KLM Royal Dutch Airlines
Annual Report

07/08

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Table of contents

Key figures

Consolidated figures in millions of euros, unless stated otherwise	2007/08 EUR	2006/07 EUR
Revenues	**8,028**	7,698
Expenses before depreciation and long-term rentals	**6,626**	6,476
Depreciation and long-term rentals	**651**	619
Income from current operations	**751**	603
As a % of operating revenues	**9.4**	7.8
Profit for the year	**291**	516
Earnings per ordinary share (EUR)	**6.22**	11.03
Equity	**3,878**	3,026
As a % of total long-term funds	**45**	40
Return on equity (%)	**8.4**	18.5
Capital employed	**4,675**	4,612
Return on capital employed (%)	**8.3**	10.4
Net-debt-to-equity ratio	**57**	87
Interest coverage ratio	**7.5**	7.2
Dividend per ordinary share (EUR)	**0.58**	0.48
Traffic figures		
Passenger		
Traffic (in millions of revenue passenger-kilometers, RPK)	**75,073**	72,367
Capacity (in millions of available seat-kilometers, ASK)	**90,563**	86,478
Passenger load factor (%)	**82.9**	83.7
Cargo		
Traffic (in millions of revenue ton freight-kilometers, RTFK)	**4,947**	4,823
Capacity (in millions of available ton freight-kilometers, ATFK)	**6,675**	6,511
Cargo load factor (%)	**74.1**	74.1
Financial position		
Cash flow from operating activities	**999**	754
Cash flow from investing activities	**(438)**	(137)
Average number FTEs of KLM Group staff		
Permanent	**28,946**	28,740
Temporary	**2,059**	1,781
Employed by KLM	**31,005**	30,521
Agency staff	**1,997**	2,034
	33,002	32,555

Report of the Board of Managing Directors

Letter from the President

Fiscal 2007/08 was a good year for KLM in many respects and operating results were ahead of expectations on nearly all counts. It was also a dynamic year, with major changes in our organization: a new, flatter management structure within KLM, a new management structure within AIR FRANCE KLM and, again, investments in renewing our fleet, the launch of a raft of new IT projects, new products and product improvements. There was intensive and constructive dialog on all these internal changes within our co-determination system and I am exceedingly proud that we upheld our operational performance despite the many changes. It was business as usual throughout the restructuring, which was a great credit to the entire organization.

We again worked hard on strengthening Air France and KLM's positions during the year. VLM, the Belgian business passenger airline, was acquired by Air France, preparations were started for a joint venture mooted by our Cargo Business with the Asian freight carrier China Southern and a merger between our partner Northwest Airlines and Air France partner Delta was announced, which will significantly enhance our position on the North Atlantic route. In addition a Letter of Intent was signed with Maersk early April 2008 to acquire their outstanding interest in Martinair. This project has been submitted to and is now under examination by the European Commission. It is clear that KLM and Air France are together working hard on becoming the leading airline combination in the world: the smart leader in its industry.

Financial performance

KLM's operating financial results for fiscal 2007/08 were without doubt very satisfactory. Not only did passenger and cargo traffic continue their upward trend, yields also developed favorably. The absolute growth in revenues is a source of pride, but profitability growth is of greater importance, and that was very definitely achieved in the past fiscal year. The good results were due chiefly to excellent performance by our Passenger Business, with demand for long-haul flights from and to Europe closely matching the available capacity. Furthermore, the combination of Air France and KLM is working increasingly better in practice and having a favorable impact on results. The two partners operate as a strong, efficient group with two closely coordinated international home bases and an excellent network that can more than measure up to the competition.

In the past fiscal year we witnessed not only an enormous upswing in earnings on Asian routes but we were also more profitable on the extensive European network. It was due in part to the growth to maturity of the seven wave system, which spreads flights better over the day and avoids excessive peaks and also enables us to schedule more flights. People and equipment can be involved more efficiently and smartly. This is a clear example of how we are putting our strategy of profitable growth into practice.

Negative were the ongoing investigations by competition authorities of various jurisdictions into alleged price fixing in cargo traffic.
In response, we stepped up our actions in the area of competition compliance awareness. An AIR FRANCE KLM manual on competition compliance was introduced, and all employees as of a certain job grade level followed a mandatory e-training. Training sessions of staff in The Netherlands and abroad are ongoing. In connection with the investigations, we recorded a provision of EUR 197 million, which had a negative effect on our net profit.

There was also bad news last year from our partner Kenya Airways. We were exceedingly shocked and surprised by developments in Kenya, where our colleagues suffered badly, both personally and commercially, from the unrest in the country. Tourism, one of the pillars of the Kenyan economy, has taken a serious blow.

Prospects

In our three-year plan, the economic prospects for the aviation industry is expected to remain firm. However, a substantial slowdown in industry growth is foreseen in 2008 and the current rate of inflation, the extremely high oil prices and the tightness on the labor market that will likely increase staff costs put more uncertainty on future development of the industry. We also foresee greater competition in many areas. Airfreight transport is facing competition from ocean shipping, and short-haul passenger traffic from high-speed trains. Furthermore, the aviation industry as a whole is consolidating and new airlines and airports are constantly emerging in markets such as China, India and the Gulf. Among other things, we have to focus on increasing our flexibility in order to react to these developments.

The aviation industry is still expanding, but the competition is growing just as quickly. Air France and KLM have the ambition of remaining a strong combination in the world and a leader in Europe. We are convinced we will succeed but we will not be helped by measures that undermine our competitiveness. KLM is known to be a fervent opponent, for example, of the proposed introduction of flight taxes, like the one in The Netherlands. We believe such taxes distort the market, increase the cost for the consumers and fail to serve environmental goals. Similarly, a European emissions trading scheme, which in principle could serve as an effective instrument to combat emissions, will become counterproductive and unacceptable if its design is flawed by political side-motives.

Passenger Business

In the past fiscal year, both the revenue and profitability of our Passenger Business grew strongly. Not only did the number of passengers increase by 3.2% to 23.4 million, but average yield per passenger-kilometer increased by almost 4% (at constant exchange rates). The load factor declined by 0.8 percentage points to 82.9%, also because of a strong capacity increase of almost 5%. Nearly three-quarters of all passengers carried by KLM transfer from one flight to another at Schiphol or one of the other hubs. The operations of KLM and its partners make up nearly 70% of all flight movements at Schiphol. Amsterdam Airport Schiphol has grown into the fourth most important airport in Europe thanks to the global network operated by KLM and its partners. Together with the seaports of Rotterdam and Amsterdam, KLM's hub and home base – Schiphol – opens up The Netherlands to the global market.

Product improvement

KLM is a service provider that aims to meet the individual wishes of all travelers wherever possible. We develop new products and improve existing ones in response to accurate analyses of the customers' needs – not only during the flight but also whenever they are in contact with KLM throughout the entire supply chain. In the pre-flight process, for example, improvements were made in the past fiscal year to the very popular www.klm.com website. They include, among others, the option to change bookings or book seats with additional leg room. The process between check-in and boarding has become far more complex in recent years owing to the many strict security measures that are a fact these days. To minimize inconvenience and delays at the airports, KLM is currently working on improvements to its boarding procedures. An experiment has been launched for a completely electronic process using the passengers' mobile telephones as boarding cards.

Flying itself is becoming more comfortable thanks to the thorough renewal of the fleet. In the past years, we introduced the Boeing 777-200/300ERs and Airbus A330-200 in our fleet.

Many more aircraft are to be delivered in the years ahead. The new aircraft types offer passengers more comfort and more personal options. The design and onboard products are modern and accommodate the latest techniques such as video on-demand systems. These aircraft also produce less noise and consume less fuel, and thus have less environmental impact.

transavia.com

Through our transavia.com subsidiary, we are active in the market for charters and low-cost flights. In fiscal 2007/08, transavia.com again succeeded in increasing its revenue and turning in a positive result. transavia.com began serving two new scheduled destinations (Agadir and Grenoble as a winter destination) and withdrew one scheduled service (Prestwick) during the year. The number of scheduled destinations thus came to 27. Transavia France, the airline established with Air France at the beginning of 2007, commenced operations in May 2007. Under the brand name transavia.com, four Boeing 737-800s have been serving 9 charter destinations from Paris Orly (South) during summer 2007. As from the winter scheduled services to 9 destinations have been added.

Cargo Business

KLM's Cargo Business is combined deeply with Air France's cargo division and the AIR FRANCE KLM Cargo combination now presents itself with one face to the customer. KLM's cargo operations developed favorably in fiscal 2007/08 despite the structural overcapacity on the world market. The cargo market, too, is witnessing fierce competition. The supply of cargo capacity has increased sharply in recent years, chiefly through the arrival of new and rapidly growing cargo airlines in Asia and the Middle East. Competition from ocean shipping is also increasing. KLM nonetheless successfully increased the profitability of its airfreight operations by 54% versus last year. This result was achieved by working more closely with the customer and by pursuing operational excellence in every link of the entire supply chain.

Engineering & Maintenance Business

Engineering & Maintenance (E&M) was affected by the low dollar in the past year; it is customary in the aviation industry to charge third-party maintenance services in dollars yet a substantial part of the costs is denominated in euros. This inevitably placed pressure on the profitability of this KLM unit. Nonetheless, E&M still holds a strong position in this market. Its strength lies in part in the complementary services offered by KLM and its partner, Air France Industries. The combination can maintain virtually all Boeing and Airbus aircraft types. Combination of the two partners' maintenance activities will therefore be continued.

Competitiveness

Together with Schiphol, KLM has made the Dutch aviation industry a leader in Europe. This position is due not so much to the number of people who want to visit or depart from The Netherlands but chiefly to the many intercontinental connections offered here by KLM and its partners. This intercontinental hub is the beating heart of Mainport Amsterdam, which, thanks to KLM, provides direct employment to more than 30,000 people and indirect employment to a further 100,000. We connect The Netherlands to the world and the world to The Netherlands. And that connection is precisely what is at stake for The Netherlands if a sensible answer is not found to, among other things, the environmental impact caused by flying.

Our good international competitiveness is due principally to our competitive cost base. That makes us vulnerable to unilateral, cost-raising measures such as the flight tax the government is about to introduce. For a family with two children, it would make a trip to the USA 200 euros net more expensive. It is understandable that people then consider taking a free shuttle bus offered by a competitor to, for example, Düsseldorf and fly from there. There is obviously no benefit to the environment of this tax which was formally based on environmental motives. A similar effect may be caused by the European trade in CO_2 emissions as from 2012. If the agreements remain limited to Europe, it will distort the market and it will be more attractive to fly from Japan to Madrid via Dubai rather than via Amsterdam or Paris or even directly.

Own climate agenda

The global aviation industry is responsible for 2 to 3% of all man-made CO_2 emissions. This share may seem rather limited, but global demand for air transport is growing and KLM is fully aware that it must recognize the environmental impact of its activities. We are therefore making substantial investments in measures to drastically cut CO_2 emissions. The renewal of the fleet with aircraft that can reduce CO_2 emissions by a quarter is the most striking example of this. In the past fiscal year, KLM concluded an important collaborative agreement with the Dutch branch of the World Wide Fund for Nature (WNF Nederland). Under this agreement, KLM's growth in production between the end of 2007 and the end of 2011 will be completely CO_2 neutral. This will be achieved chiefly by reducing emissions at source, in part through the operation of new, cleaner aircraft, shorter approach routes and weight reduction in the fleet. In addition, as Chairman of the Association of European Airlines (AEA), KLM is a strong advocate of the better use of European airspace (*Single European Sky*) so that routes over Europe can be flown far more efficiently and fuel consumption can be reduced by 6 to 12%.

The online booking and check-in process will also offer our customers a simple means to offset the CO_2 emission of their flights. They can donate money to one of the Gold Standard compensation projects all over the world. These projects have the highest CO_2 certificate and enjoy the full backing of WNF Nederland. No airline in the world has committed itself so determinedly and so innovatively to environmental protection as KLM. We are aggressively reducing our emissions, engaging our customers as well as our suppliers, and we provide active support to technological development. In the field of sustainability, too, KLM is proving to be the smart leader.

The future of Schiphol

Schiphol makes one of the major European gateways, bearing significant impact on the Netherlands in terms of economy, employment and environment. The 'Alders Table' was set up at the end of 2006 as a consultative platform chaired by the former Queen's Commissioner for Groningen, Hans Alders, to advise the government on the balance between the growth of traffic at Schiphol, measures to reduce nuisance and the quality of the environment in the short and medium term. The Alders Table, in which all stakeholders in the development of Schiphol are represented, issued its first advice in June 2007 on the development of Schiphol and the region to the end of 2010. It stated that flight movements could increase to a maximum of 480,000 in 2010. Agreements were also made to improve the quality of life around Schiphol and on new measures to reduce nuisance, including the modification of certain flight routes and flight procedures. For the longer term, KLM would like to achieve clear capacity prospects for the further development of its network, but no agreement has yet been reached on this. A solution favored by KLM would be to use Schiphol more selectively, with priority being given to the network of high-quality, intercontinental flights rather than offering all things to all men. Schiphol is an exceedingly valuable part of the infrastructure that must be used prudently and economically.

The growing number of passengers (and cargo), the rapid pace of fleet renewal, the introduction of new IT systems, internal organizational improvements and staff training and refresher courses make serious demands on the entire KLM organization. Perhaps the greatest achievement of the past year was that these changes did not impact negatively on the quality of our operations and were dealt with enthusiastically by all KLM's staff.

Peter Hartman
President & Chief Executive Officer

Financial Performance

Revenue and cost development In millions of euros	2007/08	2006/07	Variance %
Revenues	8,028	7,698	4.3
External expenses	(4,944)	(4,900)	0.9
Employee compensation and benefit expenses	(1,798)	(1,716)	4.8
Depreciation and amortization	(474)	(477)	(0.6)
Other income and expenses	(61)	(2)	
Total expenses	(7,277)	(7,095)	2.6
Income from current operations	751	603	24.5

Revenues

Revenues rose by 4.3% to EUR 8,028 million. At constant exchange rates, growth would have amounted to 7.2%.

Passenger transport revenues increased by 4.5% to EUR 5,667 million, with a growth in capacity measured in available seat kilometers of 4.7%. Revenue per passenger kilometer (yield) improved by 1.3% (3.8% at constant exchange rates), while load factor declined slightly to 82.9% (-0.8% points).

Cargo transport revenues grew by 2.8% versus last year to EUR 1,194 million, with a capacity increase of 2.5%. Revenue per ton-kilometer increased by 0.8% (+5.3% at constant exchange rates) with a load factor that remained stable compared to last year at 74.1%.

Transport revenues from transavia.com improved by almost 8% to EUR 622 million and income from maintenance for third parties amounted to EUR 464 million, representing an increase of 4.8% (+10.7% at constant exchange rates) and including the work performed for Air France.

Expenses

Expenses rose by 2.6% to EUR 7,277 million (+6.4% at constant exchange rates).

Aircraft fuel costs remained at the same level as last year at EUR 1,776 million. The increase in fuel consumption was below the capacity increase mainly due to the introduction of the more fuel-efficient fleet. Effective fuel hedging and the weakening US dollar reduced the impact of spiraling fuel prices.

Excluding fuel, expenses rose by 3.6% with a capacity growth measured in “equivalent” seat kilometers of 4.7%. At constant exchange rates, manageable unit costs were slightly below the figure for last year.

Employee costs increased by 4.8% to EUR 1,798 million with a workforce of 31,005 FTEs (+1.6% versus last year). Productivity improved by 3.1% (measured in transport capacity per employee).

Income from current operations

In 2007/08, KLM generated an income from current operations of EUR 751 million (2006/07: EUR 603 million).

The Passenger Business improved results by 28% to EUR 610 million (2006/07: EUR 478 million), mainly due to excellent revenue performance. The results achieved by our European network improved significantly and destinations in strategic markets including India and China performed very well.

