KLM

KLM Royal Dutch Airlines

Annual Report 2006/07

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Key figures

Consolidated figures in millions of euros, unless stated otherwise	2006/07 EUR	2005/06 EUR
Revenues	**7,698**	7,201
Expenses before depreciation and long-term rentals	**6,476**	6,065
Depreciation and long-term rentals	**619**	596
Income from operating activities	**616**	540
As a % of revenues	**8.0**	7.5
Net result	**516**	276
Earnings per ordinary share (EUR)	**11.03**	5.90
Equity	**3,026**	2,560
As a % of total long-term funds	**40**	35
Return on equity (%)	**18.5**	11.3
Capital employed	**4,612**	4,467
Return on capital employed (%)	**10.4**	9.0
Net-debt-to-equity ratio	**87**	106
Interest coverage ratio	**7.2**	4.4
Dividend per ordinary share (EUR)	**0.48**	0.30
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**72,367**	69,115
Capacity (in millions of available seat-kilometers, ASK)	**86,478**	82,736
Passenger load factor (%)	**83.7**	83.5
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**4,823**	4,893
Capacity (in millions of available ton freight-kilometers, ATFK)	**6,511**	6,542
Cargo load factor (%)	**74.1**	74.8
Financial position		
Cash flow from operating activities	**754**	790
Cash flow from investing activities	**(137)**	(766)
Average number FTEs of KLM Group staff		
Permanent	**28,740**	28,998
Temporary	**1,781**	1,120
Employed by KLM	**30,521**	30,118
Agency staff	**2,034**	1,660
	32,555	31,778

Report of the Board of Managing Directors

Letter from the President

For the third year in succession, KLM closed the fiscal year with positive figures. We again succeeded in increasing our revenue, lowering our unit costs and growing our net result for the year. In part, we profited from the positive development of the global economy but we realized a profit unlike any other in our history. And we could not have done that without the merger with Air France.

Five years ago, KLM, like most other airlines, was caught in a downward spiral. There were few growth opportunities, we were unable to make adequate investments in modern equipment and we were being forced to make sweeping cost savings. Thanks to the merger, we have achieved profitable growth of 5% to 6% per annum over the past three years and strengthened our market position in both Europe and the world. But growth by itself is not a target. We must also be profitable. That is the best guarantee for continuity. The aviation industry has traditionally earned marginal results and governments have often had to step in to stem the losses. In a large part of the market, this is now no longer the case.

The financial market insists on airlines turning in good results. We realized several years ago that in the long run we would not be able to do so by ourselves. Our home market is simply too small – a third of our passengers come from The Netherlands – and the international competition too strong. We took the strategic decision to be a global carrier a long time ago. To succeed, we have to be a strong player. Our intensive cooperation with Northwest Airlines from 1989 onwards was a significant step. The merger with Air France completed the process. KLM is now a global operator, with a partner that is a perfect match in all respects. Moreover, KLM has retained its unique identity.

To ensure sustainable and profitable growth in the future, a strong partner like Air France is indispensable. The problems currently facing many medium-sized European carriers clearly illustrate that today's airlines need a critical mass to operate successfully. European and global competition in both the cargo and the passenger markets is extremely fierce. With high fuel prices, extra security measures and competition on fares, we must be continuously alert on costs. Environmental requirements and price and quality-conscious customers demand significant investments in modern equipment and advanced IT systems.

KLM is responding actively. In the past year, we invested some EUR 400 million in renewing our fleet. Not only did we acquire new aircraft that are quieter and more fuel efficient but we also modernized our existing fleet with new seats, improved interiors and advanced entertainment systems to meet the exacting demands of our passengers.
The substantial investments we have made in electronic systems that enable our customers to buy tickets and even check in over the internet are also bearing fruit. On peak days, business worth about EUR 2.5 million is conducted over the www.klm.com website. Some 65% of our passengers now use electronic check-in services in order to reduce waiting times at the airports.

Passenger Business

The Passenger Business presents itself to customers using the trusted and highly esteemed KLM profile. Internally, though, KLM and Air France are increasingly working together and coordinating their passenger transport operations. Joint offices have been opened in nearly every country in the world. Travel agents and businesses benefit from the convenience of having just one contact person to arrange flights throughout the entire network offered by KLM, Air France and their SkyTeam partners. Passengers enjoy the benefits of the largest frequent flyer program in Europe, which is offered jointly by KLM and Air France.
The Passenger Business realized a profit and KLM again succeeded in growing its market share in the leisure segment and – even more strongly – in the business segment.
Passenger Business again turned into a better operating result than in the previous fiscal year. KLM increased capacity by 4.5% and with an 4.7% increase in traffic the load factor remained stable at 83.7 %.

transavia.com

Through our transavia.com subsidiary, we are active in the market for charters and low-cost flights. In this segment, too, we realized an increase in revenue and achieved a profit. Owing to the enormous competition in this market, fares are under pressure, but transavia.com will remain just as active in this segment and added seven destinations during the year. Together with Air France a new company will be set up, Transavia France, to serve the French market using the same formula.

Cargo Business

Air France Cargo-KLM Cargo has the ambition to be the world leader in airfreight. The Cargo Business firmly presents itself as a single organization ('One face to the customer') in this very international and also highly competitive market. In the past fiscal year, further progress was made with the integration of both marketing and sales and the operational strategy.

Engineering & Maintenance Business

KLM Engineering & Maintenance is of vital importance to both the safety and cost efficiency of our flights. It has marketed itself with Air France Industries as a single organization since last year. KLM Engineering & Maintenance's main customers are the KLM and Air France airlines. It also works for many other airlines. During the year, new maintenance contracts were signed with, amongst others, TNT, Martinair and Nippon Cargo Airlines. In the airframe market, KLM Engineering & Maintenance is facing particularly fierce competition from other maintenance companies, especially in Eastern Europe and Asia, and it must respond in the coming year by means of a structural reduction in its cost base.

Contribution to the Dutch economy

KLM has made significant progress enhancing its scale and profitability in recent years. We are a global leader yet we still cherish our own traditional Dutch identity. We will therefore continue to do our share for the Dutch economy and employment.

Through the extensive network offered by KLM and its SkyTeam partners in Amsterdam, Schiphol can retain its position as a European *mainport* and make a significant contribution to the regional economy and to economic activity and employment in The Netherlands as a whole. The activities at and around Schiphol already generate an added value of five to six billion euros for the Dutch economy and provide work to more than 100,000 people, of whom more than 30,000 work for the KLM Group itself. To continue making this contribution, strict cost control and an increase in revenue will be required in the years ahead.

Security

The industry in which KLM operates becomes more complex by the year, in part because of the expensive security measures that have had to be taken for both cargo and passenger transport. KLM does all it can to protect its passengers and cargo but in our opinion some measures imposed in the recent past, such as the compulsory packaging of liquids in plastic bags, are based more on box-ticking than on a realistic assessment of the risks. Risks can be better and more efficiently controlled through, for example, the systematic analysis of passenger behavior. KLM is also calling for the international harmonization of security measures, both in Europe and worldwide, without which unfair competition between countries and continents will be encouraged.

Cutting the environmental impact

As one of the leading companies in The Netherlands, KLM takes its social responsibilities very seriously and has the ambition of setting an example in the global aviation industry. Reducing the environmental impact that flying inevitably entails owing to its kerosene consumption, CO_2 emissions and noise has high priority. KLM is working on this on many fronts. Our sustainability policy is founded on the principle that environmental measures must be concrete and practicable; they must be agreed internationally and must not disrupt competitive relations.

We must also be vigilant that measures to reduce one environmental impact do not impose an additional burden in another area. The current noise legislation at Schiphol, for example, produces complicated flight plans in order to avoid certain residential areas. When added up, all KLM flights each year waste the equivalent of 136 days of unnecessary flight time and thus emit an unnecessary volume of CO_2. We face a dilemma: what is more important – less noise or less CO_2? KLM is making substantial investments to tackle the environmental impact at source. A significant part of the fleet is being replaced with the latest generation of cleaner, quieter and more fuel-efficient aircraft. On the ground, too, we are constantly working on measures to reduce the environmental impact (energy consumption, cleaner maintenance procedures).

More efficient flights

We have also identified other means to lighten the environmental burden. We strongly argue for the introduction of a common European air traffic control system (Single Sky). Such a system would permit far more efficient flight paths through European airspace and thus make considerable savings on kerosene consumption and CO_2 emissions.

The European proposal for an emission trading system is also an effective means to control CO_2 emissions. Airlines would be able to buy emission rights from companies that produce less CO_2 than they are permitted to. Such a system would encourage companies to invest in less environmentally-harmful production processes (for example, by using solar energy) so that they retain more tradable CO_2 rights. This would do justice to the principle that the polluter pays and would also encourage the industry to invest in more emission reduction measures. An emission trading system, however, would distort competition if it were introduced at European level only.

KLM is also of the opinion that a measure to introduce additional taxes on tickets would seriously distort competition if it is introduced only in The Netherlands. Moreover, such taxes are not productive in reducing the environmental impact of flying, and will not help solve the environmental problem. KLM is furthermore of the opinion that any proceeds from these taxes should be spent on visible, environment-related initiatives.

With regard to limiting noise nuisance, KLM is calling for the improved use of the Schiphol runway system so that approach routes are more efficient and takeoff and landing procedures are quieter. This will require a fundamental amendment of the noise legislation in place for Schiphol. The current legislation is very inflexible and complicated and stands in the way of pragmatic solutions to reduce the noise impact.

Schiphol

KLM would also like to hold a fundamental debate on the use and future of Schiphol. We are in favor of the more selective use of the national airport for flights that have relatively high added value for the Dutch economy. Schiphol's network function in the global aviation industry is of pivotal importance. Aircraft that land at Schiphol on account of its network function directly and indirectly generate more added value for the Dutch economy. This traffic should therefore be given priority when Schiphol's limited capacity is being allocated. In this scenario, charter flights and low-cost carriers would use the many regional airports in the country.

In conclusion

This is my last report as President & Chief Executive Officer of KLM. As of April 1, 2007 I will as Vice-Chairman of Air France KLM be concentrating on the strategic development of Air France KLM. I wish my successor, Peter Hartman, and the more than 30,000 other KLM staff who cherish the "blue genes" of our company a great deal of success and pleasure in the work they do for this challenging and fantastic company in the years ahead.

Leo van Wijk
President & Chief Executive Officer

Financial Performance

Revenue and cost development In millions of Euros	**2006/07**	**2005/06**	**Variance** %
Revenues	7,698	7,201	6.9
External expenses	(4,900)	(4,303)	13.8
Employee compensation and benefit expense	(1,716)	(1,723)	(0.4)
Depreciation and amortization	(477)	(444)	7.4
Other income and expenses	(2)	(191)	
Total expenses	(7,095)	(6,661)	6.5
Income from current operations	603	540	11.7

Revenues

Revenues rose to EUR 7,698 million, 6.9% above the level of fiscal 2005/06. Passenger transport revenues increased by 7.5%, with a growth in capacity measured in available seat-kilometers of 4.5%. The revenue per seat kilometer (yield) improved with a significant 3.5% compared to last year (4.4% at constant exchange rates), whilst the load factor remained stable at the high level of 83.7%.

Cargo transport revenues remained at the level of last year at a 0.5% lower capacity. The revenue per ton-kilometer increased by 1.5% (+ 3.3% at constant exchange rates), but was offset by a 0.7% point lower load factor. Especially our routes from Asia were affected by more severe market conditions. Traffic revenues from transavia.com improved by 15.6% compared to previous year, whilst income from maintenance for third parties increased by 8.3%, including the work performed for Air France.

Expenses

Expenses rose by 6.5% to EUR 7,095 million (fiscal 2005/06: EUR 6,661 million). This was mainly caused by the increase in fuel costs, which amounted to EUR 1,784 million against EUR 1,382 million a year earlier. Excluding fuel prices expenses rose by 0.6%, with a capacity growth measured in “equivalent” seat kilometers of 4.1%. Productivity improvements (measured in transport capacity per employee), lower distribution costs and a more efficient fleet were the most important factors in the unit cost reduction. Staff costs remained stable versus last year at EUR 1,716 million and mainly reflect the reduction of pension expenses.

Income from current operations

In fiscal 2006/07 KLM booked an income from current operations of EUR 603 million (fiscal 2005/06: EUR 540 million). This result was achieved despite a sharp rise in fuel costs, which ended EUR 402 million higher than in the previous year. The excellent revenue performance of the Passenger Business (+ 4.5% unit revenue increase at constant exchange rates), combined with a further reduction in unit costs led to an operating margin of 7.8% (7.5% in 2005/06).

In millions of Euros	2006/07	2005/06	Variance %
Income from current operations	603	540	11.7
Gain/(loss) on disposal of assets	13	-	
Net cost of financial debt	(104)	(118)	(11.9)
Other financial income and expense	57	19	
Pre-tax income of consolidated companies	569	441	29.0
Income tax expense	(63)	(126)	
Share of results of equity shareholdings	10	(39)	
Net result after taxation	516	276	87.0

The net result improved significantly (+87%), supported by the following items.

Gain/ (loss) on disposal of assets includes a gain of EUR 11 million on the sale of Tax Free Services to Amsterdam Airport Schiphol, completed in January 2007.

Net cost of financial debt was 11.9% below last year, mainly as a result of the net debt reduction and the release of an interest provision.

The positive result in other financial income and expense is mainly explained by the positive effect of fuel derivatives which do not qualify for hedge accounting (+ EUR 35 million).

The effective tax rate reduced from 28.6% to 11.0% in fiscal 2006/07. This was mainly the result of the tax rate reduction in The Netherlands and the settlement of the fiscal years 1995/96 through 2001/02.

Results from equity shareholdings (Martinair Holland N.V., Kenya Airways Ltd. and Schiphol Logistics Park C.V.) improved by EUR 49 million compared to last year. Last year included an impairment write down of EUR 58 million of the 50% interest in Martinair.

Consolidated cash flow statement In millions of Euros	**2006/07**	**2005/06**
Cash flow from operating activities	754	790
Cash flow from investing activities	(616)	(624)
(Increase) / decrease of short term deposits and commercial paper	479	(142)
Cash flow from financing activities	102	269
Changes in cash and cash equivalents	718	292

KLM improved its cash position as at March 31, 2007 to EUR 1,724 million (fiscal 2005/06: EUR 1,518 million). The operating cash flow amounted to EUR 754 million, which was sufficient to finance the capital investment amounting to EUR 616 million. The improved operating cash flow came from an improved operating result and a slightly lower working capital (EUR 11 million).

Investing cash flow amounted to EUR 616 million, of which EUR 363 million for fleet renewal. In the long-haul fleet, 3 Boeing 777-200 (1 financial lease, 2 operating leases) and 5 Airbus 330 (3 financial leases, 2 operating leases) were added to the fleet, whilst 8 Boeing 767 (all operating leases) were phased out. For the medium-haul and regional fleet, 2 Boeing 737-800 (both operating leases) and 2 Fokker 100 (owned) entered our fleet.

Fleet related investments amounted to EUR 219 million, including EUR 103 million for capitalized fleet maintenance. Other capital expenditure and disposals amounted to EUR 34 million. Decrease in short term deposits and commercial paper amounted to EUR 479 million.

The financing cash flow was EUR 102 million positive. In addition to the financing of the new fleet (EUR 437 million), three unsecured loans were raised for a total amount of EUR 250 million. EUR 558 million was repaid on fleet financing, while other financing costs and dividend payments led to a negative cash flow of EUR 27 million.

Equity grew from EUR 2,560 million as at March 31, 2006 to EUR 3,026 million as at March 31, 2007. As a consequence the net debt to equity percentage improved from 106% to 87%.

Overview of significant KLM participating interests

As at March 31, 2007

Subsidiaries	KLM interest in %
Transavia Airlines C.V.	100
KLM Cityhopper B.V.	100
KLM Cityhopper uk Ltd.	100
KLM uk Engineering Ltd.	100
European Pneumatic Component Overhaul & Repair B.V.	100
KLM Catering Services Schiphol B.V.	100
KLM Flight Academy B.V.	100
KLM Health Services B.V.	100
KLM Equipment Services B.V.	100
KLM Financial Services B.V.	100
Cygnific B.V.	100
KLM Ground Services Ltd.	100
Joint venture	
Martinair Holland N.V.	50
Jointly controlled entity	
Schiphol Logistics Park C.V.	53 (45% voting right)
Associate	
Kenya Airways Ltd.	26

Traffic and Capacity

Passenger	**Passenger kilometers**		**Seat kilometers**		**Load factor**	
In millions						
		% change		% change	%	%
Route areas	**2006/07**	**2005/06**	**2006/07**	**2005/06**	**2006/07**	**2005/06**
Europe & North Africa	12,237	6	16,208	8	75.5	76.8
North America	14,902	1	16,915	2	88.1	88.9
Central and South America	7,054	7	7,911	1	89.2	84.7
Asia	20,813	8	23,837	7	87.3	86.6
Africa	9,446	8	11,547	8	81.8	82.1
Middle East	4,231	(1)	5,807	2	72.9	74.5
Caribbean and Indian Ocean	3,684	(4)	4,253	(7)	86.6	84.1
Total	**72,367**	**5**	**86,478**	**5**	**83.7**	**83.5**

Cargo	**Traffic**		**Capacity**		**Load factor**	
In million cargo ton-kilometers						
		% change		% change	%	%
Route areas	**2006/07**	**2005/06**	**2006/07**	**2005/06**	**2006/07**	**2005/06**
Europe & North Africa	31	4	224	5	14.0	14.0
North America	881	3	1,242	2	71.0	70.3
Central and South America	422	(1)	488	(2)	86.5	86.3
Asia	2,756	(6)	3,527	(3)	78.1	80.9
Africa	449	14	610	6	73.6	68.5
Middle East	176	14	270	9	65.2	62.1
Caribbean and Indian Ocean	108	6	150	(11)	71.9	60.3
Total	**4,823**	**(1)**	**6,511**	**(0)**	**74.1**	**74.8**

Commercial Developments

Passenger Business

Increase in passenger numbers

Passenger traffic has continued to increase. KLM Passenger Business, our largest and most visible core activity, strengthened its position in Europe and realized a sharp improvement in its margin in fiscal 2006/07. The improved margin was the outcome of both higher revenue and further cost control.

The benefits of KLM's joining forces with Air France are becoming even more pronounced in our stronger market position. During the past fiscal year nearly 23 million passengers chose KLM. Measured in millions of passenger kilometers, passenger traffic increased by 5%. Particularly strong growth regions were North, East and Central Europe, China, India and South America. The growth was visible in both the leisure market and the business market.

Combination of marketing and sales

Both airlines have now moved into joint offices in nearly all countries. Travel agents and companies benefit from doing business with just one contact person for both KLM and Air France. For passengers, it is growing ever more rewarding to take part in the Flying Blue frequent flyer program, which has grown since the merger with Air France to no less than 12.5 million members.

Thanks to the merger, KLM has gained a leading role in the European aviation industry. But the competition is strong and calls for constant alertness to costs, increased revenue and smart ways to respond to the rapid developments in the market.

Improved products

With its stronger position, KLM now has an opportunity to make major investments in the products it offers to its customers. First, the existing fleet will be upgraded to meet the ever higher demands that many passengers are making: more comfortable seats, modern interiors, interactive entertainment systems in more languages and the ability to send and receive emails, SMS text messages and use laptops on longer flights. More than EUR 100 million will be invested in this program between now and 2010. Even more substantial is the renewal of the fleet with cleaner, quieter, more fuel-efficient and more comfortable aircraft. This will require an investment of more than EUR 4.5 billion.

Switch to e-business

Passengers have become more demanding in all respects and the internet allows them to compare prices and services at the click of a button. Today's customers not only select on price, comfort and the range of destinations and departure times, but also want to decide for themselves when they book, how they buy a ticket and when they check in. Electronic media are playing an ever-greater role. Worldwide, internet-based check-ins increased by 19% in the past fiscal year. Some 65% of customers now use electronic check-in procedures, either on the internet or at the self-service kiosks at Schiphol. On peak days, business worth about EUR 2.5 million is conducted on the klm.com site. Here, too, only airlines with sufficient size, such as KLM and Air France, have the strength and investment capacity necessary to make this extremely expensive switch to e-business.

Direct customer contact

In addition to the wide offer, the convenience of electronic booking and onboard comfort, direct contact between passengers and our staff is a decisive factor. That is why KLM Passenger Business invests in the training and development of the Flight staff and the Ground staff. To give one example, before her first contact with a customer, a new stewardess will have undergone 184 hours of training. More than 2% of the budget is spent on continuous training and refresher courses for our staff.

Network

An important criterion for passengers is the quality of connections (connectivity) and the range of destinations offered by an airline. Together with our SkyTeam partners we form one of the three major airline alliances in the world and can offer our customers 725 destinations worldwide. KLM embraced this alliance strategy many years ago in the conviction that it was the only way to become and remain a global operator. The merger with Air France, based at Charles de Gaulle Airport in Paris, has considerably strengthened this network function. We can now offer our passengers two hubs and handle international traffic flows in the most logical and advantageous way. Someone flying from Prague to Rio de Janeiro is advised to transfer in Paris, but for the Glasgow/Beijing connection Amsterdam is the more logical stopover. The two hubs – Schiphol and Charles de Gaulle – are therefore complement to each other well.

Operational performance

KLM scored well for its punctuality in fiscal 2006/07. Results improved on all fronts. On time arrivals of both Intercontinental and European flights were higher than those of our European competitors. The same was also true for on-time departures on long-haul and short/medium haul flights.

The number of missing baggage items further declined in fiscal 2006/07. Worldwide, the number of temporarily missing items fell from 17.3 to 16.9 per 1000 passengers. This reflects the good cooperation between KLM and Schiphol.

transavia.com

transavia.com is a wholly-owned subsidiary of KLM and has its own place in KLM Group. The strategic value of transavia.com is expressed chiefly in the charter and low-cost scheduled flights it operates to European destinations. Its home bases are Schiphol, Rotterdam Airport and Eindhoven Airport.

Results

During the fiscal year, the company carried 5.1 million passengers, 8% more than in the previous year. About 80% of the flights were completed on time, in comparison with 82% in the previous year. Customer satisfaction with transavia.com produced a score of 8.5, equal to 8.5 in fiscal 2005/06.

Network

Seven new scheduled destinations were added (three of which will be flown only in winter) and one was ended (Genoa). The number of scheduled routes that transavia.com operates from Amsterdam Airport Schiphol, Rotterdam Airport and Eindhoven Airport has now risen to 31. In the summer of 2007 there will be 28 scheduled routes and transavia.com will fly some 77 charter routes, about 37 of which may also be booked by individual passengers.

Consumers are increasingly appreciating the fact that they can also use other airports than Schiphol. transavia.com has gained useful experience from flying scheduled flights to and from the regional airport in Rotterdam in recent years. It therefore also decided to operate scheduled flights from Eindhoven Airport as from November 1, 2006.

New developments

At the end of 2006, Air France and transavia.com announced plans to set up a new French airline, transavia France, in which transavia.com will hold 40% and Air France 60%. Under the transavia.com brand name, it will serve the French market for low-cost scheduled flights and charters in accordance with the transavia.com business model.

transavia.com's strategy to grow into a broad-based travel brand is beginning to bear fruit. Market research has shown that more and more consumers are realizing that transavia.com offers more than a ticket and travel-related products.

In 2006 transavia.com celebrated its 40th anniversary. It marked the occasion with successful promotions for customers and celebratory events for associates and staff.

Cargo

Air France Cargo-KLM Cargo is one of the leading airfreight carriers in the world, transporting more than 1.4 million tonnes of cargo by air every year. Airfreight transport has consistently been a profitable activity for the past eight years.

Air France Cargo-KLM Cargo has the ambition to be a world player in the airfreight market and concentrates on services from Europe to China, Japan, The United States and other key production areas. In the past fiscal year, Air France Cargo-KLM Cargo emphatically positioned itself as a commercially single organization. All commercial activities, planning, strategic decision-making and the development of integrated and advanced IT systems are now steered jointly.

One face

Even more progress has been achieved in the joint market approach (*One face to the customer*), centering on customer segmentation, a more varied product portfolio and a tuned pricing policy. This provides customers with the convenience of a single contact person and one Unique Voice website (www.afklcargo.com) giving them access to the largest cargo network in the world, an enormous fleet of freight carriers, and capacity from both hubs.

Air France Cargo-KLM Cargo's market approach concentrates on products and customers with very specific transportation and handling requirements, such as speed, extra care (e.g. for animals), conditioning, and – of growing importance – security (valuable goods). Marketing campaigns and contacts with key customers are rapidly being integrated. Two thirds of KLM Cargo and Air France Cargo's offices have now been fully merged.

Wherever possible, physical handling of freight is done jointly (joint ware housing), the procurement policy has been integrated and connections between the Paris and Amsterdam hubs are being further optimized. IT processes are already largely harmonized and systems have been analyzed. Preparations were made to invest EUR 40-50 million in further upgrading the IT systems.

