468 shares of its own stock within the framework of stock option programs. The Group also held 690,000 shares of its own stock within the framework of a liquidity agreement approved by the Shareholders' Meeting of July 12, 2007. All these treasury shares are classified as a reduction of equity.

27.4. Reserves and retained earnings

Year ended March 31 *(In € million)*	2008	2007	2006
Legal reserve	57	46	46
Distributable reserve	988	973	1,055
Derivatives and available for sale securities reserves	1,819	550	1,051
Aggregate results of consolidated subsidiaries	3,726	2,955	2,007
Net income (loss) – Group share	748	891	913
Total	**7,338**	**5,415**	**5,072**

As of March 31, 2008, the legal reserve of €57 million represents 2% of Air France-KLM's issued capital. French company law requires that a limited company *(société anonyme)* allocates 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 will propose a dividend distribution of €174 million (€0.58 per share) subject to shareholder approval at the annual General Shareholders' Meeting to be held on July 10, 2008.

Note 28 Share based compensation

➤ Outstanding share-based compensation plans as at March 31, 2008

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price *(in €)*	Number of options exercised as of 03/31/2008
Stock-option plans						
Air France – ESA 1998 options	05/30/2000	3,516,596	05/31/2005	05/31/2007	15.75	3,403,302
KLM – Plan A	06/30/2002	341,350	06/30/2004	10/19/2007	12.80	341,350
KLM – Plan B	06/30/2002	119,105	06/30/2004	10/19/2007	10.07	119,105
KLM	06/30/2003	355,379	06/30/2004	06/30/2008	6.48	330,710
KLM	06/30/2004	463,884	06/30/2004	06/25/2009	13.19	131,967
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	-
KLM	07/31/2007	426,350	07/31/2007	07/25/2012	34,21	-

➤ Other plans

Plans	Grant date	Number of shares granted	Date of expiry	Exercise price *(In €)*	Number of shares exercised as of 03/31/2008
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

* *ESA: shares-for-salary exchange.*

Stock-option plans granted by KLM between 2000 and 2004 have a vesting period of three years.

The vesting conditions of the options granted by KLM on July 31, 2007, 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.

The mechanisms of the Air France – ESA 1998 pilots ("ESA 98") and Air France-KLM – ESA 2003 ("ESA 2003") plans are explained in notes 28.1 and 28.2.

➤ Changes in options

	Average exercise price *(In €)*	Number of options
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 forfeited during the period	18.35	(57,222)
Options exercised during the period	15.06	(806,500)
Options granted during the period	34.21	426,350
Options outstanding as of March 31, 2008	**19.96**	**1,548,558**
Of which: options exercisable at March 31, 2008	***19.96***	***1,548,558***

➤ Outstanding options by range of exercise prices as at March 31, 2008

Range of exercise prices per share	Number of options	Weighted average remaining life *(years)*	Weighted average exercise price per share *(in €)*
From 5 to 10 euros per share	24,669	0.25	6.48
From 10 to 15 euros per share	697,099	1.82	13.15
From 15 to 20 euros per share	408,940	3.32	17.83
From 20 to 35 euros per share	417,850	4.34	34.21
Total	**1,548,558**	**2.87**	**19.96**

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, 2008, 806 shares were forfeited and returned to the French State. For the year ended March 31, 2007, 1,916 shares were forfeited and returned to the French State. For the year ended March 31, 2006, 12,477 shares were 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 were 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, 2008, 628,989 of these options had been exercised and 43,345 forfeited. 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.

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 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 € million)*	10
Share price *(in €)*	€16.61
Option exercise price *(in €)*	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 granted 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, 2007	Plan granted on July 31, 2006	Plan granted on July 31, 2005
Fair value at grant date *(in € million)*	4	2	1
Share price *(in €)*	€33.29	€19.33	€13.50
Option exercise price *(in €)*	€34.21	€17.83	€13.11
Historical volatility of dividends on the shares	25.56%	25.23%	22.29%
Option duration	5 years	5 years	5 years
Share's expected dividend yield	1.63%	1.14%	3.22%
Risk free interest rate	4.31%	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 €110 million payment made by the Group in April 2007.

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 6-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 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.

➤ Salary expenses related to share-based compensation

Year ended March 31 *(In € million)*	Note	2008	2007	2006
ESA 2003		(28)	(31)	(29)
Stock option plan		(2)	(1)	-
Salary expense	7	(30)	(32)	(29)

Note 29 Provisions and retirement benefits

(In € million)	Retirement benefits note 29.1	Restitution of aircraft	Restructuring	Litigation	Others	Total
Amount as of March 31, 2005	***1,053***	***352***	***48***	***67***	***120***	***1,640***
Of 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***
Of 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***
Of which: non-current	*990*	*221*	*32*	*32*	*112*	*1,387*
current	-	*153*	*7*	*60*	*5*	*225*
New provision	111	140	-	528	60	839
Use of provision	(352)	(108)	(30)	(9)	(54)	(553)
Reversal of unnecessary provisions	-	-	-	(3)	(2)	(5)
Currency translation adjustment	(12)	(6)	-	-	(3)	(21)
Change in scope	3	1	-	-	4	8
Discount impact	-	1	-	-	-	1
Reclassification	-	-	(1)	-	-	(1)
Amount as of March 31, 2008	***740***	***402***	***8***	***608***	***122***	***1,880***
Of which: non-current	*740*	*273*	-	*310*	*116*	*1,439*
current	-	*129*	*8*	*298*	*6*	*441*

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.

29.1. Retirement benefits

The Group has a large number of retirement and other long-term benefits plans for 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 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.

Pension fund surplus

For a certain number of pensions obligations, the Group funds pension 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, 2008, 2007 and 2006. These calculations include:

- assumptions on staff turnover, life expectancy and salary inflation;
- a retirement age of 55 to 65 depending on localization and the applicable laws;
- discount rates used to determine the actuarial present value of the projected benefit obligations are as follows:

Year ended March 31	2008	2007	2006
Euro zone	Between 4.75% and 5.5%	Between 4.3% and 4.75%	Between 4.1% and 4.5%
United Kingdom	6.5%	5.24%	Between 4.8% and 4.9%
USA-Canada	Between 5.0% and 6.45%	Between 5.1% and 6.0%	Between 4.8% and 5.8%
Other countries	Between 1.7% and 19.5%	Between 1.7% and 11.0%	Between 1.7% and 15.25%

- Expected long-term rates of return for plan assets are as follows:

Year ended March 31	2008	2007	2006
Euro zone	Between 4.0% and 6.75%	Between 4.0% and 7.0%	Between 4.0% and 7.0%
United Kingdom	Between 4.9% and 6.8%	Between 4.9% and 6.8%	Between 6.1% and 6.8%
USA-Canada	Between 5.5% and 7.0%	Between 5.5% and 7.0%	Between 6.1% and 6.8%
Other countries	Between 4.0% and 10.0%	Between 4.3% and 10.6%	Between 0.5% and 12.0%

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	2008	2007	2006
Netherlands	-	4.45%	7.25%
USA-Canada	Between 9.5% and 11.0%	Between 8% and 10.0%	10.0%

The sensitivity of the annual charge and the obligation to the variation in healthcare costs of the schemes is as follows:

(In € million)	Sensitivity of the assumptions for year ended March 31, 2008	Sensitivity of the assumptions for year ended March 31, 2007
Increase by 1% of healthcare costs		
Impact on the cost	1	1
Impact on the obligation	4	4
Decrease by 1% of healthcare costs		
Impact on the cost	(1)	(1)
Impact on the obligation	(4)	(4)

On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

Year ended March 31	Pension benefits			Other benefits		
	2008	2007	2006	2008	2007	2006
Discount rate	5.53%	4.51%	4.49%	5.92%	5.64%	4.49%
Salary inflation rate	2.65%	2.62%	2.70%	-	-	-
Expected long-term rate of return on plan assets	5.80%	5.70%	5.70%	-	-	-

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, 2008, 2007 and 2006.

(In € million)	Pension benefits			Other benefits		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Benefit obligation at beginning of year	***11,582***	***10,921***	***10,313***	***54***	***74***	***115***
Service cost	359	368	359	1	-	2
Interest cost	529	489	461	2	2	6
Employees' contribution	34	40	36	-	-	-
Plan amendments	90	150	49	-	-	-
Change of scope	3	-	-	-	-	-
Settlements/curtailments	(6)	(28)	(11)	(11)	(20)	(55)
Benefits paid	(473)	(423)	(398)	(3)	(2)	(5)
Actuarial loss/(gain)	(1,167)	68	106	(1)	4	8
Currency translation adjustment	(78)	(3)	6	(6)	(4)	3
Benefit obligation at end of year	***10,873***	***11,582***	***10,921***	***36***	***54***	***74***
Including benefit obligation resulting from schemes totally or partly financed	*10,716*	*11,419*	*10,802*	-	-	-
Including not-financed benefit obligation	*157*	*163*	*119*	*36*	*54*	*74*
Fair value of plan assets at beginning of year	***13,404***	***12,538***	***10,782***	**-**	**-**	**-**
Actual return on plan assets	(208)	921	1,747	-	-	-
Employers' contributions	476	323	358	-	-	-
Employees' contributions	34	40	37	-	-	-
Change of scope	-	-	-	-	-	-
Settlements/curtailments	-	(6)	(6)	-	-	-
Benefits paid	(458)	(408)	(383)	-	-	-
Currency translation adjustment	(72)	(4)	3	-	-	-
Fair value of plan assets at end of year	***13,176***	***13,404***	***12,538***	**-**	**-**	**-**
Funded status	2,303	1,822	1,617	(36)	(54)	(74)
Unrecognized prior service cost	262	190	59	-	-	-
Unrecognized actuarial (gains)/losses	(1,028)	(857)	(710)	4	6	6
Prepaid (accrued) pension cost	***1,537***	***1,155***	***966***	***(32)***	***(48)***	***(68)***

(In € million)	Pension benefits			Other benefits		
	2008	**2007**	**2006**	**2008**	**2007**	**2006**
Amounts recorded in the balance sheet(*):						
Pension asset (note 21)	2,245	2,097	1,903	-	-	-
Provision for retirement benefits	(708)	(942)	(937)	(32)	(48)	(68)
Net amount recognized	***1,537***	***1,155***	***966***	***(32)***	***(48)***	***(68)***
Net periodic cost:						
Service cost	359	368	359	1	-	2
Interest cost	529	489	461	2	2	6
Expected return on plan assets	(781)	(714)	(616)	-	-	-
Settlement/curtailment	(2)	(18)	(8)	(11)	(16)	(44)
Amortization of prior service cost	17	19	12	-	-	-
Amortization of unrecognized actuarial (gain) loss	(10)	(1)	16	-	1	4
Other	-	-	(1)	-	-	-
Net periodic cost	***112***	***143***	***223***	***(8)***	***(13)***	***(32)***

(*) Except for those pension plans for which the balance is a net asset fully recorded as a non-current asset, all the obligations are recorded as non-current liabilities.

The benefit obligation, fair value of plan assets and experience adjustments are as follows:

(In € million)	**Benefit obligation**	**Fair value of plan assets**	**Funded status**	**Experience adjustments on**	
				Benefit obligation	**Plan asset**
As of March 31, 2007	11,636	13,404	1,768	(230)	207
As of March 31, 2008	10,909	13,176	2,267	95	(989)

Asset allocation

The weighted average allocation of funds invested in Group pension plans as of March 31, 2008, 2007 and 2006 is as follows:

Year ended March 31	**Funds invested**		
	2008	**2007**	**2006**
Equities	38%	41%	40%
Bonds	49%	44%	48%
Real estate	11%	6%	10%
Insurer assets	1%	8%	-
Short term investments	1%	1%	-
Other	-	-	2%
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 € million)	**Pensions and similar benefits**
Estimated contribution to be paid in 2008-09	***305***
Estimated benefit payments:	
2009	468
2010	472
2011	480
2012	509
2013	508
2014-2018	2,850

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 €1 million, €2 million and €8 million as of March 31, 2008, 2007 and 2006, respectively.

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.

In the current course of its activities, the Air France-KLM Group and its subsidiaries Air France and KLM are involved in litigations, some of which may be significant.

Litigations concerning anti-trust laws

a) Investigation of the Competition Authorities into the air freight business

Air France-KLM, Air France and KLM have been involved, since February 2006, in an investigation conducted by the European Commission, the US Department Of Justice (DOJ) and by the competition authorities of certain States about possible agreements and for concerted practices between undertakings in air shipping services.

As at December 19, 2007, the European Commission sent a statement of objections to twenty-five airlines and/or freighters, including Air France-KLM, Air France and KLM. To summarize, these companies are reproached with having participated in contacts or meetings about surcharges and fares.

Air France and KLM have applied for leniency towards the European competition authorities, while presenting in their observations as answer defenses based on severity and duration of offenses and also routes affected by theses illicit practices.

Air France and KLM also underline that the European Commission had the required authority to sanction the offences to Articles 81 and 82 made concerning air shipping services between European Union and other countries only since the effective date of the Regulation 1/2003, that is as at May 1, 2004.