The Cargo Business booked a 54% improvement in operating income at EUR 109 million (2006/07: EUR 71 million).
Maintenance activities accounted for EUR 4 million of operating income (2006/07: EUR 3 million negative), affected by the negative impact of the lower US dollar. transavia.com achieved a profit of EUR 26 million (2006/07: EUR 34 million). The figures for last year include an incidental gain on pension costs of EUR 9 million.

In millions of euros	2007/08	2006/07	Variance %
Income from current operations	751	603	24.5
Other non-current income and expenses	(198)	13	
Net cost of financial debt	(69)	(104)	(33.7)
Other financial income and expenses	(6)	57	
Pre-tax income	478	569	(16.0)
Income tax expenses	(154)	(63)	
Share of results of equity shareholdings	(33)	10	
Profit for the year	291	516	(43.6)

The profit for the year of EUR 291 million (2006/07: EUR 516 million) was affected by incidental provisions explained below.

Non-current income and expenses are impacted by EUR 200 million for costs and provisions set aside for US and EU investigations into alleged cartel activity in the airfreight industry.

The net cost of financial debt was 33.7% below the figure for last year, mainly as a result of net debt reduction and higher interest rates on cash investments.

The effective tax rate increased to 32.2% (2006/07: 11.1%), mainly as a result of non-tax-deductible costs and provisions related to the anti-trust airfreight investigations. Last year's figures were impacted positively by the tax rate reduction in the Netherlands.

The loss from equity shareholdings (Martinair Holland NV, Kenya Airways Ltd., Schiphol Logistics Park CV and Transavia France) of EUR 33 million mainly resulted from the provision taken by Martinair for restructuring and the investigation into alleged cartel activity in relation to airfreight.

Consolidated cash flow statement **In millions of euros**	**2007/08**	**2006/07**
Cash flow from operating activities	999	754
Cash flow from investment activities	(460)	(616)
(Increase) / decrease in short-term deposits and commercial paper	22	479
Cash flow from financing activities	(491)	102
Other	(2)	(1)
Changes in cash and cash equivalents	68	718

KLM generated a free cash flow of EUR 539 million that has led to a significant reduction of the net debt to EUR 1,868 million as at March 31, 2008 (March 31, 2007: EUR 2,434 million).

The operating cash flow of EUR 999 million was the result of an excellent operating income and a further reduction of working capital (EUR 63 million).

Investing cash flow amounted to EUR 460 million, of which EUR 438 million for fleet renewal and modifications. In the long-haul fleet, 3 Boeing 777-200/300ERs (2 owned, 1 operating lease) and 2 Airbus 330-200s (both operating leases) were added to the fleet. For the medium-haul and regional fleet, 4 Boeing 737-800s (all operating leases) arrived.

Fleet related investments amounted to EUR 116 million, including EUR 82 million for capitalized fleet maintenance. Other capital expenditure amounted to EUR 89 million whilst disposal of aircraft led to an income of EUR 183 million and mainly relate to aircraft sale and leaseback operations.

The financing cash flow was minus EUR 491 million. In addition to financing the new fleet (EUR 338 million), two unsecured loans were raised for a total amount of EUR 150 million. EUR 947 million was repaid on fleet financing, while other financing costs and dividend payments led to a negative cash flow of EUR 32 million.
Equity grew from EUR 3,026 million as at March 31, 2007 to EUR 3,878 million as at March 31, 2008. As a consequence, the net debt to equity ratio improved from 87% to 57%.

Overview of significant KLM participating interests

As at March 31, 2008

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
Transavia France	40

Traffic and Capacity

Passenger	Passenger kilometers		Seat kilometers		Load factor	
In millions	2007/08	% Change 2006/07	2007/08	% Change 2006/07	% 2007/08	% 2006/07
Route areas						
Europe & North Africa	12,620	3	16,684	3	75.6	75.5
North America	16,212	9	18,844	11	86.0	88.1
Central and South America	7,082	0	8,289	5	85.4	89.2
Asia	22,097	6	25,480	7	86.7	87.3
Africa	9,504	1	11,769	2	80.8	81.8
Middle East	4,312	2	5,831	0	74.0	72.9
Caribbean and Indian Ocean	3,246	(12)	3,666	(14)	88.6	86.6
Total	**75,073**	**4**	**90,563**	**5**	**82.9**	**83.7**

Cargo	Traffic		Capacity		Load factor	
In million cargo ton-kilometers	2007/08	% Change 2006/07	2007/08	% Change 2006/07	% 2007/08	% 2006/07
Route areas						
Europe & North Africa	32	3	225	0	14.3	14.0
North America	943	7	1,334	7	70.7	71.0
Central and South America	408	(3)	469	(4)	87.0	86.5
Asia	2,752	0	3,483	(1)	79.0	78.1
Africa	521	16	708	16	73.6	73.6
Middle East	181	3	282	4	64.2	65.2
Caribbean and Indian Ocean	110	2	174	16	63.1	71.9
Total	**4,947**	**3**	**6,675**	**3**	**74.1**	**74.1**

Commercial developments

Passenger Business

The passenger traffic has continued to increase with 3.7 %, measured in revenue passenger kilometers (RPK). The North America network was the main growth market for passenger traffic, increasing by 8.8%. The Asian market grew by 6.2%, as a result of a strong drive by the commercial departments. A large number of flights to China, Japan and Korea now have Asian cabin crew and we are tailoring the catering service to the Asian market. The long-standing ties with SkyTeam partner China Southern are also being strengthened to improve service on the Asian market.
Both the Middle East and Africa showed a modest growth of 1.9% and 0.6% respectively. Europe & North Africa grew by 3.1% and was again profitable due to the effective handling of flights at Schiphol and the robust response to competitors. Passenger traffic in the Caribbean & Indian Ocean market decreased by 11.9%, reflecting the reduction in capacity.

Network expansion

In combination with its partners or by itself, KLM offers its passengers more than 250 destinations throughout the world, including 74 intercontinental destinations from Schiphol. We again worked on optimizing and enlarging our network in the past year. New routes were opened last year to Hartford, Dallas Fort-Worth and Portland (US), Panama City (Panama), Linköping (Sweden), Muscat (Oman) and Nantes (France). The network expansion demonstrates KLM's smart use of its partnerships to serve destinations that would otherwise be beyond the reach of an airline of our size. The three destinations in the US, for example, were developed in cooperation with Northwest Airlines. Panama had been absent from the KLM offering for some time but can be flown profitably again in cooperation with the South American carrier COPA Airlines, which operates connecting flights to and from the city from several countries.

London is one of the main intercontinental destinations on North Atlantic routes and KLM receives many passengers through its presence at London Heathrow. KLM will considerably strengthen its position in London this year when Terminal 4 is developed as the SkyTeam alliance's flagship at Heathrow. As from summer 2008, KLM will share a joint check-in area and other facilities with such carriers as Continental, Delta and Northwest. The other partners will move into Terminal 4 in the following year, thus considerably increasing the opportunities to profit from the Open Skies agreement between Europe and the United States. Under the

Open Skies agreement, airlines can fly from any airport in Europe to all airports in the United States and vice versa as from April 1, 2008.

Cooperation with Air France

Commercial management of all KLM's and Air France's passenger transport activities were further integrated in the past year. Worldwide, Air France and KLM have established a joint commercial organization while retaining their own brands and marketing activities. Joint management teams now run every KLM office throughout the world. Such teams are also in place for area management and e-commerce.

Cabin crew

A substantial number of KLM's customers are transfer passengers and the majority of them do not speak Dutch. The more than 8,500 cabin attendants, pursers and senior pursers who work for KLM are trained in various cultures and speak several languages. KLM's cabin crew takes a no-nonsense approach to their work, helping the passengers efficiently and responding to their requests pragmatically. Extra attention was paid to the cabin crew's workload in the past year.

Operations

In addition to price and comfort, reliability of departure and arrival times is an important factor in the passengers' preference for KLM. This is particularly true of transfer passengers who must catch a connecting flight. The growing number of passengers (and cargo), the rapid pace of fleet renewal, the introduction of new IT systems, internal improvement processes and staff training and refresher courses make heavy demands on the entire KLM organization. It was a great achievement in the past year that all these changes did not impact negatively on the quality of operations. However successful its commercial activities might be, an airline's success ultimately is determined by the quality of operations: a smooth check-in and boarding procedure, fast and correct baggage handling, and efficient aircraft towing, refueling, cleaning and replenishment.

Logistics handling

Much of this work is accomplished without the passengers ever noticing. Every day, some 5,000 KLM employees working in Ground Services facilitate more than 50,000 passengers and about the same number of items of baggage as well as performing the comprehensive logistics operations necessary for the aircraft themselves. In the past year we again worked hard on improving these processes and made significant progress in baggage handling. As a first step towards global implementation, a radio transponder (RFID tag) will be attached to baggage at Schiphol so that every bag can be tracked individually.

transavia.com

transavia.com is a wholly-owned subsidiary of KLM and has its own place in the KLM Group. The 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

transavia.com carried 5.4 million passengers during 2007/08, an increase of 6% on the previous year. About 75% of the flights were completed on schedule (previous year: 80%).

Network

Two new scheduled destinations were introduced (Agadir and Grenoble as a winter destination) and one scheduled destination was withdrawn (Prestwick) during the year. The number of scheduled destinations thus came to 27. In summer 2008 transavia.com will serve 21 scheduled destinations and 73 charter destinations.

New developments

The airline established in cooperation with Air France at the beginning of 2007, Transavia France, in which transavia.com has a 40% interest, commenced operations in May 2007. Its activities developed in line with expectations during the fiscal year. Under the brand name transavia.com, four Boeing 737-800s have been serving 9 charter destinations from Paris Orly (South) during summer 2007. As from the winter scheduled services to 9 destinations have been added.

At the end of 2007, transavia.com ordered seven Boeing 737-800s with options for a further three aircraft. They will replace older aircraft of the same type and thus lower the average age of the fleet. An IATA Operational Safety Audit (IOSA) at the beginning of 2008 proved that transavia.com also meets the highest international standards in the field of airline safety.

Cargo Business

The Cargo Business's core activity is to carry freight between Europe and the major manufacturing centers in, for example, the United States, China and Japan. Some 30% of the airfreight is carried on one of the three full freighters of KLM and the remainder on its Boeing 747-400 Combi fleet or in the cargo holds of its other passenger aircraft.

The cargo market has suffered from persistent overcapacity in the past two years. Given the flatter demand for our freight capacity in 2007/08, we had to sharpen up our commercial performance in order to turn in an acceptable result for the year. Overcapacity makes it difficult, for example, to pass on the full rise in fuel prices to customers. Nevertheless, KLM succeeded in increasing the profitability of its cargo operations in the past fiscal year.

We achieved this result by aligning our commercial operations even more closely to the customers' needs and by pursuing operational excellence in every link of the supply chain. In the highly competitive environment of the airfreight industry, reliability is key to good performance. The customer is free to choose and the decision is determined largely by the punctuality of the transportation. KLM's goal is to complete at least 92% of all flights on schedule and to deliver 90% of the cargo at the final destination at the agreed time.

Cooperation with AF

To strengthen its position, the AIR FRANCE KLM Cargo combination is increasingly presenting itself with one face to the customer. Following a mutually beneficial phase of operational coordination and synergy generation in Paris and Amsterdam, the organization has now largely combined its strategy, commercial approach, network development and IT systems. The cargo divisions of KLM and Air France are fully complementary and offer customers a high degree of flexibility and choice. Of Air France KLM Cargo's 6,000 or so employees, some 2,500 work in one of the combined AIR FRANCE KLM business units. Operational and physical handling at both airports remains a local matter and provides work to some 1,500 people in Amsterdam.

The close cooperation between the two freight carriers is illustrated by the addition of a new Boeing 747-400ERF freighter initially ordered by KLM. Following the development in fuel prices, it was more advisable to operate this aircraft from Paris to replace the non fuel efficient Boeing 747-200 freighter. It will soon return to Schiphol, where it will be flown under the KLM flag.

e-Freight

In November 2007, KLM again revealed itself to be an innovative pioneer when it introduced e-Freight: flights on which all the necessary cargo documents are replaced with electronic documents. The airfreight industry has high expectations of this innovation, not only because it saves a considerable amount of paper – and therefore trees and fuel – but also because it significantly improves the transparency and reliability of the entire supply chain. Following ten months' intensive preparation and with the full cooperation of the Dutch customs and other authorities, the International Air Transport Association (IATA) and the participating forwarders, KLM's Cargo Business was the first in the world to provide e-Freight shipments. E-Freight flights are now operated between Amsterdam, the United Kingdom, Hong Kong, Singapore and Canada. At a later stage, the system will also be introduced in Paris. The goal is to operate half of all flights 'paper-free' in five years' time.

Engineering & Maintenance Business

Together with Air France Industries (AFI), KLM's Engineering & Maintenance Business (E&M) is one of the largest maintenance operations in the world. With more than 5,000 employees at Schiphol, it is also one of the largest technology businesses in The Netherlands. E&M is responsible for maintaining the KLM fleet and also carries out a great deal of work for other airlines. It has three core activities: airframe maintenance and overhaul, engine maintenance and overhaul and component maintenance overhaul and distribution.

Quality standards

Being responsible for passenger and crew safety, E&M must work to the very highest quality standards. And it has a reputation to live up to; E&M has close ties with renowned suppliers of aircraft engines such as General Electric. This company has also outsourced part of its engine maintenance to this KLM E&M Business. Safety on the shop floor is an important point for attention. The Safety@Work campaign was launched last year to make employees even more aware of the importance of safe working conditions.

Impact of the dollar

More so than KLM's other Businesses, E&M was affected by the low dollar in the past year: it is customary in the aviation industry to charge third-party maintenance services in dollars yet a substantial part of the costs is denominated in euros. This inevitably placed pressure on the profitability of this KLM unit.

Cooperation with AF

E&M and Air France hold a strong position in the maintenance repair and overhaul (MRO) market. Its strength lies in part in the complementary services offered by KLM and its partner, Air France. Together, KLM E&M and Air France Industries can maintain virtually all types of Boeing and Airbus aircraft. Integration of the two partners' activities will therefore be continued. In 2007, the Works Council was asked for an opinion on the full integration of Air France Industries' and KLM E&M's commercial activities. Certain engine types can be serviced in both Amsterdam and Paris. This proved to be a very useful safety valve last year when heavy demands were unexpectedly made on Air France Industries' maintenance capacity. Air France's aircraft engines were carried by road to Amsterdam to be serviced at Schiphol. KLM E&M and Air France Industries will in the future present themselves with one face to the customer.

Impact of fleet renewal

The extensive and rapid renewal of the KLM fleet provides opportunities to develop new high-quality activities. Maintaining the new Boeing 777 that will form the core of the KLM fleet will take roughly a third of the man-hours necessary to maintain the Boeing 747. The decision by both Air France and KLM to step up replacement of part of the Boeing 747 fleet prompted a reconsideration of the heavy maintenance of these aircraft. It has therefore been proposed to discontinue D-checks of the remaining Boeing 747s in Amsterdam and to transfer this labor-intensive work to an as yet undecided location where service providers are able to provide the highest level of quality at competitive prices.

Cleaner techniques

E&M is constantly working on ways to improve its maintenance techniques and methods in order to return aircraft to operations more quickly and reduce the environmental impact. Last year, for example, it developed and introduced the Engine Water Wash system. Using water to clean engines internally was already an established technique to increase performance levels and reduce fuel consumption and hence CO_2-emissions. E&M sought and found an efficient solution to combine this technique with the regular aircraft checks in the hangars. The new method ensures that pollutants from the engines are not released into the environment.

Staff

Personnel policy

KLM Group employed a workforce of 31,235 as of March 31, 2008. In The Netherlands, KLM has been lauded for many years as a preferred employer, offering a wide range of opportunities. Many employees choose to work for KLM for a considerable part of their careers and we are recognized as undisputed leader in the aviation industry. This preferred position does not come easily, however, and we are witnessing growing scarcity in certain areas of the labor market, especially for technical staff such as maintenance and IT specialists. To interest young people in a technical career, KLM has been investing in its ties with education for many years.

