2005-06
reference document

Contents

Chairman's message

Dear Shareholder,

We achieved an excellent performance in 2005-06. Operating income rose by nearly 70% to 936 million euros and net income reached 913 million, including an exceptional gain of 504 million euros on Amadeus.

These results confirm what we had already announced last year, the success of our merger, both operationally and financially. Our combination has given us a real competitive advantage, supporting our strategy of profitable growth. Despite a continued high oil price our objective is for operating income in the current financial year at least in line with last year. Our confidence in the future has led us to propose a doubling in the dividend to 30 euro cents.

Within a context of buoyant economic conditions, Air France and KLM have been able to seize every opportunity offered by sustained demand thanks to the power of their networks, organized around two highly efficient hubs. We achieved record load factors across all markets, carrying 70 million passengers. This puts us far ahead of our competitors and confirms our position as European leader.

Our sector makes an essential contribution to the world economy, whose development depends on efficient and profitable air transport. While last year showed very strong worldwide traffic growth, we should remember that the air transport sector is still in a very fragile state. The ever-higher oil price of the past two years, following a number of geopolitical crises and health scares, is not allowing it to benefit fully from restructuring initiatives. The US airlines, for example, remain in the red, despite their cost-cutting efforts and the various subsidies received while, in Europe, certain airlines are still in difficulty.

The development of the air transport sector, clearly divided between strong and weak companies, must be achieved through consolidation. Alliances are already playing a major role in this process in bringing companies together around a shared and compelling commercial project. I remain convinced, however, that only mergers will be able to deliver the profound restructuring our sector needs to enjoy the status that its economic importance deserves. It is also becoming essential for airlines to achieve critical mass to provide the adaptive capacity and flexibility needed in a sector subject to rapid and profound changes.

We intend to play a major role in this new context. Thanks to the strategy of profitable growth we are pursuing, we are achieving a steady improvement in our profitability. We have chosen RoCE, or return on capital employed, as our performance benchmark. Currently standing at 5.1% after tax, our objective is to increase this to 7% after tax over the coming four years and to generate significant free cash flow, allowing us to seize growth opportunities while creating value for our shareholders.

Thank you for your loyalty,

Jean-Cyril Spinetta

2005-06 Highlights

April 2005
Air France adopts the new economic model for distribution, applied as of January 1, 2005 by KLM. From now on, the airlines will no longer pay commissions to travel agencies, whose services are directly invoiced to their customers.

Air France and KLM implement mutual operational support at their two hubs. According to this principle, Air France is responsible for managing KLM flights at the Roissy-Charles de Gaulle hub and KLM for Air France at Schiphol.

Air France launches its new uniform, designed by Christian Lacroix.

The oil price (Brent IPE) reaches a new record level of $56.51 a barrel in London.

May 2005
To celebrate its first anniversary, Air France-KLM organizes its first joint convention, *"Flying together"*, bringing together executives from both airlines.

The Group's financial website www.airfranceklm-finance.com is launched.

June 2005
A frequent flyer program, common to both Air France and KLM, *Flying Blue*, is launched.

Air France Industries creates a joint venture, Spairliners, for the maintenance of the Airbus A380 and takes a stake in Aero Maintenance Group (AMG).

July 2005
Air France disposes of its stake in Amadeus within the framework of the LBO by investment funds Cinven and BC Partners.

Air France-KLM publishes its first joint sustainability report.

August 2005
On August 3, flight AF358 from Paris to Toronto overshoots the runway. There are no life-threatening injuries.

September 2005
Air France-KLM is the only air transport group to be included in the sustainable development indices, DJSI (Dow Jones Sustainability Index) World 2005 and DJSI STOXX 2005.

Delta and Northwest Airlines, member airlines of SkyTeam, file for Chapter 11 bankruptcy protection.

KLM takes delivery of its first Airbus A330-200 to replace the Boeing 767 and launches its exclusively "business class" flights between Amsterdam and Houston.

October 2005
The marketing, commercial and sales teams of Air France Cargo and KLM Cargo are integrated within a common structure, the Joint Cargo Team.

November 2005
KLM reviews its economy flights, bringing them into line with the services Air France offers its passengers.

December 2005
Flying Blue, Europe's foremost frequent flyer program by number of members, is an outright success. Membership of Air France and KLM's joint program shows record growth of 10% since its creation.

January 2006
Air France and KLM adopt a single ticket code for the Roissy-Amsterdam route, the hubway linking the Group's two hubs.

Air France is voted 2005 Best Trans-Atlantic Airline and SkyTeam Best Alliance for the same year by readers of the American magazine *Global Traveler*.

The oil price (Brent IPE) breaks the $60 level in London.

February 2006
Air France-KLM creates a European Works Council to keep employees informed and consult with them on issues concerning the Group as well as matters of a trans-national nature.

March 2006
The new flight crew center is inaugurated at Roissy.

Air France launches its new advertising campaign with a well-being theme.

A seventh transfer time is introduced at the Schiphol hub, allowing KLM to increase its flights to major European destinations.

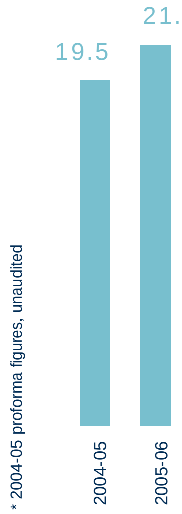
April 2006
Aeroflot joins the SkyTeam alliance as a member airline.

Air France-KLM is recognized for the success of the merger by *Aviation Week* in the United States.

A common e-services application is launched jointly by Air France and KLM, allowing passengers of the two airlines to check in over the internet.

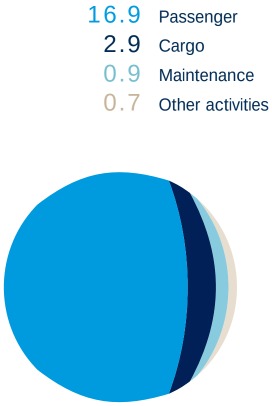
The oil price (Brent IPE) reaches a new record of $74.57 in London.

Key figures



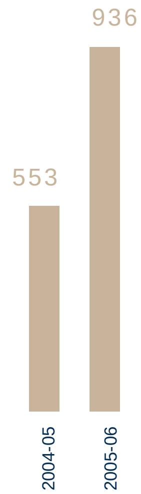
Revenues
(in billions of euros)

Revenues increased by 1.9 billion euros, (+ 10.2%), reflecting the very strong level of activity throughout the year.



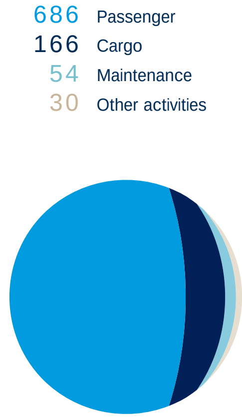
Breakdown of revenues
(in billions of euros)

The passenger, cargo and maintenance activities recorded, respectively, growth of 10.2%, 11.9% and 12.1% in their revenues.



Operating income
(in millions of euros)

Operating income rose by 69.3% to 936 million euros despite an 870 million increase in fuel expense to 3.59 billion euros.

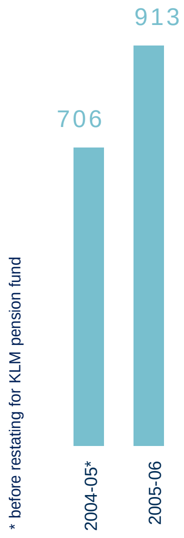


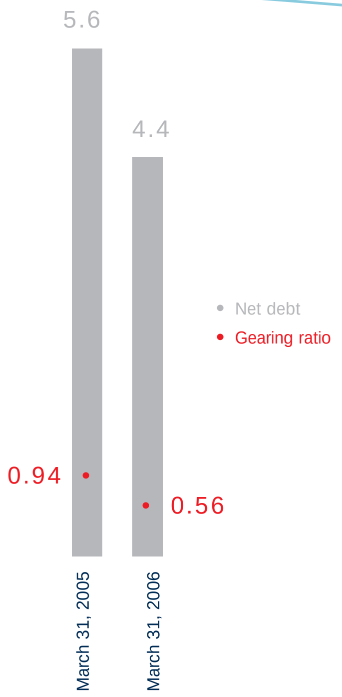
Breakdown of operating income
(in millions of euros)

Each of the activities saw an improvement in profitability with the passenger activity achieving a remarkable performance. (+78.6%).

"Our 2005-06 financial year was characterized by two economic events: strong worldwide growth leading to extremely buoyant activity and a marked increase in the oil price.
In this environment, our Group confirmed the success of its merger and maintained its sector leadership position achieving the highest traffic growth and load factors in Europe.
The synergies linked to the merger as well as continued cost control not only limited the impact of the oil price but allowed for a significant improvement in our margins. At the same time, we have considerably strengthened our financial position while continuing to invest in improving the efficiency of our fleet."

Jean-Cyril Spinetta





Net income, Group share
(in millions of euros)

Earnings per share amounted to 3.47 euros at March 31, 2006. The dividend doubled to 30 euro cents.

Financing of investments
(in billions of euros)

Investments amounted to 2.5 billion, of which 1.5 billion in flight equipment. They were financed from operating cash flow of 2.6 billion euros, supplemented by the one billion cash proceeds on disposals including Amadeus shares. At March 31, 2006, the Group had free cash flow of 1.1 billion euros.

Financial structure
(net debt in billions of euros)

While net debt fell by 1.3 billion euros, stockholders' equity increased by 1.8 billion euros, reducing the gearing ratio from 0.94 at March 31, 2005 to 0.56 at March 31, 2006.

Consolidated figures

Financial year to March 31, In euro million	**2006**	**2005 [1] (proforma unaudited)**	**Change in %**
Revenues	21,448	19,467	+10.2
Operating income	936	553	+69.3
Pre-tax income of fully integrated companies	1,200	1,692 [2]	NS
Net income, Group share	913	1,704 [2]	NS
Net income before restatements relating to the recognition of pension fund surpluses	913	706	+29.3
Earnings per share (in €)	3.47	6.59	NS

(1) Air France and KLM consolidated over 12 months
(2) After reversal of total negative goodwill arising on KLM acquisition of 1.35 billion euros


AIR FRANCE

Corporate governance

Board of Directors

Board of Directors as at March 31, 2006

Since the Shareholders' Meeting of September 15, 2004, the bylaws have stipulated a maximum of eighteen Board directors, with a six-year term of office. The minimum number of directors' shares is 10 shares for directors other than those representing the French State, who are not required to hold shares of the company's stock.

As at March 31, 2006, the Board of Directors comprised 16 members:

- 11 directors appointed by the Shareholders' Meeting,
- 2 representatives of the employee shareholders appointed by the Shareholders' Meeting,
- 3 representatives of the French State appointed by ministerial order.

During the 2005-06 financial year, the Board appointed two new directors, Frits Bolkestein and Didier Le Chaton. Mr. Bolkestein was recommended by the Dutch government, in line with the agreements of October 2003 linked to the merger of Air France and KLM, to succeed Mr. Duisenberg, who died in July 2005. Mr. Le Chaton replaces Mr. Paris, who resigned as director representing flight deck crew employees on July 12, 2005.

Jean-Cyril Spinetta
Chairman and Chief Executive Officer of Air France-KLM

First appointed: September 23, 1997
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

Directorships in other companies:
- Chairman and Chief Executive Officer of Air France,
- Director of Alitalia,
- Director of Saint-Gobain,
- Director of Unilever,
- Permanent representative of Air France on the Board of Directors of Le Monde Entreprises,
- Member of the Board of Paris Europlace.

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

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

Leo M. van Wijk
Vice-Chairman of the Board of Directors of Air France-KLM
Chairman of the Management Board of KLM

First appointed: June 24, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

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

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

Patricia Barbizet
Chief Executive Officer and Director of Artémis

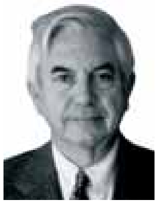
First appointed: January 3, 2003
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

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

Directorships held in the last five years:
- Member of the Supervisory Board of Yves Saint-Laurent Haute Couture and Yves Saint-Laurent Parfums,
- Artémis Permanent representative on the Board of Directors of Bouygues and Rexel.

Born April 17, 1955, Ms. Barbizet is a graduate of the Ecole Supérieure de Commerce de Paris.



Frits Bolkestein (1)

First appointed:
November 22, 2005
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

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

Other directorships:
- Member of the Supervisory Board of Nederlandsche Bank.

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

Giancarlo Cimoli
Chairman and Deputy Director of Alitalia

First appointed: July 19, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

Other directorships:
- Director of Enia S.p.A. and EnerTAD S.p.A..

Directorships held in the last five years:
- Chairman and Chief Executive Officer of Ferroviere dello Stato until April 2004,
- Vice-Chairman of the Industry Federation, Rome, until May 2002,
- Member of the Executive Board of Assonime (the Association of Italy's limited liability companies).

Born December 12, 1939, Mr. Cimoli is a graduate of the Polytechnic Institute of Milan.

Jean-François Dehecq
Chairman and Chief Executive Officer of Sanofi-Aventis

First appointed: January 25, 1995
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

Other directorships :
- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher,
- Chairman and Director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co.,
- Director of the French National Research Agency,
- Director of ENSM, Paris (Ecole Nationale Supérieure des Mines),
- Director of IFPMA (International Federation of Pharmaceutical Manufacturers Associations),
- Member of the Supervisory Board of the Agency for Industrial Innovation.

Directorships held in the last five years:
- Member of the Supervisory Board of Balmain until March 2002,
- Member of the Supervisory Board of Aventis until December 2004,
- Director of Péchiney until December 2003,
- Director of Synthelabo Recherche until January 2003,
- Director of Sanofi-Synthelabo Inc. until 2006.

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

(1) Subject to ratification by the Shareholders' Meeting of July 12, 2006

Pierre-Mathieu Duhamel
Director of Budget, French Ministry of Economy, Finance and Industry

First appointed: January 15, 2003
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Other directorships:
- Director of France Telecom SA, EDF and SNCF.

Born November 17, 1956, Mr. Duhamel is a graduate of the Institut des Sciences Politiques de Paris and of the Ecole Nationale d'Administration.

Jean-Marc Espalioux

First appointed:
September 14, 2001
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

Other directorships:
- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Epargne,
- Director of Veolia Environnement.

Directorships held in the last five years:
- Chairman of the Management Board of Accor and Chairman of Accor UK until January 2006,
- Director of Club Méditerranée until January 2006,
- Accor Permanent representative on the Supervisory Board of Groupe Lucien Barrière until January 2006,
- Director of Vivendi until 2001,
- Director of Vivendi Universal until 2002,
- Director of Fiat France, Crédit Lyonnais and Vivendi Environnement until 2003.

Born March 18, 1952, Mr. Espalioux is a graduate of the Institut des Sciences Politiques de Paris and of the Ecole Nationale d'Administration.

Jean-Louis Girodolle
Deputy Director with the Department of the French Treasury - State Holdings Agency

First appointed: June 24, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Other directorships:
- Director of Renault, RATP, Autoroutes du Sud de la France and Aéroports de Paris.

Born August 2, 1968, Mr. Girodolle is a graduate of the Institut des Sciences Politiques de Paris and of the Ecole Nationale d'Administration.

Pierre-Henri Gourgeon
Deputy Chief Executive Officer
of Air France-KLM

First appointed: January 20, 2005
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2011.

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

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

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

Born April 28, 1946, Mr. Gourgeon is a graduate of the Ecole Polytechnique and the Ecole Nationale Supérieure de l'Aéronautique. He is also a graduate of the California Institute of Technology.

Claude Gressier
President of the Department
of Economic Affairs
Counsel General for Public Works

First appointed: June 24, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Other directorships:
- Director of Autoroutes de France.

Born July 2, 1943, Mr. Gressier is a graduate of the Institut des Sciences Politiques de Paris and the Ecole Polytechnique and is qualified as a general public works engineer.

Didier Le Chaton (1)
Representative of flight deck crew

First appointed: January 26, 2006
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 7,421 shares (excluding FCPE units).

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

Cornelis J.A. van Lede

First appointed: June 24, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

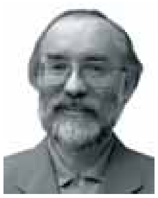
Number of shares held in the company's stock: 1,000 shares.

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

Directorships held in the last five years:
- Chairman of the Supervisory Board of Nederlandsche Bank until 2004,
- Chairman of the Management Board of Akzo Nobel NV until 2002,
- Director of Scania AB until 2004.

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

(1) Subject to ratification by the Shareholders' Meeting of July 12, 2006



Christian Magne
Representative of the ground staff and cabin crews

First appointed:
September 14, 2001
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

Number of shares held in the company's stock: 233 shares and 359 FCPE units.

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

Floris A. Maljers

First appointed: June 24, 2004
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending March 31, 2010.

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

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

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

Born August 12, 1936, Mr. Maljers, a Dutch national, is a former Chairman of Unilever NV.

Pierre Richard
Chairman of the Board of Directors of Dexia

First appointed: October 20, 1997
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements of the year ending March 31, 2010.

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

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

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

Experience of members of the Board of Directors

Director	Age at March 31, 2006	Date appointed to Board	Experience at March 31, 2006	Sector	Experience in the sector	Current position
	Experience on the Air France-KLM Board of Directors			Professional experience		
Jean-Cyril Spinetta	62 years	23/09/1997	9 years	Air Transport (Air Inter and Air France)	13 years	Chairman and CEO of Air France-KLM and of Air France
Leo van Wijk	59 years	24/06/2004	2 years	Air Transport (KLM)	35 years	Chairman of KLM Management Board
Patricia Barbizet	51 years	3/01/2003	3 years	Industrial (Renault, Pinault group)	29 years	CEO and Director of Artémis
Frits Bolkestein	72 years	22/11/2005	4.5 months	Industrial (Shell) Public (Dutch Parliament and European Commission)	16 years 26 years	Company directorships
Giancarlo Cimoli	66 years	19/07/2004	2 years	Industrial and Air Transport (Edison, Italian railways and Alitalia)	21 years	Chairman and Deputy Director of Alitalia
Jean-François Dehecq	66 years	25/01/1995	11 years	Industrial (SNPA and Sanofi)	41 years	Chairman and CEO of Sanofi-Aventis
Pierre-Mathieu Duhamel	49 years	15/01/2003	3 years	Public	25 years	Director of Budget
Jean-Marc Espalioux	54 years	14/09/2001	5.5 years	Services (CGE, Accor)	19 years	Company directorships
Jean-Louis Girodolle	37 years	24/06/2004	2 years	Public	13 years	Deputy Director at the French Treasury

	Experience on the Air France-KLM Board of Directors			Professional experience		
Director	**Age at March 31, 2006**	**Date appointed to Board**	**Experience at March 31, 2006**	**Sector**	**Experience in the sector**	**Current position**
Pierre-Henri Gourgeon	59 years	20/01/2005	1 year	Aeronautics and Air Transport	35 years	Deputy Chief Executive Officer of Air France-KLM and Deputy Chief Executive Officer of Air France
Claude Gressier	62 years	24/06/2004	2 years	Public	38 years	President of the Department of Economic Affairs, Counsel General for Public Works
Didier Le Chaton	55 years	26/01/2006	3 months	Air Transport (Air France)	30 years	Flight Captain
Cornelis van Lede	64 years	24/06/2004	2 years	Industrial (Shell, Akzo Nobel, Dutch Industry Federation) Consultancy (McKinsey & Company)	36 years	President of the Board of Directors of INSEAD
Christian Magne	53 years	14/09/2001	5 years	Air Transport (Air France)	32 years	Finance executive
Floris Maljers	69 years	24/06/2004	2 years	Industrial (Unilever)	35 years	Chairman of the Board of Directors of the Rotterdam School of Management
Pierre Richard	65 years	20/10/1997	9 years	Public Service and Banking (CDC, Crédit Local de France)	23 years	Chairman of the Board of Dexia

Missions of the Board of Directors

The Board of Directors determines the orientations of the Group's activities and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the company and settles, in its deliberations, the matters which concern it. In addition, the Board engages in the monitoring and verification it considers appropriate.

On June 17, 2004, the Board of Directors adopted an internal rule. Modified on November 23, 2005, this rule specifies the terms for the organization and functioning of the Board and sets the prerogatives and duties of the directors in terms of the rules on information, communication, confidentiality and conflict of interest. It determines, amongst other things, the powers of each of the four specialized committees established within the Board: the Audit committee, the Strategy committee, the Remuneration committee and the Appointments committee.

No executive director has been designated a member of the Audit committee.

Organization of the Board of Directors

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

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

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

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

Independence of Directors

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

Compliance and ethics

The Board of Directors has adopted a compliance code and an ethics code. The compliance code, adopted by the Board of Directors of March 25, 2004, and modified on November 22, 2005, prohibits both corporate officers and directors of the company from trading in the company's shares during the month preceding the annual results announcement and for a period of twenty-one days preceding the quarterly and half-year results. The financial ethics code defines the principles with which the principal executives of the company responsible for financial information and disclosure must comply.

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

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

As of the date of the reference document, there is no service contract linking a member of the Board of Directors to Air France-KLM or one of its subsidiaries and providing for the granting of advantages during the contract period.

Cases of conflict of interest

To the company's knowledge there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. It should, however, be noted that the French State, which holds 18.6% of the Air France-KLM share capital as at March 31, 2006, also holds at this date 100% of the share capital of Aéroports de Paris. Mr. Jean-Louis Girodolle, Deputy Director with the Department of the French Treasury - State Holdings Agency, representing the French State on the Board of Directors of Air France-KLM, also represents the French State on the Board of Directors of Aéroports de Paris.

Evaluation of the Board of Directors

During the financial year, the Board of Directors conducted, for the first time, an evaluation of its functioning by way of a questionnaire sent to each director covering four areas:
- the organization and the functioning of the Board of Directors,
- the exercise of its powers by the Board of Directors,
- the Board committees,
- the areas for improvement in the Board's functioning.

The replies to the questionnaire allowed for a presentation of a summary of the results of this evaluation, at the Board of Directors meeting of June 22, 2005.

The proposed improvements in Board functioning were implemented over the course of the financial year.

Functioning of the Board of Directors

The minimum number of Board of Directors meetings is set at five per year. Between five and seven days before the Board meetings, a file containing the agenda and any points that require special analysis and prior consideration, summary memoranda and/or full documentation is sent to Board members. The principal items on the agenda are presented orally or by video, followed by discussion. Board meetings are conducted in French however each director may speak in French or in English with simultaneous translation. The Secretary for the Board of Directors is the Legal Counsel, Jean-Marc Bardy.

Board activity in 2005-06

During the 2005-06 financial year, the Board of Directors met seven times (ten meetings in 2004-05 of which two meetings were associated with the combination between Air France and KLM). The meetings lasted three hours on average and the attendance rate for directors was 74.2% (80.7% in 2004-05). Note that two directorships remained vacant, respectively, for a period of four months following the death of a director and six months following the resignation of another.

During the financial year, one full meeting of the Board of Directors was dedicated to the strategy of the Air France-KLM group and its principal businesses (passenger, cargo, maintenance) as well as to the financial aspects of this strategy. The following issues were also addressed:
- interim and annual financial statements and presentation of the financial statements under IFRS and US GAAP,
- budget forecasts,
- development of the long-haul and cargo fleet plans,
- remuneration of corporate officers,
- group policy on information systems,
- relations with Aéroports de Paris,
- regulated agreements and subdelegation given to the Chairman and Chief Executive Officer for the issuance of Air France-KLM shares arising from the conversion of bonds (issued by Air France) and the option to convert and/or exchange into new or existing Air France-KLM shares.

Principal regulated agreements [1]

Following the creation of the new Air France-KLM group, the Board of Directors had approved on September 15, 2004, the service provision agreement between the Air France-KLM holding company and its subsidiary Air France. The object of these agreements was to give Air France-KLM, whose assets and personnel had been transferred to Air France as a result of the hive down, the technical and administrative support services necessary for its accounting, administrative, financial and legal functioning.
Based on this authorization, three agreements were concluded on October 5, 2004 between Air France-KLM and Air France:
- a service provision agreement,
- a cash agreement,
- a domiciliation agreement.

These agreements were concluded under normal conditions. However, given the global nature of these services, the Board was asked to authorize their conclusion in accordance with article L.225-38 of the Commercial Code.

During the financial year, the Board of Directors approved the conclusion of similar agreements between Air France-KLM and KLM.

In addition, the Board of Directors of Air France-KLM authorized the conclusion of a licence agreement, with Air France on one hand and KLM on the other, for the AIR FRANCE KLM brand.

The Board of Directors Committees

The audit committee

Composition

During the course of the financial year, the members of the audit committee were increased from five to six individuals: Pierre Richard, Chairman of the committee, Jean-François Dehecq, Jean-Louis Girodolle, Floris Maljers, Christian Magne and Didier Le Chaton.
The principal executives responsible for accounting, legal affairs, financial control and internal audit of Air France-KLM and the subsidiaries Air France and KLM attend the meetings.

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

Missions

The missions of the committee include reviewing the consolidated financial statements, principal financial risks, results and scope of internal audit, its work program and the conclusions and recommendations of the statutory auditors. It also approves the amount of statutory auditors' fees and issues prior approval for some services provided by them. The committee must also monitor the quality of procedures to ensure compliance with stock market regulations. The audit committee has the resources necessary to perform its mission; it may, notably, be assisted by persons from outside the company.

The audit committee's principal missions are to review the interim and annual consolidated financial statements before they are submitted to the Board of Directors and the following matters:
- the consolidation scope,
- the relevance and permanence of the accounting methods used to prepare the financial statements,
- the principal estimates made by management,
- the comments and recommendations made by the statutory auditors and, if applicable, any significant adjustments resulting from audits,
- with the company's executive management, the principal financial risks and off balance sheet commitments,
- the program and results of the internal audits conducted by the subsidiaries.

(1) See statutory auditors report on agreements involving members of the Board of Directors, financial report section

Activity

During the 2005-06 financial year, the audit committee met five times (four in 2004-05) with an attendance rate for members of 81.4% (81.7% in 2004-05) to review the following issues.

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

A special meeting was dedicated to reviewing the conversion of the financial statements to IFRS and the examination of the main entries impacted by the accounting differences resulting from their implementation. During the same meeting, the committee commented on the process to reconcile the financial statements to US GAAP, revealing the differences in accounting with the financial statements under French standards, established by the Board of Directors.

Internal control and internal audit
The committee paid particular attention to the realization of work concerning the implementation of internal control procedures, aimed at ensuring that the Group has the necessary control procedures to reasonably ensure that it is able to collate, process and report the information required to comply with the Sarbanes-Oxley Act and the French Financial Security Law. Thus the committee examined at each of its meetings the progress made on this issue.

The same close attention was paid to the implementation of the Group's internal audit procedures. In particular, the committee requested a presentation of the new organization of the Group's internal audit, based on the realization of joint audits, the respect of a joint code on the functioning of auditing for the two companies and the convergence towards a common risk control model.

Risk assessment
The audit committee also reviewed:
- the principles governing currency and fuel hedging,
- the risk management procedures within KLM,
- the implementation of a 'whistle-blowing' provision.

Finally, the committee reviewed the internal audit conducted for the 2005-06 financial year.

The strategy committee

Composition

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

Missions

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

Activity

The strategy committee did not meet during the financial year as the directors wished the Group's strategy, particularly with respect to its businesses (passenger, cargo, maintenance), to be the subject of a special meeting of the Board of Directors. This meeting took place on January 26, 2006.

The remuneration committee

Composition

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

Missions

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

Activity

The remuneration committee met once during the 2005-06 financial year (twice in 2004-05) and the attendance rate for members was 100% (100% in 2004-05).

The fixed portion of the compensation for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer for both the 2004-05 and 2005-06 financial years having been recommended by the remuneration committee, then voted by the Board of Directors of November 23, 2004, the remuneration committee met on June 20, 2005 to determine and propose to the Board of Directors the variable portion of this compensation for the 2004-05 financial year.

The appointments committee

Composition

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

Missions

The appointments committee is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace corporate officers, particularly in the event of unforeseen vacancies. It also appoints the members of the Strategic Management Committee after consulting the Chairman and Chief Executive Officer of Air France for the members who represent Air France and the Supervisory Board of KLM for the members who represent KLM.

Activity

The appointments committee met once during the financial year (once in 2004-05), with an attendance rate for members of 100% (100% in 2004-05).

The appointments committee proposed to the Board of Directors, on the recommendation of the Dutch State, the appointment of Frits Bolkestein as a director to replace Willem Duisenberg, who died in July 2005.
Mr. Bolkestein was appointed by the Board of Directors on November 22, 2005.

Compensation for Directors

Directors' fee modalities

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

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

Committee members receive additional fees:

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

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

Directors' fees paid in the 2005-06 financial year

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

Directors	Directors' fees paid	
	2004-05	**2005-06**
Jean-Cyril Spinetta	31,000 euros	24,000 euros
Leo van Wijk	22,060 euros	24,000 euros
Patricia Barbizet	28,727 euros	26,500 euros
Frits Bolkestein	-	7,500 euros
Giancarlo Cimoli	9,091 euros	13,500 euros
Jean-François Dehecq	35,818 euros	26,500 euros
Pierre-Mathieu Duhamel	29,500 euros (1)	18,000 euros (1)
Willem F. Duisenberg †	15,878 euros	10,500 euros
Jean-Marc Espalioux	30,364 euros	29,000 euros
Jean-Louis Girodolle	19,560 euros (1)	28,500 euros (1)
Pierre-Henri Gourgeon	4,849 euros	24,000 euros
Claude Gressier	16,969 euros (1)	22,500 euros (1)
Didier Le Chaton	-	7,200 euros
Cornelis van Lede	17,878 euros	23,500 euros
Christian Magne	32,500 euros	30,000 euros
Floris A. Maljers	21,649 euros	27,000 euros
Christian Paris (2)	26,909 euros	12,000 euros (2)
Pierre Richard	29,636 euros	35,000 euros
Directors having left office during the 2004-05 financial year following Board changes	180,820 euros	-
Total	**553,208 euros**	**389,200 euros**

(1) Amount paid directly to the French Treasury
(2) Resigned July 12, 2005

Remuneration for corporate officers

Terms of remuneration

The remuneration committee recommended to the Board of Directors, which adopted the recommendation on November 23, 2004, that it set the elements of the compensation for 2005-06 for the Chairman and Chief Executive Officer at 750,000 euros with a target bonus of 60% and for the Deputy Chief Executive Officer at 550,000 euros with a target bonus of 60% for their duties in Air France-KLM and in Air France.

The criteria for awarding the bonus are as follows:

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

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

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

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

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

The compensation of the Chairman of the KLM Management Board is decided by the KLM Supervisory Board. He also benefits from a pension plan managed in accordance with Dutch law. The company contributed 177,000 euros to this plan for the 2005-06 financial year (228,278 euros for 2004-05). In addition, Mr. van Wijk may benefit from a severance package equal to his final salary plus an amount equal to the average of his bonuses for the last three years if his contract is unilaterally terminated by the company before January 2007.

Remuneration and benefits paid to corporate officers

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

(In euro) *(2004-05 financial year)*	Fixed	Remuneration After shares-for-salary exchange offering[1]	Variable[2]	Directors' fees[3]	Total
Jean-Cyril Spinetta	750,000	612,720	330,000	24,000	966,720
Chairman and Chief Executive Officer	*(550,000)*	-	*(160,000)*	*(31,000)*	*(741,000)*
Pierre-Henri Gourgeon	550,000	457,600	185,000	24,000	666,600
Deputy Chief Executive Officer	*(363,675)*	-	*(142,300)*	*(4,849)*	*(510,824)*
Leo van Wijk	666,083	-	429,731	-	1,095,814
Chairman of the KLM Management Board	*(653,709)*	-	*(322,500)*	-	*(976,209)*

(1) Mr. Spinetta and Mr. Gourgeon subscribed in April 2005 to the "Air France-KLM shares-for-salary exchange" offering to Air France employees at the time the French State sold part of its shares. They subscribed, respectively, for 65,240 shares and 44,769 shares.
(2) In respect of the previous financial year.
(3) Including directors' fees paid by Group subsidiaries: Mr. Spinetta does not draw directors' fees with respect to his attendance at Air France Board meetings. Mr. Gourgeon is Permanent representative of Air France-KLM on the Air France Board and, thus, does not receive directors' fees. Mr. van Wijk's directors' fees are paid directly to KLM.

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

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

Loans and guarantees granted to corporate officers of the company

None.

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

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

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

KLM schemes for managing executives	2001 Scheme	2002 Scheme	2003 Scheme	2004 Scheme	2005 Scheme
Number of shares able to be purchased	28,686	28,686	28,686	28,686	25,000 (1)
Due to expire on	October 20 2006	October 19 2007	June 30 2008	June 25 2009	July 15 2010
Exercise price	20.44	12.80	6.48	13.19	13.11
Number of shares exercised at March 31, 2006		28,686	28,686		-
Share options cancelled during the financial year	-	-	-	-	-
Outstanding share options	28,686	0	0	28,686	25,000

(1) of which 8,330 options granted unconditionally with the balance subject to conditions

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

Air France scheme for flight deck crew employees participating in the shares-for-salary exchange	1999 Scheme
Number of shares able to be purchased	16,610
Start date	May 30, 2005
Due to expire on	May 30, 2007
Exercise price	15.75
Number of shares subscribed at March 31, 2006	13,200
Share options cancelled during the financial year	-
Outstanding share options	3,410

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

Options for stock subscription granted to employees who are not corporate officers, benefiting from the greatest number of options / Options exercised by employees who are not corporate officers having exercised the greatest number of options	Total number of options granted / Shares purchased or subscribed	Weighted average price (in euros)	Allocation date	Number of shares exercised by allocation date
Air France (1)				
Options granted in 2005-06 (10 employees)	-	-	-	-
Options exercised in 2005-06 (10 employees)	50,299	15.75	May 2000	50,299
KLM				
Options granted in 2005-06 (10 employees)	145,000 (2)	13.11	July 2005	-
Options exercised in 2005-06 (10 employees)	226,247	16.22	Plan 2001 B	28,685
		12.80	Plan 2002 A	97,531
		10.07	Plan 2002 B	13,974
		6.48	Plan 2003 B	86,057

(1) Scheme reserved for the flight deck crew employees who participated in the 1999 shares-for-salary exchange offering.
(2) One third of these share options was, at March 31, 2006 unconditionally granted and two thirds conditionally.

Strategic Management Committee (SMC)

The Group is also managed by a Strategic Management Committee, comprising eight members appointed by the appointments committee. It meets every two weeks, alternating between Amsterdam and Paris to make decisions relating, in particular, to the coordination of the networks and hubs, medium-term budgets and plans, investment and fleet plans as well as alliances and partnerships.

Members of the SMC

The SMC comprises eight members:

- the Chairman of the Air France Board of Directors (Chairman of the SMC),
- three members who are employees of Air France exercising management functions,
- the Chairman of the Management Board of KLM,
- three members who are either members of the Management Board of KLM or KLM employees exercising management functions.

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

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

For more information on the role and responsibilities of the SMC, see section "Information on the agreements concluded in connection with the combination between Air France and KLM."

Experience and training of SMC members

March 31, 2006		SMC Experience		Professional experience	
Members	**Age**	**Appointed**	**Experience**	**Sector**	**Experience**
Jean-Cyril Spinetta (1) Chairman and CEO of Air France-KLM and Air France	62 years	May 6, 2004	2 years	Air Transport (Air Inter and Air France)	13 years
Leo van Wijk (2) Chairman of the KLM Management Board	59 years	May 6, 2004	2 years	Air Transport (KLM)	35 years
Pierre-Henri Gourgeon (3) Deputy Chief Executive Officer Air France-KLM and Chief Operating Officer of Air France	59 years	May 6, 2004	2 years	Aeronautics and Air Transport	35 years
Philippe Calavia (4) Vice President, Finance, Air France-KLM and Chief Financial Officer of Air France	57 years	May 6, 2004	2 years	Banking Air Transport (Air France)	6 years 8 years
Peter Hartman (5) Chief Operating Officer of KLM and Member of the Management Board	57 years	May 6, 2004	2 years	Air Transport (KLM)	33 years
Bruno Matheu (6) Senior Vice President - Marketing and Network Management, Air France	42 years	May 6, 2004	2 years	Air Transport (UTA and Air France)	20 years
Michael Wisbrun (7) Executive Vice President for Cargo, KLM	54 years	December 8, 2004	1.5 year	Air Transport (KLM)	28 years
Cees van Woudenberg (8) Director of control and internal audit, Air France-KLM	57 years	May 6, 2004	2 years	Air Transport (KLM)	17 years

Shareholder section

During the 2005-06 financial year, Air France-KLM continued initiatives aimed at a dynamic and transparent flow of information for its 500,000 shareholders, whether in France, the Netherlands, the United States or elsewhere in the world. 28,000 ‘Connecting’ newsletters were sent to Club members in French, English or Dutch. 3,000 people attended information meetings organized in France. 300 shareholders participated in visits and events organized at Roissy-Charles de Gaulle or Paris-Le Bourget. 200,000 internauts visited the www.airfranceklm-finance.com investor relations website.
In addition, in line with its commitment to maintaining a regular dialogue with shareholders, the Group convened regular meetings of its Consultative Committee for Individual Shareholders in order to improve its different communication channels.

Dynamic and transparent information provision

www.airfranceklm-finance.com, gateway to the Group

Updated daily, the www airfranceklm-finance.com website is a dedicated gateway to the Group and its activities for investors. In both English and French, the site gives access, from its home page, to the Group’s profile, its corporate governance, the latest press releases, the interactive reference document, the updated share price as well as analyst presentations made at the time of the quarterly, half-year or annual results.

An area specially dedicated to individual shareholders is available in French, English and Dutch. Accessible to everyone, it posts all the documents relating to the Shareholders’ Meeting, the financial calendar, the ‘Connecting’ newsletter, the financial notices published in the economic or general press in France and in the Netherlands as well as information for the Shareholders’ Club.

500,000

shareholders

An email alert system and an RSS feed allow everyone to be informed as soon as they come on line of anything new and to be reminded of any financial announcement in the Group’s calendar.

At the cutting edge of technology, the www.airfranceklm-finance.com website is the first Group website to use the full screen and is available in PDA (Personal Digital Assistant) format. In June 2006, the site was awarded the Boursoscan prize for financial communication.

A quarterly newsletter, keeping shareholders in touch with issues in the sector

Every quarter, Air France-KLM sends Club members the ‘Connecting’ newsletter. Produced in French, English and Dutch, its eight pages cover all the main economic and financial information concerning the Group as well as features on different aspects of the airline sector. The dates of the different events organized for shareholders as well as forthcoming results announcements are also included.

Club members can choose how to receive their newsletter – by mail or email – and the language in which they want to receive it. An interactive version is also available on www.airfranceklm-finance.com.

A practical guide for the individual shareholder

During the financial year, Air France-KLM published its first Individual Shareholder’s Guide, covering all the practical information linked to the share and the different forms of ownership in France, the Netherlands and the United States.

This Guide, produced with the help of the Consultative Committee for Individual Shareholders, aims to answer potential questions from individual shareholders and details the different channels established by the Group for communicating with them.

Published in French, English and Dutch, this Guide was distributed to all Club members in December 2005. Additional copies are available on request. An interactive version can be accessed at www.airfranceklm-finance.com.

Special shareholder events to further understanding of the business

Air France-KLM organizes and regularly participates in events reserved for individual shareholders in order to further their understanding of how the Group works and the issues with which it may be faced. Club members were thus able to learn about the Group’s fleet and its development plans during the last International Aeronautics and Space show at Le Bourget.

In 2005-06, Air France-KLM organized, with the support of financial press partners, information meetings in Toulouse, Lille, Paris, Nice, Nantes, Versailles, Angers and Grenoble. These covered Group strategy as well as the Group’s main strategic and financial challenges and included question and answer sessions following the presentations. Shareholders living in the area visited are sent personal invitations to these meetings. This programme of information meetings will continue in 2006-07 and could be gradually extended to the Netherlands.

Throughout the year, visits to Group sites (Roissy-Charles de Gaulle hub facility, flight crew center) are organized regularly. Open to all Club members, these on-site visits allow shareholders a behind-the-scenes understanding of the Group's businesses, meeting with professionals from the passenger, cargo or maintenance activities. Dates and times are announced in the 'Connecting' newsletter as well as on www.airfranceklm-finance.com. To participate, each member must register in advance by calling +33 1 41 56 88 85.

Initiatives for the Dutch shareholders

Over the financial year, Air France-KLM undertook different initiatives to keep its individual Dutch shareholders informed. As of May 2005, the shareholder pages on the website, the 'Connecting' newsletter and the Individual Shareholder's Guide have all been available in Dutch. After each results announcement, the Group publishes financial notices in Dutch in the economics and general press in the Netherlands. Different types of investor relations publicity brought in the first Dutch members of the Shareholders' Club. During the next financial year, these initiatives will be pursued in order to welcome new Dutch members of the Shareholders' Club.

Explaining economic and stock market issues to employee shareholders

In 1999, Air France-KLM created an internal newsletter, called 'Actions', distributed every three months to employee shareholders. It takes a very pedagogical approach in explaining the financial and stock market issues facing companies and shareholders and aims to educate Group employees in the different market mechanisms, complementing in this way the information communicated by the company.

A toll free number 0800 04 2000 as well as a dedicated intranet site complete the arrangements for keeping the employee shareholders in touch.

Regular dialogue

Relations with institutional investors and financial analysts

The Group's management regularly travels to meet institutional investors and financial analysts in Europe, the United States and Asia. In 2005-06, Group management dedicated 50 days to meeting with fund managers and analysts in Europe: Paris, London, Frankfurt, Zurich, Geneva, Amsterdam, Brussels, Dublin and Edinburgh, in the United States: New York, Boston, San Francisco, Los Angeles and Seattle, in Asia: Tokyo and Singapore.
As every year, an investor day was organised at Roissy in October 2005, bringing together 60 analysts and investors.

The Consultative Committee, improving communication with individual shareholders

Since 2000, Air France-KLM has been supported by a Consultative Committee for Individual Shareholders. Composed of 16 members appointed, after a selection process, for a four-year period, the Committee meets every three months with Air France-KLM teams, both as a whole and in sub-groups, to address specific issues.

The Committee thus makes a proactive contribution, through its different projects and advice, to investor relations with individual shareholders. Committee members make a commitment to the Group in signing a charter, the details of which were established by both parties. The list of members is available at www.airfranceklm-finance.com.

During the 2005-06 financial year, Committee members were very involved in the publication of the Individual Shareholder's Guide, the shareholder pages on the internet, this reference document and in preparations for the Shareholders' Meeting. They made a number of suggestions for subject matter in the "Connecting" newsletter.

To contact the Consultative Committee or send in a suggestion or comment, a form is available on the shareholder section of the website. All messages sent will be forwarded to the members.

Shareholders' Club

In 2000, Air France-KLM created a Shareholders' Club, which currently has more than 7,000 members. Every Air France-KLM shareholder with at least 50 Air France-KLM shares can become a member.

As a Club member, each shareholder is sent the 'Connecting' newsletter, invitations to on-site visits, events concerning the airline sector and information meetings planned in their area. Club members also benefit from preferential promotional offers from the Air France Museum, allowing them to purchase products relating to Air France and KLM and their histories. Furthermore, regardless the way their shares are held, they receive the Shareholders' Meeting documentation (convening notice, mail voting form).

How do I become a Club member?

To join the Club, all you need to do is send a shareholding statement proving that you hold at least 50 shares to: Air France-KLM – Shareholder Relations - DB.AC - 45, rue de Paris - 95747 Roissy-CDG cedex or by fax to + 33 1 41 56 82 79.

For any questions, contact +33 1 41 56 88 85.

Interview with Patrice Moreau, Member of the Consultative Committee for Individual Shareholders

How would you define your role as a member of the Consultative Committee?

The Consultative Committee is a body which makes recommendations on how the Air France-KLM group might constantly improve communication with individual shareholders. As members of the Consultative Committee, our role is also to use every opportunity to build, over the long term, Air France-KLM's reputation for performance and expertise in a service sector which is particularly subject to disruptions of various kinds.

What do you look at when assessing Air France-KLM's communication with individual shareholders?

Mostly the extent to which communication is user-friendly, up to date, adapted to the different individual shareholder profiles and the nature of the content distributed. One vital aspect is the closeness of the relationship, since it is really important to build trust and maintain a constructive dialogue between management or their representatives and individual shareholders.

Useful information

The Shareholders' Meeting

Every Air France-KLM shareholder, however many shares he or she holds, can participate and vote in the Annual Shareholders' Meeting. Each share is entitled to one vote.

How to participate?

The date and location of the meeting are communicated, on the website www.airfranceklm-finance.com, in the Club's 'Connecting' newsletter, as well as in the different economic and business daily press in France and in the Netherlands.

Holders of registered and administered registered shares in France receive a convening notice at least a fortnight before the meeting directly from Société Générale, Air France-KLM's agent. If the shareholder wishes to attend, he or she must return the application form for an admission card to Société Générale, which will return an admission card by mail. However, if the shareholder has not made this request, he or she can participate in the Meeting on presentation of an identity document.

Holders of bearer shares in France must contact their account manager to ensure their shares are blocked for the five days before the date of the Meeting. They can then request an admission card, or a form to vote or give proxy by mail be sent to them. Admission card requests will be dealt with by Société Générale no later than six days before the date of the meeting.

In the Netherlands, shareholders must contact their financial intermediary ABN AMRO, the Group's agent, to ensure their shares are blocked.

Air France-KLM Individual Shareholder Contacts

By mail: DB.AC – 45, rue de Paris – 95747 Roissy CDG cedex – France

Telephone numbers for shareholders:
In France: 0800 320 310 (toll free from a fixed line telephone)
From the French Overseas Departments and Territories and abroad: + 33 1 41 56 88 85
Questions may be referred to the Air France-KLM Investor Relations department, Monday to Friday between 10h30 and 12h30 and 14h30 and 17h30 (Paris time).

Outside these periods, an electronic message reports the opening and closing prices for the Air France-KLM share. An answer phone records your messages.