New developments

The volume of airfreight is expected to grow further in the future, although there will be periods of temporary declines. The main growth opportunities are expected on routes from and to the Far East, with China being a particularly important focus area. Air France Cargo-KLM Cargo will exploit the opportunities offered by the enormous Chinese market in part by entering into joint ventures.

Competition in the European/Asian market is constantly increasing and account has to be taken of both the rapidly growing Asian airfreight carriers and the major expansion plans being implemented in the Middle East. Airfreight carriers are also facing competition from 'integrators', who provide both the flights and the transport to and from the airports, and with the ever-stronger buying power of the largest airfreight forwarders.

Airfreight forwarders are making ever-higher demands on their global logistics chains, particularly regarding security, transparency and reliability. Therefore Cargo invests continuously in improving our electronic services (E-Freight) and in the transparency of the logistics chain provided by, for instance, our global quality assurance system, Cargo 2000.

The years ahead will be exciting and challenging times for the airfreight industry, but also uncertain ones. Key commercial goals are to retain and consolidate the current market position, optimize the network and lever the synergy gains. A further improvement in margins and financial results is necessary.

Engineering & Maintenance

In the extremely competitive aviation market, it is becoming increasingly important that aircraft spend as little time as possible on the ground undergoing maintenance. At the same time, the safety of the aircraft must not be compromised. The joint mission of KLM Engineering & Maintenance and Air France Industries – AFI, Air France's maintenance unit – is to be a superior service provider for the two airlines' fleets. The combination is also positioning itself as the world leader in the Maintenance, Repair and Overhaul industry.

Together with Air France Industries, KLM Engineering & Maintenance is capable of maintaining virtually all types of Boeing and Airbus aircraft. Owing to the high volume of the KLM and Air France fleet, KLM Engineering & Maintenance's staff has a great deal of experience and can carry out maintenance work more efficiently.

KLM Engineering & Maintenance's main customer is KLM. In addition to maintenance, Engineering & Maintenance worked on upgrading the KLM fleet during the fiscal year. New business class seats and a new entertainment system were fitted in the 747-400s. The 737-fleet and the MD-11s were also fitted with new seats.

New contracts

The cooperation between Air France Industries and KLM Engineering & Maintenance is taking more concrete shape. In October 2006 the joint sales organization was officially launched and Central Engineering Agencies were set up so that customers can benefit from the combined expertise of KLM Engineering & Maintenance and AFI.

Important contracts were signed with, amongst others, TNT Airways, Martinair and Nippon Cargo Airlines.

New developments

In the airframe segment maintaining the KLM and Air France fleets always has priority for KLM Engineering & Maintenance and it accordingly has only limited capacity for external customers. Furthermore, KLM Engineering & Maintenance is facing growing competition from Eastern Europe and the Far East in the aircraft maintenance market – especially in the airframe segment – and will therefore continuously work on productivity improvements.

Staff

In the extremely competitive markets in which KLM operates, success stands or falls on the staff commitment, ingenuity, flexibility and, especially, customer care.
Internally, KLM does all it can to support the staff by means of training courses and education. Our aim is to benefit from the wealth of know-how and experience that is already available within the company: we want to make use of our own champions, tapping into our own intellectual capacity as an investment in the future quality of our work.

An important theme within KLM is the sustainable employability of our people. Many members of staff remain with the company for a long time. We must ensure that they remain motivated and are properly equipped to do their work. To some extent we can do so by offering staff new positions during their careers that match their abilities and interests. We work with knowledge centers such as TNO (The Netherlands Organization for Applied Scientific Research) to develop methods to keep staff both physically and intellectually up to speed so that they can continue to work successfully and enjoyably. Staff with physically demanding work, for example, receives intensive care for lower back complaints and the opportunity to carry out work that uses a different muscle group, such as warehousing or security.

Prevention

Policy will remain sharply focused on preventing incapacity for work. KLM offers its staff a wide variety of training courses, and health and career scans. The staff also has many opportunities to enjoy exercise and take part in sports. We try to reduce the physical burden that certain positions impose. Electromechanical equipment has been acquired, for example, to simplify the loading of low cargo holds in some aircraft so that operators do not need to bend as often.
Care for long-term employability is not limited to physical concerns. To offer staff the long-term prospect of suitable work and challenging career moves, several programs have been developed to support them.

Training

KLM may be a popular and innovative employer but we face several problems in the Dutch labor market. On the technical side, in particular, it is becoming increasingly difficult to recruit suitable candidates. Simply waiting for what the schools and colleges produce is not enough. We have to roll out the KLM carpet at a much earlier stage in order to retain assurances on the quality of recruits. KLM therefore goes to great lengths to interest young people in technical careers. It works closely with training centers and fellow employers to explain that aviation technology means working with exceptionally sophisticated techniques and with state-of-the-art IT resources and that KLM can offer a wide range of opportunities for further development through training and schooling.

Despite the high loyalty shown to the company, KLM will also face an outflow of staff who reaches retirement age in the years ahead. We must do all we can to sustain the organization's knowledge base. KLM is therefore actively participating in many training courses and incentive programs, both in the Schiphol region and nationally. KLM has established its own chair at Delft University to promote the quality of both research and education in aviation technology. We are also active at regional training centers close to Schiphol where we select young people for the 'KLM class'. They proudly wear the blue KLM overalls during their training.

The merger with Air France offers new perspectives to our staff. A Young Managers Exchange Program has been set up in which young KLM managers can be assigned to Air France for a period of more than two years and vice versa. Internships are also available at the merger partners at other levels in order to optimize the exchange of know-how.

Transfer of staff

At the transfer date of January 1, 2007, KLM transferred her Tax Free Services to Amsterdam Airport Schiphol. All permanent staff (approximately 130 employees) of the KLM Tax Free Services were transferred to Schiphol.

Per April 1, 2007 Sodexho Altys began providing facility services for KLM instead of KLM Facility Services. KLM continues to make use of exactly the same services previously offered by KLM Facility Services.

All staff of KLM Facility Services has been transferred to Sodexho Altys through a thorough process with the Works Council, which was concluded satisfactorily.

KLM Group employed a workforce of 30,771 as at March 31, 2007. Of the workforce, 26,667 worked in The Netherlands and 4,104 abroad.

Fleet composition KLM Group

Consolidated fleet as at March 31, 2007

Included in balance sheet

		Average age in years*	Owned**	Finance leases	Operating leases***	Total
Boeing 747-400 Pax	wide body	16.3	3	2		5
Boeing 747-400 Combi	wide body	13.1	8	9		17
Boeing 747-400ER Freighter	wide body	3.7		3		3
Boeing 777-200 ER	wide body	2.4		6	8	14
Boeing MD-11	wide body	12.1	2	6	2	10
Airbus A330-200	wide body	1.0		6	2	8
Boeing 767-300 ER ****	wide body				1	1
Boeing 737-900	narrow body	4.2		2	3	5
Boeing 737-800	narrow body	7.0	6	20	6	32
Boeing 737-700	narrow body	3.6		5	5	10
Boeing 737-400	narrow body	15.4	6		7	13
Boeing 737-300	narrow body	14.5	6	1	7	14
Fokker 100	regional	16.6	9	11		20
Fokker 70	regional	11.1	18	3		21
Fokker 50	regional	16.0	6		8	14
Training aircraft			8			8
Total consolidated fleet		**10.9**	**72**	**74**	**49**	**195**

* Excluding operating leases and training aircraft. The average age including operating leases is 10.6 years

** 2 Bae146-300 operated by CityJet

*** 1 Boeing 747-400ER Freighter operated by Air France Cargo

**** Not in operation as at March 31, 2007. Returned to lessor in April 2007

Risk profile and risk management

In carrying out its activities within the Air France KLM group, KLM is confronted by various risks. The aviation industry has a cyclical, capital and labor intensive business mode, facing a comparatively high level of fixed cost and operating with relatively small margins.

This section reports only on KLM's risk management and in particular the most important risks such as:

- Changes in market conditions;
- Political and macro-economic developments;
- Fuel prices, foreign exchange movements and interest rates;
- Environmental risks;
- Operational risks;
- ICT risks;
- Safety and security risks;
- Reputational risks;
- Legal risks;
- Anti trust violation risks;
- Legislative, fiscal and regulatory developments.

The risks of the Air France KLM group are explained in the related parts of the group financial disclosure. Basically, the risks discussed below can impact the Company's brand, income and liquidity. In addition, it can hamper the access to capital markets and result in damage due to loss of reputation.

Risk management within the KLM Group

KLM has organized its risk management so that risks are identified on a timely basis in order to restrict the impact of risk factors to a minimum. A Company wide process has been established which results in relevant measures for identified risks.

KLM has integrated risk management into most aspects of its operations so as to ensure that its objectives are achieved. A system of both top-down and bottom-up risk assessments is followed in order to identify the most relevant business risks, to monitor them and where necessary take corrective action.

Management carries out periodic risk assessments. Quarterly reports are prepared in which management draws the Board of Managing Directors' attention to the results of the risk assessments and the measures that have or will be taken to mitigate the risks. The Board discusses the identified risks periodically with management and subsequently with the Audit Committee of the Supervisory Board.
In addition external auditors assess the quality of the risk management process, the controls as far as the financial disclosure is concerned and the mitigating measures and the reporting thereon.

The risk management structure is subject to continuous improvement. At the year-end the use of an internal Document of Representation ("DoR") is incorporated into the internal accountability process. In this internal statement, divisional management confirms to the Board of Managing Directors, the reliability of the figures they have submitted and control procedures applied. At the same time through the DoR, management takes responsibility for:

- transparent reporting and the application of adequate risk management;
- maintaining a reliable internal control framework; and
- the completeness of open control issues and the measures to monitor and to mitigate the consequences of these control issues.

The following areas of risk have been distinguished:

Changes in market conditions

Terrorist attacks and other related conflicts can have significant adverse effects on worldwide market conditions for airlines. For example:

- The 9/11 attack (New York) led, among other things, to a significant decline in revenues and a considerable increase in the cost of insurance and security;
- The regional instability following military operations in Iraq has also had an adverse effect on the airline industry; and
- The potential geopolitical conflicts relative to Iran and North Korea.

Every form of terrorist threat or military action can lead to:

- a decrease in passenger and cargo transportation;
- an increase in the costs associated with passenger and cargo transport;
- a limitation of navigation rights in certain areas;
- a rise in fuel and insurance costs; and
- an increase in security costs.

All these factors can have a material adverse effect on the continuity and financial results of the business activities of the airline industry.

Moreover, the long term effects of fuel availability and its prices, given the reducing world reserves and the growing demand of industries and increasing worldwide mobility, is considered to be a long term risk for the aviation industry. The solution highly depends on political solutions and new technology.

The aviation industry is sensitive to both cyclical and seasonal changes. Moreover, it is also highly competitive and subject to price dumping and discounts. This is partially due the expansion and huge capacity growth of low cost carriers. Airlines use reduced fares to stimulate traffic during periods of low demand in order to generate cash flows and retain market share. In addition to the above, there is a number of other important aspects:

- new airlines in emerging markets make heavy capacity investments;
- creation of major hubs in the emerging markets;
- a number of KLM's competitors receive directly or indirectly government subsidies. This lack of leveled playing field increases the risk of over-capacity, for both Passenger and Cargo, and leads to extra pressure on profitability;
- certain competitors are indirectly favored through specific national legislation. An example of this is in 2005 the assumption of the pension obligations of US carriers by the US authorities and the facility for US carriers under Chapter 11 to be able to restructure; and
- the Cargo Business is confronted with an imbalance between the various traffic flows as a consequence of the strong geographical differences in economic growth.

KLM's answer to these market conditions is:

- a service oriented product in a world-wide network;
- an optimal alliance and code share strategy;
- a business unit aimed at the leisure market with a focus on European and international value-for-money flights;
- an effective use of the Engineering & Maintenance business (also for third parties); and
- very strict cost control.

Through intensive contacts with various regulators KLM aims to bring about a level playing field for all its businesses.

Political and macro-economic developments

The demand for passenger transport (both business and leisure) and cargo transport is influenced by regional and international economic and political conditions. KLM (in close co-operation with Air France) is continually adapting its capacity and network of destinations to the economic situation.

The European Court of Justice's ruling of November 5, 2002 changed member states' position on negotiating aviation treaties with non-member states. Treaties are increasingly negotiated by or in cooperation with the European Commission. The Netherlands and KLM are contributing to the establishment of a new system in order to safeguard the acquired and future interests of KLM and Amsterdam Airport Schiphol.

Fuel price, foreign exchange movements and interest rates

KLM is exposed to various risks in financial markets. These involve, among others, fluctuations in exchange rates and interest rates. The uncertainty about the continuous availability and price of fuel enhance these risks. More information over the impact and management of financial risks is included under "Financial risk management" in the notes to the consolidated financial statements.

KLM has taken out an airline insurance policy on behalf of itself, its subsidiaries, Martinair Holland N.V. and Kenya Airways Ltd. covering damage to aircraft, liability in relation to passengers and cargo in connection with its air transport activities. In respect of these aviation risks cover is available for a limit of 2 billion US dollars. A specific insurance is available covering damage caused by terrorist acts up to 1 billion US dollars. Further global insurance policies are in place to reduce the risk of damage to property, business interruption loss and general liability exposures.

Recently a Kenya Airways flight crashed; at the moment any impact on aviation insurance premium level cannot be predicted.

Environmental risks

A diverse range of environmental risks confronts KLM. KLM's operations affect the environment through, among others:

- emissions of air pollutants;
- CO_2 emissions ;
- noise; and
- water and ground pollution risks.

The Dutch "Aviation Act" includes a separate chapter relating to Amsterdam Airport Schiphol. This chapter regulates the management of Schiphol, but it also includes environmental regulations covering emissions, noise and security. Environmental, operational and economical impact studies are currently being conducted with the intent to update the regulations. The required study results for the decision making of the resolutions on environmental restrictions for the short term capacity (until approximately 2010) of Schiphol are expected in the summer of 2007.

KLM prepares for a low carbon future and draws up an environmental program each year as part of its normal business operations in which the right balance is sought between "People, Planet and Profit". These programs result in costs being incurred in the areas of prevention, control and reduction of emissions to air and water and for the removal of waste.

KLM conducts intensive consultation with the authorities and organizations in order to be involved in legislation on a timely basis and to be able to anticipate its implementation and so fulfilling its accountability.

Operational risks

Reliability is one of the essential conditions for success in the aviation industry. Airlines are highly sensitive to disruptions. Delays, both on the ground and in the air, lead to loss of quality and are costly. KLM has taken a number of initiatives to safeguard its operational integrity. The Operations Control Center, which coordinates all flight related decisions, plays a central role in this.

KLM's operations are dependant on a good cooperation with its suppliers, which is a prerequisite for delivering a high quality service to our customers. In this context Amsterdam Airport Schiphol, as the owner of the baggage handling system, is a key partner in delivering high quality service in baggage handling at Schiphol. Over the last years significant process improvements were realized in an effective partnership between KLM and Schiphol. The baggage handling quality for KLM at the Schiphol hub in fiscal 2006/07 ranks best among AEA peers in their respective European hub. The implementation of the 7th wave system has contributed to a better spread of passengers and baggage throughout the day, enabling service quality to increase.

Looking forward system capacity needs further expansion, in order to accommodate future growth. Gradual expansions are planned as of winter 2008. Until then capacity will remain tight so active joint process management will be crucial for maintaining required service levels.

Lack of airspace in Europe can cause serious congestion at and around some airports, particularly at peak times. Many of the countries involved (for example the relatively small European countries), each with their own air traffic control, have not succeeded to date in putting forward an acceptable solution. KLM will continue to pay attention to this matter.

ICT risks

Airline operations are sensitive to loss of ICT facilities. Contingency plans aim to guarantee the continuity of operations in the event of the failure of vital systems. New contingency plans are developed in close co-operation with Air France.

Rapid technological developments demand constant attention. In order to maintain an overview and at the same time manage the costs and complexity of ICT, KLM has opted for an approach that aims at standardization, simplicity and alignment of systems between Air France and KLM. Due to the replacement of reservation system Corda by ALTEA both companies now have the same reservation system.

Standardization leads to improved use of existing systems, elimination of older complex systems, application of new organizational structures and demand and strategy driven ICT development. In a less complex ICT structure a more efficient, simpler and, on balance, a better security is possible. As more interactive services (products and transactions) are offered over the Internet, continual attention to security is a critical precondition.

Safety and security risks

KLM maintains strict, internationally recognized safety norms and standards. These comply with American and European legislation and regulations, which are sometimes different and occasionally conflicting. The detailed rules, with which all airlines must comply in full, cover all flight operations and thus have a direct impact on all aspects of the business. Tightening up the rules in response to events or new insights can have operational and financial consequences.
The aviation industry, including KLM, is vulnerable to terrorist or criminal acts directed towards passengers, staff and/or property. The probability of such acts occurring at airports as well as on board, or the threat thereof, is limited as much as possible by a large number of security measures. KLM is largely dependent on the level of organization and the way in which airport authorities worldwide have organized the exercise of security at airports. KLM attempts to exercise direct influence on the quality and effectiveness of security measures as far as possible.

Reputational risks

Business processes systems and procedures may display weaknesses or be temporarily unavailable. These situations may be due to disruptions or external circumstances caused by weather conditions, the situation at or around the airport or natural disasters. Such risks may have an adverse impact on KLM's reputation and in some cases may lead to financial loss. KLM regards reputation risk as an operational risk that is primarily linked to the operation of its processes. It is up to the process managers to monitor and limit the consequences of these risks as much as possible.

Legal risks

Generally speaking, KLM is also experiencing the consequences of increasing litigation within society. KLM is regularly party to or involved in legal actions. Many of the mentioned risks have a legal impact.

Anti trust violation risks

Airlines by the nature of their business have many mutual operational contacts, for instance via IATA. The current concentration of airlines in alliances and (for KLM) the combination of Air France and KLM generates even more operational contacts.

These operational contacts combined with the changing anti trust legislation over the last decades, increase the risk of (non-intended) violations of anti trust laws. As a consequence, in the last year much attention has been given to the monitoring and controlling of this topic.

In the course of fiscal 2007/08, Air France and KLM will roll out an antitrust compliance programme, which among others will include the distribution of a Compliance Manual and a mandatory E-Learning facility.

Legislative, fiscal and regulatory developments

KLM's operations are sensitive to changes in legislation, regulations, airport fees and taxes. In particular, there is increasing legislation and regulation for an important partner for KLM, Amsterdam Airport Schiphol. KLM maintains a monitoring system in order to identify the possible risks in this area promptly and subsequently to react on a timely basis. KLM has a permanent political lobby and a prominent international presence in the AEA and IATA.

The combination of Air France and KLM requires measures to ensure compliance to fiscal legislation including well documented cross border intercompany transactions. Strong monitoring and mitigating controls have been introduced: a well elaborated holding guideline and an active monitoring of the arms-length character of these transactions.

The recent approval of the EU-US (Open Skies) agreement is important for Air France KLM and an increase of operations is expected. However, the treaty itself has to be developed to a higher level of maturity.

During the past years, KLM has prepared for compliance with the requirements of the US Sarbanes-Oxley Act. The existing risk management system required only minor changes for both Sarbanes-Oxley and the Dutch Corporate Governance Code.

Board and Governance

Corporate Governance

General

Koninklijke Luchtvaart Maatschappij N.V. ("KLM") is a public limited liability company incorporated under Dutch law. Supervision and management of KLM are structured in accordance with the two-tier model, with a Board of Managing Directors and a separate Supervisory Board. Further to the merger between Air France and KLM, it was agreed that the full large company regime would remain applicable to KLM during the first three years. At the end of this three-year period, in May 2007, KLM will adopt the mitigated regime for large companies. A proposal to alter the company's articles of association to this effect will be put to the General Meeting of Shareholders for approval in July 2007.

KLM's corporate governance is based on the statutory requirements applicable to limited companies and on the company's own Articles of Association. Furthermore, KLM has brought its corporate governance into line insofar as possible with, in particular, the Dutch Corporate Governance Code ("the Code"). Where applicable, and in particular with regard to the obligations resting on Air France KLM, the company's corporate governance has also been brought into conformity with the US Sarbanes-Oxley Act. As a listed company in The United States, Air France KLM is subject to this legislation and certain obligations accordingly also rest on KLM.

This section considers KLM's corporate governance and the points on which KLM departs from the Code. In comparison with fiscal 2005/06 there have been no material changes in the company's governance policy.

Shareholder structure

KLM's shareholder structure is outlined below.

Air France KLM holds:

- all KLM priority shares and a proportion of the common shares, together representing 49% of the voting rights in KLM;
- the depositary receipts issued on the common KLM shares in excess of the 49% of the nominal share capital and the voting rights in KLM. The depositary receipts carry the beneficial ownership but not the voting rights of the underlying common KLM stock;
- the depositary receipts issued on the A Cumulative preference shares, which carry the beneficial ownership but not the voting rights of the underlying A Cumulative preference shares;
- the depositary receipts issued on the C Cumulative preference shares, which carry the beneficial ownership but not the voting rights of the underlying C Cumulative preference shares.

As at March 31, 2007 Stichting Administratie Kantoor KLM ("SAK I") held 31.9% of the voting rights in KLM on the basis of common shares and A Cumulative preference shares. Stichting Administratie Kantoor cumulatief preferente aandelen-C KLM ("SAK II") holds 11.3% of the voting rights in KLM. The State of The Netherlands holds the A Cumulative preference shares, which represent 5.9% of the voting rights.

Since 1994 the State of The Netherlands has had an option to take an interest of up to 50.1% in the issued capital of KLM in certain circumstances. The purpose of this State option is to ensure the uninterrupted exercise of traffic rights. Further to the merger with Air France, the option has been retained subject to certain amendments for a period of three years, with an option to renew it for a further year for a maximum of three years. The State has informed KLM that it wishes to renew the option for a year.

Air France KLM

The KLM and Air France operating companies have been placed next to each other under a holding company, Air France KLM S.A. The holding company's Board of Directors (*Conseil d'Administration*) has 16 members. A Strategic Management Committee (SMC) with four representatives of Air France and four representatives of KLM meets every two weeks, alternatively in Paris and Amsterdam. The SMC considers and decides upon strategic issues.

Supervisory Board

KLM's Supervisory Board has a duty to supervise the policy conducted by the Board of Managing Directors and the general performance of the company. It also provides the Board of Managing Directors with advice. The Supervisory Directors fulfill their duties in the interests of the company and of the enterprises affiliated to it. Supervisory Directors are appointed and reappointed by the General Meeting of Shareholders. Three committees are active within the Supervisory Board: an Audit Committee, a Nomination Committee and a Remuneration Committee. All these committees have their own regulations, which lay down, amongst other things, the committees' tasks.

Board of Managing Directors

The Board of Managing Directors has three members. It is supervised by the Supervisory Board. The Supervisory Board has the right to appoint and dismiss the members of the Board of Managing Directors. The members of the Board of Managing Directors have been appointed for a fixed term of office. Further information on the members' service agreements is presented in the section Remuneration Policy and Report. Regardless of the allocation of tasks among its members, the Board of Managing Directors acts as a single entity with joint responsibility. The Supervisory Board appoints one of the members as President & Chief Executive Officer.

General Meeting of Shareholders

A General Meeting of Shareholders may be convened by the Board of Managing Directors, the President & Chief Executive Officer, the Supervisory Board, three Supervisory Directors or the Meeting of Priority Shareholders, each of which has equal power to do so. KLM's forthcoming Annual General Meeting of Shareholders will be held at Schiphol (East) on July 5, 2007.

Staff participation

The Board of Managing Directors meets on a regular basis with the company's Works Council. During these meetings, a number of topics are discussed such as the cooperation with Air France, the company's strategy and financial results. The KLM Works Council has 25 members.

Air France KLM has also installed a joint European Works Council. This Council focuses on subjects concerning the cooperation of KLM and Air France. In the 2006/07 fiscal year, the European Works Council met on 2 occasions.

Corporate Governance: implementation

KLM took further steps during the fiscal year to bring its corporate governance into line with the Dutch Corporate Governance Code and the US Sarbanes-Oxley Act. A Code of Ethics for Financial Officers and a Financial Whistleblower Policy, both of which are compulsory under the Sarbanes-Oxley Act, were formalized and implemented.

Although KLM is not formally obliged to comply with the Dutch Corporate Governance Code, it has committed itself to comply the Code voluntarily as an unlisted company. KLM derogates from the best practices described in the Code, however, in a number of areas. These derogations are:

- regulations and other documents are not made available on the Internet; since the vast majority of KLM shares are owned by a small group of known shareholders, for cost efficiency reasons it has been decided, in derogation from the different best practices in this respect, to provide copies of regulations and other documents upon written request.
- in derogation from best practice provision II.1.7, Mr. van Wijk is a Supervisory Board member at three listed companies. Since one of the Board memberships is with Northwest Airlines and given the close co-operation with this joint venture partner and the related importance to KLM, it has been decided to accept this derogation. Mr. van Wijk, however, will stand down from the Board of Northwest Airlines in June 2007.
- in derogation from best practice provision II.1.6, KLM has implemented a whistleblower policy with a limited financial scope. In view of this scope, it has been decided that the Chairman of the Audit Committee will be the primary point of contact if there are suspicions of financial misconduct regarding the Board of Managing Directors. The desirability of broadening the scope will be evaluated in the new fiscal year with account being taken of the other complaint procedures already in place within KLM.