Healthy and flexible

To offer our personnel a healthy working environment, we invest in a variety of amenities for them such as sports facilities. But to ensure their mental and physical fitness, we must also encourage them to change jobs from time to time. At a company where some 70% of the work requires physical labor, prolonged, repeated over-exertion of certain muscle groups can eventually lead to incapacity. And doing the same work year in, year out can also stifle creativity and enthusiasm in the workplace. This is a major concern for a company that must respond proactively in a competitive environment that makes high demands on punctuality and safety. KLM encourages its personnel in many ways to rise to other challenges, either inside or outside the Group. Literacy courses are offered to personnel with language disadvantages, for example, internships are organized in other departments and health checks and deployability reviews are held.

KLM continuously seeks ways to lighten the physical burden of many jobs. To give one example, RampSnakes were introduced on the aircraft platforms last year. These flexible conveyor belts are designed to load an aircraft's hold almost fully mechanically and reduce lifting to a minimum.

Safety culture

With so many people exposed to intense pressure and high potential risks – for instance when working around the aircraft on the apron or carrying out maintenance work in the hangars – it is vital that KLM's personnel take a critical look at both their own work and that of their colleagues. For many years, pilots have communicated openly about any errors, accidents and near-accidents, safe in the knowledge that this procedure leads to learning and improvement rather than 'punishment'. This very successful system of quality improvement is now an integral aspect of flight safety and was rolled out to other areas of KLM last year. The safety culture must make the personnel more aware that they are free to report errors without feeling anxious for themselves or their colleagues. This learning organization has proven practical value and underpins the KLM principle of never compromising on safety and security.

Fleet composition KLM Group

		Included in balance sheet				
		Average age in years *	Owned**	Finance leases	Operating leases ***	Total
Consolidated fleet as at March 31, 2008						
Boeing 747-400 PAX	wide body	17.3	4	1	-	5
Boeing 747-400 Combi	wide body	14.3	9	8	-	17
Boeing 747-400 ER Freighter	wide body	4.7	-	3	-	3
Boeing 777-300 ER	wide body	0.1	2	-	-	2
Boeing 777-200 ER	wide body	3.4	-	6	9	15
Boeing MD-11	wide body	13.1	6	2	2	10
Airbus A330-200	wide body	2	-	6	4	10
Boeing 737-900	narrow body	5.2	-	2	3	5
Boeing 737-800	narrow body	7.8	1	20	15	36
Boeing 737-700	narrow body	4.6	-	5	5	10
Boeing 737-400	narrow body	16.4	6	-	7	13
Boeing 737-300	narrow body	15.5	6	1	7	14
Fokker 100	regional	17.6	9	11	-	20
Fokker 70	regional	12.1	18	3	-	21
Fokker 50	regional	17	6	-	8	14
Training aircraft			8			8
Total consolidated fleet		**11.7**	**75**	**68**	**60**	**203**

* Excluding operating leases and training aircraft. The average age including operating leases is 11.2 years

** 1 Bae146-300 operated by CityJet and 1 Bae146-300 not in operation as at March 31, 2008

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

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. Next to it the aviation industry has to deal with increasing law and regulation, for instance in the area of the environment.

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 AIR FRANCE KLM 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 or harm the brand.

Risk management within the KLM Group

KLM has organized and established a company wide risk management process which identifies the risks on a timely basis. By taking the proper actions to mitigate the risks KLM is able to restrict the impact of risk factors to a minimum.

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 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 adequacy of its risk management process;
- maintaining a reliable internal control framework in general and over financial reporting in particular;
- possible open control issues and the measures to monitor and to mitigate the consequences of these control issues; and
- no knowledge of any material and undisclosed fraud or suspected fraud.

The following areas of risk have been distinguished:

Changes in market conditions

Regional or local instability, terrorist attacks and other related conflicts can have significant adverse effects on worldwide market conditions for airlines.

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, have a severe financial impact and are considered to be a long term risk for the aviation industry.

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 to 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:

- The monopolistic or oligopolistic position of many suppliers in the supply chain, e.g. airports, ATC, manufacturers;
- new airlines in emerging markets make heavy capacity investments;
- creation of major hubs in the emerging markets;
- a shift to extended range aircraft with the possibility to bypass European hubs;
- a number of KLM's competitors receive directly or indirectly government subsidies or support. This lack of level 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;
- the restructuring and consolidation of the US aviation industry;
- the Cargo Business is confronted with an imbalance between the various traffic flows as a consequence of the strong geographical differences in economic growth; and
- the Open Skies between the EU and the US.

KLM's answer to these market conditions is:

- a service oriented product in an expanding world-wide network;
- an optimal alliance 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, both in the market and in the supply chain.

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 that will 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 enhances 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.

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 have been undertaken to update the regulations. The formal approval on environmental restrictions for the short term capacity (until approximately 2010) of Schiphol are expected in the summer of 2008. These regulations will give enough space for our planned capacity until 2010. Preparations for the medium long term (until 2020) are expected to be completed around summer 2008 as well. It is unknown at this moment what consequences this will give to our planned capacity on longer term.

KLM prepares for a low carbon future and draws up an environmental program (under ISO14001) 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 other institutions and organizations in order to help achieve effective environmental policies and 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 good cooperation with its suppliers, which is a prerequisite for delivering a high quality service to its 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 2007/08 ranks second best among AEA peers at their respective European hub.

Going 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 in close co-operation with Air France have been developed and the realization is ongoing.

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 which 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. However there are some delays in the further implementation of other ALTEA functionalities.

Standardization leads to improved use of existing systems, elimination of older complex systems, application of new organizational structures and demand a 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, continuous attention to security is a critical precondition to prevent fraud and virus attacks.

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 have quite often 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 much as possible and of course taking into account the security demands.

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 and demanding litigation within society in general. 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. As a result, the professional contacts are many and often informal by nature.
The current concentration of airlines in alliances and (for KLM) the combination of Air France and KLM generate 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 couple of years much attention has been given to the monitoring and controlling of this topic and increasing staff awareness.

In the fiscal year 2007/08, Air France and KLM have rolled out a joint antitrust compliance program, which among others included the distribution of a Compliance Manual and for a specified group of employees a mandatory E-Learning course.

Legislative, fiscal and regulatory developments

KLM's operations are sensitive to changes in legislation, regulations, airport fees and taxes. In particular, there is increasing economic, security and other 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. Lobby fulfills an essential role in the modern-day process of public decision-making and legislation on increasingly complex subjects. It is our duty to ensure that politicians and regulators are well-informed of the industry's economic and operational realities and of KLM's interests.

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 approval and the implementation in March 2008 of the EU-US (Open Skies) agreement is important for AIR FRANCE KLM and an increase of operations is being implemented. However, the treaty itself has still to be developed to a higher level of maturity, in order to achieve a truly free market.

In this fiscal year 2007/08 AIR FRANCE KLM delisted from the New York Stock Exchange. Voluntarily AIR FRANCE KLM decided to comply with the major requirements of the US Sarbanes-Oxley Act. This resulted in an ongoing attention for the internal control framework over the financial reporting.

The existing risk management system is supportive to this additional attention and contributed to fulfill the requirements of 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 Netherlands law. Supervision and management of KLM are structured in accordance with the two-tier model, meaning a Board of Managing Directors supervised by a separate Supervisory Board. KLM has been subject to the mitigated structure regime for large companies since May 2007. A proposal to alter the company's Articles of Association to this effect was approved by the General Meeting of Shareholders in July 2007.

KLM's corporate governance is based on the statutory requirements applicable to limited companies and on the company's Articles of Association. Furthermore, KLM has brought its corporate governance as far as possible in line with generally accepted principles of good governance, as laid down in the Dutch Corporate Governance Code (the "Code").

This section considers KLM's corporate governance policy. In comparison with fiscal year 2006/07 there have been no material changes in the company's governance policy.

Shareholder structure

KLM's shareholder structure is outlined below.
Depositary receipts of shares carry beneficial (economic) ownership, but no voting rights on the underlying KLM shares.

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 by Stichting Administratiekantoor KLM ("SAK I") on common KLM shares and on the cumulative preference shares A, together representing 32.9% of the beneficial rights of KLM's nominal share capital;

- the depositary receipts issued by Stichting Administratiekantoor Cumulatief Preferente Aandelen C ("SAK II") on the cumulative preference shares C.

On March 31, 2008, "SAK I" held 32.9% of the voting rights in KLM on the basis of common shares and cumulative preference shares A. Stichting Administratie Kantoor Cumulatief preferente aandelen-C KLM ("SAK II") holds 11.3% of the voting rights in KLM. The Dutch State directly holds the cumulative preference shares A, which represent 5.9% of the voting rights.

Since 1994, the Dutch State has had the option under certain circumstances to take an interest of up to 50.1% in the issued capital of KLM. 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 terminating on May 2010. The State has informed KLM that it wishes to renew the option for another year until May 2009.

AIR FRANCE KLM

Air France and KLM share the same holding company, AIR FRANCE KLM S.A. The holding company's Board of Directors (*Conseil d' Administration*) has 16 members. The Strategic Management Committee (SMC) was replaced by a new body in May 2007: the Group Executive Committee. The Group Executive Committee's responsibilities are largely similar to those of the former SMC and among others decides upon strategic issues.

Supervisory Board

KLM's Supervisory Board has a duty to supervise the management 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, its stakeholders and its affiliates. Supervisory Directors are appointed and reappointed by the General Meeting of Shareholders. Three committees are active within the Supervisory Board: an Audit Committee, a Remuneration Committee, and a Nomination 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 Managing Directors are appointed and dismissed by the General Meeting of Shareholders. The members of the Board of Managing Directors are appointed for a fixed term. 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 of the Board of Managing Directors as President & Chief Executive Officer. The Board of Managing Directors shares its operational management tasks with an Executive Committee, consisting of the company's divisional managers.

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 next Annual General Meeting of Shareholders will be held at Schiphol (East) on July 3, 2008.

Staff Participation

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

At AIR FRANCE KLM level a European Works Council has been installed to jointly represent Air France and KLM. This Council focuses on subjects concerning the cooperation between KLM and Air France. The European Works Council met on four occasions in the fiscal year 2007/08.

Corporate Governance: Implementation

KLM Corporate Governance is, insofar as possible, in line with generally accepted principles of good governance, such as the Dutch Corporate Governance Code. A Code of Ethics for Financial Officers and a Financial Whistleblower Policy, both of which are compulsory under the Social & Ethical Charter, have been formalized and implemented.

Although KLM as an unlisted company is not formally obliged to comply with the Dutch Corporate Governance Code, it has committed itself to follow the Code voluntarily where possible. KLM deviates from the best practices described in the Code in a number of areas. These deviations 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 to provide copies of regulations and other documents upon written request.
- In deviation 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.

Regulations

KLM has adopted regulations in respect of the Supervisory Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, and the Board of Managing Directors. The Audit Committee's regulations satisfy the requirements of the Dutch Corporate Governance Code. 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 all be viewed 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 advise the company's Board of Managing Directors, the Supervisory Board and its Committees met regularly during fiscal year 2007/08. The meetings were well attended by the members of the Supervisory Board.

The Supervisory Board looks back on the past fiscal year with satisfaction. KLM reported excellent operating results for the year, despite continuing high fuel prices, proving the company's resilience against unfavorable external circumstances. KLM and Air France successfully continued to execute their joint strategy of profitable growth. Upon completion of the first phase of the merger in May 2007, the two companies entered the second phase, taking further steps towards alignment of the organizations.

Supervision

The Supervisory Board held six scheduled meetings during the year. As usual, four of the six meetings, held shortly after the quarterly close, concentrated on the development of KLM's financial results. We extensively discussed developments in AIR FRANCE KLM with a possible impact on KLM (a.o. acquisition of VLM, Alitalia), and other KLM projects (Martinair). Other issues that were addressed during our meetings included Corporate Governance, KLM's hedging position, KLM's environmental strategy, fleet strategy and investments as well as the organizational developments within AIR FRANCE KLM relating to the second phase of the merger. The Board approved the authorization of the Board of Managing Directors to buy the company's own shares and the related share buy-back program. During an extraordinary meeting of Shareholders in January 2008, the Shareholders were informed on the Company's intention to launch this program. During the meetings, we also paid careful attention to developments in the area of consolidation, both in Europe and the United States. Lastly, we were regularly updated on the status of the investigations by competition authorities in various jurisdictions into the Cargo Business of the Company.

The main points of AIR FRANCE KLM's five-year Strategic Plan, with particular emphasis on KLM's role, were discussed at a special strategy meeting. The Board also discussed the three-year KLM Strategic Plan, the budget, the investment plan, and the financial plan for the fiscal year. All were approved by the Supervisory Board. Finally, the Board considered its own composition and performance, as well as the performance, including remuneration, 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 was held.

The Supervisory Board also met informally during a lunch with the members of KLM's new Executive Committee.

Composition of the Board of Managing Directors

Peter Hartman succeeded Leo Van Wijk as KLM's President & Chief Executive Officer with effect from April 1, 2007. Leo Van Wijk formally stepped down and left the Board of Managing Directors at the closure of the General Meeting of Shareholders on July 5, 2007.

Frédéric Gagey is a member of KLM's Board of Managing Directors and Chief Financial Officer as of 2005.

The Supervisory Board appointed Jan Ernst De Groot to KLM's Board of Managing Directors as of the close of the General Meeting of Shareholders in July 2007.

Composition of the Supervisory Board

Bauke Geersing and Wim Kok were due to retire by rotation in 2007. Wim Kok was reappointed for a second term of four years. The KLM Works Council fully supported the reappointment of Wim Kok. Bauke Geersing was no longer eligible for reappointment. AIR FRANCE KLM, at the end of the initial period in May 2007, had the right to propose the appointment of a fifth Supervisory Director. Using this right, Jean Peyrelevade was appointed for a first term of four years.

Henri Martre, Irene P. Asscher-Vonk, Jean-Didier F.C. Blanchet, Henri Guillaume, Remmert Laan, and Hans Smits are all due to retire by rotation in 2008. We will propose them all for reappointment for a second term of four years at the close of the General Meeting of Shareholders in July 2008.

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

Committees

The Supervisory Board has three committees: an Audit Committee, a Remuneration Committee, and a Nomination Committee. These Committees prepare policy and decision-making and report on their activities to the full Supervisory Board.

Following Bauke Geersing's resignation from KLM's Supervisory Board, Irene Asscher-Vonk was appointed to both the Remuneration and the Nomination Committee.

On March 31, 2008 the composition was as follows:

Audit Committee

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

Remuneration Committee

- Wim Kok (Chairman)
- Irene Asscher-Vonk
- Remmert Laan

Nomination Committee

- Wim Kok (Chairman)
- Irene Asscher-Vonk
- Remmert Laan

The Audit Committee met on two occasions during the fiscal year. Besides the financial results, the two scheduled meetings also discussed issues as risk management and internal control, and the internal auditor's reports. 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, a new, long-term incentive plan for the KLM Board of Managing Directors and (senior) executives. 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 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 an amount to the reserves such that, with due observance of the other provisions of article 32 of KLM's Articles of Association, a sum of EUR 0.58 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 1,6 million.

Financial Statements

The Supervisory Board hereby presents the annual report and the financial statements for the fiscal year 2007/08. 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 2007/08 fiscal year.

Independence

Under the currently applicable principles of good governance, all members of the Supervisory Board are deemed to be independent.

Closing remarks

KLM closed fiscal 2007/08 with excellent operating results. For the fourth year in succession, KLM ended the fiscal year with positive financial figures. It is the Supervisory Board's belief that these results could not have been achieved without the merger with Air France.

The Supervisory Board expresses its appreciation of the company's performance during the past year, with a special word of gratitude to all the company's employees.

Amstelveen, June 4, 2008

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 of the company with regard to the terms and conditions of service and remuneration of the members of the Board of Managing Directors and the remuneration of the members of the Supervisory Board. The remuneration policy is formulated and proposed by the Supervisory Board and, in accordance with the Articles of Association, adopted by the General Meeting of Shareholders. The latest changes to the Company's remuneration policy were adopted by the General Meeting of Shareholders in July 2007.