In the United States, ADS holders must register their shares as blocked with Citibank, the Group's agent, in order to be able to vote. Citibank then sends them a proxy voting form, a "Citibank Depositary Notice" and a convening notice. Shareholders wishing to vote by mail must return the 'proxy card' form, duly dated and signed, to Citibank, which will consolidate the total votes received within the time allowed and transfer them.

Voting by mail

Shareholders unable to attend the Shareholders' Meeting have a number of possibilities available to them:

- to give the Chairman the power to vote on their behalf by returning the voting form,
- to be represented by their spouse or another shareholder,
- to vote by mail.

Forms to vote by mail are available on the website www.airfranceklm-finance.com. They may also be obtained from Société Générale in France, ABN AMRO Effecten in the Netherlands and Citibank Shareholder Services in the United States.

In France, only forms reaching Société Générale at least three days ahead of the Meeting will be counted. For shares held in bearer form, the immobilization certificate should also be enclosed.

In the Netherlands, the voting form must be sent to ABN AMRO six days before the date of the Meeting.

Registered shares

Air France-KLM has mandated Société Générale to ensure the management of registered shares. In 2006, more than 16,000 shareholders registered their shares.

Advantages of registering your shares

Air France-KLM shareholders holding registered shares benefit from free custody, as the custodial fees are paid by the Group, and have their names entered in the company's share register. This allows shareholders to receive the convening notice directly by mail at least a fortnight before the date of the Shareholders' Meeting.

They can also view their assets, be kept informed of transactions made on their securities account and place market orders by telephone through the interactive services established by Société Générale via the Nomilia voice server on 0 825 820 000 (+33 2 51 85 67 89 from abroad) as well as the www.nominet.socgen.com website.

Transfer and initial purchase of registered shares

Every shareholder, no matter how many shares he or she holds, can transfer their Air France-KLM shares to registered form, by filling in a form available on request from Société Générale and returning it to his or her financial intermediary.

Shareholders can also make their initial purchase in registered form. In order to pass an order, simply write to Société Générale – Division de la clientèle Emetteurs. On receipt of this letter Société Générale will send out an application form to be returned to it.

Currently only available in the French market, this way of holding shares will soon be extended to those held in the Netherlands.

Holders of administered registered shares

Every shareholder can also transfer his or her shares to administered registered form. The treatment of these shares remains assimilated to that of “bearer” shares and the holder does not benefit from free custodial fees. Holders of administered registered shares receive the convening notice and the mail voting form, allowing them to apply for an admission card.

Société Générale contact details

Address: Société Générale - GSSI/GIS/NPO - 32 rue du Champ de Tir BP 81236 – 44312 Nantes cedex 03.
Nomilia voice server: 0825 820 000 (+33 2 51 85 67 89 from abroad)
Website: www.nominet.socgen.com

Air France-KLM in the stock market

Capital

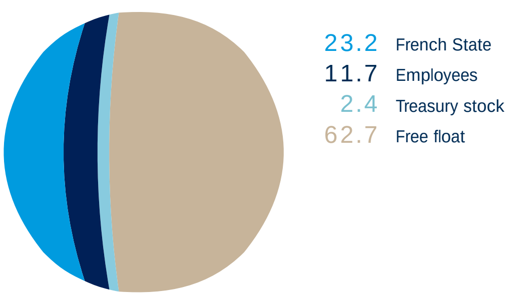
At March 31, 2006, Air France-KLM capital was represented by 269,383,518 fully paid up shares with a par value of 8.5 euros, held in registered or bearer form, according to shareholder preference.

Change in capital

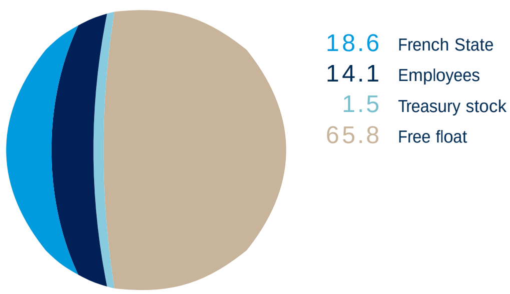
The change in the capital structure between March 31, 2005 and March 31, 2006 was linked to the sale by the French State of 21 million shares to Air France employees in March and April 2005. This disposal followed the reduction in the French State holding in December 2004.

% of capital

March 31, 2005

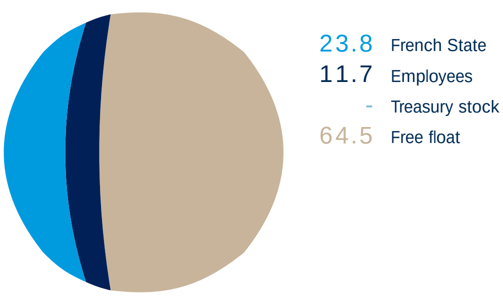


March 31, 2006

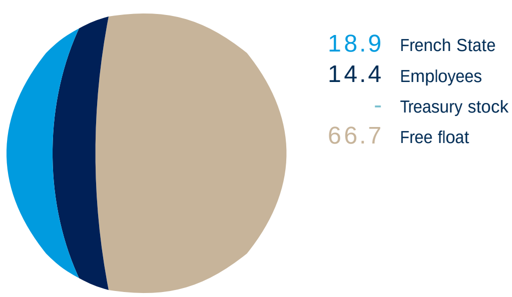


% of voting rights

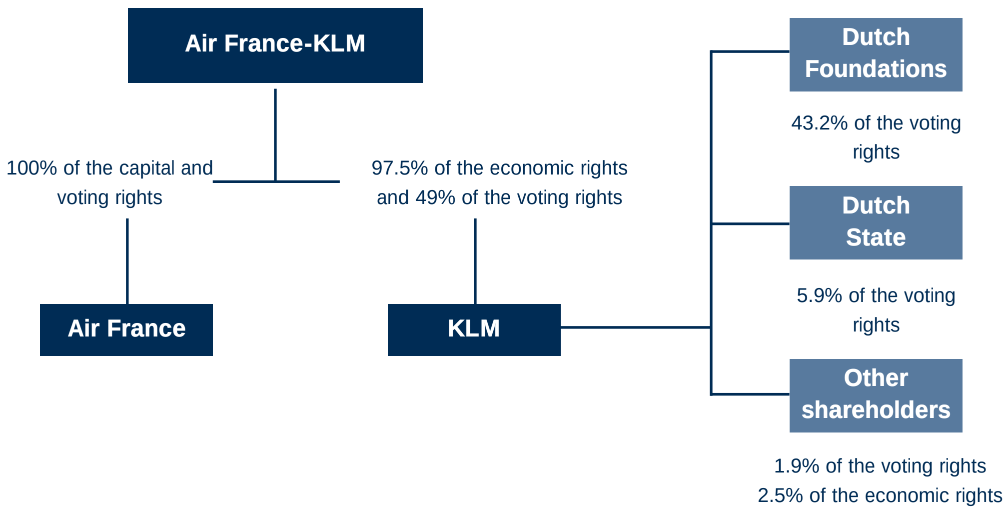
March 31, 2005



March 31, 2006



Capital structure



Ownership and declaration rules

Any individual or legal entity, acting alone or with another, who comes to hold, directly or indirectly, at least 0.5% of the capital or voting rights of Air France-KLM or a multiple of this percentage up to 5% is required to inform Air France-KLM by registered letter with return receipt sent within fifteen days of the threshold being crossed.

For the rules concerning higher thresholds, refer to the chapter "Information on the share capital".

Shareholdings in Air France-KLM

To comply with the obligations of air carriers to monitor and track their shareholders, Air France-KLM conducts a process to identify its shareholders. This operation has been carried out every quarter since the reduction in the French State's interest in December 2004.

The analysis of Identifiable Bearer Shares (TPIs) at March 31, 2006 was based on the following thresholds:
- intermediaries holding a minimum of 132,000 shares,
- shareholders holding a minimum of 100 shares.

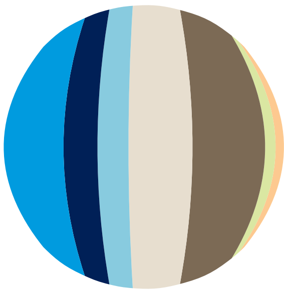
Including registered shareholders, the owners of 94.8% of the capital were identified. 85,830 shareholders were identified, of which 65,074 were individual shareholders.

Based on the TPI survey of March 31, 2006, Air France-KLM is more than 50% held by French shareholders and, as a result, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met, the majority of the company's voting rights being held by foundations subject to Dutch law.

Air France-KLM has no knowledge of the existence of a shareholders' pact.

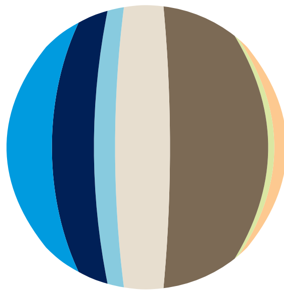
Breakdown of shareholders

At March 31, 2005



23.2	French State
11.7	Employees
10.3	Individual shareholders
21.6	French institutional shareholders
28.2	Non-resident shareholders
2.4	Treasury stock
2.6	Un-identified shareholders

At March 31, 2006



18.6	French State
14.1	Employees
7.5	Individual shareholders
17.1	French institutional shareholders
36.0	Non-resident shareholders
1.5	Treasury stock
5.2	Un-identified shareholders

Shareholder analysis

At March 31, 2006	Number of shares	As a percentage of capital
France	**154,257,606**	**57.2%**
Europe		
United Kingdom	24,114,629	9%
Italy	5,237,576	1.9%
Netherlands	3,890,230	1.4%
Germany	3,534,996	1.3%
Switzerland	3,171,554	1.2%
Belgium	2,878,323	1.1%
Norway	2,071,582	0.8%
Rest of Europe	2,108,755	0.7%
Total	**47,007,645**	**17.4%**
United States	**36,499,176**	**13.5%**
Un-identified	**31,619,091**	**11.9%**
Total	**269,383,518**	**100%**

The Air France-KLM stock

Air France has been listed for trading on the Premier Marché of the Paris stock market since February 22, 1999. Having become Air France-KLM on May 5, 2004, the stock is listed for trading on Euronext Amsterdam and, in ADS form, on the New York Stock Exchange.

Stock information

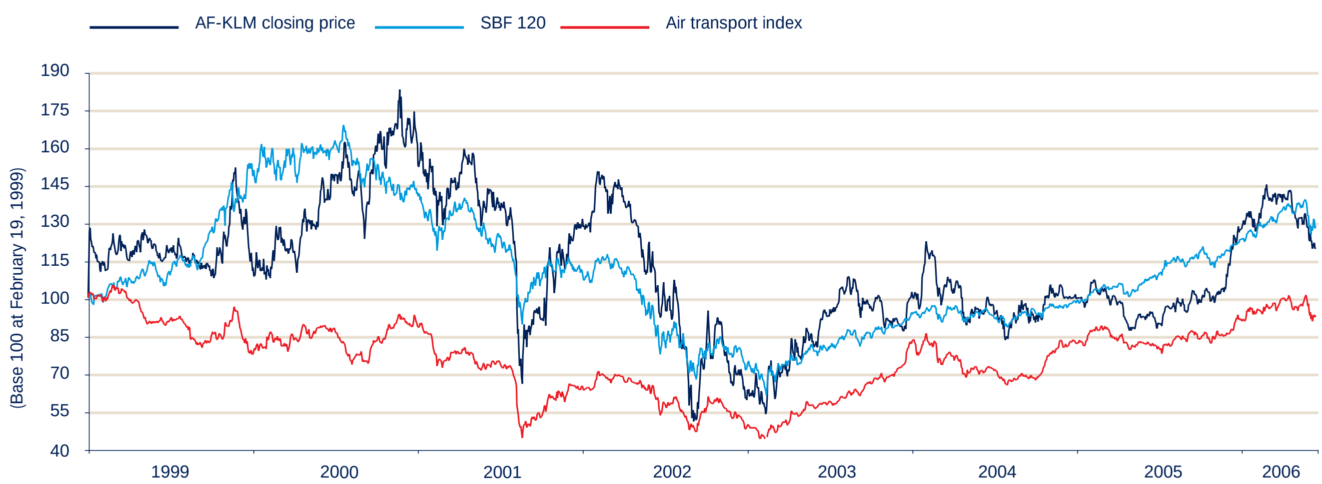
Euronext Paris
ISIN Share Code: FR0000031122
Reuters Code: AIRF.PA
Bloomberg Code: AF PA

Euronext Amsterdam
ISIN Code: FR0000031122
Reuters Code: AIRF.AS

New York Stock Exchange
AKH

Included in the following indices
Indices: Next CAC20, Euronext 100, DJ Eurostoxx
Sector Indices: FTSE Cyclical services, FTSE Transport, FTSE Airlines & Airports
Sustainable Development Indices: ASPI Eurozone, FTSE4Good, DJSI World 2005 and DJSI STOXX 2005.
Other: IAS (French Employee Shareholding Index).

Share price evolution



Other securities conferring entitlement to shares

OCÉANEs (bonds convertible and/or exchangeable into Air France-KLM shares)

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangable at any time into Air France-KLM new and/or existing shares on the basis of one share per bond. They are listed for trading on the Eurolist market of Euronext Paris under the ISIN Code: FR0010185975.

Warrants

In May 2004, 45,093,299 subscription warrants for new or existing shares (BASA) were created to remunerate KLM shareholders, with the following characteristics: three warrants giving their holder the right to acquire or subscribe for two Air France-KLM shares at a price of 20 euros per share between November 6, 2005 and November 6, 2007. At March 31, 2006, 2,682 warrants had been exercised resulting in the purchase of 1,788 Air France-KLM shares, with 45,090,617 warrants conferring entitlement to shares still outstanding.

The subscription warrants for new or existing shares (BASAs) are listed for trading on Euronext Paris and Euronext Amsterdam under the ISIN Code: FR0010068965.

The Air France-KLM American Depositary Warrants (ADW) are also listed for trading on the New York Stock Exchange under the AKHWS code.

Securities Services

In France: Société Générale – 32 rue du Champ de Tir – BP 81236 – 44312 Nantes cedex 3

In the Netherlands: ABN AMRO Effecten – Postbus 3200 – 4800 DE Breda

In the United States: Citibank Shareholder Services – 250 Royall Street – Canton, MA 02021

Dividend

Over the past three financial years, Air France-KLM distributed the following dividends.

Financial year	**Published earnings per share** (in euro)	**Dividend paid** (in euro cents)	**Tax credit** (in euro cents)
2003-04	0.43	5	2.5
2004-05	1.36	15	-
2005-06	3.47	30	-

Application of US GAAP and the Sarbanes Oxley Act

As it is listed for trading in the United States, Air France-KLM publishes an annual report in the US in the form of the 20-F, available from Air France-KLM and the Securities and Exchange Commission (www.sec.gov). The note on the reconciliation of the financial statements under IFRS and US GAAP included in the 20-F is also available on both the Autorité des Marchés Financiers (www.amf-france.org) and the Air France-KLM websites.

Subject to the Sarbanes Oxley Act, Air France-KLM decided to adopt the SEC (Securities and Exchange Commission) recommendation within the framework of article 302 and has established a Disclosure Committee within Air France-KLM.
The Committee is comprised of managers from the following functions:

- Financial communication,
- Internal control,
- Accounting,
- Management control,
- Internal audit,
- Legal affairs.

The Committee is supported, in addition, by those responsible for the principal activities of the two companies, who participate when necessary in plenary meetings.
The Committee reports to the Vice President in charge of Group finance.

The Committee assists Air France-KLM's Chairman and Chief Executive Officer and the Vice President, Finance, in their mission to ensure that the company meets its obligations in matters of information dissemination to investors, the public and the competent regulatory and market authorities, notably the AMF in France, the AFM in the Netherlands and the SEC and the NYSE in the United States.

Amongst other duties, the Committee must:

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

During the 2005-06 financial year, the Committee met three times. One meeting was dedicated to the review the US annual report, the 2004-05 20-F. Two meetings were dedicated to the preparation of the 2005-06 reference document with the sending of instruction memoranda to the managers of the fourteen sections identified in the reference document.

Financial calendar

2006-07 Q1 results: August 31, 2006

2006-07 H1 results: November 23, 2006

2006-07 Q3 results: February 14, 2007

2006-07 Annual results: May 24, 2007

Activity report

Interview with Jean-Cyril Spinetta and Leo van Wijk

How would you describe last year?

Jean-Cyril Spinetta
I would say last year was excellent since, other than the very strong results, it confirmed the undeniable success of the merger between Air France and KLM. Our Group has only existed for two years but is already confirming its ambitions. As European leader in the air transport sector, we have increased our market share while appreciably improving our economic fundamentals, this despite a rise in the fuel bill.

Leo van Wijk
The power of our network in terms of destinations and flights as well as the strength of our cooperation has allowed us to benefit from the buoyant global economy. Present in all the large markets, we have the best offer linking Europe to the rest of the world, resulting in record load factors in long haul and high load factors in medium haul.

Synergies have greatly contributed to these very good results. Could you tell us a little more?

Leo van Wijk
At the end of the financial year, synergies had again surpassed our expectations. We had budgeted for 280 million euros of synergies and achieved 350 million, of which 205 million in revenues and 145 million in costs. The cooperation between the two groups having strengthened over the years, synergies are being achieved more easily and we are finding new sources. For example IT, where we decided to invest in joint platforms. This investment, estimated at around 100 million euros in 2006-07, will be mostly financed from existing budgets. This integration of IT services will require the use of joint procedures, which will allow us to develop additional synergies. The forthcoming creation of a joint revenue management system will also be a significant source of synergies.

Jean-Cyril Spinetta
When we announced our combination in September 2003, we had been forecasting 480 million euros of synergies in 2008-09. Currently, we have a revised figure of 670 million euros, an uplift of close on 40%. This clearly shows the complementarity of the two airlines and the commitment each is making to the success of our merger.

After 2008-09, do you envisage a reorganization of the activities to release additional synergies?

Jean-Cyril Spinetta
Our strategy on integration is pragmatic. Each business requires a different approach. In cargo, our customers were expecting an integrated organization, with one sole contact point, so it was relatively easy to integrate Air France Cargo and KLM Cargo. We went ahead with this last October in creating the Joint Cargo Team, which manages the cargo activities of the two airlines and allows us to offer our customers one contact point and a single contract.

On the other hand, our passengers are brand loyal and, consequently, we want to retain two separate identities. In maintenance, we are adopting a different strategy with the creation of centers of excellence, specialized by type of equipment, and divided between Air France Industries and KLM Engineering & Maintenance. This organization fully reflects the expectations of our customers and allows us to achieve the greatest efficiency from our merger.

The increase in the oil price is challenging for air transport companies. How are you dealing with this?

Jean-Cyril Spinetta
Last year, the Group's fuel expenses amounted to 3.6 billion euros, some 870 million euros more than in the previous year which had itself already seen the fuel bill increase by 670 million euros! The effectiveness of our fuel hedging allows us to limit the impact but, for this year and next, we shall still see the same order of increase. However, given that this rise is largely driven by buoyant global economies, we have room to increase our capacity and our load factors, as well as unit revenues. Of course, in such an environment this is not enough. We must continue to control our costs as we have been doing in the three-year cost savings plans.

Leo van Wijk
The real challenge, currently, for our industry is to offset these higher oil prices. In a very dynamic market with strong demand, it is possible to pass on part of the increase to passengers. This was the case last year and it looks as though this will also be the case in 2006-07. However, we need to consider whether a further rise in oil prices might have an impact on certain price-sensitive market segments.

Does a high fuel price environment have an influence on your strategy for the fleet?

Leo van Wijk
It is true to say that the oil price combined with a favourable dollar has accelerated our thinking on fleet renewal. The investment is substantial but will rapidly pay off in terms of cost savings. Air France has decided to replace the Boeing 747-200/300 fleet with Boeing 777-300ERs on its Caribbean and Indian Ocean network and the Boeing 747-200F cargo fleet with Boeing 777Fs. KLM is going to replace the Boeing 767-300ERs with A330-200s. At the end of this program in 2010, we should see 200 million dollars of fuel cost savings.

Jean-Cyril Spinetta
There are also some environmental considerations in our sector. Noise and gas emissions are both major concerns. In terms of gas emissions, one thing is clear. Air transport accounts for only 2.5% of CO_2 emissions. And for emissions, as with noise, aircraft manufacturers and motorists have made significant efforts to reduce this pollution.
Airline companies are also committed to noise abatement in approach procedures. While we want to develop our business, we see it as our responsibility to invest in a modern fleet in order to benefit from advanced technologies. Air France-KLM has made a significant amount of investment in modernizing its fleet.
With the delivery of new aircraft, the Group will further reduce its noise emissions and achieve greater energy efficiency.

e-services are increasingly being deployed within the two airlines. How can they contribute to your objective of profitable growth?

Jean-Cyril Spinetta
e-services represent a real revolution in our business. In effect, we are seeing a veritable explosion in reservations and sales over the internet. Printing a boarding card from no matter which computer, while a very recent development, has been a great success. This trend is easy to understand: e-services mean less waiting and allow everyone to use their time more effectively.

On the other hand, we plan to take a measured approach to the future development of these technologies since it is ultimately the customers who will decide. Some will prefer the more traditional face-to-face system, some the self-service check-in kiosks, while others will access the system from their homes or offices. We must continue to offer all the possibilities and ensure that they are customer-friendly, reliable and easy to use.

This e-services revolution will lead to an in-depth review of station organization, the qualifications and role of personnel, the skill sets and professions, on a scale which, currently, remains difficult to determine. The commitment we have made is that employees and union bodies will be fully involved in preparing for these developments and that we will try to offer all those whose profession disappears the opportunity of another career within the company. However, these new services contribute to productivity improvements in that they cap the growth in the number of employees in a context of an increase in capacity.

The European Union and the United States should soon sign an open skies agreement. What would be the benefits for the Group?

Leo van Wijk
For Air France and KLM, it wouldn't initially mean any great change. In effect, we already have "open sky" agreements with the United States and, through the success of our partnerships with Delta, Northwest Airlines and Continental, we already have access to a large domestic network in the United States. However, this agreement between the European Union and the United States has a major indirect impact as it would represent a significant step towards defining the rules of engagement on a global scale and will have an impact on the opening of markets in other areas of the world.
It would also resolve the issue relating to the nationality clause, which figures in the open sky bilateral agreements, which the European Commission considers incompatible with European regulations.

In December 2005, the American authorities turned down the request for anti-trust immunity made jointly by Air France-KLM and its American partners. Furthermore, during the year, Delta and Northwest Airlines filed for Chapter 11 bankruptcy protection in the United States. How do you see the US market?

Leo van Wijk
We were not granted anti-trust immunity but the US authorities did, nonetheless, allow us to implement code sharing with Delta and Northwest Airlines. On a commercial level, this represents an opportunity for synergies.

The arguments of the US Transport Minister do not represent a point of no return. Certain US market developments, such as the emergence from Chapter 11 of Northwest Airlines and Delta, could create a more receptive environment in which to renew our request.

Furthermore, the situation of Northwest Airlines and Delta has not damaged our relationship nor our capacity to increase the SkyTeam alliance's market share. We hope that Delta and Northwest Airlines will emerge from Chapter 11 as even stronger partners.

Will the emergence of new competitor airlines, particularly Indian and Chinese, change the Group's strategy?

Jean-Cyril Spinetta
Many competitors are appearing in our sector. They represent two types: very large countries, such as India or China, which are creating large national air transport carriers and smaller countries which are very well located geographically with a great deal of knowhow and substantial financial resources, who are trying to build efficient transfer platforms in order to attract passengers and cargo. Singapore did this several years ago.

Faced with these new competitors, we ask only one thing of the authorities: that they ensure, prior to completing and extending the competition principles, that there is a level playing field everywhere. For example, the financing of airport infrastructure can be done at State level or supported by taxes on airline companies. In the first case, the airlines based at these airports have a considerable competitive advantage, which they can potentially pass on to their passengers whereas, in the other case, the airlines have no other choice than to require their passengers to bear part of the cost. It seems that these competition issues are starting to be well understood. It is now up to the regulators to take them on board and come up with an overall solution.

According to IATA, 15 of the 25 most expensive airports in the world are located in Europe. Between 2001 and 2004, airport charges increased by 44% in Paris and 34% in Amsterdam. Giovanni Bisignani, IATA's Chief Executive, has asked the European Commission to intervene to cap this inflation. What is your position on this?

Leo van Wijk
This has long been one of our priorities as airports are an integral part of an airline company's strategy. The European Commissioner responsible for transport responded to our discussion in initiating talks between the airline companies and the airports. We really must find a way of limiting airport charges. Airlines don't have a choice of airport: Air France is dependent upon Roissy-Charles de Gaulle just as KLM is dependent on Schiphol. These two airports must understand that, if they increase their prices too much, it will damage our competitiveness and, as a result, their profitability. Let's not forget that passengers can transit through other hubs, such as Dubai, for example.

Some airports have nonetheless reduced their charges for the use of low cost terminals.

Jean-Cyril Spinetta
I find it shocking that certain airports are deciding to unjustifiably differentiate charges between low cost operators and traditional carriers, basing their argument simply on the fact that there is a lower level of service for low cost carriers. The Strasbourg tribunal reiterated the principle of equality in public service: everyone must be treated in the same way and, if not, this must be reflected in a different level of services. Furthermore, differentiation, to be legal, must respect the principle of proportionality. If there is a lower level of service, a charges discount can be requested but this must be done in a report, which can be justified and vindicated by analysis. The traditional carriers pay charges which can be five or six times the amount paid by low cost operators, without an equivalent difference in service levels. It is not up to the traditional airlines to finance or subsidise the low cost carriers. Yet this is what we are being asked to do through this excessive differentiation in airport charges. Each player is responsible for its own profitability but airlines are often confronted with governmental decisions or monopolies. It is time for national and European regulators to realize that we are competing with air transport companies globally and the weakening of the European sector in terms of profitability would result in fewer jobs, both direct and indirect.

In conclusion, the same question as last year. Where do you see the Group in five years?

Jean-Cyril Spinetta
Last year I replied that we were market leader and that our objective was to remain so in five years. I added that leadership was not just a question of size but also a matter of profitability. We currently lead the field in terms of size. We are also aiming to be leader in terms of profits and are hoping to achieve this over the next few years. We are working hard to achieve this on a day to day basis, leveraging off the strengths and talents of Air France and KLM.

Market and competitive environment

For the past twenty years, the air transport sector has grown at twice the speed of world growth. Its dynamism has been supported by growth in OECD countries, for which air transport has been key to development. Within this context, the growth seen by airlines has been tied to growth in their country of origin.

Currently new zones such as China, emerging Asia or Eastern Europe are seeing very strong growth rates and a high level of demand for air transport. In this new economic environment, the globalization of trade is the new driver for air transport and is favoring the international development of airlines, making them less reliant on growth in their country of origin.

A favorable outlook

2005 saw world economic growth of around 3.4%, leading to a 7.6% rise in passenger numbers globally and a 7.5% increase in traffic measured in revenue passenger-kilometers (RPK). Airline passengers amounted to around 2.03 billion, traveling for both business and pleasure *(source: ICAO, December 15, 2005)*. The trend was confirmed in the first quarter of 2006, with a 5.9% increase in passenger traffic worldwide *(source: IATA)*.

For the next five years, world growth is expected to average more than 3%, despite the high level of the oil price, with more rapid growth rates for China, emerging Asia and, again, Eastern Europe. Given the elasticity of air transport to this growth, traffic is likely to increase by between 6% and 7% annually. Forecasts through to 2010 estimate the number of passengers at 2.6 billion globally.

A dynamic sector

Air transport has created around 29 million jobs, whether directly, indirectly or as spin-off employment *(source: ATAG March 2006)*. In Europe, each million passengers transported allows for the creation of around 3,000 jobs (4,000 on the foremost platforms such as Roissy-Charles de Gaulle). In France, the sector directly employs more than 115,000 people and each direct job in turn creates another indirectly, notably in aircraft manufacturing, and a further two in spin-off employment. Furthermore, air transport makes a significant contribution to foreign trade in services, with a positive balance of 0.8 billion euros in 2004 (1.6 billion euros in 2003) for air transport *(source: Comptes de transports, July 2005)*. There is significant potential for growth in Continental Europe, with a penetration rate of 25% compared with 39% in the United States and 33% in the United Kingdom *(source: BIPE, November 2004)*.

While air transport is a dynamic sector, the different crises it has faced – the attacks of September 11, 2001, the consequences of the war in Iraq in 2002, the SARS epidemic and the explosion in oil prices since the spring of 2004 – have all had a significant impact. For the fifth consecutive year the industry again posted losses, estimated at 6 billion dollars for 2005 (IATA) largely due to the increasing price of oil. The fuel bill reached 92 billion dollars in 2005, a 48% increase on 2004 and represented, according to IATA estimates in September 2005, around 25% of airline operating charges, effectively wiping out most of the benefits of cost control and traffic growth.

Contrasting situations

In North America, the air transport sector has been in crisis since 2001 but, as in the rest of the world, the recovery of the past two years has been strong. In 2005, the nine major US airlines posted a 5% increase in traffic and a 2.2 point load factor improvement. However, they have still not returned to profit and four of the leading companies have filed for Chapter 11 protection under US bankruptcy law. It is above all the scheduled airlines, principally domestic, which have had to face direct competition from low cost operators who have claimed a 22% share of the domestic market *(source: October 2005)*. Moreover, in order to weather a liquidity crunch post September 11, these domestic, scheduled operators closed out their fuel hedges and have not been able to renew them given their financial situation. As a result, they accumulated losses of 10.8 billion dollars in 2005 compared with 7 billion in 2004 *(source IATA: March 22, 2006)* despite several billion dollars of federal aid, cost restructuring plans and salary concessions.

The European sector, on the other hand, has benefited from buoyant economic conditions. AEA member airlines posted a traffic increase of 6.2% for capacity up by 4.3% in 2005. The load factor gained 1.4 points to 76% *(source: AEA)*. More than 320 million passengers (+4.2%) traveled to and from the 49 countries in the AEA scope.

Despite the crises with which they have been confronted, the performance of the four major European carriers – Air France-KLM, British Airways, Iberia, Lufthansa – has held up well. This has allowed them to implement effective fuel hedging strategies to limit the impact of the sharp increase in oil prices and offset a part of the increased cost with fuel surcharges thanks to the continued high level of activity. In total, AEA member airlines should generate net income of 1.8 billion euros compared with 1.1 billion in 2004 *(source: AEA, March 2006)*.

However, if the four leading Groups – Air France-KLM, British Airways, Iberia and Lufthansa – are posting increased profitability, medium-sized airlines have achieved more mixed results and a number of them remain loss-making in spite of restructuring.

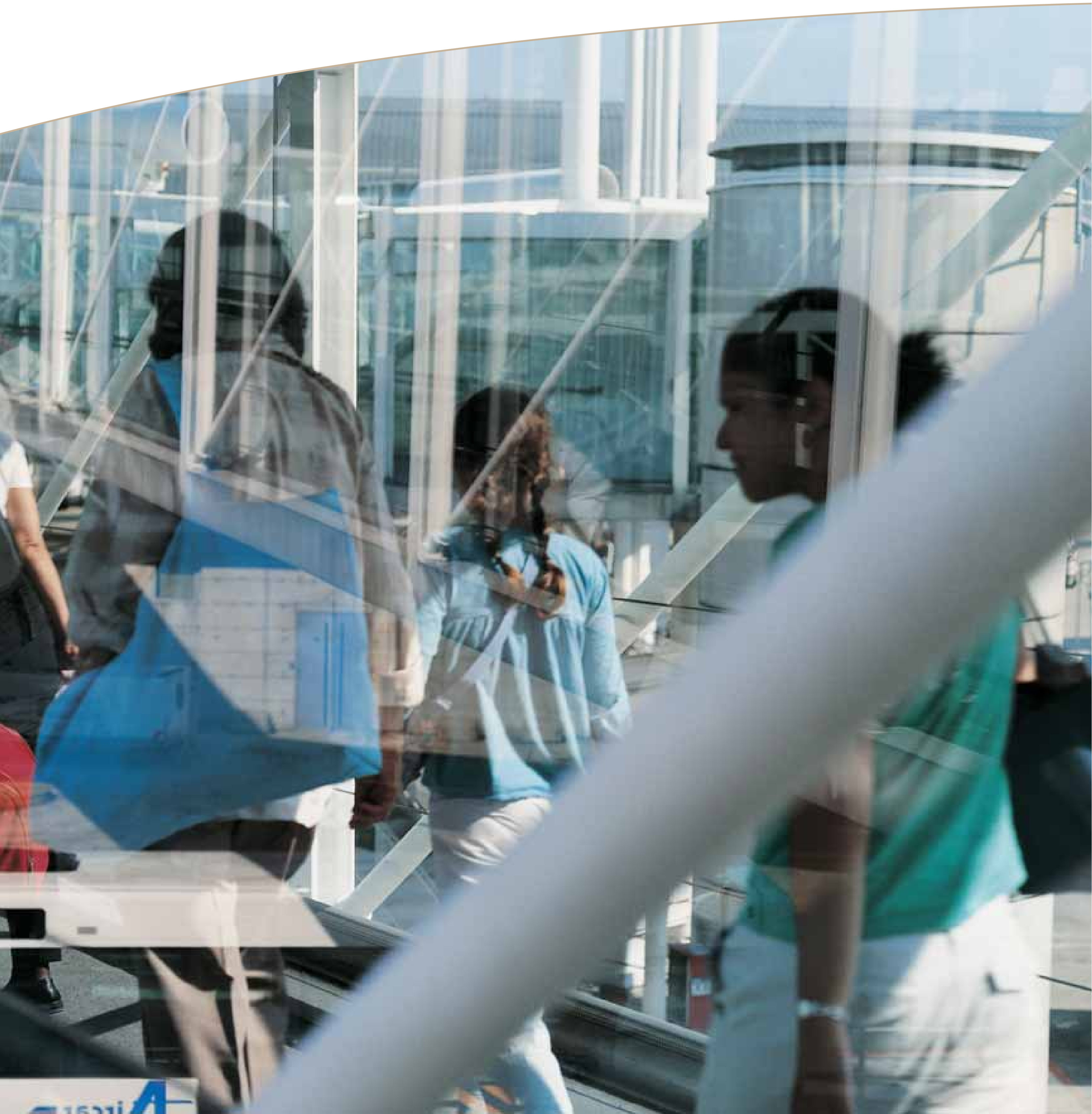
Finally, the Asian airlines, badly hit in 2003 by the SARS epidemic, returned to growth as of 2004 and 2005 confirmed this trend with a 5.1% increase in traffic and a 0.4 point rise in the load factor to 73.3% *(source: AAPA, January 2006)*. The Asian sector should generate income of 2.9 billion dollars in 2005 (3.4 billion in 2004).

One of the most competitive sectors

The air transport sector has become increasingly competitive in long haul. Over and above the competition between the major European carriers, these airlines are now faced with the emergence of increasingly tough competition in destination markets in most areas of the world. We are seeing, in particular, the remarkably rapid development of airlines in the Gulf, new Chinese and Indian players and capacity redeployment to transatlantic routes by the US airlines.

In medium-haul, the development of the low cost sector has continued and is characterized by a large number of players (41 airlines in 2005) of which two dominate the market, accounting for just short of 50% of capacity. The low cost market accounts for 29% of domestic flights and 71% of intra-European links. Low cost carriers are present in the five largest European domestic markets with a 29% market share overall but with very different levels of penetration. In the United Kingdom, they represent 13% of domestic travel, in Germany 7% and 1% in France *(source: IATA year 2005-06)*. Intra-European flights are mostly from the United Kingdom to Germany, Italy and France.

Finally, in French domestic traffic, air transport faces specific competition from the high-speed train (TGV), which dominates the market and limits low cost interest. In fact low cost market share has fallen in the past two years due to a reduction in capacity and the disappearance of certain players. In 2005, the TGV transported 82 million passengers, a market share of 80%. Air France, with 19.7 million passengers, has a market share of 19%. 1.2 million passengers flew with low cost carriers, a market share of 1%.



Passenger activity

Thanks to its network of 247 destinations in 104 countries *(2006 summer season)* operated from two powerful hubs, connected by around fifteen daily flights, the Air France-KLM group carried 70 million passengers compared with 65.8 million in 2004-05, growth of 6.4%. Revenues amounted to 16.9 billion euros, growth of 10.2%.

70 million
passengers

Air France-KLM confirms its leadership position

The Group confirmed its leadership position amongst Association of European Airline members, with traffic growth of 8.6% on capacity up by 6.2%, taking the load factor to a record 80.6% (+1.8 point), 5 points ahead of the AEA average. AEA comparable figures for 2005-06 showed passenger growth of 4.8%, traffic growth of 6% for a capacity increase of 4.4% and a 1.1 point improvement in the load factor to 76%.

Dynamic long-haul activity

Traffic on the long-haul network was very strong over the year, with an increase of 9.3% for capacity up by 7.4%. The load factor gained 1.4 point to 83.8%. The number of passengers carried totaled 21.1 million (+9.1%). The weight of this network within the Group was little changed on 2004-05, contributing 80% of traffic and 77% of Group capacity. Revenues generated by the long-haul network increased by 13.5% to 9.4 billion euros, representing 59% of total scheduled passenger revenues (57.1% at March 31, 2005).

The long-haul network covers 115 destinations (112 destinations in summer 2005) in 66 countries, of which 49 destinations operated by Air France alone and 33 by KLM alone. Only one third of destinations are operated by both carriers, to which, thanks to the coordination of the two hubs supported by fare combinability, the Group offers a high number of daily flights.

All sectors showed a high level of activity with the exception of the Caribbean and the Indian Ocean, which was impacted by the chikungunya epidemic.

Americas network

It covers 28 destinations in 10 countries, of which 18 destinations in North America and 10 in 8 South American countries. The Group's leading network both in terms of traffic and capacity, it represented 32.8% of total traffic (+1 point) and 30.6% of capacity compared with 29.3% in the previous year. Activity was strong with 11.6% growth in the number of passengers to 8.4 million and 17.2% growth in revenues to 3.5 billion euros, increasing this sector's share of total scheduled passenger revenues by 1.5 point to 22.3%.

Activity was strong on the two networks with, in total, a 12% increase in traffic for capacities up by 11%. The load factor was very high at 86.3% (+0.8 point).

Group operations cover 18 destinations in North America out of Paris and/or Amsterdam and, thanks to its American partners, a more extensive network across the USA. In January 2006, Air France was voted "2005 Best Trans-Atlantic Airline" by readers of the US monthly, *Global Traveler Magazine*.

To respond to customer demand for oil industry-related destinations, KLM launched, as part of its 2005-2006 winter schedule, an Amsterdam-Houston (Texas) service, in Boeing 737-700s, equipped with exclusively "KLM World Business Class" seats. This new service is in addition to the flights already operated by Air France and KLM between Paris or Amsterdam and Houston. It completes Air France-KLM's services for oil and gas industry-related traffic, launched in 2004 with Air France's Dedicate program principally serving Africa. Furthermore, Air France has added Detroit to its US destinations.

The North American network reported a record load factor of 87%, up by 1.3 point, with traffic up by 8.8%.

The Air France-KLM group offers 10 destinations in 8 South American countries out of Paris and/or Amsterdam.
The dynamism of this market is reflected in strong capacity growth (+20.4%) thanks, notably, to the launch of a direct flight from Paris to Santiago, Chile, the longest flight in the long-haul network lasting 16 hours. Traffic followed with a 19.9% progression, allowing the load factor to remain at a very high level of 84.7%.

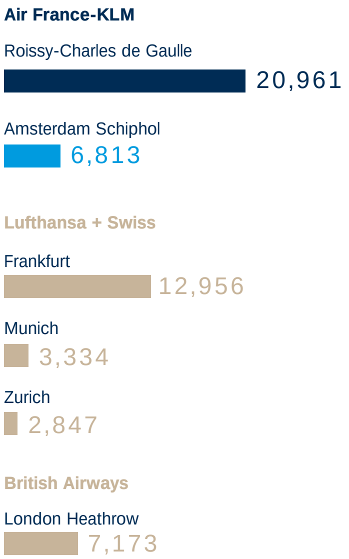
	Traffic in RPK		Capacity in ASK		Load factor	
	March 31, 2006 in millions	Change in %	March 31, 2006 in millions	Change in %	March 31, 2006 in %	Change in points
Long-haul	151,427	9.3	180,733	7.4	83.8	+1.4
Medium-haul	37,825	6.2	53,936	2.5	70.1	+2.4
Total	**189,253**	**8.6**	**234,669**	**6.2**	**80.6**	**+1.8**

A coordinated multi-hub network

The Group's network is coordinated around the two intercontinental hubs, Roissy-Charles de Gaulle and Amsterdam-Schiphol. These transfer platforms are two of the four largest in Europe and have significant potential to develop in line with traffic growth.

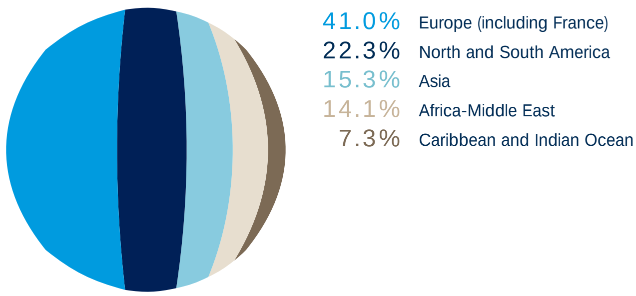
The Group's two hubs are linked by fifteen daily flights, known as the hubway, and combine point-to-point traffic with Air France and KLM's global networks, forming a vast platform allowing passengers the choice of transiting as easily through Paris or Amsterdam.

Number of potential transfers to long-haul/medium-haul flights in under two hours
(summer 2006)

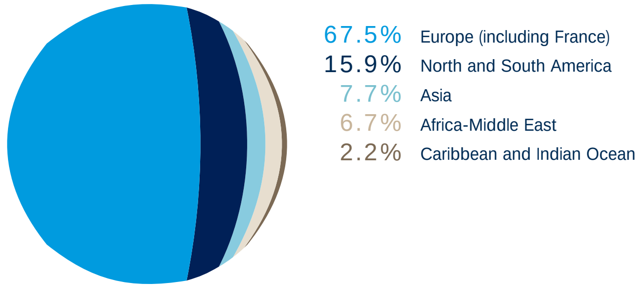


With the best schedule of weekly connections in under two hours, whether at Roissy-Charles de Gaulle or Schiphol, the Group is attracting a significant proportion of premium traffic, testifying to the quality of its two hubs, this type of customer being very demanding in terms of flexibility and service.

Scheduled passenger revenues by destination



Scheduled passenger revenues by sales area



Asian network

The Asian market comprises 22 destinations in 11 countries *(2006 summer schedule)*. During the 2005-06 financial year, the Group inaugurated new flights to India. From Paris, flights were introduced to Bangalore and Chennai in cooperation with Delta and from Amsterdam to Hyderabad. China and India are now the main markets in this region with 5 destinations each, followed by Japan with 3 destinations.

The Asian market is the second largest of the long-haul networks and represents around 22% of total traffic and 21% of capacity. It saw very strong activity with an 11.9% increase in traffic for capacities up by 7%, driving a significant 3.7 point improvement in the load factor to 85.2%. Some 4.6 million passengers traveled on these services, representing growth of 12.7%. Revenues reached 2.4 billion euros (+14.4%) and accounted for 15.3% of the scheduled passenger total (14.7% at March 31, 2005).

Africa-Middle East network

With flights to 47 destinations in 37 countries from Paris and/or Amsterdam, the Africa-Middle East network is the Group's third long-haul network, representing 13.5% of total traffic and 14% of capacity as in 2004-05. Activity was buoyant on this network too with a 9.4% increase in traffic for capacities increased by 10%. The load factor remained broadly unchanged at 77.6% (-0.4 point). The number of passengers reached 4.9 million (+9.2%) and revenues amounted to 2.2 billion euros (+13.6%), representing 14.1% of the scheduled passenger total compared with 13.7% one year earlier.

The African network comprises 32 destinations in 25 countries. Political tensions in a number of African countries during the year meant that traffic growth (+7.4%) did not keep pace with that of capacity (+9.5%). The load factor thus fell by 1.6 point to 78.3%. In addition to the traditional product, Air France launched, in 2004, the Dedicate network, to facilitate business travel to oil industry-related sites and areas of activity in far-flung regions particularly in Africa. The 4 destinations offered have been a great success.

The Middle-East network covers 12 countries with over 15 destinations. Activity was particularly strong with traffic up by 14.9% for a capacity increase of 11.2%, taking the load factor to 75.8%, a 2.5 point increase.

Caribbean-Indian Ocean network

The Caribbean and Indian Ocean network offers 16 destinations in 8 countries. It represents 12.1% of total traffic and 11.9% of capacity. The weight of this network has fallen by around one point, the health crisis rife in this region having led to a 2.8% reduction in capacity and a 1.5% fall in traffic. The number of passengers amounted to 3.1 million (-1.5%) and revenues reached 1.16 billion euros, growth of 1.5%. Its share of total scheduled passenger revenues moved from 7.8% at March 31, 2005 to 7.3% at March 31, 2006.

Medium-haul returns to profit

The medium-haul network includes Europe (including France) and North Africa. It covers 126 destinations (122 in the 2005 summer schedule) in 34 countries, of which 46 destinations operated by Air France and its regional subsidiaries Régional, Brit Air and City Jet and 23 operated by KLM and its regional subsidiary Cityhopper. Flights to 52 destinations are operated by both airlines.

This network represented 20% of traffic and 23% of total capacity, slightly less than in the previous year, the Group targeting long-haul growth. 48.9 million passengers (+5.2%) traveled on the Group's medium-haul network, generating revenues of 6.5 billion euros, growth of 5.9%. Medium-haul accounted for 41.0% of total scheduled passenger revenues (42.7% at March 31, 2005). The growth in revenues reflects the buoyant activity in this sector. Traffic in effect rose by 6.2% for capacities up by 2.5%. The load factor gained 2.4 points to 70.1%. Activity was very strong at the two companies with, for Air France, the benefits of the network reorganization plan launched in 2004 allowing a return to profitability within two years rather than the three initially expected.