Regulations

KLM has adopted regulations in respect of the Supervisory Board, the Audit Committee, the Nomination Committee and the Remuneration Committee and regulations in respect of the Board of Managing Directors. The Audit Committee's regulations satisfy the requirements of both the Dutch Corporate Governance Code and the US Sarbanes-Oxley Act. The Rules of Supervision, the Profile with Code of Conduct for the members of the Supervisory Board, the Board of Managing Directors Regulations, the Terms of Reference of the Audit Committee, the Nomination Committee and the Remuneration Committee and the retirement roster may be inspected at the company's head office. Copies may be requested in writing from the Company Secretary.

Report of the Supervisory Board

In fulfillment of its duty to supervise and to provide advice to the company's Board of Managing Directors, the Supervisory Board and its Committees met regularly during fiscal 2006/07. The meetings were well attended by the members of the Board. On only one occasion was a member prevented from attending a meeting.

The Supervisory Board can look back on the past fiscal year with great satisfaction. The company is performing well; a good indication of this can be seen in the financial results. KLM was affected by the adverse consequences of persistently high fuel prices during the year but managed to improve the result in comparison with the previous year, thus putting into effect the joint Air France KLM strategy of profitable growth. Deeper cooperation with Air France was again high on the agenda last year.

The composition of the Supervisory Board is presented in the section Supervisory Board and Board of Managing Directors of this Annual Report, where information is also provided on the individual Supervisory Directors.

Supervision

The Supervisory Board held six scheduled meetings during the year. Four of the six meetings, which were always held shortly after the quarterly close, concentrated on the development of KLM's results. Other issues we discussed included corporate governance, KLM's environmental strategy, developments in the fleet, the outsourcing of facility services to Sodexho, and the sale of KLM Tax Free Services to Amsterdam Airport Schiphol. Part of the meetings in the second half of the fiscal year considered the future organization after the end of the initial three-year period in May 2007. The main points of Air France KLM's five-year Strategic Plan, with in particular emphasis on KLM's role, were discussed at a special strategy meeting. This meeting also considered KLM Engineering & Maintenance's strategy and developments in competition in the Passenger Business. We also discussed the three-year KLM Strategic Plan, the budget, the investment plan and the financing plan. All were approved by the Supervisory Board. Finally, the Board considered its own composition and performance as well as the composition and performance of the Board of Managing Directors. In keeping with previous years, members of the Supervisory Board attended meetings of the Works Council, and an informal lunch with the Supervisory Board and Works Council was organized.

Committees

The Supervisory Board has three committees: an Audit Committee, a Nomination Committee and a Remuneration Committee. These Committees prepare policy and decision-making and report on their activities to the full Supervisory Board. There were no changes in the composition of the Committees during the fiscal year. As at March 31, 2007 their composition was as follows:

Audit Committee

- Hans Smits (Chairman)
- Henri Guillaume
- Kees Storm

Nomination Committee

- Wim Kok (Chairman)
- Bauke Geersing
- Remmert Laan

Remuneration Committee

- Wim Kok (Chairman)
- Bauke Geersing
- Remmert Laan

The Audit Committee met on two occasions during the fiscal year. As well as the development of results, these two scheduled meetings discussed such fixed issues as risk management and internal control, and the internal auditor's reports. The Audit Committee was also informed during these two meetings about the progress of the Sarbanes-Oxley 404 implementation. The Audit Committee's meetings were attended by the President & Chief Executive Officer, the Chief Financial Officer, the external auditors, the internal auditor and the corporate controller.

The Remuneration Committee met on three occasions during the fiscal year. These meetings considered market developments regarding the remuneration of directors, KLM's remuneration policy and, more specifically, the directors' pension plan. The Remuneration Committee advised the Supervisory Board on the remuneration of the members of the Board of Managing Directors on the basis of its evaluation of the collective and individual targets.

The Nomination Committee met once during the fiscal year. This meeting considered, among other things, the composition of the Supervisory Board.

The meetings of both the Remuneration Committee and the Nomination Committee were partly attended by the President & Chief Executive Officer.

Dividend

Article 32 of KLM's Articles of Association provides for the appropriation of profit. Paragraph 1 of that article gives the Meeting of Priority Shareholders (Air France KLM) the right to set aside an amount of the disclosed profit in order to establish or increase reserves. The Meeting of Priority Shareholders may do so only after consultation with the Board of Managing Directors and the Supervisory Board. Such consultation has taken place and the Meeting of Priority Shareholders has accordingly decided to add such an amount to the reserves that, with due observance of the other provisions of article 32 of KLM's Articles of Association, a sum of EUR 0.48 per common share will be available for distribution to the shareholders. Payments to holders of priority shares and holders of A and C cumulative preference shares will require an amount of approximately EUR 1.7 million.

Financial Statements

The Supervisory Board hereby presents the annual report and the financial statements for the 2006/07 fiscal year. The financial statements have been audited by KPMG Accountants N.V. and Deloitte Accountants B.V. The Supervisory Board has discussed the financial statements and the Annual Report with the auditors and the Board of Managing Directors. The unqualified auditors' report as issued by KPMG and Deloitte can be found in the Other information section of the financial statements.

The Supervisory Board is satisfied that the Annual Report and the financial statements comply with all relevant requirements and proposes that the shareholders adopt the financial statements and endorse the Board of Managing Directors' conduct of the company's affairs and the Supervisory Board's supervision thereof in the 2006/07 fiscal year.

Composition of the Board of Managing Directors

Leo van Wijk will stand down as President and Chief Executive Officer and leave the Board of Managing Directors at the end of the General Meeting of Shareholders on July 5, 2007. Mr. van Wijk joined the Board of Managing Directors in 1991 and has been President and Chief Executive Officer since 1997. The Supervisory Board is extremely grateful to Mr. van Wijk for his many contributions to the company since his appointment. We would particularly like to mention the further development of the cooperation with joint venture partner Northwest Airlines and the merger with Air France. We are pleased that Mr. van Wijk will remain closely involved in the further development of Air France KLM as Vice-Chairman of Air France KLM.

The Supervisory Board has decided to appoint Peter Hartman as successor to Mr. van Wijk. The Supervisory Board also intends to appoint Jan Ernst de Groot to KLM's Board of Managing Directors as of the close of the General Meeting of Shareholders. Mr. de Groot is currently Executive Vice President Corporate Center and General Counsel.

Composition of the Supervisory Board

Wim Kok and Bauke Geersing are due to retire by rotation. The intention is to nominate Mr. Kok for reappointment. The Works Council has an enhanced right of recommendation regarding the reappointment of Mr. Kok and has informed the Supervisory Board that it fully supports his reappointment. As explained upon his reappointment in the previous year, Mr. Geersing is no longer eligible for reappointment. With the end of the initial period in May 2007, the right to propose the appointment of a fifth Supervisory Director falls to Air France KLM. Air France KLM has informed the Supervisory Board that it will propose Mr. Jean Peyrelevade for this position. At the close of the General Meeting of Shareholders, Mr. Geersing will stand down as a Supervisory Director, a position he has held since 1985. During his membership, Mr. Geersing has often been a valuable link between the Supervisory Board and the company's Works Council. The Supervisory Board is deeply grateful to Mr. Geersing not only for his work in this role but also for his commitment to all his other supervisory tasks.

With the proposed (re)appointments, the Supervisory Board is of the opinion that its composition will remain in agreement with the adopted Profile.

Independence

Measured against current thinking on corporate governance, all the members of the Supervisory Board are independent.

Closing remarks

KLM closed fiscal 2006/07 with good results. We can state without hesitation that the first three years of the cooperation with Air France have been successful. Air France KLM, KLM and Air France are on the eve of a new phase in their cooperation. A new phase means new challenges, and KLM is ready for them. The Supervisory Board expresses its appreciation of the company's performance during the past three years, and in the past year in particular. A word of gratitude is not out of place here, particularly to all staff of the company.

Amstelveen, June 11, 2007

On behalf of the Supervisory Board

Kees J. Storm
Chairman

Remuneration policy for the Board of Managing Directors

The Supervisory Board's Remuneration Committee is responsible for formulating, implementing and evaluating the remuneration policy with regard to the terms and conditions of service of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board.

In accordance with the Articles of Association and the remuneration policy and subject to the prior approval of the Meeting of Priority Shareholders (Air France KLM), the Supervisory Board sets the remuneration and further terms and conditions of service of the members of Board of Managing Directors. These decisions are prepared by the Remuneration Committee.

The remuneration policy approved in 2005 will be amended on certain points. The amended policy as considered below will be put to the shareholders for adoption at the General Meeting of Shareholder on July 5, 2007.

The Remuneration Committee evaluates whether there is cause to change the remuneration each year. The following factors are considered in the evaluation: (i) developments in the remuneration of Air France KLM's directors, whereby also external developments in directors' remuneration are taken into account as well as (ii) inflation and developments in KLM's Collective Labor Agreement. The Remuneration Committee makes a proposal to the Supervisory Board on possible changes in the remuneration further to the evaluation. The Supervisory Board in turn adopts the remuneration subject to the approval of the Meeting of Priority Shareholders.

Objective

The main objective of the remuneration policy is to create a remuneration structure that enables the company to attract and retain qualified Managing Directors and to offer them a stimulating reward.

Structure

The remuneration package for the members of KLM's Board of Managing Directors consists of three basic components:

(1) base salary;

(2) a short-term incentive in cash related to performance in the past fiscal year;

(3) a long-term incentive in the form of Air France KLM stock options.

Base salary

The amount of the base salary is related to the requirements and responsibilities pertaining to the function of member of the Board of Managing Directors. The Remuneration Committee determines an appropriate level for the base salary with the aid of external reference data issued by independent remuneration experts. The job grade is determined on the basis of the company's size, the complexity of the activities, the national and international environment in which the company operates and the specific responsibilities pertaining to the position. On the basis of this job grade, a base salary level is set at around the median of the market level.

With effect from the 2007/08 fiscal year, Managing Directors may retain payments they receive from other remunerated positions (such as membership of a supervisory board or similar body), with the maximum number of remunerated positions whereby the payment accrues to the Managing Director concerned being set at two. This represents a change from the policy conducted up to that fiscal year. Acceptance of such position requires the approval of the Supervisory Board. Any payment in connection with Supervisory Board memberships with KLM Group companies or with other airline companies remain due to the company.

Members of the Board of Managing Directors are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

Short-term incentive plan

The purpose of the short-term incentive plan is to reward members of the Board of Managing Directors for achieving pre-agreed and measurable targets. The short-term incentive is paid in cash as a percentage of base salary.

60% of the short-term incentive is based on a target relating to KLM's income from operating activities; 20% is based on targets relating to Air France KLM, and 20% on achieving personal targets.

With effect from the 2007/08 fiscal year the maximum pay-out percentage is connected to the position of the Board member. This represents a change from last year's policy. Depending on the performance level achieved, the pay-out percentages are as follows:

For the CEO:

- The maximum percentage that can be paid out on a score of 'excellent' is 85%;
- On a score of 'at target', this percentage is 60%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

For the CFO:

- The maximum percentage that can be paid out on a score of 'excellent' is 70%;
- On a score of 'at target', this percentage is 50%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

For the Managing Director:

- The maximum percentage that can be paid out on a score of 'excellent' is 50%;
- On a score of 'at target', this percentage is 30%;
- On a score below a set limit (target less than 80% achieved), no payment is made.

The Remuneration Committee evaluates the agreed targets each year and proposes new targets. Both the evaluation and the proposals are submitted to the Supervisory Board for approval.

Long-term incentive plan

Under the long-term incentive plan, options to acquire Air France KLM shares are granted conditionally, with delayed vesting subject to the realization of company performance criteria. The maximum number for members of the Board of Managing Directors is 25,000. The options may be exercised only during a period of two years commencing three years after the grant date.

Pensions

In accordance with KLM's pension policy, the Pension Plan for members of KLM's Board of Managing Directors is a career average salary scheme, whereby any variable income is excluded from pensionable salary. In the changeover to this career average salary scheme, a transitional plan was agreed for employees born before January 1, 1950. This transitional plan is applicable to Messrs van Wijk and Hartman. Mr. Gagey does not accumulate pension rights in The Netherlands.

Service agreements with members of the Board of Managing Directors

Messrs. Van Wijk's and Hartman's open-ended service agreements were replaced at August 1, 2005 with fixed-term agreements with a renewal option for two years at the most. Mr. van Wijk's agreement ended on January 1, 2007 and was renewed subject to the same conditions until July 5, 2007. Mr. Hartman's agreement runs until January 1, 2010. This agreement also includes a renewal option for a further period of up to two years. Mr. Gagey has a fixed-term agreement with KLM ending on January 1, 2009.

Mr. de Groot, who will join KLM's Board of Managing Directors at the close of the General Meeting of Shareholders, will be appointed for a period of four years.

Remuneration of the Board of Managing Directors 2006/07

Base salary

The base salary for the members of the Board of Managing Directors was increased by 1% on April 1, 2006 and by 0.75% on January 1, 2007 in line with the increase in KLM's CLA salaries. In the 2006/07 fiscal year, the total base salary of the members of the Board of Managing Directors, including pension costs, was EUR 1,964,810. Details of the base salary received by the individual members of the Board of Managing Directors are presented in note 29 of the financial statements.

Short-term incentive plan (for the 2006/07 fiscal year)

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2006/07 in accordance with the remuneration policy. The short-term incentive payment for fiscal year 2006/07 was 68% of base salary for Mr. Van Wijk, 68% for Mr. Hartman and 68% for Mr. Gagey. Details are included in note 29 of the financial statements.

Long-term incentive plan

Pursuant to the long-term incentive plan, each member of the Board of Managing Directors was conditionally granted 25,000 options on Air France KLM shares in June 2006. The options were granted conditionally in accordance with the provisions of the Long-term incentive plan. Details on the option rights conditionally granted to the individual members of the Board of Managing Directors are presented in note 29 of the financial statements.

Loans and advances

No loans or advances have been granted to members of the Board of Managing Directors.

Severance pay

The service agreements with Messrs van Wijk and Hartman were formally dissolved on August 1, 2005 and replaced with fixed-term agreements. As a consequence, they have both lost their possible entitlement to severance pay based on the "sub-district court formula". In the event of forced redundancy, the maximum severance pay will be equal to the remaining term of their current service agreements.

Remuneration of the Supervisory Board Policy

The remuneration of the members of the Supervisory Board consists of a fixed fee per annum and a fee for each meeting of the Board's Committees attended. Members of the Supervisory Board do not receive a performance-related reward or shares or rights to shares by way of remuneration. Nor are members of the Supervisory Board granted loans, advances or guarantees. The remuneration of the members of the Supervisory Board is fixed by the General Meeting of Shareholders. No changes are proposed in this policy.

Remuneration in fiscal 2006/07

There were no changes in the remuneration of the members of the Supervisory Board in fiscal 2006/07. The fixed fee accordingly amounted to EUR 36,302 for the Chairman, EUR 29,495 for the Vice-Chairman and EUR 22,689 for the other members of the Supervisory Board. The fee per meeting of the Supervisory Board's Committees attended was EUR 1,361 for the Chairman (unless also Vice-Chairman or Chairman of the Supervisory Board) and EUR 453 for the other members of the Supervisory Board's Committees. Members of the Supervisory Board are furthermore entitled to make use of travel facilities comparable to the travel facilities as detailed in the travel regulations for KLM employees.

The total remuneration of current and former Supervisory Board members for the 2006/07 fiscal year was EUR 235,955 (previous fiscal year EUR 235,955). Details on the remuneration received by the individual members of the Supervisory Board are presented in note 28 of the financial statements.

Supervisory Board and Board of Managing Directors

Supervisory Board (situation as at March 31, 2007)

Name	Year of birth	Nationality	First appointment/ Current term	Function /Supervisory Board memberships and other functions *
Kees J. Storm *Chairman*	1942	Dutch	2002 / (second) 2006– 2010	Former Chairman Board of Managing Directors AEGON N.V. / InBev S.A., AEGON N.V., Pon Holdings B.V., Baxter International Inc., Unilever NV and Plc., member Curatorium VNO-NCW, member, board of trustees of the IASC foundation
J.F. Henri Martre *Vice-Chairman*	1928	French	2004 /(first) 2004 – 2008	Former Vice President Board of Airbus, former Chairman and CEO Aérospatiale / Sogepa, France-Telecom, Renault, GIFAS, Banque de France, Aviation Marchande
Irene P. Asscher-Vonk	1944	Dutch	2004 /(first) 2004 – 2008	Professor of social law Radboud University Nijmegen / Numico Nederland B.V., Arriva Personenvervoer Nederland B.V.
Jean-Didier F.C. Blanchet	1939	French	2004 /(first) 2004 – 2008	Former CEO Board of Air France, former Chairman and CEO Board of Méridien / SNCF, Cercle des Transports
Bauke Geersing	1944	Dutch	1985 / (sixth) 2006 – 2007	Former Director NOS (Dutch Public Service Broadcasting), Managing Director Consultancy / Holland Weather Services B.V., RTV Utrecht, ROOS
Henri Guillaume	1943	French	2004 /(first) 2004 – 2008	Treasury Inspector on special assignment to the French Treasury / Former Vice President of ERAP / Former CEO of ANVAR
Wim Kok	1938	Dutch	2003 / (first) 2003 – 2007	Former Prime-Minister of The Netherlands / ING Groep N.V., TNT N.V. Royal Dutch Shell plc, Stork N.V.
Remmert Laan	1942	French Dutch	2004 / (first) 2004 – 2008	Senior partner Leonardo France / Vedior N.V., AON France S.A., KKR PEI, Patrinvests s.a.
Hans N.J. Smits	1950	Dutch	2004 / (first) 2004 – 2008	Chairman Board of Managing Directors Havenbedrijf Rotterdam N.V. / former Chairman and CEO Rabobank, former Chairman and CEO Amsterdam Airport Schiphol

(*) Only memberships of Supervisory Boards and functions with large companies on March 31, 2007 are shown here.

Board of Managing Directors (situation as at March 31, 2007)

Name	Year of birth	Nationality	First appointment	Function
Leo M. van Wijk	1946	Dutch	1991	President and Chief Executive Officer (since 1997)
Peter F. Hartman	1949	Dutch	1997	Deputy CEO
Frédéric N.P. Gagey	1956	French	2005	Chief Financial Officer

Company Secretary

Barbara C.P. van Koppen	1966	Dutch

KLM Royal Dutch Airlines

Financial Statement for the year ended March 31, 2007

KLM Royal Dutch Airlines

Consolidated balance sheet

In millions of Euros

After appropriation of the net result	Note	March 31, 2007	March 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	1	4,590	4,487
Intangible assets	2	45	44
Investments accounted for using the equity method	3	159	141
Financial assets	4	576	539
Derivative financial instruments	5	208	264
Deferred income tax assets	14	24	-
Pension assets	15	2,074	1,873
		7,676	**7,348**
Current assets			
Financial assets	4	151	664
Derivative financial instruments	5	114	256
Inventories	6	196	186
Current income tax assets		6	-
Trade and other receivables	7	1,121	1,126
Cash and cash equivalents	8	1,264	546
		2,852	**2,778**
TOTAL ASSETS		**10,528**	**10,126**
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves	10	126	165
Retained earnings		2,331	1,826
Total attributable to Company's equity holders		**3,025**	**2,559**
Minority interest		1	1
Total equity		**3,026**	**2,560**
LIABILITIES			
Non-current liabilities			
Financial liabilities	11	1,066	710
Finance lease obligations	12	2,548	3,101
Derivative financial instruments	5	137	115
Deferred income •	13	117	94
Deferred income tax liabilities	14	497	414
Provisions for employee benefits	15	222	284
Other provisions *	16	97	100
		4,684	**4,818**
Current liabilities			
Trade and other payables *	17	1,492	1,463
Financial liabilities	11	70	7
Finance lease obligations	12	565	499
Derivative financial instruments	5	85	153
Deferred income •	13	553	557
Current income tax liabilities		-	9
Provisions for employee benefits	15	34	17
Other provisions •	16	19	43
		2,818	**2,748**
Total liabilities		**7,502**	**7,566**
TOTAL EQUITY AND LIABILITIES		**10,528**	**10,126**

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

• For comparison purposes the fiscal 2005/06 figures have been reclassified

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros

	Note	2006/07	2005/06
Revenues	20	**7,698**	**7,201**
Expenses			
External expenses	21	(4,900)	(4,303)
Employee compensation and benefit expense	22	(1,716)	(1,723)
Depreciation and amortization	23	(477)	(444)
Other income and expenses		(2)	(191)
Total expenses		**(7,095)**	**(6,661)**
Income from current operations		**603**	**540**
Gain/(loss) on disposal of assets	24	13	-
Income from operating activities		**616**	**540**
Gross cost of financial debt	25	(233)	(196)
Income from cash and cash equivalents	25	129	78
Net cost of financial debt		**(104)**	**(118)**
Other financial income and expense	25	57	19
Pre-tax income		**569**	**441**
Income tax expense	26	(63)	(126)
Net result after taxation of consolidated companies		**506**	**315**
Share of results of equity shareholdings		10	(39)
Net result after taxation		**516**	**276**
Attributable to:			
Equity holders of the company		516	276
Minority interest		-	-
		516	**276**
Earnings per share		11.03	5.90
Diluted earnings per share		11.03	5.90

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

16-07-2007

KLM Royal Dutch Airlines

Consolidated statement of changes in equity

In millions of Euros

	Attributable to Company's equity holders						
	Share capital (note 9)	Share premium	Other reserves (note 10)	Retained earnings	Total	Minority interests	Total equity
As at April 1, 2005	**94**	**474**	**165**	**1,544**	**2,277**	**1**	**2,278**
Net gain/(loss) from cash-flow hedges	-	-	(7)	-	(7)	-	(7)
Exchange differences on translation foreign operations	-	-	6	-	6	-	6
Transfer to retained earnings	-	-	(4)	4	-	-	-
Tax on items taken directly to or transferred from equity	-	-	5	-	5	-	5
Net income/(expense) recognized directly in equity	**-**	**-**	**-**	**4**	**4**	**-**	**4**
Net profit for the year	-	-	-	276	276	-	276
Total recognized income/(expense)	**-**	**-**	**-**	**280**	**280**	**-**	**280**
Dividends paid	-	-	-	(9)	(9)	-	(9)
Other movements	-	-	-	11	11	-	11
As at March 31, 2006	**94**	**474**	**165**	**1,826**	**2,559**	**1**	**2,560**

KLM Royal Dutch Airlines

Consolidated statement of changes in equity

In millions of Euros

	Attributable to Company's equity holders						
	Share capital (note 9)	Share premium	Other reserves (note 10)	Retained earnings	Total	Minority interests	Total equity
As at April 1, 2006	**94**	**474**	**165**	**1,826**	**2,559**	**1**	**2,560**
Net gain/(loss) from cash-flow hedges	-	-	(42)	-	(42)	-	(42)
Exchange differences on translation foreign operations	-	-	(6)	-	(6)	-	(6)
Transfer to retained earnings	-	-	(9)	9	-	-	-
Tax on items taken directly to or transferred from equity	-	-	18	-	18	-	18
Net income/(expense) recognized directly in equity	**-**	**-**	**(39)**	**9**	**(30)**	**-**	**(30)**
Net profit for the year	-	-	-	516	516	-	516
Total recognized income/(expense)	**-**	**-**	**(39)**	**525**	**486**	**-**	**486**
Dividends paid	-	-	-	(14)	(14)	-	(14)
Other movements	-	-	-	(6)	(6)	-	(6)
As at March 31, 2007	**94**	**474**	**126**	**2,331**	**3,025**	**1**	**3,026**

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

16-07-2007

KLM Royal Dutch Airlines
Consolidated cash flow statement
In millions of Euros

	2006/07	2005/06
Net result after taxation	516	276
Depreciation and amortization	477	444
Changes in provisions	50	69
Results of equity shareholdings	(10)	41
Result on sale of equity shareholdings	-	(1)
Changes in pension assets	(201)	(131)
Other changes	(89)	23
Net cash flow from operating activities before changes in working capital	**743**	**721**
(Increase) / decrease in inventories	(10)	(15)
(Increase) / decrease in trade receivables	(17)	(76)
Increase / (decrease) in trade payables	68	104
(Increase) / decrease in other receivables and payables	(30)	56
Net cash flow from operating activities	**754**	**790**
Capital expenditure on intangible fixed assets	(12)	(11)
Capital expenditure on aircraft	(594)	(579)
Disposal of aircraft	40	24
Capital expenditure on other tangible fixed assets	(64)	(77)
Disposal of other tangible fixed assets	14	6
Investment in equity shareholdings	-	9
Sale of equity shareholdings	-	3
Changes in group of consolidated holdings	-	1
(Increase) / decrease in short-term deposits and commercial paper	479	(142)
Net cash used in investing activities	**(137)**	**(766)**
Increase in long-term debt	687	626
Decrease in long-term debt	(558)	(329)
Increase in long-term receivables	(50)	(32)
Decrease in long-term receivables	37	8
Dividend paid	(14)	(9)
Other changes	-	5
Net cash flow from financing activities	**102**	**269**
Effect of exchange rates on cash and cash equivalents	**(1)**	**(1)**
Change in cash and cash equivalents	**718**	**292**
Cash and cash equivalents at beginning of year	546	254
Cash and cash equivalents at end of year *	1,264	546
Changes in cash and cash equivalents **	**718**	**292**

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

* Including unrestricted Triple A bonds, deposits and commercial paper the overall cash position and other highly liquid investments amounts to EUR 1,724 million as at March 31, 2007 (as at March 31, 2006: EUR 1,518 million).