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 individual members of the Board of Managing Directors. These decisions are prepared by the Remuneration Committee.

Each year, the Remuneration Committee evaluates whether there is cause to change the remuneration for the members of the Board of Managing Directors. The following factors are considered in the evaluation: (i) developments in the remuneration of AIR FRANCE KLM's directors, whereby also external benchmark data regarding directors' remuneration are taken into account as well as (ii) inflation and developments in KLM's Collective Labor Agreement. Any changes in individual remuneration further to the evaluation are proposed by the Remuneration Committee to the Supervisory Board. The Supervisory Board in turn adopts the remuneration subject to the approval of the Meeting of Priority Shareholders.

Objective of the policy

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 the relevant 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.

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. 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 remains 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.

The maximum pay-out percentage is connected to the position of the Board member. 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 financial 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 Mr. Hartman.
Mr. Gagey does not accumulate pension rights in The Netherlands.

Service agreements with members of the Board of Managing Directors

Mr. Hartman's open-ended service agreement was replaced on August 1, 2005 by a fixed-term agreement with a renewal option for two years at the most. 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.

The agreement with Mr. De Groot, who joined KLM's Board of Managing Directors at the close of the General meeting of Shareholders in July 2007, contains a fixed-term clause for a period of four years.

Remuneration of the Board of Managing Directors in fiscal year 2007/08

Base salary

The base salary for the members of the Board of Managing Directors was increased by 2% on April 1, 2007 and by 1.5% on September 1, 2007 in line with the increase in KLM's CLA salaries. In the 2007/08 fiscal year, the total base salary of the members of the Board of Managing Directors, including pension costs, was EUR 1,656,259. The figures include the base salary of Mr. Van Wijk until his resignation as per the Annual General Meeting of Shareholders on July 5, 2007, and also include the base salary of Mr. De Groot as from that same date.

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 2007/08 fiscal year)

The Remuneration Committee has evaluated KLM's actual results against the collective and individual targets set for 2007/08 in accordance with the remuneration policy. The short-term incentive payment for fiscal year 2007/08 was 72.25% of base salary for Mr. Hartman, 59.50% for Mr. Gagey and 42.50% for Mr. De Groot. 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 July 2007 (for the CEO and CFO) respectively 20,000 options (for the MD). 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 agreement with Mr. Hartman was formally dissolved on August 1, 2005 and replaced with a fixed-term agreement. As a consequence, Mr. Hartman has lost his 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 his current service agreement

Remuneration Policy of the Supervisory Board

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.

Remuneration of the Supervisory Board Members in fiscal year 2007/08

There were no changes in the remuneration of the members of the Supervisory Board in fiscal year 2007/08. The fixed fee payable for services 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 amounted to 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 fiscal year 2007/08 was EUR 235,502 (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, 2008)

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
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 labour law and social security law Radboud University Nijmegen / Arriva Personenvervoer Nederland / Philip Morris Holland / PGGM
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 participations, Cercle des Transports
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 / (second) 2007 – 2011	Former Prime-Minister of The Netherlands / ING Groep N.V., TNT N.V. ,Royal Dutch Shell plc
Remmert Laan	1942	French Dutch	2004 / (first) 2004 – 2008	Vice chairman Leonardo & Co / AON France S.A., KKR PEI ltd, Patrinvest S.A., Hagemeijer N.V.,GLG Partners.
Jean Peyrelevade	1939	French	2007 / (first) 2007 - 2011	Vice-President Leonardo France, former CEO of Suez, former CEO Stern Bank, former CEO of the Union des Assurances de Paris, former CEO Credit Lyonnais, former Associate of Toulouse & Associates / Director of Bouygues – DNCA Finance – Société Monégasque de l'Electricité et du Gaz ,CMA-CGM, VP Finance Suez
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, 2008 are shown here.

Board of Managing Directors (situation as at March 31, 2008)

Name	Year of birth	Nationality	First appointment	Function
Peter F. Hartman	1949	Dutch	1997	President and Chief Executive Officer (since April 1, 2007)
Frédéric N.P. Gagey	1956	French	2005	Chief Financial Officer
Jan Ernst C. De Groot	1963	Dutch	2007	Managing Director (since July 5, 2007)

Company Secretary

Barbara C.P. Van Koppen	1966	Dutch

KLM Royal Dutch Airlines

Financial Statements for the year ended March 31, 2008

KLM Royal Dutch Airlines
Consolidated balance sheet
In millions of Euros

After appropriation of the profit for the year	Note	March 31, 2008	March 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	1	4,622	4,590
Intangible assets	2	58	45
Investments accounted for using the equity method	3	146	159
Other financial assets	4	456	576
Derivative financial instruments	5	713	208
Deferred income tax assets	14	16	24
Pension assets	15	2,226	2,074
		8,237	**7,676**
Current assets			
Other financial assets	4	202	151
Derivative financial instruments	5	430	114
Inventories	6	234	196
Current income tax assets		-	6
Trade and other receivables	7	1,070	1,121
Cash and cash equivalents	8	1,332	1,264
		3,268	**2,852**
TOTAL ASSETS		**11,505**	**10,528**
EQUITY			
Capital and reserves			
Share capital	9	94	94
Share premium		474	474
Other reserves *	10	797	228
Retained earnings *		2,512	2,229
Total attributable to Company's equity holders		**3,877**	**3,025**
Minority interest		1	1
Total equity		**3,878**	**3,026**
LIABILITIES			
Non-current liabilities			
Other financial liabilities	11	1,185	1,066
Finance lease obligations	12	2,088	2,548
Derivative financial instruments	5	215	137
Deferred income	13	104	117
Deferred income tax liabilities	14	731	497
Provisions for employee benefits	15	179	222
Other provisions	16	231	97
		4,733	**4,684**
Current liabilities			
Trade and other payables *	17	1,455	1,430
Other financial liabilities	11	23	70
Finance lease obligations	12	404	565
Derivative financial instruments	5	182	85
Deferred income *	13	636	615
Current income tax liabilities		13	-
Provisions for employee benefits	15	37	34
Other provisions	16	144	19
		2,894	**2,818**
Total liabilities		**7,627**	**7,502**
TOTAL EQUITY AND LIABILITIES		**11,505**	**10,528**

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

* For comparison purposes the fiscal 2006/07 figures have been reclassified

KLM Royal Dutch Airlines

Consolidated income statement

In millions of Euros

	Note	2007/08	2006/07
Revenues	20	**8,028**	**7,698**
Expenses			
External expenses	21	(4,944)	(4,900)
Employee compensation and benefit expense	22	(1,798)	(1,716)
Depreciation and amortization	23	(474)	(477)
Other income and expenses		(61)	(2)
Total expenses		**(7,277)**	**(7,095)**
Income from current operations		**751**	**603**
Other non-current income and expenses	24	(198)	13
Income from operating activities		**553**	**616**
Gross cost of financial debt	25	(208)	(233)
Income from cash and cash equivalents	25	139	129
Net cost of financial debt		**(69)**	**(104)**
Other financial income and expense	25	(6)	57
Pre-tax income		**478**	**569**
Income tax expense	26	(154)	(63)
Net result after taxation of consolidated companies		**324**	**506**
Share of results of equity shareholdings		(33)	10
Profit for the year		**291**	**516**
Attributable to:			
Equity holders of the company		291	516
Minority interest		-	-
		291	**516**
Net profit attributable to equity holders of the company		291	516
Dividend on priority shares		-	-
Net profit available for holders of ordinary shares		**291**	**516**
Average number of ordinary shares outstanding		46,809,699	46,809,699
Average number of ordinary shares outstanding (fully diluted)		46,809,699	46,809,699
Earnings per share (in EUR)		6.22	11.03
Diluted earnings per share (in EUR)		6.22	11.03

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

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)**
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**

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 March 31, 2007	**94**	**474**	**126**	**2,331**	**3,025**	**1**	**3,026**
Reclassification	-	-	102	(102)	-	-	-
As at April 1, 2007	**94**	**474**	**228**	**2,229**	**3,025**	**1**	**3,026**
Net gain/(loss) from cash-flow hedges	-	-	745	-	745	-	745
Exchange differences on translation foreign operations	-	-	11	-	11	-	11
Transfer from retained earnings	-	-	3	(3)	-	-	-
Tax on items taken directly to or transferred from equity	-	-	(190)	-	(190)	-	(190)
Net income/(expense) recognized directly in equity	**-**	**-**	**569**	**(3)**	**566**	**-**	**566**
Profit for the year				291	291		291
Total recognized income/(expense)	**-**	**-**	**569**	**288**	**857**	**-**	**857**
Dividends paid	-	-	-	(23)	(23)	-	(23)
Other movements	-	-	-	18	18	-	18
As at March 31, 2008	**94**	**474**	**797**	**2,512**	**3,877**	**1**	**3,878**

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

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

	2007/08	2006/07
Profit for the year	291	516
Depreciation and amortization	474	477
Changes in provisions	225	(13)
Results of equity shareholdings	33	(10)
Changes in pension assets	(150)	(201)
Changes in deferred income tax	50	63
Other changes	13	(89)
Net cash flow from operating activities before changes in working capital	**936**	**743**
(Increase) / decrease in inventories	(47)	(10)
(Increase) / decrease in trade receivables	91	(17)
Increase / (decrease) in trade payables	(4)	68
(Increase) / decrease in other receivables and payables	23	(30)
Net cash flow from operating activities	**999**	**754**
Capital expenditure on intangible fixed assets	(25)	(12)
Capital expenditure on aircraft	(554)	(594)
Disposal of aircraft	183	40
Capital expenditure on other tangible fixed assets	(69)	(64)
Disposal of other tangible fixed assets	7	14
Investment in equity shareholdings	(2)	-
(Increase) / decrease in short-term deposits and commercial paper	22	479
Net cash used in investing activities	**(438)**	**(137)**
Increase in long-term debt	488	687
Decrease in long-term debt	(947)	(558)
Increase in long-term receivables	(15)	(50)
Decrease in long-term receivables	5	37
Dividend paid	(23)	(14)
Other changes	1	-
Net cash flow from financing activities	**(491)**	**102**
Effect of exchange rates on cash and cash equivalents	(2)	(1)
Change in cash and cash equivalents	**68**	**718**
Cash and cash equivalents at beginning of year	1,264	546
Cash and cash equivalents at end of year *	1,332	1,264
Changes in cash and cash equivalents	**68**	**718**

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 1,736 million as at March 31, 2008 (as at March 31, 2007: EUR 1,724 million).

Financial Statements fiscal 2007/08

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 and Amsterdam 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 4, 2008 and will be submitted for approval by the Annual General Meeting (AGM) of shareholders on July 3, 2008.

In the AGM of shareholders on June 29, 2006 it was approved that the financial statements are prepared in the English language only.

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, 2008. The consolidated financial statements have also been prepared in accordance with Section 362(9) of Book 2 of the Netherlands Civil Code.

As permitted by section 402 of Book 2 of the Netherlands Civil Code the Company income statement has been presented in condensed form.

Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after April 1, 2008, were not adopted early by the Group for the preparation of these consolidated financial statements:

- The revision to standard IAS 1 “Presentation of financial statements”, effective for periods beginning on or after January 1, 2009;
- The standard IFRS 8 “Operating Segments”, effective for periods beginning on or after January 1, 2009;
- The revision to standard IAS 23 “Borrowing costs”, effective for periods beginning on or after January 1, 2009;
- The revision to standard IFRS 3 “Business combinations”, effective for periods beginning on or after July 1, 2009;
- The revision to standard IAS 27 “Consolidated and separate financial statements”, effective for periods beginning on or after July 1, 2009;
- The interpretation IFRIC 12 “Service concession arrangements”, effective for periods beginning on or after January 1, 2008;
- The interpretation IFRIC 13 “Customer loyalty programs”, effective for periods beginning on or after July 1, 2008
- The interpretation IFRIC 14 “IAS 19: The limit of a defined asset, minimum funding requirements and their interaction”, effective for periods beginning on or after January 1, 2009. Impact of the application of the interpretation IFRIC 14 has already been anticipated by the Group (see note 15) and its coming into effect will not have any impact for the Group.

The Group is currently estimating the potential impact of IFRIC 13 on the consolidated financial statements and disclosures. Other new standards, interpretations and amendments to existing standards listed above should not lead to significant impacts.

Revisions to standards IAS 1, IAS 23, IFRS 3 and IAS 27 as well as interpretations IFRIC 12 and IFRIC 13 have not yet been adopted by the European Union.

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

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 further in the note Accounting policies for the Balance sheet.

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, 2008 EUR	March 31, 2007 EUR
1 U.S. Dollar (USD)	0.63	0.75
1 Pound sterling (GBP)	1.26	1.47
1 Swiss franc (CHF)	0.64	0.62
100 Japanese yen (JPY)	0.64	0.64
100 Kenya Shilling (KES)	1.02	1.09

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.

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 of the Group's asset comprises flight equipment and other assets are 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. The useful life of goodwill is indefinite.

Computer software

Computer software is stated at historical cost less accumulated amortization and 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 (mainly 5 years and 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 during the annual operational planning cycle, 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, taking into account 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 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 ventures. 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 using the effective interest method less any impairment. 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, less any impairment. 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 for, short term receivables where the recognition of interest would be immaterial.

Effective interest method

For held-to-maturity investments and loans and receivables, 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.

At fair value through profit or loss

At fair value through profit or 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 or 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 less impairment losses. Gains and losses arising from changes in fair value are recognized in the income statement.

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.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 substantially 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, including fuel and security surcharges, 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 and related surcharges 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 tax 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.

Maintenance revenues from time and material contracts are recognized together with incurred direct maintenance expenses as a percentage of completion of the individual maintenance visits in progress. The degree of progress to completion is measured with use of recorded progress and expenses incurred per individual maintenance visit.

Revenues on maintenance/power by the hour contracts, that are billed on logged flight hours customers’ engines and components, are recognized to the extent that actual maintenance services, valued at sales prices against the amounts billed on logged flight hours have actually been carried out. Any amount billed for services not yet performed are recorded as liability for unearned revenues.

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. Any deferral of costs in view of applying the matching principle is subject to these costs meeting the criteria for recognizing them as an asset on the balance sheet. 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 recognized 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 interest rate, price of the share, volatility and expected dividends). The liability is measured at grant date and each balance sheet date and each settlement date.

Changes in the fair value of the liability are recognized as employee benefit expense in profit and loss.

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. 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.

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.

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.

Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, financial leases, fair value changes, etc., have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net cash acquired). Dividends paid to ordinary shareholders included in financing activities. Dividends received are classified as investing activities. Interest paid is included in operating activities.

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 valuation techniques 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 carrying 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. Details of the assumptions used and the results of sensitivity analyses recognizing these assumptions are provided in note 5.

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, the Chief Operating Officer of the Air France Group and the Chief Executive Officer of the KLM Group.

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 three years, part of the variable-rate debt has been swapped to 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, 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
Disposals	-	-	(11)	(11)	(14)	-	-	(14)	(29)	(54)
Currency translation differences	-	5	1	6	-	-	-	-	-	6
Reclassifications	267	(148)	(80)	39	(19)	(33)	(11)	(63)	(144)	(168)
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**

	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, 2007	**1,072**	**2,606**	**1,216**	**4,894**	**592**	**592**	**130**	**1,314**	**229**	**6,437**
Additions	187	-	113	300	1	28	14	43	277	620
Disposals	(241)	-	(128)	(369)	(1)	(33)	(10)	(44)	-	(413)
Currency translation differences	(8)	(14)	(11)	(33)	-	(1)	(1)	(2)	47	12
Reclassifications	77	(56)	133	154	10	(1)	3	12	(175)	(9)
As at March 31, 2008	**1,087**	**2,536**	**1,323**	**4,946**	**602**	**585**	**136**	**1,323**	**378**	**6,647**
Accumulated depreciation and impairment										
As at April 1, 2007	**448**	**249**	**580**	**1,277**	**68**	**422**	**80**	**570**	**-**	**1,847**
Depreciation	100	159	124	383	36	33	10	79	-	462
Disposals	(63)	-	(122)	(185)	-	(31)	(9)	(40)	-	(225)
Currency translation differences	(6)	(14)	(6)	(26)	-	-	-	-	-	(26)
Reclassifications	(145)	78	34	(33)	-	-	-	-	-	(33)
As at March 31, 2008	**334**	**472**	**610**	**1,416**	**104**	**424**	**81**	**609**	**-**	**2,025**
Net carrying amount										
As at March 31, 2007	**624**	**2,357**	**636**	**3,617**	**524**	**170**	**50**	**744**	**229**	**4,590**
As at March 31, 2008	**753**	**2,064**	**713**	**3,530**	**498**	**161**	**55**	**714**	**378**	**4,622**

2007/08 and 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:

	2008	2007
Aircraft	147	226
Land and buildings	167	174
Other property and equipment	9	10
Carrying amount as at March 31	**323**	**410**

Borrowing costs capitalized during the year amount to EUR 12 million (2006/07 EUR 6 million).
The interest rate used to determine the amount of borrowing costs to be capitalized was 4.0% (2006/07 4.0%).