An innovative product offer

Flying Blue: 1.2 million new members since the launch

In June 2005, the Air France-KLM group merged Air France's *Fréquence Plus* and KLM's *Flying Dutchman* programs to create a new leading frequent flyer program with 10 million members.
The launch of this program was a great success and this operation was voted "Best International Mailing 2005" in the French Direct Marketing and Retail awards. The *Flying Blue* program allows Air France and KLM passengers to benefit from the combined network and to earn miles, which may be used on flights operated by all SkyTeam member airlines as well as with 130 air or commercial partners. The program very rapidly took off with 1.2 million new members just a year after its launch, of which 50% signed up using the Air France and KLM internet sites.

A seventh wave of flights for the Schiphol hub

At the Roissy-Charles de Gaulle and Schiphol hubs, flights are organized around successive waves of arrivals and departures, timed to maximize the options for the fastest-possible transfer times.
At Schiphol, the introduction of a seventh wave of flights at mid-day since March 26, 2006 allowed for the optimization of the company's baggage handling and provided an opportunity for growth. KLM was thus able to increase its flights to its fifteen principal European destinations. The scheduling at Schiphol's new hub structure is now very similar to that of Roissy-Charles de Gaulle, which has six waves of flights per day.

The e-services revolution

2005 saw strong growth in the use of 'e-services' offering our customers total control, simplicity and transparency on the whole travel process, from booking a flight on the Air France or KLM websites, to selecting seats and printing a boarding pass at home or from a self-service kiosk.

KLM was one of the first airlines to offer its customers self-service check-in at Schiphol airport. Today, 63% of KLM passengers departing from Schiphol check themselves in, either over the internet or using one of the self-service kiosks at Schiphol airport to print their boarding pass. KLM was the first airline in Europe to introduce this functionality.

In 2005-06, more than 320 Air France or KLM self-service kiosks were in use in 50 European airports. This number should increase to 500 in close to 70 airports in 2006-07 with new functionalities and a greater number of eligible customers. In June 2006, a departure hall dedicated to self-service check-in kiosks and baggage drop off points was inaugurated at Schiphol.

Electronic ticketing, which has been gradually introduced since 1998, is now used by nearly 70% of Air France passengers on the domestic network and by 77% of passengers traveling with KLM throughout the world. Electronic tickets are gradually replacing the paper version, which will totally disappear at the end of 2007.

To support the development of e-services, the Air France and KLM websites have been completely redesigned. The two sites now give faster, direct access to e-services offered by the two airlines. As of April 2006, a joint application was launched, allowing Air France and KLM customers to check in over the internet for flights to nearly all the destinations offered by the two airlines.

This rapid development of e-services is changing the way the Group conducts its business, whether in terms of sales or customer interface at airports: reservation, ticket purchase, check-in, *Flying Blue* frequent flyer miles management and direct marketing can all be done "virtually" over the internet. The processing capacities offered by these technologies also translate into productivity improvements as well as a reduction in the Group's distribution costs.

On-going development of e-services will soon see new corporate applications with, notably, the introduction of an SME (Small and Medium Enterprise) offer via a dedicated internet portal.

Higher profitability in the passenger operations

The Air France-KLM group reported passenger revenues of 16.9 billion euros to March 31, 2006, growth of 10.2% on the previous year. Operating income amounted to 686 million euros, a progression of 78.6%.

The strong growth in activity for the Air France-KLM group was accompanied by an increase in unit revenue, excluding currency, measured per available seat-kilometer offered on all the networks, supported by a very marked recovery in business traffic. Furthermore, the Group was able to introduce new fuel surcharges to partially offset the rise in the fuel price. At March 31, 2006, these amounted to 16 euros on medium-haul and 48 euros on long-haul flights at Air France and 22 euros and 52 euros, respectively, at KLM.

The Group also proceeded to reorganize its remuneration system for travel agencies. In January 2005, KLM, followed by Air France in April 2005, ended commission payments to travel agencies in their domestic markets.

Finally, the complementarity of the two companies allowed for new synergies to be released over the course of this financial year, which contributed to the good results achieved by the passenger business. Total synergies amounted to 174 million euros with some 114 million euros coming from marketing and revenue management, of which 56 million euros from the implementation of the joint frequent flyer program, 33 million euros from continued network rationalization and the balance from various other initiatives. Since the merger, total synergies realized in the passenger business have amounted to 246 million euros.

Managed operations

Air France and KLM jointly serve 85 airports. In many of them, the ground support services of the two companies have been pooled and are no longer operated by just one of the two companies. Since April 2005, KLM flights at Roissy-Charles de Gaulle are handled by Air France in line with the principle of mutual operational support. KLM manages, in turn, Air France flights at Schiphol. According to this principle, each company takes responsibility for operations, and regular reporting on flight operations of the partner company. This allows each airline to benefit from the power and efficiency of the Group's two hubs. Purchasing contracts have also been concluded with common suppliers.

Key figures for the passenger business

Financial year to	March 31, 2006	March 31, 2005	Variation
Total passenger revenues (in euro million)	16,942	15,379	+10.2%
Scheduled passenger revenues (in euro million)	15,902	14,425	+10.2%
Unit revenue per ASK (in euro cent)	6.78	6.53	+3.7%
Unit revenue per RPK (in euro cent)	8.40	8.28	+1.5%
Unit cost per ASK (in euro cent)	6.40	6.27	+2.0%
Operating income (in euro million)	686	384	+78.6%

On a constant currency basis, unit revenues per RPK and per ASK increased by 1.2% and 3.5% respectively. The transition to zero commission limited their increase by some 1.5 point. Unit costs per available seat kilometer fell by 2.4% on a constant currency and fuel price basis.


20L
RL
QL
ML

Cargo activity

The result of the reorganization of the cargo activity, the Joint Cargo Team, was implemented in October 2005. With one joint sales and marketing division, Air France-KLM cargo aims to become the global cargo market leader, leveraging off four product families. In 2005-06, the cargo activity delivered strong growth in Asia (+4.6%) and in Africa-Middle East (+7%).

Air France-KLM Cargo, a new organization

After synchronizing their activities since the end of 2004, which involved capacity swaps and the redistribution of products, Air France Cargo and KLM Cargo combined their sales, distribution, marketing and networks, strategy and development in one sole division, the Joint Cargo Team.

A development awaited by the market and customers, this sole management entity was in response to the fundamental principle of "one face to the customer" and allows the Group to offer all its customers one contact point, one contract and a single network with the choice of two operational systems, via Roissy-CDG or Schiphol or a combination of the two hubs.

1.4

million tons transported

With the Joint Cargo Team, the Group’s ambition for the cargo activity is clear: to be the global cargo market leader. The Group is thus participating in the consolidation process in the sector, characterized by increasingly concentrated and powerful logistician freight forwarders and the strong expansion of Asian carriers. Air France-KLM aims to reinforce its business in international markets and offer a powerful and efficient commercial service to its ten major customers, who alone represent 42% of its revenues. The joint management of the cargo activities should allow the optimization of loads and increase the unit revenue of the two airlines.

A team of 162 managers, having joint responsibility for Air France Cargo–KLM Cargo, has been established to manage and coordinate the Air France-KLM Cargo organization worldwide. At March 31, 2006, nearly 50 of the 160 sales offices had been integrated into the joint Air France-KLM division, bolstering customer perception of the combined identity. This process will continue in 2006-07.

An offer organized around four product families

Dimension offers standard airport-to-airport transport that does not require special handling. This generic product primarily concerns groupings and all shipments in general.

Cohesion is a customized product for regular import and export shipments and just-in-time shipments integrated within a logistics chain. This product is formalized by a reciprocal contractual commitment between a loader, transit agent and the carriers.

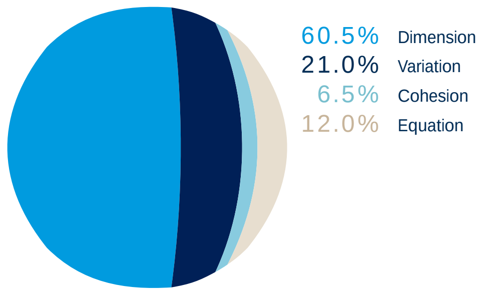
Variation offers a solution for the transport of one-off merchandise, from live animals to over-sized packages, from hazardous to high-added-value products.

Equation offers express shipment and guarantees priority handling, within shorter time frames, for shipments that are loaded without prior reservation on the first available departing flight.

These products are also offered by the SkyTeam Cargo alliance, which has benefited from the expertise of KLM Cargo in pharmaceutical product transportation, with the introduction of the innovative new Variation Pharma range. This new product, common to all the eight member airlines of SkyTeam Cargo since May 2005, implies strict respect of the cold chain, pharmaceutical products requiring stable temperatures of anything from -20°C to +20°C, and the use of isothermal containers throughout their shipment.

This new product on the SkyTeam Cargo network meets the needs of pharmaceutical company customers who are looking for reliable, effective and rapid execution of their special delivery requirements worldwide.

Breakdown of revenues by product



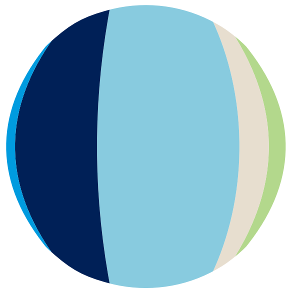
	Traffic in RTK		Capacity in ATK		Load factor	
	March 31, 2006 in millions	Change in %	March 31, 2006 in millions	Change in %	March 31, 2006 in %	Change in points
Medium-haul	85	-14.1%	544	-4.7%	15.6%	-1.7
Long-haul	10,745	3.7%	15,850	6.9%	67.8%	-2.1

SKYTEAM CARGO

Founded in 2000, SkyTeam Cargo is currently the world's foremost air cargo alliance. With the integration of Northwest Airlines Cargo in September 2005, SkyTeam Cargo now has eight member carriers (Aeromexico Cargo, Air France Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, KLM Cargo, Korean Air Cargo and Northwest Airlines Cargo) and covers the main strategic commercial routes with 545 destinations in 127 countries.

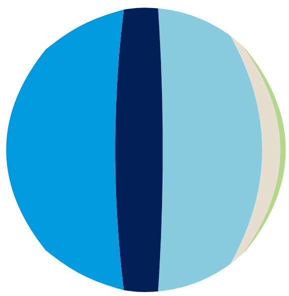
SkyTeam Cargo members share a global network and a common offer covering the Variation, Equation, Cohesion, and Dimension products, for which the service specifications are identical. Furthermore, SkyTeam Cargo also offers handling procedures through combined points of sale, where some or all of the alliance members are under one roof. This ensures seamless logistical coordination across the whole network, from freight reception to final delivery.

Scheduled cargo revenues by destination



2.8% Europe (including France)
31.2% North and South America
47.0% Asia
12.0% Africa and Middle East
7.0% Caribbean and Indian Ocean

Scheduled cargo revenues by sales area



43.7% Europe (including France)
12.6% North and South America
36.0% Asia
6.4% Africa and Middle East
1.3% Caribbean and Indian Ocean

Some differences in the environment

The Group's cargo activity was affected by the weakness in European exports, particularly in the first half which resulted in a fall in the load factor to 66.1% (-1.9 point). Traffic growth was just 3.5% for a 6.5% increase in capacity, linked to the increased hold capacity of the new passenger aircraft, half of cargo being shipped in dedicated cargo planes and half in the holds of passenger aircraft. The Group nonetheless transported 1.42 million tons, growth of 3.1% on the previous year.

As cargo transport in Europe is primarily operated by truck, the activity of the European network of the Air France-KLM group is limited. Tonnage transported fell by 11.5% to 70,000 tons, following the 14.1% drop in traffic. The load factor lost 1.7 point to 15.6%.

The long-haul network currently represents nearly all the activity, whether in terms of traffic or revenues.

The North and South American network accounted for 34% of traffic and of capacity and tonnage, as in 2004-05. It recorded an increase of 2.8% for capacity up by 8.8%. As a result the load factor lost 3.9 points to 65.9%. The Group transported 492,000 tons on this network (+2.6%). Revenues increased by 15.9% to 833 million euros, representing 31.2% of freight transport revenues (30.2% at March 31, 2005).

The Asian network was very dynamic with a 4.6% increase in tonnages to 607,000 tons. Capacity having increased by 6.2%, the load factor was down by 1.1 point but remained at a high level of 73%. With revenues of 1.26 billion euros (+15.3%), the Group's leading network strengthened its position, representing 47.1% of freight transport revenues (+1.2 point), 51% of traffic and 46% of capacity.

The African and Middle East network saw a sharp rise in tonnages transported, which moved from 172,000 to 184,000 tons (+7%). This network represented around 10% of the Group's cargo activity. Traffic increased by 4.4% for an 8.6% increase in capacity. The load factor lost 2.4 points to 59.5%. Revenues, on the other hand, increased by 4.6% to 320 million euros and represented 12.0% of freight transport revenues, the same level as in the previous year.

The Caribbean and Indian Ocean network saw broadly flat capacity (-0.3%) and traffic up by 0.7%. The load factor reached 53.7% (+0.5 point). Tonnage transported reached 75,000 tons (+1.2%) generating stable revenues of 186 million euros. This network accounted for around 7% of cargo activity.

Improved profitability in the cargo activity

The Air France-KLM group generated cargo revenues of 2.88 billion euros, growth of 11.8% on the year to March 31, 2005. Operating income increased by 18.6% from 140 million euros to 166 million euros. The increase in the oil price, which has the greatest impact on the cargo activity, was able to be limited by fuel surcharges. Furthermore, the activity's new organization released 26 million euros of additional synergies to add to the 6 million euros achieved in the previous year.

Key figures for the cargo activity

Financial year to	March 31, 2006	March 31, 2005	Change
Total cargo revenues (in euro million)	2,882	2,576	+11.9%
Freight transport revenues (in euro million)	2,673	2,379	+12.4%
Unit revenue per ATK (in euro cent)	16.30	15.45	+5.5%
Unit revenue per RTK (in euro cent)	24.68	22.75	+8.5%
Unit cost per ATK (in euro cent)	15.07	14.33	+5.2%
Operating income (in euro million)	166	140	+18.6%

On a constant currency basis, the yield (RRTK) was up by 6.8% and unit revenues per available ton-kilometer (RATK) by 3.8%. Unit costs were down by 1.5% on a constant currency and fuel price basis.

Renewal of the cargo fleet

The Group's fleet currently comprises 15 exclusively cargo aircraft, with 7 Boeing 747-200Fs, 8 Boeing 747-400ERFs and 17 Boeing 747-400 combis. The Boeing 747-200Fs will be gradually replaced by Boeing 747-400SFs and Boeing 777-200LRFs, of which Air France Cargo will be the first operator.

This fleet enables non-stop flights to all markets and makes way for significant fuel savings (40% for the 777s compared with the 747-200Fs), a better noise performance and improved productivity in aircraft rotation.

Maintenance activity

The combination between Air France and KLM has allowed the Group to broaden the range of services it offers by leveraging the complementarities in the type of aircraft dealt with and the handling capacities of Air France maintenance activities, known under the Air France Industries (AFI) brand, and those of KLM's Engineering and Maintenance division.

A world leader in multi-product aeronautics maintenance

In a market where outsourced maintenance has been growing since 1992, the Group signed numerous aircraft maintenance contracts in 2005-06 and maintained the fleets of more than 150 airline customers, representing over 900 aircraft. The maintenance of the Air France and KLM fleets represented two-thirds of the Group's maintenance activity.

Over the year, the Group's maintenance activity posted third-party revenues of 896 million euros, up by 12.1%. Operating income more than doubled, progressing from 25 million euros at March 31, 2005 to 54 million at March 31, 2006.

The growth in the engine servicing activities was driven principally by the CF6 and the CFM 56-7, as well as the GE90 engine, for which Air France Industries is one of the first companies to offer maintenance services.

The activity of equipping the new generation Boeing B777 and B737NG, and Airbus A320, A330 and A340 fleets has grown rapidly through the development of integrated support service contracts. Given the outlook for fleet renewal and development, introducing a growing proportion of new generation aircraft, this is a promising market.

150

airline customers

New joint organization for the two entities

As service integrators, Air France Industries and KLM E&M have benefited from their complementarity whether in terms of aircraft types or of production capacity in developing their services.

The organization of the Group's maintenance activity has been streamlined by dividing technical support and product management between Air France Industries and KLM E&M. Each aircraft type has been allocated its own unit for fundamental maintenance (Central Engineering Agency) and product responsibility (Product Leadership Agency) for both engines and flight equipment. This new organization into "CEA" and "PLA", established in 2005 on certain aircraft and engine types, has allowed for a reduction in the use of outsourcers and for specialization in the Group's investments. Its deployment will continue next year.

A joint purchasing policy based on a common strategy for products and suppliers was implemented in 2005-06 and has enabled more than half of the 25 million euros of savings arising from the synergies between the two companies. Furthermore, the creation of a joint sales team made way for 20 million euros of revenues from cross-selling.

Acquisition of EPCOR in the Netherlands

KLM E&M finalized, in June 2005, the acquisition of EPCOR, a company specialized in tire component repair, in which it had held a 49% stake since 1999. Based at Schiphol, EPCOR will offer its services to both KLM E&M and Air France Industries.

A partnership policy

Air France Industries and KLM E&M are committed to strategic partnerships with both engine and flight equipment manufacturers in order to bolster their commercial positioning in the maintenance of new generation aircraft and achieve economies of scale.

Different contracts have been signed with Boeing for equipment on the B777 and the B737NG, representing the Group's key products. The customer portfolio for Boeing B777 equipment now amounts to more than 100 customers.

Air France Industries also created Spairliners in June 2005, a joint venture with Lufthansa Technik, for equipment support on the future A380. Repair capacity is split between the two shareholders and the stock of spare parts pooled between the two businesses. The business is headquartered in Hamburg, Germany, with its operational and logistics base at Roissy-Charles de Gaulle.

For the engines activity, Air France Industries has signed an industrial cooperation agreement with Engine Alliance for the GP7200 engines on the Airbus A380, with General Electric for the GE90 engines equipping the B777 and the CFM56-7 on the B737NG.

In 2005-06 a unit for the A320 was inaugurated at Schiphol. A maintenance workshop for the GE90 will be brought on line at Orly at the end of 2006.

Air France Industries prepares for the arrival of the Airbus A380

A hangar destined to house the maintenance activities for the Airbus A380 is being built at Roissy-Charles de Gaulle. The industrial equipment will be installed as of the end of 2007 in order to handle the first aircraft ordered by Air France. In addition, since 1998, Air France Industries and Airbus have been working together on the development of a pro-active maintenance concept, aimed at reducing costs and increasing the availability of this technologically-innovative aircraft.

Building positioning in strategic markets

Air France-KLM is also developing its activity in two strategic markets through joint ventures in the United States and China:

- Aero Maintenance Group (AMG), in which Air France acquired a 40% stake in June 2005, based in Miami, Florida, is specialized in equipment support and gives the Group a presence in the American market. It provides a logistical platform and an equipment repair unit, a key element for the B767 equipment support contract, signed with Lan Chile in 2006. AMG also has sites in Long Beach, California and in Copenhagen, Denmark.
- Hangxin Aviation Engineering Group is one of the largest independent Chinese aeronautics maintenance companies and allows the Group to benefit from the high growth rate in China and the Asia-Pacific region. Air France Industries and KLM E&M thus gain access to significant markets for the Airbus 320 and the Boeing B737. Since the Group took control in May 2002, Hangxin Aviation Engineering Group has seen annual growth of 20%. In 2005, the business continued to develop the capacity of a new technical workshop in Shanghai for the repair of cabin security equipment and tire and hydraulics technologies. In Guanghzou, new maintenance and avionics repair capacity has been implemented. Hangxin Aviation Engineering Group is also becoming a major supplier of spare parts in the Asia-Pacific region.

Furthermore, KLM E&M has a subsidiary, KLM UK Engineering, based in Norwich in the United Kingdom, specialized in the maintenance of regional fleets of the Fokker 50-70-100, BAE 146 and RJ85 families.

Important contract in Chile for Air France Industries and KLM E&M

Air France Industries and KLM E&M won a contract worth more than 120 million dollars for equipment support on the Boeing 767s operated by Lan Chile, the Chilean national carrier. This success illustrates the complementarity of the Group's maintenance teams: Air France Industries conducted the negotiations and will contribute its flow management expertise between different platforms whilst KLM E&M offers knowhow in Boeing 767 operations.
Air France Industries will benefit from logistics support from its American subsidiary AMG. This ten-year contract includes the maintenance of a fleet of 28 aircraft in 2006 and could open the way to new opportunities.
The Lan Chile fleet should soon integrate around forty aircraft of the Airbus A320 family, aircraft for which the Group has developed a real expertise.

Other activities

Other activities primarily include the Group's airline catering activity and KLM's low-cost and charter business. Third-party revenues for these businesses rose from 713 million euros at March 31, 2005 (which included 15 months of Servair turnover) to 728 million euros at March 31, 2006, of which catering accounted for 260 million euros (304 million euros at March 31, 2005), and KLM's charter business 468 million euros (409 million euros a year earlier). Operating income of other activities amounted to 30 million euros compared with 4 million in the previous year.

Catering

The Group's airline purser or catering business is organized around Servair, an Air France subsidiary, and KLM subsidiary KLM Catering Services.

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

The two businesses are mostly focused on the European market and are thus less affected by the crisis in this sector since 2001, particularly in the North American market.

With operations in 27 countries, Servair ranks number three in the global airline pursers industry and, in 2005, prepared 38 million meal trays.

The company has a 27% stake in Alpha Airports Limited and has built a network of partners, which was strengthened, in 2005, by the acquisition of Mauritanie Catering. In 2005-06 the business posted operating income of 6 million euros.

In order to keep pace with the rapid changes in the airline pursers market Servair launched, in 2005, a company action plan called 'Winning through change' in order to increase flexibility, adapt the cost structure and improve productivity in the business. The plan targets savings of 27 million euros over three years. In spring 2006, Servair also opened a new handling base at Roissy-Charles de Gaulle airport, improving the quality of cabin cleaning while allowing a significant uplift in productivity.

KLM Catering Services has one operation based at Schiphol, which prepared more than 16.5 million meals in 2005. The business posted an operating income of 7 million euros.

In order to ensure meal variety and clearly differentiate the two companies from their competitors, Air France and KLM chose to work with famous chefs in France and in the Netherlands. For Espace Première, Air France benefits from the advice of Guy Martin, chef at the Michelin-starred 'Le Grand Véfour' in Paris. The wines served on board are, moreover, selected by Olivier Poussier, winner of the best world sommelier award in 2000. For its World Business Class, KLM chose Cees Helder, whose Rotterdam restaurant, Parkheuvel, holds three Michelin stars.

The Group has also implemented a rigorous quality control system, which is regularly audited by external bodies, ensuring compliance with standards across the whole production chain as well as at suppliers. All these efforts were recognized in 2005 by readers of the German magazine Business Traveller who gave an award to Air France for its inflight catering on flights to North and South America.

transavia.com

transavia.com is a KLM subsidiary specialized in charter flights for tour operators and 'low-cost' air transport. The company operates a modern fleet of 27 Boeing 737-700s and 737-800s from Amsterdam Schiphol and Rotterdam airports to more than 70 European destinations. In 2005-06 the business posted an operating income of 32 million euros.

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

Within its 'low-cost' transport operation, transavia.com offers more than 20 destinations in Europe. In 2005, 93% of direct bookings were over the internet, making transavia.com one of the leaders in the Dutch online market. The company also allows its passengers in the Netherlands to check in 24 hours ahead of departure and has developed, since the summer of 2005, the sale of travel goods and taxi reservations on its website.

In the 2005-06 financial year, transavia.com increased its share of the business to business market and extended its e-services offer to tour operators, giving them access, via a dedicated internet portal, to reservation and capacity management services.

SkyTeam

In creating the SkyTeam alliance in 2000, the European, US and Asian partners gained the means to respond to an increasingly globalized market, in both the passenger and cargo businesses. Six years after its creation, SkyTeam is the second largest global alliance, with a market share of 19%. The ten member airlines are developing their services, notably by offering a constantly improving network leveraged by bilateral code share agreements, sharing their lounges, combining their activities in airports and harmonizing the benefits linked to their frequent flyer programs.

SkyTeam elected the year's 'Best Airline Alliance'

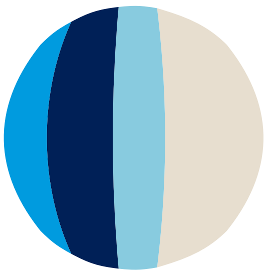
SkyTeam's strategy is to be the alliance of choice for its customers. In 2005, SkyTeam was voted '2005 Best Airline Alliance' by readers of the US monthly *Global Traveler Magazine*. In April 2006 the alliance was extended into Eastern Europe with the integration of Russian airline Aeroflot.

SkyTeam offers the 373 million passengers it carries each year close to 15,000 daily flights to 728 destinations in 149 countries thanks to its system of worldwide hubs:

- in Europe: Amsterdam, Paris, Moscow, Milan and Prague,
- in the USA: Atlanta, Cincinnati, Cleveland, Detroit, Houston, Memphis, Minneapolis-St Paul and New York (JFK and Newark),
- in Asia: Guam, Seoul and Tokyo,
- in South America: Mexico City.

SkyTeam, no. 2 global alliance

(by market share)



19% SkyTeam
24% Star Alliance
18% OneWorld
39% Others

(Source: PKT 2004)

SkyTeam welcomes Aeroflot

Aeroflot, the principal airline in Russia and the Commonwealth of Independent States, joined SkyTeam in April 2006, following an integration process lasting nearly two years. To join the alliance, Aeroflot set itself some high hurdles in order to meet the safety and service quality standards required by SkyTeam. The Russian airline brought the quality of its operations and services into line with international standards and thus successfully passed the IATA Operational Safety Audit, obtaining official IOSA certification in March 2006. The airline also won an award for its inflight service from Skytrax, one of the leading consultants in the air transport sector.

Aeroflot serves 86 destinations daily in 46 countries. Thanks to its geographical positioning, the Aeroflot hub at Moscow's Sheremetyevo airport represents a substantial platform for passengers transferring between Europe and Asia, the Commonwealth of Independent States (C.I.S.) and Russian cities. Aeroflot also extends the SkyTeam network to new fast-growth markets, adding 27 new stations to the alliance.

Development of new products for corporate customers

During the financial year, SkyTeam developed its products for corporate customers with global reach. In October 2005, SkyTeam and Philips thus signed the alliance's first worldwide agreement, offering this group competitively-priced, customized travel solutions with eight member airlines in 25 countries. According to the terms of this contract, Philips benefits from a single entry point, a harmonized policy on pricing and discounts and a single reporting system. Six other contracts of the same type have since been signed.

A SkyTeam Global Meetings product was also launched in April 2006 in order to offer a single contact point for the ten alliance airlines for organizers and participants in international conferences and events. The first customer to show interest was Paris Le Bourget Air Show 2007.

Innovating for the passenger

In 2005, member airlines introduced an electronic ticket, valid on all the alliance networks. To facilitate customer contact the www.skyteam.com website is now available in ten languages, including Japanese, Russian and German.

In the coming year, the member airlines are committed to progressively making check in using self-service kiosks and over the internet accessible to all alliance customers.

Furthermore, SkyTeam has enhanced its passenger offer by adding Asia Pass, to the existing Europe Pass, America Pass and Round the World Pass. Since October 2005, every purchase of a round-trip intercontinental ticket to the Asia-Pacific region on a SkyTeam airline entitles the customer to a preferential tariff for flights within the zone while earning additional air miles.

Future new members

SkyTeam will continue to develop with the expected arrival in 2007 of the Chinese company China Southern Airlines, based in Canton, as well as associate members amongst the candidates: Air Europa, Portugalia and Middle East Airlines sponsored by Air France, Kenya Airways sponsored by KLM, Copa Airlines sponsored by Continental and Tarom sponsored by Alitalia.

The SkyTeam associate program regroups small or medium-sized airlines sponsored by one of the members. They make a smaller contribution to the alliance's budget but do not participate in its governance. This program offers new customers access to SkyTeam benefits, particularly frequent flyer reciprocity, lounge access and code share flights.

Functioning of SkyTeam

The SkyTeam alliance is managed by a Governing Board and a Steering Committee. Consensus (except in a limited number of very specific cases) is the rule for decision-making. Each member has an equal say in prior discussions and the final decision-making process.

The Governing Board is composed of the Chairmen, CEOs and Alliance Directors from all the member airlines. It meets twice a year and defines the general strategic orientations. It sets the amount of resources and promotes the alliance externally. The Governing Board appoints the Chairman and Vice Chairman of the Steering Committee for a two-year term of office. The Steering Committee, composed of the Alliance Directors, meets four times a year. It implements the strategic decisions adopted by the Governing Board and ensures the correct internal functioning of the alliance.


AIR FRANCE

Fleet

With a total of 575 aircraft, of which 561 operational, Air France-KLM takes a flexible approach to fleet management in order to align capacity as closely as possible with traffic demand.

At March 31, 2006, the Air France-KLM group fleet consisted of 575 aircraft, of which 561 operational compared with, respectively, 568 and 551 aircraft at March 31, 2005.

The main fleet consisted of 387 aircraft, including 165 long-haul and 222 medium-haul aircraft. The regional fleet comprised 188 aircraft (186 at March 31, 2005).

229 aircraft were fully owned (40% of the fleet compared with 37% in the previous year), 151 aircraft were under financial leases, representing 26% of the fleet (24% at March 31, 2005) and 195 under operating leases (34% of the fleet compared with 39% at March 31, 2005).
In addition to the main fleet, there were 4 aircraft operated by a Group subsidiary, Air Ivoire, of which 3 were fully owned and 1 under operating lease. There were firm orders for 48 aircraft at March 31, 2006, unchanged on the previous year while options increased by 3 units to 35.

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

561
aircraft in operation

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

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

Finally, flexibility in managing the fleet is an important optimization tool in a sector subject to considerable and rapid change. This flexibility, achieved either through contract clauses or through operating leases, allows for capacity to be adjusted in line with traffic demand. In these contracts the Group provides for clauses allowing, within the limits of contractual notice periods, the adjustment of schedules and/or the modification of the model delivered within a family of aircraft. The Group systematically finances around one third of its fleet under operating leases. This policy, implemented progressively, has given the Group, each year, room for manœuvre on around 5% of its capacity by returning aircraft or extending their contract periods.

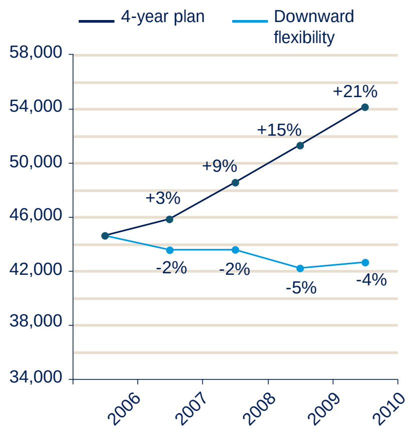
The two airlines have decided to accelerate the rationalization of their fleets under the combined effects of a very high oil price and a weak dollar. In renewing its fleet, Air France-KLM also reduces the impact of its activity on the environment, whether in terms of greenhouse emissions or noise energy. Air France has decided to replace the Boeing B747-200s and 300s in its Caribbean and Indian Ocean network with Boeing B777-300ERs and the Boeing B747-200F cargo aircraft with Boeing B747-400ERFs and Boeing B777-200LRFs. KLM has decided to renew its Boeing B767-300ERs with Airbus A330-200s and Boeing B777-200ERs. This should be achieved by summer 2010 for Air France and by summer 2007 for KLM.

Flexibility, an optimization tool

Over the next four years, the fleet plan measured in numbers of seats may vary upwards or downwards according to needs compared with the situation in summer 2006.
For the long-haul fleet, the number of seats in summer 2010 may have increased by 21% to match growth or decreased by just 4% if there is a slowdown in traffic.
For the medium-haul fleet, the flexibility will be between +6% and -20% of seats in summer 2010, depending on economic conditions.

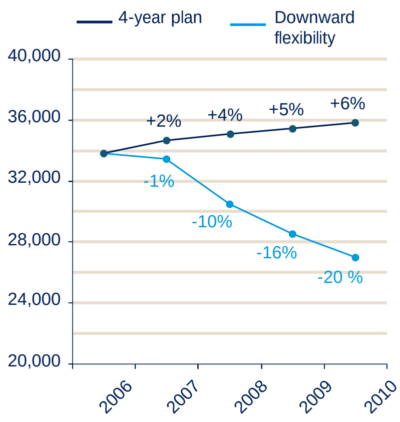
Long-haul fleet

(in number of seats)



Medium-haul fleet

(in number of seats)



The Air France group fleet

The Air France group fleet amounted to 397 aircraft at March 31, 2006, including 258 in the Air France fleet, 135 in the regional fleet and 4 at Air Ivoire.

The Air France fleet

Air France operated a fleet of 258 aircraft at March 31, 2006, with 251 in operation, 5 in the process of being brought into operation or withdrawn and 2 leased to third parties. The fleet includes 150 medium-haul, 96 long-haul, and 12 cargo aircraft. The fleet has an average age of 9.2 years, with 7.4 years for the long-haul fleet, 10 years for the medium-haul fleet and 12.8 years for the cargo fleet.

Over the year, 14 new aircraft joined the fleet and 10 were withdrawn.

In the medium-haul fleet, 3 Airbus A318s, 2 Airbus A319-ERs to strengthen the Dedicate fleet and 2 Airbus A320s were added. One Airbus A320 and 4 Boeing B737-500s were withdrawn. The rationalization process in the medium-haul fleet thus continued, focused on models of the A320 family, ranging from 123 to 206 seats, the company benefiting from a reduction in operating and maintenance costs due to common technical specifications for flight decks, equipment and engines. The final stage in this rationalization is expected in summer 2007 with the withdrawal of the last Boeing B737-500s still in service.

Six aircraft were added to the long-haul fleet: 4 Boeing B777-300ERs and 2 Airbus A330-200s. Five aircraft were withdrawn: one B747-200, one B767-300 and 2 A340-300s. In the cargo fleet, one Boeing B747-400 cargo plane was added and one B747-200 cargo plane was withdrawn.

Investment in flight equipment during the year amounted to 1.54 billion euros (including advance payments on orders and immobilized maintenance operations). Of a total fleet of 258 aircraft, 151 are fully owned, 17 are under financial leases and 90 under operating leases. At March 31, 2006, firm orders amounted to 33 aircraft with options on a further 17.

New Boeing 777s linking Paris to the French West Indies

Since June 2006, Air France flights departing from Paris-Orly bound for Fort-de-France and Pointe-à-Pitre have operated the new Boeing 777-300ER aircraft, especially equipped for these destinations.

These new aircraft replaced the last Boeing 747-300s to be withdrawn from the Air France fleet. Their gradual introduction will generate significant fuel savings and will be extended in 2007 to Saint-Denis de La Réunion.

The regional fleet

The regional division has a fleet of 135 aircraft with up to 100 seats, with 128 in operation, and 5 leased to third-party companies. This fleet is primarily organized around four families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family common to both Régional and Brit Air (79 and 100-seat capacity) and the BAE fleet operated by City Jet.

The changes in the fleet over the period were as follows: for Brit Air, one CRJ 700 and 3 Fokker 100s added; for City Jet, 5 BAE 146-200s added and 3 withdrawals (2 BAE 146-200s and one BAE 146-300); Régional added 2 Fokker 100s and withdrew 3 Beech 1900s, 2 Embraer 120-ERs and one Saab 2000.

The average age of operational aircraft in the fleet is 8.6 years for Brit Air, 19.4 years for City Jet and 9.2 years for Régional.

Investment in flight equipment amounted to 68 million euros over the year. Of a total fleet of 135 aircraft, 30 were fully owned, 50 under financial leases and 55 under operating leases. There were firm orders for 6 aircraft at March 31, 2006. A grouped order has also been placed for 13 second hand RJ 85s, operated to date by a subsidiary of Northwest Airlines and destined to replace City Jet's ageing BAE 146 fleet.

The KLM group fleet

The KLM group fleet amounted to 182 aircraft at March 31, 2006, including 129 in the KLM fleet, and 53 in the regional fleet.

The KLM fleet

KLM operated a fleet of 129 aircraft at March 31, 2006, all in operation. The fleet includes 54 long-haul, 72 medium-haul, and 3 cargo aircraft. The aircraft in the fleet have an average age of 8.9 years, with 9 years for the long-haul fleet, 9 years for the medium-haul fleet and 2.7 years for the cargo fleet.

New Airbus A330-200 for KLM

In August 2005, KLM took delivery of the first of six Airbus A330-200s, ordered to gradually replace the airline's Boeing B767-300ER fleet. In choosing the Airbus A330-200, KLM benefited from Air France's knowhow established since the French carrier first integrated the aircraft into its fleet in early 2001. Thus, the KLM flight instructors have been trained at Air France facilities and maintenance experience shared. These new aircraft, with enhanced environmental performance in terms of noise and gas emissions, can carry up to 251 passengers and transport 14 tons of cargo. They will be delivered gradually through to 2007 and will operate on flights between the Netherlands and North America, Africa and the Middle East. The inaugural commercial flight took place on September 1 between Amsterdam and Washington.

Over the year, 5 new aircraft joined the fleet and 4 were withdrawn. In the long-haul fleet, 1 Boeing B777-200ER and 3 Airbus A330-200ERs were added. 4 Boeing B767-300ERs were withdrawn. In the medium-haul fleet, 1 Boeing B737-700 was added.

Of a total fleet of 129 aircraft, 21 are fully owned, 66 are under financial leases and 42 are under operational leases. At March 31, 2006 firm orders amounted to 9 aircraft with options on a further 18.

The regional fleet

KLM's regional fleet is composed of one family, Fokker, and comprises 53 aircraft with up to 103 seats, all in operation. The aircraft in the regional fleet have an average age of 13.3 years. In 2005-06, 3 Fokker 100s were added to the regional fleet while 1 Fokker 100 and 2 Fokker 50s were withdrawn.

Of a total fleet of 53 aircraft, 27 are fully owned, 18 are under financial leases and 8 are under operational leases. At March 31, 2006 there were no firm orders nor outstanding options for the regional fleet.

Air France fleet

	Company-owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Aircraft															
B747-400	8	8	9	1	1	1	7	7	5	16	16	15	16	16	15
B747-200/300	6	7	7	-	-	-	-	-	2	6	7	9	4	5	9
B777-200/300	19	16	14	4	4	2	15	14	9	38	34	25	37	34	25
A340-300	10	8	8	3	6	6	7	8	8	20	22	22	20	22	22
A330-200	6	4	3	1	1	1	9	9	9	16	14	13	16	13	12
B767-300	-	1	1	-	-	-	-	-	-	-	1	1	-	-	-
B747-400 Cargo	2	1	1	-	-	-	3	3	2	5	4	3	5	4	3
B747-200 Cargo	5	5	5	1	1	1	1	2	4	7	8	10	7	8	10
Total	**56**	50	48	**10**	13	11	**42**	43	39	**108**	106	98	**105**	102	96
Medium-haul fleet															
A321-100/200	11	11	8	-	-	2	2	2	2	13	13	12	13	13	12
A320-100/200	49	49	44	3	3	5	16	15	17	68	67	66	66	67	65
A319-100	20	18	17	4	4	4	21	21	18	45	43	39	44	43	39
A318-200	12	9	5	-	-	-	-	-	-	12	9	5	12	9	5
B737-300/500	3	4	6	-	3	3	9	9	16	12	16	25	11	15	23
Total	**95**	91	80	**7**	10	14	**48**	47	53	**150**	148	147	**146**	147	144
Total	**151**	141	128	**17**	23	25	**90**	90	92	**258**	254	245	**251**	249	240

Regional fleet

	Company-owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Brit Air															
Canadair Jet 700	2	2	1	10	9	9	-	-	-	12	11	10	12	11	10
Canadair Jet 100	2	2	2	11	11	11	6	6	6	19	19	19	19	19	19
Fokker 100-100	5	1	1	-	-	-	8	9	9	13	10	10	13	10	10
Total	**9**	5	4	**21**	20	20	**14**	15	15	**44**	40	39	**44**	40	39
Regional															
Embraer RJ 145	2	2	1	17	17	9	9	9	17	28	28	27	28	28	27
Embraer RJ 135	2	2	3	3	3	2	4	4	4	9	9	9	9	9	9
Embraer 120	8	7	3	1	3	3	2	3	8	11	13	14	9	10	12
Fokker 100	1	1	-	1	1	-	7	5	-	9	7	-	9	6	-
Fokker 70	-	-	-	5	5	-	-	-	9	5	5	9	5	5	9
Beach 1900	3	6	6	1	1	1	1	1	1	5	8	8	-	-	-
SAAB 2000	-	-	-	-	-	-	5	6	6	5	6	6	5	6	6
Total	**16**	18	13	**28**	30	15	**28**	28	45	**72**	76	73	**65**	64	63
City Jet															
BAE 146-200	5	5	1	1	1	-	13	11	14	19	17	15	19	17	15
Total	**5**	5	1	**1**	1	-	**13**	11	14	**19**	17	15	**19**	17	15
Total	**30**	28	18	**50**	51	35	**55**	54	74	**135**	133	127	**128**	121	117

KLM fleet

	Company-owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Long-haul fleet															
B747-400	6	6	6	16	16	16	-	-	-	22	22	22	22	22	22
B777-200	-	-	-	5	4	3	6	6	3	11	10	6	11	10	6
A330-200	-	-	-	3	-	-	-	-	-	3	-	-	3	-	-
MD 11	-	-	-	8	8	8	2	2	2	10	10	10	10	10	10
B767-300	-	-	-	-	-	-	8	12	12	8	12	12	8	12	12
B747-400 Cargo	-	-	-	3	3	3	-	-	-	3	3	3	3	3	3
Total	**6**	6	6	**35**	31	30	**16**	20	17	**57**	57	53	**57**	57	53
Medium-haul fleet															
B737-900	-	-	-	2	2	1	3	3	3	5	5	4	5	5	5
B737-800	3	6	6	23	20	19	4	4	4	30	30	29	30	30	29
B737-700	-	-	-	5	4	4	5	5	5	10	9	9	10	9	8
B737-400	6	6	5	-	-	2	7	7	7	13	13	14	13	13	14
B737-300	6	6	6	1	1	1	7	7	7	14	14	14	14	14	14
Total	**15**	18	17	**31**	27	27	**26**	26	26	**72**	71	70	**72**	71	70
Total	**21**	24	23	**66**	58	57	**42**	46	43	**129**	128	123	**129**	128	123

Regional fleet

	Company-owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
KLM Cityhopper															
Fokker 70	18	18	16	3	-	1	-	3	3	21	21	20	21	20	20
Fokker 50	2	-	-	4	6	6	2	4	4	8	10	10	8	10	10
Total	**20**	18	16	**7**	6	7	**2**	7	7	**29**	31	30	**29**	30	30
KLM Cityhopper UK															
Fokker 100	7	1	1	11	14	14	-	1	-	18	16	15	18	16	15
Fokker 50	-	-	-	-	-	-	6	6	6	6	6	6	6	6	6
BAE 146-100/300	-	-	-	-	-	-	-	-	5	-	-	5	-	-	5
Total	**7**	1	1	**11**	14	14	**6**	7	11	**24**	22	26	**24**	22	26
Total	**27**	19	17	**18**	20	21	**8**	14	18	**53**	53	56	**53**	52	56


12

Social and environmental data

Social data

Joining Air France-KLM means joining a Group with a wide diversity of experience, knowhow and cultures. It also means discovering new professions and adjusting to their development. The new technology revolution and changes in customer expectations and the competitive environment are creating fresh challenges for the whole of the air transport sector.

The human resources of the two airlines are supporting these changes and encouraging all the Group's employees to see this dynamic environment as one in which their abilities can really count. Attention to detail, rigor and respect are the values at the heart of this daily process.

Due to the differences between French and Dutch social legislation, and under the terms of the combination, each company pursues its own socially responsible human resources policy while encouraging teams to work together on joint initiatives such as training and social dialogue. This financial year saw the creation of an Air France-KLM European Works Council.

Employees

The weighted average number of employees of the Air France-KLM group was 102,422 full-time equivalent in 2005-06, a 0.3% increase on the previous financial year.

	2005-06	2004-05	Change
Ground staff	74,258	74,462	-0.3%
Managers	13,048	12,996	0.4%
Supervisors/Technical Personnel	29,729	29,364	1.2%
Agents	31,481	32,102	-1.9%
Cabin crew	20,294	19,829	2.3%
Cockpit crew	7,870	7,786	1.1%
Total	**102,422**	**102,077**	**0.3%**

Employment

A stable workforce and supporting change at Air France

Air France has a policy of controlling the workforce, supported by the forward-looking management of jobs and skills, principally reflected in the priority given to internal resources, the development of professional and geographical mobility as well as to specific hiring follow-up. The 2005-06 financial year saw this policy developed within the context of growth in activity.

Air France’s total full-time equivalent workforce increased by 0.8%, principally due to an increase in cabin crew (+1.6%), and amounted to 60,055 full-time equivalent employees (59,588 in 2004-05). In 2005, some 1,625 new staff were recruited on long-term contracts. The increase in ground staff recruitment was explained by the need to replace retirement departures. After several years of steep rises, this retirement curve has stabilized since 2004.

The percentage of part-time employees amounted to 18% of the total Company in 2005, compared with 19% in 2004. This reduction is primarily explained by the retirement of employees already in the progressive early retirement plan for ground staff (at 50% of the working week).

In 2005, Air France spent a total of 25 million euros on temporary staff and subcontractors in areas not part of its core activities such as airport services, handling, cleaning and a number of specific IT development projects.

Employability and cost control at KLM

The main objectives of KLM’s employment policy are to preserve employability and to control costs.
For KLM, employability means promoting:

- flexibility, to find a better match between labor supply and demand,
- mobility, allowing staff to fulfill a wide variety of functions and use new working methods,
- health, a pre-requisite for current and future productivity, flexibility and employee mobility,
- participation, to stimulate diversity among KLM employees at successive career stages.

KLM stimulates diversity by ensuring equal opportunities among staff. Among the pre-conditions for helping employees at these various career stages are healthy working conditions and the ability of employees to switch jobs. This approach also helps KLM to deal with the problem of an ageing population.