** The consolidated cash flow statement is prepared using the indirect method.

Financial Statements fiscal 2006/07

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company") is a public limited liability company incorporated and domiciled in The Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of Air France KLM S.A. ("AF-KLM"), a company incorporated in France. AF-KLM's shares are quoted on the Paris, Amsterdam and New York stock exchanges.

The Company together with its subsidiaries (the "Group") has as its principle business activities the air transport of passengers and cargo, aircraft maintenance and any other activity linked to air transport.

These financial statements have been authorized for issue by the Board of Managing Directors on June 11, 2007 and approved by the Annual General Meeting (AGM) of shareholders on July 5, 2007.

Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are prepared on historical cost basis unless otherwise stated.

Basis of presentation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) adopted by the European Union ("EU GAAP") and effective at the reporting date March 31, 2007. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of The Dutch Civil Code.

Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after January 1, 2007, were not adopted early by the Group for the preparation of these consolidated financial statements. The Group is currently studying the impact of their implementation on the consolidated financial statements. This analysis is not expected to result in any significant impacts.

- the amendment to IAS 1 related to disclosures on capital, effective for periods beginning on or after January 1, 2007;
- the standard IFRS 7 "Financial Instruments: Disclosures", effective for periods beginning on or after January 1, 2007;
- the standard IFRS 8 "Operating Segments", effective for periods beginning on or after January 1, 2009;
- the interpretation IFRIC 8 "Scope of IFRS2", effective for periods beginning on or after May 1, 2006;
- the interpretation IFRIC 9 "Reassessment of embedded derivatives", effective for periods beginning on or after June 1, 2006;
- the interpretation IFRIC 10 "Interim financial reporting and impairment", effective for periods beginning on or after November 1, 2006;
- the interpretation IFRIC 11 "IFRS2-Group and treasury shares transactions", effective for periods beginning on or after March 1, 2007;
- the interpretation IFRIC 12 "Service concession arrangements", effective for periods beginning on or after January 1, 2008.

Standard IFRS 8, as well as interpretations IFRIC 10, IFRIC 11 and IFRIC 12 have not yet been adopted by the European Union.

Other new standards, interpretations and amendments to existing standards are not applicable to the Group.

Use of estimates and the exercise of judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from the estimates.
The preparation of these financial statements also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the note Accounting estimates and judgments.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).

Consolidation principles

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are companies (including special purpose entities) over which the Company has control, either directly or indirectly. Control is defined as the power to govern a subsidiary's operating and financial policies and to obtain benefits from its activities. In assessing whether control exists account is taken of the existence and effect of potential voting rights that are currently exercisable or convertible or other arrangements that give the Company the right to determine operating and financial policy.

The results of consolidated companies acquired in the year are included in the consolidated income statement from the date on which control could be exercised. They are de-consolidated from the date that control ceases.

The assets, liabilities and results of subsidiaries are fully consolidated.

The interest of third parties in group equity and group results is disclosed separately as minority interest. Minority interest in the balance sheet represents the minority shareholders' proportion of the fair value of identifiable assets and liabilities of the subsidiaries at the date of acquisition, and the minority's proportion of movements in equity since that date.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated in full.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. With the exception of a few non significant subsidiaries and equity affiliates closing their books at December 31, all Group companies are consolidated based on annual accounts closed on March 31.

Scope of consolidation

A list of the significant subsidiaries is included in note 33 of the consolidated financial statements.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or at the exchange rate of the related hedge, if applicable. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The financial statements of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- The income statement and the cash flow statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting translation differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used for the most significant currencies at the balance sheet date were as follows:

	March 31, 2007 EUR	March 31, 2006 EUR
1 U.S. Dollar (USD)	0.75	0.83
1 Pound sterling (GBP)	1.47	1.44
1 Swiss franc (CHF)	0.62	0.63
100 Japanese yen (JPY)	0.64	0.70

Business combinations

Business combinations are accounted for using the purchase method. The cost of a business combination is measured as the aggregate of:

- The fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree; and
- Any other costs directly attributable to the business combination.

When a business combination agreement provides for an adjustment to the cost contingent on future events, then the adjustment is taken into account when determining the cost if the adjustment is probable and can be measured reliably.

Where goodwill has been initially determined on a provisional basis, adjustments arising within twelve months of the acquisition date are recognized on a retrospective basis.

Goodwill acquired in a business combination is recognized as an asset and initially measured at cost. Adjustments on the initial measurement within twelve months of the acquisition date are recognized on a retrospective basis.

Segment reporting

The Company defines its primary segments on the basis of the Group's internal organization, main revenue generating activities and the manner in which the Board of Managing Directors manages operations.

Business segments

The activities of each segment are as follows:

Passenger

The Passenger Business segment's main activity is the transportation of passengers on scheduled flights that have the Company's air code. Passenger revenues include receipts from passengers for excess baggage and in-flight sales. Other passenger revenues are derived from commissions from SkyTeam alliance partnership arrangements, revenues from block-seat sales and information systems revenues.

Cargo

Cargo activities relate to the transportation of freight on flights under the Company's code and the sale of cargo capacity to third parties.

Maintenance

Maintenance revenues are generated through maintenance services provided to other airlines and clients around the world.

Other

This segment covers primarily the provision of charter flights and (low-cost) scheduled flights operated by transavia.com and catering and handling services to third-party airlines and clients around the world.

Geographical segments

Revenues are allocated to geographical segments on the basis of destination as follows:

- Direct flights: Revenue is allocated to the geographical segment in which the destination falls.
- Flights with stopovers: Revenue is allocated to the geographical segments in which the various sections of the route fall in accordance with IATA guidelines (based on weighted passenger-kilometers).

The greater part the Group's asset comprises flight equipment and other assets located in The Netherlands. Inter-segment revenues are determined using the prices actually used for invoicing. These prices have been determined on a consistent basis.

Accounting policies for the Balance sheet

Impairment of assets

The Group's assets, other than inventories, deferred tax assets, assets arising from construction contracts, assets arising from employee benefits, financial assets that are within the scope of IAS 39 and non current assets held for sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, intangible assets with indefinite lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. Goodwill is allocated to passenger business and software to the business unit which uses the software. An impairment loss is recognized in the income statement for the amount by which the asset's increased carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units (CGUs)). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs (or groups of CGUs) and then, to reduce the carrying amount of the other assets in the CGU (or group of CGUs) on a pro-rata basis.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine value in use estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Property, plant and equipment

Historical cost

With the exception of leased assets, and except as described in the following paragraph property, plant and equipment is stated initially at historical acquisition or manufacturing cost. Leased assets are stated initially at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Flight equipment acquired in foreign currency is translated at the exchange rate applicable at the date of acquisition or the hedged rate where a hedging instrument has been used. Manufacturers' discounts are deducted from the acquisition cost.

Interest incurred in connection with the financing of aircraft (including other flight equipment) during the period prior to commissioning is included in cost. The interest rate adopted is the applicable interest rate for debts outstanding at the balance sheet date unless capital expenditure or advance payments are themselves funded by specific loans.

The costs of major maintenance operations (airframes and engines excluding parts with limited useful lives) which are carried out in accordance with specifications and schedules defined by manufacturers and regulating authorities are capitalized when incurred. Other maintenance costs are expensed as incurred.

Depreciation

Property, plant and equipment are depreciated to estimated residual values using the straight-line method over average estimated useful lives.

Aircraft fixtures and fittings and spare parts are classified as separate components from the airframe and depreciated separately.

During the annual operational planning cycle, the Group reviews the depreciation methods, useful lives and residual values and, if necessary amends these.

The useful lives of property, plant and equipment are as follows:

Category	*Useful life (years)*
Aircraft	20 to 24
Aircraft fixtures and fittings, and spare parts	3 to 20
Land	Not depreciated
Buildings	10 to 40
Equipment and fittings	3 to 15
Other property and equipment	5 to 20

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or when shorter, the term of relevant use. Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount.

Intangible assets

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries and associates. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. If the cost of acquisition is less than the fair value of the net identifiable assets, liabilities and contingent liabilities, the difference is recognized directly in the income statement. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Computer software

Computer software is stated at historical cost less accumulated amortization and, where necessary, accumulated impairment losses. Only the costs incurred in the software development phase are capitalized. Costs incurred in respect of feasibility studies and research etc. and post-implementation and evaluation phases are charged to the income statement as incurred. The costs comprise the costs of KLM personnel as well as external IT consultants.

Amortization takes place over the estimated useful lives (with a maximum of 10 years) of the software using the straight-line method. The useful life of each software application is determined separately. Amortization commences when the software is taken into use. Prior to this moment the costs are capitalized as prepaid intangible assets.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates.

Investments accounted for using the equity method

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are jointly controlled entities whereby the Group together with one or more parties undertakes activities related to the Group's business that are subject to joint control.

Investments in associates and interests in joint ventures are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, including other than temporary losses (impairment). When the Group's share of losses in an associate/joint venture equals or exceeds its interest in the associate/joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate/joint venture.

Unrealized gains on transactions between the Group and its associates/joint ventures are eliminated to the extent of the Group's interest in the associates/joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial instruments: Recognition and measurement of financial assets and liabilities

For the purposes of determining the basis on which they are to be recognized and measured financial instruments are classified into the following categories:

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold until maturity. Held-to-maturity investments are initially recognized at fair value and subsequently at amortized cost. Interest is recognized in the income statement.

Medium term notes and bank deposits held by the Group as natural hedges for foreign currency liabilities and debt are generally classified as held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value and subsequently at amortized cost using the effective interest method. Interest calculated using the effective interest method is recognized in the income statement.

Loans to associates, joint ventures, other loans and trade and other receivables are classified as loans and receivables, except when short term receivables are recognized or interest would be material.

At fair value through profit and loss

At fair value through profit and loss financial assets are other financial assets which have not been classified under either held-to-maturity or loans and receivables. At fair value through profit and loss financial assets are measured at fair value both on initial recognition and subsequently. However investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured subsequently at cost. Gains and losses arising from changes in fair value are recognized in the income statement.

The group applies the effective interest rate method and amortizes the transaction costs, discounts or other premiums included in the calculation of the effective interest rate over the expected life of the instrument.

Cash and cash equivalents

Cash and cash equivalents cover all highly liquid instruments with original maturities of three months or less and includes cash in hand, deposits held at call and on short-term with banks and bank overdrafts. Bank overdrafts are shown under "Financial liabilities" in "Current liabilities" in the balance sheet.

Where the Company has a practice and legally enforceable right to offset bank balances, the net balance is included under cash and cash equivalents or bank overdrafts as applicable.

Cash and cash equivalents are stated in the balance sheet at fair value.

Financial liabilities

Financial liabilities are initially recognized at cost, which is the fair value of the consideration received. Transaction costs are included in this initial measurement. Subsequent to initial recognition, liabilities are, with the exception of derivative financial instruments carried at amortized cost.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized initially, and are subsequently re-measured, at fair value. Fair values are obtained from quoted market prices in active markets or by using valuation techniques, using recent market transactions where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative assets and liabilities on different transactions are only netted if the transactions are with the same counterpart, a legal right of set-off exists, and the cash flows are intended to be settled on a net basis.

Recognition of fair value gains and losses

The method of recognizing fair value gains and losses on derivative financial instruments depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged.

All derivative financial instruments are held for hedging purposes. It is KLM's policy not to hold derivative financial instruments for trading purposes. The derivatives, which do not qualify for hedge accounting, are described as items not qualifying for hedge accounting in these notes to the financial statements.

Categories of hedging transactions

Derivatives are used to hedge the risks associated with changes in interest rates, foreign currency rates and fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rate movements. The Group also uses swaps to manage its exposure to interest rate risk. Finally, the exposure to fuel price risks is covered by swaps or options on jet fuel and fuel related indices such as Gasoil and Brent.

Hedging transactions fall into two categories:

1. Fair value hedges;
2. Cash flow hedges.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the asset or liability or group thereof that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. Any gain or loss relating to an ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge effectiveness testing

To qualify for hedge accounting, at the inception of the hedge, and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must be demonstrated on an ongoing basis.

The documentation at inception of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method used to assess effectiveness will depend on the risk management strategy.

For interest rate and foreign exchange derivatives used as fair value and cash flow hedges, the offset method is used as the effectiveness testing methodology. For fuel derivatives used as cash flow hedges regression analysis and offset methodologies are used.

Inventories

Inventories consist primarily of expendable aircraft spare parts and other supplies and are stated at the lower of cost and net realizable value. Cost, representing the acquisition cost, is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

Leases

Finance leases

The Group has entered into a number of finance lease contracts (primarily for aircraft). Under the terms of these contracts substantially all the risks and rewards in connection with the ownership of the underlying assets are transferred to the Group and the lease payments are treated as repayment of principal and finance cost to reward the lessor for its investment. The assets which are the subject of finance leases are presented as property, plant and equipment in the balance sheet.

Finance lease liabilities are stated initially at the present value of the minimum lease payments. Finance cost is recognized based on a pattern that reflects an effective rate of return to the lessor.

Sale and leaseback transactions resulting in a finance lease with a deferred credit are initially established at present value and credited to net cost of financial debt over the remaining term of the associated financial lease contracts.

Operating leases

In addition to finance leases, the Group also leases aircraft, buildings and equipment under operating lease agreements. Operating leases are lease contracts which are not classified as finance leases, i.e. the risks and rewards in connection with the ownership of the underlying assets are not transferred to the lessee.

Lease expense of operating leases is recognized in the income statement on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately in the income statement. If the sale price is below fair value, any profit or loss is recognized immediately. However, if the loss is compensated for by future lease payments at below market price, the loss 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 the fair value, the excess over fair value is deferred and amortized in proportion over the period for which the asset is expected to be used.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and the fair value is recognized immediately in the income statement.

Deferred income

Advance ticket sales

Upon issuance, both passenger and cargo ticket sales are recorded as deferred income under Advance ticket sales. The Company applies an estimation policy with respect to the recognition of traffic revenues in order to determine which part of the tickets sold will expire without any transport commitment of the part of the Company.

Deferred gains on sale and leaseback transactions

This item relates to amounts deferred arising from sale and leaseback transactions of operating leases.

Flying Blue frequent flyer program

The Flying Blue frequent flyer program allows members to acquire “air miles” as they fly on Air France, KLM or other partner companies. These air miles entitle members to a choice of various awards, including free travel, and they are also sold to participating partners to use in promotional activities.

The probability of air miles being converted into award tickets is estimated using a statistical method which generates a so-called redemption rate. Using the redemption rate, the direct incremental cost of providing free redemption services, including KLM flights, in exchange for redemption of miles earned by members is estimated and accrued as members of these schemes accumulate mileage. Costs accrued include incremental fuel, catering servicing costs and cost of redemptions on air and non-airline partners. These costs are charged to expenses.

Deferred income taxes

Deferred tax assets and liabilities arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes are determined using the balance sheet liability method and calculated on the basis of the tax rates that have been enacted or substantively enacted at the balance sheet date and that are expected to apply to the period when the asset is realized or the liability is settled. Except for goodwill arising from a business combination, deferred tax assets are recognized to the extent that is probable that taxable profit will be available against which the temporary difference can be utilized. Deferred tax assets and deferred tax liabilities are set off only when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and deferred liabilities relate to income taxes levied by the same authority.

A deferred tax asset is recognized for all deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that is not probable that the temporary difference will reverse in the foreseeable future and taxable profit will not be available against which the temporary difference can be realized.

A deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions for employee benefits

Pensions and other post-employment benefits

Pensions and other post-employment benefits relates to provisions for benefits (other than termination benefits) which are payable to employees on retirement. The provisions cover defined benefit pension plans, early-retirement schemes and post-employment medical benefits available to employees. The Group has various defined benefit and defined contribution pension plans, which are generally funded through payments to separately administered funds or to insurance companies.

The amount recognized as a liability or an asset for post-employment benefits at the balance sheet date is the net total of:

1. The present value of the defined benefit obligations at the balance sheet date;
2. Plus any unrecognized actuarial gains (less actuarial losses) at the balance sheet date as described below;
3. Minus any past service cost not recognized at the balance sheet date; and
4. Minus the fair value of the plan assets at the balance sheet date.

The present values of the defined benefit obligations are calculated using the projected unit credit method. The calculations of the obligations have been performed by independent qualified actuaries. This benefit/years-of-service method not only takes into account the benefits and benefit entitlements known at the balance sheet date, but also increases in salaries and benefits to be expected in the future.

Using the so-called "corridor approach", previously unrecognized cumulative, actuarial gains and losses exceeding 10% of total benefit obligations or of the present value of plan assets (whichever is higher) are recognized over expected employees' average residual active lives with an effect on future net income. When a plan is curtailed or settled, gains or losses arising are recognized immediately.

The determination of the liability or asset to be recognized as described above is carried out for each plan separately. In situations where the fair value of plan assets, adjusted for any unrecognized positions, exceeds the present value of a fund's defined benefit obligations then an asset is recognized if available.

The service cost and the interest accretion to the provisions are included in the income statement under "Employee compensation and benefit expense".

Other long-term employment benefits

The provision for other long-term employment benefits relates to benefits (other than pensions and other post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service. The provision covers jubilee benefits. The benefits are unfunded.

The amount recognized as a liability for other long-term employment benefits at the balance sheet date is the present value of the defined benefit obligations. Appropriate assumptions are made about factors such as salary increases, employee turnover and similar factors impacting the measurement of the obligations.

The service cost and the interest accretion to the provisions are included in the income statement under “Employee compensation and benefit expense”.

Termination benefits

Termination benefits are employee benefits payable as a result of either the Group’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept voluntary redundancy.

The provision is recognized when, and only when, a formal employee termination plan has been drawn up and approved and there is no realistic possibility of it being withdrawn.

Where the benefits fall due in more than 12 months after the balance sheet date the provision is the present value of the expenditures expected to settle the obligation.

Other provisions

Provisions are recognized when:

- There is a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.
- The provisions are carried at face value unless the effect of the time value of money is material, in which case the amount of the provision is the present value of the expenditures expected to settle the obligation.

Accounting policies for the Income statement

Revenues

Air transport

Revenues from air transport transactions are recognized as and when transportation service is provided. Air transport revenues are stated net of external charges such as commissions paid to agents, certain taxes and volume discounts. These revenues include (fuel) surcharges paid by passengers.

Maintenance contracts

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue and costs relating to third party maintenance contracts to be recognized in the income statement in a given period, when the outcome can be estimated reliably. When the outcome of a maintenance contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

External expenses

External expenses are recognized in the income statement using the so called Matching principle which is based on a direct relationship between costs incurred and obtaining income related to the operation. In order to minimize the financial risks involved with such transactions the Company makes use of financial derivatives such as fuel forward contracts, foreign currency options and swaps. The gains and losses arising from the use of the derivatives are included in these costs.

Gains/losses on disposals of property, plant and equipment

The gain on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the item Gains on disposal are netted against losses on disposal.

Reversal of impairment losses on financial assets

This item represents increases in the carrying amounts of financial assets arising from reversals of previously incurred impairment losses. The amount of the reversal does not exceed the carrying amount of the assets that would have been determined had no impairment losses been recognized in prior years.

Other income and expense items

Gross cost of financial debt

Gross cost of financial debt includes interest on loans of third parties and finance leases using the effective interest rate method.

Income from cash and cash equivalents

Interest income includes interest on loans, interest-bearing marketable securities, short-term bank deposits and money at call. Interest income is recognized on an accrual basis.

Foreign currency exchange gains and losses

Foreign exchange gains and losses resulting from the translation of transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Fair value gains and losses

Fair value gains represent the total of increases during the year in the fair values of assets and liabilities, excluding derivative financial instruments designated as cash flow hedges. Fair value losses are included in financial income and expenses.

Share-based compensation

Stock option program

The Group has a cash-settled long-term incentive scheme in which it grants to its employees options to acquire Air France KLM shares.

The fair value of the options granted is recognized over the vesting period as employee benefit expense in the income statement with a corresponding increase in liabilities. The fair value of the stock options is determined using the Black & Scholes method. This takes into account the features of the plan (exercise price and period) and the market data (risk free risk, price of the share, volatility and expected dividends). The liability is measured at grant date and each balance sheet date and each settlement date.

Accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the corresponding actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

Factors may exist which require the recognition of an impairment of certain assets and/or CGUs. Such impairment is based on estimates of the fair value less costs to sell and the value in use. The fair value less costs to sell is derived from assumptions in relation to the possible selling price of a certain asset. In the case of a divestiture, the actual fair value less costs to sell may differ from the assumptions used. The value in use is based on the discounted value of the cash flows that the asset/CGU is expected to generate in the future. These future cash flows are based on the business plans for the coming years. The value in use also takes into account possible adverse developments, which may lead to impairment. It is possible that the Group may have to recognize additional impairment charges in the future as a result of changes in (market) conditions that may take place in future periods.

Useful lives of property, plant and equipment

The carrying amount of flight equipment and other property and equipment is determined by using estimates of the depreciation periods, which are derived from the expected technical and economic useful life of the assets involved. Due to advancing technology, evolving market circumstances and changes in the use of the assets involved, the expected technical and economic life of the asset may be subject to alteration.

Valuation of inventories

The Group records its inventories at cost and provides for the risk of obsolescence using the lower of cost or market principle. The expected future use of inventory is based on estimates about future demand and past experience with similar inventories and their usage.

The valuation of accounts receivable and the allowance for bad or doubtful debts

The Group periodically assesses the value of its accounts receivable based on specific developments in its customer base. The allowance for bad or doubtful debts is formed on the grounds of this assessment. The actual outcome may diverge from the assumptions made in determining the allowances.

The valuation of deferred tax assets and liabilities

In the process of estimating the value of deferred tax assets, in particular with regard to tax losses carried forward, assumptions are made regarding the degree to which these losses can be offset in the future. This is based, among other things, on business plans. In addition, in the preparation of the Financial Statements, assumptions are made with regard to temporary differences between the valuation for tax purposes and the valuation for financial reporting purposes. The actual outcome may diverge from the assumptions made in determining the current and deferred tax positions, e.g. as a result of disputes with the tax authorities or changes in tax laws and regulations.

Accounting for pensions and other post-employment benefits

Post-employment benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Post-employment benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the Group. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates, and future healthcare costs. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred. For details on key assumptions and policies, see note 15.

It should be noted that when discount rates decline or rates of compensation increase – for example, due to increased inflation – pension and post-employment benefit obligations will increase. Net periodic pension and post-employment costs might also increase, but that depends on the actual relation between the unrecognized loss and the so-called corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation.

Other provisions

One characteristic of other provisions is that these obligations are spread out over several years. Another is that management must make estimates and assumptions as at the balance sheet date concerning the probability that a certain obligation will crystallize as well as the amount that is likely to be paid. Future developments, such as changes in market circumstances, changes in mortality tables, changes in legislation and judicial decisions may cause the actual obligation to diverge from the provision. Furthermore, the Group is also involved in legal disputes and proceedings. Management decides on a case-by-case basis whether a provision is necessary based on actual circumstances. This assessment comprises both a determination of the probability of a successful outcome of the legal action and the expected amount payable.

Critical accounting judgments

Certain critical accounting judgments in applying the Group's accounting policies are described below.

Determination of fair value

The Group uses available market information and appropriate methodologies to determine the fair values of financial instruments. However, judgment is required to interpret market data and to determine fair value. Management believes that the face value of financial assets and financial liabilities with a maturity of less than one year approximate their fair value. These financial assets and liabilities include cash and cash equivalents, trade accounts receivable and trade accounts payable.

Financial Risk Management

Risk management organization

Financial risk management is carried out in accordance with policies approved by the Board of Directors and the Supervisory Board. These policies cover overall financial risk management as well as specific areas such as fuel price risk, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity. The risk management program focuses on the unpredictability of financial risks and seeks to minimize potential adverse effects on the Group's financial performance.

Regular Risk management committee meetings, chaired by the Chief Financial Officer, are held with the treasury and fuel departments of the Group in order to exchange information about the hedges in place, the hedging instruments used, and the strategies planned. Hedging decisions are made during these meetings (amounts to be hedged, hedging instruments, etc.), which are implemented by the treasury and fuel departments in compliance with delegated powers. Positions are reported to the Board on a monthly basis. Each quarter, a Group report is presented to the AF-KLM Risk Committee attended by the Chief Financial Officers and the Chief Operating Officers of the Air France and KLM groups.