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, 2008 amounts to EUR 412 million (2006/07 EUR 396 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 18. Included in prepayments is an amount of EUR 51 million (2006/07 EUR 21 million) relating to future sale and lease back transactions. Upon delivery to the Group, the aircraft will be directly sold to a lease company and subsequently leased back under an operating lease.

2 Intangible assets

	Goodwill	Software	Software under development	Total
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**
Historical cost				
As at April 1, 2007	**30**	**92**	**3**	**125**
Additions	-	2	23	25
Reclassifications	-	1	(3)	(2)
Disposals	-	(3)	-	(3)
As at March 31, 2008	**30**	**92**	**23**	**145**
Accumulated amortization and impairment				
As at April 1, 2007	**19**	**61**	**-**	**80**
Amortization	-	12	-	12
Reclassifications	-	(2)	-	(2)
Disposals	-	(3)	-	(3)
As at March 31, 2008	**19**	**68**	**-**	**87**
Net carrying amount				
As at March 31, 2007	**11**	**31**	**3**	**45**
As at March 31, 2008	**11**	**24**	**23**	**58**

3 Investments accounted for using the equity method

	2008	2007
Associates	62	58
Joint ventures	60	77
Jointly controlled entities	24	24
Carrying amount as at March 31	**146**	**159**

Investments in associates

	2007/08	2006/07
Carrying amount as at April 1	**58**	**49**
Movements		
New consolidations	7	-
Share of profit/(loss) after taxation	1	11
Dividends received	(2)	(2)
Foreign currency translation differences	(4)	(2)
Other movements	2	2
Net movement	**4**	**9**
Carrying amount as at March 31	**62**	**58**

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

		As at March 31,
	2007	2006
Country of incorporation	Kenya	Kenya
Interest held %	26	26
Assets	838	792
Liabilities	604	595
Revenues	646	580
Profit/(loss) after taxation	45	53
Share of profit/(loss) after taxation	**12**	**14**

The table of Kenya Airways Ltd's assets, liabilities and revenues is based on the audited financial statements for the years ended March 31, 2007 and 2006. The share of profits included in the carrying amounts as at March 31, 2008 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, 2008 the fair value of KLM's interest in Kenya Airways Ltd. was EUR 64 million (2006/07 EUR 130 million).

The Group's interest in its associate, Transavia France, can be summarized as follows:

	As at March 31, 2008
Country of incorporation	France
Interest held %	40
Assets	47
Liabilities	48
Revenues	53
Profit/(loss) after taxation	(19)
Share of profit/(loss) after taxation	**(7)**

Transavia France is an associate controlled by Air France (60%) and Transavia Airlines C.V. (40%). In the shareholder's agreement has been stated that when losses exceeds the book value, the book value is written down to zero and no further losses are accounted for, to the extent that Transavia has entered into a legally enforceable or actual obligation, or has made payments on behalf of Transavia France.

Joint ventures

	2007/08	2006/07
Carrying amount as at April 1	**77**	**92**
Movements		
Share of profit/(loss) after taxation	(33)	(1)
Dividends received	-	(2)
Impairment losses recognized in year	-	-
OCI movements	16	(12)
Net movement	**(17)**	**(15)**
Carrying amount as at March 31	**60**	**77**

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,	
	2007	2006
Country of incorporation		The Netherlands
Interest held %	50	50
Non-current assets	412	460
Current assets	230	243
Non-current liabilities	192	167
Current liabilities	208	255
Revenues	951	953
Profit/(loss) after taxation	(69)	(7)
Share of profit/(loss) after taxation	**(34)**	**(4)**

The above table of Martinair Holland N.V. assets, liabilities and revenues is based on the audited financial statements for December 31, 2007 and 2006. The share of profit included in the carrying amounts as at March 31, 2008 have been adjusted to reflect the estimated share of profit for the year then ended.

The accumulated impairment loss as at March 31, 2008 and March 31, 2007 amounted to EUR 58 million.

Jointly controlled entities

	2007/08	2006/07
Carrying amount as at April 1	***24***	**-**
Movements		
New consolidation	-	24
Share of profit/(loss) after taxation	-	-
Net movement	**-**	**24**
Carrying amount as at March 31	**24**	**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,
	2008	2007
Country of incorporation		The Netherlands
Interest held %	53	53
Voting right %	45	45
Non-current assets	61	61
Current assets	1	13
Non-current liabilities	-	-
Current liabilities	1	12
Revenues	-	-
Profit/(loss) after taxation	-	-
Share of profit/(loss) after taxation	**-**	**-**

4 Other financial assets

	Held-to-maturity investments		Loans and receivables		At fair value through profit or loss		Total	
	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
Carrying amount as at April 1	**474**	**502**	**48**	**31**	**205**	**670**	**727**	**1,203**
Movements								
Additions and loans granted	3	24	6	26	14	7	23	57
Loans and interest repaid	(2)	(35)	(3)	(3)	(24)	(488)	(29)	(526)
Interest accretion	28	24	-	-	-	-	28	24
De-consolidations	-	-	-	-	-	-	-	-
Revaluation gain/(loss) recognized in income statement	-	-	-	-	(29)	16	(29)	16
Foreign currency translation differences	(75)	(44)	(1)	1	-	-	(76)	(43)
Other movements	18	3	(4)	(7)	-	-	14	(4)
Net movement	**(28)**	**(28)**	**(2)**	**17**	**(39)**	**(465)**	**(69)**	**(476)**
Carrying amount as at March 31	**446**	**474**	**46**	**48**	**166**	**205**	**658**	**727**

	2008		2007	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	53	393	-	474
Loans and receivables				
Other loans and receivables	24	22	4	44
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	125	-	147	-
Air France KLM S.A. shares	-	28	-	45
Other financial assets	-	13	-	13
	125	**41**	**147**	**58**
Carrying amount as at March 31	**202**	**456**	**151**	**576**

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

	March 31, 2008	March 31, 2007
USD	462	491
GBP	30	32
Total	**492**	**523**

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, 2008			March 31, 2007		
in %	EUR	USD	GBP	EUR	USD	GBP
Held-to-maturity investments	-	6.5	7.1	-	6.4	7.2
Loans and receivables	-	5.6	-	-	6.0	-
At fair value through profit or loss	4.4	-	-	3.3	-	-

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 213 million (2006/07 EUR 208 million) is restricted.

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

	March 31, 2008	March 31, 2007
Held-to-maturity		
Less than 1 year	53	1
Between 1 and 2 years	69	39
Between 2 and 3 years	113	48
Between 3 and 4 years	112	186
Between 4 and 5 years	24	76
Over 5 years	75	124
Total	**446**	**474**

The maturities of loans and receivables are as follows:

	March 31, 2008	March 31, 2007
Loans and receivables		
Less than 1 year	24	4
Between 1 and 2 years	1	29
Between 2 and 3 years	5	10
Between 3 and 4 years	4	-
Between 4 and 5 years	-	-
Over 5 years	12	5
Total	**46**	**48**

The fair values of the financial assets are as follows:

	March 31, 2008	March 31, 2007
Held-to-maturity		
Triple A bonds and long-term deposits	495	505
Loans and receivables		
Other loans and receivables	45	48
At fair value through profit or loss		
Deposits and commercial paper with original maturity 3-13 months	125	147
Air France KLM S.A. shares	28	45
Other financial assets	13	13
	166	**205**
Total fair value	**706**	**758**

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, 2008;
- 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, 2008	March 31, 2007
Less than 1 year	68	3
Between 1 and 2 years	69	47
Between 2 and 3 years	94	80
Between 3 and 4 years	154	187
Between 4 and 5 years	24	87
Over 5 years	83	117
Total interest bearing financial assets	**492**	**521**

5 Derivative financial instruments

	Assets		Liabilities	
	Current	Non-current	Current	Non-current
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, 2008				
Exchange rate risk				
Fair value hedges	7	-	(33)	(49)
Cash flow hedges	13	21	(52)	(38)
Items not qualifying for hedge accounting	3	1	(3)	(1)
Total exchange rate risk hedges	**23**	**22**	**(88)**	**(88)**
Interest rate risk				
Fair value hedges	-	12	(41)	(84)
Cash flow hedges	-	38	-	(28)
Items not qualifying for hedge accounting	1	51	(1)	(14)
Total interest rate risk hedges	**1**	**101**	**(42)**	**(126)**
Commodity risk hedges				
Cash flow hedges	406	590	(52)	(1)
Total commodity risk hedges	**406**	**590**	**(52)**	**(1)**
Total as at March 31, 2008	**430**	**713**	**(182)**	**(215)**

Exposure to exchange rate risk

In the frame of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in shareholders equity are recycled in income at realization dates of hedged items.

As at March 31, 2008 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	95	2	36	31	26	-	-	(4)
Forward purchases								
USD	1,017	337	238	125	108	28	181	(71)
GBP								
JPY								
Total fair value hedges	**1,112**	**339**	**274**	**156**	**134**	**28**	**181**	**(75)**
Cash flow hedges								
Options								
USD	581	273	167	141	-	-	-	(54)
GBP	-	-	-	-	-	-	-	-
JPY	14	10	4	-	-	-	-	-
Forward purchases								
USD	466	234	156	62	14	-	-	(31)
Forward sales								
GBP	132	132	-	-	-	-	-	8
JPY	123	54	48	21	-	-	-	1
CHF	56	56	-	-	-	-	-	(1)
NOK	129	129	-	-	-	-	-	1
SEK	82	82	-	-	-	-	-	1
Other	185	58	-	-	-	-	127	19
Total cash flow hedges	**1,768**	**1,028**	**375**	**224**	**14**	**-**	**127**	**(56)**
Items not qualifying for hedge accounting								
USD	71	46	25	-	-	-	-	-
JPY	1	1	-	-	-	-	-	-
Total Items not qualifying for hedge accounting	**72**	**47**	**25**	**-**	**-**	**-**	**-**	**-**
Total exchange rate risk hedges	**2,952**	**1,414**	**674**	**380**	**148**	**28**	**308**	**(131)**

Exposure to interest rate risk

In the frame of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

	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	720	126	111	175	178	68	62	(113)
Total fair value hedges	**720**	**126**	**111**	**175**	**178**	**68**	**62**	**(113)**
Cash flow hedges								
Swaps	2,094	240	274	250	228	167	935	10
Total cash flow hedges	**2,094**	**240**	**274**	**250**	**228**	**167**	**935**	**10**
Items not qualifying for hedge accounting								
Swaps	556	365	-	-	-	-	191	37
Total Items not qualifying for hedge accounting	**556**	**365**	**-**	**-**	**-**	**-**	**191**	**37**
Total interest rate risk hedges	**3,370**	**731**	**385**	**425**	**406**	**235**	**1,188**	**(66)**

Exposure to commodity risk hedges

In the frame of cash flow hedges, maturities relate to realization dates of hedged items. Therefore, amounts of fair value presented in stockholders' equity are recycled in income at realization dates of hedged items.

In the normal course of its business, the Group conducts transactions on petroleum product markets in order to effectively manage the risks related to its purchases of fuel.
The nominal amounts of the Group's commitments on the crude and refined oil markets are shown below:

	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
Commodity risk hedges								
Swaps	323	92	206	25	-	-	-	164
Options	2,671	975	746	621	329	-	-	779
Total commodity risk hedges	**2,994**	**1,067**	**952**	**646**	**329**	**-**	**-**	**943**

Sensitivity analysis

For the qualitative analysis reference is made to the Financial Risk Management paragraph in the text to the notes to the financial statements.

Fuel price sensitivity

The impact "income before tax" and on "other reserves" of the variation of +/- USD 10 on a barrel of Brent is presented below:

	March 31, 2008		March 31, 2007	
	Increase of 10 USD	Decrease of 10 USD	Increase of 10 USD	Decrease of 10 USD
Income before tax	(45)	57	(48)	(5)
Other reserves	362	(350)	239	(192)

Currency sensitivity

Value as of the closing date of all monetary assets and liabilities in other currencies are as follows:

	Monetary Assets		Monetary Liabilities	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
USD	449	582	845	1,228
JPY	-	-	191	191
GBP	-	-	49	41
CHF	-	-	266	258

The amounts of monetary assets and liabilities disclosed above do not include the effect of derivatives.

The impact on "change in value of financial instruments" and on "other reserves" of the variation of a 10% variation in exchange rates in absolute value relative to the Euro is presented below:

	USD		JPY		GBP		CHF	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Change in value of financial instruments	-	(1)	-	-	2	4	24	23
Other reserves	(85)	(62)	(3)	(11)	7	22	-	-

The impact on “change in value of financial instruments on financial income and expenses” consists of:

- Change in value of monetary assets and liabilities (in accordance with IAS 21, including the effect of fair value and cash flow hedges).
- Changes in time value of currency exchange’s options (accounted for financial income)
- The changes in fair value of trading derivates.

The impact on “other reserves” is explained by the change in exchange rates on changes in fair value of exchange rate derivatives qualified for cash flow hedging, accounted for in “other reserves”.

Interest rate sensitivity

The group is exposed to the risk of interest rate variation. The variation of 100 basic points of interest rates would have an impact on income before tax of EUR 4 million for 2007/08 against EUR 1 million for 2006/07.

6 Inventories

	March 31, 2008	March 31, 2007
Carrying amount		
Maintenance inventories	132	135
Other sundry inventories	102	61
Total	**234**	**196**

Inventory write-downs amounted to EUR 58 million (2006/07 EUR 59 million).

7 Trade and other receivables

	March 31, 2008	March 31, 2007
Trade receivables	760	808
Provision trade receivables	(17)	(18)
Trade receivables - net	743	790
Amounts due from Air France-KLM group companies	53	35
Amounts due from associates and joint ventures	7	11
Amounts due from maintenance contract customers	61	91
Taxes and social security premiums	27	20
Other receivables	81	55
Prepaid expenses	98	119
Total	**1,070**	**1,121**

The 2007/08 EUR 5 million (2006/07 EUR 7 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, 2008 amounted EUR 52 million (2006/07 EUR 81 million).
Advances received for maintenance contracts in progress at March 31, 2008 amounted to EUR 8 million (2006/07 EUR 19 million).

8 Cash and cash equivalents

	March 31, 2008	March 31, 2007
Cash at bank and in hand	68	100
Short-term deposits	1,264	1,164
Total	**1,332**	**1,264**

The effective interest rates on short-term deposits are in the range 2.75% to 5.30% (2006/07 range 3.58% to 5.33%). 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, 2008	March 31, 2007
USD	29	25
GBP	8	14
CNY	6	6
Other currencies	31	46
Total	**74**	**91**

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

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, 2008		March 31, 2007	
	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, 2008 the State of The Netherlands held 3,708,615 A cumulative preference shares to which a voting right attaches of 5.9%. This has not changed since 2006/07.