In the USA, Air France and KLM are also subject by the DOJ to an antitrust investigation based on similar complaints concerning routes between the United-States and Europe. Air France and KLM are cooperating with the US competition authorities. A final decision from the DOJ is expected in coming weeks.

Air France and KLM may incur significant penalties, in the United-States and in Europe.

Considering the status of the antitrust investigations in Europe and in the USA during the fourth quarter 2007-08, Air France and KLM have been able to estimate the risks incurred. The amount recorded in the consolidated financial statements as of March 31, 2008 amounts to €530 million including associated costs.

This amount has been determined based on the defense of the two companies. As a consequence, it is subject to uncertainty.

The amount of the provision allocated respectively to the American and European investigations is not given, as such information is likely to harm the two companies in their defense towards the competition authorities.

The competition authorities do not state that Air France-KLM would have itself participated to illicit practices. Nevertheless, as mother entity of the Group, Air France-KLM is considered as jointly and severally responsible for illicit practices for which Air France and KLM would be liable.

b) Civil actions

As of March 31, 2008, over 140 purported class action lawsuits were filed in the USA against air freight operators including Air France-KLM, Air France, KLM and other freighters.

Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including miscellaneous surcharges in air freight services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and lawyers' fees, as well as injunctive relief amounting to triple amount of compensatory damages.

Most of these actions have been transferred and pooled before the US District Court of the Eastern District of New-York. As the other freighters, the two companies filed in July 2007 a motion to dismiss the claims of plaintiffs. As of March 31, 2008, the Court has not yet delivered its verdict on this motion.

At this stage, Air France-KLM group is unable to predict the outcome of these investigations or the amount of penalties and compensatory damages which could be due.

c) Investigation of the European Commission into the passenger business between Europe and Japan

Air France and KLM, as other airlines, were subject, as at March 11, 2008, to a down-raid and professional documents were seized within the framework of an investigation by the European Commission into possible agreements or concerted practices between undertakings in the air transportation business between the States concerned by the EEC agreement and Japan.

Air France and KLM are unable to predict the outcome of these investigations by the European Commission. Aeronautical relationships between France and Japan on one hand, and the Netherlands and Japan on the other hand are regulated by bilateral agreements that indicate that fares must be approved by the civil aviation regulators of the two States after agreement between the air carriers named in these agreements.

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 into several governmental and legal procedures for which provisions have not been necessarily recorded in financial statements.

On July 20, 2006, Air France was indicted 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 intends to defend this case vigorously. The company has immediately filed an appeal against the judge's decision. By its decision dated April 16, 2008, the Court of Appeal dismissed Air France's request to cancel this indictment. Air France lodged an appeal to the High Court against this decision.

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 *(In € million)*	2008	2007	2006
Non-current financial debt			
Perpetual subordinated loan stock in Yen	190	204	226
Perpetual subordinated loan stock in Swiss francs	267	258	265
Repackaged perpetual loans	-	-	122
OCEANE (convertible bonds)	389	386	382
Bonds	750	550	-
Capital lease obligations	3,441	3,917	4,668
Other long-term debt	1,877	2,104	2,163
Total	**6,914**	**7,419**	**7,826**
Current financial debt			
Perpetual subordinated loan stock	-	122	25
Capital lease obligations (current portion)	524	657	763
Accrued interest	71	95	107
Other	310	224	365
Total	**905**	**1,098**	**1,260**

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. €190 million as of March 31, 2008.

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 and the Group has the hand to decide for reimbursement at nominal value; the date of reimbursement is 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. €267 million as of March 31, 2008.

The loan is reimbursable anytime by the Group at nominal value.

This loan is subject to the payment of a coupon considered to be fixed-rate (5¾% on a 270 million Swiss francs portion and $2^{7/8}$% on a 150 million Swiss francs portion) for the years ended as of March 31, 2008, 2007 and 2006.

This debt is subordinated to all other existing and future KLM debts.

30.2. Repackaged perpetual loan securities

In May 1992, Air France issued perpetual loan securities for an amount of €395 million, to which a zero coupon deposit was assigned.

Interest paid by Air France on the nominal amount of the debt is recorded as financial expenses. Interest accrued from the zero coupon deposit (or equivalent) is offset against financial expense, and the counterpart from the debt. On May 14, 2007, the net debt was fully amortised.

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. As of March 31, 2008, the conversion ratio is equal to 1.03 Air France-KLM shares for one bond.

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 and April 23, 2007, the company Air France, a subsidiary of the Air France-KLM group, issued bonds for a total amount of €750 million maturing on January 22, 2014. The characteristics of these bonds are as follows:

- amount: €750 million;
- coupon: 4.75%;
- maturity 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 € million)*	**2008**	**2007**	**2006**
Aircraft			
Future minimum lease payments – due dates			
N+1	635	813	979
N+2	572	624	974
N+3	539	603	632
N+4	545	610	682
N+5	302	535	648
Over 5 years	1,708	1,968	2,381
Total	**4,301**	**5,153**	**6,296**
Including Principal	*3,588*	*4,280*	*5,072*
Interest	*713*	*873*	*1,224*

As of March 31 *(In € million)*	2008	2007	2006
Buildings			
Future minimum lease payments – due dates			
N+1	68	42	45
N+2	48	42	44
N+3	47	41	44
N+4	47	41	42
N+5	44	41	41
Over 5 years	338	215	273
Total	**592**	**422**	**489**
Including Principal	*377*	*291*	*356*
Interest	*215*	*131*	*133*
Other property, plant and equipment	**-**	***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 € million)*	2008	2007	2006
Flight equipment securitization	339	367	394
Reservation of ownership clause and mortgage debt	963	1,059	1,747
Other long term debt	885	902	387
Total	**2,187**	**2,328**	**2,528**

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 initially valued at €525 million. Three ten-year debt tranches were issued:

- a senior A1 floating rate tranche of €98 million initially with a final maturity of July 20, 2013. As of March 31, 2008, this tranche's book value amounted to €59 million, compared with €71 million as of March 31, 2007 and €82 million as of March 31, 2006;
- 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, 2008, this tranche's book value amounted to €86 million, compared with €102 million as of March 31, 2007 and €118 million as of March 31, 2006.

The floating rate of the A1 and B tranche averaged 5.35% for the period ended March 31, 2008 compared with 4.37% for the period ended March 31, 2007 and with 4.03% as of March 31, 2006.

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 € million)*	2008	2007	2006
Maturities in			
N+1	1,249	1,464	1,562
N+2	949	1,130	1,386
N+3	921	975	1,199
N+4	908	976	1,000
N+5	1,190	877	973
Over 5 years	4,500	5,074	5,002
Total	**9,717**	**10,496**	**11,122**
Including Principal	*7,819*	*8,517*	*9,086*
Interest	*1,898*	*1,979*	*2,036*

As of March 31, 2008, expected financial costs amount to €352 million for 2008-09, €1,053 million for periods from 2009-10 until 2012-13, and €493 million afterwards.

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 € million)*	2008	2007	2006
Euro	6,969	7,669	7,938
US dollar	699	659	792
Swiss franc	264	268	274
Yen	-	1	22
Pound Sterling	50	74	59
Other	1	1	1
Cross currency interest rate swap	(164)	(155)	-
Total	**7,819**	**8,517**	**9,086**

30.9. Credit lines

The Group had credit lines amounting to €1,990 million as of March 31, 2008. The three main credit lines, undrawn as of March 31, 2008, amounted respectively, to €1,200 million, €540 million and to €250 million. €625 million mature in 2010, €10 million mature in 2011, €1,105 million mature in 2012, and €50 million mature yearly from 2013 to 2017.

Note 31 Other liabilities

Year ended March 31 *(In € million)*	2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current
Tax liabilities	405	-	359	-	352	-
Employee-related liabilities	1,014	-	928	-	882	-
Non-current assets' payables	202	-	205	-	178	-
Financial derivatives	984	667	219	249	220	154
Deferred income	66	-	43	-	57	-
Other	480	152	581	152	580	263
Total	**3,151**	**819**	**2,335**	**401**	**2,269**	**417**

Note 32 Financial instruments

32.1. 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 President and 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. 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 is prohibited.

Regular meetings are held between the fuel purchasing and treasury departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparts.

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 counterpart is transmitted to the executive managements. 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.

The policy on fuel hedging is the responsibility of the fuel purchasing departments which are also in charge of purchasing fuel for physical delivery. Counterpart quality is verified by the financial departments. A weekly report is supplied to the executive managements. This mainly covers the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and the underlyings used, average hedge levels and the resulting net prices, as well as a comment on market. All these data cover the current year and next four financial years. Furthermore, a weekly Air France-KLM group report (known as the GEC Report) consolidates the figures from the two companies relating to fuel hedging. The instruments used are swaps and options.

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. The principal exposure relates to the US dollar, and then, to a lesser extent, to sterling and the Japanese 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. This induces 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 rolling 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 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 favourable market conditions, as currently, hedging may reach 90% 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, 2008, 90% of the Group's gross debt, after taking into account derivative instruments, was issued in or converted into euros, thereby significantly reducing the risk of currency fluctuations on the debt.

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 gross debt contracted at fixed rates represents 75% of the overall total. Given this policy, the Group has 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.

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 distillates, including a minimum 20% in jet fuel. Beyond this minimum in distillates 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 compliant 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 compliant underlyings as defined by IAS 39.

Instruments

The instruments used within the framework of the strategy must be compliant with IAS 39.

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

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.

Given the current crisis in financial markets, the two cash resources are currently invested in short term, primarily money market mutual funds and certificates, except for the above-mentioned bonds.

32.2. Derivative instruments

➤ Year ended March 31, 2008

Book value *(In € million)*	**Assets**		**Liabilities**	
	Non-current	**Current**	**Non-current**	**Current**
Currency exchange risk (operating and financial operations)				
Fair value hedge	54	16	361	167
Cash flow hedge	26	18	123	140
Interest rate risk (operating and financial operations)				
Cash flow hedge	49	2	30	-
Fair value hedge	13	-	83	42
Fair value through profit and loss	51	1	14	1
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	1,614	1,538	56	634
Total	**1,807**	**1,575**	**667**	**984**

➤ Year ended March 31, 2007

Book value *(In € million)*	**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
Fair value through profit and loss	50	-	9	1
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	429	407	20	100
Total	**589**	**456**	**249**	**219**

➤ Year ended March 31, 2006

Book value *(In € million)*	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	-
Fair value through profit and loss	49	-	9	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	764	937	11	149
Total	**973**	**1,022**	**154**	**220**

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

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, 2008

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Operations qualified as cash flow hedging								
Interest rate swaps	2,790	362	313	256	234	213	1,412	21
Operations qualified as fair value hedging								
Interest rate swaps	845	251	111	175	178	68	62	(112)
Operations qualified as fair value through profit and loss	***642***	***416***	***-***	***-***	***-***	***35***	***191***	***37***
TOTAL	**4,277**	**1,029**	**424**	**431**	**412**	**316**	**1,665**	**(54)**

➤ Year ended March 31, 2007

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
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 fair value through profit and loss	***915***	***424***	***153***	***67***	***13***	***15***	***243***	***40***
TOTAL	**6,014**	**915**	**1,158**	**606**	**475**	**466**	**2,394**	**(4)**

➤ Year ended March 31, 2006

(In € million)	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Fair value
			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 fair value through profit and loss	***641***	***87***	***25***	***167***	***68***	***14***	***280***	***40***
TOTAL	**6,465**	**934**	**841**	**1,020**	**623**	**457**	**2,590**	**99**

These instruments have different purposes:

- hedging fair value 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 € million)*	2008				2007				2006			
	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	***1,918***	***4.8%***	***1,918***	***4.8%***	***1,855***	***4.5%***	***1,861***	***4.5%***	***770***	***6.7%***	***770***	***6.7%***
Repackaged perpetual loans	-	-	-	-	36	10.3%	36	10.3%	147	10.1%	147	10.1%
Perpetual subordinated loans	457	5.5%	500	4.6%	448	4.9%	492	4.9%	491	4.4%	491	4.4%
OCEANE (convertible bond)	389	2.8%	389	4.2%	386	2.8%	386	4.2%	382	4.4%	382	4.4%
Bonds	750	4.7%	750	4.7%	550	4.8%	550	4.8%	-	-	-	-
Other financial debts	2,317	6.3%	4,362	4.6%	2,534	6.6%	4,920	4.6%	3,175	6.5%	5,221	4.8%
Cross currency interest rate swap	-	-	(164)	-	-	-	(155)	-	-	-	-	-
Fixed-rate financial liabilities	***3,913***	***5.5%***	***5,837***	***4.6%***	***3,954***	***5.9%***	***6,229***	***4.6%***	***4,195***	***6.2%***	***6,241***	***4.9%***
Floating-rate financial assets and liabilities												
Floating-rate financial assets	***3,722***	***5.3%***	***3,722***	***5.3%***	***3,427***	***5.5%***	***3,420***	***5.7%***	***3,967***	***2.8%***	***3,967***	***2.8%***
Repackaged perpetual loans	-	-	-	-	85	4.1%	85	4.1%	-	-	-	-
Perpetual subordinated loans	-	-	-	-	15	4.1%	15	4.1%	-	-	-	-
Other financial debts	3,906	4.7%	1,982	4.9%	4,463	4.1%	2,188	4.2%	4,891	3.0%	2,845	3.0%
Bank overdraft	172	-	172	-	133	-	133	-	102	-	102	-
Floating-rate financial liabilities	***4,078***	***4.7%***	***2,154***	***4.9%***	***4,696***	***4.1%***	***2,421***	***4.2%***	***4,993***	***3.0%***	***2,947***	***3.0%***