The use of interest rate, currency and fuel hedges is intended to reduce the exposure of the Group and, therefore, to protect budgeted margins. The instruments used are forward contracts, swaps and options. In-house procedures governing risk management prohibit the use of instruments that can be classified as trading. Trading activities and speculation are strictly prohibited.

Financial risk exposures

The Group is exposed to the following financial risks:

1. Market risk;
2. Credit risk; and
3. Liquidity and solvency risk

Market risk

The Group is exposed to market risks in the following areas:

1. Fuel price risk;
2. Currency risk; and
3. Interest rate risk

Fuel price risk

Derivatives are used to hedge prices for fuel purchases thus reducing the exposure to the risk of oil price fluctuations. To achieve this, derivatives based on a representative basket of jet fuels (Rotterdam, Singapore, US Gulf Coast) or other fuel indices like Gasoil or Brent are used.

Currency risk

The majority of the Group's revenues are generated in Euros. However, due to its international activities, the Group incurs a foreign exchange risk on the main global currencies, particularly the US dollar, Japanese yen and Pound sterling. Any changes in the exchange rates for these currencies with respect to the Euro will have an impact on the Group's financial results.

With regard to the US dollar, since expenditures (such as fuel costs, operating lease costs for part of the fleet and a portion of maintenance costs) exceed the level of income, any significant appreciation in the dollar against the Euro could have a negative effect on the Group's financial results. For the Japanese yen and pound sterling, the level of revenues is higher than expenditures. As a result, any significant decline in these currencies against the Euro could have a negative effect on the financial results.

In order to reduce the currency exposure, the Group has adopted policies to hedge the major exchange risks. For the US dollar, the JPY and GBP, a systematic hedging policy designed to cover approximately 30% to 75% of the net exposure per currency for the following year and, in certain cases, the next two or three years, is applied.

With regard to translation risk, KLM's policy is to match assets and liabilities in foreign currency. In principle, the Group does not hedge its share of the results in subsidiaries, and investments accounted for using the equity method denominated in foreign currency.

As far as capital expenditure is concerned, the Group has a high level of exposure to an increase in the dollar against the Euro. Indeed, all of the Group's aircraft are purchased in dollars. The hedging policy provides for minimum systematic hedging of 30% of the exposure at the beginning of the fiscal year. In highly favorable market conditions, as currently, hedging may reach 95% of the exposure.

Interest rate risk

Most financial debt is based on floating-rate instruments in line with market practices. However, the Group continually aims to reduce its exposure to the interest rate risk. For this purpose, capitalizing on the historically low level of fixed rates over the last two years, part of the variable-rate debt has been swapped for fixed rates using derivative instruments such as (cross currency) interest rate swaps.

Credit risk

Credit risks arise from various activities including investing and operational activities as well as hedging activities with regard to financial instruments. The risk is the loss that could arise if a counterpart were to default in the performance of its contractual obligations. The Group has established credit limits for its external parties in order to mitigate the credit risk. These limits are determined on the basis of ratings from organizations such as Moody's Investors Services and Standard & Poor's.

Liquidity and solvency risk

Liquidity and solvability risk is related to the risk that the Group might be unable to obtain the financial resources it requires to meet its long and short term obligations on time. All anticipated and potential cash flows are reviewed regularly. These include, amongst others, operational cash flows, dividends, debt and interest payments and capital expenditure. The object is to have sufficient liquidity, including committed credit facilities, available that are adequate for the liquidity requirements for the coming years.

1 Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2005	**522**	**2,319**	**990**	**3,831**	**610**	**565**	**127**	**1,302**	**372**	**5,505**
Additions	15	375	174	564	7	16	5	28	19	611
Reclassifications	174	(174)	105	105	15	41	10	66	(128)	43
Disposals	(4)	-	(89)	(93)	(24)	(36)	(11)	(71)	-	(164)
Acquisition of subsidiaries	-	-	-	-	-	-	2	2	-	2
Currency translation differences	-	-	(1)	(1)	-	-	-	-	-	(1)
As at March 31, 2006	**707**	**2,520**	**1,179**	**4,406**	**608**	**586**	**133**	**1,327**	**263**	**5,996**
Accumulated depreciation and impairment										
As at April 1, 2005	**2**	**126**	**510**	**638**	**28**	**423**	**76**	**527**	**-**	**1,165**
Depreciation	58	163	126	347	39	35	12	86	-	433
Disposals	(3)	-	(62)	(65)	(12)	(32)	(8)	(52)	-	(117)
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Reclassifications	137	(130)	30	37	(9)	-	-	(9)	-	28
As at March 31, 2006	**194**	**159**	**604**	**957**	**46**	**426**	**80**	**552**	**-**	**1,509**

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Pre-payments	Total
Historical cost										
As at April 1, 2006	**707**	**2,520**	**1,179**	**4,406**	**608**	**586**	**133**	**1,327**	**263**	**5,996**
Additions	98	229	127	454	17	39	8	64	139	657
Reclassifications	267	(148)	(80)	39	(19)	(33)	(11)	(63)	(144)	(168)
Disposals	-		(11)	(11)	(14)	-	-	(14)	(29)	(54)
Currency translation differences	-	5	1	6	-	-	-	-	-	6
As at March 31, 2007	**1,072**	**2,606**	**1,216**	**4,894**	**592**	**592**	**130**	**1,314**	**229**	**6,437**
Accumulated depreciation and impairment										
As at April 1, 2006	**194**	**159**	**604**	**957**	**46**	**426**	**80**	**552**	**-**	**1,509**
Depreciation	84	173	129	386	37	32	11	80	-	466
Currency translation differences		4	1	5	-	(1)	-	(1)	-	4
Reclassifications	170	(87)	(154)	(71)	(15)	(35)	(11)	(61)	-	(132)
As at March 31, 2007	**448**	**249**	**580**	**1,277**	**68**	**422**	**80**	**570**	**-**	**1,847**
Net carrying amount										
As at March 31, 2006	**513**	**2,361**	**575**	**3,449**	**562**	**160**	**53**	**775**	**263**	**4,487**
As at March 31, 2007	**624**	**2,357**	**636**	**3,617**	**524**	**170**	**50**	**744**	**229**	**4,590**

2006/07 reclassifications mainly relate to the transfer from financial leased aircraft to owned aircraft.

The assets include assets which are held as security for mortgages and loans as follows:

	2007	2006
Aircraft	226	97
Land and buildings	174	179
Other property and equipment	10	10
Carrying amount as at March 31	**410**	**286**

Borrowing costs capitalized during the year amount to EUR 6 million (2005/06 EUR 9 million).
The interest rate used to determine the amount of borrowing costs to be capitalized was 4% (2005/06 4.25%).

Land and buildings include buildings located on land which have been leased on a long-term basis. The book value of these buildings at March 31, 2007 amounts to EUR 335 million (2005/06 EUR 362 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 18.

2 Intangible assets

	Goodwill	Software	Software under development	Total
Historical cost				
As at April 1, 2005	**40**	**77**	**1**	**118**
Additions	1	3	8	12
Reclassifications	-	1	(1)	-
Disposals	(11)	(11)	-	(22)
Other movements	-	4	-	4
As at March 31, 2006	**30**	**74**	**8**	**112**
Accumulated amortization and impairment				
As at April 1, 2005	**30**	**49**	**-**	**79**
Amortization	-	10	-	10
Reclassifications	-	-	-	-
Disposals	(11)	(11)	-	(22)
Other movements	-	1	-	1
As at March 31, 2006	**19**	**49**	**-**	**68**
Historical cost				
As at April 1, 2006	**30**	**74**	**8**	**112**
Additions	-	12	-	12
Reclassifications	-	7	(5)	2
Disposals	-	(1)	-	(1)
As at March 31, 2007	**30**	**92**	**3**	**125**
Accumulated amortization and impairment				
As at April 1, 2006	**19**	**49**	**-**	**68**
Amortization	-	11	-	11
Reclassifications	-	2	-	2
Disposals	-	(1)	-	(1)
As at March 31, 2007	**19**	**61**	**-**	**80**
Net carrying amount				
As at March 31, 2006	**11**	**25**	**8**	**44**
As at March 31, 2007	**11**	**31**	**3**	**45**

3 Investments accounted for using the equity method

	2007	2006
Associates	58	49
Joint ventures	77	92
Jointly controlled entities	24	-
Carrying amount as at March 31	**159**	**141**

Investments in associates

	2006/07	2005/06
Carrying amount as at April 1	**49**	**34**
Movements		
New consolidations	-	(3)
Share of profit/(loss) after taxation	11	15
Dividends received	(2)	(2)
Foreign currency translation differences	(2)	4
Other movements	2	1
Net movement	**9**	**15**
Carrying amount as at March 31	**58**	**49**

The Group's interest in its principal associate, Kenya Airways Ltd., can be summarized as follows:

		As at March 31
	2006	**2005**
Country of incorporation		Kenya
Interest held %	26	26
Assets	792	465
Liabilities	595	343
Revenues	580	464
Profit/(loss) after taxation	53	43
Share of profit/(loss) after taxation	**14**	**11**

The above table of Kenya Airways Ltd's assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2006 and 2005. The share of profits included in the carrying amounts as at March 31, 2007 have been adjusted to reflect the estimated share of profit for the year then ended.

The shares of Kenya Airways Ltd. are quoted on the Nairobi stock exchange. Based on the quoted price of the shares at the close of business on March 31, 2007 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 130 million (2005/06 EUR 144 million).

Joint ventures

	2006/07	2005/06
Carrying amount as at April 1	**92**	**156**
Movements		
Share of profit/(loss) after taxation	(1)	-
Dividends received	(2)	(1)
Impairment losses recognized in year	-	(58)
OCI movements	(12)	(5)
Net movement	**(15)**	**(64)**
Carrying amount as at March 31	**77**	**92**

The Group's interest in its principal joint venture, Martinair Holland N.V., which is an unlisted company, can be summarized as follows:

	As at December 31	
	2006	**2005**
Country of incorporation		The Netherlands
Interest held %	50	50
Non-current assets	460	480
Assets	243	230
Non-current liabilities	167	168
Current liabilities	255	219
Revenues	1,236	1,121
Profit/(loss) after taxation	(7)	17
Share of profit/(loss) after taxation	**(4)**	**8**

The above table of Martinair Holland N.V. assets, liabilities and revenues is based on the audited financial statements for December 31, 2006 and 2005. The share profit included in the carrying amounts as at March 31, 2007 have been adjusted to reflect the estimated share of profit for the year then ended.

The accumulated impairment loss as at March 31, 2007 and March 31, 2006 amounted to EUR 58 million.

Jointly controlled entities

	2006/07
Carrying amount as at April 1	-
Movements	
New Consolidation	24
Net movement	**24**
Carrying amount as at March 31	**24**

The Group's interest in its principal jointly controlled entity, Schiphol Logistics Park C.V., which is an unlisted company, can be summarized as follows:

	As at March 31
	2007
Country of incorporation	The Netherlands
Interest held %	53
Voting right %	45
Non-current assets	61
Assets	13
Non-current liabilities	-
Current liabilities	12
Revenues	-
Profit/(loss) after taxation	-
Share of profit/(loss) after taxation	**-**

4 Financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit and loss		Total	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Carrying amount as at April 1	**502**	**448**	**31**	**23**	**670**	**522**	**1,203**	**993**
Movements								
Additions and loans granted	24	25	26	9	7	631	57	665
Loans and interest repaid	(35)	(16)	(3)	(2)	(488)	(491)	(526)	(509)
Interest accretion	24	32	-	-	-	-	24	32
De-consolidations	-	-	-	-	-	-	-	-
Revaluation gain/(loss) recognized in income statement	-	-	-	-	16	8	16	8
Foreign currency translation differences	(44)	13	1	1	-	-	(43)	14
Other movements	3	-	(7)	-	-	-	(4)	-
Net movement	**(28)**	**54**	**17**	**8**	**(465)**	**148**	**(476)**	**210**
Carrying amount as at March 31	**474**	**502**	**48**	**31**	**205**	**670**	**727**	**1,203**

	2007		2006	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	-	474	34	468
Loans and receivables				
Other loans and receivables	4	44	4	27
At fair value through profit and loss				
Deposits and commercial paper with original maturity 3-12 months	147	-	626	-
Air France KLM S.A. shares	-	45	-	29
Other financial assets	-	13	-	15
	147	**58**	**626**	**44**
Carrying amount as at March 31	**151**	**576**	**664**	**539**

The carrying amounts of financial assets denominated in currencies other than the Euro are as follows:

	March 31, 2007	March 31, 2006
USD	491	485
JPY	-	21
GBP	32	28
Total	**523**	**534**

The interest-bearing financial assets have fixed interest rates. The weighted average effective interest rates at the balance sheet date are as follows:

	March 31, 2007				March 31, 2006			
in %	EUR	USD	JPY	GBP	EUR	USD	JPY	GBP
Held-to-maturity investments	-	6.4	-	7.2	-	6.2	0.3	7.3
Loans and receivables	-	6.0	-	-	0.9	5.5	-	-
At fair value through profit and loss	3.3	-	-	-	2.5	4.7	-	-

The triple A bonds and long-term deposits are held as a natural hedge to mitigate the effect of foreign exchange movements relating to financial lease liabilities. Except as described below these securities are at the free disposal of the Company. Access to triple A bonds and long-term deposits, loans and receivables amounting to EUR 208 million (2005/06 EUR 181 million) is restricted.

The maturities of held-to-maturity investments are as follows:

	March 31, 2007	March 31, 2006
Held-to-maturity		
Less than 1 year	1	34
Between 1 and 2 years	39	3
Between 2 and 3 years	48	19
Between 3 and 4 years	186	77
Between 4 and 5 years	76	160
Over 5 years	124	209
Total	**474**	**502**

The maturities of loans and receivables are as follows:

	March 31, 2007	March 31, 2006
Loans and receivables		
Less than 1 year	4	4
Between 1 and 2 years	29	2
Between 2 and 3 years	10	3
Between 3 and 4 years	-	10
Between 4 and 5 years	-	-
Over 5 years	5	12
Total	**48**	**31**

The fair values of the financial assets are as follows:

	March 31, 2007	March 31, 2006
Held-to-maturity		
Triple A bonds and long-term deposits	505	528
Loans and receivables		
Other loans and receivables	48	31
At fair value through profit and loss		
Deposits and commercial paper with original maturity 3-13 months	147	626
Air France KLM S.A. shares	45	29
Other financial assets	13	15
	205	**670**
Total fair value	**758**	**1,229**

The fair values listed above have been determined as follows:

- Triple A bonds and long-term deposits: The fair values are based on the net present value of the anticipated future cash flows associated with these instruments;
- Deposits and commercial paper: The carrying amounts approximate fair value because of the short maturity of these deposits and commercial paper;
- Air France KLM S.A. shares: Quoted price as at close of business on March 31, 2007;
- Other assets: The carrying amounts approximate fair value because of the short maturity of these instruments or, in the case of equity instruments that do not have a quoted price in an active market, the assets are carried at cost.

The contractual re-pricing dates of the Group's interest bearing assets are as follows:

	March 31, 2007	March 31, 2006
Less than 1 year	3	26
Between 1 and 2 years	47	5
Between 2 and 3 years	80	7
Between 3 and 4 years	187	95
Between 4 and 5 years	87	179
Over 5 years	117	221
Total interest bearing financial assets	**521**	**533**

5 Derivative financial instruments

	Assets		Liabilities	
	Current	Non-current	Current	Non-current
As at March 31, 2006				
Exchange rate risk				
Fair value hedges	1	1	(39)	(2)
Cash flow hedges	25	-	(8)	-
Total exchange rate risk hedges	**26**	**1**	**(47)**	**(2)**
Interest rate risk				
Fair value hedges	24	108	-	(73)
Cash flow hedges	-	30	(3)	(25)
Items not qualifying for hedge accounting	-	49	-	(9)
Total interest rate risk hedges	**24**	**187**	**(3)**	**(107)**
Commodity risk hedges				
Cash flow hedges	206	76	(103)	(6)
Total commodity risk hedges	**206**	**76**	**(103)**	**(6)**
Total as at March 31, 2006	**256**	**264**	**(153)**	**(115)**
As at March 31, 2007				
Exchange rate risk				
Fair value hedges	2	3	(15)	(6)
Cash flow hedges	18	13	(15)	(1)
Total exchange rate risk hedges	**20**	**16**	**(30)**	**(7)**
Interest rate risk				
Fair value hedges	16	26	(35)	(90)
Cash flow hedges	-	45	(2)	(22)
Items not qualifying for hedge accounting	-	50	-	(10)
Total interest rate risk hedges	**16**	**121**	**(37)**	**(122)**
Commodity risk hedges				
Cash flow hedges	78	71	(18)	(8)
Total commodity risk hedges	**78**	**71**	**(18)**	**(8)**
Total as at March 31, 2007	**114**	**208**	**(85)**	**(137)**

As at March 31, 2007 the types of derivatives used, their nominal amounts and fair values and the maturity dates of the hedging instruments are as follows:

	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	> 5 years	Fair Value
Exchange rate risk hedges								
Fair value hedges								
Options								
USD	23	23	-	-	-	-	-	(1)
Forward purchases	-	-	-	-	-	-	-	0
USD	551	235	131	41	-	-	143	(15)
GBP	32	6	13	13	-	-	-	0
JPY	4	4	-	-	-	-	-	(0)
Total fair value hedges	**610**	**268**	**144**	**54**	**-**	**-**	**143**	**(16)**
Cash flow hedges								
Options								
USD	436	356	80	-	-	-	-	(6)
GBP	37	37	-	-	-	-	-	-
JPY	7	7	-	-	-	-	-	-
Forward purchases	-	-	-	-	-	-	-	-
USD	318	297	21	-	-	-	-	(8)
Forward sales	-	-	-	-	-	-	-	-
GBP	262	262	-	-	-	-	-	2
JPY	20	20	-	-	-	-	-	2
CHF	35	35	-	-	-	-	-	-
NOK	102	102	-	-	-	-	-	-
SEK	61	61	-	-	-	-	-	1
Other	58	57	-	-	-	-	-	23
Total cash flow hedges	**1,336**	**1,234**	**101**	**-**	**-**	**-**	**-**	**14**
Items not qualifying for hedge accounting								
USD	21	21	-	-	-	-	-	0
Total Items not qualifying for hedge accounting	**21**	**21**	**-**	**-**	**-**	**-**	**-**	**0**
Total exchange rate risk hedges	**1,967**	**1,523**	**245**	**54**	**-**	**-**	**143**	**(2)**

	Nominal amount	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	> 5 years	Fair Value
Interest rate risk hedges								
Fair value hedges								
Swaps	1,225	160	414	118	182	190	161	(82)
Total fair value hedges	**1,225**	**160**	**414**	**118**	**182**	**190**	**161**	**(82)**
Cash flow hedges								
Swaps	2,565	312	263	352	264	243	1,131	21
Total cash flow hedges	**2,565**	**312**	**263**	**352**	**264**	**243**	**1,131**	**21**
Items not qualifying for hedge accounting								
Swaps	914	424	153	67	13	15	243	40
Total Items not qualifying for hedge accounting	**914**	**424**	**153**	**67**	**13**	**15**	**243**	**40**
Total interest rate risk hedges	**4,704**	**896**	**830**	**537**	**459**	**448**	**1,535**	**(21)**
Commodity risk hedges								
Swaps	764	264	206	244	47	2	-	68
Options	1,505	900	328	90	186	-	-	55
Total commodity risk hedges	**2,269**	**1,164**	**534**	**334**	**233**	**2**	**-**	**123**

6 Inventories

	March 31, 2007	March 31, 2006
Carrying amount		
Maintenance inventories	135	117
Other sundry inventories	61	69
Total	**196**	**186**

Inventory write-downs amounted to EUR 59 million (2005/06 EUR 82 million).

7 Trade and other receivables

	March 31, 2007	March 31, 2006
Trade receivables	808	813
Provision trade receivables	(18)	(25)
Trade receivables - net	790	788
Amounts due from Air France-KLM group companies	35	23
Amounts due from associates and joint ventures	11	12
Amounts due from maintenance contract customers	91	63
Taxes and social security premiums	20	23
Other receivables	55	67
Prepaid expenses	119	150
Total	**1,121**	**1,126**

The 2006/07 EUR 7 million (2005/06 EUR 10 million) release of provision trade receivables has been recorded in other operating income and expenses in the consolidated income statement.

Maintenance contract costs incurred to date (less recognized losses) for contracts in progress at March 31, 2007 amounted EUR 81 million (2005/06 EUR 53 million).

Advances received for maintenance contracts in progress at March 31, 2007 amounted to EUR 19 million (2005/06 EUR 13 million).

8 Cash and cash equivalents

	March 31, 2007	March 31, 2006
Cash at bank and in hand	100	98
Short-term deposits	1,164	448
Total	**1,264**	**546**

The effective interest rates on short-term deposits are in the range 3.58% to 5.33% (2005/06 range 2.13% to 7.00%). The short-term deposits have an original maturity of less than 3 months. The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

The part of the cash and cash equivalents held in currencies other than the Euro are as follows:

	March 31, 2007	March 31, 2006
USD	25	20
GBP	14	8
CNY	6	21
Other currencies	46	22
Total	**91**	**71**

The fair value of cash and cash equivalents does not differ materially from the book value.

16-07-2007

9 Share capital

Authorized share capital

No movements have occurred in the authorized share capital since April 1, 2004. The authorized share capital of the Company is summarized in the following table:

	Authorized		
	Par value per share (in EUR)	Number of shares	Amount (in EUR 1,000)
Priority shares	2.00	1,875	4
Ordinary shares	2.00	149,998,125	299,996
A Cumulative preference shares	2.00	37,500,000	75,000
B Preference shares	2.00	75,000,000	150,000
C Cumulative preference shares	2.00	18,750,000	37,500
Total authorized share capital			**562,500**

Issued share capital

No movements have occurred in the issued share capital since April 1, 2004. No shares are issued but not fully paid.

	Issued and fully paid			
	March 31, 2007		March 31, 2006	
	Number of shares	Amount (in EUR 1,000)	Number of shares	Amount (in EUR 1,000)
Included in equity				
Priority shares	1,312	3	1,312	3
Ordinary shares	46,809,699	93,619	46,809,699	93,619
		93,622		**93,622**
Included in financial liabilities				
A Cumulative preference shares	8,812,500	17,625	8,812,500	17,625
C Cumulative preference shares	7,050,000	14,100	7,050,000	14,100
		31,725		**31,725**
Total issued share capital		**125,347**		**125,347**

The rights, preferences and restrictions attaching to each class are as follows:

Priority shares

All priority shares are held by Air France KLM S.A. Independent rights attaching to the priority shares include power to determine or approve:

a) To set aside an amount of the profit established in order to establish or increase reserves; (art. 32.1 Articles of Association (AoA))
b) Distribution of interim dividends, subject to the approval of the Supervisory Board; (art. 32.4 AoA)
c) Distribution to holders of common shares out of one or more of the freely distributable reserves subject to the approval of the Supervisory Board; (art. 32.5 AoA)
d) Transfer of priority shares. (art. 14.2 AoA)

Before submission to the General meeting of Shareholders prior approval of the holder of the priority shares is required for:

a) Issue of shares; (art. 5.4 AoA)
b) Limitation of or exclusion from pre-emptive rights of the holders of other classes of shares; (art. 5.4 AoA)
c) Repurchase of own shares; (art. 10.2 AoA)
d) Alienation of own priority shares and C cumulative preference shares; (art. 11.2 AoA)
e) Reduction of the issued share capital; (art. 11.3 AoA)
f) Remuneration and conditions of employment of the Managing Directors; (art.17.4 AoA)
g) Amendments of the Articles of Association and/or dissolution the Company. (art. 41.1 AoA)

A Cumulative preference shares, B Preference shares, C Cumulative preference shares and Ordinary shares

Holders of preference and ordinary shares are entitled to attend and vote at shareholders' meetings. Each share entitles the holder to one vote.

Since 1994 the State of The Netherlands has had an option to acquire such a number of B preference shares that the State would obtain an interest of up to 50.1% in the Company's issued capital. The option may be exercised only if the Company's access to relevant markets is or will be denied or limited because a country is of the opinion that ownership or control of KLM is not predominantly in Dutch hands. As at March 31, 2007 the State of The Netherlands held 3,708,315 A cumulative preference shares to which a voting right attaches of 5.9%, this is not changed since 2005/06.

For details of the right to dividend distributions attaching to each class of share see the Other information section.