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	Other statutory reserve	Total
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**
As at March 31, 2007	**108**	**(13)**	**31**	**126**
Reclassification	-	-	102	102
As at April 1, 2007	**108**	**(13)**	**133**	**228**
Gains/(losses) from cash-flow hedges	745	-	-	745
Exchange differences on translating foreign operations	-	11		11
Transfer to retained earnings	-		3	3
Tax on items taken directly to or transferred from equity	(190)	-	-	(190)
As at March 31, 2008	**663**	**(2)**	**136**	**797**

Statutory reserve

As required by Article 365.2 of Book 2 of The Netherlands Civil Code a statutory reserve is maintained equal to the non distributable reserves of investments accounted for using the equity method and the amount of development costs incurred on computer software and prepayments thereon at the balance sheet date.

The reclassification as per April 1, 2007, mainly relates to the inclusion in the balance sheet of the statutory reserves equal to the non distributable reserves of investments accounted for using the equity method amounting to EUR 99 million. In 2006/07 this was only included in the wording of the notes to the financial statements.

11 Other financial liabilities

	2007/08	2006/07
Carrying amount as at April 1	**1,136**	**717**
Additions and loans received	189	343
Loans repaid	(109)	(18)
Foreign currency translation differences	7	(27)
Other changes	(15)	121
Net movement	**72**	**419**
Carrying amount as at March 31	**1,208**	**1,136**

The financial liabilities comprise:

	March 31, 2008		March 31, 2007	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
C Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	456	-	463
Other loans (secured/unsecured)	23	697	70	571
Total	**23**	**1,185**	**70**	**1,066**

The subordinated perpetual loans are subordinated 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 266 million as at March 31, 2008 (2006/07 EUR 259 million) are listed on the SWX Swiss Exchange, Zurich.

The maturity of financial liabilities is as follows:

	2008	2007
Less than 1 year	23	70
Between 1 and 2 years	38	45
Between 2 and 3 years	53	46
Between 3 and 4 years	39	50
Between 4 and 5 years	99	36
Over 5 years	956	889
Total as at March 31	**1,208**	**1,136**

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

	2008	2007
USD	-	46
CHF	267	259
JPY	191	191
Total as at March 31	**458**	**496**

The fair values of financial liabilities are as follows:

	2008	2007
A Cumulative preference shares	18	18
C Cumulative preference shares	14	14
Subordinated perpetual loans	417	428
Other loans (secured/unsecured)	720	644
Fair value as at March 31	**1,169**	**1,104**

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, 2007							
Total borrowings	633	-	-	-	-	503	1,136
Effect of interest rate swaps	(154)	-	-	-	-	154	-
	479	**-**	**-**	**-**	**-**	**657**	**1,136**
As at March 31, 2008							
Total borrowings	701	-	-	-	-	507	1,208
Effect of interest rate swaps	(143)	-	-	-	-	143	-
	558	**-**	**-**	**-**	**-**	**650**	**1,208**

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

	March 31, 2008		March 31, 2007	
in %	EUR	Other	EUR	Other
Cumulative preference shares	5.04	-	5.55	-
Subordinated perpetual loans	-	4.80	-	4.81
Other loans	5.08	-	4.42	8.50

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	-	456	-	4.57	4.57
Other loans	558	162	5.07	3.93	4.81

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, 2008 and 2007.

12 Finance lease obligations

	March 31, 2008			March 31, 2007		
	Future minimum lease payments	Future finance charges	Total financial lease liabilities	Future minimum lease payments	Future finance charges	Total financial lease liabilities
Finance lease obligations						
Within 1 year	506	102	404	694	129	565
Total current	**506**	**102**	**404**	**694**	**129**	**565**
Between 1 and 2 years	434	83	351	487	108	379
Between 2 and 3 years	417	64	353	467	84	384
Between 3 and 4 years	424	44	380	493	60	432
Between 4 and 5 years	214	38	176	417	38	379
Over 5 years	911	83	828	1,064	89	974
Total non-current	**2,400**	**312**	**2,088**	**2,928**	**379**	**2,548**
Total	**2,906**	**414**	**2,492**	**3,622**	**508**	**3,113**

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 5.8% (average fixed rate 7.2%, average floating rate 4.7%). Taking into account the impact of hedging the average interest rate is 4.6% (average fixed rate 4.6%, average floating rate 5.5%). After hedging 93% of the outstanding lease liabilities have a fixed interest rate.

The fair value of finance lease liabilities amounts to EUR 2,471 million as at March 31, 2008 (2006/07 EUR 3,070 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, 2008	March 31, 2007	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Operating lease commitments								
Within 1 year	219	184	28	23	17	14	264	221
Total current	**219**	**184**	**28**	**23**	**17**	**14**	**264**	**221**
Between 1 and 2 years	208	183	25	24	16	14	249	221
Between 2 and 3 years	184	166	23	22	14	14	221	202
Between 3 and 4 years	156	150	22	19	12	12	190	181
Between 4 and 5 years	135	137	21	17	11	10	167	164
Over 5 years	222	334	204	193	14	-	440	527
Total non-current	**905**	**970**	**295**	**275**	**67**	**50**	**1,267**	**1,295**
Total	**1,124**	**1,154**	**323**	**298**	**84**	**64**	**1,531**	**1,516**

13 Deferred income

	March 31, 2008		March 31, 2007	
	Current	Non-current	Current	Non-current
Advance ticket sales *	607	58	598	63
Government investment grants	-	-	2	-
Sale and leaseback transactions	14	18	9	15
Flying Blue frequent flyer program	15	28	6	39
Total	**636**	**104**	**615**	**117**

* On March 31, 2007 an amount of EUR 62 million was erroneously recorded under trade payables. Comparative figures have been reclassified. See also note 17.

14 Deferred income tax

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

	2007/08	2006/07
Carrying amount as at April 1	**473**	**414**
Income statement charge	50	63
Tax (credited)/charged to equity	190	(18)
Other movements	2	14
Net movement	**242**	**59**
Carrying amount as at March 31	**715**	**473**

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 16 million, EUR 2 million is expected to be recovered in 12 months or less and EUR 14 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, 2008	March 31, 2007
Deferred tax asset	(16)	(24)
Deferred tax liability (offset)	731	497
	715	**473**

The offset amounts are as follows:

	March 31, 2008	March 31, 2007
Deferred tax assets		
Deferred tax assets to be recovered in 12 months or less	16	43
Deferred tax assets to be recovered after more than 12 months	195	127
	211	**170**
Deferred tax liabilities		
Deferred tax liabilities to be settled in 12 months or less	111	53
Deferred tax liabilities to be settled over more than 12 months	831	614
	942	**667**
Carrying amount as at March 31	**731**	**497**

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 2006/07					
Tax losses	57	(42)	-	9	24
Investment grant settled with tax authority	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**
Fiscal 2007/08					
Tax losses	24	(13)	-	(4)	7
Investment grant settled with tax authority	6	-	-	(6)	-
Fleet assets	186	(14)	-	-	172
Fleet related assets (maintenance)	16	5	-	(1)	20
Provisions for employee benefits	14	3	-	-	17
Maintenance provision	-	-	-	-	-
Financial lease obligations	7	(2)	-	-	5
Other	-	2	-	4	6
Total	**253**	**(19)**	**-**	**(7)**	**227**

	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 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
Derivative financial instruments	56	-	(18)	(1)	37
Other	49	(40)	-	(9)	-
Total	**802**	**(42)**	**(18)**	**(16)**	**726**
Fiscal 2007/08					
Fleet assets	45	1	-	-	46
Other tangible fixed assets	52	(3)	-	-	49
Pensions and benefits (asset)	542	38	-	(4)	576
Maintenance provision	50	(5)	-	(2)	43
Derivative financial instruments	37	-	190	-	227
Other	-	-	-	1	1
Total	**726**	**31**	**190**	**(5)**	**942**

The Group has tax loss carry forwards in The United Kingdom in the amount of EUR 93 million (2006/07 EUR 81 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 105 million (2006/07 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, 2008	March 31, 2007
Pension and other post-employment benefits	140	174
Other long-term employment benefits	58	60
Termination benefits	18	22
Subtotal	**216**	**256**
Less: Non-current portion		
Pension and other post-employment benefits	109	153
Other long-term employment benefits	55	54
Termination benefits	15	15
Non-current portion	**179**	**222**
Current portion	**37**	**34**

Amounts in the balance sheet:

	March 31, 2008	March 31, 2007
Liabilities		
Non-current portion	179	222
Current portion	37	34
Total liabilities	**216**	**256**
Assets		
Non-current portion	2,226	2,074
Total assets	**2,226**	**2,074**

	March 31, 2008	March 31, 2007
Pensions and other post-employment benefits		
Pension and early-retirement obligations	110	128
Post-employment medical benefits	30	46
Total	**140**	**174**
Less: Non-current portion		
Pension and early-retirement obligations	81	110
Post-employment medical benefits	28	43
Non-current portion	**109**	**153**
Current portion	**31**	**21**

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.

Recognition of pension assets and liabilities in the balance sheet

The Group's pension funds have together a surplus totaling EUR 3,258 million as at March 31, 2008 (2006/07 EUR 2,961 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, 2008 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 2,224 million (2006/07 EUR 2,071 million).

In July 2007, IFRIC issued interpretation 14 “The limit on a defined benefit asset, minimum funding requirements and their interaction” on IAS 19. This interpretation confirmed KLM’s treatment, that the KLM pension fund surplus must be recognized in the balance sheet

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 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 %	2007/08	2006/07	2007/08	2006/07
Weighted average assumptions used to determine benefit obligations				
Discount rate for year ended March 31	5.53	4.49	5.90	5.51
Rate of compensation increase	3.01	5.11	-	-
Rate of price inflation	2.03	2.05	-	-
Weighted average assumptions used to determine net cost				
Discount rate for year ended March 31	5.53	4.49	5.90	5.57
Expected long-term rate of return on plan assets	5.71	5.70	-	-
Rate of compensation increase	3.01	5.04	-	-
Rate of price compensation	2.03	2.02	-	-
Medical cost trend rate assumptions used to determine net cost *				
Immediate trend rate Pre 65			8.19	7.35
Immediate trend rate Post 65			10.91	9.46
Ultimate trend rate			5.00	4.87
Year that the rate reaches ultimate trend rate			2012/2013	2012/2013

* The rates shown are the weighted averages for The United States of America and Canada.

For the main Dutch pension plans 2007/08 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	
	2008	2007	2008	2007
Present value of wholly or partly funded obligations	8,652	9,260	-	-
Fair value of plan assets	(11,910)	(12,221)	-	-
Subtotal	**(3,258)**	**(2,961)**	**-**	**-**
Present value of unfunded obligations	1	17	34	52
Unrecognized net actuarial gains/(losses)	1,141	998	(4)	(6)
Subtotal	**1,142**	**1,015**	**30**	**46**
Net liability/(asset) relating pension and other post-retirement obligations at March 31	**(2,116)**	**(1,946)**	**30**	**46**

	Pension and early-retirement obligations		Post-employment medical benefits	
	2008	2007	2008	2007
Amounts in the balance sheet as at March 31				
Liabilities	110	128	30	46
Assets	(2,226)	(2,074)	-	-
Net liability/(asset) relating pension and other post-retirement obligations as at March 31	**(2,116)**	**(1,946)**	**30**	**46**

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	
	2007/08	2006/07	2007/08	2006/07
Carrying amount as at April 1	**9,277**	**8,828**	**50**	**70**
Service cost	312	311	1	-
Interest cost	422	389	2	2
Plan participants' contributions	15	37	-	-
Curtailments	-	(57)	(12)	(20)
Actuarial losses/(gains)	(1,014)	15	(1)	3
Benefits paid from plan/company	(310)	(289)	(2)	(2)
Other	2	36	-	-
Exchange rate changes	(52)	7	(6)	(3)
Net movement	**(625)**	**449**	**(18)**	**(20)**
Carrying amount as at March 31	**8,652**	**9,277**	**32**	**50**

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

	2007/08	2006/07
Fair value as at April 1	**12,221**	**11,404**
Expected return on plan assets	692	649
Actuarial gains/(losses) (related to the plan assets)	(853)	174
Employer contributions	173	244
Member contributions	32	37
Benefits paid from plan / company	(310)	(288)
Curtailments	-	(40)
Other	-	34
Exchange rate changes	(45)	7
Net movement	(311)	817
Fair value as at March 31	**11,910**	**12,221**

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

in %	March 31, 2008	March 31, 2007
Debt securities	49.1	45.7
Real estate	11.6	13.3
Equity securities	38.1	40.3
Other	1.2	0.7

The actual return on pension plan assets is EUR 161 million negative (2006/07 EUR 823 million positive).

	2008	2007
Other long-term employee benefits		
Jubilee benefits	41	40
Other benefits	17	20
Total carrying amount	**58**	**60**
Less: Non-current portion		
Jubilee benefits	40	38
Other benefits	15	16
Non-current portion	**55**	**54**
Current portion	**3**	**6**

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.

	2008	2007
Termination benefits		
Redundancy benefits		
Non-current portion	15	15
Current portion	3	7
Total carrying amount	**18**	**22**

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

16 Other provisions

	Phasing-out costs of operating lease aircraft	Power by the hour contracts regarding aircraft	Legal Issues	Other	Total
As at April 1, 2007	**31**	**56**		**29**	**116**
Charged to consolidated income statement:					
Additional provisions and increases in existing provisions	71	26	197	27	321
Unused amounts reversed		(6)	-	-	(6)
Used during year	(18)	(18)	-	(8)	(44)
Other changes	(3)	(5)	-	(4)	(12)
As at March 31, 2008	**81**	**53**	**197**	**44**	**375**
Current/non-current portion					
Non-current portion	49	41	106	35	231
Current portion	32	12	91	9	144
Carrying amount as at March 31, 2008	**81**	**53**	**197**	**44**	**375**

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.

Legal Issues

Considering the status of the anti-trust investigations in Europe and in the United States during the fourth quarter of financial year 2007/08, KLM has been able to estimate the risks incurred and associated costs, and therefore has recorded a provision for the amount of EUR 197 million in its consolidated financial statements for the year ended March 31, 2008. See note 19 and 24.

Other provisions

Other provisions include provisions for debt/lease restructuring costs aircraft regarding commercial agreements, salary compensation for former flight engineers transferred to other functions and demolition costs of buildings, site restoration costs for land and buildings which is the subject of long lease.

17 Trade and other payables

	March 31, 2008	March 31, 2007
Trade payables *	586	564
Amounts due to Air France-KLM Group companies	36	60
Amounts due to maintenance contract customers	6	31
Taxes and social security premiums	74	70
Other payables *	347	330
Accrued liabilities	406	375
Total	**1,455**	**1,430**

* Reclassification March 31, 2007, see note 13.

18 Commitments

As at March 31, 2008 KLM has commitments for previously placed orders amounting to EUR 884 million (2006/07 EUR 540 million). EUR 798 million of this amount relates to aircraft (2006/07 EUR 519 million) of which EUR 250 million is due in 2008/09. The balance of the commitments as at March 31, 2008 amounting to EUR 86 million (2006/07 EUR 24 million) are related to other tangible fixed assets. As at March 31, 2008 prepayments on aircraft orders have been made, accounting to EUR 349 million (2006/07 EUR 211 million).

Aircraft on order as at March 31, 2008 are as follows:

- 4 Boeing 777-300
- 7 Boeing 737-800
- 13 Boeing 737-700
- 6 Embraer E-190

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

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

19 Contingent assets and liabilities

Contingent liabilities

Antitrust investigations and civil litigation

(a) Actions instigated by the EU Commission, the United States Department of Justice (the "US DOJ") and several other competition authorities in other jurisdictions for alleged cartel activity in 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 Cargo, as well as many other airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air cargo services. The action was followed by formal or informal investigations by competition authorities in some other jurisdictions.

As at December 19, 2007 the EU Commission sent to 25 airlines, including KLM, a statement of objections, in which the airlines are alleged of having participated in meetings and/or of having had contacts about surcharges and rates. KLM is co-operating with this investigation and has prepared and issued a reply to the EU Commission's statement of objections.

Also in the United States, KLM is subject to an anti-trust investigation based on allegations similar to Europe concerning the routes affecting the transatlantic. KLM is cooperating with the US DOJ.