Increasing productivity, efficiently controlling costs, and managing the workload are other important objectives of KLM's employment policy. KLM will increase productivity chiefly by achieving a better match between the availability of suitably skilled employees and demand (flexibility).

In response to a strong recovery in activity, 1,066 permanent employees were recruited in the Netherlands in 2005 (609 in 2004), of whom 613 ground staff, 341 cabin crew and 112 flight deck crew. Fixed term contract recruitment also increased, with 300 new cabin staff and 415 new ground staff.

The total KLM workforce (full-time equivalent) remained stable in 2005-06 at 30,118 employees (30,045 in 2004-05).

Part-time staff at KLM in the Netherlands represented 36% of total employees in 2005, slightly higher than the figure for 2004 (35%).

Professional training

Air France expenditure on the company's 2005 training program totaled close to 200 million euros, representing 8.7% of the payroll, well in excess of the obligation under French law. The training program covers all stages of professional life and promotes employee mobility. Technical and regulatory training represented around 45% of the training programs. In 2005, the rate of access to training for all personnel reached 92%.

Within the framework of the French law of May 4, 2004 on career-long professional training, Air France wishes to encourage the consumption by employees of their individual training quotas (so-called DIF or *Droits Individuels à la Formation*) and to develop the periods dedicated to professional training. In February 2006, the training department was awarded ISO 9001 certification.

Within the framework of its professional training program, KLM helps its staff to combine their personal and professional development by supporting initiatives at various levels.

The KLM Academy was established to further improve the quality of KLM's organizational and management potential. During the financial year, several workshops were organized at which KLM-masters with established skills shared their experience in areas such as change management, innovation and strategic cost management as well as bridging cultural and behavioral differences.

The development program for KLM's high potentials now includes a new module, 'Focus on your Future', in which participants can benefit from a multi-year program of workshops, coaching, mentoring and a final workshop based on their own input.

Compensation and sharing the value created

In accordance with the salary agreement of May 10, 2005 for ground staff and cabin crew, the general measures at Air France represented an average increase of 1.6% plus individual measures such as merit, promotion and seniority.

Pursuant to the incentive agreement of September 26, 2002 and its amendments, the results for the financial year ended March 31, 2005 made it possible to pay 3.28 million euros in incentive payments distributed among all Air France employees. An exceptional profit share bonus of 200 euros was, in addition, paid to all employees, amounting to a total of 11 million euros in 2005.

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

At KLM, in accordance with the collective labor agreement, the general measures for salary increases represented an increase of 1% in August 2005, with another 1% in April 2006 and a further 0.75% in January 2007.

In July 2005, all KLM staff received an exceptional bonus equivalent to 4% of their July 2005 salary. In addition, the company's financial and economic performance allowed for the payment of an exceptional bonus of 200 euros in December 2005.

Social dialogue

In 2005-06, Air France continued work alongside union organizations on developing different corporate collective agreements to replace the Air France statutory regime: a joint agreement and three specific agreements for each personnel category (ground staff, cabin crew and flight deck crew). These conventions were signed by the trade unions representing the majority of the Company's personnel and are applicable as of May 6, 2006. In line with the commitments made, they maintain all the rights and accrued benefits of employees. Within the framework of this new agreement, ground staff are now subject to the collective bargaining agreement for air transport (known as the *CCNTA*).

2005-06 also saw the renewal of different contractual agreements: Internship Charter (July 18, 2005), Gender Equality agreement (April 6, 2006), Agreement for the Social and Vocational Integration of Staff with Disabilities (February 28, 2006), Profit-sharing and Incentive Agreement (August 1, 2005), Mutual Insurance agreement (September 16, 2005), Agreement on work place doctors' functioning within Air France's medical services (December 21, 2005).

In order to coordinate the local social life of the company following the revision in the scope of the Works Councils, local commissions for social and cultural activities were created with the signing of an agreement on December 16, 2005. Finally, in March 2006, a two-year salary agreement for ground staff and cabin crew was signed followed by a three-year agreement with flight deck crew in May 2006.

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

In 2005, a new CLA was concluded for a 27-month period (2005-07), of which the fundamental principles are employability for all staff as well as cost control. The collective negotiations prior to the 2005 CLA also covered building trust, management by objective and simplification of processes.

In addition, following changes in Dutch social security arrangements and employment law, the new CLA includes agreements concerning pensions, the "levensloop regeling" schemes (a savings scheme set up to finance career breaks), health insurance and income agreements in the event of a second year of absence due to illness.

Creation of an Air France-KLM European Works Council

Air France-KLM has established a European Works Council, in line with European directives. It ensures that employees are kept informed and consulted on issues concerning the Group as well as on matters of a trans-national nature.

The Committee comprises 37 members, of whom 10 are French, 6 Dutch and 21 nationals of 16 other European countries. Members are appointed or elected for a four-year period, depending on the regulations applicable in each country concerned.

Health and safety in the workplace

In 2005, a Charter for Preventive Management aimed at safety in the workplace was signed by all Air France operating divisions, guaranteeing their commitment to implementing specific contractual aims tailored to the Company's different activities over the 2006-08 period.

At the end of 2005, the industrial injury frequency coefficient in France was unchanged at 5.75 but showed some marked differences between categories (Ground staff: 3.8, Cabin crew: 12.4, Flight deck crew: 2.6).

In 2005, Air France safety expenditure amounted to more than 12 million euros in France.

At KLM, the Occupational Safety and Environment Board is responsible for evaluating serious incidents and accidents, and for monitoring accident reports and any necessary corrective measures. At KLM, there were no fatal accidents during the 2005-06 financial year. The total number of occupational accidents involving time off work fell by 10% on the previous year, although the total number of working days lost due to reported accidents increased slightly.

Legislative changes, which affected medical care and social security schemes in the Netherlands, prompted KLM to set up further illness prevention initiatives. The impact of this new policy is reflected in the absentee rate due to illness, which was reduced from 5.9% in 2004 to 5.6% in 2005.

For more information regarding health and safety, please refer to the Air France-KLM sustainability report.

Diversity and social responsibility

For several years, Air France has conducted an employment policy based on integration through employment and a respect for diversity, reflected in Air France's Ethics and Social Rights Charter of June 25, 2001 and in the Charter to Prevent Workplace Harassment of November 3, 2003. This policy is applied particularly in the areas of gender equality, vocational integration of disabled persons, employment of young people and regional employment initiatives.

Professional equality between men and women is the subject of a specific agreement, renewed in 2006, informed by a number of important commitments:

- to develop the mix: the percentage of women in Air France's overall workforce moved from 31% in 1991 to 43% in 2005,
- to improve the balance between professional and family life,
- to promote equal opportunity in career development,
- to guarantee salary equality between men and women,
- to adapt work conditions.

In 2005, Air France renewed its commitment to the vocational integration of disabled workers, spending more than 900,000 euros on adaptating work positions and transporting disabled people. In the 2003-05 period, 81 disabled people were recruited, 25 of them in 2005.

Thanks to this pro-active policy, introduced in 1991, some 1,878 disabled employees are currently contributing to the Company's future, with disabled staff reaching 6.6% of total employees in 2005, in excess of the legal requirement of 6%. The application of the French Law of February 11, 2005 since January 1, 2006, will reduce this level significantly due to the inclusion of cabin and flight deck crew in the calculation and the end of the weighting linked to the degree of disability. Efforts will continue with the sixth agreement on the social and vocational integration of staff with disabilities (February 28, 2006), which provides for 75 new hires in the 2006-08 period, including 32 in 2006.

Air France attaches particular importance to the incorporation of young people into the workforce. In the 2002-05 period, the Company offered 1,000 internships, including 686 in the 2005-06 financial year. With a retention rate of 90% within the businesses, internships represent a third of recruitment on permanent contracts and have been, since 1997, the subject of a Charter, which was renewed in 2005.

For many years Air France has been very active in the regions in which it operates, playing a significant role in job creation in the Orly and Roissy catchment areas, where the Company is the main employer. Air France was behind the creation of several organizations which it continues to support actively, such as the Jérémy association, which promotes the hiring of young job-seekers in the Paris-Charles de Gaulle area; Afmaé, which creates a pool of expertise and qualification programs in aviation through the Apprenticeship Training Center (CFA); the AirEmploi association, which provides information and assistance in the training required to enter the airline industry; and, finally, the Pays de Roissy association which promotes local economic development.

Air France has long been involved in assisting disadvantaged groups, particularly children, through its Foundation, created in 1992, and through other associations, particularly "Groupe Développement" and "Aviation without borders". It is also associated with the French National Health Institute (INSERM) in helping children suffering from serious illnesses.

In 2006 KLM was chosen favorite employer in the Netherlands in achieving the highest level of staff satisfaction. In 2005, KLM was voted "favorite employer" in the Netherlands by students from ethnic minorities, following a survey conducted by Intermediair and Ebbinge.

KLM participates in various social initiatives, particularly in the Amsterdam Schiphol area, and has built partnerships with different organizations involved in professional training in the air transport sector. Together with Amsterdam Schiphol, KLM is helping to prevent youth unemployment and provides training for underprivileged young people. When they pass their exam, they are offered a contract with one of the two entities.

KLM has concluded an agreement with Amsterdam Schiphol's Regional Education Center to provide training courses for students with technical qualifications. Students who obtain their aircraft maintenance license are offered a three-year employment contract.

In July 2005, the KLM Flight Academy at Eelde and Hanze University Groningen signed an agreement to set up a unique technology management and commercial pilot course. This course is in response to the future requirement for airline pilots to be flight managers.

In January 2006, KLM and the Breda University of Applied Sciences in the Netherlands (NHTV) signed an agreement aimed at promoting the development of new technologies in aviation management and imagineering, both key to the future competitiveness of the Company within the sector. KLM and NHTV have also announced their intention of developing this cooperation through different projects at both national and international level.

KLM also works with the Dutch Reading and Writing Foundation in offering literacy courses to those needing help in this area. Since 1999, the Company has also supported various charitable aid programs for disadvantaged children notably through KLM AirCares.

For more information regarding local initiatives and humanitarian aid, please refer to the Air France-KLM sustainability report.

Creation of an Air France-KLM Chair in aircraft maintenance at Delft University

Air France-KLM sponsored the creation of a Chair in aircraft maintenance within the aerospace engineering faculty of the Delft Technology University in the Netherlands, giving the university the opportunity to introduce courses and conduct research in the field of aircraft repair, overhaul and maintenance.

Social indicators for the Air France-KLM group

Note on methodology

In 2005-06, under the aegis of Air France-KLM's Disclosure Committee, a memorandum relating to the social indicators and the reporting scope retained was drawn-up.

The reporting scope retained for the Air France group is that of Société Air France and its main subsidiaries (Servair SA, Brit Air, Régional, OAT, ACNA, BPC, CRMA, Fréquence Plus, Sodexi), representing around 96% of the consolidation scope of the Air France group in terms of employees.

The indicators for Air France and for its subsidiaries are presented separately in the table.

The information presented in the table for KLM include KLM and KLM Cityhopper, representing around 76% of the consolidation scope for the whole KLM group in terms of employees.

	Air France				KLM [1]				Subsidiaries [2]			
	2003	2004	2005	05/04	2003	2004	2005	05/04	2003	2004	2005	05/04
Headcount at 31/12 (permanent contracts and fixed term contracts)												
Ground staff	45,921	45,387	45,688	0.7%	21,862	19,366	19,550	1%	8,770	8,666	8,445	-2.6%
Cabin crew	13,572	13,582	13,947	2.7%	7,654	7,895	8,163	3.4%	640	671	723	7.7%
Cockpit crew	4,154	4,187	4,238	1.2%	2,298	2,269	2,333	2.8%	877	898	940	4.7%
Total	63,647	63,156	63,873	1.1%	31,814	29,530	30,046	1.7%	10,287	10,235	10,108	-1.2%
% of women per category at 31/12												
Ground staff	39%	39%	40 %	2.1%	*25%*	*24%*	*25%*	3%	34%	33%	33%	1%
Cabin crew	66%	66%	66 %	-0.1%	*84%*	*84%*	*84%*	-0.6%	80%	80%	79%	-0.5%
Cockpit crew	4%	5%	5 %	4.3%	*4%*	*4%*	*4%*	-1.5%	4%	4%	3%	-10%
% of women at 31/12	42%	43%	43 %	1.6%	*40%*	*40%*	*41%*	*1%*	34%	34%	34%	0.6%
Organization of working hours												
% of women working part time	*32%*	*33%*	*33%*	-2%	*66%*	*63%*	*68%*	8%	N.A.	N.A.	N.A.	
% of men working part time	*10%*	*10%*	*9%*	-10%	*12%*	*8%*	*14%*	70%	N.A.	N.A.	N.A.	
Percentage of part time staff	18%	19%	18%	-3%	*34%*	*35%*	*36%*	*2%*	7%	8%	8%	2%
Amounts paid to temporary work companies (€m)	*15.5*	*18.1*	*25*	38%	N.A.	N.A.	N.A.		25.8	25.6	23	-10%
Recruitment on permanent contracts												
Ground staff	*815*	*637*	*994*	56%	427	420	981	134%	483	402	496	23%
Cabin crew	*743*	*387*	*519*	34%	2	349	518	48%	1	8	2	-75%
Cockpit crew	*232*	*152*	*112*	-26%	82	97	112	15%	43	38	44	16%
Recruitment on permanent contracts	*1,790*	*1,176*	*1,625*	38%	511	866	1,611	86%	527	448	542	21%
Departures												
Ground staff	*682*	*1,017*	*1,135*	12%	*1,986*	*3,276*	*1,016*	-69%	403	417	494	18%
Cabin crew	*333*	*276*	*317*	15%	*571*	*296*	*232*	-22%	20	8	48	
Cockpit crew	*143*	*112*	*116*	4%	*54*	*88*	*97*	10%	14	14	13	-7%
Total	*1,158*	*1,405*	*1,568*	12%	*2,611*	*3,660*	*1,345*	-63%	437	439	555	26%
Retirement	*525*	*976*	*1,060*	9%	*332*	*363*	*332*	-9%	36	60	47	-22%
Redundancy (incl.economic)	*314*	*172*	*157*	-9%	*297*	*393*	*532*	35%	200	231	293	27%
Resignation	*235*	*188*	*250*	33%	*1,958*	*2,861*	*450*	-84%	184	142	205	44%
Death	*84*	*69*	*101*	46%	*24*	*43*	*31*	-28%	17	6	10	67%
Absenteeism [3]												
Due to illness [3]												
Ground staff	*3.7%*	*3.3%*	*3.3%*	-1%	*6.5%*	*6.5%*	*5.9%*	-9%	N.A.	N.A.	N.A.	
Cabin crew	*6.2%*	*5.8%*	*6.8%*	16%	*5.3%*	*5.1%*	*5.4%*	6%	N.A.	N.A.	N.A.	
Cockpit crew	*2.3%*	*2.1%*	*2.7%*	29%	*4.5%*	*4.3%*	*4.2%*	-2%	N.A.	N.A.	N.A.	
Due to work accidents [3]												
Ground staff	*0.5%*	*0.5%*	*0.5%*	-4%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cabin crew	*0.6%*	*0.8%*	*0.9%*	11%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cockpit crew	*0.1%*	*0.2%*	*0.2%*	29%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Due to maternity [3]												
Ground staff	*0.9%*	*0.9%*	*0.9%*	-5%	*0.4%*	*0.5%*	*0.4%*	-20%	N.A.	N.A.	N.A.	
Cabin crew	*3.8%*	*3.9%*	*3.8%*	-2%	*2.3%*	*2.2%*	*2.1%*	-5%	N.A.	N.A.	N.A.	
Cockpit crew	*0.4%*	*0.3%*	*0.4%*	38%	*0.1%*	*0.2%*	*0.1%*	-50%	N.A.	N.A.	N.A.	
Number of collective agreements	7	3	9		4	4	3		N.A.	N.A.	N.A.	
Health and safety [4]												
Industrial Injury Frequency Rate (IIFR) [4]	*34.0*	*34.2*	*34.9*	2%	*8.80*	*11.06*	*11.16*	0.9%	N.A.	N.A.	N.A.	
Severity of industrial accidents [4]	*0.87*	*0.93*	*0.83*	-10.8%	*0.11*	*0.09*	*0.10*	10.1%	N.A.	N.A.	N.A.	
Spending on safety (€m)	*15.3*	*18.2*	*12,2*		*1.0*	*0.8*	*4.2*		3.1	3	2.2	
Total industrial accidents [4]	*2,683*	*3,029*	*3,113*	2.8%	*430*	*526*	*528*	0.4%	N.A.	N.A.	N.A.	
Number of fatal industrial accidents	*1*	*0*	*1*		*0*	*0*	*0*		N.A.	N.A.	N.A.	
Training												
% of total payroll devoted to training	*9.3%*	*8.7%*	*8.7%*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Ground staff	*5.1%*	*5.6%*	*5.4%*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cabin crew	*10.3%*	*8.9%*	*8.9%*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cockpit crew	*18.6%*	*15.5%*	*16.3%*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Total number of hours of training			*43*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Ground staff	N.A.	N.A.	*33*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cabin crew	N.A.	N.A.	*36*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cockpit crew			*166*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Participation rate (number of agents trained/workforce)			*92%*		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Disabled staff [5]												
Number of disabled workers [5]	*1,637*	*1,759*	*1,878*	6.8%	*1,302*	*1,336*	*1,211*	-9.4 %	248	250	236	-5.6%
Employment rate of disabled staff (French law of July 10, 1987)	*5.6%*	*6.2%*	*6.6%*	6.5%	-	-	-		N.A.	N.A.	N.A.	
Number of disabled workers recruited during the year	*25*	*31*	25	-19.4%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	

Data in italics concerns only Air France in France and KLM in Netherlands.

N.A. Not Available.

(1) The information gathering process being more precise at KLM (SAP HR system since 2005), the 2004 data have been updated. The restated figures for KLM refer to departures and recruitment, part time working and the percentage of women per category.
(2) Subsidiaries included: Servair SA, Brit Air, Régional, OAT, ACNA, BPC, Fréquence Plus, Sodexi, CRMA.
(3) The figures relating to absenteeism at Air France and KLM are not comparable, the calculation methods being different.
(4) The information relating to workplace accidents at Air France and KLM are not comparable. The difference can be explained by the fact that barotraumatic otitis and lumbagos, representing the primary causes of workplace accidents at Air France, are not taken into account in KLM's list of workplace accidents.
(5) As Dutch and French legislation does not employ the same definition for disabled workers, the indicators for Air France and KLM relating to disabled employees are not comparable.

Environmental data

Air France-KLM is committed to respecting the environment in its business development.
Beyond the continuous investment in fleet renewal, with aircraft achieving ever better environmental performance, the environment is a collective commitment for Air France and KLM, involving all the employees of the Group and its subsidiaries.

Air France and KLM have separate environmental management systems adapted to their individual contexts. However, they work together on a large number of matters, particularly on the creation of an environmental reporting mechanism or the establishment of the Group's sustainability report.

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

Environmental management

In 2002, the Executive Board of Air France decided to set up the environment function whose coordination was entrusted to the Environment and Sustainable Development Department within the General Secretary's office.

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

The role of environmental liaison officers is to:
- promote the Company's environmental policy in their entity through multiple strategic, training and communication initiatives;
- coordinate the departments' environmental initiatives and action plans;
- establish control mechanisms, analyze the results and identify preventive and corrective measures.

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

Environmental responsibilities have been outlined for the entire KLM organization. At top management level, the Executive Committee is responsible for environmental issues. Each department has appointed an environmental liaison officer to coordinate environmental initiatives and keep management informed.

At Executive Committee level, the Corporate Environmental Center assists, advises and monitors environmental developments KLM-wide internally and externally. Environmental performance and the results of audits are regularly discussed by the Occupational Safety & Environment Board.

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

Environmental evaluation or certification programs

Air France is progressively achieving ISO 14001 certification, which is included in the scope of IMS (integrated management system) certification.

Air France Industries aims to have IMS certification for 90% of its industrial sites by mid-2007.

In the other areas of the business such as Air France Cargo or Operations, the ISO 14001 principles serve as the basis for the environmental management system. A certification program is currently being studied within these departments.

All KLM's activities with the exception of ground operations at the outstations are ISO 14001 certified. The relevant processes are planned, controlled and checked by audits to guarantee compliance with all environmental requirements.

Furthermore, on a yearly basis the management system is reviewed at KLM's Board level. Recently, the ISO 14001 standard has been revised and KLM implemented these revisions in its management system. The revised standard requires a more thorough evaluation of all areas potentially affected by the company. KLM is thus reviewing whether it needs to develop its current policy on supply chain management, beyond purchasing procedures.

Since 2002, KLM N.V. has been certified in accordance with the Eco Management and Audit Scheme (EMAS) of the European Union.

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

Huglo-Lepage, a consultancy specialized in environmental law was commissioned by Air France to set up a reference framework and mechanism to monitor regulatory compliance. This reference framework may be used by all the operational divisions and was developed to assemble all the regulatory texts, interpret them within the context of the Company's activities and sort them so that each local entity can access the legal texts specifically concerning them.

Furthermore, the implementation of a reporting and management tool within Air France Industries in April 2006 facilitates the tracking of environmental performance and the early detection of any abnormality or threshold transgression by automating the process of information reporting.

Air France Cargo ensures its regulatory compliance by undertaking environmental site audits, whose contents are based on Prefects' decrees granting authorization for operation. The Air France Cargo environmental action plans integrate the conclusions of these audits.

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

In 2005-06, 221 incidents were recorded, of which the majority were small fluid spills without any environmental consequences. They were managed in line with KLM's environmental standards.

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

Environmental risk management

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

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

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

Furthermore, the implementation, in 2006, of an environmental reporting tool for the whole Group, already deployed within Air France Industries, will guarantee the exhaustive monitoring of at-risk activities and the earliest possible detection of any anomaly, leading to the necessary corrective measures.

Investment in environmental risk prevention and guarantees

For environmental risk management, Air France has provisioned the following amounts:
- 1.7 million euros for the depollution of Montaudran,
- 0.7 million euros for the depollution of the Orly industrial site.

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

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

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

Indemnities paid and actions carried out to repair environmental damage

Indemnities linked with air transport operations

In 2005, Air France will have paid out 375,800 euros in noise fines, mostly in connection with delayed flight departures infringing Roissy airport regulations. Air France paid 9.9 million euros of noise tax for all its operations in mainland France. The funds collected from this tax are solely used to ensure that local residents are properly soundproofed. Air France is an active member of the Environmental Advisory Committee and Advisory Committee for Resident Assistance, which are responsible for ensuring that these funds are put to the most effective use.

In 2005, KLM paid 22.4 million euros in noise taxes for soundproofing and compensation for loss of value in properties around Schiphol airport in respect of article 77 of Dutch aviation law.

Indemnities and actions linked to ground operations

The second phase in the rehabilitation and clean up of the Montaudran industrial site is proceeding at an estimated cost of 2.5 million euros. This action is being carried out subsequent to a formal demand from the French Regional Industry, Research and Environmental Agency (DRIRE) following the cessation of activities at the site, and involves no legal proceedings against Air France.

Environmental expenditure and investment

Some information on environmental expenditure is available concerning the Operations Department of Air France, which has invested 292,000 euros in various materials.

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

KLM estimates that regulations concerning noise resulting in the alteration of landing and take-off procedures and in flight path diversions to avoid densely populated areas cost the airline 10 million euros in 2005.

In 2005-06, KLM expenditure on noise limitation, wastewater treatment and cleaning processes amounted to 3.4 million euros. Over the year approximately 4 million euros was spent on KLM's environmental management system, external environmental communication and on initiatives to encourage staff to use the public transport system.

Soil use conditions

Consistent with the precautionary principle, Air France's property division has sub-soil samples taken prior to any new construction on a site in order to check for the possible presence of underground pollutants. This guarantees that future buildings and their occupants will be safe from possible health risks that could otherwise have emerged over time.

In a related development, Air France, although a tenant of most of its premises, decided to apply the latest regulatory recommendations applying to owners in matters of asbestos. Asbestos diagnostics have been carried out in all the buildings in which Air France employees work. The program, involving 300 buildings, was completed in 2005.The surveys concluded that there is the occasional incidence of asbestos but not sufficient to require its removal. A monitoring program has been implemented.

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

Measures taken to improve energy efficiency

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

- the renewal of aircraft and vehicle fleets;
- the continuous improvement of operating procedures linked to aircraft and ground vehicles in order to limit fuel consumption;
- the implementation in January 2006 of an IT system to monitor fuel consumption in registered vehicles;
- the quarterly tracking of energy consumption in the Company's different departments;
- employee awareness initiatives on energy saving;
- the inclusion of energy saving in the design of new facilities as with the Villeneuve-le-Roi and Blagnac industrial sites.

Since 1989, KLM has implemented a range of energy saving measures, allowing a 46% reduction in energy consumption. In 2005, KLM concluded, with the Dutch Ministry of Economic Affairs, the second multi-year energy agreement on the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 6% to 20% as of 2007. KLM is implementing an extensive fleet renewal program, both for aircraft and ground support equipment. Aircraft fleet renewal in particular results in further improvements in energy efficiency.

Objectives for the Air France-KLM group's subsidiaries

The subsidiaries of Air France are involved in the Group's environmental control procedures. They attend committee meetings to monitor action plans organized by the Environmental and Sustainable Development Department and participate in the implementation of various environmental projects such as the regulatory monitoring mechanism.

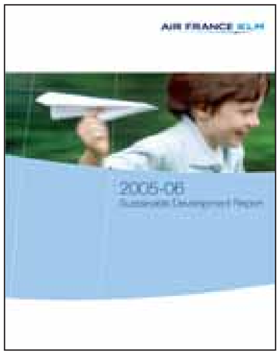
As a consequence of its ISO 14001 (1999) certification, CRMA, an AFI subsidiary, conducts an annual monitoring program which verifies the regulatory compliance of its facilities and operations. The shortfalls identified are taken into account in the preventive and corrective action plan.

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

Publication of the Air France-KLM Sustainability report

Air France-KLM has published its second annual Sustainability report, which takes an overall view of its corporate responsibilities and the policies established within the two airlines together with the objectives they have set themselves.

This report reflects the Group's ambition to combine profitable growth with the promotion of social values and environmental protection in line with its commitment to the United Nations Global Compact and its own internal social responsibility guidelines. The report is able on the website www.airfranceklm-finance.com.



Air France-KLM group environmental indicators

In 2005-06, under the aegis of the Group's Disclosure Committee, an instruction memorandum relating to the environmental indicators and the reporting scope retained was established.
For the environment the scope is, for the Air France group, that of Societé Air France and its main subsidiaries (Servair SA, Brit Air, Régional, ACNA, CRMA). The information supplied by KLM covers the KLM company and its subsidiary KLM Cityhopper.

Air operations for Air France and KLM (1)

	Unit	2003-04	2004-05	2005-06	Proforma change	Air France 2005-06	KLM 2005-06
Consumption							
Consumption of raw materials: fuel	000 tons	7,625	8,373	9,373	4%	5,392	2,981
Emissions							
Greenhouse gas emissions							
CO_2	000 tons	24,064	25,327	26,422	4%	17,012	9,410
Emissions of substances contributing to acidification and eutrophication							
NO_x	000 tons	115.3	123.5	131.9	7%	89.1	42.8
of which low altitude (< 3,000 ft)	000 tons	7.1	7.5	7.6	2%	5.6	2
SO_x	000 tons	3,430	4,605	6,421	39%	4,135	2,286
of which low altitude (< 3,000 ft)	000 tons	0.26	0.33	0.44	32%	0.30	0.14
Inflight fuel jettison							
Occurrences of fuel jettison		24*	20*	21*	5%*	21	ND
Fuel jettisoned	tons	1,707	1,343	1,046	-22%	525	521
Other emissions							
HC	000 tons	4.8	4.2	4.0	-7%	2.4	1.6
of which low altitude (< 3,000 ft)	000 tons	1.2	1.2	1.1	-7%	0.86	0.27
Noise impact							
Global noise energy indicator**	10^{12} kj	1.48*	1.81	1.79	-1%	1.41	0.38

* Air France data only
** Data computed on calendar year for Air France

(1) Current year dataset (as well as historical data) was updated to include consumption and emissions of Air France's subsidiaries (Régional and Brit Air) that were not included in the 2004-05 Reference Document for the Air France-KLM group.

Ground operations for Air France and KLM [1]

	Unit	2003	2004	2005	Proforma change	Air France 2005	KLM 2005
Consumption							
Water consumption	000 m^3	1,173	1,230	1,210	-2%	954	256
Raw materials consumption: fuel oil	m^3	NA	7,357	7,371	0%	7,371	0
Energy consumption							
Electricity consumption	MWh	355,499	371,986	386,839	4%	285,539	101,300
Energy consumption							
Superheated water	MWh		156,371	146,939	-6%	146,939	0
Iced water	MWh	388,875	3,020	4,148	37%	4,148	0
DFO	MWh		10,204	7,927	-22%	7,927	0
Gas	MWh		252,706	237,196	-6%	65,746	171,450
Consumption of renewable energies	MWh	0	0	0		0	0
Emissions							
Greenhouse gas emissions							
CO_2	tons	71,300	76,235	75,893	5%	32,588	43,305
Emissions of substances contributing to photochemical pollution							
Emissions of volatile organic compounds**							
(weight contained in products used)	tons	276	252	188	-25%	131	57
NO_x	tons	366*	355*	285*	-20%*	N.A.	285
SO_x	tons	43*	42*	47*	12%*	N.A.	47
Waste							
Waste production							
Quantity of ordinary industrial waste	tons	49,144	48,966	46,715	-5%	31,563	15,152
Quantity of special industrial waste	tons	4,371	4,975	5,721	11%	4,626	1,095
% of waste recycled	%	27%*	37%*	28%*	-24%*	N.A.	28%
Waste water							
Effluents contributing to acidification and eutrophication							
Nitrates	kg	3,667	5,387	3,468	-36%	3,058	410
Phosphoruses	kg	386	926	322	-65%	316	5
Heavy metals							
Heavy metals (CrVI, Cd, Ni, Cu, Pb)	kg	74.1	63.3	78.2	26%	73.3	4.9

* KLM data only
** Data calculated on IATA year for Air France

(1) Current year dataset (as well as historical data) was updated to include the environmental data of KLM's subsidiaries (KLM Catering & KLM Equipment Services) that were not included in the 2004-05 Reference Document for the Air France-KLM group.

Risks and risk management

Risks

Risks linked to the European air transport industry

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

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

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

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

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

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

Unfair competition risks between EU and US airlines

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

Risk of loss of flight slots

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

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

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

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

Environmental risks

The air transport industry is governed by numerous environmental regulations and laws, focusing notably on issues such as noise exposure, gas emissions, the use of dangerous substances and the handling of waste products and contaminated sites. Over the last few years, the French, Dutch, European and US authorities have adopted various regulations, especially regarding noise pollution and the age of aircraft, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations. Compliance with the various environmental regulations could lead to additional costs for the Group and impose new restrictions on its subsidiaries with regard to their equipment and facilities, which could have a negative effect on the Group's activity, financial position or results.

Risks linked to the Group's activity

Risks linked to the integration of the activities of Air France and KLM

The development of the Group requires the integration of two major and complex activities that were run separately up until the beginning of the 2004-05 financial year. The Group may encounter difficulties with the integration of the activities of Air France and KLM and may not be able to achieve all the objectives and synergy targets set.

Risks linked to assurances given to KLM and the Dutch State

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

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

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

On June 14, 2004, easyJet submitted an appeal against the ruling handed down by the European Commission authorizing the combination between Air France and KLM. If this ruling were to be repealed in full or part, the Commission would have to re-examine the combination between Air France and KLM in line with the conditions set under the first ruling.

Risks linked to competition from other air and rail transport operators

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

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

Today, Air France and KLM are also facing competition from low-cost airlines. The percentage of routes on which Air France and KLM are in competition with these airlines has risen sharply over the last ten years. This competition is expected to continue or even intensify. On another level, the use of the internet has made it possible for customers to compare prices on a given route. This competition could have a negative impact on the Group's business and economic situation.

Risks linked to changes in commercial alliances

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

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

Risks linked to financing

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

Risks linked to social conflicts and the negotiation of collective agreements

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

Risks linked to the use of third-party services

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

Risks linked to the closure of Terminal 2E at Roissy-Charles de Gaulle

Following the collapse of part of the boarding area in the departure hall in Terminal 2E and its subsequent closure, Air France was obliged to reorganize its program between the various terminals leased from Aéroports de Paris at Roissy-Charles de Gaulle. The prolonged closure of Terminal 2E, despite the compensation that Air France may obtain from Aéroports de Paris, could have a negative impact on the Group's activity and economic results.

Risk management

Market risk management

Market risk management is the responsibility of the Risk Management Committee (RMC) which comprises, for Air France, the Chief Executive Officer and the Deputy Chief Executive Officer, Economic and Financial Affairs and, for KLM, the Chief Executive Officer and the Chief Financial Officer.

The RMC meets at the beginning of each quarter and decides, after a review of the Group risk report, the hedging to be implemented, with different durations according to market:
- multi-year for fuel, foreign currency investments and interest rate risk; annual for interest rates and operating income currency risk,
- targets for hedging ratios, the deadlines for the respect of these targets and potentially the preferred types of hedging instrument.

These decisions are implemented within each company by the cash management and fuel purchasing departments in compliance with the procedures governing the delegation of powers. Regular meetings are held between the fuel purchasing and cash management departments of both companies in order to exchange information concerning matters such as hedging instruments used, strategies planned and counterparties.

The level of cash and cash equivalents is monitored daily by the cash management departments of each company, who produce a detailed monthly document reporting, amongst other information, interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency, and a statement of counterparty limits. This report is sent to the executive managements.

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

The Finance Departments verify the quality of counterparts and a weekly report is sent to the executive managements. This mainly includes the transactions carried out during the week, the valuation of all positions, the hedge percentages as well as the breakdown of instruments and underlyings used, average hedge levels and the resulting net prices. All of this data covers the current and next three years. Moreover, a weekly Air France-KLM group report (known as the SMC Report) consolidates the figures from the two companies and carries out a budget update.

The use of hedging aims to reduce the exposure of Air France-KLM and, therefore, to preserve 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. Generally, trading and speculation are strictly prohibited.

Currency risk

The majority of the Group’s revenues are generated in euros. However, because of its international activities, the Group incurs a foreign exchange risk on the main global currencies, particularly the US dollar, pound sterling and the yen. Therefore, any changes in the exchange rates for these currencies in relation to the euro will have an impact on the Group’s financial results.

With regard to the US dollar, since expenditures such as fuel costs, operating lease costs and a portion of maintenance costs exceed the level of revenue, any significant appreciation in the dollar against the euro could result in a negative impact on the Group’s activity and financial results. The Group estimates that its net exposure to the dollar excluding investments will represent approximately 2.4 billion US dollars for the current year. For the 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 Group’s activity and financial results.

In order to reduce their currency exposure, Air France and KLM have both adopted hedging strategies.
For the US dollar, both companies have a systematic hedging policy designed to cover approximately 30% of their net exposure over a sliding 12 months. This percentage may be increased to 70% over the financial year according to market conditions and expectations.
For the other currencies, depending on market conditions, hedging levels may be between 30% and 70% of expected revenues for the current year and, in certain cases, the next two or three years.

As far as investments are concerned, the Group has a high level of exposure to an increase in the dollar against the euro as aircraft and spare parts are purchased in US dollars. In this area, the procedure for hedging the currency risk provides for minimum systematic hedging of 30% at the beginning of the year. During this year, the Group continued to take advantage of the still low level of the dollar to continue its program of hedging its aircraft investments. On March 31, 2006, the Group forward purchased 3.4 billion US dollars in order to cover the majority of its investments over the next five years.

The exchange rate risk on the Group’s financial debt is relatively limited at present. At March 31, 2006, 87% of the Group's net debt, after taking into account derivative instruments, was issued or converted into euros, thereby sharply reducing the risk of currency fluctuations on the debt.

Currency (in millions)	**Operating exposure 2006-07**		
	US Dollar (USD)	**Pound sterling (GBP)**	**Yen (JPY)**
Net position before management	(2,390)	478	63,300
Currency hedge	1,500	(186)	(20,000)
Net position after management	(890)	292	43,300

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

Interest rate risk

At both Air France and KLM, most financial debt is based on floating-rate instruments in line with market practice. However, the companies are working to reduce their exposure to interest rate risk. For this purpose, capitalizing on the historically low level of interest rates over the last three years, Air France and KLM have used swap strategies to convert a significant proportion of their floating-rate debt into fixed rates.
At March 31, 2006, the net exposure to interest rates, after taking into account floating-rate cash investments, was 1.0 billion euros, cash resources invested at variable rates exceeding the amount of debt at floating rates.
Air France is thus exposed to a fall in interest rates. Taking into account the short-term position (less than one year) to be replaced, interest rate exposure is low, since any 1% change in the interest rate over 12 months would have an impact of 7 million euros on the financial results.

Equity risk

Air France and KLM cash resources are not invested in the equity market (whether directly or in the form of equity mutual funds). At March 31, 2006, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies for a net total of 98.7 million euros. An overall fall of 1% would represent a risk of 0.98 million euros.

Fuel price risk

Risks linked to the jet fuel price are hedged in accordance with the joint strategy of the Air France-KLM group, which stipulates that the following minimum requirements be respected:

Hedge percentage:
- Current financial year (N): 50% of volumes consumed,
- Subsequent financial year (N+1): 25% of volumes consumed,
- Year N+2: 5% of volumes consumed.

Underlying:
- For the current financial year, at least 30% of volumes consumed are hedged in Jet, beyond this minimum in Jet for the current financial year, the choice of underlying is at the discretion of Air France and of KLM provided that this choice is based on compatible underlyings as defined by IAS 39.
- For subsequent years, the choice of underlying is at the discretion of Air France and KLM provided that this choice is based on compatible underlyings as defined by IAS 39.

Instruments:
The instruments used within the framework of the strategy must, as a priority, be compatible with IAS 39.

At March 31, 2006, for the 2006-07 financial year, Air France-KLM fuel expenditure stood as follows:

(Figures in USD millions)
Gross expenditure before hedging: 6,357
Hedge percentage: 74.5%
Gain on hedging: 1,044
Net expenditure: 5,313
Average purchase price in Brent IPE equivalent: 53.1 $/bl

Beyond 2006-07, the Group had, at March 31, 2006, the following hedge percentages:
2007-08: 33.8%
2008-09: 21%
2009-10: 11.4%

Liquidity risks

For the Air France-KLM group, the balance of the cash flows tied to capital expenditure activities at March 31, 2006 was more than covered by the cash flows from operating activities, allowing the Group's net debt ratio to be reduced from 0.94 at March 31, 2005 to 0.56 at March 31, 2006.

At March 31, 2006, Air France had an undrawn credit line of 1.2 billion euros from an expanded pool of 19 banks, of which 0.13 billion matures in April 2010 and 1.07 billion in April 2011.
This credit line is subject to Air France respecting the following financial covenants:

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

These ratios are calculated every six months and were largely respected as at March 31, 2006.

The Air France group favors long-term financing for its investments. It diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003 (see note 29.5 of the notes to the consolidated financial statements) and the issuance of bonds convertible into new or existing shares, OCÉANEs, in April 2005 (see note 29.3 of the notes to the consolidated financial statements).

For KLM, the cash flows tied to capital expenditure activities were more than covered during the 2005-06 financial year by cash flows from operating activities. This free cash flow improved KLM's balance sheet and net debt position.

To finance its aircraft, KLM is able to access the export credit system, which enables the company to benefit from the guarantee of leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. During the year, the investments in the new fleet amounted 442 million euros. KLM also concluded several financing deals for refinancing existing aircraft in the banking market.

KLM has also progressively diversified its sources of financing: during summer 2005 KLM raised 174 million euros through real estate financing and arranged a five-year credit facility of 540 million euros with a consortium of major international banks.

Concerning liquidity risk management, KLM had a cash level of over 1.5 billion euros at March 31, 2006, and the treasury facility of 540 million euros is fully available.

Despite a continued general reluctance from the financial markets to support air carriers in general, KLM and Air France continue to benefit from financing at attractive interest rates. The average apparent cost of the Group's debt after swaps was 4.29% at March 31, 2006.

Overall, the Group believes that the conditions for access to financial markets for its two principal subsidiaries Air France and KLM, cash resources of 3.7 billion euros at March 31, 2006 and the undrawn syndicated credit facility of 1.74 billion euros, available in full, reflect prudent liquidity risk management.

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

Investment risks

The cash resources of Air France and KLM are primarily invested in liquid, short-term instruments, such as money market and dynamic money market mutual funds, on which the mandated investment horizon is shorter than 18 months. Cash notes or certificates of deposit rated A1/P1 are also used.
A portion of KLM's liquid assets are invested in currencies on AAA-rated, longer-term bonds, in order to reduce the currency risk on the debt.

Insurance and risk coverage

The Group's insurance strategy

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

Insurance policies taken out by Air France

In connection with its air transport activities, Air France has taken out an airline insurance policy on behalf of itself and its French and European airline subsidiaries, covering damage to aircraft, liability in relation to passengers and general liability to third parties.

In accordance with French legislation, this policy has been taken out with a leading French underwriter, La Réunion Aérienne, and co-insurers which include the French insurers AXA and AFA and an international reinsurance company.

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

Lastly, in line with its risk management and financing policy to improve the protection of its activities, employees and assets, Air France has taken out a number of policies to insure its industrial sites, equipment pool and ancilliary activities, with different levels of coverage depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

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

Insurance policies taken out by KLM

KLM has taken out suitable competitive polices to cover its operational risks. Thanks to a centralized purchasing operation, under which several policies are taken out for the same Group, KLM has been able to negotiate the least expensive premia on the market.

KLM has also taken out an airline insurance policy on behalf of itself and its subsidiaries, covering damage to aircraft, liability in relation to passengers and general liability to third parties in connection with its activity.

It covers KLM's civil liability for up to 2 billion dollars. Lastly, in line with its risk management and financing policy to improve protection for its activities, employees and assets, KLM has set up a range of policies to insure its industrial sites, equipment pool and ancilliary activities, with different levels of coverage depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

Exceptional events and disputes

In connection with the normal exercise of their activities, Air France-KLM and its subsidiaries are involved in disputes, for which they are not necessarily required to book provisions in their accounts (see note 35 of the notes to the consolidated financial statements).

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

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

See "Corporate governance".

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

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

III - Internal control procedures

Definition and goal of internal control

Air France-KLM has chosen COSO standards to define the internal control for the Group and the two Air France and KLM sub-groups.

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

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

The standards are based on the following principal components:
- the control environment,
- the risk assessment,
- the control operations,
- the information and communication,
- the monitoring of internal control.

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

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

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

Internal control project

To ensure that the internal control process complies with the new legal obligations, two projects were initiated in 2004:
- one at KLM, known as the SOX program; and,
- an internal control project at Air France.

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

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

A coordinating committee meets on a monthly basis to ensure consistent approaches and schedules for the two projects.

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

In April 2005, an internal control and internal audit division was created within the holding company.

General internal control structure

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

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

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

- The Strategic Management Committee is tasked with defining joint strategic decisions on commercial, financial, technical and operational issues for the two companies; the organization and operations of this Committee are described in the "Additional information" section.

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

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

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

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

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

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

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

The internal audit department performs audits at the level of the holding company, its subsidiaries and sub-subsidiaries at the request of the audit committee, the SMC or the Boards of Directors. Audits are conducted in collaboration with the auditors of the two airlines.

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

The activities of the internal audit department are approved by the SMC and the audit committee.

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

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

The different types of audits performed are:
- operational audits for the purpose of reviewing the effectiveness of Group procedures,
- thematic audits devoted to a common theme among several functions or entities or centred around the company's projects,
- specific audit missions undertaken at the request of general management or the heads of operational units,
- ICT audits following the creation of a new IT audit team.

Completed investigations are synthesized in a report that presents the mission's conclusions and highlights its findings, including risks with corresponding recommendations.

The auditees then establish corrective action plans and a follow-up is conducted in the next few months.

Finally, the internal audit department reports its work in an reference document presented on a quarterly basis to the SMC, as well as to the holding company's audit committee.

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

• The legal departments of each of the two companies perform a consulting mission for their management and for decentralized organizations in legal matters, transport law, corporate law and insurance law.

They systematically draw up an inventory of the disputes in process in order to assess the corresponding provisions booked as liabilities.

In April 2005, a legal department was created within the holding company.

• The insurance departments are responsible for identifying risk sectors of the Group that might impact the operations and financial results in order to reduce or transfer them either to insurers through insurance policies, particularly aviation policies, or to third parties under contractual mechanisms.

They also manage claims and advise entities of the Group on limiting and controlling their risks.

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

IV – Standards

Organization of responsibilities

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

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

Charters and manuals

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

Chapter 9, entitled “Equality,” restates the general provisions of the employee rules for equality. This code includes provisions governing the ethical conduct of employees with respect to the company and in relations with third parties.

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

For its part, the KLM group is about to publish a code of conduct addressing in particular the subjects of laws and regulations, conflicts of interest, confidentiality, assets protection, environmental protection, social responsibility and intellectual property.

KLM is also preparing a code of ethics intended for employees in the finance department.

Internal audit charter

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

The internal audit charter defines the mission, objectives and its responsibilities of the Audit Division and guarantees its independence as well as the conditions under which the department functions.

In accordance with the national and international professional code of ethics, it formalises the position of the audit within the company and defines its sphere of action.

It also specifies the operation methods and the different performance and synthesis phases of the missions carried out.

Procurement quality manual

The procurement quality manual describes, for both Air France and KLM, the purchasing processes and the related procedures applicable in each company, which are designed to ensure an impartial and objective selection of suppliers and service providers.

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

Quality system

The Air France and KLM quality systems are based on the following principle external and internal standards:

External standards

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

Internal standards

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

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

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

V – Summary information on internal control procedures

Management procedures and processes

These procedures are based on the organization and structure of the Group's companies.