10 Other reserves

	Hedging reserve	Translation reserve	Statutory reserve	Total
As at April 1, 2005	**134**	**2**	**29**	**165**
Gains/(losses) from cash-flow hedges	(7)	-	-	(7)
Exchange differences on translating foreign operations	-	6	-	6
Transfer to retained earnings	-	-	(4)	(4)
Tax on items taken directly to or transferred from equity	5	-	-	5
As at March 31, 2006	**132**	**8**	**25**	**165**
As at April 1, 2006	**132**	**8**	**25**	**165**
Gains/(losses) from cash-flow hedges	(42)	-	-	(42)
Exchange differences on translating foreign operations	-	(6)	-	(6)
Transfer to retained earnings	-	(15)	6	(9)
Tax on items taken directly to or transferred from equity	18	-	-	18
As at March 31, 2007	**108**	**(13)**	**31**	**126**

Statutory reserve

As required by Article 365.2 of Book 2 of The Netherlands Civil Codea statutory reserve is maintained equal to the amount of development costs incurred on computer software at the balance sheet date.

11 Financial liabilities

	2006/07	2005/06
Carrying amount as at April 1	**717**	**534**
Additions and loans received	343	186
Loans repaid	(18)	(3)
Foreign currency translation differences	(27)	(11)
Other changes	121	11
Net movement	**419**	**183**
Carrying amount as at March 31	**1,136**	**717**

The financial liabilities comprise:

	March 31, 2007		March 31, 2006	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	463	-	491
Other loans (secured/unsecured)	70	571	7	187
Total	**70**	**1,066**	**7**	**710**

The subordinated perpetual loans are subordinate to all other existing and future KLM debts. The subordinations are equal in rank. Under certain circumstances KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium.

The Swiss Franc subordinated perpetual loans amounting to EUR 259 million as at March 31, 2007 (2005/06 EUR 266 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	2007	2006
Less than 1 year	70	7
Between 1 and 2 years	45	8
Between 2 and 3 years	46	8
Between 3 and 4 years	50	22
Between 4 and 5 years	36	38
Over 5 years	889	634
Total as at March 31	**1,136**	**717**

The carrying amounts of financial liabilities denominated in currencies other than the Euro are as follows:

	2007	2006
USD	46	-
CHF	259	265
JPY	191	226
Total as at March 31	**496**	**491**

The fair values of financial liabilities are as follows:

	2007	2006
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	428	459
Other loans (secured/unsecured)	644	200
Fair value as at March 31	**1,104**	**691**

The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments.

The exposure of the Group's borrowing interest rate changes and the contractual re-pricing dates are as follows:

	<1 year	>1 year and <2 years	>2 years and <3 years	>3 years and <4 years	>4 Years and <5 years	> 5 years	Total
As at March 31, 2006							
Total borrowings	173	-	-	-	-	544	717
Effect of interest rate swaps	(100)	-	-	-	-	100	-
	73	**-**	**-**	**-**	**-**	**644**	**717**
As at March 31, 2007							
Total borrowings	633	-	-	-	-	503	1,136
Effect of interest rate swaps	(154)	-	-	-	-	154	-
	479	**-**	**-**	**-**	**-**	**657**	**1,136**

The effective interest rates at the balance sheet date, excluding the effect of derivatives, are as follows:

	March 31, 2007		March 31, 2006	
in %	EUR	Other	EUR	Other
Cumulative preference shares	5.55	-	5.55	-
Subordinated perpetual loans	-	4.81	-	4.81
Other loans	4.42	8.50	3.33	-

The interest rates of the subordinated perpetual loans and other loans, taking into account the effect of derivatives, are as follows:

	Variable interest loans	Fixed interest loans	Average variable % rate	Average fixed %- rate	Average % rate
Subordinated perpetual loans	-	463	-	4.58	4.58
Other loans	219	422	4.43	4.90	4.72

The variable interest rates are based on the London and Euro Interbank Offered Rates. As at July 29, 2005 the Company has a committed EUR 540 million, five-year standby credit facility with a consortium of international banks. No amounts had been drawn on this facility as at March 31, 2007 and 2006.

12 Lease obligations

	March 31, 2007			March 31, 2006		
	Future minimum lease payments	Future finance charges	Financial lease liabilities	Future minimum lease payments	Future finance charges	Financial lease liabilities
Finance lease obligations						
Within 1 year	694	129	565	647	148	499
Total current	**694**	**129**	**565**	**647**	**148**	**499**
Between 1 and 2 years	487	108	379	750	127	623
Between 2 and 3 years	467	84	384	474	105	369
Between 3 and 4 years	493	60	432	523	78	445
Between 4 and 5 years	417	38	379	511	55	456
Over 5 years	1,064	89	974	1,310	102	1,208
Total non-current	**2,928**	**379**	**2,548**	**3,568**	**467**	**3,101**
Total	**3,622**	**508**	**3,113**	**4,215**	**615**	**3,600**

The finance leases relate exclusively to aircraft leasing. At the expiry of the leases, KLM has the option to purchase the aircraft at the amount specified in each contract. The lease agreements provide for either fixed or floating interest payments. Where the agreements are subject to a floating interest rate, this is normally the 3 or 6 month EURIBOR or the USD LIBOR rate. The average interest rate, without taking into account the impact of hedging (and the deferred benefits arising from sale and leaseback transactions) is 5.7% (average fixed rate 7.5%, average floating rate 4%). Taking into account the impact of hedging the average interest rate is 4.5% (average fixed rate 4.7%, average floating rate 4%). After hedging 91% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 3,070 million as at March 31, 2007 (2005/06 EUR 3,543 million). The fair value of the financial liabilities is based on the net present value of the anticipated future cash flows associated with these instruments. For the lease liabilities restricted deposits are used as collateral.

The total future minimum lease payments under operating leases are as follows:

	Aircraft		Buildings		Other equipment		Total	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Operating lease commitments								
Within 1 year	184	166	23	25	14	11	221	202
Total current	**184**	**166**	**23**	**25**	**14**	**11**	**221**	**202**
Between 1 and 2 years	183	172	24	24	14	8	221	204
Between 2 and 3 years	166	155	22	23	14	7	202	185
Between 3 and 4 years	150	138	19	21	12	7	181	166
Between 4 and 5 years	137	124	17	17	10	7	164	148
Over 5 years	334	420	193	203	-	6	527	629
Total non-current	**970**	**1,009**	**275**	**288**	**50**	**35**	**1,295**	**1,332**
Total	**1,154**	**1,175**	**298**	**313**	**64**	**46**	**1,516**	**1,534**

13 Deferred income

	March 31, 2007		March 31, 2006	
	Current	Non-current	Current	Non-current
Advance ticket sales	536	63	531	39
Government investment grants	2	-	4	2
Sale and leaseback transactions	9	15	13	22
Flying Blue frequent flyer program	6	39	9	31
Total	**553**	**117**	**557**	**94**

For comparison purposes within Air France KLM the Flying Blue frequent flyer program has been reclassified from other provisions (note 16) to deferred income. Comparative figures March 31, 2006 have been reclassified.

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14 Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2006/07	2005/06
Carrying amount as at April 1	**414**	**301**
Income statement charge	63	126
Tax (credited)/charged to equity	(18)	(6)
Other movements	14	(7)
Net movement	**59**	**113**
Carrying amount as at March 31	**473**	**414**

The applicable tax rate for calculating deferred tax assets and liabilities has changed from 29.1%, being the rate used on March 31, 2006 for calculating deferred taxes expecting to reverse in fiscal years 2007/08 and further, to 25.5% being the applicable tax rate effective as of January 1, 2007. The impact of this rate change has been recorded in the income tax expense line in the consolidated income statement.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The amounts of deferred tax assets recognized in the other tax jurisdictions (i.e. in The United Kingdom) are included in the deferred tax asset line within non-current assets on the balance sheet. Of the total amount involved, being EUR 24 million, EUR 7 million is expected to be recovered in 12 months or less and EUR 17 million is expected to be recovered after more than 12 months.

The split between deferred tax assets and net (offset) deferred tax liabilities is as follows:

	March 31, 2007	March 31, 2006
Deferred tax asset	(24)	-
Deferred tax liability (offset)	497	414
	473	**414**

The offset amounts are as follows:

	March 31, 2007	March 31, 2006
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	43	100
Deferred tax assets to be recovered after more than 12 months	127	288
	170	**388**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	53	71
Deferred tax liabilities to be settled over more than 12 months	614	731
	667	**802**
Carrying amount as at March 31	**497**	**414**

The movements in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other	Carrying amount as at March 31
Deferred tax assets					
Fiscal 2005/06					
Tax losses	109	(52)	-	-	57
Investment grant settled with tax	44	-	-	-	44
Fleet assets	264	(27)	-	-	237
Fleet related assets (maintenance)	11	-	-	-	11
Pensions and benefits provisions	27	(11)	-	-	16
Maintenance provision	11	(1)	-	-	10
Financial lease	16	(6)	-	-	10
Other	14	(11)	-	-	3
Total	**496**	**(108)**	**-**	**-**	**388**
Fiscal 2006/07					
Tax losses	57	(42)	-	9	24
Investment grant settled with tax	44	1	-	(39)	6
Fleet assets	237	(51)	-	-	186
Fleet related assets (maintenance)	11	(5)	-	10	16
Pensions and benefits provisions	16	(2)	-	-	14
Maintenance provision	10	-	-	(10)	-
Financial lease	10	(3)	-	-	7
Other	3	(3)	-	-	-
Total	**388**	**(105)**	**-**	**(30)**	**253**

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other	Carrying amount as at March 31
Deferred tax liabilities					
Fiscal 2005/06					
Fleet assets	60	(15)	-	-	45
Other tangible fixed assets	67	(5)	-	-	62
Pensions and benefits (asset)	537	20	-	-	557
Maintenance provision	34	(1)	-	-	33
Derivatives	62	-	(6)	-	56
Other	37	12	-	-	49
Total	**797**	**11**	**(6)**	**-**	**802**
Fiscal 2006/07					
Fleet assets	45	-	-	-	45
Other tangible fixed assets	62	(10)	-	-	52
Pensions and benefits (asset)	557	(9)	-	(6)	542
Maintenance provision	33	17	-	-	50
Derivatives	56	-	(18)	(1)	37
Other	49	(40)	-	(9)	-
Total	**802**	**(42)**	**(18)**	**(16)**	**726**

The Group has tax loss carry forwards in The United Kingdom in the amount of EUR 81 million (2005/06 EUR 145 million) as well as deductible temporary differences for which no deferred tax asset has been recognized, due to the uncertainty whether there are sufficient future tax profits against which such temporary differences and tax losses can be utilized. The unrecognized deferred tax assets relating to temporary differences total EUR 128 million. The tax loss carry forward in The United Kingdom is available for indefinite set off against future periods.

15 Provisions for employee benefits

	March 31, 2007	March 31, 2006
Pension and other post-employment benefits	174	213
Other long-term employment benefits	60	75
Termination benefits	22	13
Subtotal	**256**	**301**
Less: Non-current portion		
Pension and other post-employment benefits	153	211
Other long-term employment benefits	54	64
Termination benefits	15	9
Non-current portion	**222**	**284**
Current portion	**34**	**17**

Amounts in the balance sheet:

	March 31, 2007	March 31, 2006
Liabilities		
Non-current portion	222	284
Current portion	34	17
Total liabilities	**256**	**301**
Assets		
Non-current portion	2,074	1,873
Total assets	**2,074**	**1,873**

	March 31, 2007	March 31, 2006
Pensions and other post-employment benefits		
Pension and early-retirement obligations	128	148
Post-employment medical benefits	46	65
Total	**174**	**213**
Less: Non-current portion		
Pension and early-retirement obligations	110	148
Post-employment medical benefits	43	63
Non-current portion	**153**	**211**
Current portion	21	2

Pension plans

The company sponsors a number of pension plans for employees world-wide. The major plans are defined benefit plans covering Cabin Staff, Pilots and Ground Staff based in The Netherlands, The United Kingdom, Germany, Canada, Hong Kong, The Netherlands Antilles and Japan. The major plans are funded through separate pension funds which are governed by independent boards and are subject to supervision of the local regulatory authorities. In addition to these major plans there are various relatively insignificant defined benefit and defined contribution plans for employees located outside The Netherlands.

Plan amendments

In the year ending March 31, 2007 plan amendments have led to a gain of EUR 18 million, mainly as a result of small changes to the pension and early retirement obligations in the KLM Cabin Fund and Transavia Pilot fund. The Transavia Ground fund was converted from a defined benefit scheme to a collective defined contribution scheme leading to a reduction of the projected benefit obligation of EUR 43 million and a related reduction of the assets of EUR 40 million.

KLM concluded new agreements on funding and surplus distribution with the KLM pension funds for Ground staff and pilots. The new agreement that is effective as per January 1, 2007 led to a reduction in employer contributions of EUR 62 million in 2006/07.

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totaling EUR 2,961 million as at March 31, 2007 (2005/06 EUR 2,589 million). Actuarial gains and losses are recognized in determining the benefit obligations and the plan assets only to the extent that they cumulatively exceed the greater of 10% of the present value of the obligations or the fair value of the plan assets. Surpluses and deficits have been recognized in the balance sheet according to IAS 19.

No limit (i.e. after the impact of IAS 19) on the net assets recognized in the balance sheet is applied since, based on the current financing agreements between these pension funds and the Company, future economic benefits are available in the form of a reduction in future contributions. As at March 31, 2007 the net assets recognized in the balance sheet of the three main funds, after taking into account unrecognized net actuarial gains and losses and net unrecognized past service costs amount to EUR 2,071 million (2005/06 EUR 1,873 million).

The above treatment represents the Company's current understanding of IAS 19 and the issued Exposure Draft ("D19") by the IFRIC.

Investment strategy

The boards of the funds consult independent advisors as necessary to assist them with determining investment strategies consistent with the objectives of the funds. These strategies relate to the allocation of assets to different classes with the objective of controlling risk and maintaining the right balance between risk and long-term returns in order to limit the contribution to the company of the benefits provided. The funds use asset and liability management studies that generate future scenarios to determine their optimal asset mix and expected rates of return on assets.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The plans invest a large proportion of the assets in equities which it is believed offer the best returns over the long term commensurate with an acceptable level of risk. Also a proportion of assets is invested in property, bonds and cash. Most assets are managed by the Blue Sky Group.

Post-employment medical benefits

This provision relates to the obligation the Company has to contribute to the cost of employees' medical insurance after retirement in The Netherlands, The United States of America and Canada.

Assumptions used for provisions for employee benefits

The provisions were calculated using actuarial methods based on the following assumptions (weighted averages for all plans):

	Pension and early-retirement obligations		Post-employment medical benefits	
in %	2006/07	2005/06	2006/07	2005/06
Weighted average assumptions used to determine benefit obligations				
Discount rate for year ended March 31	4.49	4.46	5.51	5.03
Rate of compensation increase	5.11	5.13	-	-
Rate of price inflation	2.05	2.18	-	-
Weighted average assumptions used to determine net cost				
Discount rate for year ended March 31	4.49	4.53	5.57	5.02
Expected long-term rate of return on plan assets	5.70	5.69	-	-
Rate of compensation increase	5.04	5.18	-	-
Rate of price compensation	2.02	2.22	-	-
Medical cost trend rate assumptions used to determine net cost *				
Immediate trend rate Pre 65			7.35	10.00
Immediate trend rate Post 65			9.46	10.00
Ultimate trend rate			4.87	5.00
Year that the rate reaches ultimate trend rate			2012/2013	2012

- The rates shown are the weighted averages for The United States of America and Canada. The benefit in The Netherlands is a fixed amount.

For the main Dutch pension plans 2006/07 the mortality table GBM/V 1995-2000, with a setback of one year for both male and female participants taking into account an increase of 2.5% for longevity defined benefit obligation and service cost, has been used.

	Pension and early-retirement obligations		Post-employment medical benefits	
	2007	2006	2007	2006
Present value of wholly or partly funded obligations	9,260	8,816	-	-
Fair value of plan assets	(12,221)	(11,405)	-	-
Subtotal	**(2,961)**	**(2,589)**	**-**	**-**
Present value of unfunded obligations	17	12	52	71
Unrecognized net actuarial gains/(losses)	998	852	(6)	(6)
Subtotal	**1,015**	**864**	**46**	**65**
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**(1,946)**	**(1,725)**	**46**	**65**

	Pension and early-retirement obligations		Post-employment medical benefits	
	2007	2006	2007	2006
Amounts in the balance sheet as at March 31				
Liabilities	128	148	46	65
Assets	(2,074)	(1,873)	-	-
Net liability/(asset) relating pension and other post-retirement obligations as at March 31	**(1,946)**	**(1,725)**	**46**	**65**

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The movements in the present value of the pension and other post-employment benefit obligations (both funded and unfunded) in the year are as follows:

	Pension and early-retirement obligations		Post-employment medical benefits	
	2006/07	2005/06	2006/07	2005/06
Carrying amount as at April 1	**8,828**	**8,404**	**70**	**112**
Service cost	311	310	-	2
Interest cost	389	378	2	6
Plan participants' contributions	37	35	-	-
Curtailments	(57)	3	(20)	(55)
Actuarial losses/(gains)	15	(23)	3	8
Benefits paid from plan/company	(289)	(273)	(2)	(5)
Other	36	(3)	-	-
Exchange rate changes	7	(3)	(3)	2
Net movement	**449**	**424**	**(20)**	**(42)**
Carrying amount as at March 31	**9,277**	**8,828**	**50**	**70**

The movements in the fair value of assets of the wholly or partially funded pension plans in the year can be summarized as follows:

	2006/07	2005/06
Fair value as at April 1	**11,404**	**9,757**
Expected return on plan assets	649	557
Actuarial gains/(losses) (related to the plan assets)	174	1,051
Employer contributions	244	284
Member contributions	37	35
Benefits paid from plan / company	(288)	(273)
Curtailments	(40)	(1)
Other	34	(3)
Exchange rate changes	7	(3)
Net movement	817	1,647
Fair value as at March 31	**12,221**	**11,404**

The major categories of the pension plan assets as a percentage of total plan assets is as follows:

in %	March 31, 2007	March 31, 2006
Debt securities	45.7	47.0
Real estate	13.3	11.0
Equity securities	40.3	40.5
Other	0.7	1.5

The actual return on pension plan assets is EUR 823 million (2005/06 EUR 1,608 million).

	2007	2006
Other long-term employee benefits		
Jubilee benefits	40	35
Other benefits	20	40
Total carrying amount	**60**	**75**
Less: Non-current portion		
Jubilee benefits	38	33
Other benefits	16	31
Non-current portion	**54**	**64**
Current portion	**6**	**11**

Jubilee benefits

The provision for jubilee benefits covers bonuses payable to employees when they attain 25 and 40 years of service.

Other benefits

The provision for other benefits relates to existing retirement entitlements.

	2007	2006
Termination benefits		
Redundancy benefits		
Non-current portion	15	9
Current portion	7	4
Total carrying amount	**22**	**13**

Termination benefits relates to a provision for supplements to unemployment benefits to former employees.

16 Other provisions

	Phasing-out costs of operating lease aircraft	Re-organization and restructuring	Other	Total
As at April 1, 2006	**58**	**8**	**77**	**143**
Charged to consolidated income statement:				
Additional provisions and increases in existing provisions	16	2	25	43
Unused amounts reversed	(3)	-	(6)	(9)
Used during year	(38)	(6)	(14)	(58)
Other changes	(2)	-	(1)	(3)
As at March 31, 2007	**31**	**4**	**81**	**116**
Current/non-current portion				
Non-current portion	29	-	68	97
Current portion	2	4	13	19
Carrying amount as at March 31, 2007	**31**	**4**	**81**	**116**

Phasing-out costs of operating lease aircraft

For a number of aircraft operated under operational lease contracts, there is a contractual obligation to the lessors to redeliver the aircraft in an agreed state of maintenance. The provision represents the estimated costs to be incurred or reimbursed to the lessor at the balance sheet date.

Other provisions

As from the fiscal year 2006/07, maintenance provisions regarding Transavia aircraft have been reclassified from accrued liabilities (note 17) to other provisions, since this classification is more in line with the actual contractual obligations. As at March 31, 2007 the provision amounts to EUR 56 million (March 31, 2006 EUR 54 million). Comparative figures March 31, 2006 have been reclassified.

Other provisions include provisions for salary compensation for former flight engineers transferred to other functions and demolition costs of buildings and site restoration costs for land and buildings which is the subject of long lease.

17 Trade and other payables

	March 31, 2007	March 31, 2006
Trade payables	626	611
Amounts due to Air France-KLM Group companies	60	38
Amounts due to maintenance contract customers	31	28
Taxes and social security premiums	70	70
Other payables	330	240
Accrued liabilities	375	476
Total	**1,492**	**1,463**

18 Commitments

As at March 31, 2007 KLM has commitments for previously placed orders amounting to EUR 540 million (2005/06 EUR 820 million). EUR 519 million of this amount relates to aircraft (2005/06 EUR 783 million) of which EUR 334 million is due in 2007/08. The balance of the commitments as at March 31, 2007 amounting to EUR 24 million (2005/06 EUR 37 million) are related to other tangible fixed assets. As at March 31, 2007 prepayments on aircraft orders have been made, accounting to EUR 211 million (2005/06 EUR 237 million).

Aircraft on order as at March 31, 2007 are as follows:

- 4 Boeing 777-300
- 10 Boeing 737-800

Aircraft on order as at March 31, 2006 were as follows:

- 4 Boeing 777-200
- 2 Boeing 737-800
- 3 Airbus A330-200

19 Contingent assets and liabilities

Contingent liabilities

Litigation

Action filed by the EU Commission, The United States Department of Justice (The "US DOJ") and competition authorities in other jurisdictions for alleged cartel activity in the air cargo transport and related civil lawsuits.

On February 14, 2006 authorities from the EU Commission and the US DOJ presented themselves at the offices of KLM, as well as most airlines and world major cargo operators, formally requesting information about alleged conspiracy to fix the price of air shipping services.

KLM is cooperating with these investigations. Subsequently, as at March 31, 2007 over 140 purported class action lawsuits have been filed against air cargo operators, including a number were KLM is mentioned specifically. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including various surcharges in Air Cargo Services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief amounting to triple amount of compensatory damages. Currently, there are motions pending to appoint a lead plaintiff's counsel. KLM intends to defend itself in these cases vigorously.

At this time, KLM is unable to predict the outcome of these investigations requested by antitrust and civil litigation authorities, or the amount of penalties and compensatory damages which could be due.

Agents' commissions ("The Tam Travel case")

On April 9, 2003 a complaint was filed with the federal district court in Oakland, California on behalf of approximately 50 travel agents alleging that 11 U.S. airlines and 8 international airlines, including KLM, conspired to reduce and ultimately eliminate base commissions paid to the agents. The case has subsequently been transferred to the federal district court in Youngstown, Ohio. Currently, depositions are taking place.

The management intends to defend the Company against the claims as it is believed that the allegations are fundamentally without merit. The potential financial exposure, if any, of the Group cannot be estimated.

Other litigation

The Company and certain of its subsidiaries are involved as defendant in litigation relating to competition issues, commercial transactions, and labor relations. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that, with the exception of the matters discussed above, the outcome of any such claims, either individually or on a combined basis, will not have a material adverse effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

Site cleaning up costs

The Group owns a number of Cargo and Maintenance buildings situated on various parcels of land which are the subject of long lease agreements. At the expiry of each of these agreements the Company has the following options:

1) To demolish the buildings and clean up the land prior to return to the lessor;
2) To transfer ownership of the building to the lessor; or
3) To extend the lease of the land.

With the exception of the buildings referred to in note 16, no decision has been taken regarding the future of any of the buildings standing on leased land. Until a decision has been taken as to whether a lease will be extended or the property sold, it cannot be determined whether it is probable that site cleaning up costs will be incurred and to what extent. Accordingly, no provision for such costs has been established.

Guarantees

General guarantees as defined in Book 2, Section 403 of The Netherlands Civil Codehave been given by the Company on behalf of several subsidiaries in The Netherlands. The liabilities of these companies to third parties and unconsolidated companies totaled EUR 176 million as at March 31, 2007 (2005/06 EUR 79 million).

Guarantees totaling EUR 31 million (2005/06 EUR 36 million) have also been given on behalf of other Group companies, and guarantees totaling EUR 23 million (2005/06 EUR 22 million) on behalf of unconsolidated companies and third parties.

The Company's share of guarantees given by its joint venture company, Martinair Holland N.V. as at March 31, 2007 amounts to EUR 10 million (2005/06 EUR 8 million).

Contingent assets

Litigation

The Company and certain of its subsidiaries are involved as plaintiff in litigation relating to commercial transactions and tax disputes. Although the ultimate disposition of asserted claims and proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any such claims, either individually or on a combined basis, will not have a material favorable effect on the Company's consolidated financial position, but could be material to the consolidated results of operations of the Company for a particular period.