Considering the status of the antitrust investigations in Europe and in the United States during the fourth quarter of financial year 2007/08, KLM has decided to record a provision in 2007/08 for an amount of EUR 197 million to cover the company's best estimate of potential outflow in relation to the various proceedings and associated costs (see note 16 and 24). This provision is not to be deemed an admission of guilt of wrong doing on the company's part but is a precautionary measure, consistent with the prudence with which the company generally prepares its financial statements.

In addition to the above, as at March 31, 2008, over 140 purported class action lawsuits have been filed by over 140 named plaintiffs in the U.S. against air cargo operators including Air France-KLM; KLM is named specifically in some fifteen of these actions. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since

January 1st, 2000 including various surcharges in air cargo services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief amounting to triple amount of compensatory damages. These actions have been transferred and consolidated as multidistrict litigation before the US District Court of the Eastern District of New York. The consolidated case is currently in the pleading process, with the first consolidated amended complaint filed by the plaintiffs in February 2007. Air France and KLM filed a motion to dismiss on July 18, 2007. As of March 31, 2008 the Court has not yet issued its decision on the motion to dismiss.

At this time, KLM is unable to predict the outcome of the litigation on compensatory damages which could be due or the investigations initiated in the other jurisdictions.

(b) Action initiated by the EU Commission for alleged cartel activity in air passenger transport

On 11 and 12 March 2008 the EU Commission and the Dutch competition authorities paid a surprise visit to the KLM offices investigating allegations of price fixing specifically on routes to and from Japan as well as contacts in general that took place between carriers in the European Economic Area and in third countries for the period 2000/06. At this time, KLM is unable to predict the outcome of these investigations.

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 Code have 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 187 million as at March 31, 2008 (2006/07 EUR 176 million).

Guarantees totaling EUR 23 million (2006/07 EUR 31 million) have also been given on behalf of other Group companies, and guarantees totaling EUR 14 million (2006/07 EUR 23 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, 2008 amounts to EUR 10 million (2006/07 EUR 10 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

	2007/08	2006/07
Services rendered		
Passenger transport	5,667	5,423
Cargo transport	1,194	1,162
Maintenance contracts	464	443
Charter and low cost business	622	576
Other services	81	94
Total revenues	**8,028**	**7,698**

21 External expenses

	2007/08	2006/07
Aircraft fuel	1,776	1,784
Chartering costs	115	114
Aircraft operating lease costs	177	142
Landing fees and route charges	627	616
Catering	87	92
Handling charges and other operating costs	395	352
Aircraft maintenance costs	503	510
Commercial and distribution costs	383	394
Insurance	38	43
Rentals and maintenance of housing	113	104
Sub-contracting	133	139
Hired personnel	155	144
Other external expenses	442	466
Total external expenses	**4,944**	**4,900**

22 Employee compensation and benefit expense

	2007/08	2006/07
Wages and salaries	1,623	1,519
Social security premiums other than for state pension plans	169	158
Share-based remuneration	(8)	12
Pension and early-retirement plan costs	19	34
Post-employment medical benefit costs	(9)	(15)
Other long-term employee benefit costs	4	8
Total employee compensation and benefit expense	**1,798**	**1,716**

Pension and early-retirement plan costs comprise:

	2007/08	2006/07
Defined benefits plans	9	22
Defined contribution plans	10	12
Total	**19**	**34**

Defined benefit plans and early-retirement plan costs comprise:

	2007/08	2006/07
Current service cost	312	311
Interest cost	422	388
Expected return on plan assets	(692)	(649)
Net actuarial losses/(gains) recognized in year	(18)	(13)
Past service cost	-	-
Losses/(gains) arising from plan curltailments or settlements	-	(18)
Other	(15)	3
Total	**9**	**22**

In the year ended March 31, 2008 the net period pension cost for the major defined benefit plans recognized in the income statement amounted to EUR 9 million (2006/07 EUR 22 million) and the total contributions paid by the Company amounted to EUR 173 million (2006/07 EUR 244 million). The contributions paid in 2007/08 include additional deficit funding in The United Kingdom amounting to EUR 14 million (2006/07 EUR 13 million).

The Group's projected defined benefit plans and early retirement plan costs for 2008/09 amounts to EUR 39 million. The Group's expected cash contributions for these plans amounts to EUR 236 million.

Post-employment medical benefits costs comprise:

	2007/08	2006/07
Current service cost	1	-
Interest cost	2	2
Net actuarial losses/(gains) recognized in year	-	-
Losses/(gains) arising from plan curltailments or settlements	(12)	(17)
Total	**(9)**	**(15)**

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 12 million in 2007/08.

Other long-term employee benefits comprise:

	2007/08	2006/07
Current service cost	4	2
Interest cost	3	2
Net actuarial losses/(gains) recognized in year	(3)	4
Total	**4**	**8**

Number of full-time equivalent employees:

	2007/08	2006/07
Average for year		
Flight deck crew	2,952	2,837
Cabin crew	7,457	7,084
Ground staff	20,596	20,600
Total	**31,005**	**30,521**
As at March 31		
Flight deck crew	3,034	2,899
Cabin crew	7,513	7,260
Ground staff	20,688	20,612
Total	**31,235**	**30,771**

23 Depreciation and amortization

	2007/08	2006/07
Intangible assets	12	11
Flight equipment	383	386
Other property and equipment	79	80
Total depreciation and amortization	**474**	**477**

24 Other non-current income and expenses

The 2007/08 loss includes a EUR 197 million provision for the potential outflow in relation to the investigations in Europe and the United States relating to alleged cartel activity in the air cargo transport industry. See note 16 and 19.

2006/07 gain 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

	2007/08	2006/07
Gross cost of financial debt		
Loans from third parties	99	95
Finance leases	121	144
Other interest expenses	(12)	(6)
Total gross cost of financial debt	**208**	**233**
Income from cash and cash equivalents		
Loans to third parties	139	129
Total income from cash and cash equivalents	**139**	**129**
Net cost of financial debt	**69**	**104**

	2007/08	2006/07
Unwinding of discount on provisions	-	10
Foreign currency exchange gains/(losses)	(46)	(2)
Fair value gains/(losses)	66	35
Impairment (losses) on financial assets	-	(7)
Other	(26)	21
Total other financial income and expense	**(6)**	**57**

26 Income tax expense

	2007/08	2006/07
Current tax expense	104	47
Adjustment recognized in the current period for current and deferred tax of prior periods	1	(3)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	49	96
Benefit from previously unrecognized tax loss	-	(10)
Deferred tax expense/(income) resulting from increase/(reduction) in tax rate	-	(67)
Total income tax expense	**154**	**63**

The applicable tax rate in The Netherlands for 2007/08 is 25.5%.

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

in %	2007/08	2006/07
Applicable average tax rate in The Netherlands	25.5	28.6
Impact of:		
Profit free of tax/Non-deductible expenses	6.3	(0.4)
Use of tax loss carry-forward	-	(1.7)
Unutilized tax losses incurred in year	0.4	1.3
Permanent differences with taxable profit	-	(3.9)
Difference due to tax rate changes	-	(11.8)
Fiscal investment and other incentives	-	(1.0)
Effective tax rate	**32.2**	**11.1**

27 Share-based payments

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

	March 31, 2008	March 31, 2007
Share option plan	5	17
Carrying amount	**5**	**17**

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

	2007/08		2006/07	
	Number of share options	Weighted average exercise price (in EUR)	Number of share options	Weighted average exercise price (in EUR)
As at April 1	**1,309,128**	**14.96**	**1,452,780**	**14.94**
Granted	428,850	34.21	411,105	17.83
Forfeited	(20,317)	26.10	(15,209)	14.38
Exercised	(177,511)	12.63	(539,548)	17.12
As at March 31	**1,540,150**	**20.44**	**1,309,128**	**14.96**
Exercisable as at March 31	**338,802**		**70,213**	

In note 22 Employee compensation and benefit expense an amount of EUR 8 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)	2008	2007
Option expiry date			
October 19, 2007 (Option A)	12.80	-	27,761
October 19, 2007 (Option B)	10.07	-	8,604
June 30, 2008	6.48	24,669	33,848
June 30, 2009	13.19	314,133	446,100
July 16, 2010	13.11	382,966	385,544
July 26, 2011	17.83	400,532	407,271
July 25, 2012	34.21	417,850	-
Carrying amount as at March 31		**1,540,150**	**1,309,128**

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, July 26, 2011 and July 25, 2012 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:

	2008	2007
Fair value at grant date	8.43	3.37
Share price (in EUR, Closing price March 31, AEX Amsterdam)	17.84	34.15
Volatility (%)	25.6	25.2
Risk free rate (%)	4.3	4.0
Dividend yield (%)	1.6	1.1

28 Supervisory Board remuneration

(Amounts in EUR)	2007/08 As Supervisory Board member	2007/08 As Committee member	2007/08 Total	2006/07 As Supervisory Board member	2006/07 As Committee member	2006/07 Total
K.J. Storm	36,302	906	37,208	36,302	906	37,208
J.D.F. Martre	29,495	-	29,495	29,495	-	29,495
I.P Asscher-Vonk	22,689	453	23,142	22,689	-	22,689
J.D.F.C. Blanchet	22,689	-	22,689	22,689	-	22,689
B. Geersing	5,672	453	6,125	22,689	1,359	24,048
H. Guillaume	22,689	906	23,595	22,689	906	23,595
W. Kok	22,689	4,083	26,772	22,689	4,083	26,772
R. Laan	22,689	1,359	24,048	22,689	1,359	24,048
H.N.J. Smits	22,689	2,722	25,411	22,689	2,722	25,411
J. Peyrelevade	17,017	-	17,017	-	-	-
Total	**224,620**	**10,882**	**235,502**	**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	Retention incentive	Total
2007/08						
P.F. Hartman	643,078	467,503	Partially	157,000	-	1,267,581
L.M. Van Wijk (until July 5, 2007)	173,265	-	-	48,250	1,136,124	1,357,639
F.N.P. Gagey	393,924	235,837	Partially	-	-	629,761
J.E.C. De Groot (as from July 5, 2007)	185,742	105,601	Partially	55,000	-	346,343
Total	**1,396,009**	**808,941**		**260,250**	**1,136,124**	**3,601,324**

Mr. Van Wijk stepped down as member of the KLM Board of Managing Directors following the KLM Annual General Meeting of Shareholders on July 5, 2007. Mr. Van Wijk received a one-off payment of EUR 1,136,124, which was provided for within his KLM employment contract established following the completion of the merger between Air France and KLM in 2004, and whose payment was subject to his continuing activity in KLM until the age of 60 years (a condition which was satisfied in 2007).

(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**

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 125,100 (2006/07 EUR 345,000). 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 the CEO and CFO respectively and 20,000 for the Managing Director. 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 current and former 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, 2008:

(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, 2008
P.F. Hartman						
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
2007 *	25,000	34.21	July 25, 2012	-		25,000
	103,686			**-**		**103,686**
F.N.P. Gagey						
2005	25,000	13.11	July 16, 2010	-		25,000
2006 *	25,000	17.83	July 26, 2011	-		25,000
2007 *	25,000	34.21	July 25, 2012	-		25,000
	75,000			**-**		**75,000**
L.M. Van Wijk	(Until July 5, 2007)					
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
2007 *	25,000	34.21	July 25, 2012	-		25,000
	103,686			**-**		**103,686**
J.E.C. De Groot						
2004	5,737	13.19	June 30, 2009	-		5,737
2005	5,000	13.11	July 16, 2010	-		5,000
2006 *	5,000	17.83	July 26, 2011	-		5,000
2007 *	20,000	34.21	July 25, 2012	-		20,000
	35,737			**-**		**35,737**
Total	**318,109**			**-**		**318,109**

* At March 31, 2008 the share options granted to each Board member in respect of 2006, two-thirds have vested unconditionally and the share options granted to each Board member in respect of 2007, one-third has vested unconditionally.

As at March 31, 2008 Mr. Hartman and Mr. Gagey held 2,960 and 900 shares AIR FRANCE KLM S.A. respectively. Mr. De Groot had no interest in AIR FRANCE KLM S.A. other than the options 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:

	2007/08	2006/07
Sales of goods and services		
Air France KLM Group companies	152	135
Associates	27	11
Joint ventures	32	33
Purchases of goods and services		
Air France KLM Group companies	123	136
Associates	2	1
Joint ventures	28	29

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 2006/07 and 2007/08.

For information relating to transactions with members of the Supervisory Board and Board of Managing Directors see note 27 to 29. For information relating to transactions with pension funds for the Group’s employees see note 15.

31 Primary segment reporting

	Passenger		Cargo		Maintenance		Other		Eliminations		Total	
	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
Revenue												
Revenue External	5,667	5,423	1,194	1,162	464	443	703	670	-	-	8,028	7,698
Revenue Internal	259	257	14	20	567	575	171	169	(1,012)	(1,021)	-	-
Total revenue	5,926	5,680	1,208	1,182	1,031	1,018	874	839	(1,012)	(1,021)	8,028	7,698
Operating profit/(loss)	610	478	109	71	4	(3)	28	55	-	-	751	603
Share of results of equity shareholdings											(33)	10
Financial Income and expense											(75)	(47)
Gain/(loss) on disposal of assets											(198)	13
Income tax expense											(154)	(63)
Minority interest											-	-
Profit for the year											**291**	**516**
ASSETS												
Intangible assets	8	10	2	-	11	15	37	20			58	45
Flight equipment	2,425	2,462	755	612	322	312	376	443			3,878	3,829
Other property, plant and equipment	113	102	61	67	261	273	309	319			744	761
Trade receivables	454	473	153	157	45	91	63	98			715	819
Other assets	534	573	34	28	247	229	5,295	4,244			6,110	5,074
Total assets	**3,534**	**3,620**	**1,005**	**864**	**886**	**920**	**6,080**	**5,124**	**-**	**-**	**11,505**	**10,528**
LIABILITIES												
Deferred revenue on sales	679	583	2	4	14	31	58	26			753	644
Other liabilities	3,314	3,355	366	732	173	164	3,021	2,607			6,874	6,858
Total liabilities	**3,993**	**3,938**	**368**	**736**	**187**	**195**	**3,079**	**2,633**	**-**	**-**	**7,627**	**7,502**

32 Secondary segment reporting

Revenues by destination	Europe, North Africa	Caribbean, Indian Ocean	Africa, Middle East	Americas Polynesia	Asia, New Caledonia	Total
2007/08						
Scheduled passenger	1,850	181	940	1,279	1,203	5,453
Other passenger revenues	73	7	37	50	47	214
Total passenger revenues	**1,923**	**188**	**977**	**1,329**	**1,250**	**5,667**
Scheduled cargo	23	25	172	315	609	1,144
Other cargo revenues	1	1	7	13	28	50
Total cargo revenues	**24**	**26**	**179**	**328**	**637**	**1,194**
Maintenance	464					464
Other revenues	703					703
Total maintenance and other	**1,167**	**-**	**-**	**-**	**-**	**1,167**
Total revenues by destination	**3,114**	**214**	**1,156**	**1,657**	**1,887**	**8,028**
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**

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, 2007 and 2008:

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 profit for the year	Note	March 31, 2008	March 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	34	3,896	3,737
Intangible assets		49	36
Investments accounted for using the equity method	35	333	291
Other financial assets	36	530	690
Derivative financial instruments	5	713	208
Pension assets	15	2,226	2,074
		7,747	**7,036**
Current assets			
Other financial assets	36	167	148
Derivative financial instruments	5	430	114
Inventories		213	174
Current income tax assets		-	6
Trade and other receivables	37	1,284	1,271
Cash and cash equivalents	38	1,315	1,241
		3,409	**2,954**
TOTAL ASSETS		**11,156**	**9,990**
EQUITY			
Capital and reserves			
Share capital	39	94	94
Share premium		474	474
Other reserves *	39	797	228
Retained earnings *		2,512	2,229
Total attributable to Company's equity holders		**3,877**	**3,025**
LIABILITIES			
Non-current liabilities			
Other financial liabilities	40	1,346	1,197
Finance lease obligations	41	1,620	2,021
Derivative financial instruments	5	215	137
Deferred income	42	99	117
Deferred income tax liabilities	43	766	529
Provisions	44	307	153
		4,353	**4,154**
Current liabilities			
Trade and other payables *	45	1,626	1,491
Other financial liabilities	40	19	61
Finance lease obligations	41	370	578
Derivative financial instruments	5	182	85
Deferred income *	42	579	556
Current income tax liabilities		13	-
Provisions	44	137	40
		2,926	**2,811**
Total liabilities		**7,279**	**6,965**
TOTAL EQUITY AND LIABILITIES		**11,156**	**9,990**

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

* For comparison purposes the fiscal 2006/07 figures have been reclassified

KLM Royal Dutch Airlines

Company income statement

In millions of Euros

	2007/08	2006/07
Income from subsidiaries after taxation	55	65
Profit of KLM N.V. after taxation	236	451
Profit for the year	**291**	**516**

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 2007/08 financial statements of KLM Royal Dutch Airlines (the “Company”).