The following businesses are common to each of the two companies:

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

Only KLM operates a "low cost/charter" business including leisure and charter activities of KLM performed by Transavia, its wholly owned subsidiary.

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

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

Air France and KLM control 75 and 38 subsidiaries and sub-subsidiaries respectively; 10 of the Air France subsidiaries and 3 of the KLM subsidiaries represent more than 90% of the revenues for all subsidiaries.

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

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

Financial procedures and processes and year-end

Finance processes

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

Coverage of risks

The management of Air France-KLM market risks is led by the Risk Management Committee (RMC), which is made up of the Executive General Manager and the Managing General Manager for Economic and Financial Affairs for Air France and the Chief Executive Officer and the Chief Financial Officer for KLM.

This committee meets at the beginning of each quarter and decides, after examining the group reporting, on the hedges to be set up during the coming quarters, with different durations (multi-year for fuel and foreign currency investments; annual for rates and currency exposure for the operating result); hedging ratios to be achieved, the time period for meeting these objectives and, potentially, preferred type of hedging instruments.

These decisions are then implemented in each company by the Cash Management and Fuel Purchasing departments in compliance with the procedures for delegating powers.

Regular meetings are planned between the Fuel Purchasing departments of the two companies, as well as between the Cash Management departments in order to exchange information on the hedging instruments, the strategies considered and the counterparties.

The Air France and KLM cash positions are monitored daily and are the subject of a monthly reporting to the financial divisions of the two groups. These reportings include the rate and exchange positions, the portfolio of hedging operations, a summary of investments and financing by currency and a capital rationing tracking statement by counterparty.

Fuel hedges are covered in a weekly reporting intended for the general managements of Air France and KLM.

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

Accounting and financial statements process

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

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

The accounting information provided by the various departments of the company and subsidiaries must comply with the Group's accounting rules, methods and standards defined by the parent company, and the financial statements must be presented in accordance with the format defined by the Group.

As part of their legal mission, the auditors of the parent company conduct a complete review of the information provided by the various consolidated entities.

The consolidated and individual statements are submitted to Management, then reviewed by the auditors (for the half-yearly and annual accounts only) before they are closed. They are then presented to the audit committee, which meets quarterly to close the accounts.

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

Just like financial statements prepared according to French accounting standards, financial statements prepared according to US accounting standards are presented to our auditors for certification and are then presented to the audit committee.

Furthermore, under European regulation No. 1606/2002 adopted on 19 July 2002, publicly traded European companies are required to use international accounting standards for the consolidated financial statements for financial years beginning on 1 January 2005, which for the Group means as of 1 April 2005.

The adoption of these standards makes the publication of a year of comparative figures mandatory.

This determines the transition from the current standards to the IAS/IFRS standards on 1 April 2004, the date on which a restated balance sheet has been prepared.

The work carried out during the preceding financial year consisted in developing the opening balance sheet as at 1 April 2004 and in restating the operations for fiscal year 2004-05, since the first publication requires the preparation of comparative 2005-06 consolidated financial statements.

This progressive conversion was facilitated by the fact that over the past few years the group had anticipated the application of certain IFRS provisions (international accounting standards) when they were consistent with the French standards. This was particularly the case for the adoption of the component approach for tangible fixed assets (IAS 16) and for the valuation of retirement commitments (IAS 19).

The effect of the transition to the international standards relative to the opening balance sheet was reviewed by the auditors and was the subject of a group announcement at the time the half-yearly financial statements were drawn up at 30 September 2005.

Revenue reporting process

This process is performed in each of the companies and makes it possible to communicate weekly revenues to management; Air France has also set up a “progressive revenue” process that makes it possible to know the estimated amount of passenger revenues with only a two-day time lag.
In addition, departments for passenger and cargo activities in each company analyse the results by market and by line (unit revenues, per passenger-kilometre, available seat-kilometre, ton-kilometre etc.).

Management reporting process

The management control departments coordinate the reporting process and at the beginning of month m+1 establish a management estimate based on the information available, then once the accounting result is known, produce a monthly document that summarizes the business and key financial data and then analyse the result; they also routinely analyse economic performance for the past month with the principle departments and subsidiaries of the companies and estimate the results for the coming months up to the end of the current fiscal year.

The monthly reporting is presented to the Strategic Management Committee.

In April 2005, a Group management reporting unit was created.

Operational procedures and processes

Quality system management

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

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

In addition to the regulatory agreements, which allow each company to carry out its activities, recognition of the progress made is reflected in certifications obtained from independent bodies, notably:
- IOSA certification (IATA Operational Safety Audit) obtained in 2005,
- ISO 9001 certification (version 2000) for management systems efficiency (60 entities certified at Air France at 31 March 2005),
- ISO 14001 certification for the validation of environmental systems.

Quality assurance

The control of operational processes is based primarily on three means of supervision:
- Internal monitoring: conducted by the quality assurance departments, which include:
  - an audit program (focussing on the areas of organisation and management, flight operations, flight preparation, ground and freight handling, hazardous goods, engineering and maintenance),
  - regular monitoring of operations with incident analysis and routine use of debriefing,
  - proactive prevention processes.
- External monitoring: conducted by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and agencies specialized in certification, which takes the form of audits of the operating principles and of the specific internal monitoring system. Air France and KLM are also regularly audited by their customers or their partners.
- Monitoring of partners - whether they are subcontractors or suppliers. In particular, charter companies, franchisees or code sharing companies are subject, without exception, to a preliminary audit, then a bi-annual audit as part of IOSA certification or by dedicated SkyTeam auditors.
- The effective implementation of preventive/corrective actions resulting from this global monitoring is supervised by the quality assurance departments coordinated by the Corporate Quality Department. Monthly meetings allow for validation of the proper performance of this monitoring and its effects.

Support procedures and processes

Information systems

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

The mechanisms put in place aim to ensure:
- the reliability of the IT and telecommunications resources,
- the integrity of the data through dedicated resources, infrastructures and controls,
- the continuity of IT services and the availability of the data on the production sites with a common local contingency strategy, secure architecture and a security system covering external access points,
- the confidentiality of information based on national laws and the security of IT infrastructures through the establishment of secured, monitored and effective accesses.

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

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

The work carried out in connection with internal control projects and the progressive project to set up a coordinated and optimised organization lead to launching action plans to strengthen internal control, particularly concerning certain risks such the continuity of the operations.

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

Procurement

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

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

The Head of purchasing at Air France and KLM manage the network of buyers of each company through regular meetings and the presentation of the companies' purchasing trend chart.

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

VI – Current projects

The actions begun in 2004 and continued in 2005 and 2006 seek to create a dynamic that will effectively mobilise the staff involved in internal control in order to achieve three targeted objectives: the performance and optimisation of operations, the reliability of the accounting and financial information and compliance with the laws and regulations in force.

The internal control project, which is designed to meet the requirements of the Sarbanes-Oxley Act, is based on the following structural components: the annual evaluation of the control environment of the Air France-KLM group, on the one hand, and the detailed evaluation of the checks concerning accounting and financial information at the significant process level, on the other hand.

• Evaluation of the control environment:
At the end of March 2005, a first general evaluation of the internal control of each company was performed on the basis of a complete questionnaire structured around the 5 components of the COSO internal control recommendations. Action plans were thus devised to complete the mechanism.

The work mentioned above made it possible to conclude that each company controls risks properly, particularly for regulated activities.

Areas of improvement were identified and action plans initiated; these include:
- a risk analysis process that will be performed quarterly, by reproducing at the holding level the risk management system set up at KLM in 2002, which makes it possible to formally monitor the main risks and to take the appropriate measures if necessary,
- an increase in internal control data,
- regular communication of the rules and codes related to ethics,
- updated delegations of powers,
- strengthening of certain business continuity plans,
- improved authorizations management.

The control environment evaluation process will be conducted every year. The main areas for reflection in 2006-2007 will be the establishment of a professional alert procedure that conforms to the national recommendations, the formalisation of the anti-fraud program, as well as an identification process and effectiveness tests for the control environment.

- Detailed evaluation of key controls for financial and accounting information at the significant process level:
  - definition of the business model based on accounts, the reporting environment (main entities and subsidiaries) and, in particular, processes and sub processes that help in preparing accounts and financial statements,
  - documentation for processes, key controls, control effectiveness testing monitoring,
  - performance of corrective actions (remediation) at each step of the project.

The SMC and the audit committee are regularly informed of the advancement of the internal control projects.

Statutory auditors' report

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

Year ended March 31, 2006

To the shareholders,

In our capacity as statutory auditors of Air France-KLM S.A. and in accordance with Article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended March 31, 2006.

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

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

We conducted our procedures in accordance with the professional guidelines applicable in France. These guidelines require that we assess the fairness of the information set forth in the Chairman's report concerning the internal control procedures for the preparation and processing of financial and accounting information. Specifically, these procedures consist of:

- obtaining an understanding of the objectives and the general organization of internal control, and the internal control procedures for the preparation and processing of financial and accounting information presented in the Chairman's report;
- obtaining an understanding of the work underlying the information set forth in the report.

On the basis of our procedures, we have no matters to report in connection with the information concerning the internal control procedures for the preparation and processing of financial and accounting information, set forth in the report of the Chairman of the Board, prepared in accordance with the last paragraph of Article L.225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, June 27, 2006

KPMG Audit Department of KPMG S.A.		Deloitte & Associés
Jean-Luc Decornoy	Jean-Paul Vellutini	Pascal Pincemin

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

Financial report

Comments on the financial statements

Results for the year ended March 31, 2006

The financial statements published as of the 2005-06 financial year, including the comparable financial statements for 2004-05, have been established in accordance with international accounting standards stipulated by the IASB (International Accounting Standards Board) and approved by the European Union at the time these financial statements were prepared.

In May 2004, Air France-KLM closed the public exchange offer for KLM shares. At the end of this offer and taking into account the additional purchases made during the 2004-05 financial year, the Air France-KLM shareholding in KLM was 97.3% at March 31, 2005.
KLM and its subsidiaries were integrated in the consolidation scope as of May 2004 and are fully consolidated for 11 months of activity to March 31, 2005. To enable comparison between the 2004-05 and 2005-06 financial years, the unaudited pro forma consolidated financial statements were prepared for the year ended March 31, 2005, both under international standards and taking in 12 months of activity for the KLM group.

All the comments and changes below are given on the basis of the comparable proforma financial statements.

Financial year to March 31, In euro million	**2006**	**2005 proforma unaudited**	**Change (*)**	**2005 reported under French GAAP**
Revenues	21,448	19,467	10.2%	19,078
Income from current operations	936	553	69.3%	N/A
Income from operating activities	1,455	1,931	N/A	497
Net income from continuing activities	921	1,632	N/A	359
Net income, Group share	913	1,704	N/A	351
Basic earnings per share (in euros)	3.47	6.59	N/A	1.30

(*) Given, on one hand, the capital gain realized in the 2005-06 financial year on the tender of Amadeus shares to the public exchange offer and, on the other, the reversal of negative goodwill on the first-time consolidation of the KLM group in the 2004-05 financial year, the year-on-year change in income from operating activities and in net income are not representative.

Operating Revenues

Consolidated revenues for the period amounted to 21.4 billion euros, up by 10.2% on the previous year. All sectors, passenger, cargo, maintenance and other, recorded growth of, respectively, 10.2%, 11.9%, 12.1% and 2.1%. Unit revenue per equivalent available seat-kilometer (EASK) rose by 4.0% (3.5% excluding currency).

Income from current operations

Income from current operations rose strongly to 936 millions euros, reflecting the progression in revenues and cost control, which offset the increase in current operating expenses and, particularly, the cost of fuel, which showed a significant increase of 867 million euros or +31.9% on the previous year. Operating expenses grew by 8.4% to 20.51 billion euros. Excluding fuel, operating expenses rose by just 4.5%.

Unit costs per equivalent available seat-kilometer (EASK) rose by 2.2% for revenues per equivalent available seat-kilometer up by 6.2%. They fell by 2.7% with constant exchange and oil prices.

External expenses rose from 10.9 billion euros to 12.1 billion euros, an increase of 10.8%.

Excluding the increase in the fuel bill, external expenses rose by 3.8% with the breakdown as follows:

Financial year to March 31, In euro million	**2006**	**2005 proforma unaudited**	**Change in %**
Aircraft fuel	3,588	2,721	31.9%
Chartering costs	605	565	7.1%
Aircraft operating leases	637	611	4.3%
Landing fees and en route charges	1,610	1,504	7.0%
Catering	405	399	1.5%
Handling charges	1,203	1,100	9.5%
Aircraft maintenance costs	740	683	8.3%
Commercial and distribution costs	1,232	1,435	(14.2)%
Other external expenses	2,070	1,898	9.1%
Total	**12,090**	**10,916**	**10.8%**

Aircraft fuel
Fuel costs amounted to 3.59 billion euros (2.72 billion at March 31, 2005), a 32% increase, which broke down into a 4% volume effect, an unfavorable exchange rate effect of 2%, a fuel cost rise of 41% and a hedging gain of 15%. Hedging provided a saving of 953 million euros, or 21% of the fuel bill before hedging.

Chartering costs
Chartering costs increased by 7.1% to 605 million euros. This rise was mainly due to code sharing agreements with Air Europa and Portugalia.

Aircraft operating leases
Aircraft operating leases amounted to 637 million euros, a 4.3% increase on 611 million euros in the previous period.

Landing fees and en route charges
Landing fees and en route charges rose by 7.0% to 1.6 billion euros compared with 1.5 billion euros at March 31, 2005. This increase was mainly due to the payment of landing fees for connecting passengers.

Catering
With the increase in passenger numbers, catering costs increased by 1.5% to 405 million euros compared with 399 million euros at March 31, 2005.

Handling charges
Handling charges rose by 9.5% to 1.2 billion euros.

Aircraft maintenance costs
Aircraft maintenance costs amounted to 740 million euros, an increase of 8.3% on March 31, 2005.

Commercial and distribution costs
At 1.23 billion euros, commercial and distribution costs were down by 14.2% (1.4 billion euros at March 31, 2005) due to the transition to zero commission for travel agencies from January 2005 in the Netherlands and from April 2005 in France.

Other external expenses
Other external expenses amounted to 2.1 billion euros at March 31, 2006, compared with 1.9 billion at March 31, 2005.

Salaries and related costs amounted to 6.4 billion euros compared with 6.1 billion euros at March 31, 2005, representing an increase of 3.6%, while the work force was broadly unchanged at 102,422 employees.

Taxes other than income taxes amounted to 256 million euros, unchanged on the previous year.

Amortization, depreciation and provisions totaled 1.76 billion euros compared with 1.6 billion euros at March 31, 2005.

The breakdown of operating revenues and income from current operations (ICO) by activity is as follows:

Financial year to March 31, In euro million	**2006**		**2005 proforma unaudited**	
	Operating revenues	**ICO**	**Operating revenues**	**ICO**
Passenger	16,942	686	15,379	384
Cargo	2,882	166	2,576	140
Maintenance	896	54	799	25
Other	728	30	713	4
Total	**21,448**	**936**	**19,467**	**553**

Income from operating activities

Income from operating activities amounted to 1.46 billion euros including the capital gain of 504 million euros relating to the public exchange offer for Amadeus shares made by WAM in July 2005.

At March 31, 2005, income from operating activities was 1.9 billion euros including, notably, the reversal of 1.35 billion euros of negative goodwill resulting from the acquisition of the KLM group.

Net cost of financial debt was 224 million euros at March 31, 2006 compared with 222 million euros at March 31, 2005, which included a non-recurring gain of 38 million euros linked to the unwinding of two financing transactions.

Income taxes amounted to 256 million euros compared with 133 million euros at March 31, 2005, of which 135 million relating to tax paid on the Amadeus capital gain.

Share of profits (losses) of associates represented a 23 million euro negative contribution at March 31, 2006, compared with a 73 million euro positive at March 31, 2005. The difference was partly due to the asset impairment test on the company Martinair, 50%-owned by the KLM group, which led to a write down of 59 million in 2005-06 and partly to the sale of Amadeus in July 2005.

Net income, Group share, after minorities of 8 million euros, amounted to 913 million euros at March 31, 2006, compared with 1.71 billion euros at March 31, 2005, including the reversal of 1.35 billion euros of KLM negative goodwill.

The breakdown by quarter was respectively: 112 million euros, 717 million euros, 77 million euros and 7 million euros at March 31, 2006.

Air France-KLM parent company results

The agreements for the merger of Air France and KLM provided for the formation of a holding company, Air France-KLM, which holds the operational companies Air France and KLM.
The Group's holding company was formed from Air France's contribution (which then became Air France-KLM) of almost all its assets and liabilities to the operational company Air France, now known as Société Air France.

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

The operating result is composed of royalties paid by the two operational companies for the use of the AIR FRANCE KLM logo less financial communication expenses, auditors' fees and payroll costs for corporate officers. The operating result thus amounted to a loss of 9.6 million euros at March 31, 2006, essentially due to the one-off professional tax paid this year.

Financial expenses included an impairment charge on Alitalia shares totaling -7.3 million euros.
The net result was a 1.5 million euro loss after dividends received, financial proceeds relating to the OCÉANEs, interest expense and income taxes.

Adoption of IFRS (International Financial Reporting Standards)

As of the year starting January 1, 2005, implying April 1, 2005 for the Air France-KLM group, the consolidated financial statements of listed European companies, in accordance with European regulation n°1606/2002 of July 19, 2002, are established in conformity with the international accounting standards stipulated by the IASB.

The adoption of these standards makes it obligatory to publish one year of comparable figures, which set the transition to the current IAS/IFRS accounting standards at April 1, 2004, the date on which the Group established a restated balance sheet. To allow comparison, the Group established stockholders' equity and balance sheet transition tables at April 1, 2004, under both French and international GAAP henceforth applicable, as well as a note outlining the main impacts. (cf chapter on the consolidated financial statements at March 31, 2006).

Investment and financing

Capital expenditures on tangible and intangible assets totaled 2.54 billion in 2005-06 compared with 2.13 billion in the previous financial year.

Disposals amounted to 1.08 billion euros, of which 817 million euros of net cash received on the Amadeus transaction and proceeds of 227 million on the sale of property, plant and equipment.

Overall, cash flows used in investing activities amounted to 1.18 billion euros, which was more than covered by cash flows from operating activities amounting to 2.66 billion euros.

Net debt amounted to 4.4 billion euros and stockholders' equity, including minority interests, to 7.9 billion euros at March 31, 2006. The gearing ratio was 0.56 at March 31, 2006, after taking into account financing instruments.

Investment and financing

Total capital expenditure on tangible and intangible assets and acquisition of subsidiaries and equity interests in the 2005-06 financial year amounted to 2.6 billion euros compared with 1.67 billion in the previous year.

Concerning property, plant and equipment, the Air France-KLM group took delivery of five Airbus A330s, four Boeing B777s, three Airbus A318s, two Airbus A319s, one Boeing B737, one CRJ70 and three Fokkers. Installment payments continued on future acquisitions planned for the fleet (principally Airbus A330s and Boeing 777s.) In total, capital expenditures on the fleet amounted to 1.5 billion euros (1.3 billion euros in 2004-05).

Other flight equipment also included the capitalization of overhaul costs in line with IAS 16 and the capitalization of aeronautical spare parts.

Notable among ground investments were the completion of the new flight crew center at the Roissy complex and the acquisition of an A330 flight simulator by KLM. Other ground and intangible investments were purchases of software and computer equipment.

Cash disbursed to pay for acquisitions of subsidiaries and equity interests in the 2005-06 financial year amounted to 58 million euros and principally included the 25 million euros subscribed in the Alitalia capital increase, 13 million euros for the purchase of KLM shares, 12 million euros for Aero Maintenance Group shares and 4 million euros for Airlinair shares. Investment activities for the financial year closed March 31, 2005, had shown positive cash flows of 506 million euros, corresponding principally to the cash and cash equivalents of the KLM group at the acquisition date (575 million euros), option exercise on Air France-KLM shares under the pilots' option scheme (32 million euros) as well as the increase in the Servair holding (7 million euros).

For 2005-06, the proceeds on disposals of subsidiaries and equity interests amounted to 35 million euros, principally on the sale of treasury stock for a total of 22 million euros and the Air Austral stake for 9 million euros.

In 2004-05, disposals of subsidiaries and equity interests had generated cash of 109 million euros and included, notably, the sale of the stake in Amadeus France for the amount of 91 million euros.

Note also that, during the 2005-06 financial year, Air France participated in a «Leveraged Buy Out» transaction involving Amadeus GTD. This operation generated 817 million euros of net cash before taxation.

Proceeds on disposals of property plant and equipment and intangible assets amounted to 227 million euros (204 million euros in 2004-05) and mainly concerned the sale of an Airbus A340, a Boeing B747, a Boeing B767 and four Boeing B737s.

Dividends received from unconsolidated subsidiaries amounted to 10 million euros (25 million euros in 2004-05).

Overall, cash flows used in investing activities showed a net disbursement of 1.81 billion euros compared with 1.21 billion euros for the 2004-05 financial year.

This net disbursal of cash used in financing operations was largely covered by cash flows from operating activities, which amounted to 2.66 billion euros (2.00 billion euros in 2004-05).

The free cash flow from operations, after cash used in investing activities for the year, allowed for a reduction in the Group's net debt, which amounted to 5.64 billion euros at March 31, 2005 compared with 4.38 billion euros at March 31, 2006, a reduction of 1.26 billion euros.

The Group's stockholders' equity moved from 6.02 billion euros at March 31, 2005 to 7.85 billion euros at March 31, 2006. As a result, the gearing ratio, or net debt over stockholders' funds, moved from 0.94 at March 31, 2005 to 0.56 at the end of March, 2006.

Other property and equipment

After the fleet, land and buildings are the second largest category of tangible assets for the Air France-KLM group, representing a net book value of 1.26 billion euros at March 31, 2006.

Air France land and buildings

Air France occupies around 1,800,000 m^2 of buildings, mostly in mainland France (85% of surface area), of which 52% is rented, 41% fully owned, and 7% leased.

Note that only 18% of the surface area which is wholly owned or leased is situated on land fully controlled by Air France, most of the Group's facilities being based in airport zones where land availability is subject to occupancy agreements or long-term leases.

The use of building surface area by the core activities in France breaks down as follows:

Activity	Approximate surface area in m²
Operations	166,000
Cargo	246,000
Maintenance	635,000
Support	455,000

Geographically, Air France occupies seven main sites:

Sites	Approximate surface area in m²	Type of financing
Roissy–Charles de Gaulle Airport	728,000	ownership, leases, rental
Orly Airport	436,000	ownership, rental
Toulouse	71,000	ownership, leases
Vilgénis	45,000	ownership
Le Bourget	57,000	rental
Montreuil	36,000	rental
Valbonne	17,000	ownership

The main property asset operation for the year concerned the building of the new flight crew center at Roissy-Charles de Gaulle, completed in March 2006, representing a total surface area of around 33,000 m² and lease-financed.

The three main rental contracts concern:

Sites	Approximate surface area in m²	Amount in m²	Type of rental contract
Commercial head office, France, in Montreuil	20,000	5.4	commercial lease
Hangar H4 at Roissy-Charles de Gaulle	35,000	5.4	agreement
Hangar Hbn6 at Orly	45,000	4.8	agreement

The two main construction projects currently underway are the A380 hangar at Roissy-Charles de Gaulle, representing an investment of round 47 million euros, with completion expected in spring 2008 and the construction of the maintenance center at the Roissy hub, with an estimated cost of 27 million euros, with completion expected in spring 2007.

KLM land and buildings

KLM occupies approximately 615,000 m^2 of developed land principally situated around Schiphol airport.

Office and commercial space represents around 34% the total, hangars 32%, warehouses and cargo terminals 16% and other industrial sites 18%.

87% of this surface area is owned by KLM and the 13% balance is rented. Note that, of the wholly-owned buildings, only the Amsterdam head office and the Information Center are sited on land belonging to KLM. The other buildings are sited on land subject to rental agreements.

The market value of the total property portfolio is estimated at 500 million euros, the initial value being 550 million euros. The hangars, warehouses and buildings used by the cargo activity represent around 48% of the market value.

KLM rents 78,000 m^2 of which 37,500 m^2 is situated at Schiphol airport. Total annual rental payments made by KLM amount to nearly 22 million euros.

Apart from the demolition of certain old buildings, KLM currently has no outstanding commitments to large-scale investment projects.

Subsequent events and outlook

The 2006-07 financial year opened with activity levels remaining buoyant. In passenger transport, the Group recorded traffic growth of 8.1% in the first two months of the year for a capacity increase of 4.3%, allowing a 2.6 point rise in the load factor to 81.1%. All segments performed well. The long-haul network saw traffic up by 8.4%, with the load factor gaining 2.8 points to 83.6%. The medium-haul network recorded strong growth, with traffic increasing by 6.9% and a 2 point improvement in the load factor to 72.9%. Furthermore, reservations for the three coming months are looking very positive. The cargo activity has also had a strong start to the year, with traffic up by 3.2% and the load factor rising by 0.8 points to 66.7%.

Given this favourable environment, the Air France-KLM group is targeting current year operating income of at least the same level as in the 2005-06 financial year. The Group's assumptions for this guidance are a rise in unit revenues on a constant currency basis, a euro/dollar exchange rate of 1.22 and a fuel bill of 4.4 billion euros based on a jet fuel price of 700 dollars a ton. The Group should also achieve 115 million euros of additional synergies and new cost savings of 326 million euros.

Consolidated financial statements

Consolidated income statements

For the year ended March 31, In euro million	Notes	2006	2005
Sales	**5**	**21,448**	**18,978**
Other revenues		4	5
Revenues		**21,452**	**18,983**
External expenses	6	(12,090)	(10,629)
Salaries and related costs	7	(6,357)	(5,994)
Taxes other than income taxes		(228)	(225)
Depreciation and Amortization	8	(1,656)	(1,561)
Provisions	8	(109)	(28)
Other income and expenses	9	(76)	4
Income from current operations		**936**	**550**
Sales of aircraft equipment	10	2	19
Negative goodwill	4	5	1,354
Other non-current income and expenses	10	512	4
Income from operating activities		**1,455**	**1,927**
Cost of financial debt		(392)	(347)
Income from cash and cash equivalents		168	125
Net cost of financial debt	**11**	**(224)**	**(222)**
Other financial income and expenses		(31)	(8)
Income before tax		**1,200**	**1,697**
Income taxes	12.1	(256)	(133)
Net income of consolidated companies		**944**	**1,564**
Share of profits (losses) of associates		(23)	73
Net income from continuing operations		**921**	**1,637**
Net income from discontinued operations	13.1	-	59
Income for the period		**921**	**1,696**
Group (*)		**913**	**1,710**
Minority interest		8	(14)
Earnings per share - Group (*)	**14.1**		
Basic		3.47	6.61
Diluted		3.25	6.60
Net income from continuing operations per share	**14.2**		
Basic		3.50	6.33
Diluted		3.28	6.32

(*) corresponds to the result attributable to the stockholders of Air France-KLM

Consolidated balance sheet

Assets

In euro million	Notes	March 31, 2006	March 31, 2005
Goodwill	15	208	205
Intangible assets	16	428	437
Flight equipment	17	11,017	10,394
Other property, plant and equipment	17	1,955	1,895
Investments in equity associates	19	204	577
Pension assets	20	1,903	1,767
Other financial assets	21	1,182	1,113
Deferred tax assets	12.5	7	140
Other non current assets	24	1,082	336
Total non current assets		**17,986**	**16,864**
Other short term financial assets	21	932	654
Inventories	22	340	382
Account receivables	23	2,518	2,272
Income tax receivables		1	6
Other current assets	24	1,756	969
Cash and cash equivalents	25	2,946	2,047
Total current assets		**8,493**	**6,330**
Total assets		**26,479**	**23,194**

Consolidated balance sheet

Liabilities and equity

In euro million	Notes	March 31, 2006	March 31, 2005
Issued capital	26.1	2,290	2,290
Additional paid-in capital	26.2	430	384
Treasury shares	26.3	(58)	(19)
Reserves and retained earnings	26.4	5,072	3,254
Equity attributable to equity holders of Air France-KLM SA		**7,734**	**5,909**
Minority interests		119	111
Total Equity		**7,853**	**6,020**
Provisions and retirement benefits	28	1,453	1,516
Long-term debt	29	7,826	7,889
Deferred tax	12.5	839	313
Other non-current liabilities	30	417	481
Total non-current liabilities		**10,535**	**10,199**
Provisions	28	192	124
Short term portion of long-term debt	29	1,260	1,044
Trade payables		2,039	1,901
Deferred revenue on ticket sales		2,062	1,656
Current tax liabilities		167	8
Other current liabilities	30	2,269	1,980
Bank overdrafts		102	262
Total current liabilities		**8,091**	**6,975**
Total liabilities and equity		**26,479**	**23,194**

Consolidated statements of changes in stockholders' equity

In euro million	**Number of shares**	**Issued capital**	**Additional paid-in capital**	Treasury shares	Retained earnings
April 1, 2004	**219,780,887**	**1,868**	**261**	**(18)**	**1,277**
Currency translation adjustment	-	-	-	-	-
Income for the year	-	-	-	-	1,710
Total of gains/(losses) recorded	**-**	**-**	**-**	**-**	**1,710**
Issuance of share capital	49,602,631	422	346	-	-
Contribution of assets	-	-	(206)	-	206
Cost of exchange offer	-	-	(17)	-	-
Share purchase plan (“Offre Réservée aux Salariés: ORS”)	-	-	-	-	69
Stock Options	-	-	-	-	6
Dividends paid	-	-	-	-	(17)
Treasury shares	-	-	-	(1)	9
Change in consolidation	-	-	-	-	-
March 31, 2005	**269,383,518**	**2,290**	**384**	**(19)**	**3,260**
Gain/(loss) on revaluation of fixed assets reclassified as available for sale assets	-	-	-	-	-
Gain/(loss) on cash flow hedges	-	-	-	-	-
Currency translation adjustment	-	-	-	-	-
Income for the year	-	-	-	-	913
Total of gains/(losses) recorded	**-**	**-**	**-**	**-**	**913**
Stock based compensation (ESA)	-	-	-	-	(80)
Stock component of convertible bonds (OCÉANE)	-	-	46	-	-
Dividends paid	-	-	-	-	(40)
Treasury shares	-	-	-	(39)	-
Change in consolidation	-	-	-	-	-
Other	-	-	-	-	(30)
March 31, 2006	**269,383,518**	**2,290**	**430**	**(58)**	**4,023**

(*) Corresponds to the result attributable to the stockholders of Air France-KLM.

Derivatives reserve	Available for sale securities reserve	Currency translation adjustment	Other reserves	Total of	**Equity attributable to holders Air France-KLM SA** [*]	**Minority interests**	**Total equity**
-	**-**	**(9)**	**-**	**1,268**	**3,379**	**87**	**3,466**
-	-	3	-	3	3	(1)	2
-	-	-	-	1,710	1,710	(14)	1,696
-	**-**	**3**	**-**	**1,713**	**1,713**	**(15)**	**1,698**
-	-	-		-	768	-	768
-	-	-	-	206	-	-	-
-	-	-	-	-	(17)	-	(17)
-	-	-	-	69	69	-	69
-	-	-	-	6	6	-	6
-	-	-	-	(17)	(17)	(1)	(18)
-	-	-	-	9	8	-	8
-	-	-	-	-	-	40	40
-	**-**	**(6)**	**-**	**3,254**	**5,909**	**111**	**6,020**
-	(4)	-	-	(4)	(4)	-	(4)
1,055	-	-	-	1,055	1,055	4	1,059
-	-	4	-	4	4	-	4
-	-	-	-	913	913	8	921
1,055	**(4)**	**4**	**-**	**1,968**	**1,968**	**12**	**1,980**
-	-	-	-	(80)	(80)	-	(80)
-	-	-	-	-	46	-	46
-	-	-	-	(40)	(40)	(1)	(41)
-	-	-	-	-	(39)	-	(39)
-	-	-	-	-	-	(3)	(3)
-	-	-	-	(30)	(30)	-	(30)
1,055	**(4)**	**(2)**	**-**	**5,072**	**7,734**	**119**	**7,853**

The change in the cash flow and fair value reserves between March 31, 2005 and March 31, 2006 breaks down as follows:

In euro million	**Derivatives reserve**	**Available for sale securities reserve**	**Total**
March 31, 2005	**-**	**-**	**-**
Impact of the first application of IAS 32 and IAS 39:			
Derivatives	1,168	-	1,168
Investments available-for-sale	-	(3)	(3)
Deferred tax	(397)	-	(397)
Impact for the period:			
Derivatives	428	-	428
Investments available-for-sale	-	(1)	(1)
Deferred tax	(144)	-	(144)
March 31, 2006	**1,055**	**(4)**	**1,051**

Statements of consolidated cash flows

For the year ended March 31, In euro million	Notes	2006	2005
Income for the period		921	1,696
Amortization, depreciation and operating provisions		1,765	1,589
Financial provisions		24	6
Gain on disposals of tangible and intangible assets		(46)	(19)
Gain on disposals of subsidiaries and associates		(2)	(66)
Gain on Amadeus GTD transaction	10	(504)	-
Derivatives		(6)	-
Unrealized foreign exchange gains and losses, net		8	4
Negative goodwill		(5)	(1,354)
Share of profits (losses) of associates		23	(73)
Deferred taxes		98	139
Other non-monetary items		(182)	(143)
Subtotal		**2,094**	**1,779**
(Increase)/decrease in inventories		(18)	(16)
(Increase)/decrease in trade receivables		(215)	42
Increase/(decrease) in trade payables		96	313
Increase/decrease in other receivables and payables		699	(127)
Net cash flow from operating activities		**2,656**	**1,991**
Acquisitions of subsidiaries and investments in associates, Net of cash acquired	37	(58)	506
Purchase of property plant and equipment and intangible assets	18	(2,544)	(2,131)
Proceeds on disposal of subsidiaries and investments in associates	37	35	109
Proceeds on Amadeus GTD transaction		817	-
Proceeds on disposal of property plant and equipment and intangible assets		227	157
Dividends received		10	25
Decrease (increase) in investments, net		(294)	116
Net cash used in investing activities		**(1,807)**	**(1,218)**
Issuance of long-term debt		1,410	858
Repayments on long-term debt		(523)	(288)
Payment of debt resulting from finance lease liabilities		(580)	(381)
New loans		(155)	(101)
Repayments on loans		97	22
Dividends paid		(41)	(24)
Decrease in equity		-	(33)
Net cash flow from financing activities		**208**	**53**
Effect of exchange rate on cash and cash equivalents		**2**	**(5)**
Change in cash and cash equivalents		**1,059**	**821**
Cash and cash equivalents at beginning of period		1,785	964
Cash and cash equivalents at end of period	37.3	2,844	1,785
Income tax paid (flow included in operating activity)		*364*	*312*
Interest paid (flow included in financing activities)		*154*	*123*
Interest paid (flow included in financing activities)		*(4)*	*22*

Notes to the consolidated financial statements

1. Business description

As used herein, the term "Air France-KLM" refers to Air France-KLM, a limited liability company organized under French law, without its consolidated subsidiaries. The terms the “Company” or the "Group" refer to Air France-KLM together with its consolidated subsidiaries. The Company is headquartered in France and is one of the largest airlines in the world. The Company’s core business is passenger transportation. The Company’s activities also include cargo, industrial maintenance and other air transport related activities, including principally catering and charter services.
The company Air France-KLM domiciled 2 rue Robert Esnault-Pelterie 75007 Paris - France, is the parent company of the Air France-KLM group.
The Group’s functional currency is the euro.

2. Significant events of the year

The income for the financial year includes a gain of € 504 million before tax relating to the tender offer for Amadeus GTD made by WAM in July 2005 (see note 10).

3. Accounting policies

3.1. Basis of presentation

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the Company adopted International Financial Reporting Standards (“IFRS”) as adopted by the European Commission (“EU”) for use in the European Union for the first time in its consolidated financial statements for the year ended March 31, 2006, which includes comparative financial statements for the year ended March 31, 2005. IFRS 1, “First-time adoption of International Reporting Standards”, requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS consolidated financial statements (i.e. March 31, 2006). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (i.e. April 1, 2004) and throughout all periods presented in the first IFRS financial statements. The accompanying financial information as of and for the years ended March 31, 2006 and 2005 have been prepared in accordance with those IFRS as of May 17, 2006, date on which the accounts have been approved by the Board of Directors.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board (“IASB”). The Company has, however, determined that the financial information for the periods presented would not be different had the Company applied IFRS as published by the IASB.

The note "Transition from French accounting principles to IFRS”, details the main effects of the transition to IFRS on the Company’s opening balance sheet as of April 1, 2004 and the principal differences with the French accounting standards previously applied. A reconciliation between the Company’s consolidated equity and net income as of and for the year ended March 31, 2005 and a reconciliation of the Company’s consolidated stockholders’ equity between April 1, 2004 and March 31, 2005 under the new accounting standards and the French accounting principles previously used is also disclosed.

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

In addition, the Group opted for the early adoption of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The effects of the early application of this standard are further explained in "Transition from French Accounting Principles to IFRS ".

3.2. Use of estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses. The main items concerned are:
- revenue recognition related to deferred revenue on ticket sales,
- tangible and intangible assets,
- financial assets,
- deferred tax assets,
- provisions.

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

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

3.3. Consolidation principles

3.3.1. Subsidiaries

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

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

3.3.2. Interest in associates and joint ventures

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

In addition, companies in which the Group exercises joint control are accounted for using the equity method.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence starts until the date that significant influence ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's profit or loss. The investor's share of those changes is recognized directly in the Group's equity.
The Group's share of losses of an associate that exceed the value of the Group's interest in this entity are not accounted for, unless:
• the Group has incurred contractual obligations; or
• the Group has made payments on behalf of the associate.

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

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

3.3.3. Transactions eliminated on consolidation

All intragroup balances and transactions, including income, expenses and dividends are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.
Gains and losses on internal transfers with associates and joint control entities are eliminated to the extent of the Group's interest in the associate or joint control entity, only when they do not represent an impairment.

3.3.4. Closing date

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

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

3.4.1. Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:
• with the exception of the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency rates in effect at the closing date,
• the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period,
• the resulting translation adjustment is booked in the "Translation adjustments" item included within equity.
Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign currency rate in effect at the closing date.

3.4.2. Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction or at the exchange rate of the related hedge, if applicable.
Assets and liabilities denominated in foreign currencies are translated at the rates ruling at balance sheet date or at the rate of the related hedge for assets resulting from firm commitments documented in fair value hedge relationships.
The corresponding exchange rate differences are recorded in the Company's consolidated income statements.
Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note "3.10., Financial instruments, valuation of financial assets and liabilities".

3.5. Business combinations

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

In accordance with the IFRS 1 exemption, business combinations that occurred prior to April 1, 2004 (essentially Air Inter and UTA) have not been accounted for in accordance with IFRS 3.
Business combinations that occurred prior to April 1, 2004 were accounted for in accordance with French GAAP. Under French GAAP certain acquired assets and liabilities were not adjusted to fair value at the time of the acquisition, or in the case of step acquisitions, the fair values of the assets acquired and liabilities assumed were assessed during the initial step of the acquisition.

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

Business combinations are accounted for using the purchase method in accordance with IFRS 3.
In accordance with this standard, all assets, liabilities assumed and contingent liabilities are at fair value measured at the acquisition date. The time period for adjustments to goodwill/negative goodwill is limited to 12 months from the date of acquisition. Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control of the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired is no longer amortized, but instead is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.
Negative goodwill is recognized immediately in the income statement.
Assets meeting the criteria of IFRS 5, as described in note 3.22, are recorded at the lower of their net book value and their fair value less costs to sell.

3.6. Sales

Sales related to air transportation operations are recognized when transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.
Upon issue, both passengers and cargo tickets are recorded as “Deferred revenue on ticket sales”.
Revenues representing the value of tickets that have been issued, but which will never be used, are recognized as revenues at the date the tickets are issued.
The amounts recognized are based on a statistical analysis, which is regularly updated.
Sales on third party maintenance contracts are recorded based on stage of completion.

3.7. Loyalty programs

Until June 1, 2005, each of the two sub-groups (Air France and KLM) comprising the Group had its own frequent flyer program: "Fréquence Plus" and "Flying Dutchman".
Each program allowed members to acquire "miles" as they flew on Air France, KLM or with other partner companies. These miles entitled members to a variety of benefits such as free flights with the two companies.
Subsequent to the acquisition of KLM, a joint frequent flyer program *"Flying Blue"* was launched in June 2005 combining the miles accumulated from the two previous programs.
The probability of air miles being converted into award tickets is estimated using a statistical method.
The value of air miles is estimated based on the specific terms and conditions for the use of free tickets. This estimate takes into consideration the discounted marginal cost of the passenger concerned (e.g. catering, ticket issue costs, etc.) and discounted cost of the miles used on participating partner companies.
The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption “Deferred revenue on ticket sales” on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognized.

The Company also sells miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of this representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognized as revenue immediately.

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

Income from current operations includes all the income and expenses directly related to the Group's ordinary operations. Unusual items defined as non-recurring income and expenses by virtue of their frequency, nature and amount (such as restructuring costs) and non-financial items are recorded as other non-current income and expenses, i.e. they are excluded from income from current operations.

3.9. Earnings per share

Earnings per share are calculated by dividing net income attributable to equity holders of Air France-KLM by the average number of shares outstanding during the period. The average number of shares outstanding during the current and prior years presented does not include treasury shares or shares held in connection with stock option plans.
Diluted earnings per share are calculated by dividing the net income attributable to equity holders of Air France-KLM adjusted for the effects of dilutive instruments' exercise, by the average number of shares outstanding during the period, adjusted for the effect of all dilutive potential ordinary shares.

3.10. Financial instruments, valuation of financial assets and liabilities

The Group has applied standards IAS 32 and IAS 39 since April 1, 2005.

3.10.1. Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Company and are recorded using the amortized cost method less impairment losses, if any.

3.10.2. Investments in debt and equity securities

Investments in debt and equity securities qualify as assets available for sale and are stated at fair value in the Company's balance sheet with any resultant unrecognized gain or loss recognized in equity. For publicly-traded securities, the fair value is the market price. For other securities, if the fair value cannot be reliably estimated, it equals the acquisition cost less impairment if any.
If there is an indication of impairment of the financial asset, the amount of the loss is recorded in the income statement for the period.

3.10.3. Derivative instruments

The Group uses various derivative instruments to hedge its exposure to the risks of changes in interest rates, exchange rates or fuel prices.
Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.
The Group also uses rate swaps to manage its exposure to the rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.
Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.
Prior to April 1, 2005, the Company applied the following accounting policies:

- Forward exchange contracts and foreign currency swaps were used to hedge foreign currency exchange rate exposures. Unrealized gains and losses on these investments were deferred and recorded against the carrying amount of the hedged asset or liability on firm commitments. Contract premiums were amortized on a straight line basis over the term of the hedge arrangement.
- The Company entered into various interest rate swaps to manage its interest rate exposure. The objective of the swaps was to modify instruments from fixed rate to floating rate and floating rate to fixed rate. The difference between interest payable and receivable was recognized as interest expense or interest income.
- The petroleum options premiums were accounted for in the income statement on an accrual basis. The difference between interest payable and receivable on petroleum swaps was recognized as operating expense or operating income.

Effective April 1, 2005, the Group applied standards IAS 32 and IAS 39.
Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39.
These derivative instruments are recorded on the Company's consolidated balance sheet at their fair value.

The method of accounting for changes in fair value depends on the derivative instruments' classification.
There are three classifications:

- Derivatives classified as fair value hedge: changes in the derivative fair value are recorded through the income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as income.
- Derivatives as cash flow hedge: the changes in fair value are recorded in equity for the effective amount and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income.
- Derivatives classified as trading: changes in the derivative fair value are recorded as financial income.

3.10.4. Convertible bonds

Convertible bonds are financial instruments comprised of two components: a bond component recorded as debt and a stock component recorded in equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Company's equity is calculated by the difference between such value and the bond's nominal value at issue.
The difference between the financial expense booked and the amounts effectively paid out is added, at each closing, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

3.10.5. Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.10.6. Long-term debt

Long-term debt is recorded at amortized cost calculated on the basis of the effective interest rate. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial items over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

3.11. Goodwill

Goodwill represents the excess of the cost of a business combination over the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities.
For acquisitions prior to April 1, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 has not been reconsidered in adopting international standards, as of April 1, 2004, in accordance with IFRS 1.
Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset.
It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. The impairment recorded, as discussed in Note 3.14, may not subsequently be reversed.
When the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the acquisition cost, there is negative goodwill which is recognized and immediately reversed in the Company's income statement.
At the time of the sale of a subsidiary, an equity affiliate or a jointly controlled entity, the amount of the goodwill attributable to the sold entity is included in the calculation of the income from the sale.

3.12. Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Identifiable intangible assets acquired with a finite useful life are amortized over their useful life from the date they are available for use.
Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in note 3.14 is recorded.

Intangible assets with a finite useful life are amortized on a straight line basis over the following periods:

Software	1 to 5 years
Customer relationships	5 to 12 years
Other	Based on their useful life

3.13. Property, plant and equipment

3.13.1. Specific rule applicable to the IFRS transition opening balance sheet

In accordance with IFRS 1, the Group has elected to value certain of its aircraft at the date of transition to IFRS at their fair value and to use this fair value as deemed cost. This treatment thus allows the Group to have a portion of its fleet recorded at fair value (market value was used when accounting for KLM's business combination at May 1, 2004).
The fair value exercise was based on independent valuation by third parties.

3.13.2. Principles applicable since April 1, 2004

Property, plant and equipment are recorded at the historical acquisition or manufacturing cost, less any accumulated depreciation and any accumulated impairment losses.
The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Insofar as investment installments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.
Maintenance costs are booked as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

3.13.3. Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.
Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value.
IFRS requires an annual review of the residual value and the amortization schedule. During the operating cycle, in developing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.
Any major airframes and engines (overhaul) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components are recorded in the consolidated balance sheet as fixed assets. The useful lives vary from 3 to 20 years depending on the technical properties of each item.