Exposure to exchange rate risk

Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

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, 2008

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Exchange risk (cash flow hedging of operating flows)	***3,856***	***1,900***	***1,004***	***714***	***71***	***19***	***148***	***(219)***
Exchange rate options								
US Dollar	2,207	1,003	653	551	-	-	-	(197)
Yen	180	90	71	19	-	-	-	(1)
Forward purchases								
US Dollar	658	259	196	120	51	11	21	(56)
Forward sales								
US Dollar	59	26	33	-	-	-	-	8
Yen	123	54	48	21	-	-	-	1
Pound sterling	132	132	-	-	-	-	-	8
Swiss franc	56	56	-	-	-	-	-	(1)
Singapore Dollar	8	8	-	-	-	-	-	-
Norwegian Krone	129	129	-	-	-	-	-	1
Czech Krone	10	10	-	-	-	-	-	(1)
Swedish Krona	82	82	-	-	-	-	-	1
Polish New Zloty	9	9	-	-	-	-	-	-
Korean Won	30	30	-	-	-	-	-	2
Others								
US Dollar	173	12	3	3	20	8	127	16
Exchange risk (fair value hedging of flight equipment acquisition)	***4,478***	***1,319***	***1,337***	***847***	***662***	***133***	***180***	***(458)***
Forward purchases								
US Dollar	4,313	1,271	1,276	816	637	133	180	(453)
Exchange rate options of US Dollar	*94*	*2*	*36*	*31*	*25*	-	-	*(4)*
Exchange risk (trading)								
Forward purchases of US Dollar	*71*	*46*	*25*	-	-	-	-	*(1)*
Total	**8,334**	**3,219**	**2,341**	**1,561**	**733**	**152**	**328**	**(677)**

➤ Year ended March 31, 2007

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			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	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	-	-	-	-	-	-
Others								
US Dollar	92	37	14	4	4	24	9	21
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)**

➤ Year ended March 31, 2006

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			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)**

Commodity risk linked to fuel prices

Within the framework of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the risks related to its purchases of fuel.

The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

➤ Year ended March 31, 2008

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			1-2 years	2-3 years	3-4 years	4-5 years	+5 years	
Commodity risk (cash flow hedging operating flows)	***7,536***	***2,582***	***1,884***	***2,266***	***804***	**-**	**-**	***2,462***
Swap	819	253	484	82	-	-	-	529
Options	6,717	2,329	1,400	2,184	804	-	-	1,933

➤ Year ended March 31, 2007

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			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

➤ Year ended March 31, 2006

(In € million)	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Fair value
			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

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 risks, interest rate risks and commodity risks in its normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties.

- Counterparty 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, 2008 as in the years to March 31, 2007 and 2006 the Group did not identify any significant counterparty risk.

32.3. 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, 2008, 2007 and 2006 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, 2008, 2007 and 2006 calculated using the year-end market rate.

Market values calculated in this way are shown in the table below:

(In € million)	March 31, 2008		March 31, 2007		March 31, 2006	
	Net book value	Estimated market value	Net book value	Estimated market value	Net book value	Estimated market value
Financial assets						
Financial assets available for sale						
Shares	78	78	73	73	77	77
Assets at fair value through profit and loss						
Marketable securities	185	185	533	533	865	865
Loans and receivables						
Loans						
♦ Fixed-rate	294	319	329	346	351	362
♦ Floating-rate	85	84	126	126	151	151
Interest rate derivative instruments						
♦ Interest rate swaps	116	116	156	156	220	220
Exchange rate derivative instruments						
♦ Exchange rate options	2	2	15	15	21	21
♦ Forward currency contracts	92	92	16	16	54	54
♦ Currency swaps	20	20	23	23	-	-
Commodity derivative instruments						
♦ Petroleum swaps and options	3,152	3,152	836	836	1,700	1,700
Trade accounts receivables	2,569	2,569	2,610	2,610	2,518	2,518
Other assets (except derivatives instruments)	817	817	830	830	843	843
Cash and cash equivalents						
Cash equivalents	4,051	4,051	3,249	3,249	2,726	2,726
Cash in hand	299	299	248	248	220	220
Financial liabilities						
Debt measured at amortized cost						
Bonds(*)						
♦ Fixed-rate	1,139	1,063	936	856	382	548
Perpetual subordinated loans	457	417	584	584	638	633
Other borrowings and financial debt						
♦ Fixed-rate	2,318	2,226	2,534	2,549	3,175	3,182
♦ Variable-rate	3,905	3,905	4,368	4,368	4,891	4,891
Derivatives						
Interest rate derivative instruments						
♦ Interest rate swaps	170	170	159	159	121	121
Exchange derivative instruments						
♦ Exchange rate options	203	203	24	24	15	15
♦ Forward currency contracts	572	572	163	163	78	78
♦ Currency swaps	16	16	1	1	-	-
Commodity derivative instruments						
♦ Petroleum swaps and options	690	690	120	120	160	160
Other debt						
Trade accounts payable	2,218	2,218	2,131	2,131	2,039	2,039
Deferred revenue on ticket sales	2,279	2,279	2,217	2,217	2,062	2,062
Other liabilities (except derivatives instruments)	2,319	2,319	2,268	2,268	2,312	2,312

(*) The fixed rate bonds comprise the OCEANE (convertible bonds) issued in April 2005, as well as the €750 million bond issue made in September 2006 and April 2007 by Air France.

OCEANE: The market value of €368 million, was determined based on the bond's market price as of March 31, 2008. This market value includes the fair value of the debt component (amount of €389 million in the financial statements as of March 31, 2008) as well as the fair value of the conversion option recorded in equity for €61 million.

Bond issued in September 2006 and April 2007: the characteristics of this bond are described in note 30.4. The market value is €756 million.

32.4. Sensitivity

Fuel price sensitivity

The impact on "income before tax" and on the "gains/(losses) taken to equity" of the variation of +/- USD 10 on a barrel of Brent is presented below:

(In € million)	March 31, 2008		March 31, 2007		March 31, 2006	
	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent	Increase of USD 10 per barrel of Brent	Decrease of USD 10 per barrel of Brent
Income before tax	43	(46)	58	(21)	2	(31)
Gains/(losses) taken to equity	888	(921)	834	(779)	878	(886)

Currency sensitivity

The value in euros of all monetary assets and liabilities is presented below:

(In € million)	Monetary assets			Monetary liabilities		
	March 31, 2008	March 31, 2007	March 31, 2006	March 31, 2008	March 31, 2007	March 31, 2006
US dollar	528	635	586	919	1,321	1,708
Pound sterling	26	7	22	49	43	64
Yen	4	9	25	202	203	256
Swiss franc	10	2	10	271	258	265
Canadian dollar	3	2	2	2	9	3

The amounts of monetary assets and liabilities disclosed above do not include the effect of the revaluation of assets and liabilities documented in fair value hedged.

The impact on "income before tax" and on "gains/(losses) taken to equity" of a 10% variation in exchange rates in absolute value relative to the euro is presented below:

At March 31 *(In € million)*	US dollar			Pound sterling			Yen		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Income before tax	107	37	46	4	6	7	15	3	5
Gains/(losses) taken to equity	142	121	115	7	40	35	17	5	1

Interest rate sensitivity

The Group is exposed to the risk of interest rate variation. The variation of 100 basic points of interest rates would have an impact on the net result of €25 million for the year ending March 31, 2008 against €16 million for the year ending March 31, 2007 and €7 million for the year ending March 31, 2006.

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 *(In € million)*	**Minimum lease payments**		
	2008	**2007**	**2006**
Flight equipment			
Due dates			
N + 1	630	637	645
N + 2	589	555	580
N + 3	483	427	457
N + 4	356	369	354
N + 5	281	282	298
Over 5 years	433	516	613
Total	***2,772***	***2,786***	***2,947***
Buildings			
Due dates			
N + 1	227	146	106
N + 2	226	130	102
N + 3	224	118	90
N + 4	225	102	79
N + 5	228	95	67
Over 5 years	657	654	592
Total	***1,787***	***1,245***	***1,036***

The expense relating to operating leases for flight equipment amounted to €611 million for the year ended March 31, 2008, to €600 million for the year ended March 31, 2007 and to €637 million for the year ended March 31, 2006.

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 € million)*	2008	2007	2006
N+1	999	870	989
N+2	1,292	571	951
N+3	945	688	731
N+4	706	416	545
N+5	133	287	137
> 5 years	-	-	135
Total	**4,075**	**2,832**	**3,488**

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, 2008 increased by 58 units compared with March 31, 2007 to 105 units. The number of options increased by 29 units over the same period to reach 63 aircraft. These movements can be explained by:

- the delivery of 11 aircraft over the period;
- new orders: 56 firm orders and 42 options;
- the conversion of 13 options into firm orders.

Long-haul fleet

Passenger

The Group took delivery of 6 Boeing B777s. Concerning this aircraft type, the Group has ordered a firm order of 7 units, converted 8 options into firm orders (including one coming from Boeing B777Fs) and ordered 12 options.

Moreover, the Group has converted two options on Airbus A380 and ordered two options on Airbus A330.

As of March 31, 2008, the Group's backlog for the long-haul fleet comprised firm orders for 12 Airbus A380s and 20 Boeing B777s. It comprised also 17 options: 2 Airbus A380s, 2 Airbus A330s and 13 Boeing B777s.

Cargo

Following to the conversion of an option on Boeing B777Fs transformed into B777s, the Group has taken out a new option. The outstanding orders concerning the cargo long-haul fleet are stable with 8 Boeing B777Fs (five firm orders and three options). The first deliveries will begin during the winter of 2008-2009.

Medium-haul fleet

The Group took delivery of two Boeing B737s finally financed under operational lease. The Group has placed a firm order for 15 Airbus A320/A321s and exercised three options on Airbus A318s converted into A320/A321s. This new order is accompanied by ten options. Concerning the Boeing B737, the Group has placed a firm order for twelve aircraft and three options.

As of March 31, 2008, the Group's backlog comprised 12 Airbus A320s, 6 Airbus A321s and 20 Boeing B737s. The Group also has 21 options: 10 Airbus A320s and 11 Boeing B737s.

Regional fleet

The Group took delivery of three Canadair CRJ700s. It has placed an order with Embraer for 10 ERJ170s (9 firm orders and 1 option) and for 24 ERJ190s (11 firm orders and 13 options). There is also a firm order for 2 AVRO RJ85s.

As of March 31, 2008, the Group's backlog comprised 30 aircraft under firm orders (eight CRJ1000s, nine ERJ170s, eleven ERJ190s and two AVRO RJ85s) and 22 options (eight CRJ1000s, one ERJ170s and thirteen ERJ190s).