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 Netherlands 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	Pre-payments	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)
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
Reclassifications	122	(142)	(116)	(136)	(14)	(23)	(10)	(47)	-	(183)
As at March 31, 2007	**264**	**259**	**416**	**939**	**99**	**421**	**60**	**580**	**-**	**1,519**

	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, 2007	**670**	**2,168**	**945**	**3,783**	**605**	**562**	**85**	**1,252**	**221**	**5,256**
Additions	183	-	71	254	1	22	13	36	252	542
Disposals	(82)	-	(77)	(159)	(1)	(15)	(6)	(22)	-	(181)
Reclassifications	161	(813)	166	(486)	(25)	(70)	(14)	(109)	(167)	(762)
Currency translation differences	-	-	-	-	-	-	-	-	47	47
As at March 31, 2008	**932**	**1,355**	**1,105**	**3,392**	**580**	**499**	**78**	**1,157**	**353**	**4,902**
Accumulated depreciation and impairment										
As at April 1, 2007	**264**	**259**	**416**	**939**	**99**	**421**	**60**	**580**	**-**	**1,519**
Depreciation	81	130	94	305	35	28	6	69	-	374
Disposals	-	-	(78)	(78)	-	(12)	(6)	(18)	-	(96)
Reclassifications	(65)	(690)	79	(676)	(35)	(70)	(10)	(115)	-	(791)
As at March 31, 2008	**280**	**(301)**	**511**	**490**	**99**	**367**	**50**	**516**	**-**	**1,006**
Net carrying amount										
As at March 31, 2007	**406**	**1,909**	**529**	**2,844**	**506**	**141**	**25**	**672**	**221**	**3,737**
As at March 31, 2008	**652**	**1,656**	**594**	**2,902**	**481**	**132**	**28**	**641**	**353**	**3,896**

2007/08 and 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, 2008	March 31, 2007
Aircraft	147	166
Land and buildings	159	165
Other property and equipment	9	10
Carrying amount	**315**	**341**

Borrowing costs capitalized during the year amounted to EUR 12 million (2006/07 EUR 6 million). The interest rate used to determine the amount of borrowing costs to be capitalized was 4.0% (2006/07: 4.0%).

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, 2008 was EUR 359 million (2006/07 EUR 343 million).

For details of commitments to purchase flight equipment and other property, plant and equipment and related prepayments see note 18. Including in prepayments an amount of EUR 51 million (2006/07 EUR 21 million) relates to future sale and lease back transactions. Upon delivery to the Group, the aircraft will be directly sold to a lease company and subsequently leased back under an operating lease.

35 Investments accounted for using the equity method

	March 31, 2008	March 31, 2007
Subsidiaries	187	132
Associates	62	58
Joint ventures	60	77
Jointly controlled entities	24	24
Carrying amount	**333**	**291**

	March 31, 2008	March 31, 2007
Subsidiaries		
Carrying amount as at April 1	**132**	**441**
Movements		
Investments	-	-
Share of profit/(loss) after taxation	55	65
Dividends received	(41)	(346)
Foreign currency translation differences	15	(3)
Other movements	26	(25)
Net movement	**55**	**(309)**
Carrying amount	**187**	**132**

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 Other financial assets

	2008		2007	
	Current	Non-current	Current	Non-current
Held-to-maturity investments				
Triple A bonds and long-term deposits	41	216	-	265
Loans and receivables				
Other loans and receivables	1	-	1	1
At fair value through profit or loss				
Deposits and commercial paper with original maturity 3-12 months	125	-	147	-
Air France KLM S.A. shares	-	28	-	45
Other financial assets	-	286	-	379
	125	**314**	**147**	**424**
Carrying amount as at March 31	**167**	**530**	**148**	**690**

37 Trade and other receivables

	March 31, 2008	March 31, 2007
Trade receivables	708	768
Provision trade receivables	(15)	(15)
Trade receivables - net	693	753
Amounts due from subsidiaries	295	240
Amounts due from Air France - KLM group companies	44	31
Amounts due from associates and joint ventures	6	11
Amounts due from maintenance contract customers	61	91
Taxes and social security premiums	24	18
Other receivables	82	40
Prepaid expenses	79	87
Total	**1,284**	**1,271**

Maintenance contract costs incurred to date (less recognized losses) for contracts in progress at March 31, 2008 amounted to EUR 52 million (2006/07 EUR 81 million). Advances received for maintenance contracts in progress at March 31, 2008 amounted to EUR 8 million (2006/07 EUR 19 million). The maturity of trade and other receivables is within one year.

38 Cash and cash equivalents

	March 31, 2008	March 31, 2007
Cash at bank and in hand	61	91
Short-term deposits	1,254	1,150
Total	**1,315**	**1,241**

The effective interest rates on short-term deposits are in the range 2.75% to 5.30% (2006/07 range 3.58% to 5.33%). 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 hedging, translation and other statutory reserves. Reference is made to note 10.

40 Other financial liabilities

	March 31, 2008		March 31, 2007	
	Current	Non-current	Current	Non-current
A Cumulative preference shares	-	18	-	18
B Cumulative preference shares	-	14	-	14
Subordinated perpetual loans	-	456	-	463
Other loans (secured/unsecured)	19	858	61	702
Total	**19**	**1,346**	**61**	**1,197**

41 Finance lease obligations

	March 31, 2008	March 31, 2007
Finance lease obligations	1,990	2,599
Carrying amount	**1,990**	**2,599**
Non-current portion	1,620	2,021
Current portion	370	578
Carrying amount	**1,990**	**2,599**

42 Deferred income

	March 31, 2008		March 31, 2007	
	Current	Non-current	Current	Non-current
Advance ticket sales*	551	58	539	63
Government investment grant	-	-	2	-
Sale and leaseback transactions	13	13	9	15
Flying Blue frequent flyer program	15	28	6	39
Total	**579**	**99**	**556**	**117**

* On March 31, 2007 an amount of EUR 62 million was erroneously recorded under trade payables. Comparative figures have been reclassified. See also note 45.

43 Deferred income tax

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

	2007/08	2006/07
Carrying amount as at April 1	**529**	**499**
Movements:		
Income statement charge	47	54
Tax (credited)/charged to equity	190	(18)
Other movements	-	(6)
Net movement	**237**	**30**
Carrying amount as at March 31	**766**	**529**

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:

	2008	2007
Deferred tax assets:		
- Deferred tax assets to be settled in 12 months or less	17	66
- Deferred tax assets to be settled after more than 12 months	161	74
	178	**140**
Deferred tax liabilities		
- Deferred tax liabilities to be settled in 12 months or less	110	61
- Deferred tax liabilities to be settled after more than 12 months	834	608
	944	**669**
Carrying amount as at March 31	**766**	**529**

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					
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
Provisions for employee benefits	-	-	-	15	15
Maintenance provision	10	-	-	(10)	-
Financial lease	10	(3)	-	-	7
Other	3	(3)	-	-	-
Total	**303**	**(97)**	**-**	**(9)**	**197**
Deferred tax assets					
2007/08					
Tax losses	14	(6)	-	(8)	-
Investment grant settled with tax authority	-	-	-	-	-
Fleet assets	145	(15)	-	-	130
Fleet related assets (maintenance)	16	5	-	(1)	20
Provisions for employee benefits	15	-	-	-	15
Maintenance provision	-	-	-	-	-
Financial lease	7	(2)	-	-	5
Other	-	2	-	6	8
Total	**197**	**(16)**	**-**	**(3)**	**178**

	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					
2006/07					
Fleet assets	45	-	-	-	45
Other tangible fixed assets	62	(10)	-	-	52
Pensions & benefits (asset)	557	(10)	-	(6)	541
Maintenance provision	33	17	-	-	50
Derivative financial instruments	56	-	(18)	(1)	37
Other	49	(40)		(8)	1
Total	**802**	**(43)**	**(18)**	**(15)**	**726**
Deferred tax liabilities					
2007/08					
Fleet assets	45	1	-	-	46
Other tangible fixed assets	52	(3)	-	-	49
Pensions & benefits (asset)	541	38	-	(1)	578
Maintenance provision	50	(5)	-	(2)	43
Derivative financial instruments	37	-	190	-	227
Other	1	-	-	-	1
Total	**726**	**31**	**190**	**(3)**	**944**

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

	Phasing-out costs of operating lease aircraft	Employee Benefit	Legal Issues	Other	Total
As at April 1, 2007	**30**	**137**	**-**	**26**	**193**
Charged to consolidated income statement:					
Additional provisions and increases in existing provisions	65	1	197	27	290
Unused amounts reversed	-	-	-	-	-
Used during year	(19)	(10)	-	(6)	(35)
Other changes	(1)	1	-	(4)	(4)
As at March 31, 2008	**75**	**129**	**197**	**43**	**444**
Current/non-current portion					
Non-current portion	43	124	106	34	307
Current portion	32	5	91	9	137
Carrying amount as at March 31, 2008	**75**	**129**	**197**	**43**	**444**

45 Trade and other payables

	March 31, 2008	March 31, 2007
Trade payables*	520	518
Amounts due to subsidiaries	392	264
Amounts due to Air France KLM Group companies	36	60
Amounts due to maintenance contract customers	-	31
Taxes and social security premiums	65	61
Other payables	297	169
Accrued liabilities	316	388
Total	**1,626**	**1,491**

* Reclassification March 31, 2007, see note 42.

Other notes

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

Amstelveen, June 4, 2008

The Board of Managing Directors

Peter F. Hartman
Frédéric N.P. Gagey
Jan Ernst C. De Groot

The Supervisory Board

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

Other Information

Auditors’ Report

To the Shareholders and Supervisory Board of KLM Royal Dutch Airlines

Report on the financial statements

We have audited the accompanying financial statements of KLM Royal Dutch Airlines, Amstelveen, for the year ended March 31, 2008 as set out on the pages 53 to 159. 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, 2008, 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, 2008, 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 Netherlands 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 Netherlands 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, 2008, 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 Netherlands 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, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands 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 Netherlands Civil Code.

Amstelveen/ Rotterdam, June 4, 2008

KPMG ACCOUNTANTS N.V.

T. van der Heijden RA

DELOITTE ACCOUNTANTS B.V.

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 operating 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 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 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 published in the Officiële Prijscourant of Euronext Amsterdam N.V. 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 2007/08 amounting to EUR 290,999,000 be appropriated as follows:

Transfer to reserves

• Retained earnings	EUR	263,848,581

Dividend distributions

• Priority shareholders		794
• Ordinary shareholders		27,149,625
Total dividend distributions	*EUR*	*27,150,419*
Total transfer to reserves/dividends	**EUR**	**290,999,000**

Interest expenses

• A cumulative preference shareholders (6%)		1,057,500
• C cumulative preference shareholders (average 3.85%)		542,949
Total interest expenses	**EUR**	**1,600,449**

Miscellaneous

Five-Year Review

(in millions of EUR, unless stated otherwise)	IFRS				Dutch GAAP
	2007/08	2006/07	2005/06	2004/05	2003/04
Consolidated income statement					
Passenger	**5,667**	5,423	5,046	4,574	4,234
Cargo	**1,194**	1,162	1,157	1,030	963
Other revenues	**1,167**	1,113	998	838	680
Revenues	**8,028**	7,698	7,201	6,442	5,877
Expenses	**7,277**	7,095	6,661	5,975	5,757
Income from current operations	**751**	603	540	467	120
Financial income and expense	**(75)**	(47)	(99)	(154)	(101)
Other non-current income and expenses	**(198)**	13	-	1	(1)
Pre-tax income	**478**	569	441	314	18
Income tax expense	**(154)**	(63)	(126)	(84)	(7)
Net result after taxation of consolidated companies	**324**	506	315	230	11
Share of results of equity shareholdings	**(33)**	10	(39)	25	13
Profit for the year	**291**	516	276	255	24
Consolidated balance sheet					
Current assets	**3,268**	2,852	2,778	2,185	1,781
Non-current assets	**8,237**	7,676	7,348	7,057	6,163
Total assets	**11,505**	10,528	10,126	9,242	7,944
Current liabilities	**2,894**	2,818	2,748	2,242	1,914
Non-current liabilities	**4,733**	4,684	4,818	4,691	4,542
Group equity	**3,878**	3,026	2,560	2,309	1,488
Total liabilities	**11,505**	10,528	10,126	9,242	7,944

Five-Year Review

(in millions of EUR, unless stated otherwise)		IFRS 2007/08	2006/07	2005/06	2004/05	Dutch GAAP 2003/04
Key financial figures						
Return on equity (%)		**8.4**	18.5	11.3	12.2	1.5
Profit for the year as percentage of revenues		**3.6**	6.7	3.8	4.0	0.4
Earnings per ordinary share (EUR)		**6.22**	11.03	5.90	5.45	0.50
Interest coverage ratio		**7.5**	7.2	4.4	3.7	1.3
Profit for the year plus depreciation		**765**	993	720	646	464
Capital expenditures (net)		**(438)**	(137)	(766)	(406)	(507)
Net-debt-to-equity percentage		**57**	87	106	126	197
Dividend per ordinary share (EUR)		0.58	0.48	0.30	0.16	-
Traffic (Company)						
Passenger kilometers	*	**75,073**	72,367	69,115	64,125	57,784
Revenue ton freight-kilometers	*	**4,947**	4,823	4,893	4,744	4,392
Passenger load factor (%)		**82.9**	83.7	83.5	81.9	80.1
Cargo load factor (%)		**74.1**	74.1	74.8	75.8	72.9
Number of passengers (x 1,000)		**23,354**	22,634	21,673	20,591	18,992
Weight of cargo carried (kilograms)	*	**657**	627	620	604	529
Average distance flown per passenger (in kilometers)		**3,214**	3,197	3,189	3,114	3,043
Capacity (Company)						
Available seat-kilometers	*	**90,563**	86,478	82,736	78,274	72,099
Available ton freight-kilometers	*	**6,675**	6,511	6,542	6,256	6,028
Kilometers flown	*	**406**	394	382	366	341
Hours flown (x 1,000)		**616**	597	570	549	446
Yield (Company)						
Yield (in cents):						
Passenger (per RPK)		**7.3**	7.2	6.9	6.8	6.7
Cargo (per RTK)		**23.1**	22.9	22.6	20.7	21.9
Number of staff (Company)						
The Netherlands		**21,426**	21,600	21,184	21,086	21,824
Outside The Netherlands		**2,910**	2,612	2,692	2,741	3,044
Total		**24,336**	24,212	23,876	23,827	24,868

* 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.
Passenger load factor	Total revenue passenger-kilometers (RPK) expressed as a percentage of the total available seat-kilometers (ASK).
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.
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.

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.

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 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;
- The outcome of any material litigation;
- The future level of air travel demand;
- Future load factors and yields;
- Industrial actions or strikes by KLM employees, Air France employees or employees of our suppliers or airports;
- Developments affecting our airline partners;
- 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 and the cost and availability of aviation insurance coverage and war risk coverage; 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.