20 Revenues

	2006/07	2005/06
Services rendered		
Passenger transport	5,423	5,046
Cargo transport	1,162	1,157
Maintenance contracts	443	409
Charter and low cost business	576	468
Other services	94	121
Total revenues	**7,698**	**7,201**

21 External expenses

	2006/07	2005/06
Aircraft fuel	1,784	1,382
Chartering costs	114	110
Aircraft operating lease costs	142	152
Landing fees and route charges	616	559
Catering	92	91
Handling charges and other operating costs	352	360
Aircraft maintenance costs	510	406
Commercial and distribution costs	394	393
Insurance	43	47
Rentals and maintenance of housing	104	105
Sub-contracting	139	157
Hired personnel	144	112
Other external expenses	466	429
Total external expenses	**4,900**	**4,303**

22 Employee compensation and benefit expense

	2006/07	2005/06
Wages and salaries	1,519	1,449
Social security premiums other than for state pension plans	158	155
Share-based remuneration	12	2
Pension and early-retirement plan costs	34	144
Post-employment medical benefit costs	(15)	(32)
Other long-term employee benefit costs	8	5
Total employee compensation and benefit expenses	**1,716**	**1,723**

Pension and early-retirement plan costs comprise:

	2006/07	2005/06
Defined benefits plans	22	135
Defined contribution plans	12	9
Total	**34**	**144**

Defined benefit plans and early-retirement plan costs comprise:

	2006/07	2005/06
Current service cost	311	310
Interest cost	388	378
Expected return on plan assets	(649)	(557)
Net actuarial losses/(gains) recognized in year	(13)	1
Past service cost	-	6
Losses/(gains) arising from plan curltailments or settlements	(18)	(3)
Other	3	-
Total	**22**	**135**

In the year ended March 31, 2007 the net period pension cost for the major defined benefit plans recognized in the income statement amounted to EUR 22 million (2005/06 EUR 135 million) and the total contributions paid by the Company amounted to EUR 244 million (2005/06 EUR 284 million). The contributions paid in 2006/07 include additional deficit funding in The United Kingdom amounting to EUR 13 million (2005/06 EUR 16 million).

The projected defined benefit plans and early retirement plan costs for 2007/08 amount to EUR 3 million.

Post-employment medical benefits costs comprise:

	2006/07	2005/06
Current service cost	-	2
Interest cost	2	6
Net actuarial losses/(gains) recognized in year	-	4
Losses/(gains) arising from plan curltailments or settlements	(17)	(44)
Total	**(15)**	**(32)**

Following the introduction of the new medical care insurance scheme (Zorgverzekeringswet) in The Netherlands on January 1, 2006 post employment contributions for KLM have changed. As a result KLM have further reduced its provision in The Netherlands which has led to a curtailment gain of EUR 17 million in 2006/07.

Other long-term employee benefits comprise:

	2006/07	2005/06
Current service cost	2	2
Interest cost	2	1
Net actuarial losses/(gains) recognized in year	4	2
Total	**8**	**5**

Number of full-time equivalent employees:

	2006/07	2005/06
Average for year		
Flight deck crew	2,837	2,693
Cabin crew	7,084	6,778
Ground staff	20,600	20,647
Total	**30,521**	**30,118**
As at March 31		
Flight deck crew	2,899	2,731
Cabin crew	7,260	6,772
Ground staff	20,612	20,661
Total	**30,771**	**30,164**

23 Depreciation and amortisation

	2006/07	2005/06
Intangible assets	11	10
Flight equipment	386	347
Other property and equipment	80	87
Total depreciation and amortization	**477**	**444**

24 Gain/ (Loss) on disposal of assets

Gain on disposal of assets mainly relates to the sale of Tax Free Services to Amsterdam Airport Schiphol for an amount of EUR 11 million.

25 Net cost of financial debt

	2006/07	2005/06
Gross cost of financial debt		
Loans from third parties	95	77
Finance leases	144	128
Other interest expenses	(6)	(9)
Total gross cost of financial debt	**233**	**196**
Income from cash and cash equivalents		
Loans to third parties	129	78
Total income from cash and cash equivalents	**129**	**78**
Net cost of financial debt	**104**	**118**

	2006/07	2005/06
Interest accretion on other provisions	10	(10)
Foreign currency exchange gains/(losses)	19	18
Fair value gains/(losses)	35	11
Impairment (losses) on financial assets	(7)	-
Total other financial income and expense	**57**	**19**

26 Income tax expense

	2006/07	2005/06
Current tax expense	47	50
Adjustment recognized in the current period for current and deferred tax of prior periods	(3)	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	96	86
Benefit from previously unrecognized tax loss	(10)	-
Deferred tax expense/(income) resulting from increase/(reduction) in tax rate	(67)	(10)
Total income tax expense	**63**	**126**

Deferred tax expense/(income) relating to the origination and reversal of temporary differences includes a release of a tax provision in The Netherlands amounting to EUR 18 million, which relates to the settlement of fiscal years 1995/96 through 2001/02.

The tax rate in The Netherlands applicable as of January 1, 2007 changed from 29.1% to 25.5%. As a consequence, the applicable average tax rate for 2006/07 changed from 29.5% to 28.6%. The impact of this change on deferred tax assets and liabilities as at March 31, 2007 is recorded in the income tax expense line in the consolidated income statement.

The average effective tax rate is reconciled to the applicable tax rate in The Netherlands as follows:

in %	2006/07	2005/06
Applicable average tax rate in The Netherlands	28.6	31.0
Impact of:		
Profit free of tax/Non-deductible expenses	(0.4)	(2.5)
Use of tax loss carry-forward	(1.7)	(0.2)
Unutilized tax losses incurred in year	1.3	0.5
Permanent differences with taxable profit	(3.9)	2.0
Difference due to tax rate changes	(11.8)	(2.2)
Fiscal investment and other incentives	(1.0)	
Effective tax rate	**11.1**	**28.6**

27 Share-based payments

The liability arising from share based payment transactions is as follows:

	March 31, 2007	March 31, 2006
Share option plan	17	8
Carrying amount	**17**	**8**

The movement in the number of share options granted and the weighted average exercise prices of the movements is as follows:

	2006/07		2005/06	
	Number of share options	Weighted average exercise price (in EUR)	Number of share options	Weighted average exercise price (in EUR)
As at April 1	**1,452,780**	**14.94**	**1,659,268**	**13.97**
Granted	411,105	17.83	390,609	13.11
Forfeited	(15,209)	14.38	(24,093)	16.64
Exercised	(539,548)	17.12	(538,585)	10.71
Expired	-	-	(34,419)	32.86
As at March 31	**1,309,128**	**14.96**	**1,452,780**	**14.94**
Exercisable as at March 31	**70,213**		**528,297**	

In note 22 Employee compensation and benefit expense an amount of EUR 12 million is included. The number of shares that can be acquired analyzed by the date of expiry of the option period is as follows:

	Exercise price (in EUR)	2007	2006
Option expiry date			
October 20, 2006 (Option A)	20.44	-	332,170
October 20, 2006 (Option B)	16.22	-	48,762
October 19, 2007 (Option A)	12.80	27,761	117,402
October 19, 2007 (Option B)	10.07	8,604	29,963
June 30, 2008	6.48	33,848	82,611
June 30, 2009	13.19	446,100	451,263
July 16, 2010	13.11	385,544	390,609
July 26, 2011	17.83	407,271	-
Carrying amount as at March 31		**1,309,128**	**1,452,780**

Share option plan

As an incentive to make a longer-term commitment to the Company share purchase options on Air France KLM S.A. shares are granted to senior employees on the basis of their reaching agreed personal performance targets. The maximum number of options that may be granted to an individual employee in any year is related to their job grade. At the grant date one-third of the options granted vest with a further one-third after the expiration of one and two years respectively. Vesting is conditional on the Company achieving predetermined performance criteria. For the option series other than those with an expiry date of July 16, 2010 and July 26, 2011 vesting conditions other than those described above applied.

Subject to restrictions relating to the prevention of insider-trading, options may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding options are forfeited. Options are also forfeited when employees leave the Company's employment.

The exercise price of an option is based on the weighted average price of Air France KLM S.A. shares as calculated by Bloomberg on the first working day after the Air France KLM S.A. Annual General Meeting (prior to May 4, 2004 the exercise price was based on the Company's share price on the first working day after the AGM).

Prior to the merger between Air France and KLM, the options were granted on the Company's shares. As a consequence of the merger, the options granted on KLM shares were converted into options on Air France KLM S.A. shares. This conversion took place on the basis of the conversion formula for KLM options listed on the Euronext Amsterdam Exchange. As a result of this conversion, the exercise price of the options granted as at May 4, 2004 was lowered by a factor 1.147 and the number of outstanding options was increased by the same factor.

For 2001 and 2002, following the introduction of tax legislation enabling option recipients to elect for taxation upon the vesting of an option or upon the exercise of an option, the share option plan was amended to allow recipients to chose between two types of option (A or B) as follows:

Option A

An exercise price that is equal to a percentage of the vesting price such that the taxable value of the option is 4% of the value of the KLM share option.

Option B

An exercise price that is equal to the vesting price.

From 2003 onwards recipients are offered a single plan whereby tax is payable on exercise of the option with the exercise price being equal to the vesting price.

Fair value measurement

The fair value of the share-based payments has been determined using the Black-Scholes formula.

The main assumptions used in the calculations are as follows:

	2007	2006
Fair value at grant date	3.37	2.30
Share price (in EUR, Closing price March 31, AEX Amsterdam)	34.15	19.53
Volatility (%)	25.2	22.0
Risk free rate (%)	4.0	2.9
Dividend yield (%)	1.1	3.2

28 Supervisory Board remuneration

	2006/07			2005/06		
(Amounts in EUR)	As Supervisory Board member	As Committee member	Total	As Supervisory Board member	As Committee member	Total
K.J. Storm	36,302	906	37,208	36,302	1,359	37,661
J.D.F. Martre	29,495	-	29,495	29,495	-	29,495
I.P Asscher-Vonk	22,689	-	22,689	22,689	-	22,689
J.D.F.C. Blanchet	22,689	-	22,689	22,689	-	22,689
B. Geersing	22,689	1,359	24,048	22,689	906	23,595
H. Guillaume	22,689	906	23,595	22,689	1,359	24,048
W. Kok	22,689	4,083	26,772	22,689	2,722	25,411
R. Laan	22,689	1,359	24,048	22,689	906	23,595
H.N.J. Smits	22,689	2,722	25,411	22,689	4,083	26,772
Total	**224,620**	**11,335**	**235,955**	**224,620**	**11,335**	**235,955**

For further information on the remuneration policy relating to Supervisory Board members, see the Remuneration Policy and Report in the Board and Governance section. The fees paid to the Supervisory Board are not linked to the Company's results.

Other transactions with Supervisory Board members

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Supervisory Board.

29 Board of Managing Directors remuneration

(Amounts in EUR)	Base salary	Short-term incentive plan	Targets achieved	Pension	Termination benefits	Total
2006/07						
L.M. Van Wijk	675,679	462,041	Partially	186,000	-	1,323,720
P.F. Hartman	576,160	393,988	Partially	152,000	-	1,122,148
F.N.P. Gagey	374,971	260,338	Partially	-	-	635,309
Total	**1,626,810**	**1,116,367**	**-**	**338,000**	**-**	**3,081,177**

(Amounts in EUR)	Base salary	Short-term incentive plan	Targets achieved	Pension	Termination benefits	Total
2005/06						
L.M. Van Wijk	666,083	467,415	Fully	177,000	-	1,310,498
P.F. Hartman	567,979	398,572	Fully	144,000	-	1,110,551
F.N.P. Gagey	352,625	247,450	Fully	-	-	600,075
C. Van Woudenberg (to June 30, 2005)	120,438	72,985	Partially	37,500	-	230,923
Total	**1,707,125**	**1,186,422**		**358,500**	**-**	**3,252,047**

For details of the remuneration policy see the Remuneration Policy and Report in the Board and Governance section.

Short-term incentive plan

For a description of the short-term incentive plan, we refer to the section Remuneration Policy and Report.

Other allowances and benefits in kind

In addition to the base salary the members of the Board of Managing Directors were entitled to other allowances and benefits including a company car and customary plans such as disability insurance, telephone costs and fixed monthly allowances for business expenses not otherwise reimbursed.

Pension costs

The pension costs represent the service cost of the defined benefit plan obligations. Mr. Gagey's pension and social security costs are borne by Air France.

External supervisory board memberships

Members of the Board of Managing Directors received fees totaling EUR 345,000 (2005/06 EUR 272,000). These amounts were fully ceded to the Company.

Other transactions with members of the Board of Managing Directors

Apart from the transactions described above there were no other transactions such as loans or advances to or from or guarantees given on behalf of members of the Board of Managing Directors.

Long-term incentive plan

As an incentive to make a longer-term commitment to the Company options on Air France KLM shares are granted to members of the Board of Managing Directors on the basis of their reaching agreed personal performance targets. The maximum number of options that may be granted in any year is 25,000. For further information see note 27.

Subject to restrictions relating to the prevention of insider-trading, options may be exercised at any time between the third and the fifth anniversary of the day of grant. After five years the outstanding options are forfeited.

The members of the Board of Managing Directors had the following positions with respect to options on shares in Air France KLM S.A. at March 31, 2007:

(Amounts in EUR)	Options granted (number of shares that can be acquired)	Exercise price per share	Expiry date	Number of options exercised	Average share price at exercise	Total outstanding as at March 31, 2007
L.M. Van Wijk						
2001	28,686	20.44	October 20, 2006	28,686	24.26	-
2002	28,686	12.80	October 19, 2007	28,686	17.49	-
2003	28,686	6.48	June 30, 2008	28,686	16.44	-
2004	28,686	13.19	June 30, 2009	-		28,686
2005 •	25,000	13.11	July 16, 2010	-		25,000
2006 •	25,000	17.83	July 26, 2011	-		25,000
	164,744			**86,058**		**78,686**
P.F. Hartman						
2001	28,686	20.44	October 20, 2006	28,686	23.05	-
2002	28,686	12.80	October 19, 2007	28,686	17.25	-
2003	28,686	6.48	June 30, 2008	28,686	15.76	-
2004	28,686	13.19	June 30, 2009	-		28,686
2005 •	25,000	13.11	July 16, 2010	-		25,000
2006 •	25,000	17.83	July 26, 2011	-		25,000
	164,744			**86,058**		**78,686**
F.N.P. Gagey						
2005 •	25,000	13.11	July 16, 2010	-		25,000
2006 •	25,000	17.83	July 26, 2011	-		25,000
	50,000			**-**		**50,000**
Total	**379,488**			**172,116**		**207,372**

• At March 31, 2007 of the 25,000 share options granted to each Board member in respect of 2005, two-thirds have vested unconditionally and of the 25,000 share options granted to each Board member in respect of 2006, one-third has vested unconditionally

Both Mr. Van Wijk and Mr. Hartman have 10,572 warrants Air France KLM S.A. (series 1999:1,152 and series 2000: 9,420). Both series expire November 2007.

As at March 31, 2007 Mr. Van Wijk and Mr. Gagey held 500 and 900 shares Air France KLM S.A. respectively. Mr. Hartman had no interest in Air France KLM S.A. other than the options and warrants described above.

30 Related party transactions

The Group has interests in various associates and joint ventures in which it has either significant influence in but not control or joint control over operating and financial policy. Transactions with these parties, some of which are significant, are negotiated at commercial conditions and prices which are not more favorable than those which would have been negotiated with third parties on an arm's length basis. In addition dividends have been received from those interests (see note 3).

The following transactions were carried out with related parties:

	2006/07	2005/06
Sales of goods and services		
Air France KLM Group companies	135	62
Associates	11	12
Joint ventures	33	35
Purchases of goods and services		
Air France KLM Group companies	136	82
Associates	1	3
Joint ventures	29	27

For details of the year-end balances of amounts due to and from related parties see notes 7 and 17. No loans were granted to or received from related parties during 2005/06 and 2006/07.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors see note 27 to 29.

31 Primary segment reporting

	Passenger		Cargo		Maintenance		Other		Eliminations		Total	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Revenue												
Revenue external	5,423	5,046	1,162	1,157	443	409	670	589	-	-	7,698	7,201
Revenue internal	257	225	20	23	575	510	169	195	(1,021)	(953)	-	-
Total revenue	5,680	5,271	1,182	1,180	1,018	919	839	784	(1,021)	(953)	7,698	7,201
Operating profit/(loss)	478	372	71	116	(3)	6	55	46		-	603	540
Share of results of equity shareholdings											10	(39)
Financial income and expense											(47)	(99)
Gain/(loss) on disposal of assets											13	-
Income taxe expense											(63)	(126)
Minority interest											-	-
Net result											**516**	**276**
ASSETS												
Intangible assets	10	-	-	-	15	-	20	44			45	44
Flight equipment	2,462	2,277	612	618	312	299	443	518			3,829	3,712
Other property, plant and equipment	102	108	67	71	273	280	319	316			761	775
Trade receivables	473	381	157	138	91	108	98	161			819	788
Other assets	573	572	28	58	229	184	4,244	3,993			5,074	4,807
Total assets	**3,620**	**3,338**	**864**	**885**	**920**	**871**	**5,124**	**5,032**	-	-	**10,528**	**10,126**
LIABILITIES												
Deferred revenue on sales	583	517	4	6	31	37	26	51			644	611
Other liabilities	3,355	3,762	732	902	164	130	2,607	2,161			6,858	6,955
Total liabilities	**3,938**	**4,279**	**736**	**908**	**195**	**167**	**2,633**	**2,212**	-	-	**7,502**	**7,566**

32 Secondary segment reporting

Revenues by destination	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
2006/07						
Scheduled passenger	1,752	191	921	1,226	1,098	5,188
Other passenger revenues	79	9	42	55	50	235
Total passenger revenues	**1,831**	**200**	**963**	**1,281**	**1,148**	**5,423**
Scheduled cargo	23	24	156	294	610	1,107
Other cargo revenues	1	1	8	15	30	55
Total cargo revenues	**24**	**25**	**164**	**309**	**640**	**1,162**
Maintenance	443	-	-	-	-	443
Other revenues	670	-	-	-	-	670
Total maintenance and other	**1,113**	**-**	**-**	**-**	**-**	**1,113**
Total revenues by destination	**2,968**	**225**	**1,127**	**1,590**	**1,788**	**7,698**
2005/06						
Scheduled passenger*	1,663	186	852	1,110	980	4,791
Other passenger revenues*	88	10	46	59	52	255
Total passenger revenues	**1,751**	**196**	**898**	**1,169**	**1,032**	**5,046**
Scheduled cargo	24	22	138	283	639	1,106
Other cargo revenues	1	1	6	13	30	51
Total cargo revenues	**25**	**23**	**144**	**296**	**669**	**1,157**
Maintenance	409	-	-	-	-	409
Other revenues	589	-	-	-	-	589
Total maintenance and other	**998**	**-**	**-**	**-**	**-**	**998**
Total revenues by destination	**2,774**	**219**	**1,042**	**1,465**	**1,701**	**7,201**

* Adjusted for comparison purposes as a result of an improved allocation method.

Geographical analysis of assets: The major revenue-earning asset of the group is the aircraft fleet, the majority of which are registered in The Netherlands. Since the Group's aircraft fleet is employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

33 Subsidiaries

The following is a list of the Company's significant subsidiaries as at March 31, 2006 and 2007:

Name	Country of incorporation	Ownership %-interest	Proportion of voting power held (in %)
Transavia Airlines C.V.	The Netherlands	100	100
KLM Cityhopper B.V.	The Netherlands	100	100
KLM Cityhopper UK Ltd.	United Kingdom	100	100
KLM UK Engineering Ltd.	United Kingdom	100	100
European Pneumatic Component Overhaul & Repair B.V.	The Netherlands	100	100
KLM Catering Services Schiphol B.V.	The Netherlands	100	100
KLM Flight Academy B.V.	The Netherlands	100	100
KLM Health Services B.V.	The Netherlands	100	100
KLM Equipment Services B.V.	The Netherlands	100	100
KLM Financial Services B.V.	The Netherlands	100	100
Cygnific B.V.	The Netherlands	100	100
KLM Ground Services Ltd.	United Kingdom	100	100

KLM Royal Dutch Airlines
Company balance sheet
In millions of Euros

After appropriation of the net result	Note	March 31, 2007	March 31, 2006
ASSETS			
Non-current assets			
Property, plant and equipment	34	3,737	3,605
Intangible assets		36	37
Investments accounted for using the equity method	35	291	582
Financial assets	36	690	663
Derivative financial instruments	5	208	264
Pension assets	15	2,074	1,873
		7,036	**7,024**
Current assets			
Financial assets	36	148	652
Derivative financial instruments	5	114	256
Inventories		174	168
Current income tax assets		6	-
Trade and other receivables	37	1,271	1,279
Cash and cash equivalents	38	1,241	518
		2,954	**2,873**
TOTAL ASSETS		**9,990**	**9,897**
EQUITY			
Capital and reserves			
Share capital	39	94	94
Share premium		474	474
Other reserves	39	126	165
Retained earnings		2,331	1,826
Total attributable to Company's equity holders		**3,025**	**2,559**
LIABILITIES			
Non-current liabilities			
Financial liabilities	40	1,197	1,204
Finance lease obligations	41	2,021	2,509
Derivative financial instruments	5	137	115
Deferred income *	42	117	96
Deferred income tax liabilities	43	529	499
Provisions •	44	153	200
		4,154	**4,623**
Current liabilities			
Trade and other payables	45	1,553	1,553
Financial liabilities	40	61	7
Finance lease obligations	41	578	437
Derivative financial instruments	5	85	153
Deferred income •	42	494	503
Current income tax liabilities		-	9
Provisions •	44	40	53
		2,811	**2,715**
Total liabilities		**6,965**	**7,338**
TOTAL EQUITY AND LIABILITIES		**9,990**	**9,897**

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

• For comparison purposes the fiscal year 2005/06 figures have been reclassified

KLM Royal Dutch Airlines

Company income statement

In millions of Euros

	2006/07	2005/06
Income from subsidiaries after taxation	65	57
Net result of KLM N.V. after taxation	451	219
Net result after taxation	**516**	**276**

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

Notes to the Company financial statements

General

The Company financial statements are part of the 2006/07 financial statements of KLM Royal Dutch Airlines (the "Company").

As permitted by Section 402 of Book 2 of The Netherlands Civil Codethe Company income statement has been presented in condensed form.

Significant accounting policies

The principal accounting policies applied in the preparation of the Company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Principles for the measurement of assets and liabilities and the determination of the result

In determining the principles to be used for the recognition and measurement of assets and liabilities and the determination of the result for its separate financial statements, the Company makes use of the option provided in Section 362(8) of Book 2 of The Dutch Civil Code. This section permits companies to apply the same principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the Company financial statements as those applied for the consolidated EU GAAP financial statements.

Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. The share in the result of participating interests comprises the share of the Company in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealized.

All amounts (unless specified otherwise) are stated in millions of Euros (EUR million).
For notes and/or details, which are not explained in the notes to the Company financial statements reference is made to the notes and/or details of the Consolidated financial statements.

34 Property, plant and equipment

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Prepayments	Total
Historical cost										
As at April 1, 2005	**348**	**1,820**	**721**	**2,889**	**603**	**505**	**86**	**1,194**	**348**	**4,431**
Additions	1	356	140	497	14	11	-	25	33	555
Reclassifications	39	(41)	63	61	5	39	8	52	(127)	(14)
Disposals	(9)	-	(26)	(35)	-	(3)	(2)	(5)	-	(40)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
As at March 31, 2006	**379**	**2,135**	**898**	**3,412**	**622**	**552**	**92**	**1,266**	**254**	**4,932**
Accumulated depreciation and impairment										
As at April 1, 2005	**38**	**135**	**330**	**503**	**39**	**386**	**59**	**484**	-	**987**
Depreciation	38	127	101	266	38	30	6	74	-	340
Disposals	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
As at March 31, 2006	**76**	**262**	**431**	**769**	**77**	**416**	**65**	**558**	-	**1,327**

	Flight equipment				Other property and equipment					
	Owned aircraft	Leased aircraft	Other flight equipment	Total	Land and buildings	Equipment and fittings	Other property and equipment	Total	Prepayments	Total
Historical cost										
As at April 1, 2006	**379**	**2,135**	**898**	**3,412**	**622**	**552**	**92**	**1,266**	**254**	**4,932**
Additions	92	229	89	410	17	39	8	64	139	613
Reclassifications	199	(196)	(31)	(28)	(20)	(29)	(15)	(64)	(143)	(235)
Disposals			(11)	(11)	(14)			(14)	(29)	(54)
Acquisition of subsidiaries				-				-		-
Currency translation differences				-				-		-
Other movements				-				-		-
As at March 31, 2007	**670**	**2,168**	**945**	**3,783**	**605**	**562**	**85**	**1,252**	**221**	**5,256**
Accumulated depreciation and impairment										
As at April 1, 2006	**76**	**262**	**431**	**769**	**77**	**416**	**65**	**558**	-	**1,327**
Depreciation	66	139	101	306	36	28	5	69		375
Disposals										
Currency translation differences										
Reclassifications	122	(142)	(116)	(136)	(14)	(23)	(10)	(47)		(183)
Other movements				-				-		-
As at March 31, 2007	**264**	**259**	**416**	**939**	**99**	**421**	**60**	**580**	-	**1,519**
Net carrying amount										
As at March 31, 2006	**303**	**1,873**	**467**	**2,643**	**545**	**136**	**27**	**708**	**254**	**3,605**
As at March 31, 2007	**406**	**1,909**	**529**	**2,844**	**506**	**141**	**25**	**672**	**221**	**3,737**

2006/07 reclassifications mainly relate to the transfer from financial leased aircraft to owned aircraft.