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
		Firm orders	-	-	-	-	-	-
A318	***As of March 31, 2008***	*Options*	-	-	-	-	-	-
		Firm orders	-	-	-	-	-	-
	As of March 31, 2007	*Options*	-	2	1	-	-	-
		Firm orders	6	-	-	-	-	-
	As of March 31, 2006	*Options*	-	1	2	1	-	-
		Firm orders	1	1	2	8	-	-
A320	***As of March 31, 2008***	*Options*	-	-	-	-	8	2
		Firm orders	-	-	-	-	-	-
	As of March 31, 2007	*Options*	-	-	-	-	-	-
		Firm orders	-	-	-	-	-	-
	As of March 31, 2006	*Options*	-	1	-	-	-	-
		Firm orders	1	-	2	3	-	-
A321	***As of March 31, 2008***	*Options*	-	-	-	-	-	-
		Firm orders	-	-	-	-	-	-
	As of March 31, 2007	*Options*	-	-	-	-	-	-
		Firm orders	-	-	-	-	-	-
	As of March 31, 2006	*Options*	-	-	-	-	-	-
		Firm orders	-	-	-	-	-	-
A330	***As of March 31, 2008***	*Options*	-	-	-	2	-	-
		Firm orders	-	-	-	-	-	-
	As of March 31, 2007	*Options*	-	-	-	-	-	-
		Firm orders	3	-	-	-	-	-
	As of March 31, 2006	*Options*	-	-	-	-	-	-
		Firm orders	-	5	3	3	1	-
A380	***As of March 31, 2008***	*Options*	-	-	-	1	1	-
		Firm orders	-	-	5	3	2	-
	As of March 31, 2007	*Options*	-	-	-	1	2	1
		Firm orders	-	2	3	3	1	1
	As of March 31, 2006	*Options*	-	-	-	-	1	3
		Firm orders	4	3	7	4	2	-
B737	***As of March 31, 2008***	*Options*	-	-	-	1	3	7
		Firm orders	4	6	-	-	-	-
	As of March 31, 2007	*Options*	-	2	5	1	-	-
		Firm orders	1	1	-	-	-	-
	As of March 31, 2006	*Options*	-	2	9	4	-	-
		Firm orders	5	5	5	4	1	-
B777	***As of March 31, 2008***	*Options*	-	-	-	4	8	1
		Firm orders	6	4	1	-	-	-
	As of March 31, 2007	*Options*	-	-	5	3	-	-
		Firm orders	7	6	1	2	-	-
	As of March 31, 2006	*Options*	-	-	1	4	3	-

Aircraft type		To be delivered in	N+1	N+2	N+3	N+4	N+5	Beyond N+5
B777 F	***As of March 31, 2008***	***Firm orders***	***3***	***2***	-	-	-	-
		Options	-	-	***2***	***1***	-	-
	As of March 31, 2007	Firm orders	-	3	2	-	-	-
		Options	-	-	1	2	-	-
	As of March 31, 2006	Firm orders	-	-	3	2	-	-
		Options	-	-	-	1	2	-
Embraer 170	***As of March 31, 2008***	***Firm orders***	***3***	***4***	***2***	-	-	-
		Options	-	-	***1***	-	-	-
	As of March 31, 2007	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
Embraer 190	***As of March 31, 2008***	***Firm orders***	***5***	***6***	-	-	-	-
		Options	-	-	***5***	***8***	-	-
	As of March 31, 2007	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2006	Firm orders	3	3	-	-	-	-
		Options	-	-	-	-	-	-
AVRO RJ85	***As of March 31, 2008***	***Firm orders***	***2***	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2007	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
CRJ 700	***As of March 31, 2008***	***Firm orders***	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2007	Firm orders	3	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
CRJ 1000	***As of March 31, 2008***	***Firm orders***	-	***1***	***4***	***3***	-	-
		Options	-	-	-	-	-	***8***
	As of March 31, 2007	Firm orders	-	-	1	4	3	-
		Options	-	-	-	-	-	8
	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-

Note 35 Other commitments

35.1. Commitments made

Year ended March 31 *(In € million)*	2008	2007	2006
Call on investment securities	1	3	3
Put on investment securities	(5)	(6)	(3)
Warranties, sureties and guarantees	113	109	98
Mortgaged or secured assets	5,398	5,997	7,572
Other purchase commitments	159	73	187

The restrictions and pledges as of March 31, 2008 were as follows:

(In € million)	Starting date of pledge	End of pledge	Amount pledged	NBV of balance sheet entry concerned	Corresponding %
Intangible assets	-	-	-	475	-
Tangible assets	March 98	October 2019	6,018	14,473	41.58%
Financial assets	May 92	October 2019	852	1,259	67.67%
Total			**6,870**	**16,207**	**42.39%**

35.2. Commitments received

Year ended March 31 *(In € million)*	2008	2007	2006
Warranties, sureties and guarantees	302	245	198
Other	2	83	133

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 € million)*	**2008**	**2007**	**2006**
Short term benefits	4.7	3.4	2.9
Post employment benefits	7.5	5.0	1.6
Total	**12.2**	**8.4**	**4.5**

Fees paid during the year ended March 31, 2008 but concerning the year ended March 31, 2007, for attendance at Board meetings amounted to €0.6 million.

36.2. Transactions with other related parties

The cumulated amounts of transactions with related parties for the financial years ended March 31, 2008, 2007 and 2006 are as follows:

Year ended March 31 *(In € million)*	**2008**	**2007**	**2006**
Assets			
Net trade accounts receivable	105	130	114
Other current assets	5	2	-
Other non-current assets	21	10	8
Total	**131**	**142**	**122**
Liabilities			
Trade accounts payable	104	61	128
Other current liabilities	43	49	-
Other long-term liabilities	56	82	93
Total	**203**	**192**	**221**

Year ended March 31 *(In € million)*	**2008**	**2007**	**2006**
Net sales	310	291	281
Landing fees and other rents	(584)	(553)	(571)
Other selling expenses	(255)	(214)	(209)
Passenger service	(61)	(87)	(91)
Other	238	(21)	(19)
Total	**(352)**	**(584)**	**(609)**

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 €548 million, €524 million and €500 million for the periods ended March 31, 2008, 2007 and 2006.

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 €116 million for the year ended March 31, 2008, €125 million for the year ended March 31, 2007, and €110 million for the year ended March 31, 2006.

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 €98 million for the year ended March 31, 2008, €106 million for the year ended March 31, 2007, and €98 million for the year ended March 31, 2006.

Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned WAM Acquisition (ex Amadeus GTD). For the year ended March 31, 2008, total transactions with WAM Acquisition amounted to a gain of €72 million (compared with €69 million for the year ended March 31, 2007 and €68 million for the year ended March 31, 2006) and a charge of €228 million (compared with €189 million for the year ended March 31, 2007 and €177 million for the year ended March 31, 2006). The Group also conducted business with Martinair, with revenues amounting to €32 million for the year ended March 31, 2008, €33 million for the year ended March 31, 2007 and €26 million for the year ended March 31, 2006. Moreover, the Group contracted Martinair's services whose total cost amounted to €28 million for the year ended March 31, 2008, like the year ended March 31, 2007 and €35 million for the year ended March 31, 2006.

During the period, Air France-KLM executed transactions with the other equity affiliates, including Heathrow Cargo Handling. Total transactions realized with these equity affiliates were not significant for the periods ended March 31, 2008, 2007 and 2006.

Note 37 Cash flow statement

37.1. Acquisition of subsidiaries and investments

Net cash disbursements related to acquisition of subsidiaries and investments in associates were as follows:

Year ended March 31 *(In € million)*	2008	2007	2006
Cash disbursement for acquisitions	(294)	(25)	(58)
Cash from acquired subsidiaries	22	-	-
Net cash disbursement	**(272)**	**(25)**	**(58)**

Year ended March 31, 2008

The cash disbursement relating to acquisitions corresponds mainly to the purchase of VLM for €178 million, Air France-KLM shares for €88 million and KLM shares for €12 million.

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 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.

37.2. Disposal of subsidiaries

Net proceeds from the disposal of subsidiaries can be analysed as follows:

Year ended March 31 *(In € million)*	2008	2007	2006
Proceeds from disposals	84	43	35
Cash of disposed subsidiaries	-	-	-
Net proceeds from disposals	**84**	**43**	**35**

Year ended March 31 2008

Net proceeds from disposals mainly correspond to the sale of Alpha Airport Plc for a total amount of €69 million.

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.

37.3. Non cash transactions

During the year ended March 31, 2008, the Group entered into a financial lease concerning a share in a luggage sorter named the *"Trieur Bagages Est"* (TBE) at Charles de Gaulle airport. Neither the acquisition of the TBE nor the debt attached has an impact on the cash flow statement.

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 on the cash flow statement.

During the year ended March 31, 2006, there was no significant non-cash transaction.

Note 38 Subsequent events

There has been no significant event since the close of the financial year.

Note 39 Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after April 1, 2008, were not early adopted by the Group for the preparation of these consolidated financial statements:

- the revision to standard IAS 1 “Presentation of financial statements”, effective for periods beginning on or after January 1, 2009;
- the standard IFRS 8 “Operating Segments”, effective for periods beginning on or after January 1, 2009;
- the revision to standard IAS 23 “Borrowing costs”, effective for periods beginning on or after January 1, 2009;
- the revision to standard IFRS 3 “Business combinations”, effective for periods beginning on or after July 1, 2009;
- the revision to standard IAS 27 “Consolidated and separate financial statements”, effective for periods beginning on or after July 1, 2009;
- the interpretation IFRIC 12 “Service concession arrangements”, effective for periods beginning on or after January 1, 2008;
- the interpretation IFRIC 13 “Customer loyalty programmes”, effective for periods beginning on or after July 1, 2008;
- the interpretation IFRIC 14 “IAS 19: The limit of a defined asset, minimum funding requirements and their interaction”, effective for periods beginning on or after January 1, 2009. Impact of the application of the interpretation IFRIC 14 has already been anticipated by the Group (see note 3.17) and its coming into effect will not have any impact for the Group.

The Group is currently estimating the potential impact of IFRIC 13 on the consolidated financial statements and disclosures. Other texts listed above should not lead to significant impacts.

Revisions to standards IAS 1, IAS 23, IFRS 3 and IAS 27 as well as interpretations IFRIC 12 and IFRIC 13 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 Consolidation scope as of March 31, 2008

The scope includes 161 fully consolidated entities and 25 equity affiliates.

40.1. Consolidated entities

Entity	Segment	% interest	% control
AIR FRANCE SA	Multisegment	100	100
KLM N.V.	Multisegment	99	49
AEROLIS	Passenger	51	51
Air France SERVICES LTD	Passenger	100	100
Air France GROUND HANDLING INDIA PVT LTD	Passenger	51	51
BRITAIR	Passenger	100	100
CITYJET	Passenger	100	100
CYGNIFIC (UK) LIMITED	Passenger	99	49
CYGNIFIC B.V.	Passenger	99	49
FRÉQUENCE PLUS SERVICES	Passenger	100	100
IAS ASIA INCORPORATED	Passenger	99	49
IASA INCORPORATED	Passenger	99	49
ICARE	Passenger	100	100

Entity	Segment	% interest	% control
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES LIMITED	Passenger	99	49
INTERNATIONAL AIRLINE SERVICES OFFSHORE LIMITED	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	Passenger	99	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED LIABILITY COMPANY	Passenger	99	49
KLM CITYHOPPER B.V.	Passenger	99	49
KLM CITYHOPPER UK LTD	Passenger	99	49
KLM GROUND SERVICES LIMITED	Passenger	99	49
KLM LUCHTVAARTSCHOOL B.V.	Passenger	99	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	99	49
TEAMTRACKERS SA	Passenger	100	100
TEAMTRACKERS SRO	Passenger	100	100
VLM AIRLINES N.V.	Passenger	100	100
BLUE CROWN B.V.	Cargo	99	49
CSC INDIA	Cargo	50	49
MEXICO CARGO HANDLING	Cargo	100	100
ROAD FEEDER MANAGEMENT B.V.	Cargo	99	49
SODEXI	Cargo	75	75
Air France INDUSTRIE US	Maintenance	100	100
CRMA	Maintenance	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Maintenance	99	49
GUANGZHOU HANGXIN AVIONICS CO. LTD	Maintenance	41	100
HANGXIN HITECH RESOURCES HOLDING LTD	Maintenance	41	80
KLM UK ENGINEERING LIMITED	Maintenance	99	49
REENTON DEVELOPMENT LIMITED	Maintenance	51	51
SHANGHAI HANGXIN AERO MECHANICS CO. LTD	Maintenance	41	100
ACNA	Other	98	100
ACSAIR	Other	50	51
AEROFORM	Other	98	100
AEROSUR	Other	98	100
AFRIQUE CATERING	Other	50	51
AIRCHEF	Other	49	50

Entity	Segment	% interest	% control
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	99	49
AIR UK LEASING LIMITED	Other	99	49
AIRCRAFT MAINTENANCE AMSTERDAM B.V.	Other	99	49
AIRGO B.V.	Other	99	49
AIRPORT MEDICAL SERVICES B.V.	Other	79	49
AIRPORT MEDICAL SERVICES C.V.	Other	79	49
ALL AFRICA AIRWAYS	Other	80	80
AMA HOLDING B.V.	Other	99	49
AMSTERDAM SCHIPOL PIJPLEIDING BEHEER B.V.	Other	58	49
AMSTERDAM SCHIPOL PIJPLEIDING B.V.	Other	59	49
AMSTERDAM SCHIPOL PIJPLEIDING C.V.	Other	71	49
AQUILA INVEST B.V.	Other	99	49
BASE HANDLING	Other	98	100
BLUE YONDER II B.V.	Other	99	49
BLUE YONDER IX B.V.	Other	99	49
BLUE YONDER X B.V.	Other	99	49
BLUE YONDER XI B.V.	Other	99	49
BLUE YONDER XII B.V.	Other	99	49
BLUE YONDER XIII B.V.	Other	99	49
BLUE YONDER XIV B.V.	Other	99	49
BLUE YONDER XV B.V.	Other	99	49
BRUNEAU PEGORIER	Other	98	100
CARI	Other	98	100
CATERING FDF	Other	98	100
CATERING PTP	Other	98	100
CELL K16 INSURANCE COMPANY	Other	99	0
CENTRE DE PRODUCTION ALIMENTAIRE	Other	98	100
CULIN'AIR PARIS	Other	98	100
DAKAR CATERING	Other	49	50
ETS EQUIPMENT TECHNO SERVICES	Other	99	49
EUROPEAN CATERING SERVICES	Other	98	100
GIE JEAN BART	Other	10	10
GIE SERVCENTER	Other	98	100