3.13.4. Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

Buildings	20 to 40 years
Fixtures and fittings	8 to 15 years
Flight simulators	10 to 20 years
Equipment and tooling	5 to 15 years

3.13.5. Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related gains are accounted for as follows:
- they are immediately recognized as income when the transaction is established at fair market value,
- they are deferred and amortized over the lease term when the transaction is established under or over the fair value.

In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as finance income over the lease term. No loss is recognized unless the asset is impaired.

3.14. Impairment

In accordance with IAS 36, "Impairment of Assets", the Group reviews at each balance sheet date the carrying amount of tangible and intangible assets in order to assess whether there is any indication of impairment. If such an indication exists, the recoverable value of the assets is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and its value in use.

When it is not possible to estimate the recoverable value for an individual asset, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.
The Group determined that the smallest level at which assets could be tested were the CGUs corresponding to the Group's operating segments (see segment information).

When the recoverable value of a CGU is lower than its carrying value, an impairment is recognized.
This impairment loss is allocated first to the carrying amount of the goodwill. The remainder is allocated to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the unit.

The recoverable value of the CGUs is their value in use determined by using a discount rate corresponding to the weighted average cost of the Group's capital, which was 7.4% and 7.5% for the years ended March 31, 2006 and 2005, respectively. The value in use is estimated using cash flow assumptions made by management based on a duration that is consistent with the useful lives of assets.

3.15. Inventories

Inventories are measured at the lower of cost and net realizable value.
The cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.
Inventories are valued on a weighted average basis.
The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

3.16. Treasury shares

Air France-KLM shares held by the Group are recorded as a deduction from the Company's consolidated equity at the acquisition cost. Subsequent sales are recorded directly against equity. No gains or losses are recognized in the Company's income statement.
As the Group has applied IAS 32 and 39 effective April 1, 2005, treasury shares held to fulfill stock options are classified until that date as marketable securities at their acquisition cost. The carrying amount of such shares is depreciated if necessary. Effective April 1, 2005, such shares are recorded as a reduction of the Company's equity.

3.17. Employee benefits

The Group's obligations in respect of defined benefit pension plans and termination indemnities on retirement are calculated, in accordance with IAS 19, using the projected units of credit method, factoring in the specific economic conditions in the various countries concerned.
The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.
In accordance with IFRS 1, the Group has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS through the Company's equity.

Starting April 1, 2004, any actuarial gains or losses resulting from changes in actuarial assumptions are recognized in the Company's income statement only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan asset at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plan.

3.17.1. Specific information related to the recognition of some pension plan assets

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR"). Questions have been raised as to how such MFR might affect the recognition of a pension net asset that otherwise would be recognized under IAS 19 in respect of the surplus in a plan and thus, how the Group should account for certain pension asset surpluses of KLM in its consolidated financial statements.
Recognition of a pension net asset under IAS 19 is subject to interpretation. Because of this situation, and for the accounting treatment of companies of the KLM group, an interpretation of IAS 19 has been requested from the IFRIC, the interpretation technical body of the IASB.

3.17.2. Accounting for the pension fund surplus for the year-end closing

Although the IFRIC has yet to deliver its final conclusions, the Group defined its accounting position based on various publications during the period, and particularly the "IFRIC Update" dated September 2005.
According to these, the KLM pension fund surplus has been fully recognized in the balance sheet.

3.18. Provisions for restitution of aircraft under operating leases

The Group accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the Group capitalizes the related amount in excess. Such amount is further amortized on a straight line basis over a period ending when the restitution criteria are met.

3.19. Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.
The effect of the time value of money is presented as a component of financial income.
Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties affected by it.

3.20. Equity and debt issuance costs - redemption premiums

Debt issuance costs are amortized as financial expenses over the term of the loans using the interest method.
Common stock issuance costs are deducted from additional paid-in capital.

3.21. Deferred taxes

The Group accounts for deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the exception of goodwill.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets related to timing differences and carry forwards are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

A deferred tax liability is also recognized in the undistributed reserves of the equity affiliates. Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event booked directly as equity. In such a case, they are booked directly in equity.

3.22. Non-current assets held for sale and discontinued operations

Non-current assets or groups of assets intended for sale meet the criteria of such a classification if their carrying amount will be recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets was classified as a non-current asset held for sale.

The Group determines on each closing date whether any assets or group of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".

Any liabilities related to non-current assets to be sold are also presented on a separate line in liabilities on the balance sheet.

Non-current assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented on the income statement separately from the results from continuing operations.

3.23. Share-based compensation

Pursuant to the transitional provisions of IFRS 2, only the plans granted after November 7, 2002, the rights to which were not acquired on April 1, 2004, were valued and booked as personnel costs. The other plans are not valued and remain unrecognized. This last category affects only the Shares-for-Salary Exchange realized in 1998 for which stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.

The fair value of the stock option scheme is determined using the Black & Scholes method. This method takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).

This fair value is estimated to be the fair value of the services rendered by the employees in consideration for the options received. It is recognized as a personnel cost with a corresponding increase to equity over the period of acquisition of the rights. This personnel cost is adjusted, if applicable, to take into account the number of options effectively vested.

4. Changes in the scope of consolidation

4.1. Acquisition of KLM

On April 5, 2004, Air France proposed a public exchange offer to shareholders of KLM common shares. The exchange ratio was set at 11 Air France shares and 10 Air France warrants for 10 KLM shares and 11 Air France American Depositary Shares (ADS), and 10 Air France American Depositary Warrants (ADW) for 10 KLM American Depositary Shares. As a result, Air France launched an initial offer that ended May 3, 2004.

Pursuant to Dutch law, Air France decided to launch, under the same conditions, a supplementary offer period which opened on May 4, 2004 and ended on May 21, 2004.
On that date, KLM shareholders had tendered a total of 45,093,299 common shares, representing approximately 96.33% of KLM common shares.
Following the acquisition of shares after the closing date of the operation, Air France, which became Air France-KLM, held 97.30% of the common shares representing 49% of KLM voting rights.

Based on the Air France-KLM ownership not only of voting shares but also of financial interest, and on the mode of functioning of the group’s strategic management committee, Air France-KLM has the power to decide the company's financial and operational strategies and, therefore, controls KLM. KLM is therefore fully consolidated in Air France-KLM consolidated financial statements.

Pursuant to the provisions of IFRS 3, the acquisition of KLM has been accounted for using the purchase method.

• Acquisition price

The consideration paid for the acquisition of the 96.33% of KLM’s common shares by Air France was based on the market price of the Air France share at the two closing dates of the exchange offer (May 3 and 21, 2004).
Warrants issued as part of the transaction were also valued at those dates. The fair value of the warrants issued was calculated using the Black & Scholes valuation method. Assumptions were made on the expected volatility of the share price resulting from the combination, the expected dividend paid by the combined companies for the financial year, the average maturity of the warrants and the discount rate

In accordance with the provisions of IFRS 3, the additional costs directly attributable to KLM’s acquisition were included in the acquisition price. They consisted primarily of the fees paid for accounting, legal, valuation and banking services.

The acquisition price breaks down as follows:

	Shares	**Price (in €)**	**Consideration (in € million)**
Air France-KLM shares issued:			
May 3, 2004	45,938,857	14.65	673
May 21, 2004	3,663,774	12.81	47
Subscription warrants issued:			
May 3, 2004	41,762,597	1.07	45
May 21, 2004	3,330,702	0.98	3
Shares acquired after the closing of the second offer on May 21			5
Preferred and priority shares			15
Value of the shares which the Dutch State agreed to sell			20
Transaction costs			14
Stock options (stock options/rights related to appreciation of the shares)			9
Total acquisition price			**831**

Transaction costs amounted to € 30 million, from which € 16 million has been deducted from the additional paid-in capital related to the shares issuance.

• Fair value of the assets and liabilities acquired

Assets and liabilities acquired at April 30, 2004 In euro million	Fair value as published in consolidated financial statements as of September 30, 2005	Adjustments on pension	Fair value adjusted by adjustments on pension
Goodwill	-	-	-
Intangible assets	435	-	435
Flight equipment	3,549	-	3,549
Other property, plant and equipment	805	-	805
Investments in equity associates	193	-	193
Pension assets	959	665	1,624
Other financial assets	569	-	569
Deferred tax assets	-	-	-
Other assets	235	(31)	204
Inventories	206	-	206
Account receivables	720	-	720
Income tax receivables	-	-	-
Cash and cash equivalents	719	-	719
Total assets	**8,390**	**634**	**9,024**
Provisions and retirement benefits	319	154	473
Long-term debt	4,153	-	4,153
Other liabilities	920	-	920
Trade payables	402	-	402
Deferred revenue on ticket sales	486	-	486
Current tax liabilities	181	165	346
Total liabilities	**6,461**	**319**	**6,780**
Percentage acquired	97.30%	97.30%	97.30%
Net assets acquired	**1,877**	**306**	**2,183**
Acquisition price	831	-	831
Negative goodwill	**1,046**	**306**	**1,352**

It was impracticable to disclose in the Company's consolidated financial statements the IFRS carrying amount for each class of KLM's assets, liabilities and contingent liabilities immediately before the combination as KLM did not prepare its consolidated financial statements in accordance with IFRS prior to the acquisition. The above presented data correspond to the IFRS fair value balance sheet of KLM.

• Adjustments on pension

As explained in note 3.17.2, the Group has made a decision on the recognition of the KLM pension surplus. The recalculation of KLM's pension obligations translated into a € 306 million increase in the negative goodwill, including the cancellation net of tax of the asset ceiling of the pilots' pension plan for € 251 million and the finalization of the pension plan valuation for € 55 million net of tax.

• Recognition of negative goodwill

Based on the fair valuation of KLM’s assets and liabilities at the acquisition date, KLM’s first consolidation resulted in the share acquired of the net fair value of KLM's identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost by € 1,352 million, including the recognition of the net pension asset related to the pilot retirement plan.

The negative goodwill was immediately and totally reversed to operating profit in the income statement. In the version of consolidated accounts for the year ended as of March 31, 2005 published in the condensed consolidated accounts for the six-month period ended as of September 30, 2005, the negative goodwill reversal was limited to € 424 million, ahead of the IFRIC decision (see note 3.17.2).

• Operating revenues and net income of KLM integrated in the Group’s financial statements as of March 31, 2005

The public exchange offer closed in May 2004; KLM’s contribution to operating revenues and net income over an eleven-month period (from May 2004 to March 2005) amounts to € 5,919 million and € 1,601 million, respectively.

• Air France-KLM proforma consolidated income statement as of March 31, 2005

The proforma consolidated income statement for the year ended March 31, 2005 assuming KLM was acquired on April 1, 2004 is as follows.

Twelve-month period ended March 31, In euro million	**2005 Proforma** **(Unaudited)**
Sales	**19,467**
Other revenues	5
Revenues	**19,472**
External expenses	(10,916)
Salaries and related costs	(6,136)
Taxes other than income taxes	(227)
Depreciation and Amortization	(1,601)
Provisions	(32)
Other income and expenses	(7)
Income from current operations	**553**
Sales of aircraft equipment	19
Negative goodwill	1,354
Other non-current income and expenses	5
Income from operating activities	**1,931**
Cost of financial debt	(356)
Income from cash and cash equivalents	127
Net cost of financial debt	**(229)**
Other financial income and expenses	(10)
Income before tax	**1,692**
Income taxes	(133)
Net income of consolidated companies	**1,559**
Share of profits (losses) of associates	73
Net income from continuing operations	**1,632**
Net income from discontinued operations	59
Income for the period	**1,691**
- Group (*)	**1,704**
- Minority interests	(13)
Earning per share - Group (*)	
- basic	6.59
- diluted	6.58
Net income from continuing operations per share	
- basic	6.31
- diluted	6.30

(*) corresponds to the result attributable to the stockholders of Air France-KLM

4.2. Disposal of subsidiaries

No significant disposal of subsidiaries occurred during the 2005-06 financial year.

On December 30, 2004, the Air France-KLM group sold its subsidiary Amadeus France SNC, in which it held 66% of voting rights, to Amadeus GTD (entity 23.4% held by the Group as of March 31, 2005).
The net assets of Amadeus France at the date of sale amounted to € (1) million. The selling price of € 66 million was paid in cash.

5. Information by activity and geographical area

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

Business segments' results, assets and liabilities are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond
- as far as the income statement is concerned, to the current operating income and the share of results in associates,
- as far as the balance sheet is concerned, to intangible assets, flight equipment and other property, plant and equipment, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits.

Other elements of the income statement and of the balance sheet are presented in the "not allocated" column.

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

The Air France-KLM group's secondary reporting format is geographical segmentation, based on origin of sales.
Only segment revenue is allocated by geographical sales area.
The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the Group's assets (flight equipment) cannot be allocated to a geographical area.

- Business segments

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

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

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

Other: The revenues from this segment come primarily from catering supplied by the group to third-party airlines and to charter flights operated primarily by Transavia.
Geographical segments
Group activities are broken down into five geographical regions:
- Europe and North Africa,
- Caribbean, French Guiana and Indian Ocean,
- Africa, Middle East,
- Americas, Polynesia,
- Asia and New Caledonia.

5.1. Information by business segment

Assets allocated by business segment are composed of goodwill, intangible and tangible assets, investments in equity associates and account receivables.
Liabilities allocated by business segment are composed of provision for restitution of aircraft, provision for pensions, other provisions when they can be allocated, and deferred revenue on ticket sales.

Year ended March 31, 2006

In euro million	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	17,635	2,907	2,688	1,350		24,580
Intersegment sales	(693)	(25)	(1,792)	(622)		(3,132)
External sales	**16,942**	**2,882**	**896**	**728**	**-**	**21,448**
Income from current operations	686	166	54	30	-	936
Income from operating activities	686	166	54	30	519	1,455
Share of profits (losses) of associates	(41)	-	-	18	-	(23)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(255)	(255)
Income taxes	-	-	-	-	(256)	(256)
Net income from continuing operations	**645**	**166**	**54**	**48**	**8**	**921**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**
Net depreciation and amortization for the period	(1,014)	(131)	(397)	(114)	-	(1,656)
Other non monetary items	(78)	(7)	(22)	(450)	-	(557)
Total assets	**11,411**	**1,511**	**1,859**	**792**	**10,906**	**26,479**
Segment liabilities	3,123	104	168	107	5,936	9,438
Financial debt and equity					17,041	17,041
Total liabilities and equity	**3,123**	**104**	**168**	**107**	**22,977**	**26,479**
Purchase of property, plant and equipment and intangible assets	**1,816**	**216**	**264**	**123**	**125**	**2,544**

Non allocated assets amounting to € 10.9 billion are mainly financial assets held by the Group, comprising cash and cash equivalent for € 2.9 billion, derivatives for € 2 billion, other financial assets for € 2.1 billion (including deposits and marketable securities), pension assets for € 1.9 billion.

Non allocated liabilities amounting to € 5.9 billion, mainly comprise tax and employee-related liabilities (including deferred tax) for € 2.2 billion, derivatives for € 0.4 billion and trade payables and other creditors for € 3.1 billion.

Financial debts and equity are not allocated.

Year ended March 31, 2005

In euro million	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	15,471	2,516	2,578	1,207	-	21,772
Intersegment sales	(438)	(22)	(1,801)	(533)	-	(2,794)
External sales	**15,033**	**2,494**	**777**	**674**	**-**	**18,978**
Income from current operations	382	138	26	4	-	550
Income from operating activities	382	138	26	4	1,377	1,927
Share of profits (losses) of associates	22	-	-	51	-	73
Net cost of financial debt and other financial income and expenses	-	-	-	-	(230)	(230)
Income taxes	-	-	-	-	(133)	(133)
Net income from continuing operations	**404**	**138**	**26**	**55**	**1,014**	**1,637**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**59**	**59**
Net depreciation and amortization for the period	(831)	(199)	(395)	(136)	-	(1,561)
Other non monetary items	(25)	-	2	367	-	344
Total assets	**10,455**	**1,364**	**1,714**	**1,478**	**8,183**	**23,194**
Segment liabilities	2,678	84	140	110	4,967	7,979
Financial debt and equity					15,215	15,215
Total liabilities and equity	**2,678**	**84**	**140**	**110**	**20,182**	**23,194**
Purchase of property, plant and equipment and intangible assets	**1,499**	**173**	**223**	**142**	**94**	**2,131**

Non allocated assets amounting to € 8.2 billion are mainly financial assets held by the Group, comprising cash and cash equivalent for € 2 billion, derivatives for € 0.4 billion, other financial assets for € 1.8 billion (including deposits and marketable securities), pension assets for € 1.8 billion.

Non allocated liabilities amounting to € 5 billion, mainly comprise tax and employee-related liabilities (including deferred tax) for € 1.2 billion, trade payables and other creditors for € 3.3 billion.

Financial debts and equity are not allocated.

Year ended March 31, 2005 - Proforma (unaudited)

In euro million	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	15,817	2,598	2,600	1,246	-	22,261
Intersegment sales	(438)	(22)	(1,801)	(533)	-	(2,794)
External sales	**15,379**	**2,576**	**799**	**713**	**-**	**19,467**
Income from current operations	384	140	25	4	-	553
Income from operating activities	384	140	25	4	1,378	1,931
Share of profits (losses) of associates	22	-	-	51	-	73
Net cost of financial debt and other financial income and expenses	-	-	-	-	(239)	(239)
Income taxes	-	-	-	-	(133)	(133)
Net income from continuing operations	**406**	**140**	**25**	**55**	**1,006**	**1,632**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**59**	**59**
Net depreciation and amortization for the period	(860)	(202)	(401)	(138)	-	(1,601)
Other non monetary items	(25)	-	1	386	-	362

5.2. Information by geographical area

• Sales by geographical area

Year ended March 31, 2006

In euro million	**Europe, North Africa**	**Caribbean, French Guiana, Indian Ocean**	**Africa, Middle East**	**Americas, Polynesia**	**Asia, New Caledonia**	**Total**
Scheduled passenger	10,726	363	1,060	2,523	1,230	15,902
Other passenger sales	736	61	44	81	118	1,040
Total passenger	**11,462**	**424**	**1,104**	**2,604**	**1,348**	**16,942**
Scheduled cargo	1,169	36	170	337	961	2,673
Other cargo sales	139	5	8	25	32	209
Total cargo	**1,308**	**41**	**178**	**362**	**993**	**2,882**
Maintenance	887	-	-	-	9	896
Others	708	16	4	-	-	728
Total	**14,365**	**481**	**1,286**	**2,966**	**2,350**	**21,448**

Year ended March 31, 2005

In euro million	**Europe, North Africa**	**Caribbean, French Guiana, Indian Ocean**	**Africa, Middle East**	**Americas, Polynesia**	**Asia, New Caledonia**	**Total**
Scheduled passenger	9,718	348	939	1,997	1,097	14,099
Other passenger sales	700	57	33	48	96	934
Total passenger	**10,418**	**405**	**972**	**2,045**	**1,193**	**15,033**
Scheduled cargo	1,081	41	157	266	756	2,301
Other cargo sales	131	5	7	23	27	193
Total cargo	**1,212**	**46**	**164**	**289**	**783**	**2,494**
Maintenance	769	-	-	-	8	777
Others	642	21	11	-	-	674
Total	**13,041**	**472**	**1,147**	**2,334**	**1,984**	**18,978**

Year ended March 31, 2005 - proforma (unaudited)

In euro million	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	9,936	351	962	2,050	1,126	14,425
Other passenger sales	720	57	33	48	96	954
Total passenger	**10,656**	**408**	**995**	**2,098**	**1,222**	**15,379**
Scheduled cargo	1,113	41	162	274	789	2,379
Other cargo sales	133	5	7	23	29	197
Total cargo	**1,246**	**46**	**169**	**297**	**818**	**2,576**
Maintenance	791	-	-	-	8	799
Others	681	21	11	-	-	713
Total	**13,374**	**475**	**1,175**	**2,395**	**2,048**	**19,467**

• Traffic sales by geographical area of destination

Year ended March 31, 2006

In euro million	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	6,524	1,155	2,247	3,543	2,433	15,902
Scheduled cargo	75	186	320	833	1,259	2,673
Total	**6,599**	**1,341**	**2,567**	**4,376**	**3,692**	**18,575**

Year ended March 31, 2005

In euro million	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	6,049	1,123	1,923	2,942	2,062	14,099
Scheduled cargo	76	183	297	699	1,046	2,301
Total	**6,125**	**1,306**	**2,220**	**3,641**	**3,108**	**16,400**

Year ended March 31, 2005 - proforma (unaudited)

In euro million	Europe, North Africa	Caribbean, French Guiana, Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia, New Caledonia	Total
Scheduled passenger	6,162	1,138	1,977	3,022	2,126	14,425
Scheduled cargo	77	185	306	719	1,092	2,379
Total	**6,239**	**1,323**	**2,283**	**3,741**	**3,218**	**16,804**

6. External expenses

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Aircraft fuel	3,588	2,653	2,721
Chartering costs	605	558	565
Aircraft operating lease costs	637	595	611
Landing fees and en route charges	1,610	1,460	1,504
Catering	405	391	399
Handling charges and other operating costs	1,203	1,072	1,100
Aircraft maintenance costs	740	653	683
Commercial and distribution costs	1,232	1,404	1,435
Other external expenses	2,070	1,843	1,898
Total	**12,090**	**10,629**	**10,916**

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

7. Salaries and number of employees

• Salaries and related costs

Year ended March 31, In euro million	2006	2005	2005 proforma (unaudited)
Wages and salaries	4,707	4,438	4,557
Pension contributions	414	394	408
Other social contributions	1,112	1,062	1,073
Expenses related to share-based compensation	29	69	69
Other expenses	95	31	29
Total	**6,357**	**5,994**	**6,136**

• Average number of employees

Year ended March 31,	2006	2005
Flight deck crew	7,870	7,786
Cabin crew	20,294	19,829
Ground staff	74,258	74,462
	102,422	**102,077**
Including:		
Managers	13,048	12,996
Supervisors and technicians	29,729	29,364
Other staff	31,481	32,102
	74,258	**74,462**
Pilots and cabin crew	26,517	25,995
Instructors	965	956
Management	682	664
	28,164	**27,615**

8. Depreciation, amortization and provisions

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Depreciation and amortization			
Intangible assets	39	30	33
Flight equipment	1,371	1,280	1,310
Other property, plant and equipment	246	251	258
	1,656	**1,561**	**1,601**
Provisions			
Fixed assets	-	34	37
Inventories	1	-	-
Trade receivables	12	7	8
Risks and contingencies	96	(13)	(13)
	109	**28**	**32**
Total	**1,765**	**1,589**	**1,633**

A description of changes in amortization and impairment is included in notes 16 and 17.

The detail of changes in inventory impairment is included in notes 22 and 23.

The movements in provisions for risks and charges are detailed in note 28.

9. Other income and expenses

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Joint operation of routes	(61)	(47)	(52)
Operations-related currency hedges	25	12	12
Other	(40)	39	33
Total	**(76)**	**4**	**(7)**

10. Other non-current income and expenses

Year ended March 31, In euro million	2006	2005	2005 proforma (unaudited)
Sales of aircraft equipment	**2**	**19**	**19**
Gain on Amadeus GTD transaction	504	-	-
Restructuring costs	(1)	(21)	(21)
Disposal of subsidiaries and affiliates	3	(1)	-
Compensation on slot swaps	4	17	17
Other disposal of assets	2	9	9
Other non-current income and expenses	**512**	**4**	**5**

• Gain on Amadeus GTD transaction

During the year ended March 31, 2005, Air France and the other air carrier shareholders in Amadeus GTD initiated discussions with private equity investment funds to launch, through a company, WAM Acquisition SA, in which they would become shareholders, a tender offer for Amadeus GTD at a price of € 7.35 per share. This Leveraged Buy Out (LBO) allowed Air France to recognize a gain, while remaining an Amadeus GTD shareholder through the new company. The offer closed early in July 2005 and the pre-tax gain on this transaction totaled € 504 million.

• Disposal of subsidiaries and affiliates

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

During the year ended March 31, 2005, the Group sold Amadeus France SNC. The impacts of this disposal are described in note 13.

11. Net cost of financial debt and other financial income and expenses

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Income from cash and cash equivalents			
Income from marketable securities	52	36	36
Other financial income	116	89	91
	168	**125**	**127**
Cost of financial debt			
Loan interests	(205)	(284)	(284)
Lease interests	(220)	(83)	(85)
Capitalized interests	40	25	25
Other financial expenses	(7)	(5)	(12)
	(392)	**(347)**	**(356)**
Net cost of financial debt	**(224)**	**(222)**	**(229)**
Other financial income and expenses			
Foreign exchange gains (losses), net	(13)	(2)	(4)
Change in fair value of financial assets and liabilities	6	-	-
Net (charge) release to provisions	(24)	(6)	(6)
	(31)	**(8)**	**(10)**
Total	**(255)**	**(230)**	**(239)**

The interest rate used in the calculation of capitalized interest for the year ended March 31, 2006 is 3.76% (3.80% for the year ended March 31, 2005).

Net foreign exchange losses for the period include an unrealized net loss of € 8 million (against € 4 million for the year ended March 31, 2005). The impact related to currency derivatives amounted to € (4) million.

Net charge to provisions includes an impairment on shares of Alitalia amounting to € 9 million, the stock price decreasing significantly during the year ended March 31, 2006.

12. Income taxes

12.1. Income tax charge

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Current tax charge	**(158)**	**(7)**	**(7)**
Charge for the year	(158)	(7)	(7)
Adjustment of previous current tax charges	-	-	-
Deferred tax income/(charge)	**(98)**	**(126)**	**(126)**
Change in temporary differences	(54)	(114)	(114)
Change in tax rates	17	30	30
Use/recognition of tax loss carryforwards	(61)	(42)	(42)
Income tax (charge)/income	**(256)**	**(133)**	**(133)**
Tax on the net income from discontinued operations	-	(13)	(13)
Total income tax (charge)/credit	**(256)**	**(146)**	**(146)**

The current tax charge relates to amounts paid or payable in the short term to the tax authorities in respect of the current year, in accordance with the regulations prevailing in various countries and any applicable treaties.

12.2. Deferred tax booked directly in equity

Year ended March 31, In euro million	**2006**	**2005**
Hybrid instruments	(24)	-
Cash flow hedge	(541)	-
Total	**(565)**	**-**

12.3. Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows:

Year ended March 31, In euro million		2006		2005	2005 proforma (unaudited)
Income before tax		1,200		1,697	1,692
Theoretical tax calculated with the standard tax rate in France	34.43%	414	34.93%	593	591
Differences in French/foreign tax rates		(17)		(14)	(14)
Negative goodwill		(2)		(473)	(473)
Non deductible expenses		51		27	27
Income taxed at non-current tax rates		(135)		7	7
Non-taxable income		(2)		(16)	(16)
Use of tax loss carryforwards		(4)		(8)	(8)
Change in tax rate		(17)		(30)	(30)
Adjustment of previous current tax charges		(4)		2	2
Tax on Amadeus GTD reserves		-		41	41
TSDI settlement		(28)		-	-
Other		-		4	6
Income tax expenses	**21.3%**	**256**	**7.8%**	**133**	**133**

The tax rate applicable in France was set at 34.43% by the 2005 French Financial Law for financial years closing after January 1, 2006.

12.4. Unrecognized deferred tax assets

Year ended March 31, In euro million	2006	2005
Temporary differences	98	89
Tax losses	355	373
Tax losses at non-current tax rates	100	106
Total	**553**	**568**

These unrecognized deferred tax assets represent future tax gains, and at March 31, 2006, are mainly due to subsidiaries' tax loss carry forwards prior to the Air France group's tax integration, as well as tax loss carry forwards in the Group's UK subsidiaries.

Pursuant to Article 89 of the French Finance Law (loi de finances) for 2004, approved on December 18, 2003, tax losses may now be carried forward for an unlimited period of time. These new provisions apply to financial years starting as of January 1, 2004, as well as to losses to be carried forward at the end of the financial year preceding January 1, 2004.

In the Netherlands, fiscal losses can be carried forward for an unlimited period.

12.5. Deferred tax recorded on balance sheet

In euro million	April 1, 2005	Amounts recorded in income statement	Amounts recorded in equity	Reclassification	March 31, 2006
Intangible assets	111	(8)	-	-	103
Flight equipment	691	(76)	1	-	616
Other property, plant and equipment	121	32	-	-	153
Investments in equity associates	46	(46)	-	-	-
Other non current financial assets	(103)	8	(1)	-	(96)
Pension assets	522	25	-	-	547
Other non current assets	7	(1)	271	-	277
Other short term financial assets	1	-	1	-	2
Other current assets	4	(47)	323	-	280
Provisions and retirement benefits – non current	(71)	91	-	-	20
Long-term debt	(517)	44	25	-	(448)
Other non-current liabilities	(1)	1	(38)	-	(38)
Provisions – current	(24)	(10)	-	-	(34)
Short term portion of long-term debt	(40)	(56)	-	-	(96)
Other current liabilities	(7)	3	(17)	-	(21)
Others	(39)	76	-	(4)	33
Deferred tax corresponding to fiscal losses	(528)	62	-	-	(466)
Deferred tax (Asset)/Liability	**173**	**98**	**565**	**(4)**	**832**

In euro million	April 1, 2004	Amounts recorded in income statement	Acquisition of KLM	March 31, 2005
Intangible assets	(3)	(22)	136	111
Flight equipment	833	131	(273)	691
Other property, plant and equipment	57	(18)	82	121
Investments in equity associates	5	41	-	46
Other non current financial assets	(99)	(2)	(2)	(103)
Pension assets	-	(75)	597	522
Other non current assets	(1)	8	-	7
Other short term financial assets	1	13	(13)	1
Inventories	-	(2)	2	-
Account receivables	-	(7)	7	-
Other current assets	(26)	30	-	4
Cash and cash equivalents	3	(3)	-	-
Provisions and retirement benefits – non current	(76)	12	(7)	(71)
Long-term debt	(509)	(5)	(3)	(517)
Other non-current liabilities	-	(1)	-	(1)
Provisions – current	3	(27)	-	(24)
Short term portion of long-term debt	(27)	(13)	-	(40)
Other current liabilities	(5)	14	(16)	(7)
Others	(38)	15	(16)	(39)
Deferred tax corresponding to fiscal losses	(391)	49	(186)	(528)
Deferred tax (Asset)/Liability	**(273)**	**138**	**308**	**173**

13. Discontinued operations

During the 2005-06 financial year, the Group initiated no disposal process which could be considered as a “discontinued operation”.

As of December 30, 2004 the Group sold its shares in Amadeus France SNC to Amadeus GTD. This company’s activity was to distribute the Amadeus booking system in France. The conditions allowing its classification as a “discontinued activity” occurred as of April 1, 2004. Amadeus France SNC was therefore reclassified from April 1, 2004 until December 30, 2004. Previously, Amadeus France SNC’s activity was disclosed in the “Passenger” segment.

13.1. Net income from discontinued operations

Information regarding discontinued operations:

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Sales	-	71	71
Expenses	-	(65)	(65)
Gain on disposal	-	66	66
Income before tax	-	73	73
Income taxes	-	(13)	(13)
Net income from discontinued operations	**-**	**59**	**59**

The gain on the disposal of subsidiaries and affiliates (€ 66 million) is mainly due to proceeds on the sale of Amadeus France SNC to Amadeus GTD at December 30, 2004. This company was previously fully consolidated in the Air France-KLM consolidated financial statements. Between April 1, 2004 and December 30, 2004, the disposal date, the operations of Amadeus France SNC have been classified as discontinued activities.

13.2. Impact on the cash flows statement of discontinued activities

Amadeus France’s contribution to the cash flows statement of the Group is as follows:

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Cash flow from operating activities	-	6	6
Cash flow from investing activities	-	66	66
Cash flow from financing activities	-	(4)	(4)

14. Earnings per share

Earnings per share are calculated by dividing the income for the period, Group share, by the average number of shares outstanding during the period.
Diluted earnings per share are calculated by dividing the income for the period, Group share, adjusted for the effects of dilutive instruments' exercise, by the average weighted number of shares outstanding during the period, adjusted for the effect of all potentially dilutive ordinary shares.

14.1. Income for the period – Group share (*) per share

• Reconciliation of income used to calculate earnings per share

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Income for the period – Group share (*)	**913**	**1,710**	**1,704**
Dividends to be paid to priority shares	-	-	-
Income for the period – Group share (*) (used to calculate basic earnings per share)	**913**	**1,710**	**1,704**
Impact of potential ordinary shares: - interest paid on convertible bonds (net of tax)	10	-	-
Income for the period – Group share (*) (used to calculate diluted earnings per share)	**923**	**1,710**	**1,704**

(*) corresponds to the result attributable to the stockholders of Air France-KLM

• Reconciliation of the number of shares used to calculate earnings per share

The number of shares used to calculate earnings per share breaks down as follows:

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Weighted average number of:			
- Ordinary shares issued	269,383,518	264,898,897	264,898,897
- Treasury stock held regarding stock option plan	(5,107,510)	(4,440,889)	(4,440,889)
- Treasury stock held in stock buyback plan	(852,430)	(1,752,865)	(1,752,865)
Number of shares used to calculate basic earnings per share	**263,423,578**	**258,705,143**	**258,705,143**
Weighted average number of ordinary shares:			
- Conversion of convertible bonds	20,628,132	-	-
- Conversion of warrants	-	-	-
- Exercise of stock options	175,362	189,861	189,861
Number of potential ordinary shares	**20,803,494**	**189,861**	**189,861**
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**284,227,072**	**258,895,004**	**258,895,004**

14.2. Net income from continuing operations

• Reconciliation of income used to calculate net income from continuing operations per share

Income used to calculate net income from continuing operations per share breaks down as follows:

Year ended March 31, In euro million	**2006**	**2005**	**2005 proforma (unaudited)**
Net income from continuing operations	**921**	**1,637**	**1,632**
Dividends to be paid to priority shares	-	-	-
Net income from continuing operations	**921**	**1,637**	**1,632**
(used to calculate basic earnings per share)	-	-	-
Impact of potential ordinary shares:			
- interest paid on convertible bonds (net of tax)	10	-	-
Net income from continuing operations	**931**	**1,637**	**1,632**
(used to calculate diluted earnings per share)			

• Reconciliation of the number of shares used to calculate net income from continuing operations per share

The reconciliation of the number of shares used to calculate net income from continuing operations per share is presented in note 14.1.

14.3. Net income from discontinued operations per share

• Net income from discontinued operations per share

Year ended March 31, In euro million	2006	2005	2005 proforma (unaudited)
Net income from discontinued operations per share (basic)	-	0.23	0.23
Net income from discontinued operations per share (diluted)	-	0.23	0.23

• Reconciliation of income used to calculate net income from discontinued operations per share

Year ended March 31, In euro million	2006	2005	2005 proforma (unaudited)
Net income from discontinued operations	**-**	**59**	**59**
Dividends to be paid to priority shares			
Net income from discontinued operations	**-**	**59**	**59**
(used to calculate basic earnings per share)	-	-	-
Impact of potential ordinary shares:			
- interest paid on convertible bonds (net of tax)	-	-	-
Net income from discontinued operations (used to calculate diluted earnings per share)	**-**	**59**	**59**

• Reconciliation of the number of shares used to calculate net income from discontinued operations per share

The reconciliation of the number of shares used to calculate net income from discontinued operations per share is presented in note 14.1

14.4. Non dilutive instruments

• As of March 31, 2006

As of March 31, 2006, non dilutive instruments comprise 45 090 617 equity warrants for new or existing shares, described in note 26.1 (45 093 299 as of March 31, 2005), and 3 821 040 stock options described in note 27, for an average exercise price of € 15.59 (4 763 763 stock options for an average exercice price of € 15.76 as March 31, 2005).

• As of March 31, 2005

Following the Exchange Offer for KLM shares into Air France-KLM shares in May 2004, 45 093 299 Equity Warrants for new or existing shares were issued in May 2004. These instruments are described in note 26.1.

14.5. Instruments issued after the closing date

No instrument was issued after the closing date.

15. Goodwill

• Detail of consolidated goodwill

The details of consolidated goodwill as of March 31, 2006 and 2005 is as follows:

Year ended March 31,	**2006**			**2005**		
In euro million	Gross value	Accumulated depreciation	Net value	Gross value	Accumulated depreciation	Net value
UTA	112	-	112	112	-	112
Régional	60	-	60	60	-	60
Brit Air	18	-	18	18	-	18
City Jet	11	-	11	11	-	11
Others	7	-	7	4	-	4
Total	**208**	**-**	**208**	**205**	**-**	**205**

Goodwill has been allocated to the “Passenger” business.

• Movement in net book value of goodwill

Year ended March 31,	**2006**	**2005**
In euro million		
Opening balance	205	202
Additions	3	3
Closing balance	208	205

16. Intangible assets

• Change by category

In euro million	Trademarks and slots	Customer relationships	Other intangible assets	Total
Gross value				
Amount as of April 1, 2004	26	-	135	**161**
Additions	-	-	23	**23**
KLM acquisition	280	107	48	**435**
Amount as of March 31, 2005	**306**	**107**	**206**	**619**
Additions	1	-	29	**30**
Disposals	(2)	-	(11)	**(13)**
Transfer	-	-	3	**3**
Amount as of March 31, 2006	**305**	**107**	**227**	**639**
Depreciation and impairment				
Amount as of April 1, 2004	**(2)**	**-**	**(135)**	**(137)**
Charge to depreciation	-	(15)	(15)	**(30)**
Transfers	2	-	(17)	**(15)**
Amount as of March 31, 2005	**-**	**(15)**	**(167)**	**(182)**
Charge to depreciation	-	(18)	(21)	**(39)**
Releases on disposal	-	2	11	**13**
Transfer	-	-	(3)	**(3)**
Amounts as of March 31, 2006	**-**	**(31)**	**(180)**	**(211)**
Net value				
as of April 1, 2004	24	-	-	**24**
as of March 31, 2005	306	92	39	**437**
as of March 31, 2006	305	76	47	**428**

The KLM and Transavia trademarks and slots were acquired by the Group with the acquisition of KLM. These intangible assets have an indefinite life as the nature of these assets means they have no time limit.

17. Tangible assets

• Change by category

In euro million	Flight equipment				Other tangible assets				Assets	Total
	Owned aircraft	Leased aircraft	Other	Total	Land and buildings	Equipment and fittings	Other	Total	in progress	
Gross value										
Amount as of April 1, 2004	**4,343**	**1,452**	**1,155**	**6,950**	**1,234**	**594**	**683**	**2,511**	**697**	**10,158**
Additions	439	174	914	1,527	100	80	91	271	340	2,138
Disposals	(512)	(108)	(326)	(946)	(52)	(32)	(32)	(116)	-	(1,062)
KLM acquisition	1,026	1,997	291	3,314	553	144	28	725	315	4,354
Transfer	328	203	(299)	232	77	7	(4)	80	(138)	174
Currency translation adjustment	(28)	211	(1)	182	-	-	(1)	(1)	(20)	161
Amounts as of March 31, 2005	**5,596**	**3,929**	**1,734**	**11,259**	**1,912**	**793**	**765**	**3,470**	**1,194**	**15,923**
Additions	613	62	511	1,186	49	62	52	163	1,199	2,548
Disposals	(227)	(101)	(302)	(630)	(19)	(37)	(21)	(77)	(59)	(766)
Changes in consolidation scope	-	-	-	-	-	7	2	9	(32)	(23)
Transfers	231	310	324	865	139	26	(23)	142	(1,052)	(45)
Currency translation adjustment	11	-	-	11	-	(2)	-	(2)	14	23
Amount as of March 31, 2006	**6,224**	**4,200**	**2,267**	**12,691**	**2,081**	**849**	**775**	**3,705**	**1,264**	**17,660**

• Change by category

In euro million	Flight equipment				Other tangible assets				Assets	Total
	Owned aircraft	Leased aircraft	Other	Total	Land and buildings	Equipment and fittings	Other	Total	**in progress**	
Depreciation and impairment										
Amount as of April 1, 2004	**(528)**	**(103)**	**(436)**	**(1,067)**	**(640)**	**(436)**	**(485)**	**(1,561)**	**-**	**(2,628)**
Charge to depreciation	(508)	(444)	(362)	(1,314)	(106)	(69)	(76)	(251)	-	(1,565)
Releases on disposal	282	25	300	607	25	21	24	70	-	677
Changes in consolidation scope	-	-	-	-	2	-	22	24	-	24
Transfers	(90)	83	(143)	(150)	-	(1)	(23)	(24)	-	(174)
Currency translation adjustment	26	4	(2)	28	(2)	5	1	4	-	32
Amount as of March 31, 2005	**(818)**	**(435)**	**(643)**	**(1,896)**	**(721)**	**(480)**	**(537)**	**(1,738)**	**-**	**(3,634)**
Charge to depreciation	(591)	(294)	(485)	(1,370)	(110)	(73)	(64)	(247)	-	**(1,617)**
Releases on disposal	171	39	245	455	14	33	17	64	-	**519**
Changes in consolidation scope	-	-	-	-	-	-	-	-	-	**-**
Transfers	(32)	32	-	-	1	7	37	45	-	**45**
Currency translation adjustment	3	(1)	(3)	(1)	-	-	-	-	-	**(1)**
Amount as of March 31, 2006	**(1,267)**	**(659)**	**(886)**	**(2,812)**	**(816)**	**(513)**	**(547)**	**(1,876)**	**-**	**(4,688)**
Net value										
as of April 1, 2004	3,815	1,349	719	5,883	594	158	198	950	697	7,530
as of March 31, 2005	4,778	3,494	1,091	9,363	1,191	313	228	1,732	1,194	12,289
as of March 31, 2006	4,957	3,541	1,381	9,879	1,265	336	228	1,829	1,264	12,972

Note 34 details the amount of pledged tangible assets.

Commitments to property purchases are detailed in notes 33 and 34.

The net value of tangible assets financed under capital lease amounts to € 3,912 million as of March 31, 2006 (€ 3,710 million as of March 31, 2005).

18. Capital expenditure

The detail of investments in property, plant and equipment and intangible assets presented in the consolidated cash flow statements is as follows:

Year ended March 31, In euro million	**2006**	**2005**
Acquisition of tangible assets	2,548	2,138
Acquisition of intangible assets	30	23
Accounts payable on acquisitions	(34)	(30)
	2,544	**2,131**

19. Equity affiliates

• Movements over the period

The table below presents the movement in equity affiliates:

In euro million	**WAM Acquisition (Amadeus GTD)**	**Alpha Plc**	**Martinair**	**Other**	**Total**
Value of share in investment as at March 31, 2004	**287**	**31**	**-**	**21**	**339**
Share in net income of equity affiliates	50	3	9	11	73
Distributions	(8)	(2)	-	-	(10)
Changes in consolidation scope	-	-	146	29	175
Transfers and reclassifications	-	2	-	-	2
Currency translation adjustment	-	(2)	-	-	(2)
Value of share in investments as of March 31, 2005	**329**	**32**	**155**	**61**	**577**
Share in net income of equity affiliates	14	4	(59)	18	(23)
Distributions	-	(3)	(1)	(3)	(7)
Changes in consolidation scope	-	-	-	5	5
Amadeus transaction	(343)	-	-	-	(343)
Transfers and reclassifications	-	-	(3)	-	(3)
Currency translation adjustment	-	-	-	(2)	(2)
Value of share in investment as of March 31, 2006	**-**	**33**	**92**	**79**	**204**

During the year ended March 31, 2005, Air France and the other airline shareholders of Amadeus GTD began negotiations with private equity investors to launch a bid for Amadeus GTD at a price of € 7.35 per share through WAM Acquisition, a company in which they would be partners. This Leveraged Buy Out (LBO) enabled Air France to externalize its potential capital gain while remaining a shareholder of Amadeus GTD through WAM Acquisition. This equity affiliate in the Air France-KLM group's consolidated accounts contributes for a nil value for the year ended March 31, 2006.

In addition, an impairment charge has been recorded on the Company's investment in Martinair for an amount of € 59 million.

As of March 31, 2006, the ownership structure of WAM Acquisition was as follows: 23.4% Air France, 11.7% Iberia, 11.7% Lufthansa and 53.2% Amadelux Investments. The ownership structure of Alpha plc was as follows: 27% Servair ; the other shareholders are mainly institutional investors. The KLM and P&O Nedlloyd Groups each hold 50% of the capital of Martinair.

As of March 31, 2005, Air France held 23.4% of Amadeus GTD, Iberia 18.3%, Lufthansa 5% and the general public 53.3%. Amadeus was listed for trading on a regulated market and the market value of Amadeus shares owned by the Group amounted to € 1,003 million.
The ownership structure of Alpha plc was as follows: 27% Servair; the other shareholders were mainly institutional investors. The KLM and P&O Nedlloyd Groups each held 50% of the capital of Martinair.

Simplified accounts of the main equity affiliates

The equity affiliates as of March 31, 2006 mainly concerned the following companies, in which the Group has a significant stake.

• WAM Acquisition (Group publishing consolidated financial statements)

This Group develops booking tools and technology solutions dedicated to business and leisure travel. This expertise makes it the global partner of choice for: travel agents, rail and airline operators, hotel chains, car rental companies. Furthermore, the Group also partners businesses involved in the reservation and management of business travel.

• Alpha Airport plc (Group publishing consolidated financial statements)

The Alpha Airports Group provides retail and catering services for airlines and airports. The Group operates over 150 retailing and catering outlets in 74 airports in 13 countries across five continents. The Group's inflight catering business offers a comprehensive range of catering logistics, flight catering and management services for over 100 airlines. The Group also provides inflight sales services.
The Alpha Airport Group offers airport customers customized retail and catering services. The Group operates stores at 26 airports in the United Kingdom and Ireland, 2 airports in the USA, 2 airports in Turkey and 3 airports on the Indian sub-continent.

• Martinair (Group publishing consolidated financial statements)

Located in the Netherlands, Martinair's core business is the air transport of passengers and freight out of Amsterdam.

The following accounting information for the principal equity-accounted companies for the 2005 and 2006 financial years is not adjusted for consolidation changes.