The assets include assets which are held as security for mortgages and loans as follows:

	March 31, 2007	March 31, 2006
Aircraft	166	27
Land and buildings	165	170
Other property and equipment	10	10
Carrying amount	**341**	**207**

Borrowing costs capitalized during the year amounted to EUR 6 million (2005/06 EUR 9 million). The interest rate used to determine the amount of borrowing costs to be capitalized was 4% (2005/06: 4.25%).

Land and buildings includes buildings located on land which has been leased on a long-term basis. The book value of these buildings as at March 31, 2007 was EUR 326 million (2005/06 EUR 343 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 18.

35 Investments accounted for using the equity method

	March 31, 2007	March 31, 2006
Subsidiaries	132	441
Associates	58	49
Joint ventures	77	92
Jointly controlled entities	24	-
Carrying amount	**291**	**582**

	March 31, 2007	March 31, 2006
Subsidiaries		
Carrying amount as at April 1	**441**	**363**
Movements		
Investments	-	4
Share of profit/(loss) after taxation	65	75
Dividends received	(346)	(7)
Foreign currency translation differences	(3)	3
Other movements	(25)	3
Net movement	**(309)**	**78**
Carrying amount	**132**	**441**

For details of the Group's investments in subsidiaries see note 33 to the consolidated financial statements.

For details of the Group's investments in associates and joint ventures see note 3 to the consolidated financial statements.

36 Financial assets

	March 31, 2007	March 31, 2006
Carrying amount per the consolidated financial statements (See note 4)	727	1,203
Financial assets carried in the balance sheets of the consolidated subsidiary companies	111	112
Carrying amount	**838**	**1,315**
Non-current portion	690	663
Current portion	148	652
Carrying amount	**838**	**1,315**

37 Trade and other receivables

	March 31, 2007	March 31, 2006
Trade receivables	768	774
Provision trade receivables	(15)	(21)
Trade receivables - net	753	753
Amounts due from subsidiaries	240	230
Amounts due from Air France KLM group companies	31	20
Amounts due from associates and joint ventures	11	12
Amounts due from maintenance contract customers	91	63
Taxes and social security premiums	18	20
Other receivables	40	55
Prepaid expenses	87	126
Total	**1,271**	**1,279**

Maintenance contract costs incurred to date (less recognized losses) for contracts in progress at March 31, 2007 amounted to EUR 81 million (2005/06 EUR 53 million). Advances received for maintenance contracts in progress at March 31, 2007 amounted to EUR 19 million (2005/06 EUR 13 million).

38 Cash and cash equivalents

	March 31, 2007	March 31, 2006
Cash at bank and in hand	91	84
Short-term deposits	1,150	434
Total	**1,241**	**518**

The effective interest rates on short-term deposits are in the range 3.58% to 5.33% (2005/06 range 2.13% to 7.00%). The short-term deposits have an original maturity of less than 3 months. The major part of short-term deposits is invested in money market instruments or in liquid funds with daily access to cash.

39 Share capital and other reserves

For details of the Company's share capital and movements on other reserves see note 9 and 10 to the consolidated financial statements. For details of the Company's equity see the consolidated statement of changes in equity.

The Company has legal reserves relating to non distributable reserves of investments accounted for using the equity method amounting to EUR 99 million as at March 31, 2007 (2005/06 105 million). In addition the Company has legal reserves for hedging, translation and statutory reserves. Reference is made to note 10.

40 Financial liabilities

	March 31, 2007	March 31, 2006
Carrying amount per the consolidated financial statements (See note 11)	1,136	717
Financial liabilities carried in the balance sheets of the consolidated subsidiary companies	122	494
Carrying amount	**1,258**	**1,211**
Non-current portion	1,197	1,204
Current portion	61	7
Carrying amount	**1,258**	**1,211**

41 Finance lease obligations

	March 31, 2007	March 31, 2006
Carrying amount per the consolidated financial statements (See note 12)	3,113	3,600
Lease obligations carried in the balance sheets of the consolidated subsidiary companies	(514)	(654)
Carrying amount	**2,599**	**2,946**
Non-current portion	2,021	2,509
Current portion	578	437
Carrying amount	**2,599**	**2,946**

42 Deferred income

	March 31, 2007		March 31, 2006	
	Current	Non-current	Current	Non-current
Advance ticket sales	477	63	476	36
Government investment grant	2	-	4	2
Sale and leaseback transactions	9	15	13	27
Flying Blue frequent flyer program	6	39	10	31
Total	**494**	**117**	**503**	**96**

For comparison purposes within Air France KLM the Flying Blue frequent flyer program has been reclassified from other provisions (note 44) to deferred income. Comparative figures March 31, 2006 have been reclassified.

43 Deferred income tax

The gross movement on the deferred income tax account is as follows:

	2006/07	2005/06
Carrying amount as at April 1	**499**	**389**
Movements:		
Income statement charge	54	101
Tax (credited)/charged to equity	(18)	(6)
Other movements	(6)	15
Net movement	**30**	**110**
Carrying amount as at March 31	**529**	**499**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2007	2006
Deferred tax assets:		
- Deferred tax assets to be settled in 12 months or less	66	100
- Deferred tax assets to be settled after more than 12 months	74	144
	140	**244**
Deferred tax liabilities		
- Deferred tax liabilities to be settled in 12 months or less	61	71
- Deferred tax liabilities to be settled after more than 12 months	608	672
	669	**743**
Carrying amount as at March 31	**529**	**499**

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other movements	Carrying amount as at March 31
Deferred tax assets					
2005/06					
Tax losses	109	(30)	-	(22)	57
Investment grant settled with tax authority	44	-	-	-	44
Fleet assets	203	(35)	-	-	168
Fleet related assets (maintenance)	11	-	-	-	11
Pensions & benefits provisions	-	-	-	-	-
Maintenance provisions	11	(1)	-	-	10
Financial lease	16	(6)	-	-	10
Other	14	(11)	-	-	3
Total	**408**	**(83)**	**-**	**(22)**	**303**
Deferred tax assets					
2006/07					
Tax losses	57	(40)	-	(3)	14
Investment grant settled with tax authority	44	(5)	-	(39)	-
Fleet assets	168	(41)	-	18	145
Fleet related assets (maintenance)	11	(5)	-	10	16
Pensions & benefits provisions	-	-	-	15	15
Maintenance provisions	10	-	-	(10)	-
Financial lease	10	(3)	-	-	7
Other	3	(3)	-	-	-
Total	**303**	**(97)**	**-**	**(9)**	**197**

	Carrying amount as at April 1	Income statement charge/ (credit)	Tax charged/ (credited) to equity	Other movements	Carrying amount as at March 31
Deferred tax liabilities **2005/06**					
Fleet assets	60	(15)	-	-	45
Other tangible fixed assets	67	(5)	-	-	62
Pensions & benefits (asset)	537	20	-	-	557
Maintenance provisions	34	(1)	-	-	33
Derivatives	62	-	(6)	-	56
Other	37	12	-	-	49
Total	**797**	**11**	**(6)**	**-**	**802**
Deferred tax liabilities **2006/07**					
Fleet assets	45	-	-	-	45
Other tangible fixed assets	62	(10)	-	-	52
Pensions & benefits (asset)	557	(10)	-	(6)	541
Maintenance provisions	33	17	-	-	50
Derivatives	56	-	(18)	(1)	37
Other	49	(40)		(8)	1
Total	**802**	**(43)**	**(18)**	**(15)**	**726**

Tax fiscal unity

The Company, together with other subsidiaries in The Netherlands, has entered into a fiscal unity for the purpose of filing consolidated corporation tax and VAT returns. As a result, every legal entity in this tax group is jointly and severally liable for the tax debts of all the legal entities forming the group.

44 Provisions

	2007	2006
Employee benefits	137	166
Reorganization and restructuring	2	7
Phasing-out costs of operational lease aircraft	30	57
Other	24	23
Carrying amount as at March 31	**193**	**253**
Current/non-current portion		
Non-current portion	153	200
Current portion	40	53
Carrying amount as at March 31	**193**	**253**

45 Trade and other payables

	March 31, 2007	March 31, 2006
Trade payables	580	549
Amounts due to subsidiaries	264	269
Amounts due to Air France KLM Group companies	60	38
Amounts due to maintenance contract customers	31	28
Taxes and social security premiums	61	63
Other payables	169	135
Accrued liabilities	388	471
Total	**1,553**	**1,553**

Other notes

For information relating to share-based payments, Supervisory Board and Board of Managing Directors remuneration see note 27 to 29.

Amstelveen, June 11, 2007

The Board of Managing Directors

Leo M. van Wijk
Peter F. Hartman
Frédéric N.P. Gagey

The Supervisory Board

Kees J. Storm
J.F. Henri Martre
Irene P. Asscher-Vonk
Jean-Didier F.C. Blanchet
Bauke Geersing
Henri Guillaume
Wim Kok
Remmert Laan
Hans N.J. Smits

Other Information

Auditors' Report

To the Annual General Meeting of Shareholders

Report on the financial statements

We have audited the accompanying financial statements of KLM Royal Dutch Airlines, Amstelveen for the year ended March 31, 2007 as set out on the pages 53 to 150. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at March 31, 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at March 31, 2007, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of The Dutch Civil Code, and for the preparation of the report of the Board of Managing Directors in accordance with Part 9 of Book 2 of The Dutch Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at March 31, 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of The Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of KLM Royal Dutch Airlines as at March 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of The Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of The Dutch Civil Code, we report, to the extent of our competence, that the report of the Board of Managing Directors is consistent with the financial statements as required by 2:391 sub 4 of The Dutch Civil Code.

Amstelveen/ Rotterdam, June 11, 2007

KPMG ACCOUNTANTS N.V.	DELOITTE ACCOUNTANTS B.V.
T. van der Heijden RA	D.A. Sonneveldt RA

Provisions of the Articles of Association on the Distribution of Profit

Unofficial translation of Article 32 of the Articles of Association of KLM Royal Dutch Airlines

1. Out of the profit established in the adopted financial statements, an amount may first be set aside by the meeting of priority shareholders in order to establish or increase reserves. The meeting of priority shareholders shall only do so after consultation of the Board of Managing Directors and the Supervisory Board.
2. So far as possible and permitted by applicable statute, the remainder of the profit shall be distributed as follows:
   a) the holders of priority shares shall receive first the statutory interest percentage prevailing on the last day of the fiscal year concerned, with a maximum of five per cent (5%) of the paid up amount per priority share; if and to the extent that the profit is not sufficient to make the full aforementioned distribution on the priority shares, in subsequent years a distribution to the holders of priority shares shall first be made to recompense this shortfall entirely before the following paragraph may be given effect;
   b) next the holders of cumulative preference shares-A shall receive six per cent (6%) of the par value of their cumulative preference shares-A or - in the case of not fully paid-up shares - of the obligatory amount paid thereon; in the event and to the extent the profit is not sufficient to fully make the aforementioned distribution on the cumulative preference shares-A, the deficiency shall, to the extent possible and permitted by applicable statute, be distributed out of the freely distributable reserves with the exception of the share premium reserves; in the event and to the extent that the aforementioned distribution on the cumulative preference shares-A can also not be made out of such reserves, there shall in the following years first be made a distribution to the holders of cumulative preference shares-A to the effect that such shortfall is fully recovered before effect is given to what is provided hereinafter in this paragraph 2;
   c) next the holders of preference shares-B shall receive five per cent (5%) of the par value of their preference shares-B or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon;

d) next the holders of preference shares-B shall receive one half per cent (½%) of the par value of their shares or - in the case of not fully paid-up shares - of the amount obligatorily paid thereon for each per cent of the ratio (expressed as a percentage) of the profit to the revenues mentioned in the adopted consolidated profit and loss account, with the understanding that this dividend percentage shall not be in excess of five per cent (5%) of the nominal amount of the issued common shares;

e) subsequently, on each cumulative preference share-C of a series a dividend shall be paid which is equal to a percentage of the amount which has been paid up on the share, calculated by taking the arithmetic average of the effective yield on the government loans to be described below under letter (f), as drawn up by the Central Bureau for Statistics and published in the Officiële Prijscourant of Euronext Amsterdam N.V. for the last five (5) stock exchange days prior to the day on which a cumulative preference share-C of the series in question was issued for the first time, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series;

f) government loans mentioned under the letter (e) of this paragraph shall be deemed to mean the government loans to the debit of the State of The Netherlands with a (remaining) life of seven to eight years. If the effective yield on these government loans has not been drawn up by the Central Bureau for Statistics, or has not been published in the Officiële Prijscourant of Euronext Amsterdam N.V., as the time of the calculation of the dividend percentage, then the government loans referred to under the letter (e) shall be deemed to be the government loans to the debit of the State of The Netherlands with a (remaining) life which is as close as possible to a (remaining) life of seven to eight years, the effective yield of which has been drawn up and published by the Central Bureau for Statistics at the time of the calculation of the dividend percentage as stated above, on the proviso that the maximum (remaining) life is eight years;

g) on the date on which the cumulative preference shares-C of the series in question have been outstanding for eight years, for the first time, and thereafter every subsequent eight years, the dividend percentage of cumulative preference shares-C of the series in question will be adjusted to the effective yield of the government loans referred to in the preceding subparagraphs which is valid at that time, calculated in the manner as described in the foregoing, but on the proviso that the average referred to shall be calculated over the last five (5) exchange days prior to the day as of which the dividend percentage shall be adjusted, possibly increased by a supplement established by the Board of Managing Directors and approved by the Supervisory Board and the meeting of priority shareholders in the amount of a maximum of one hundred and thirty-five (135) basic points, depending on the market circumstances which shall prevail at that time, which supplement may be different for each series. If the dividend percentage is adjusted in the course of a financial year, then for the calculation of the dividend over that financial year, the percentage which applied before the adjustment shall apply up to the day of adjustment, and as from that day, the adjusted percentage;

h) if and to the extent that profits are not sufficient to make full payment of the dividend on the cumulative preference shares-C referred to in this paragraph, the shortfall will be paid and charged to the reserves, to the extent that such action is not contrary to the provisions of Article 105, paragraph 2 of Book 2 of the Dutch Civil Code. If and to the extent that the payment referred to in this paragraph cannot be charged to the reserves, then a payment will be made from the profits to the holders of cumulative preference shares-C such that the shortfall is fully paid up before the provisions stated in the following letters of the paragraph are applied. For the application of the provisions stated under this present letter (h), the holders of the various series of cumulative preference shares-C shall receive equal treatment. No further payment shall be made on the cumulative preference shares-C than those determined in this Article, in Article 11 paragraph 6 and in Article 42; interim payments made in accordance with the provisions of paragraph 4 of this Article for a financial year will be deducted from the payments made pursuant to this paragraph;

i) if, in the financial year for which the payment referred to above takes place, the amount paid in on the cumulative preference shares-C of a certain series has been reduced, the payment will be reduced by an amount equal to the aforementioned percentage of the amount of the reduction calculated from the time of the reduction;

j) if the profits over a financial year have been established and in that financial year one or more cumulative preference shares-C have been withdrawn with repayment, then those who were listed in the registry referred to in Article 9 as holders of those cumulative preference shares-C at the time of such withdrawal shall have an inalienable right to payment of profits as described hereinafter. The profits which are to be paid (if possible) to such a holder of cumulative preference shares-C shall be equal to the amount of the payment to which such a holder would be entitled to the grounds of the provisions of this paragraph if, at the time at which profits were determined, he were still a holder of the aforementioned cumulative preference shares-C calculated in proportion to the duration of the period during which he was a holder of those cumulative preference shares-C in said financial year, from which payment shall be deducted the amount of the payment which was made pursuant to the provisions of Article 32;

k) if, in the course of a given financial year, issuance of cumulative preference shares-C has taken place, then for that financial year the dividend on the shares in questions will be decreased in proportion to the time passed until the first day of issuance;

l) the remainder will be received by the holders of common shares in proportion to the par value of their common shares to the extent the general meeting of shareholders does not make further appropriations for reserves in addition to any reserves established pursuant to paragraph 1 of this Article.

3. On the recommendation of the Board of Managing Directors and after approval of such recommendation by the Supervisory Board and the meeting of priority shareholders, the general meeting of shareholders may decide that payments to shareholders shall be wholly or partly effected by issuing shares of the same type of capital stock of the Company as the type of the shares to which these payments relate.
4. As far as possible and subject to the approval of the Supervisory Board, the meeting of priority shareholders may resolve to distribute one or more interim dividends against the expected dividend, provided that an interim statement of assets and liabilities demonstrates that the Company meets the requirements of Article 105, paragraph 2 Book 2 of the Dutch Civil Code. This interim statement of assets and liabilities shall be drawn up, signed and made public according to the specifications contained in paragraph 4 of the statutory provision mentioned above.
5. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by law, resolve to make a distribution to the holders of

common shares out of one or more of the freely distributable reserves with the exception of the share premium reserves.

6. Subject to the approval of the Supervisory Board, the meeting of priority shareholders may, to the extent possible and permitted by applicable statute, decide to make, as an advance payment on the distribution referred to in paragraph 2 of this Article, distributions out of the freely distributable reserves, with the exception of the share premium reserves.
7. No other distributions than the distributions provided for in this Article and in Article 42 are made on the priority shares and preference shares.

Appropriation of Profit and Distribution to Shareholders

It is proposed that the net profit for 2006/07 amounting to EUR 516,189,000 be appropriated as follows:

Transfer to reserves		
• Retained earnings	EUR	493,719,550
Dividend distributions		
• Priority shareholders		794
• Ordinary shareholders		22,468,656
Total dividend distributions	*EUR*	*22, 469,450*
Total transfer to reserves/dividends	**EUR**	**516,189,000**
Interest expenses		
• A cumulative preference shareholders (6%)		1,057,500
• C cumulative preference shareholders (average 4.27%)		601,842
Total interest expenses	**EUR**	**1,659,342**

Miscellaneous

Five-Year Review

	IFRS			Dutch GAAP	
(in millions of EUR, unless stated otherwise)	**2006/07**	2005/06	2004/05	2003/04	2002/03
Consolidated income statement					
Passenger	**5,423**	5,046	4,574	4,234	4,763
Cargo	**1,162**	1,157	1,030	963	1,017
Other revenues	**1,113**	998	838	680	705
Revenues	**7,698**	7,201	6,442	5,877	6,485
Expenses	**7,095**	6,661	5,975	5,757	6,969
Income from current operations	**603**	540	467	120	(484)
Financial income and expense	**(47)**	(99)	(154)	(101)	(98)
Gain/ (loss) on disposal of assets	**13**	-	1	(1)	(42)
Pre-tax income of consolidated companies	**569**	441	314	18	(624)
Income tax expense	**(63)**	(126)	(84)	(7)	206
Net result after taxation of consolidated companies	**506**	315	230	11	(418)
Share of results of equity shareholdings	**10**	(39)	25	13	2
Net result after taxation	**516**	276	255	24	(416)
Consolidated balance sheet					
Current assets	**2,852**	2,778	2,185	1,781	1,828
Non-current assets	**7,676**	7,348	7,057	6,163	6,337
Total assets	**10,528**	10,126	9,242	7,944	8,165
Current liabilities	**2,818**	2,748	2,242	1,914	2,265
Non-current liabilities	**4,684**	4,818	4,691	4,542	4,423
Group equity	**3,026**	2,560	2,309	1,488	1,477
Total liabilities	**10,528**	10,126	9,242	7,944	8,165

Five-Year Review

(in millions of EUR, unless stated otherwise)		IFRS			Dutch GAAP	
		2006/07	2005/06	2004/05	2003/04	2002/03
Key financial figures						
Return on equity (%)		**18.5**	11.3	12.2	1.5	(24.1)
Net result as percentage of revenues		**6.7**	3.8	4.0	0.4	(6.4)
Earnings per ordinary share (EUR)		**11.03**	5.90	5.45	0.50	(9.26)
Interest coverage ratio		**7.2**	4.4	3.7	1.3	(5.3)
Net result plus depreciation		**993**	720	646	464	119
Capital expenditures (net)		**(137)**	(766)	(406)	(507)	(436)
Net-debt-to-equity percentage		**87**	106	126	197	195
Dividend per ordinary share (EUR)		**0.48**	0.30	0.16	-	0.10
Traffic (Company)						
Passenger kilometers	*	**72,367**	69,115	64,125	57,784	59,417
Revenue ton freight-kilometers	*	**4,823**	4,893	4,744	4,392	4,197
Passenger load factor (%)		**83.7**	83.5	81.9	80.1	79.4
Cargo load factor (%)		**74.1**	74.8	75.8	72.9	71.7
Number of passengers (x 1,000)		**22,634**	21,673	20,591	18,992	19,437
Weight of cargo carried (kilograms)	*	**627**	620	604	529	511
Average distance flown per passenger (in kilometers)		**3,197**	3,189	3,114	3,043	3,057
Capacity (Company)						
Available seat-kilometers	•	**86,478**	82,736	78,274	72,099	74,825
Available ton freight-kilometers	•	**6,511**	6,542	6,256	6,028	5,852
Kilometers flown	*	**394**	382	366	341	349
Hours flown (x 1,000)		**597**	570	549	446	454
Yield and unit costs (Company)						
Yield (in cents):						
Passenger (per RPK)		**7.2**	6.9	6.8	6.7	7.1
Cargo (per RTK)		**22.9**	22.6	20.7	21.9	24.2
Number of staff (Company)						
The Netherlands		**21,600**	21,184	21,086	21,824	22,394
Outside The Netherlands		**2,612**	2,692	2,741	3,044	3,531
Total		**24,212**	23,876	23,827	24,868	25,925

• In millions

Glossary of Terms and Definitions

Available ton freight kilometer (ATFK)
One metric ton (1,000 kilograms) cargo capacity flown a distance of one kilometer.

Available seat kilometer (ASK)
One aircraft seat flown a distance of one kilometer.

Cargo load factor
Total revenue ton freight kilometers (RTFK) expressed as a percentage of the total available ton freight kilometers (ATFK).

Capital employed
The sum of property, plant and equipment, intangible assets, equity method investments, inventories and trade and other receivables less trade and other payables.

Code sharing
Service offered by KLM and another airline using the KL code and the code of the other airline.

Earnings per ordinary share
The profit or loss attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the year.

Interest coverage ratio
The ratio of the net cost of financial debt to net income before interest and tax.

Net debt	The sum of current and non-current financial liabilities, current and non-current finance lease obligations, less cash and cash equivalents, short-term deposits and commercial paper and held-to-maturity financial assets.
Passenger load factor	Total revenue passenger-kilometers (RPK) expressed as a percentage of the total available seat-kilometers (ASK).
Return on capital employed	The sum of income from operating activities, adjusted for temporary rentals of aircraft and trucks, the gain/(loss) on disposal of assets and the results of equity shareholdings after taxation divided by average capital employed.
Return on equity	Net result after taxation divided by the average equity after deduction of the priority shares.
Revenue ton freight kilometer (RTFK)	One metric ton (1,000 kilograms) of cargo flown a distance of one kilometer.
Revenue passenger-kilometer (RPK)	One passenger flown a distance of one kilometer.

Warning about Forward-Looking Statements

This Annual Report contains, and KLM and its representatives may make, forward-looking statements, either orally or in writing, about KLM and its business. Forward-looking statements generally can be identified by the use of terms such as 'ambition', 'may', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue' or similar terms. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate management's beliefs, and assumptions made by management about future events. Any such statement is qualified by reference to the following cautionary statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including:

- the risk that Air France and KLM will not be integrated successfully and expected synergies and cost savings will not be fully achieved or not achieved within the expected time frame;
- the ability to develop an integrated strategy for Air France KLM;
- the airline pricing environment;
- competitive pressure among companies in our industry;
- general economic conditions;
- changes in the cost of fuel or the exchange rate of the Euro to the U.S. dollar and other currencies;
- governmental and regulatory actions and political conditions, including actions or decisions by courts and regulators or changes in applicable laws or regulations (or their interpretations), including laws and regulations governing the structure of the combination, the right to service current and future markets and laws and regulations pertaining to the formation and operation of airline alliances;
- developments affecting labor relations or our airline partners;
- the outcome of any material litigation;
- the future level of air travel demand;
- future load factors and yields for KLM and/or Air France;
- industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;

- the effects of terrorist attacks, the possibility or fear of such attacks and the threat or outbreak of epidemics, hostilities or war, including the adverse impact on general economic conditions, demand for travel, the costs of security, the cost and availability of aviation insurance coverage and war risk coverage and the price and availability of jet fuel; and
- changing relationships with customers, suppliers and strategic partners.
- developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the documents we file with or furnish to relevant agencies, could cause actual outcomes and results to differ materially from those that have been or may be projected by or on behalf of us. We caution that the foregoing list of important factors is not exhaustive. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained our filings. We do not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

16-07-2007