Entity	Segment	% interest	% control
GIE SURCOUF	Other	100	100
HANDICAIR	Other	98	100
HEESWIJK HOLDING B.V.	Other	99	49
JET CHEF	Other	98	100
KES AIRPORT EQUIPMENT FUELLING B.V.	Other	99	49
KES AIRPORT EQUIPMENT LEASING B.V.	Other	99	49
KLEUR INVEST B.V.	Other	99	49
KLM AIRLINE CHARTER B.V.	Other	99	49
KLM CATERING SERVICES SCHIPOL B.V.	Other	99	49
KLM EQUIPMENT SERVICES B.V.	Other	99	49
KLM FINANCIAL SERVICES B.V.	Other	99	49
KLM FLIGHT CREW SERVICES GMBH	Other	99	49
KLM HEALTH SERVICES B.V.	Other	99	49
KLM INTERNATIONAL CHARTER B.V.	Other	99	49
KLM INTERNATIONAL FINANCE COMPANY B.V.	Other	99	49
KLM OLIEMAATSCHAPPIJ B.V.	Other	99	49
KLM UK HOLDINGS LIMITED	Other	99	49
KLM UK LIMITED	Other	99	49
KROONDUIF B.V.	Other	99	49
LYON AIR TRAITEUR	Other	98	100
MALI CATERING	Other	70	99
MANAGEMENT MAATSCHAPPIJ B.V.	Other	99	49
MARTINIQUE CATERING	Other	91	93
MAURITANIE CATERING	Other	25	51
OCCABOT BEHEER B.V.	Other	99	49
O'FIONNAGAIN HOLDING COMPANY LIMITED	Other	100	100
ORION-STAETE B.V.	Other	99	49
ORLY AIR TRAITEUR	Other	98	100
OUAGADOUGOU CATERING SERVICES	Other	98	100
PASSERELLE	Other	98	100
PASSERELLE CDG	Other	98	100
PELICAN	Other	100	100
PHK FREIGHT SERVICES B.V.	Other	99	49
PMAIR	Other	50	51
PRESTAIR	Other	98	100
PYRHELIO-STAETE B.V.	Other	99	49

Entity	Segment	% interest	% control
QUASAR-STAETE B.V.	Other	99	49
RIGEL-STAETE B.V.	Other	99	49
ROSC LIMITED	Other	99	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
SOCIÉTÉ IMMOBILIÈRE AÉROPORTUAIRE	Other	98	100
SOGRI	Other	95	97
SORI	Other	49	50
SPECIAL MEALS CATERING	Other	98	100
SPICA-STAETE B.V.	Other	99	49
STICHTING GARANTIEFONDS KLM LUCHTVAARTSCHOOL	Other	99	49
SYSTAIR	Other	98	100
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
TAKEOFF 8 LIMITED	Other	100	100
TAKEOFF 9 LIMITED	Other	100	100
TOULOUSE AIR TRAITEUR	Other	50	51
TRANSAVIA AIRLINES B.V.	Other	99	49

Entity	Segment	% interest	% control
TRANSAVIA AIRLINES C.V.	Other	99	49
TRANSAVIA France	Other	99	100
TRAVEL INDUSTRY SYSTEMS B.V.	Other	99	49
UILEAG HOLDING COMPANY LIMITED	Other	100	100
WEBLOK B.V.	Other	99	49

40.2. Equity affiliates

Entity	Segment	% interest	% control
FINANCIÈRE LMP	Passenger	20	20
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
BAAN TARA DEVELOPMENT LTD	Other	99	49
BAAN TARA HOLDING LTD	Other	99	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	20	20
KENYA AIRWAYS LIMITED	Other	26	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	52	49
SEREP	Other	38	39
SERVAIR EUREST	Other	34	35
SESAL	Other	39	40
TERMINAL ONE GROUPE ASSOCIATION	Other	25	25
WAM	Other	22	22

Statutory Auditors' report on the consolidated financial statements

Year ended March 31, 2008

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, 2008.

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 statements 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, 2008 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 tangible 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 to the consolidated financial statements outlines the accounting policies applied for the recognition of the pension fund surplus. We verified that the accounting treatment complies with IFRIC 14.
- Note 29.2 to the consolidated financial statements describes the nature of the anti-trust litigations to which the Company is exposed and the procedures put in place by the Company to assess the amount of the related provision accounted for. Our procedures consisted in analyzing the data used, assessing the assumptions made and verifying that the information as disclosed in Note 29.2 was appropriate.

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 Defense and Neuilly-sur-Seine, June 3, 2008

The Statutory Auditors

KPMG Audit

Department of KPMG S.A.

Jean-Luc Decornoy
Partner

Jean-Paul Vellutini
Partner

Deloitte & Associés

Pascal Pincemin
Partner

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.

Parent company financial statements

Year ending March 31, 2008

Income statement

Period from April 1 to March 31 *(In € million)*	**Notes**	**2008**	**2007**
Other income	2	20	19
Total operating income		***20***	***19***
External expenses	3	(18)	(17)
Taxes and related payments		(1)	(1)
Salaries and related costs		(3)	(3)
Other expenses		(1)	-
Total operating expenses		***(23)***	***(21)***
Income from current operations		***(3)***	***(2)***
Financial income		243	164
Financial expenses		(39)	(11)
Net financial income	***4***	***204***	***153***
Earnings before tax and extraordinary items		***201***	***151***
Non-recurring income		-	7
Non-recurring expenses		(8)	(5)
Extraordinary income (loss)	***5***	***(8)***	***2***
Income tax	6	5	4
Net earnings		**198**	**157**

Balance sheet

Assets *(In € million)*	Notes	March 31, 2008	March 31, 2007
Long-term investments	7	3,943	3,888
Fixed assets		***3,943***	***3,888***
Trade receivables	10	12	12
Miscellaneous receivables	10	56	194
Subscribed capital unpaid yet	10	-	85
Marketable securities	8	629	9
Prepaid expenses		1	-
Current assets		***698***	***300***
Total assets		**4,641**	**4,188**

Liabilities & equity *(In € million)*	Notes	March 31, 2008	March 31, 2007
Capital	9.1	2,552	2,375
Additional paid-in capital		719	492
Reserves		1,046	1,023
Income for the year		198	157
Shareholders' equity	***9.2***	***4,515***	***4,047***
Accounts payable:		27	9
including trade payables and related accounts		*25*	*7*
other accounts payable		*2*	*2*
Miscellaneous debts		99	132
Liabilities	***10***	***126***	***141***
Total liabilities & equity		**4,641**	**4,188**

Notes

The information hereafter constitutes the notes to the financial statements for the year ended March 31, 2008.

It is an integral part of the financial statements.

The financial period covered 12 months from April 1, 2007 to March 31, 2008.

Air France-KLM is listed in France and in the Netherlands.

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.

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, 2008.

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 positive 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, 2008 to use the "Air France-KLM" brand.

3. External expenses

Period from April 1 to March 31 *(In € million)*	**2008**	**2007**
Lawyers & advisors fees	2	-
Statutory auditor fees	1	3
Insurance	2	2
Subcontracting re-invoiced by Air France and KLM	8	6
Financial communication expenses	4	4
Other (less than 1 million euros)	1	2
Total	**18**	**17**

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 € million)*	**2008**	**2007**
Interests on current account	(4)	(5)
including related companies	*(4)*	*(5)*
Financial income from equity investments[(1)]	221	157
including related companies	*221*	*157*
Other financial income[(2)]	22	7
including related companies	*7*	*7*
Allocations to provisions[(3)]	(35)	(6)
Total	**204**	**153**

(1) For the financial year ended March 31, 2008, this amount includes €23 million of dividends paid by KLM, €148 million of dividends paid by Air France and €50 million of interim dividends receivable from Air France.

(2) For the financial year ended March 31, 2008, this amount includes €15 million of revenues generated from the investment in mutual funds and certificates of deposit of the proceeds of BASA conversion.

(3) Allocation to provisions of €13 million for Alitalia shares at March 31, 2008 vs. €6 million at March 31, 2007 and of €22 million for Treasury shares.

5. Extraordinary income/loss

Extraordinaries at March 31, 2008 amounted to €(8) million of expenditure on the study into the acquisition of Alitalia shares (lawyers and advisors fees). The suspensive conditions prior to the launch of the public exchange offer for Alitalia not having been fulfilled, Air France-KLM withdrew its offer.

6. Income tax

Air France-KLM, formerly known as Air France, has benefited from the tax consolidation scheme since April 1, 2002.

The consolidation scope, where Air France-KLM is the parent company, 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.

The tax consolidation group benefits from tax losses that can be carried forward indefinitely.

The subsidiaries that are beneficiaries of the tax consolidation scope paid Air France-KLM a tax consolidation bonus of €5 million for the financial year ended March 31, 2008.

7. Long-term investments

7.1. Gross value

Gross value *(In € million)*	Beginning of year	Acquisitions Capital increases	Transfers or sales	End of year
Equity investments	3,907	12	-	3,919
Other long-term investments	-	75	-	75
Total	**3,907**	**87**		**3,994**

7.2. Equity investments

Companies *(In € million)*	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	12(1)	-	814
Alitalia	45	-	-	45
Total	**3,907**	**-**	**-**	**3,919**

(1) During the financial year Air France-KLM increased its holding in KLM share capital by 1.25% to 98.75%.

The decrease in Alitalia's share price resulted in the recognition of a net additional provision of €13 million.

Companies *(In € million)*	Provisions at beginning of year	Allocations	Write-backs	Provisions at end of year
Alitalia	19	13	-	32
Impairment	***19***	***13***	-	***32***
Net Value	**3,888**			**3,887**

7.3. Other financial investments

(In € million)	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	-	75	-	75
	Provision at beginning of year	**Allocation**	**Write-backs**	**Provision at beginning of year**
Treasury shares				
Impairment	-	20	-	20
Net Value	**-**			**55**

8. Marketable securities

(In € million)	March 31, 2008		March 31, 2007	
	Net carrying amount	Market value	Net Carrying amount	Market value
Treasury shares invested as part of the liquidity agreement subscribed with a bank	12	12	-	-
Mutual funds & deposit certificates	609	609	-	-
Money market fund[(1)]	8	8	9	9
Total	**629**	**629**	**9**	**9**

(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*	
	2008	2007	2008	2007
French government	16%	18%	16%	18%
Employees and former employees[(1)]	11%	11%	11%	11%
Shares held by the Group	2%	1%	-	-
Public	71%	70%	73%	71%
Total	**100%**	**100%**	**100%**	**100%**

(1) Personnel and former employees identified in the fund or by a Sicovam code.

On March 31, 2008 the share capital distributed above is fully paid-up and comprised of 300,219,278 shares with a nominal value of €8.50 compared with 279,365,707 shares at March 31, 2007. Each share confers one voting right. The number of shares above includes the 20,853,571 new shares issued by Air France-KLM as part of the BASA (20,853,046) and the OCEANE (525) conversion.

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 gave 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, at an exercise price of €20 per Air France-KLM share. BASA holders had 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 BASAs.

Between April 1 and November 6, 2007, the date of the end of the program, 30,280,575 BASAs were exercised, leading to the issuance of 20,853,046 shares.

The total number of BASAs exercised during the exchange period was 44,783,922, corresponding to 99.3% of the total number of BASAs issued.

In April 2005, Air France issued a 15 year, €450 million *"Obligation à Option de Conversion et/ou d'Échange en actions Air France-KLM Nouvelles ou Existantes"* (OCEANE).

During the financial year, 510 OCEANE were converted into 525 new shares.

Consequently during the financial year the number of company shares was increased to 300,219,278 and the share capital was increased to €2,551,863,863.

Therefore, Air France-KLM recognised a capital increase of €177 million and an increase in additional paid-in capital of €227 million.

9.2. Statement of changes in shareholders' equity

Source of movements *(In € million)*	**Capital**	**Additional paid-in capital**	**Reserves**	**Earnings for the year**	**Shareholders' equity**
At March 31, 2007	***2,375***	***492***	***1,023***	***157***	***4,047***
Allocation of earnings	-	-	23	(23)	-
Dividends distributed	-	-	-	(134)	(134)
Conversion of BASAs	177	227	-	-	404
Earnings for the period	-	-	-	198	198
At March 31, 2008	**2,552**	**719**	**1,046**	**198**	**4,515**

10. Maturity of accounts receivable and accounts payable

At March 31, 2008 *(In € million)* **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]	56	56	-	52
Total	**68**	**68**	**-**	**64**

(1) Air France will pay Air France-KLM an interim dividend of €50 million (see note 4).

Accounts payable *(In € million)*	Gross amount	Up to one year	More than one year	Related companies
Trade payables and related accounts	25	25	-	14
Taxes and social contributions due	-	-	-	-
Other accounts payable	2	2	-	-
Miscellaneous payables	99	99	-	98
Total	**126**	**126**	**-**	**112**

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 had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain the SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

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).