In euro million	WAM Acquisition (Amadeus GTD)	Alpha Plc	Martinair
	31/12/2004	**31/01/2005**	**31/12/2004**
% holding as of March 31, 2005	23.4%	26.2%	50.0%
Operating revenues	2,057	715	959
Operating income	343	22	23
Net income	208	13	13
Stockholder's equity as of March 31, 2005	942	62	318
Total assets	1,675	243	682
Total liabilities and stockholder's equity	1,675	243	682
	31/07/2005 (one month)	**31/01/2006**	**31/12/2005**
% holding as of March 31, 2006	23.4%	26.1%	50.0%
Operating revenues	180	807	1 121
Operating income	(68)	30	22
Net income	(89)	20	17
Stockholders' equity as of March 31, 2006	21	62	322
Total assets	5,252	294	710
Total liabilities and stockholders' equity	5,252	294	710

• Other information

The share of WAM Acquisition's loss that has not been recorded in the Group's consolidated financial statements amounted to € (21) million for the year ended March 31, 2006. This amount represents the part of the Group in the first financial year of one month for the year ended July 31, 2005 of WAM Acquisition. Given the negative net equity after neutralization of amounts reinvested by the Air France-KLM Group, its contribution to consolidated financial statements is nil.

20. Pension assets

The changes in the pension assets recorded in the balance sheet are as follows:

Year ended March 31, In euro million	**2006**	**2005**
Opening balance	**1,767**	**23**
Net periodic pension cost for the period	(115)	(106)
Contributions paid to the funds	249	226
Acquisition of KLM	-	1,624
Currency translation adjustment	2	-
Closing balance	**1,903**	**1,767**

The detail of this pension asset is presented in note 28.1.

21. Other financial assets

Year ended March 31,	**2006**		**2005**	
In euro million	**Current**	**Non current**	**Current**	**Non current**
Marketable securities	865	-	578	-
Treasury shares	-	-	-	27
Loans and receivables	65	1,130	45	986
Miscellaneous financial assets	2	24	31	75
Financial assets available for sale	-	77	-	57
Other	-	-	-	15
Impairment	-	(49)	-	(47)
Total	**932**	**1,182**	**654**	**1,113**

• Treasury shares

As of April 1, 2005, due to the application of IAS 32 and 39, treasury shares held are presented as a reduction of equity and therefore no longer appear in financial assets.

• Loans and receivables

Loans and receivables mainly include deposits on flight equipment, operating and capital leases.

• Financial assets available for sale

In euro million	Fair value	% interest	Stockholders' equity	Net income	Stock price (in €)	Closing date
As of March 31, 2006						
Alitalia (*) (**)	32	2.00%	1,462	(167)	1.15	December 2005
Austrian Airlines (*)	4	1.50%	566	(129)	8.39	December 2005
Opodo	3	5.94%	(4)	(50)	NA	December 2004
Voyages Fram	9	8.70%	123	(17)	NA	December 2004
Others	29					
As of March 31, 2005						
Alitalia (*)	16	2.00%	1,264	(520)	0.228	December 2004
Austrian Airlines (*)	9	1.50%	631	40	7,87	December 2004
Opodo	-	8.30%	(15)	(64)	NA	December 2003
Voyages Fram	9	8.70%	142	(15)	NA	December 2003
Others	23					

(*) Listed company
(**) A reverse stock split occurred during the financial year, which involved 30 old shares into 1 new share.

22. Inventory and work in progress

The detail of inventory and work in progress as of March 31, 2006 and 2005 is as follows:

Year ended March 31, In euro million	**2006**	**2005**
Aeronautical spare parts	331	305
Other supplies	134	125
Production work in progress	2	55
Gross value	**467**	**485**
Opening valuation allowance	**(103)**	**(116)**
Charge allowance	(29)	-
Use of allowance	5	-
Releases of allowance no longer required	-	13
Closing valuation allowance	**(127)**	**(103)**
Net value of inventory	**340**	**382**

23. Trade accounts receivable

Year ended March 31, In euro million	2006	2005
Passenger	1,330	977
Cargo	392	330
Maintenance	303	382
Airlines	503	438
Other	97	247
Gross value	**2,625**	**2,374**
Opening valuation allowance	**(102)**	**(99)**
Charge to allowance	(17)	(30)
Use of allowance	12	27
Closing valuation allowance	**(107)**	**(102)**
Net value	**2,518**	**2,272**

24. Other assets

Year ended March 31,	2006		2005	
In euro milion	Current	Non current	Current	Non current
Suppliers with debit balances	70	-	153	-
State	79	7	82	-
Group and associates	35	-	16	-
Derivative instruments	1,022	973	88	299
Prepayments	294	-	304	-
Other debtors	261	102	331	37
Gross value	**1,761**	**1,082**	**974**	**336**
Opening valuation allowance	**(5)**	**-**	**(5)**	**-**
Charge to allowance	-	-	-	-
Use of allowance	-	-	-	-
Release of allowance no longer required	-	-	-	-
Closing valuation allowance	**(5)**	**-**	**(5)**	**-**
Net realizable value of other assets	**1,756**	**1,082**	**969**	**336**

25. Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Year ended March 31, In euro million	**2006**	**2005**
Negotiable debt securities	25	32
Mutual funds (SICAV)	2,062	963
Bank deposits	639	654
Cash in hand	220	398
Total	**2,946**	**2,047**

The effective interest rate for term deposits for the year ended March 31, 2005 amounted to 2.26%, compared with 2.69% for the year ended March 31, 2006.

26. Equity attributable to equity holders of Air France-KLM SA

26.1. Issued capital

As of March 31, 2006, the issued capital of Air France-KLM represented 269,383,518 fully paid-up shares. Each share is entitled to one vote. The nominal value of each share amounts to 8.5 euros.

• Breakdown of stock and voting rights

The breakdown of stock and voting rights is as follows:

Year ended March 31,	**% stock**		**% of voting rights**	
	2006	**2005**	**2006**	**2005**
French State	18%	23%	19%	24%
Employees and former employees	14%	12%	14%	12%
Treasury shares	2%	2%	-	-
Other	66%	63%	67%	64%
	100%	**100%**	**100%**	**100%**

The item “Employees and former employees” includes shares held by employees and former employees identified in funds or by a Sicovam code.

• Other securities giving access to common stock

Following the Exchange Offer, 45,093,299 Equity Warrants for new or existing shares (Bons d’Acquisition et/ou de Souscription d’Actions (BASA) were issued. Three BASAs give the holder the right to purchase and/or subscribe to two new or existing shares of Air France-KLM stock, with a par value of 8.50 euros, at an exercise price of 20 euros per Air France-KLM share. BASA holders will have the option, at any time during a 24-month period beginning November 2005, to obtain new or existing shares, at the Company’s discretion, upon exercise of the BASA. The maximum potential increase in the equity capital of Air France-KLM is € 601 million. As the exercise price of the BASA is higher than the Air France-KLM stock price, they are not taken into account for the calculation of diluted earnings per share.

26.2. Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

Year ended March 31, In euro million	**2006**	**2005**
Equity part of Hybrid instruments	46	-
Other paid-in capital	384	384
	430	**384**

26.3. Treasury shares

As of March 31, 2006, the Group held 4,129,088 shares of its own stock. The Group also held 21,047 shares of its own stock within the framework of a liquidity agreement approved by the Shareholders' Meeting of July 12, 2005. All these treasury shares are classified as a reduction of equity as of March 31, 2006.

As at March 31, 2005, shares held by the Group were classified as marketable securities for an amount of € 27 million, Air France-KLM having implemented IAS 32 and 39 as of April 1, 2005 and in accordance with the exemption provided by IFRS 1.

26.4. Reserves and retained earnings

Year ended March 31, In euro million	**2006**	**2005**
Legal reserve	46	46
Statutory reserve	1,059	1,133
Other reserves	3,054	365
Net income (loss)	913	1,710
Total	**5,072**	**3,254**

As of March 31, 2006, the legal reserve of € 46 million represents 2% of Air France-KLM's issued capital. French company law requires that a limited company (société anonyme) allocate 5% of its unconsolidated statutory net result each year to this legal reserve until it reaches 10% of the company's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year. This restriction on the payment of dividends also applies to each of the French subsidiaries on an individual statutory basis. The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Other reserves also include (i) the distributable reserves corresponding to the parent company Air France-KLM's share of income which was appropriated to reserves by annual Shareholders' Meetings, and (ii) to the aggregate results of consolidated subsidiaries.

• Distributable income and reserves

Year ended March 31, In euro million	2006	2005
Distributable reserves	1,053	1,129
Net income (loss), Group share	913	1,710
Distributable income	**1,966**	**2,839**

The Board of Directors proposed a dividend distribution amounting to € 80 million (€ 0.30 per share) which is subject to approval by the shareholders at the annual Shareholders' Meeting to be held on July 12, 2006.

27. Share based compensation

As of March 31, 2006, outstanding share-based compensation plans were:

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price (euros)	Number of options exercised as of 31/03/2006
Stock-options plans						
KLM	30/06/2000	34,419	30/06/2003	20/10/2005	32.86	-
KLM - Plan A	30/06/2001	343,642	30/06/2004	20/10/2006	20.44	-
KLM - Plan B	30/06/2001	114,162	30/06/2004	20/10/2006	16.22	65,400
KLM - Plan A	30/06/2002	341,350	30/06/2004	19/10/2007	12.80	223,948
KLM - Plan B	30/06/2002	119,105	30/06/2004	19/10/2007	10.07	89,142
KLM	30/06/2003	355,379	30/06/2004	30/06/2008	6.48	272,768
KLM	30/06/2004	463,884	30/06/2004	25/06/2009	13.19	-
KLM	31/07/2005	390,609	31/07/2005	16/07/2010	13.11	-
Other plans						
Air France - ESA 1998 pilots	01/05/1999	15,023,251	N/A	31/05/1999	14.00	15,023,251
Air France - ESA 1998 options	30/05/2000	3,516,596	31/05/2005	31/05/2007	15.75	868,070
Air France-KLM ESA(*) 2003	01/02/2005	12,612,671	N/A	21/02/2005	14.00	12,612,671
Air France-KLM ORS(**)	01/02/2005	8,414,273	N/A	21/02/2005	14.30	8,414,273

(*) ESA : Shares-for-salary exchange
(**) ORS : Offer reserved for employees

27.1. Plans granted prior to November 7, 2002

In accordance with the transitional provisions of IFRS 2, only plans granted after November 7, 2002 and not yet vested as of April 1, 2004 were valued and recorded as salary expense. IFRS 2 is therefore not applicable to the plans described below:

On October 28, 1998, Air France signed an agreement granting Air France shares to pilots in return for a reduction in salary (these shares being attributed by the French State, the major shareholder at the time). The offer was launched on May 1, 1999 and closed on May 31, 1999. By the end of the offer, 15,023,251 shares were allocated to pilots. Payment for these shares, priced at € 14, would be made through a reduction in salary spread over (i) a 7 year period for 10,263,001 shares and (ii) the remaining career of pilots for the remaining 4,760,250 shares.

Moreover, within the same agreement, Air France also granted 3,516,596 stock purchase options on May 30, 2000 to certain of its employees. These options will be exercisable at € 15.75 per share between May 31, 2005 and May 31, 2007. These options were granted without vesting conditions of service and were considered vested at their grant date May 30, 2000.

As of March 31, 2006, 868,070 of these options had been exercised and 50,290 cancelled. As of March 31, 2005, none of these options had been exercised and 19,659 had been cancelled.

27.2. Plans granted after November 7, 2002

• Stock-option plans

Prior to the combination with Air France, members of the Board of Directors and the key executives of KLM had been granted KLM stock options.

Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004, so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares.

The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

The fair value of these options, amounting to € 10 million, was determined at the acquisition date of KLM (i.e. May 1, 2004) using the Black and Scholes model with the following assumptions:

Fair value at grant date (in euro million)	10
Share price (in euro)	16.61
Option exercise price (in euro)	Between € 6.48 and € 32.86
Estimated volatility of dividends on the shares	33.7%
Option duration	Between 0.46 and 4.17 years
Share's expected dividend yield	1.40%
Risk free interest rate	Between 2.06% and 3.26%

The changes in options during the years ended March 31, 2006 and 2005 are as follows:

	Average exercise price (€)	Number of options
Options outstanding as of April 1, 2004	**-**	**-**
KLM acquisition	13.54	1,771,941
Options forfeited during the period	-	-
Options exercised during the period	7.31	(112,673)
Options granted during the period	-	-
Options outstanding as of March 31, 2005	**13.97**	**1,659,268**
Options forfeited during the period	26.18	(58,512)
Options exercised during the period	10.71	(538,585)
Options granted during the period	13.11	390,609
Options outstanding as of March 31, 2006	**14.45**	**1,452,780**

• 2003 Shares-for-salary exchange (ESA 2003)

On February 1, 2005, the Group launched a shares-for-salary exchange scheme, in which all Air France employees residing in France were offered the opportunity to purchase Air France-KLM shares at a price of € 14 per share in exchange for wage concessions over a 6-year period. The offer was limited to a maximum of 13,186,853 ordinary shares.

At the date the offer was closed, February 21, 2005, Air France employees had acquired 12,612,671 Air France-KLM shares.

These shares were allocated by the French State, the largest Air France-KLM shareholder, subject to payment of a € 109 million balance by Air France-KLM.

The wage concessions cover the period from May 2005 to May 2011.

The fair value of the services provided under the shares-for-salary exchange scheme was calculated on the basis of the market price of the Air France-KLM share on the date the offer was closed, namely 14.30 euros and amounts to € 180 million.
The corresponding salary expense covers the acquisition period of voting rights from May 2005 to May 2011.

• Offer Reserved for Employees (ORS)

Pursuant to the privatization law of August 6, 1986, the French State, the main Air France-KLM shareholder, on February 1, 2005, offered employees the opportunity to subscribe to Air France-KLM shares under the following preferential conditions:
- a subscription price at a 20% discount to the market price of the Air France-KLM share,
- the allocation of bonus shares,
- an employer's contribution of up to 40% of the amount subscribed by employees,
- payment facilities.

The offering covered a maximum of 8,414,273 shares. At the close of the offer, on February 21, 2005, the entire offering had been taken up. No vesting conditions were applicable after the allocation date of this scheme.

The service cost within the framework of this scheme was calculated on the basis of the Air France-KLM share price at the date on which the offer closed, namely 14.30 euros, except for the employer's contribution which was accounted for on the basis of its nominal value. Given that this scheme was not subject to any vesting condition, a cost of € 69 million was recorded in the year ended March 31, 2005.

• Salary expenses related to share-based compensation

Their breakdown is as follows:

Year ended March 31, In euro million	**Note**	**2006**	**2005**
ESA 2003		(29)	-
ORS		-	(69)
Stock option plan		-	-
Salary expense	**7**	**(29)**	**(69)**

28. Provisions and retirement benefits

In euro million	**Retirement benefits note 28.1**	**Restitution of aircraft**	**Restruc-turing**	**Litigation**	**Others**	**Total**
Amount as of April 1, 2004	**658**	**279**	**13**	**64**	**51**	**1,065**
New provision	102	139	18	12	89	360
Use of provision	(50)	(80)	(45)	(7)	(23)	(205)
Reversal of unnecessary provisions	-	(59)	-	(2)	-	(61)
Acquisition of KLM	347	67	59	-	-	473
Currency translation adjustment	(4)	5	3	-	3	7
Discount impact	-	1	-	-	-	1
Amount as of March 31, 2005	**1,053**	**352**	**48**	**67**	**120**	**1,640**
On which : non current	*1,053*	*281*	*16*	*61*	*105*	*1,516*
current	-	*71*	*32*	*6*	*15*	*124*
New provision	74	136	1	63	39	313
Use of provision	(129)	(112)	(31)	(14)	(18)	(304)
Reversal of unnecessary provisions	-	(17)	(1)	-	-	(18)
Currency translation adjustment	7	-	-	-		7
Discount impact	-	7	-	-	-	7
Amount as of March 31, 2006	**1,005**	**366**	**17**	**116**	**141**	**1,645**
On which : non current	*1,005*	*261*	-	*66*	*121*	*1,453*
current	-	*105*	*17*	*50*	*20*	*192*

28.1. Retirement benefits

The Group has a large number of retirement plans for the majority of its employees. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located. Several of the plans are defined benefit plans.

The € 7,627 million increase in obligations and € 8,912 million increase in the value of the plan's pension fund assets were due to the acquisition of KLM, as of April 30, 2004. These amounts correspond to the fair value of obligations and plan assets at the date of the inclusion of KLM in the consolidation scope. They are shown in the breakdown of pension benefit obligations and other benefits on the line "Acquisition of KLM".

The Group has accounted for the actuarial gains and losses directly in equity as of April 1, 2004, the transition date to IFRS, in accordance with the exemptions provided by IFRS 1.

Since April 1, 2004, the Group amortizes actuarial gains and losses if at the beginning of the period the net unrealized actuarial gain or loss exceeds 10% of the greater of the projected obligation or the market value of plan assets.

• Ceiling of the pension fund surplus

For a certain number of pension obligations, the Group funds pension funds.
The obligations of KLM Group are for the most part funded in accordance with Dutch regulation and the company's collective agreement. With regard to the level of coverage of the commitments, particularly for the pilots' program, significant "safeguard" constraints force the company to be always in a position of "over-coverage".

• Actuarial assumptions used

Actuarial valuations of the Group's benefit obligations were computed as of March 31, 2006 and 2005. These calculations include:
• Assumptions on staff turnover, life expectancy and salary inflation.

• A retirement age of 55 to 65 depending on localizations and applicable laws.

• Discount rates used to determine the actuarial present value of the projected benefit obligations are as follows:

Year ended March 31,	**2006**	**2005**
Euro zone	Between 4.1% and 4.5%	Between 4.5% and 5.25%
United Kingdom	Between 4.8% and 4.9%	Between 5.3% and 5.4%
USA-Canada	Between 4.8% and 5.8%	Between 5.25% and 6.5%
Other countries	Between 1.7% and 15.25%	Between 1.9% and 11%

• Expected long-term rates of return for plan assets are as follows:

Year ended March 31,	2006	2005
Euro zone	Between 4.0% and 7.0%	Between 5% and 7%
United Kingdom	Between 6.1% and 6.8%	6.8%
USA-Canada	Between 6.1% and 6.8%	Between 6.8% and 7.5%
Other countries	Between 0.5% and 12.0%	Between 4.8% and 11%

• Assumption on increase in healthcare costs:

Year ended March 31,	2006	2005
USA-Canada	10.0%	8.5%

A +/- 1 point variation in the increase in healthcare costs would have no significant impact on the projected benefit obligation, or the accumulated service cost nor on the interest cost.

On average, the main assumptions used in the actuarial valuations of obligations are summarized below:

Year ended March 31,	Pension benefits		Other benefits	
	2006	2005	2006	2005
Discount rate	4.49%	4.55%	4.49%	4.55%
Salary inflation rate	2.70%	2.91%		
Expected long-term rate of return on plan assets	5.70%	5.13%		

• Changes in obligations

The following chart details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended March 31, 2006 and 2005.

	Pension benefits		Other benefits	
In euro million	**2006**	**2005**	**2006**	**2005**
Benefit obligation at beginning of year	**10,313**	**1,680**	**115**	**3**
Service cost	359	275	2	2
Interest cost	461	447	6	5
Employees' contribution	36	32	-	-
Plan amendments	49	16	-	-
Acquisition of KLM	-	7,528	-	99
Settlements/curtailments	(11)	(1)	(55)	-
Benefits paid	(398)	(352)	(5)	(8)
Actuarial loss/(gain)	106	707	8	14
Currency translation adjustment	6	(19)	3	-
Benefit obligation at end of year	**10,921**	**10,313**	**74**	**115**
Fair value of plan assets				
at beginning of year	**10,782**	**1,024**	**-**	**-**
Actual return on plan assets	1,747	913	-	-
Employers' contributions	358	261	-	-
Employees' contributions	37	32	-	-
Acquisition of KLM	-	8,912	-	-
Settlements/curtailments	(6)	-	-	-
Benefits paid	(383)	(345)	-	-
Currency translation adjustment	3	(15)	-	-
Fair value of plan assets at end of year	**12,538**	**10,782**	**-**	**-**
Amounts recorded in the balance sheet				
Funded status	1,617	469	(74)	(115)
Unrecognized prior service cost	59	25	-	-
Unrecognized actuarial (gains)/losses	(710)	322	6	13
Prepaid (accrued) pension cost	**966**	**816**	**(68)**	**(102)**
Amounts recorded in the balance sheet				
Pension asset (note 20)	1,903	1,767	-	-
Provision for retirement benefits	(937)	(951)	(68)	(102)
Net amount recognized	**966**	**816**	**(68)**	**(102)**

• Changes in obligations (continued)

In euro million	Pension benefits 2006	Pension benefits 2005	Other benefits 2006	Other benefits 2005
Net periodic pension cost:				
Service cost	359	275	2	2
Interest cost	461	447	6	5
Expected return on plan assets	(616)	(532)	-	-
Settlement/curtailment	(8)	-	(44)	-
Amortization of prior service cost	12	15	-	-
Amortization of unrecognized actuarial (gain) loss	16	(4)	4	-
Other	(1)	-	-	-
Net periodic pension cost	**223**	**201**	**(32)**	**7**
Amount of obligation calculated with salaries at the end of the year (Accumulated Benefit Obligation):				
All plans	9,656	9,081		
Plans with an accumulated benefit obligation in excess of plan assets	965	1,793	-	-

Except for the KLM pension plans, for which the balance is a net asset fully recorded as a non current asset, all the obligation is recorded as non-current.

• Asset allocation

The weighted average allocation of funds invested in Group pension plans as of March 31, 2006 and 2005 is as follows:

Funds invested ended March 31,	**2006**	**2005**
Equities	40%	50%
Bonds	48%	37%
Real estate	10%	10%
Short term investments	0%	2%
Other	2%	1%
Total	**100%**	**100%**

• Expected cash outflows

The table below shows the expected cash outflows on pensions and other post-employment benefits over the next ten years:

In euro million	**Pensions and similar benefits**
Estimated employer's contribution in 2007	
Estimated benefit payments:	
2007	371
2008	395
2009	431
2010	459
2011	495
2012-2016	2,825

28.2. Other provisions

• Provisions for the restitution of aircraft under operating leases

The provisions for the restitution of aircraft under operating leases correspond to the commitments made by Air France-KLM under the aircraft operating leases signed with lessors at the time its financial statements are established.

• Restructuring provision

KLM had booked, prior to May 1, 2004, a restructuring provision amounting to € 75 million, to cover redundancy costs associated with the execution of a cost-cutting program. At the date of acquisition by the Group, this provision amounted to € 59 million.
The remaining provision was € 8 million and € 32 million as of March 31, 2006 and 2005, respectively.
The restructuring provision mainly corresponds to headcount reduction.

• Provision for litigation with third parties

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions were booked whenever circumstances rendered it necessary.
Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

• Other provisions

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group).

29. Financial debt

Year ended March 31, In euro million	**2006**	**2005**
Non current financial debt		
Perpetual subordinated loan stock in Yen	226	225
Perpetual subordinated loan stock in Swiss francs	265	270
Repackaged perpetual loans	122	152
OCÉANE (convertible bonds)	382	-
Capital lease obligations	4,668	5,008
Other long-term debt	2,163	2,234
	7,826	**7,889**
Current financial debt		
Perpetual subordinated loan stock	25	23
Capital lease obligations (current portion)	763	444
Accrued interest	107	79
Other	365	498
	1,260	**1,044**

29.1. Perpetual subordinated loan stock

29.1.1. Perpetual subordinated loan stock in Yen

The perpetual subordinated loan stock in Yen was issued by KLM in 1999 for a total amount of 30 billion Yen, i.e. € 226 million as of March 31, 2006.

The perpetual subordinated loan stock in Yen is subject to the payment of a coupon considered to be fixed rate (5.065% on a 10 billion Yen portion, and 4.53% on a 20 billion Yen portion) after the use of swaps.

The debt is perpetual; the date of reimbursement is, however, expected to be August 28, 2019. The debt's reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the yen. The borrower would also have to reimburse to the issuer for all reasonable legal fees.

This debt is subordinated to all other existing and future KLM debts.

29.1.2. Perpetual subordinated loan stock in Swiss francs

The perpetual subordinated loan stock in Swiss francs was issued by KLM in two tranches in 1985 and 1986 for a total original amount of 500 million Swiss francs. The subordinated loan amounts to 420 million Swiss francs, i.e. € 265 million as of March 31, 2006.

This loan is subject to the payment of a coupon considered to be fixed rate (5 $^{3}/_{4}$% on a 270 million Swiss francs portion and 2 $^{7}/_{8}$% on a 150 million Swiss francs portion) for the years ended as of March 31, 2006 and 2005.

This debt is subordinated to all other existing and future KLM debts.

29.2. Repackaged perpetual loan securities

The Air France group issued two repackaged perpetual loan securities, one in June 1989 and the other in May 1992, for respective approximate amounts of € 381 million and € 395 million.

The first issuance, restructured in 1998, was repurchased by Air France in March 2006.

Interest paid by Air France on the nominal amount of the debt is recorded as financial expenses. Interest received from the zero coupon deposit (or equivalent) is offset against financial expense, and the counterpart from the debt. The net debt balance is repaid over 15 years. As of March 31, 2006, the 1992 perpetual loan represents a € 147 million debt, including a non current portion of € 122 million.

In France, the tax regime for perpetual loans was approved by the tax authorities and interest is thus deductible for the portion effectively received.

29.3. OCÉANE (Convertible bonds)

As of April 22, 2005, Air France issued a 15-year bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCÉANE). 21,951,219 bonds were issued for a total amount of € 450 million. Each bond has a nominal value of € 20.50.
The maturity date was fixed at April 1, 2020. Bonds holders may ask for reimbursement as of April 1, 2012 and April 1, 2016. Air France holds a call option triggering early reimbursement which can be exercised starting April 1, 2010 under certain conditions. The annual coupon is 2.75% payable at the end of each period ended April 1.
The conversion period of these bonds started as of June 1, 2005 and ends March 23, 2020.

Upon issue of this convertible debt, Air France recorded a debt of € 379 million, corresponding to the present value of future payments for interest discounted at the rate of a similar bond without a conversion option.
The option value was evaluated by deducting this debt value from the total nominal amount (i.e. € 450 million) and was recorded in equity (see note 26.2).

29.4. Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows:

Year ended March 31,		**2006**			**2005**	
In euro million	**Minimum Lease Payments**	**Interest**	**Principal**	**Minimum Lease Payments**	**Interest**	**Principal**
Aircraft						
Due dates						
N + 1	979			671		
N + 2	974			974		
N + 3	632			946		
N + 4	682			581		
N + 5	648			495		
Over 5 years	2,381			2,227		
Total	**6,296**	**1,224**	**5,072**	**5,894**	**713**	**5,181**
Buildings						
Due dates						
N + 1	45			35		
N + 2	44			35		
N + 3	44			34		
N + 4	42			33		
N + 5	41			32		
Over 5 years	273			211		
Total	**489**	**133**	**356**	**380**	**112**	**268**
Other property, plant and equipment	**3**		**3**	**3**		**3**

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in note 21.

29.5. Other long-term debt

Other long-term debt breaks down as follows:

Year ended March 31, In euro million	**2006**	**2005**
Flight equipment securitization	394	421
Reservation of ownership clause and mortgage debt	1,747	1,966
Other long term debt	387	345
Total	**2,528**	**2,732**

• Flight equipment securitization

In July 2003, Air France finalized the securitization of flight equipment for an amount of € 435 million.
This financing arrangement was secured by a portfolio of sixteen aircraft valued at € 525 million. Three ten-year debt tranches were issued:

- a senior A1 floating rate tranche of € 98 million with a final maturity of July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 82 million (€ 93 million as at March 31, 2005).
- A senior A2 fixed rate (4.575%) non amortized tranche of € 194 million with a final maturity as at July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 194 million (€ 194 million as at March 31, 2005).
- A mezzanine floating rate B tranche of € 143 million with a final maturity as of July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 118 million (€ 135 million as of March 31, 2005).

The floating rate of the A1 tranche averaged 4.03% for the period ended March 31, 2006, compared with 3.81% as of March 31, 2005.

29.6. Maturity analysis

The maturities of long-term debts break down as follows:

Year ended March 31, In euro million	**2006**	**2005**
Maturities in		
N+1	1,260	1,044
N+2	1,081	1,205
N+3	883	957
N+4	749	840
N+5	763	680
Over 5 years	4,350	4,207
Total	**9,086**	**8,933**

29.7. Currency analysis

The breakdown of all long-term debt by currency after impact of derivative instruments is as follows:

Year ended March 31, In euro million	**2006**	**2005**
Euro	7,938	7,629
US Dollar	792	890
Swiss Franc	274	281
Yen	22	29
Pound Sterling	59	100
Other	1	4
Total	**9,086**	**8,933**

29.8. Credit lines

The Group had credit lines amounting to € 1.8 billion as of March 31, 2006. The two main credit lines, undrawn as of March 31, 2006, amounted respectively, to € 1.2 billion and to € 540 million. They mature in April and July 2010, respectively. Moreover, the Group had medium term credit lines of € 45 million (€ 33 million had been drawn as of March 31, 2006). They mature between April 2006 and October 2006.

30. Other liabilities

Other current liabilities as of March 31, 2006 and 2005 break down as follows:

Year ended March 31,	**2006**		**2005**	
In euro million	**Current**	**Non current**	**Current**	**Non current**
Tax liabilities	352	-	234	-
Employee-related liabilities	882	-	739	3
Non current assets' payables	178	-	214	-
Financial derivatives	220	154	88	218
Deferred income	57	-	128	-
Other	580	263	577	260
Total	**2,269**	**417**	**1,980**	**481**

31. Financial instruments

31.1. Derivative instruments

• Year ended March 31, 2006

In euro million	Assets		Liabilities	
	Non current	**Current**	**Non current**	**Current**
Year ended March 31, 2006				
Currency exchange risk (operating and financial operations)				
Fair value hedge	16	11	26	42
Cash flow hedge	-	47	-	25
Interest rate risk				
Cash flow hedge	36	3	35	4
Fair value hedge	108	24	73	-
Trading derivatives	49	-	9	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	764	937	11	149
As of April 1, 2005 (date of first implementation of IAS 32 and 39)				
Currency exchange risk (operating and financial operations)				
Fair value hedge	1	13	140	98
Cash flow hedge	-	26	3	22
Interest rate risk				
Cash flow hedge	(5)	-	77	5
Fair value hedge	123	1	137	2
Trading derivatives	69	-	23	-
Commodities risk				
Fair value hedge	674	663	38	124
Cash flow hedge	-	-	-	-

• Interest rate derivatives: exposure to interest rate risk

In order to manage interest rate risk, on short-term and long–term borrowings, the Group uses instruments with the following nominal values as of the balance sheet date:

In euro million	Nominal	Maturity						Mtm*
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Year ended March 31, 2006								
Operations qualified as cash flow hedging								
Interest rate swaps	3,742	491	340	494	279	238	1,900	(0)
Operations qualified as fair value hedging								
Interest rate swaps	2,082	356	476	359	276	205	410	59
Operations qualified as trading activities	641	87	25	167	68	14	280	40
Total	**6,465**	**934**	**841**	**1,020**	**623**	**457**	**2,590**	**99**
As of April 1, 2005 (date of first implementation of IAS 32 and 39)								
Operations qualified as cash flow hedging								
Interest rate swaps	2,280	352	384	217	377	79	871	(87)
Others	5	2	3	-	-	-	-	-
Operations qualified as fair value hedging								
Interest rate swaps	1,780	113	100	375	587	141	464	(15)
Others	3	2	1	-	-	-	-	-
Operations qualified as trading activities								
Interest rate swaps	507	10	76	13	146	6	256	46
Total	**4,575**	**479**	**564**	**605**	**1,110**	**226**	**1,591**	**(56)**

Mtm* = Marked-to-market: fair value

These instruments have different purposes:

• Hedging price risk related to fixed-rate financial debt:
In contracting a fixed-rate debt, the Group is exposed to an opportunity risk if the rate decreases. Given the current position of market rates compared with fixed contractual rates on certain of its financial debt, the Group entered into a number of fixed to floating-rate swaps.

• Hedging of cash-flow risk related to floating-rate financial debt:
The Group has sought to fix the rate of certain floating-rate loans and thus entered into a number of floating to fixed-rate swaps.

Based on the hedging arrangements, the Group's interest rate exposure breaks down as follows:

Year ended March 31,	**2006**				**2005**			
In euro million	**Before hedging**		**After hedging**		**Before hedging**		**After hedging**	
	Base	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	**770**	**6.7%**	**770**	**6.7%**	**930**	**6%**	**930**	**6%**
Repackaged perpetual loans	147	10.1%	147	10.1%	175	10.1%	175	10.1%
Perpetual subordinated loans	491	4.4%	491	4.4%	495	4.8%	495	4.8%
Bonds	382	4.4%	382	4.4%				
Other financial debts	3,175	6.5%	5,221	4.8%	3,919	6%	4,957	4.8%
Fixed-rate financial liabilities	**4,195**	**6.2%**	**6,241**	**4.9%**	**4,589**	**6%**	**5,627**	**6%**
Floating-rate financial assets and liabilities								
Floating-rate financial assets	**3,967**	**2.8%**	**3,967**	**2.8%**	**2,366**	**2.3%**	**2,366**	**2.3%**
Other financial debts	4,891	3%	2,845	3%	4,344	2.9%	3,306	2.8%
Bank overdraft	102		102		262		262	
Floating-rate financial liabilities	**4,993**	**3%**	**2,947**	**3%**	**4,606**	**2.9%**	**3,568**	**2.8%**

• **Exposure to exchange rate risk**

Current operations:
Although the Group's reporting currency is the euro, part of its cash flow is denominated in other currencies, such as the US dollar, the yen, the pound sterling and the Swiss franc. Commercial activities also generate and incur income and expenses in foreign currencies. The Group's policy is to hedge against exchange risks related to forecast cash surpluses or shortfalls in main currencies (US dollars, yens, non-euro European currencies). Hedging is achieved through forward sales or purchase contracts and/or option-based strategies.

Acquisition of flight equipment:
Capital expenditure for flight equipment is denominated in US dollars. The Group hedges on the basis of projected fluctuations in the US dollar exchange rate via forward sales and purchases and/or option-based strategies.

Long-term debt and capital leases
A number of loans are denominated in foreign currencies so as to diversify sources of funding and take into account cash surpluses generated in various currencies. In order to hedge against the risk of exchange rate fluctuations on debt and capital leases, currency rate swaps are used. This is a micro-hedging mechanism matched specifically to the borrowing to which it relates.

Nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging instrument:

Year ended March 31, 2006	**Nominal**	**Maturity**						**Mtm***
In euro million		**below 1 year**	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**2,092**	**1,907**	**76**	**26**	**15**	**15**	**53**	**23**
Exchange rate options								
US Dollar	736	700	36	-	-	-	-	(1)
Pound sterling	105	92	13	-	-	-	-	2
Yen	78	78	-	-	-	-	-	7
Canadian dollar	11	11	-	-	-	-	-	(1)
Other	41	-	12	12	1	1	15	
Forward purchases								
US Dollar	617	522	15	14	14	14	38	11
Forward sales								
US Dollar	2	2	-	-	-	-	-	-
Yen	69	69	-	-	-	-	-	3
Pound sterling	177	177	-	-	-	-	-	3
Swiss franc	36	36	-	-	-	-	-	1
Singapore Dollar	30	30	-	-	-	-	-	(1)
Norwegian Krone	87	87	-	-	-	-	-	-
Swedish Krona	61	61	-	-	-	-	-	-
Polish New Zloty	9	9	-	-	-	-	-	-
Korean Won	33	33	-	-	-	-	-	(1)
Exchange risk (Fair value hedging of flight equipment acquisition)	**2,746**	**849**	**800**	**628**	**400**	**62**	**7**	**(41)**
Forward purchases of US dollars	2,746	849	800	628	400	62	7	(41)
Total	**4,838**	**2,756**	**876**	**654**	**415**	**77**	**60**	**(18)**

* Mtm = Marked-to-market: fair value

As of April 1, 2005 (date of first application of IAS 32 and 39) In euro million	**Nominal**	**Maturity** below **1 year**	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	**Mtm***
Exchange risk (cash flow hedging of operating flows)	**2,067**	**1,929**	**138**	**-**	**-**	**-**	**-**	**1**
Exchange rate options								
US Dollar	651	651	-	-	-	-	-	(9)
Pound sterling	66	66	-	-	-	-	-	-
Yen	60	44	16	-	-	-	-	10
Swiss franc	22	22	-	-	-	-	-	1
Forward purchases								
US Dollar	621	499	122	-	-	-	-	(2)
Forward sales								
Yen	93	93	-	-	-	-	-	2
Pound sterling	321	321	-	-	-	-	-	(1)
Swiss franc	40	40	-	-	-	-	-	-
Singapore Dollar	28	28	-	-	-	-	-	-
Norwegian Krone	87	87	-	-	-	-	-	-
Swedish Krona	70	70	-	-	-	-	-	-
Polish New Zloty	8	8	-	-	-	-	-	-
Exchange risk (Fair value hedging of flight equipment acquisition)	**2,079**	**882**	**372**	**365**	**337**	**123**	**-**	**(224)**
Forward purchases of US dollars	1,850	653	372	365	337	123	-	(215)
Forward sales of US dollars	11	11	-	-	-	-	-	-
Exchange rate options of US dollars	218	218	-	-	-	-	-	(9)
Total	**4,146**	**2,811**	**510**	**365**	**337**	**123**	**-**	**(223)**

* Mtm = Marked-to-market: fair value

• Commodity risk linked to fuel prices

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

In euro million	**Nominal**	**Maturity**						**Mtm***
		below 1 year	1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Year ended March 31, 2006								
Commodity risk (cash flow hedging operating flows)	**5,548**	**2,854**	**1,120**	**1,042**	**532**	**-**	**-**	**1,540**
Swap	3,194	1,415	902	432	445	-	-	637
Options	2,354	1,439	218	610	87	-	-	903
As of April 1, 2005 (date of first application of IAS 32 and 39)								
Commodity risk (cash flow hedging operating flows)	**4,575**	**2,274**	**1,291**	**605**	**405**			**1,175**
Swap	1,772	1,037	454	155	126	-	-	108
Options	2,803	1,237	837	450	279	-	-	1,067

* Mtm = Marked-to-market: fair value

• Counterpart risk management

Transactions which can lead to counterpart risk for the Group are as follows:
- temporary financial investments,
- derivative instruments,
- trade receivables.

• Financial investments are diversified, in blue-chip securities with top tier banks.
• Group transactions on derivative instruments have the sole aim of reducing its overall exposure to exchange and interest rate and commodity price risks in its normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties with no counterpart risk.
• Counterpart risk relating to trade receivables is limited due to the large number and geographical diversity of customers comprising the trade receivables portfolio.

As of March 31, 2005 and March 31, 2006, the Group did not identify any specific counterpart risk.

31.2. Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They bear the following inherent limitations:
• market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates,
• estimated amounts as of March 31, 2006 and 2005 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

Application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

• *Cash, trade receivables, other receivables, short-term bank facilities, trade payable and other payables:*
The Group believes that, due to their short-term nature, net book value can be deemed a reasonable approximation of market value.

• *Marketable securities, investments and other securities:*
The market value of securities is determined based mainly on the market price or the prices available on other similar securities markets. Where no benchmark exists, the Group uses book value, which is deemed a reasonable approximation of market value in this instance.

• *Borrowings, other financial debts and loans:*
Floating-rate loans and financial debts are recorded at net book value.
The market value of fixed-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.

• *Off balance-sheet instruments:*
The market value of off-balance-sheet instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2006 and 2005 calculated using the year-end market rate.

Market values calculated in this way are shown in the table below:

In euro million	March 31, 2006 Net book value	March 31, 2006 Estimated market value	April 1, 2005 (date of first implementation of IAS 32 and 39) Net book value	April 1, 2005 (date of first implementation of IAS 32 and 39) Estimated market value
Financial assets				
Investment securities	69	69	56	56
Loans				
Fixed-rate	351	362	890	887
Floating-rate	151	151	81	81
Marketable securities	3,587	3,587	2,216	2,216
Interest rate derivative instruments				
Interest rate swaps	220	220	188	188
Exchange rate derivative instruments				
Exchange rate options	21	21	11	11
Forward currency contracts	54	54	29	29
Commodity derivative instruments				
Petroleum swaps and options	1,700	1,700	1,337	1,337
Financial liabilities				
Bonds (*)				
Fixed-rate	382	548		
Perpetual subordinated loans	638	633	670	649
Other borrowings and financial debt				
Fixed-rate	3,175	3,182	3,919	4,146
Variable-rate	4,891	4,891	4,344	4,344
Interest rate derivative instruments				
Interest rate swaps	121	121	244	244
Exchange derivative instruments				
Exchange rate options	15	15	18	18
Forward currency contracts	78	78	245	245
Commodity derivative instruments				
Petroleum swaps and options	160	160	162	162

(*) Bonds only include the OCÉANEs (convertible bonds) issued in April 2005.The market value, which amounts to € 548 million, was determined based on the bond's market price as of March 31, 2006. This market value includes the fair value of the debt component (amount of € 383 million in the financial statements as of March 31, 2006) as well as the option value recorded in equity for € 71 million.

32. Lease commitments

32.1. Capital leases

The debt related to capital leases is detailed in note 29.

32.2. Operating leases

The breakdown of minimum future payments on operating leases is as follows:

Year ended March 31,	**Minimum lease payments**	
In euro million	**2006**	**2005**
Flight equipment		
Due dates		
N + 1	645	631
N + 2	580	531
N + 3	457	438
N + 4	354	345
N + 5	298	256
Over 5 years	613	573
	2,947	**2,774**
Buildings		
Due dates		
N + 1	106	144
N + 2	102	119
N + 3	90	107
N + 4	79	88
N + 5	67	73
Over 5 years	592	633
	1,036	**1,164**

The expense relating to operating leases for flight equipment amounted to € 637 million for the year ended March 31, 2006 and to € 595 million for the year ended March 31, 2005.
The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

33. Flight equipment orders

Due dates for commitments in respect of flight equipment orders are as follows :

Year ended March 31, In euro million	**2006**	**2005**
N + 1	989	1,157
N + 2	951	608
N + 3	731	422
N + 4	545	537
N + 5	137	121
> 5 years	135	117
Total	**3,488**	**2,962**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate.

The number of aircraft on firm order as of March 31, 2006 remained stable compared with March 31, 2005 at 48 units.
The number of options increased by 3 units over the same period to reach 35 aircraft. These movements can be explained by:
- the delivery of seventeen aircraft over the period,
- new orders: twelve firm orders and twelve options,
- the conversion of six options into firm orders, and the cancellation of three options,
- the change in the Embraer order producing a one-unit decrease in the backlog.

• Long-haul fleet

Passenger
The Group received five Airbus A330s and four Boeing 777s. As far as the Boeing 777s are concerned, it also confirmed two options and placed an additional order for six aircraft.
Delays in the delivery of Airbus A380-800s were announced by the manufacturer during the first half of the financial year. As of March 31, 2006, a new delivery schedule was being negotiated with the manufacturer.
As of March 31, 2006, the Group's backlog for the long-haul fleet comprised firm orders for three Airbus 330s, ten Airbus 380s and sixteen Boeing 777s, as well as options for four Airbus 380s and eight Boeing 777s.

Cargo
To replace the 747-200, the Group ordered five long-range 747-400 ERFs, the last of which entered into service during the period. In addition to this first renewal phase, Air France placed an additional order with Boeing for eight 777Fs (five firm orders and three options), the new cargo unit based on the 777-200LR and the 777-300ER. First deliveries will begin during the winter of 2008-2009.

• Medium-haul fleet

The Group took delivery of three Airbus 318s, two Airbus A319s and one Boeing 737. As far as the Boeing 737 is concerned, it placed a new firm order for one aircraft and confirmed one option. The Group also confirmed three options for Airbus 318s. As of March 31, 2006, the Group's backlog comprised of six Airbus 318s and two Boeing 737s under firm order as well as four Airbus 318s , one Airbus 320 and fifteen Boeing 737s under option.

• Regional fleet

The Group took delivery of one CRJ 700 and placed an order for six Embraer ERJ 190s, the new plane (100 seater) from the Brazilian manufacturer. This order replaces a previous order for seven 50-seat Embraer ERJ 145s. Deliveries will begin during the fall of 2006.

• Commitments

The Group's commitments concern the following aircraft:

Aircraft type			For delivery N+1	N+2	N+3	N+4	N+5	Beyond N+5
A318	As of March 31, 2006	Film orders	6	-	-	-	-	-
		Options	-	*1*	*2*	*1*	-	-
	As of March 31, 2005	Film orders	3	3	-	-	-	-
		Options	-	*5*	*2*	-	-	-
A319	As of March 31, 2006	Film orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Film orders	2	-	-	-	-	-
		Options	-	-	-	-	-	-
A320	As of March 31, 2006	Film orders	-	-	-	-	-	-
		Options	-	*1*	-	-	-	-
	As of March 31, 2005	Film orders	-	-	-	-	-	-
		Options	-	*2*	*1*	-	-	-
A330	As of March 31, 2006	Film orders	3	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Film orders	6	2	-	-	-	-
		Options	-	-	*1*	-	-	-
A380	As of March 31, 2006	Film orders	-	2	3	3	1	1
		Options	-	-	-	-	*1*	*3*
	As of March 31, 2005	Film orders	-	-	3	5	1	1
		Options	-	-	-	*1*	*1*	*2*
B737	As of March 31, 2006	Film orders	1	1	-	-	-	-
		Options	-	*2*	*9*	*4*	-	-
	As of March 31, 2005	Film orders	1	-	-	-	-	-
		Options	-	*2*	*4*	*4*	*1*	-

• Commitments (continued)

Aircraft type			For delivery N+1	N+2	N+3	N+4	N+5	Beyond N+5
B747	As of March 31, 2006	Film orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Film orders	1	-	-	-	-	-
		Options	-	-	-	-	-	-
B777	As of March 31, 2006	Film orders	7	6	1	2	-	-
		Options	-	-	*1*	*4*	*3*	-
	As of March 31, 2005	Film orders	5	5	2	-	-	-
		Options	-	-	*2*	*4*	-	-
B777 F	As of March 31, 2006	Film orders	-	-	3	2	-	-
		Options	-	-	-	*1*	*2*	-
	As of March 31, 2005	Film orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
Embraer	As of March 31, 2006	Film orders	3	3	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Film orders	5	2	-	-	-	-
		Options	-	-	-	-	-	-
CRJ 700	As of March 31, 2006	Film orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Film orders	1	-	-	-	-	-
		Options	-	-	-	-	-	-

34. Other commitments

34.1. Commitments made

Year ended March 31, In euro million	**2006**	**2005**
Call on investment securities	3	23
Put on investment securities	(3)	(2)
Warranties, sureties and guarantees	98	105
Mortgaged or secured assets	7,572	7,593
Other purchase commitments	187	167

The restrictions and pledges as of March 31, 2006 were as follows:

In euro million	**Starting date of pledge**	**End of pledge**	**Amount pledged**	**NBV of balance sheet entry concerned**	**Corresponding %**
Intangible assets			-	428	-
Tangible assets	March 1998	September 2017	6,163	12,972	47.51%
Financial assets			-	1,374	-
			6,163	**14,774**	**41.72%**

34.2. Commitments received

Year ended March 31, In euro million	**2006**	**2005**
Warranties, sureties and guarantees	198	145
Other	133	3

Warranties, sureties and guarantees are principally comprised of letters of credit from financial institutions.