Other

In October 2007, Air France-KLM subscribed with a bank a 10 year, €250 million credit line.

12. List of subsidiaries and equity investments

(In € million) 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	Net	Loans & advances granted and not reim-bursed	Amount of security and gua-rantees 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)	420495178	1,901	2,588	100%	3,060	3,060	-	-	14,912	(45)	198
KLM (Netherlands)(1)	-	94	3,782	98.75%	814	814	-	-	8,028	291	23
2. Equity investments (held at less than 50%)											
Alitalia (Italy)(2)	-	1,297	(571)	2%	45	13	-	-	2,130	(211)	-

(1) Statutory financial statements at March 31, 2008.
(2) Since the consolidated financial statements at December 31, 2007 were unavailable, the half-year financial statements at June 30, 2007 were used.

13. Estimated value of the portfolio

(In € million)	Amount at beginning of year			Amount at end of year		
	Gross carrying amount	Net carrying amount	Estimated value	Gross carrying amount	Net carrying amount	Estimated value
Portfolio fractions valued						
Alitalia						
based on the net equity at 06/30/07	45	26	25	45	13	14
based on the market price at 03/31/08	-	-	26	-	-	13
Air France						
at cost	3,060	3,060	-	3,060	3,060	-
based on the company's net equity at 03/31/08	-	-	4,358	-	-	4,489
KLM						
at cost	802	802	-	814	814	-
based on the company's net equity at 03/31/08	-	-	2,949	-	-	3,828

14. Items concerning related companies

(In € million)	**Amount**
Trade receivables & related accounts	12
including Air France	*11*
KLM	*1*
Miscellaneous receivables	52
including Air France	*50*
Trade payables and related accounts	14
including Air France	*2*
KLM	*12*
Miscellaneous payables	98
including Air France	*97*
BritAir	*1*

15. Litigation

a) Investigation of the Competition Authorities into the air freight business

Air France-KLM, Air France and KLM have been involved since February 2006 in an investigation conducted by the European Commission, the US Department Of Justice (DOJ) and by the competition authorities of certain States about possible agreements and for concerted practices between undertakings in air shipping services.

As at December 19, 2007, the European Commission sent a statement of objections to twenty-five airlines and/or freighters, including Air France-KLM, Air France and KLM. To summarize, these companies are reproached with having participated in contacts or meetings about surcharges and fares.

Air France and KLM have applied for leniency towards the European competition authorities, while presenting in their observations as answer defenses based on severity and duration of offenses and also routes affected by these illicit practices.

Air France and KLM also underline that the European Commission had the required authority to sanction the offences to Articles 81 and 82 made concerning air shipping services between the European Union and other countries only since the effective date of the Regulation 1/2003, that is as at May 1, 2004.

In the USA, Air France and KLM are also subject by the DOJ to an antitrust investigation based on similar complaints concerning routes between the United-States and Europe. Air France and KLM are cooperating with the US competition authorities. A final decision is expected from the DOJ in coming weeks.

Air France and KLM may incur significant penalties in the United-States and in Europe.

Considering the status of the antitrust investigations in Europe and in the USA during the fourth quarter 2007-08, Air France and KLM have been able to estimate the risks incurred. The amount recorded in these two subsidiaries' financial statements as of March 31, 2008 amounts to €530 million including associated costs.

This amount has been determined based on the defense of the two companies. As a consequence, it is subject to uncertainty.

The amount of the provision allocated respectively to the US and European investigations is not given, as such information is likely to harm the two companies in their defense towards the competition authorities.

The competition authorities do not state that Air France-KLM would have itself participated in illicit practices. Nevertheless, as mother entity of the Group, Air France-KLM is considered as jointly and severally responsible for illicit practices for which Air France and KLM would be liable.

b) Civil actions

As of March 31, 2008, over 140 purported class action lawsuits were filed in the USA against air freight operators including Air France-KLM, Air France, KLM and other freighters.

Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including miscellaneous surcharges in air freight services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and lawyers' fees, as well as injunctive relief amounting to triple amount of compensatory damages.

Most of these actions have been transferred and pooled before the US District Court of the Eastern District of New-York. As the other freighters, the two companies filed in July 2007 a motion to dismiss the claims of plaintiffs. As of March 31, 2008, the Court has not yet delivered its verdict on this motion.

At this stage, Air France-KLM group is unable to predict the outcome of these investigations or the amount of penalties and compensatory damages which could be due.

c) Investigation of the European Commission into the air freight business between Europe and Japan

Air France and KLM, as other freighters, were subject, as at March 11, 2008, to a down-raid and professional documents were seized within the framework of an investigation by the European Commission into possible agreements or concerted practices between undertakings in the air transportation business between the States concerned by the EEC agreement and Japan.

Air France and KLM are unable to predict the outcome of these investigations by the European Commission. Aeronautical relationships between France and Japan on one hand, and the Netherlands and Japan on the other hand are regulated by bilateral agreements that indicate that fares must be approved by the civil aviation regulators of the two States after agreement between air carriers named in these agreements.

16. Remuneration of corporate executives

Remuneration of corporate executives for the period amounts to €2.4 million.

17. Subsequent events

None.

Five-year financial summary

Year ended March 31	2008	2007	2006	2005	2004 *Air France published figures*
1. Share capital at year end					
Share capital *(In €)*	2,551,863,863	2,374,608,509.5	2,289,759,903	2,289,759,903	1,868,137,539
Number of ordinary shares outstanding	300,219,278	279,365,707	269,383,518	269,383,518	219,780,887
Number of shares with a priority dividend	-	-	-	-	-
Maximum number of shares that may be created:					
- By bond conversion	22,609,143	22,609,756	21,951,219	-	-
- By exercise of subscription rights	-	21,064,433	30,060,411	30,062,199	-
2. Transactions and results for the year *(In € thousand)*					
Net revenues	-	-	-	-	11,344,755
Net income before income tax, employee profit-sharing net depreciation, amortization and provisions	228,076	158,721	(4,031)	(30,307)	507,682
Income tax	(5,496)	(4,465)	(997)	(3,426)	15,945
Employee profit-sharing for the year	-	-	-	-	-
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	198,183	157,744	(1,506)	(33,359)	(452,558)
Distributed net income	-	134,095	80,783	40,407	13,347
3. Per share data *(In €)*					
Net income after income tax and employee profit-sharing but before net depreciation, amortization and provisions	0.78	0.58	0.02	(0.1)	2.24
Net income/(loss) after income tax, employee profit-sharing, net depreciation, amortization and provisions	0.66	0.56	(0.01)	(0.12)	(2.06)
Dividend per share	0.58[1]	0.48	0.30	0.15	0.05
4. Employees					
Average number of employees during the year	-	-	-	-	59,788
Total payroll costs *(In € thousand)*	-	-	-	-	2,639,480
Employee welfare contributions and similar charges (Social Security, employee organizations, etc.) *(In € thousand)*	-	-	-	-	975,878

(1) Based on the resolution to be submitted to the Shareholders' Meeting to be held on July 10, 2008.

Statutory Auditors' report on the financial statements

Year ended March 31, 2008

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, 2008, 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.

1 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 statements 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, 2008 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

2 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 and 13 of the financial statements and satisfied ourselves as to their correct application.
- Note 15 to the financial statements describes the nature of the anti-trust litigations to which Air France and KLM, both subsidiaries of Air France-KLM, are exposed. Air France-KLM in its capacity as the holding company of Air France and KLM, is jointly liable in such litigations. Our work consisted in verifying that the information disclosed in Note 15 was appropriate.

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.

3 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 3, 2008

The Statutory Auditors

KPMG Auditt — **Deloitte & Associés**

Department of KPMG S.A.

Jean-Luc Decornoy, *Partner* — Jean-Paul Vellutini, *Partner* — Pascal Pincemin, *Partner*

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.

Statutory Auditors' report on regulated agreements and commitments

Year ended March 31, 2008

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 during the current year

In accordance with Article L. 225-40 of the French Commercial Code, we have been advised of agreements and commitments which have been previously authorized by your Board of Directors.

The terms of our engagement do not require us to identify such agreements and commitments, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article R. 225-31 of the French Commercial Code, to assess the interest involved in respect of the conclusion of these agreements for the purpose of approving them.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Agreement between Air France-KLM and Société Air France

- Directors concerned by the agreement:
  Jean-Cyril Spinetta, Director of Air France-KLM and Société Air France and Pierre-Henri Gourgeon, Director of Air France-KLM and Air France (as representative of Air France-KLM).
- Nature, purpose, terms and conditions:
  During a meeting held on November 21, 2007, the Board of Directors authorized an agreement pursuant to which Société Air France agreed to compensate Air France-KLM for guaranteeing rental payments granted by the latter to Aéroport de Paris for the benefit of Société Air France.

This agreement was not yet formalized as of March 31, 2008. As a result, no compensation was paid by Air France-KLM for the year ended March 31, 2008.

Agreements and commitments authorized during previous years and having continuing effect during the year

In addition, pursuant to the French Commercial Code, we have been advised that the following agreement and commitment authorized in previous years has had continuing effect during 2007.

Services agreement between Air France-KLM and KLM

- Nature, purpose, 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, 2008, your Company paid € 1,994,377 with respect to this agreement.

Agreement between Air France-KLM and Société Air France

- Nature, purpose, terms and conditions:
  Air France-KLM and its subsidiary Société 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 Société 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 Société 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, 2008, your Company collected € 6,494,568 with respect to this agreement.

Trademark licensing agreement between Air France-KLM and KLM

- Nature, purpose, 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, 2008, your Company collected € 5,119,717 with respect to this agreement.

Trademark licensing agreement between Air France-KLM and Société Air France

- Nature, purpose, terms and conditions:
  Air France-KLM and its subsidiary Société 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, 2008, your Company collected € 11,258,245 with respect to this agreement.

Services agreement between Air France-KLM and Société AirFrance

- Nature, purpose, terms and conditions:
  Air France-KLM and its subsidiary Société 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 related services will be invoiced at cost.

During the year ended March31, 2008, your Company paid € 5,579,861 with respect to this agreement.

Cash agreement between Air France-KLM and Société Air France

- Nature, purpose and terms and conditions:
  Air France-KLM and its subsidiary Société 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, 2008, the amount payable by Air France-KLM to Société Air France in respect of this cash agreement totaled € 97,097,572.

During the year ended March 31, 2008, your Company was invoiced € 3,642,621 in interest with respect to this agreement.

Domiciliation agreement between Air France-KLM and Société Air France

- Nature, purpose, terms and conditions:
  Air France-KLM and its subsidiary Société Air France entered into an agreement for the domiciliation and use of the premises of the registered office of AirFrance-KLM.

During the year ended March 31, 2008, your Company paid € 244,725 with respect to this agreement.

Agreement relating to the remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer

- Nature, purpose, 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 Société Air France based on the percentage of activity devoted to Société Air France.

During the year ended March 31, 2008, your Company collected € 1,848,186 with respect to this agreement.

Paris La Défense and Neuilly-sur-Seine, June 3, 2008

The Statutory Auditors

KPMG Audit		Deloitte & Associés
Department of KPMG S.A.		
Jean-Luc Decornoy	Jean-Paul Vellutini	Pascal Pincemin
Partner	*Partner*	*Partner*

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.

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Other 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 from 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 in a Fokker F-XVIII Snip.

Air transportation and the two companies take off

1945-46

Air France is nationalized.

KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights to 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 and Amsterdam to Tokyo via the North Pole.

1959-60

Arrival of the jet era: Air France brings the first Caravelles and Boeing 707s into service, reducing the duration of the Paris-New York flight to eight 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

The Boeing 747 is first used on long-haul routes by Air France in 1970 and by KLM in 1971.

1974-1982

Air France operations move, in 1974, to the new Terminal 1 at Roissy-Charles de Gaulle, then to CDG 2 in 1982.

1976

Concorde is brought into service, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes then, in 1977, on Paris-New York, connecting the two cities in 3 hours 45 minutes.

Development of the two majors

1989

Conclusion of an alliance, the first in the history of air transportation, 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 shareholding 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 that 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 transfer platform at Roissy-Charles de Gaulle.

1997

Air France Europe is merged with Air France.

1999

Air France is listed for trading 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, BritAir and CityJet.

2001

Open Sky agreement signed 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 antitrust immunity on its transatlantic and transpacific flights.

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 for KLM shares.

May 5: Air France-KLM shares are listed for trading on the Euronext Paris and Amsterdam markets as well as on the New York Stock Exchange.

May 6: Privatization of Air France, due to the transfer of the majority of its shares to the private sector with the dilution of the French State's shareholding.

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% by selling shares in the market.

2005-06

The French State reduces its shareholding in Air France-KLM from 23% to 18.6% by selling shares within the framework of the share offer reserved to Air France employees.

First-time adoption of IFRS.

Air France issues 21,951,219 convertible bonds (OCEANEs), convertible at any time into Air France-KLM shares, raising €450 million.

2006-07

Creation of the solidarity tax paid on departure from French airports.

An attempted terrorist attack at Heathrow airport leads to the introduction of new security measures for flights departing from European hubs.

Signature of the *Open Skies* agreement between Europe and the United States to come into force in March 2008.

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 1 41 56 78 00

Legal status

French limited liability company 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 introduces a provision in the Civil Aviation Code designed to safeguard the nationality of air transport companies whose shares are listed for 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 direct or indirect interests in the capital of air transport companies and, more generally, 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: 6420 Z

Consultation of legal documents

Air France-KLM legal and corporate documents may be consulted at 45, rue de Paris, 95747 Roissy-CDG Cedex, or on request by calling the following toll-free number in France 0 800 320 310 or +33 1 41 56 88 85 from outside France or from the French overseas territories and dominions.

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, the shareholders vote in the General Shareholders' Meeting 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, 2008, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares with an nominal value of €8.5, 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.

Changes in the share capital over the last three financial years

Financial year ended	Total capital	Number of shares
March 31, 2006	2,289,759,903	269,383,518
March 31, 2007	2,374,608,510	279,365,707
March 31, 2008	2,551,863,863	300,219,278

Between April 1 and November 6, 2007, the expiry date for the exercise of the warrants for new or existing shares (BASAs) issued at the time of the share exchange offer for KLM, 30,280,575 BASAs were exercised giving rise to the creation of 20,853,046 shares. In total, including the BASAs exercised during the previous financial year, 99.3% of the BASAs issued have been exercised for a total of €597 million. During the financial year, 597 bonds convertible into Air France-KLM shares were converted of which 510 resulted in the creation of 525 shares.

Authorizations to increase the capital

The Extraordinary Shareholders' Meeting of July 12, 2007, 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's capital. The total amount of capital increases is capped at €500 million with the exception of the capital increase reserved for members of an employee savings scheme.

Nature of the operation	Maximum amount of issues	Balance available at March 31, 2008
Capital increase via the issue of shares or other securities giving rights to the capital with preferential subscription rights or without preferential subscription rights	€500 million	€500 million
Capital increase through capitalization of reserves and/or additional paid-in capital	€500 million	€500 million
Capital increase to remunerate contributions in kind constituted of rights to the capital or securities giving rights to the capital of another company	10% of the maximum authorized amount	10% of the maximum authorized amount
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of the issue	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	€1 billion

Securities conferring entitlement to shares

Warrants for new or existing shares

There were no warrants for new or existing shares or American Depository Warrants in circulation at March 31, 2008.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs)

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs), with a 15-year maturity, for a total amount of €450 million. These bonds have a nominal unit value of €20.50 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 ended 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 and/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, 2008, 597 bonds had been converted, thus reducing the number of outstanding convertible bonds to 21,950,622.

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, 2007, authorized the Board of Directors, for a period of 18 months, to trade in the company's own shares. The maximum purchase price was set at €60 and the minimum sale price at €8.50. Air France-KLM agreed not to acquire more than 5% of its stock. The objectives of the 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 senior executives and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition. Pursuant to this authorization, at March 31, 2008, Air France-KLM held 3,657,792 shares of which 690,000 within the framework of the liquidity agreement. Since July 13, 2007, 5,161,532 shares have been purchased at an average price of €25.28 and 1,503,740 shares sold at an average price of €28.61. During the 2007-08 financial year, pursuant to this program and the program authorized by the Shareholders' Meeting of July 12, 2006, 5,307,532 shares were purchased at an average price of €25.60 and 1,649,740 shares sold at an average price of €29.34.

At March 31, 2008, the Group held 5,332,441 of treasury stock including 1,560,468 shares held by KLM in respect of its various stock option plans. This represents 1.8% of the capital with a book value of €118.7 million.

Transactions realized between April 1, 2007 and March 31, 2008 by purpose

	Liquidity agreement	Stock destined to pay for an acquisition	Total
Number of shares at April 1, 2007	-	-	-
Shares purchased			
Number of shares	2,339,740	2,967,792	5,307,532
Average purchase price ***(In €)***	26.81	24.64	25.60
Use			
Number of shares	1,649,740	-	1,649,740
Average sale price ***(In €)***	29.34	-	29.34
Number of shares at March 31, 2008	***690,000***	***2,967,792***	***3,657,792***

Shareholder structure

Breakdown of the share capital and voting rights

The change in the Air France-KLM shareholder structure since March 31, 2006 is linked to the creation of 9.9 million shares and 20.9 million shares, respectively, during the 2006-07 and 2007-08 financial years, in exchange for the exercise of the warrants issued at the time of the business combination with KLM.

Financial year ended	% of share capital			% of voting rights		
	March 31, 2008	March 31, 2007	March 31, 2006	March 31, 2008	March 31, 2007	March 31, 2006
Number of shares and voting rights	***300,219,278***	***279,365,707***	***269,383,518***	***294,886,837***	***277,292,894***	***265,233,113***
French State	15.7	17.9	18.6	15.9	18.0	18.9
Employees	11.2	11.3	14.1	11.4	11.4	14.3
Treasury stock	1.8	0.7	1.5	-	-	-
Others	71.3	70.1	65.8	72.7	70.6	66.8

Shareholder 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.

The TPI (identifiable bearer shares) analysis as at March 31, 2008, 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 96.9% of the capital were identified and 118,036 shareholders listed including 112,142 individual shareholders. At the same date, the Group held 5,332,441 of its own shares including 1,560,468 shares held by KLM in respect of its various stock option plans. This represents 1.8% of the share capital.

Based on the TPI analysis of March 31, 2008, restated pursuant to Article 14 of the bylaws which defines French residence, Air France-KLM is more than 50% held by French shareholders and, consequently, 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.

Air France-KLM is 70% owned by French interests (51.4% at March 31, 2007) and more than 75% by European institutions as at March 31, 2007. The principal European countries are the United Kingdom (6%), Germany (3%), Norway (1.9%), Switzerland (1%), the Netherlands, Belgium and Luxembourg (1.3%). North American institutions hold 13% of the share capital (24% at March 31, 2007) of which 10.7 million 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.

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 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 acquired up to 50%. These obligations are applicable when these thresholds are crossed in any 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* or AMF, 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 intentions 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 obligation 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.

Furthermore, any shareholder acquiring more than 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).

Based on the declarations received as of March 31, 2008, the following shareholders hold at least 0.5% of Air France-KLM's share capital.

Shareholders	Number of shares	% of share capital
Alliance Bernstein (Axa Group)*	21,785,325	7.26
AQR Capital	1,331,030	0.45
Barclays	14,795,692	4.93
BNP Paribas	3,069,759	1.02
CAAM	7,935,949	2.60
Cie d'invest. de Paris	2,649,720	0.88
Citadel	1,606,300	0.54
DNCA Finance	4,405,476	1.47
Donald Smith & Company	6,883,567	2.29
Fintecna	4,395,618	1.46
Natixis	7,656,363	2.55
Putnam	4,482,515	1.47
Edmond de Rothschild AM	1,605,214	0.53
Richelieu Finance	1,525,000	0.51
Tocqueville Finance	1,647,000	0.60

* *Declaration made April 7, 2008.*

Identification of shareholders

Identification of holders of bearer shares

The General 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 by the French law of April 9, 2003, listed French air transport companies are authorized to include a provision in 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 relating to their nationality. This is because, over time, changes in the shareholder structure of an air transport company whose shares are listed for trading 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, request from the organization responsible for the clearing of securities full details identifying the holders of Air France-KLM securities conferring immediate or future entitlements to vote at its Shareholders' Meetings, as well as information on the number of shares held by each of them.

Article 10 of the Air France-KLM bylaws specifies the information that must be provided to Air France-KLM by shareholders, whether they be 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 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 circulate 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 safeguard its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations pursuant to the Civil Aviation Code. The terms for setting the sale price (market price) are foreseen by this same code.

Information on trading in the stock

Air France-KLM is listed for trading on the Paris and Amsterdam Stock Markets (Euronext Paris and Amsterdam) under the ISIN code FR0000031122. It is a CAC 40 component.

On February 7, 2008, Air France-KLM was delisted from the NYSE and trading in its American Depositary Receipt program transferred to the OTC Market (OTCQX) under the ticker AFLYY.

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 new or existing Air France-KLM shares (OCEANEs) with a fifteen-year maturity amounting to €450 million. These bonds have a nominal unit value of €20.50 and are convertible at any time at the discretion of the holder. Their ISIN securities code is FR0010185975 and they are quoted only on Euronext Paris.

Transactions in Air France-KLM shares over the last 18 months

Since the volumes of shares traded on the Euronext Amsterdam market are not significant, specific information on them is not provided.

Euronext Paris Shares	Trading days	Average price *(In €)*	Trading range *(In €)*		Volume	Amount *(In € million)*
			High	Low		
2006						
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	34.83	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	38.27	33.62	27,748,890	1,023.6
May	22	36.86	38.46	35.25	38,364,356	1,414.2
June	21	35.48	39.40	33.55	70,091,514	2,508.1
July	22	33.74	35.20	32.04	69,042,532	2,340.1
August	23	29.94	33.88	26.89	63,147,321	1,884.6
September	20	26.86	30.90	24.32	54,826,751	1,457.9
October	23	27.09	29.25	24.59	65,341,500	1,772.6
November	22	23.97	26.44	22.01	75,135,445	1,807.6
December	19	23.96	26.00	22.67	46,099,900	1,114.8
2008						
January	22	20.32	24.61	16.61	81,419,934	1,635.6
February	21	18.45	20.20	17.65	52,576,898	973.1
March	19	16.73	18.22	15.20	60,044,054	1,008.3

Source: Euronext.

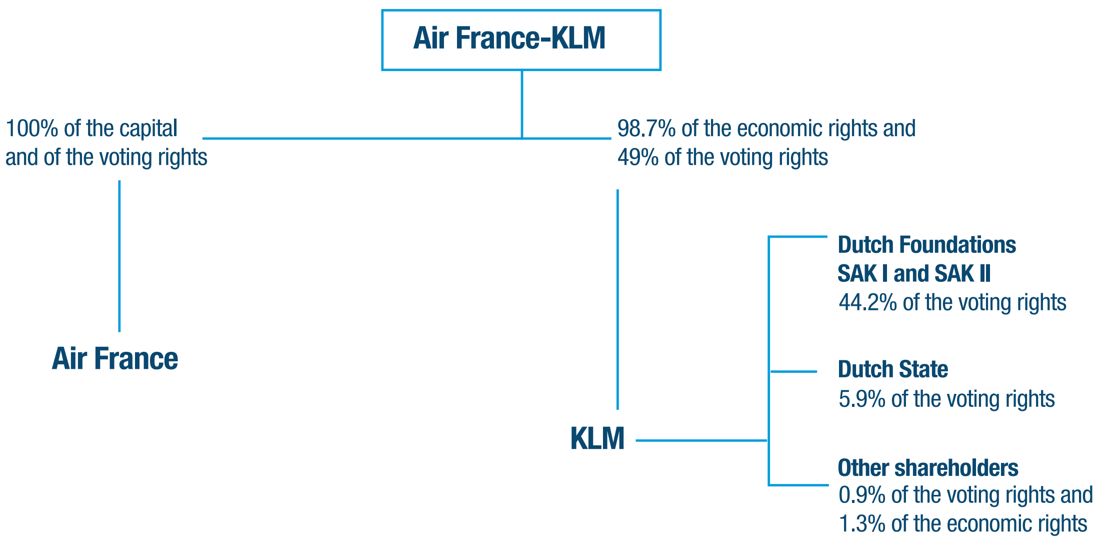
OCEANE 2.75%	Trading days	Average price (In €)	Trading range (In €)		Volume
			High	Low	
2006					
October	22	28.08	29.64	27.50	26,301
November	22	31.62	33.75	28.04	6,476
December	19	31.98	34.20	29.01	915
2007					
January	22	35.91	36.50	34.90	5,590
February	20	35.54	37.00	32.42	3,735
March	22	35.42	37.00	33.50	2,795
April	19	37.66	38.10	36.00	2,281
May	22	38.20	38.50	34.30	1,188
June	21	37.01	39.04	34.41	377
July	22	42.93	42.93	42.93	75
August	23	-	-	-	-
September	20	42.95	42.95	42.95	35
October	23	-	-	-	-
November	22	-	-	-	-
December	19	30.50	30.50	30.50	50
2008					
January	22	-	-	-	-
February	21	-	-	-	-
March	19	27.95	27.95	27.95	50

Source: Euronext.

Information on the agreements concluded in connection with the business 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.

During the financial year, KLM bought back its own shares at a price of €21. KLM's minority shareholders thus sold 587,728 shares. The Air France-KLM holding company purchased these shares from KLM at the same price and, pursuant to the agreements, transferred them to the SAK I foundation. Following these transactions, Air France-KLM holds 98.7% of the economic rights and 49% of the voting rights, the Dutch foundations 44.2% of the voting rights and the minorities 1.3% of the economic rights and 0.9% of the voting rights of KLM.



Agreements relating to 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 business 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 Dutch nationals and reside 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 SAK I and SAK II Boards of Directors 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.

(1) Which became Air France-KLM following the creation of the holding company in September 2004.

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.

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[1]'s 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 and for the account of Air France[1] as long as this foundation is maintained. 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 confer to Air France[1] the sole economic right attached to these shares, i.e. a right to a reduced dividend, the corresponding voting rights being exercised by SAK I until the share certificates have been exchanged by Air France[1] against the said shares.

In March 2005, pursuant to the agreement, 5,103,885 cumulative preference A shares were sold by the Dutch State to SAK I for the account of Air France-KLM, which received, in return, SAK I share certificates.

At the end of the initial three-year period, Air France[1] had the right to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly. Having decided in 2007 to maintain the SAK I and SAK II foundations, Air France-KLM did not proceed with such an exchange.

The Dutch State also 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. The sole economic right to these shares is a right to a reduced dividend.

If the Dutch State considers it necessary and reasonable, it may exercise its option in future, 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 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 and 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 May 5, 2004, and was renewable on three occasions by the Dutch State for periods of twelve months each. After a first renewal in 2007, the option was again renewed for a twelve-month period dating from May 5, 2008. It will become null and void in May 2010.

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 the status of discussions with the countries contesting KLM's traffic rights. The amended option also provides 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.

In cooperation with the competent 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 required to operate international lines.

To this end, if an economic decision to shut a service down were 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 departing from 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 remain applicable for a five-year period through 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 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 of the parties 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 departing from 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 to the benefit 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 on the basis of the following factors:

- a common economic strategy and, for the development of business plans for the two airlines, a common objective of overall 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 until now 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 Lyons. KLM and KLM Cityhopper will serve the Schiphol hub, operating no fewer than 50% of the frequencies.

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, investment in cargo planes or aircraft conversions in order to maintain the capacity and development of the cargo destinations, and investments to develop the capacity of cargo infrastructures for the 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 development of business plans for the two companies, a common objective of overall 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 enabling the transaction to be approved by the Dutch and European authorities.

Air France and KLM agreed that the business 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 such time as 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.

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 a possible contravention of the assurances not having been referred to one of the committees on this date. In this case the Fondation des Assurances KLM 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 relating 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 relating to a possible contravention of the assurances given to KLM will be issued by a second committee 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 committee relating to a decision taken by the KLM Supervisory Board, the KLM Management Board or the Air France Board of Directors may be made 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 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, 2008, 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 established 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 had the option 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 assumed its functions in October 2007.

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

Single European airspace

Within the European Union, these eight freedoms have been supplemented, 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 bilateral 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.

Single airspace 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 came into force on March 30, 2008. The agreement replaces the so-called *Open Skies* 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 was opened in May 2008 to cover, notably, 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 limitations which could exist in terms of access to airport infrastructure.

At the end of an 18-month period the two parties are expected to review the progress made and, if no agreement is forthcoming after an additional period of 10 months, each party may, having given notice of 12 months, call into question all or part of the rights acquired during the first phase. A possible application of these provisions is thus not possible before November 1, 2010 at the earliest.

Passenger rights

Passenger rights in the European Union are defined by regulations, established in 2005, which apply to all flights, both scheduled and unscheduled, departing from an airport located in a Member State of the European Union. The regulations establish common rules for compensation and assistance upon refusal or substantial delay in embarkation, flight cancellation or class downgrading.

If a flight is overbooked, air carriers are encouraged to develop policies based on calling for volunteers to take a different flight. If this policy does not prevent boarding refusals, the passengers affected receive compensation, calculated based on the final destination mileage zone and the delay in terms of the initial arrival time. This compensation ranges from €250 to €600. In addition, if a flight is delayed for at least five hours, passengers may request the reimbursement of 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 their ability to adequately inform their passengers. The earlier the passenger is informed, the fewer the constraints for the carrier. If these obligations are not met, the passenger may claim compensation varying from €250 to €600, on the basis of the final destination mileage zone and the time period in which he or she was rescheduled.

Furthermore, a passenger who is seated in a class lower than the reservation class benefits from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone. Note that the US authorities have just adopted new rules increasing passenger rights in this area, which came into force on May 19, 2008 doubling the compensation to between $400 and $800.

International conventions

In addition to the eight freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transportation: the Montreal Convention, the Chicago Convention and the Rome Convention.

The Montreal Convention (1999)

The Montreal Convention of May 1999, signed to date by 86 States, aims to provide better protection for victims suffering damages. 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 tier that sets an objective liability for the air transport company of up to 100,000 Special Drawing Rights (SDR);
- a second tier, 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 relating to the regional authority of courts has been extended.

The Chicago Convention (1944)

The Convention relating to international civil 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 190 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, the Netherlands or the United States. The ICAO's legal commission is currently involved in a major initiative to redraft the wording which would facilitate its ratification in making a distinction between everyday risk and terrorist risk.

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, etc.) and Asian (Bangkok, Tokyo, Hong Kong, Singapore, etc.) 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 European Union, each Member State with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organisations 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 carrier 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 within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

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

Available ton-kilometers (ATK)

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

Coordinated airport

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

Biometry

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

Cabotage

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

Capacity

Capacity is measured in available seat-kilometers

Catering

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

Code share

In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

Combo

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

DGAC

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

DGTL

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

E-services

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

EASA

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

Electronic ticketing

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

Equivalent available seat-kilometer (EASK)

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

Equivalent revenue passenger-kilometers (ERPK)

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

Fare combinability

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

Fuel hedging

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

FAA

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

Handling

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

High contribution

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 disposes of two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer options for customers.

IATA

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

IATA year

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

ICAO

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

Joint-venture

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

Load factor

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

Multi-hub

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

Over-reservation or over-booking

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

Point-to-point traffic

Traffic between two airports, excluding all passengers connecting with another flight.

Revenue management

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

Revenue per passenger per kilometer

Unit revenue for one paying passenger carried over one kilometer

Revenue per ton per kilometer

Unit revenue for one ton of cargo carried over one kilometer

Revenue passenger-kilometer (RPK)

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

Revenue ton-kilometer (RTK)

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

Safety and security

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

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

Summer season

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

Self-service check-in kiosk

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

Segment

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

Slot

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

Sub-fleet

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

Ton-kilometers transported

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

Traffic

Traffic is measured in revenue passenger-kilometers

Unit revenue

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

Winter season

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

Financial Glossary

Adjusted operating margin

The adjusted operating margin is the percentage of revenues represented by operating income restated for the portion of operating leases considered as financial charges, or 34% of operating leases (*source: internal*).

ADR

American Depositary Receipt. Air France-KLM was listed for trading on the New York Stock Exchange in ADR form until February 6, 2008. ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars. They have been traded on the OTCQX Market since February 7, 2008.

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.

Earnings per share

Earnings per share corresponds to net income divided by the number of shares.

ESA

Shares-for-salary exchange. In connection with the French State's sale of Air France-KLM shares, employees were offered shares in exchange for a salary reduction over a six-year period.

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 room for manoeuvre. It is calculated using gross financial debt (current and non-current financial debt less interest not yet due, deposits on leased aircraft plus debt currency hedging instruments) from which net cash is deducted (cash and cash equivalents plus investments over three months less bank current accounts). The resulting balance or net financial debt is then expressed as a percentage of stockholders' equity.

IFRS

International Financial Reporting Standards. International accounting standards used by European Union listed companies to establish their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN

International Securities Identification Number. Attributed to securities listed for trading on the Euronext market.

Market capitalization

The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

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.

OCEANE

Bonds convertible into new or existing shares.

OPE

Offre Publique d'Échange. 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.

Operating income

Operating income is the amount remaining after operating expenses (external expenses, payroll costs, 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.

ORS

Offre Réservée aux Salariés or offer reserved for employees. Within the context of privatizations, the State sells a tranche of shares to employees of the company at preferential conditions.

Return on capital employed (ROCE)

Invested capital is calculated from Air France-KLM shareholders' funds restated for the KLM pension fund surplus (€928 million) and the valuation of derivative instruments to which net debt and average operating leases capitalized at 7 times in line with the sector rule are added. As a consequence of this last restatement, operating income is also restated for the portion of operating leases considered to be financial charges, i.e. 34% of operating leases (*source: internal*). Return on capital employed is the restated operating income (after a normalized tax rate of 34.4%) divided by capital employed.

Revenues

Revenues corresponds to the total revenues generated by the Air France-KLM Group in its three core activities (passenger, cargo, maintenance) and its ancillary activities.

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.

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.

TPI

Titre au Porteur Identifiable or 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.

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 and for the annual financial report

Mr Jean-Cyril Spinetta, Chairman and Chief Executive Officer.

Statement by the person responsible for the reference document

I hereby declare 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 nothing has been omitted that would be likely to change the significance thereof.

I further declare that, to the best of my knowledge, the financial statements have been established in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and results of the company and of all the companies within the consolidation scope, and that the information contained in the management report on pages 6 to 19, 24 to 50, 54 to 61 and 66 to 73, and pages 76 to 82, 97 to 99 and 213 to 216 includes a fair review of the development of the business, results and financial position of the company and of all the companies in the consolidation scope, together with a description of the principal risks and uncertainties that they face.

I have obtained an end-of-engagement letter from the Statutory Auditors in which they confirm having verified the information regarding the financial position and the financial statements contained herein and having reviewed the entire reference document.

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
Starting date of first mandate: September 25, 1998
Renewal for six years submitted for approval to the Shareholders' Meeting of September 15, 2004.

KPMG Audit
A division of KPMG SA
1, cours Valmy – 92923 Paris-La Défense
represented by Jean-Luc Decornoy and Jean-Paul Vellutini
Starting date of first mandate: September 25, 2002
Renewal of KPMG for six years submitted for approval to the Shareholders' Meeting of July 10, 2008.

Deputy statutory auditors

B.E.A.S.
7/9, Villa Houssaye – 92200 Neuilly-sur-Seine
represented by Alain Pons
Starting date of first mandate: September 25, 1998
Renewal for six years submitted for approval to the Shareholders' Meeting of September 15, 2004.

SCP Jean-Claude André et Autres
2 bis, rue de Villiers – 92300 Levallois-Perret
represented by Jean-Claude André
Starting date of first mandate: September 25, 2002
Appointed for six years by the Shareholders' Meeting of September 25, 2002.
Appointment expiring at the end of the Shareholders' Meeting on July 10, 2008, not submitted for renewal.

Denis Marangé
1, cours Valmy – 92923 Paris-La Défense
Appointment for six years submitted for approval to the Shareholders' Meeting of July 10, 2008.

Personal responsible for financial information

Dominique Barbarin
Financial communication department
Tel: +33 1 41 56 88 60

Information included by reference

Pursuant to Article 28 (EC) no.809/2004, the following information is included by reference in this reference document:

2006-07 financial year

The reference document for the 2006-07 financial year was filed with the *Autorité des Marchés Financiers* on June 22, 2007 under the registration number D.07-0627. The consolidated financial statements are presented on pages 89 to 188 and the Statutory Auditors' certification on page 189. The full parent company financial statements can be found on pages 191 to 202 and the Statutory Auditors' certification on pages 203 and 204.

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 registration number D.06-0666. The consolidated financial statements are presented on pages 134 to 229 and the Statutory Auditors' certification on pages 230 and 231. The full parent company financial statements can be found on pages 232 to 236 and the Statutory Auditors' certification on page 237.

Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably:

- the 2007-08, 2006-07, 2005-06, 2004-05 and 2003-04 reference documents filed with the *Autorité des Marchés Financiers;*
- the financial press releases (traffic, quarterly, half-year and annual results);
- the offering memoranda;
- the financial presentations;
- the company bylaws.

Fees of the Statutory Auditors

(In € thousands)	KPMG network including KPMG N.V.			
	2007-08		2006-07	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	4,353	97%	7,486	89%
Other accessory services and other audit services	-	-	735	9%
Sub-total	**4,353**	**97%**	**8,221**	**98%**
Other services				
Legal, tax and corporate	153	3%	165	2%
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**4,506**	**100%**	**8,386**	**100%**

(In euro thousands)	Deloitte & Associés			
	2007-08		2006-07	
	Amount	%	Amount	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3,793	100%	6,976	97%
Other accessory services and other audit services	-	-	188	3%
Sub-total	**3,793**	**100%**	**7,164**	**100%**
Other services				
Legal, tax and corporate	-	-	-	-
Information technology	-	-	-	-
Internal audit	-	-	-	-
Others	-	-	-	-
Total Air France-KLM	**3,793**	**100%**	**7,164**	**100%**

Table of concordance

In order to assist readers of this reference document, the following table provides the page references of the main headings required by European Commission Regulation (EC) no.809/2004 ("the regulation") of April 29, 2004.

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19.	***Related party transactions***	***p. 183***
20.	***Financial information concerning the issuer's assets, financial position and results***	
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20.6.	Interim and other financial information	not applicable
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Editorial consultant: Doussot Conseil (Patrick Doussot)

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