35. Contingent liabilities

The Group is involved in several disputes, and the potential losses have not necessarily been recorded in the consolidated financial statements.

The Company was definitively removed by the Court of Appeals of Richmond, Virginia on December 9, 2004, in the HALL action, the name of one of the travel agents who had filed a class action suit against American and European airlines, including Air France and KLM, accusing them of illegal agreements to reduce the commissions collected on the sale of airline tickets.

A lawsuit based on the same complaints, filed by fifty travel agents acting individually against the same airlines is still pending in the Federal Court of the Northern District of Ohio. However, given the small number of agents involved in this action, the financial stakes for the Company are not significant. No provisions have been recorded in connection with this suit.

In the case with IAP Intermodal, an American company, concerning the alleged infringement of three patents by several air carriers including Air France, a judgment dismissing the case against the Company is expected to be handed down in the near future by the Federal Court of the East District of Texas. No provisions have been recognized for this dispute.

In the dispute between Servair a subsidiary of the Company, and its employees for payment of meal times, all judgments issued to date by the courts have dismissed the claims of the employees involved. Only one proceeding with 255 employees is still pending before the Labor Board. This action, like the preceding cases, is considered to be not relevant by the Company and no provisions have been recorded.

As of February 14, 2006, authorities from the EU Commission and the US Department of Justice (DOJ) presented themselves at the offices of Air France and KLM, as well as most airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air shipping services. Skyteam Cargo, a US joint venture in which Air France is a participant, was subject to the same investigations.
Air France-KLM as well as Air France and KLM are cooperating with these investigations.
Subsequently, as of March 31, 2006, over 40 purported class action lawsuits have been filed against air cargo operators including Air France-KLM, Air France, KLM and/or related entities. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including various surcharges in air cargo services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney's fees, as well as injunctive relief amounting to triple the amount of compensatory damages. Currently, there are motions pending to transfer all cases to a single federal law court. Air France and KLM intend to defend these cases vigorously.

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

To the Company's knowledge, there is no other litigation, arbitration or other threatened or pending disputes that could have or has had in the recent past a material impact on the financial position, earnings, business or holdings of the Company.

36. Related parties

36.1. Transactions with the principal executives

Directors and their relatives hold less than 0.05% of the voting rights.

Advantages granted to the three principal executives are detailed as follows:

Year ended March 31, In euro million	**2006**	**2005**
Short term benefits	2.9	2.2
Post employment benefits	0.2	0.2
	3.1	**2.4**

Fees paid during the year ended March 31, 2006 but concerning the year ended March 31, 2005, for attendance at Board Meetings amounted to € 0.6 million.

36.2. Transactions with other related parties

Cumulated amounts of transactions with related parties for the financial years ended March 31, 2006 and 2005. are as follows:

Year ended March 31, In euro million	**2006**	**2005**
Assets		
Net trade accounts receivable	114	90
Other current debtors	-	-
Other non-current assets	8	14
	122	**104**
Liabilities		
Trade accounts payable	128	120
Other current liabilities	-	32
Other long-term liabilities	93	92
	221	**244**

Year ended March 31, In euro million	**2006**	**2005**
Net sales	281	394
Landing fees and other rents	(571)	(570)
Other selling expenses	(209)	(268)
Passenger service	(91)	(37)
Other	(19)	(16)
	(609)	**(497)**

As a part of its normal business, the Company enters into transactions with related parties among which transactions with state-owned and governmental entities such as the Defense Ministry, the Paris Airport Authority (“Aéroports de Paris”, or “ADP”) and the French civil aviation regulator (“DGAC”). Air France-KLM considers that such transactions are concluded on terms equivalent to those of transactions with third parties. The most significant transactions are described below:

• Aéroports de Paris (ADP)

• Land and property rental agreements,
• Airport and passenger related fee arrangements

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Company in connection with the above mentioned arrangements amounted to € 500 million and € 446 million for the periods ended March 31, 2006 and 2005.

• Defense Ministry

The Company entered into contracts with the French Defense Ministry to maintain certain aircraft of the French Air Force. The net revenue derived from such arrangements amounted to € 110 million for the year ended March 31, 2006, and € 139 million for the year ended March 31, 2005.

• DGAC

The civil aviation regulator is the French State service organization which manages security and safety in French air space. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services amounting to € 98 million for the year ended March 31, 2006, and € 112 million for the year ended March 31, 2005.

• Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned Amadeus GTD (WAM Acquisition). For the year ended March 31, 2006, total transactions with Amadeus GTD amounted to a gain of € 68 million (€ 100 million for the year ended March 31, 2005) and a charge of € 177 million (€ 226 million for the year ended March 31, 2005). The Group also conducted business with Martinair, with revenues amounting to € 26 million for the year ended March 31, 2006 and € 60 million for the year ended March 31, 2005. Moreover, the Group contracted Martinair's services amounting to € 35 million for the year ended March 31, 2006 and € 70 million for the year ended March 31, 2005.

During the period, Air France-KLM executed transactions with the other equity affiliates, including Heathrow Cargo Handling, Alpha Airport Plc and Air Chef. Total transactions realized with equity affiliates was not significant for the periods ended March 31, 2006 and 2005

37. Cash flow statement

37.1. Acquisition of subsidiaries and investments in associates

Net cash disbursements related to acquisition of subsidiaries and investments in associates were as follows:

Year ended March 31, In euro million	**2006**	**2005**
Cash disbursement for acquisitions	(58)	(69)
Cash from acquired subsidiaries	-	575
Net cash disbursement	**(58)**	**506**

• **Year ended March 31, 2006**
The cash disbursement related to acquisitions corresponds mainly to the subscription to the Alitalia capital increase amounting to € 25 million, the acquisition of KLM shares for a total of € 13 million, to the acquisition of shares in Aero Maintenance Group (AMG) for an amount of € 12 million and of Airlinair shares for an amount of € 4 million.

• **Year ended March 31, 2005**
The acquisition of subsidiaries and stakes mainly corresponds to KLM's cash at the acquisition date for an amount of € 575 million and the acquisition of treasury shares for an amount of € 32 million. Additional shares were purchased in Servair and Air Chef for respective amounts of € 3 million and € 4 million.

37.2. Disposal of subsidiaries

Net proceeds from disposals of subsidiaries can be analysed as follows:

Year ended March 31, In euro million	**2006**	**2005**
Proceeds from disposals	35	109
Cash of disposed subsidiaries	-	-
Net proceeds from disposals	**35**	**109**

• **Year ended March 31, 2006**
Net proceeds from disposals mainly correspond to the sale of treasury shares for an amount of € 22 million and to the disposal of Air Austral shares for an amount of € 9 million.

• **Year ended March 31, 2005**
Net proceeds from disposals mainly correspond to the sale of the holding in Amadeus France for a total amount of € 91 million, to capital stock reimbursement by AFPL (€ 5 million) and by Opodo (€ 4 million).

37.3. Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise the following items:

Year ended March 31, In euro million	**2006**	**2005**
Cash and cash equivalent	2,946	2,047
Bank overdraft	(102)	(262)
Cash and cash equivalent (cash flow statement)	**2,844**	**1,785**

38. Subsequent events

There has been no significant event since the close of the financial year.

39. Recent accounting pronouncements

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after January 1, 2006, were not adopted early by the Group:
- the amendment to IAS 19 regarding recognition of actuarial gains and losses, group plans and disclosures, effective for periods beginning on or after January 1, 2006,
- the amendment to IAS 1 related to disclosures on capital, effective for periods beginning on or after January 1, 2007,
- the amendment to IAS 39 regarding the fair value option, effective for periods beginning on or after January 1, 2006,
- the amendment to IAS 39 related to hedging of intra-group future transactions, effective for periods beginning on or after January 1, 2006,
- the standard IFRS 7 “Financial Instruments: Disclosures”, effective for periods beginning on or after January 1, 2007,
- the interpretation IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, effective for periods beginning on or after January 1, 2006.

40. Consolidation scope as of March 31, 2006

The scope includes 143 fully consolidated entities and 27 equity affiliates

40.1. Fully consolidated

	Segment	Country	% interest	% control
AIR FRANCE SA	Multisegment	France	100	100
KLM N.V.	Multisegment	Netherlands	97	49
AIR FRANCE SERVICES LTD	Passenger	United Kingdom	100	100
BRIT AIR	Passenger	France	100	100
CITY JET	Passenger	Ireland	100	100
CYGNIFIC (UK) LIMITED	Passenger	United Kingdom	97	49
CYGNIFIC B.V.	Passenger	Netherlands	97	49
FREQUENCE PLUS SERVICES	Passenger	France	100	100
IAS ASIA INCORPORATED	Passenger	Philippines	97	49
IASA INCORPORATED	Passenger	Philippines	97	49
ICARE	Passenger	France	100	100
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL AIRLINE SERVICES LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL AIRLINE SERVICES OFFSHORE LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED LIABILITY COMPANY	Passenger	United States	97	49
KLM CITYHOPPER B.V.	Passenger	Netherlands	97	49
KLM CITYHOPPER UK LTD	Passenger	United Kingdom	97	49
KLM GROUND SERVICES LIMITED	Passenger	United Kingdom	97	49
KLM LUCHTVAARTSCHOOL B.V.	Passenger	Netherlands	97	49
REGIONAL COMPAGNIE AERIENNE EUROPEENNE	Passenger	France	100	100
SOCIETE D'EXPLOITATION AERONAUTIQUE	Passenger	France	100	100
SOCIETE NOUVELLE AIR IVOIRE	Passenger	Ivory Coast	39	76
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Passenger	Netherlands	97	49
AIR FRANCE PARTNAIRS LEASING NV	Cargo	Dutch West Indies	45	45
BLUE CROWN B.V.	Cargo	Netherlands	97	49
CSC INDIA	Cargo	India	97	49
ROAD FEEDER MANAGEMENT B.V.	Cargo	Netherlands	97	49
SODEXI	Cargo	France	60	60
AIR FRANCE INDUSTRIE US	Maintenance	United States	100	100
CRMA	Maintenance	France	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Maintenance	Netherlands	97	49
GUANGZHOU HANGXIN AVIONICS CO. LTD	Maintenance	China	41	80
HANGXIN HITECH RESOURCES HOLDING LTD	Maintenance	China	41	80
HARBIN HANGXIN AVIONICS CO. LTD	Maintenance	China	41	80
KLM UK ENGINEERING LIMITED	Maintenance	United Kingdom	97	49
LYON MAINTENANCE	Maintenance	France	100	100
REENTON DEVELOPMENT LIMITED	Maintenance	China	51	51
SHANGHAI HANGXIN AERO MECHANICS CO. LTD	Maintenance	China	41	80
ACNA	Others	France	98	100
ACSAIR	Others	France	50	51

	Segment	Country	% interest	% control
AEROFORM	Others	France	98	100
AEROSUR	Others	France	98	100
AFRIQUE CATERING	Others	France	50	51
AIR FRANCE FINANCE	Others	France	100	100
AIR FRANCE FINANCE IRELAND	Others	Ireland	100	100
AIR UK (JERSEY) LIMITED	Others	United Kingdom	97	49
AIR UK LEASING LIMITED	Others	United Kingdom	97	49
AIRCRAFT MAINTENANCE AMSTERDAM B.V.	Others	Netherlands	97	49
AIRGO B.V.	Others	Netherlands	97	49
AIRPORT MEDICAL SERVICES B.V.	Others	Netherlands	97	49
ALL AFRICA AIRWAYS	Others	Mauritius	51	51
AMA HOLDING B.V.	Others	Netherlands	97	49
AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER B.V.	Others	Netherlands	58	49
AMSTERDAM SCHIPHOL PIJPLEIDING C.V.	Others	Netherlands	70	49
AQUILA INVEST B.V.	Others	Netherlands	97	49
BASE HANDLING	Others	France	98	100
BLUE YONDER II B.V.	Others	Netherlands	97	49
BLUE YONDER IX B.V.	Others	Netherlands	97	49
BLUE YONDER X B.V.	Others	Netherlands	97	49
BLUE YONDER XI B.V.	Others	Netherlands	97	49
BLUE YONDER XII B.V.	Others	Netherlands	97	49
BLUE YONDER XIII B.V.	Others	Netherlands	97	49
BLUE YONDER XIV B.V.	Others	Netherlands	97	49
BRUNEAU PEGORIER	Others	France	93	95
CELL K16 INSURANCE COMPANY	Others	Channel Islands	97	0
CENTRE DE PRODUCTION ALIMENTAIRE	Others	France	98	100
CULIN'AIR PARIS	Others	France	55	56
DAKAR CATERING	Others	Senegal	49	50
ETS EQUIPMENT TECHNO SERVICES	Others	Netherlands	97	49
EUROPEAN CATERING SERVICES	Others	United States	98	100
GIE JEAN BART	Others	France	10	10
GIE SCHIPHOL	Others	France	100	100
GIE SERVCENTER	Others	France	98	100
GIE SURCOUF	Others	France	100	100
HEESWIJK HOLDING B.V.	Others	Netherlands	97	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Others	Netherlands	97	49
JET CHEF	Others	France	98	100
KES AIRPORT EQUIPMENT FUELLING B.V.	Others	Netherlands	97	49
KES AIRPORT EQUIPMENT LEASING B.V.	Others	Netherlands	97	49
KLEUR INVEST B.V.	Others	Netherlands	97	49
KLM AIRLINE CHARTER B.V.	Others	Netherlands	97	49
KLM CATERING SERVICES SCHIPHOL B.V.	Others	Netherlands	97	49
KLM EQUIPMENT SERVICES B.V.	Others	Netherlands	97	49
KLM FINANCIAL SERVICES B.V.	Others	Netherlands	97	49
KLM FLIGHT CREW SERVICES GMBH	Others	Germany	97	49
KLM HEALTH SERVICES B.V.	Others	Netherlands	97	49
KLM INTERNATIONAL CHARTER B.V.	Others	Netherlands	97	49
KLM INTERNATIONAL FINANCE COMPANY B.V.	Others	Netherlands	97	49
KLM OLIEMAATSCHAPPIJ B.V.	Others	Netherlands	97	49
KLM UK HOLDINGS LIMITED	Others	United Kingdom	97	49
KLM UK LIMITED	Others	United Kingdom	97	49

	Segment	Country	% interest	% control
KROONDUIF B.V.	Others	Netherlands	97	49
LYON AIR TRAITEUR	Others	France	98	100
MALI CATERING	Others	Mali	70	99
MARTINIQUE CATERING	Others	France	91	93
MAURITANIE CATERING	Others	Mauritania	25	51
MICOPA B.V.	Others	Netherlands	97	49
OCCABOT BEHEER B.V.	Others	Netherlands	97	49
O'FIONNAGAIN HOLDING COMPANY LIMITED	Others	Ireland	100	100
ORION-STAETE B.V.	Others	Netherlands	97	49
ORLY AIR TRAITEUR	Others	France	98	100
OUAGA CATERING SERVICE	Others	Burkina Faso	98	100
PASSERELLE	Others	France	98	100
PELICAN	Others	France	100	100
PHK FREIGHT SERVICES B.V.	Others	Netherlands	97	49
PMAIR	Others	France	50	51
PRESTAIR	Others	France	98	100
PYRHELIO-STAETE B.V.	Others	Netherlands	97	49
QUASAR-STAETE B.V.	Others	Netherlands	97	49
RIGEL-STAETE B.V.	Others	Netherlands	97	49
ROSC LIMITED	Others	United Kingdom	97	49
SERVAIR	Others	France	98	98
SERVAIR SATS	Others	Singapore	50	51
SERVANTAGE	Others	France	98	100
SKYCHEF	Others	Seychelles	54	55
SKYLOGISTIC	Others	France	98	100
SOCIETE IMMOBILIERE AEROPORTUAIRE	Others	France	98	100
SOGRI	Others	France	95	97
SORI	Others	France	49	50
SPECIAL MEALS CATERING	Others	France	98	100
SPICA-STAETE B.V.	Others	Netherlands	97	49
TAKEOFF 1 LIMITED	Others	Ireland	100	100
TAKEOFF 10 LIMITED	Others	Ireland	100	100
TAKEOFF 11 LIMITED	Others	Ireland	100	100
TAKEOFF 12 LIMITED	Others	Ireland	100	100
TAKEOFF 13 LIMITED	Others	Ireland	100	100
TAKEOFF 14 LIMITED	Others	Ireland	100	100
TAKEOFF 15 LIMITED	Others	Ireland	100	100
TAKEOFF 16 LIMITED	Others	Ireland	100	100
TAKEOFF 2 LIMITED	Others	Ireland	100	100
TAKEOFF 3 LIMITED	Others	Ireland	100	100
TAKEOFF 4 LIMITED	Others	Ireland	100	100
TAKEOFF 5 LIMITED	Others	Ireland	100	100
TAKEOFF 6 LIMITED	Others	Ireland	100	100
TAKEOFF 7 LIMITED	Others	Ireland	100	100
TAKEOFF 8 LIMITED	Others	Ireland	100	100
TAKEOFF 9 LIMITED	Others	Ireland	100	100
TRANSAVIA AIRLINES BV	Others	Netherlands	97	49
TRANSAVIA AIRLINES C.V.	Others	Netherlands	97	49
TRAVEL INDUSTRY SYSTEMS B.V.	Others	Netherlands	97	49
VILEAG HOLDING COMPANY LIMITED	Others	Ireland	100	100
WEBLOK BV	Others	Netherlands	97	49

40.2. Equity affiliates

	Segment	Country	% interest	% control
FINANCIÈRE LMP	Passenger	France	20	20
AERO MAINTENANCE GROUP (AMG)	Maintenance	United States	39	39
SHANGDONG XIANGYU AERO-TECHNOLOGY SERVICES LTD	Maintenance	China	8	20
SINGAPORE HANGXIN AVIATION ENG. PTE	Maintenance	Singapore	12	30
SPAIRLINERS	Maintenance	France	50	50
AIR CHEF	Others	Italy	49	50
ALPHA AIRPORTS GROUP PLC	Others	United Kingdom	26	27
BAAN TARA DEVELOPMENT LTD	Others	Thailand	97	49
BAAN TARA HOLDING LTD	Others	Thailand	97	49
FLYING FOOD CATERING	Others	United States	48	49
FLYING FOOD MIAMI	Others	United States	48	49
FLYING FOOD SAN FRANCISCO	Others	United States	43	44
FLYING FOOD SERVICES	Others	United States	48	49
HEATHROW CARGO HANDLING	Others	United Kingdom	50	50
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Others	Italy	20	20
KENYA AIRWAYS LIMITED	Others	Kenya	26	26
LOGAIR	Others	France	49	50
LOME CATERING SA	Others	Togo	17	35
MACAU CATERING SERVICES	Others	China	17	34
MARTINAIR HOLLAND N.V.	Others	Netherlands	50	49
SEREP	Others	Senegal	38	39
SERVAIR EUREST	Others	Spain	34	35
SESAL	Others	Gabon	39	40
TEAMTRACKERS SA	Others	France	49	49
TEAMTRACKERS SRO	Others	Czech Republic	49	49
TOGA	Others	United States	25	25
WAM ACQUISITION	Others	Spain	23	23

Transition from French accounting standards to IFRS

This transition note details the principal impacts of the transition to IFRS on the Company's consolidated equity as of April 1, 2004, the differences from the French accounting standards previously applied, and the related effects on the Company's balance sheet as of March 31, 2005, the income statement and statement of change in equity for the year ended March 31, 2005.
In accordance with the information provided during the Company's first communication on the calculated impacts of the transition to IFRS, the financial information presented below has been slightly adjusted as compared to the one initially presented.

These adjustments are primarily due to the following:
• the inclusion of the most recent updates for the interpretation of the existing standards,
• the finalization of the fair valuation adjustment in relation to KLM's business combination,
• the finalization of the validation of the restatements for the maintenance agreements,
• and reclassifications of accounts, particularly on the balance sheet.

The regulatory framework used as well as the options taken for the first application of IFRS are described in note 3 to these consolidated financial statements.

Lastly, as described in note 3.17.1, pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR"). Questions have been raised as to how such MFR might affect the recognition of a pension net asset that otherwise would be recognized under IAS 19 in respect of the surplus in a plan and thus, how the Group should account for certain pension asset surpluses of KLM in its consolidated financial statements.
Recognition of a pension net asset under IAS 19 is subject to interpretation. Because of this situation, and for the accounting treatment of companies of the KLM group, an interpretation of IAS 19 has been requested from the IFRIC, the interpretation technical body of the IASB.
In its transition note published in the interim consolidated financial statements as of September 30, 2005, the Group had decided for valuation of assets, liabilities and contingent liabilities of KLM group acquired as of May 4, 2004, to "freeze" the reversal in income statement of the part of negative goodwill attached to this pension surplus.
Although IFRIC has not given its definitive conclusions, the Group has adopted its accounting position in its IFRS accounts as of March 31, 2005 and has recognized all the pension surplus in KLM accounts. This led to a new valuation of the negative goodwill, and the reversal of the amount recorded in earnings during 2004-05.

1. Reconciliation of equity at April 1, 2004 - French standards/IFRS

In euro million	Note	
Equity, attributable to equity holders of Air France-KLM S.A.–		
French GAAP as of April 1, 2004		**4,062**
Effect of transition to IFRS:		
Property, plant and equipment fair value adjustment	(a)	(740)
Pension	(b)	(20)
Business combination	(c)	-
Deferred taxes on TSDI (perpetual subordinated notes)	(d)	(80)
Deferred taxes on distributable reserves of equity affiliates	(e)	(4)
Scope of consolidation – exclusive control	(f)	(58)
Scope of consolidation– significant influence	(g)	(24)
Other adjustments	(h) to (m)	(2)
Deferred taxes on the above adjustments	(n)	245
Equity, attributable to equity holders of Air France-KLM S.A. –		
IFRS as of April 1, 2004		**3,379**
Minority interests – French GAAP		23
IFRS adjustments impact		64
Total equity – IFRS as of April 1, 2004		**3,466**

• First time application of IFRS

a) Property, plant and equipment fair value adjustment

According to French GAAP, all property, plant and equipment were previously accounted for at historical cost less accumulated depreciation.

Under IFRS 1, an entity may elect to value an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

Due to the recent acquisition of KLM, for which the fair value was used in the procedure to value the acquisition balance sheet and, second, the euro/US dollar parity, which changed significantly between the date of acquisition of the aircraft and the date of adoption of IFRS, the Group has elected to fair value the Air France Group fleet at the transition date to IFRS. The aircraft of the Air France group for which fair value was used were individually valued by independent experts. The application of this option has a pre-tax impact of € (740) million on the Company's consolidated equity as of April 1, 2004.

b) Pension obligation

Under French GAAP, actuarial gains and losses were amortized over the average remaining working lives of the employees participating in the plan when they exceeded the larger of the following two values:

a. 10% of the discounted value of the obligation for the benefits, and
a. 10% of the fair value of any plan assets.

In accordance with IFRS 1, a first time adopter may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses.

Accounting for the actuarial variances under the option offered by IFRS 1 had a pre-tax impact of € (20) million on the Company's consolidated equity as of April 1, 2004.

c) Business combinations
The Group has elected to use the exemption provided by IFRS 1 which allows it not to apply IFRS 3 "Business Combinations" retrospectively for business combinations that occurred prior to the Company's transition date to IFRS, i.e. April 1, 2004.
As a result, no impact on the Company's opening equity was accounted for as of April 1, 2004.
In addition, in accordance with IFRS 3, the Company does not amortize goodwill since April 1, 2004, but instead tests such goodwill for impairment at least on an annual basis.

• Deferred taxes

d) Perpetual subordinated loans
In accordance with IAS 12, the Group recognized a deferred tax liability on the potential gain when the financial instrument comes to maturity. The effect of the recognition of this deferred tax liability resulted in a decrease in the Company's consolidated equity of € 80 million as of April 1, 2004.

e) Distributable reserves of equity affiliates
In accordance with IAS 12, a deferred tax liability on the undistributed reserves of the equity affiliates must be accounted for. Therefore, a deferred tax liability was recognized, primarily on the undistributed reserves of Amadeus GTD, for an amount of € (4) million taken against equity attributable to equity holders of Air France KLM SA at April 1, 2004.

• Scope of consolidation

f) Exclusive control
Under French GAAP, exclusive control is presumed when a company holds 50% of the voting rights.
Under IAS 27, exclusive control is presumed when the power to direct the financial and operating policies of an entity in order to obtain the benefits of its activities is demonstrated. As such, despite a percentage of voting rights lower than 50%, an entity might be fully consolidated.
Based on the provisions of IAS 27, the Group concluded that it exercised control over its subsidiary Air France Partnairs Leasing (AFPL) and has therefore fully consolidated this entity (previously consolidated using the equity method), thus eliminating intragroup transactions in their entirety and not on the holding percentage. As a result of such GAAP difference, the company recorded a reduction in equity attributable to equity holders of Air France KLM SA of € 58 million, before tax, as of April 1, 2004.

g) Significant influence
Under French GAAP, significant influence on an entity was assumed when the percentage of voting rights held in that entity reached at least 20%. However, when the significant influence was not exercised, the company could be excluded from the scope of consolidation, even when this threshold was reached.
This possibility of exclusion does not exist under IAS 28. The Group has therefore incorporated the entities Opodo and TOGA in its scope of consolidation using the equity method. The impact on the Company's consolidated equity attributable to equity holders of Air France KLM SA as of April 1, 2004 was € (24) million.

• Other adjustments

h) Property, plant and equipment
IAS 16 "Property, Plant and Equipment" requires the recognition of all obtained and reasonably applicable discounts, rebates and returns as a reduction of the acquisition price of property, plant and equipment. Under French GAAP, certain incentives received from aircraft manufacturers were recorded in the income statement at the time the incentive was paid.
At the transition date to IFRS, such incentives were accounted for as a reduction of the cost of the related aircraft and thus, reduced the Company's consolidated equity as of April 1, 2004 by € 25 million before tax.

IAS 23 "Borrowing Costs" allows the capitalization of financial interest for fixed assets which require a long period of preparation before installation for use. Under French GAAP, this method had been applied prospectively by the Group since April 1, 1997.
The application of IFRS being retrospective, the Group included interest, as of April 1, 2004 in the tangible assets acquired before April 1, 1997 and recognized in the opening balance sheet at the amortized historical cost. This restatement increased the Company's consolidated equity by € 11 million, before tax, as of April 1, 2004.

i) Exchange of slots

The Group entered into a series of agreements with airline companies in order to exchange some of its summer and winter slots, which it does not intend to use, for other slots. This exchange of similar assets also included a cash consideration. Under French GAAP, the Group recognized the entire gain resulting from the exchange of the summer and winter slots as of March 31, 2004, considering that all uncertainties related to the timing and resolution of the conditions for the exchange of the winter slots were assured beyond a reasonable doubt.
Under IFRS, the Group considered that the culmination of the earning process was not reached for the exchange of the winter slots and consequently, has deferred as of April 1, 2004 the recognition of a gain before tax of € 20 million for the slots, resulting in a decrease in the Company's consolidated equity as of April 1, 2004.

j) Leases

Under French GAAP, the Group accounted for lease arrangements based on the legal form of the arrangement. As a result, a lease was considered to be a finance lease only in the case where the lease agreement provides for a bargain purchase option. The application of IAS 17 "Leases" resulted in the reclassification of certain lease agreements. This reclassification resulted in a pre-tax increase in the Company's consolidated equity of April 1, 2004 of € 18 million.

k) Provisions for restitution

The commitments related to the maintenance expected at the end of contracts for certain aircraft were recorded as expense when the costs became certain, in accordance with French GAAP. According to IAS 37, they are recorded as a provision as of the contract's starting date. Furthermore, the discounting of long-term provisions, forbidden under French GAAP, was also taken into account. The cumulative pre-tax impact on the Company's consolidated equity amounted to € (7) million at April 1, 2004.

l) Trademark registration costs

Under IAS 38 "Intangible Assets", trademark registration costs do not meet the intangible assets recognition criteria. As a result, such trademark registration costs were therefore eliminated for a pre-tax amount of € (8) million.

m) Statistical provisions

The Group's application of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" prohibits the recognition of statistical provisions. As a result, the Group eliminated such provision recording a pre-tax adjustment of € 15 million in the Company's consolidated equity attributable to equity holders of Air France KLM SA as of April 1, 2004.

n) Deferred taxes on the above adjustments

The tax effect of the adjustments included in the reconciliation of equity under French GAAP to IFRS was calculated by applying the applicable tax rate to the pre-tax adjustment where such adjustments have a tax effect. The applicable tax rate was the tax rate expected to apply at the time the temporary difference reverses based on the specific tax jurisdiction in which the reversal will occur.

2. Reconciliation of equity and net income as of and for the year ended March 31, 2005

The table below shows the IFRS transition effects on the Company's consolidated income statement for the year ended March 31, 2005 and consolidated equity as of March 31, 2005.

In euro million	Note	April 1, 2004	Net Income March 31, 2005	Share capital increase	Other	March 31, 2005
Equity, attributable to equity holders of Air France-KLM S.A.– French GAAP		**4,062**	**351**	**768**	**(20)**	**5,161**
Effect of transition to IFRS						
Property, plant and equipment fair value adjustment	(a)	(740)	89			(651)
Pension		(20)	71			51
Deferred taxes on TSDI (perpetual subordinated notes)		(80)	(7)			(87)
Deferred taxes on distributable reserves of equity affiliates	(b)	(4)	(41)			(45)
Scope of consolidation – exclusive control	(c)	(58)	38			(20)
Scope of consolidation – significant influence	(d)	(24)	11			(13)
Goodwill	(e)		36			36
Negative goodwill – KLM	(f)		1,279			1,279
Share-based compensation	(g)		(69)		69	-
Recognition of intangible assets – KLM	(h)		(15)			(15)
Residual value adjustment	(i)		(23)			(23)
Other adjustments		(2)	(5)		3	(4)
Deferred taxes impact on the above adjustments		245	(5)			240
Equity, attributable to equity holders of Air France-KLM S.A. – IFRS		**3,379**	**1,710**	**768**	**52**	**5,909**
Minority interests – French accounting standards		23	7		35	65
IFRS adjustments impact		64	(21)		3	46
Total Equity – IFRS		**3,466**	**1,696**	**768**	**90**	**6,020**

The main reconciling items are described below:

- Property, plant and equipment fair value adjustment

(a) Property, plant and equipment fair value adjustment
In accordance with IFRS 1, the Group has elected to fair value the tangible assets at the transition date to IFRS (cf. 1.a) and adjusted depreciation for the year ended March 31, 2005 accordingly.
The impact on the Company's consolidated pre-tax income for the year ended March 31, 2005 was a profit amounting to € 89 million.

- Distributable reserves of equity affiliates

(b) Deferred taxes on distributable reserves of equity affiliates
The deferred tax liability recorded on the undistributed reserve (see note 1.e) was adjusted in the 2004-05 period due to the LBO operation of Amadeus GTD initiated during the period and inducing a change in tax rate. This adjustment resulted in the recognition of a tax charge amounting to € 41 million during the year ended March 31, 2005.

• Scope of consolidation

(c) Scope of consolidation – exclusive control

The company AFPL sold two aircraft to companies outside the Air France-KLM group during the year ended March 31, 2005, for which internal sale gains had been neutralized in the opening balance sheet (see note 1.f). These disposals generated a realization of these capital gains previously considered intercompany amounting to € 38 million before tax on the income statement for the year ended March 31, 2005.

(d) Scope of consolidation – significant influence

During the year ended March 31, 2005, the Company ceased to account for under the equity method its interest in Opodo. During the year ended March 31, 2005, Air France-KLM's interest in Opodo dropped below 20% following a capital increase in which the Group did not participate. Air France-KLM believes that it no longer has the ability to exercise significant influence on this investment. Until June 30, 2004, the Opodo shares were accounted for using the equity method under IFRS. This restatement resulted in a pre-tax impact of € 11 million on the Company's consolidated income for the year ended March 31, 2005.

• Business combinations

(e) Goodwill at April 1, 2004

In accordance with IFRS 3, the Group ceased to amortize goodwill effective April 1, 2004. Such goodwill is tested for impairment at least annually. Under French GAAP, such goodwill was amortized.
The impact for cancelling amortization recorded under French GAAP on the Company's consolidated income statement for the year ended March 31, 2005 is € 36 million.

(f) Negative goodwill - KLM

The only business combination since April 1, 2004 is the combination with KLM effective May 1, 2004. Under French GAAP, negative goodwill arising from this business combination is recognized on the Company's income statement over the estimated period of the expected economic returns related to the combination.
Under IFRS 3, negative goodwill arising from a business combination shall be immediately recognized in the Company's income statement. Such GAAP difference resulted in an adjustment to the Company's consolidated income statement for the year ended March 31, 2005 amounting to € 1,279 million.

• Share-based compensation

(g) Offering reserved for employees

Pursuant to the transitional provisions of IFRS 2, the Group applied this standard for the stock option plans granted after November 7, 2002.
The stock option and purchase plans are valued at fair value on the date the plans are granted. This fair value is estimated to equal the fair value of the services rendered by the employees in consideration for the options received.

With regard to the Offering Reserved for the Employees ("ORS", see note 27.2), which took effect on February 21, 2005, given that there was no service condition after the date this plan was granted, the entire charge of € (69) million corresponding to the valuation of the benefits at fair value received was recognized in the Company's income statement during the year ended March 31, 2005.

• KLM tangible and intangible assets

(h) Intangible assets

Certain intangible assets (customer relationships) valued under IFRS 3 in the context of the fair valuation of KLM's assets and liabilities at the acquisition date have a finite life (between 5 and 12 years). Such intangibles are amortized over their estimated useful life. Such intangible assets were not identified under French GAAP as it is not permitted to recognize intangible assets as part of a business combination when such business combination results in negative goodwill.
This amortization had a pre-tax impact of € (15) million on the Company's consolidated income statement for the year ended March 31, 2005.

(i) Tangible assets

In the context of the transition to IFRS, the useful life of the Group's fleet was reviewed and estimated at 20 years, without residual value. This change in amortization period and method had a pre-tax impact on net income of € (23) million for the 2004-05 financial year.

3. Reconciliation of French standards/IAS-IFRS on the balance sheet at March 31, 2005

In euro million **Assets**	**Published accounts**	**Property, plant and equipment fair value**	**Pension**	**Deferred tax on TSDI**	**Deferred tax on distributable reserves of equity affiliates**
Non-current assets					
Goodwill	83				
Intangible assets	159				
Flight equipment	10,917	(651)			
Other property, plant and equipment	1,837				
Investments in equity associates	564				
Pension assets			72		
Other financial assets	548			94	
Deferred tax assets	97				
Other non current assets					
Total non-current assets	**14,205**	**(651)**	**72**	**94**	**-**
Current assets					
Other short term financial assets					
Inventories	389				
Account reveivables	2,272				
Income tax receivables					
Other current assets	2,001				
Cash equivalent	2,254				
Cash	386				
Total current assets	**7,302**				
Total assets	**21,507**	**(651)**	**72**	**94**	**-**

Scope of consolidation	Goodwill	Recognition of intangible assets	Other adjustments	Deferred tax impact on the adjustments	Reclassification	IFRS Balance sheet
	16				106	205
	18	(15)	386		(111)	437
39			84		5	10,394
			58			1,895
(9)	2		13		7	577
			494		1,201	1,767
(11)			331		151	1,113
(5)			4	218	(174)	140
			51		285	336
14	**36**	**(15)**	**1,421**	**218**	**1,470**	**16,864**
					654	654
			(7)			382
1			(1)			2,272
				5	1	6
			(37)		(995)	969
					(605)	1,649
13					(1)	398
14			**(45)**	**5**	**(946)**	**6,330**
28	**36**	**(15)**	**1,376**	**223**	**524**	**23,194**

In euro million

Liabilities and equity

	Published accounts	Property, plant and equipment fair value	Pension	Deferred tax on TSDI	Deferred tax on distributable reserves of equity affiliates
Issued capital	2,290				
Additional paid-in capital	390				
Treasury shares					
Reserves and retained earnings	2,490	(651)	51	(87)	(45)
Currency translation adjustment	(9)				
Equity attributable to equity holders of Air France-KLM	**5,161**	**(651)**	**51**	**(87)**	**(45)**
Minority interests	65				
Total equity	**5,226**	**(651)**	**51**	**(87)**	**(45)**
Provisions and retirement benefits	2,265		21		
Long-term debt	8,268			87	
Deferred tax	81			87	45
Other non-current liabilities					
Total non-current liabilities	**10,614**		**21**	**174**	**45**
Provisions					
Short term portion of long-term debt				7	
Trade payables	1,905				
Deferred revenue on ticket sales	1,656				
Current tax liabilities					
Other current liabilities	2,106				
Bank overdraft					
Total current liabilities	**5,667**			**7**	
Total liabilities and equity	**21,507**	**(651)**	**72**	**94**	**-**

The columns presented above summarize the adjustments made for the implementation of the IFRS and described earlier in the reconciliation of equity capital.

The "reclassification" columns primarily concern:

- the classification of receivables, fixed assets, provisions and liabilities between the current portion and the non-current portion,
- the elimination of the deposits and securities related to aircraft finance leases pursuant to IAS 1.

Scope of consolidation	**Goodwill**	**Recognition of intangible assets**	**Other adjustments**	**Deferred tax impact on the adjustments**	**Reclassification**	**IFRS Balance sheet**
						2,290
				(6)		384
					(19)	(19)
(33)	1,315	(15)	(27)	246	10	3,254
					9	
(33)	**1,315**	**(15)**	**(27)**	**240**		**5,909**
34			12			111
1	**1,315**	**(15)**	**(15)**	**240**		**6,020**
	(1,279)		467		42	1,516
16			522		(1,004)	7,889
			291	(17)	(174)	313
11			213		257	481
27	**(1,279)**		**1,493**	**(17)**	**(879)**	**10,199**
			26		98	124
			27		1,010	1,044
			(3)		(1)	1,901
			16		(16)	1,656
					8	8
			(168)		42	1,980
					262	262
			(102)		**1,403**	**6,975**
28	**36**	**(15)**	**1,376**	**223**	**524**	**23,194**

4. Reconciliation of French standards / IFRS in the 2004-05 income statement

	Published accounts	Property, plant, and equipment fair value	Pension	Deferred on TSDI	Deferred tax on distributable reserves of equity affiliates
Sales	**19,078**				
Other revenues					
External charges	(10,687)				
Salaries and related costs	(5,922)		71		
Taxes other than income taxes	(226)				
Gross operating result	**2,243**				
Other income and expenses	(1,746)	66			
Income from current operations/ Operating income	**497**	**66**	**71**	**0**	**0**
Restructuring costs	(21)				
Sales of subsidiaries and affiliates	67				
Sales of aircraft equipment		23			
Other non-current income and expenses					
Negative goodwill					
Income from operating activities		**89**	**71**	**0**	**0**
Financial result	(219)				
Income before tax	**324**	**89**	**71**	**0**	**0**
Share of profits (losses) of associates	73				
Amortization of goodwill	58				
Income (loss) before income tax and minority interests	**455**	**89**	**71**	**0**	**0**
Income taxes	(96)			(7)	(41)
Net income from continuing operations					
Net income from discontinued operations					
Income for the period	**359**	**89**	**71**	**(7)**	**(41)**
*** Group**	**351**	**89**	**71**	**(7)**	**(41)**
* Minority interests	(8)				

Scope of consolidation	Goodwill	Share-based compensation	Recognition of intangible assets	Other adjustments	Deferred tax impact on the adjustments	Reclassification	IFRS
				(86)		**(14)**	**18,978**
				0		5	5
13				82		(37)	(10,629)
		(69)		13		(87)	(5,994)
				1			(225)
(4)	18		(15)	(39)		135	(1,585)
9	**18**	**(69)**	**(15)**	**(29)**	**0**	**2**	**550**
				1		20	0
				0		(67)	0
				(2)		(2)	19
				(48)		52	4
	1,279			0		75	1,354
9	**1,297**	**(69)**	**(15)**	**(78)**	**0**	**80**	**1,927**
11				(15)		(7)	(230)
20	**1,297**	**(69)**	**(15)**	**(93)**	**0**	**73**	**1,697**
(4)	3			1			73
	15			0		(73)	0
16	**1,315**	**(69)**	**(15)**	**(92)**	**0**	**0**	**1,770**
11				5	(5)		(133)
							0
				59			59
27	**1,315**	**(69)**	**(15)**	**(28)**	**(5)**	**0**	**1,696**
49	**1,315**	**(69)**	**(15)**	**(28)**	**(5)**	**0**	**1,710**
22				0			14

Statutory auditors' report on the consolidated financial statements

Year ended March 31, 2006

To the Shareholders of Air France-KLM S.A.:

Following our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Air France-KLM S.A. for the year ended March 31, 2006.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The comparative figures herein has been restated in accordance with the same standards in respect of the year ended March 31, 2005, with the exception of IAS 32 and IAS 39, which were applied by the Group beginning April 1, 2005 in accordance with the exemption in IFRS 1.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at March 31, 2006 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

- Notes 3.2, 3.13 and 3.14 to the consolidated financial statements describe the estimates and assumptions made by management in respect of the impairment of fixed assets. We have examined the assumptions and data used in the impairment determination, as well as the method of application.
- Notes 3.2 and 3.6 to the consolidated financial statements described the estimates and assumptions made by management in respect of the revenue recognition on tickets issued but not used. We have examined the data used, evaluated the assumptions applied, and verified the calculations performed.

- Notes 3.17 and 28.1 to the consolidated financial statements describe the accounting policies in respect of employee benefits. These benefits and obligations were evaluated by an external actuary. We have examined the data used, evaluated the assumptions applied, and verified the information included in note 28.1 are appropriate. In addition, note 3.17.2 to the consolidated financial statements describes the accounting policies applied by the Group in respect of the pension fund surplus in the absence of a definitive position by the International Financial Reporting Interpretation Committee ("IFRIC"). We have ensured that the accounting treatment is in compliance with the "IFRIC Update" dated September 2005 and that the information disclosed in notes 3.17.2 and 4.1 to the consolidated financial statements is appropriate notably in respect of the effects of the change in accounting policy to the comparative figures as of March 31, 2005 as compared to those presented in the interim consolidated financial statements as of and for the six-month period ended September 30, 2005.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, June 27, 2006

The Statutory auditors

KPMG Audit
Department of KPMG S.A.

Jean-Luc Decornoy   Jean-Paul Vellutini

Deloitte & Associés

Pascal Pincemin

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.
This report, together with the statutory auditors' report addressing financial and accounting information in the management report on internal control, should be read in conjunction with, and is interpreted in accordance with, French law and professional auditing standards applicable in France.

Parent company financial statements

Income statement

Year ended March 31, In euro million	2006	2005	2004 Air France published figures
Revenues			11,345
Capitalized production			28
Release of provisions and write back of depreciation & amortization			188
Transfered expenses			94
Other income	16	3	7
Total income	**16**	**3**	**11,662**
External expenses	16	30	6,853
Taxes and related payments	7	2	155
Salaries and related costs	3		3,615
Depreciation allowances and provisions			1,367
Other expenses		1	161
Total Operating expenses	**26**	**33**	**12,151**
Operating income	**(10)**	**(30)**	**(489)**
Share in joint operations			5
Financial incomes	18	1	554
Financial expenses	12	7	665
Net financial income (expense)	6	(6)	(111)
Pre-tax income/loss	(4)	(36)	(596)
Non-recurring income	22		1,512
Non-recurring expenses	21		1,353
Non-recurring income/loss	1		159
Corporate income tax	1	3	(16)
Income (loss) for the period	**(2)**	**(33)**	**(453)**

Balance sheet

At March 31, In euro million	2006	2005	2004 Air France published figures
Assets			
Intangible fixed assets			25
Tangible assets			5,614
including aircraft			4,343
Financial assets	3,894	3,883	1,193
Total fixed assets	**3,894**	**3,883**	**6,832**
Inventories & work in progress			102
Operating receivables	11	2	1,869
Other receivables	34	7	142
Marketable securities	1	1	1,413
Cash			307
Total current assets	**46**	**10**	**3,832**
Prepaid amounts			409
Total assets	**3,940**	**3,893**	**11,073**
Liabilities & stockholders' equity			
Common stock	2,290	2,290	1,868
Additional paid-in capital	384	384	261
Retained earnings	1,105	1,178	415
Current income (loss)	(2)	(33)	(453)
Other reserves			1,027
Stockholder's equity	**3,777**	**3,819**	**3,118**
Provisions for liabilities and charges			**1,244**
Financial liabilities			3,224
Operating liabilities	7	11	3,100
Trade payables and similar	5	8	1,190
Deferred revenue on ticket sales			993
Other	2	3	918
Miscellaneous liabilities	156	63	118
Total liabilities	**163**	**74**	**6,442**
Other accruals			268
Total liabilities & stockholders' equity	**3,940**	**3,893**	**11,073**

Subsidiaries and participations

Companies	N° SIREN	Capital	Stock-holder's equity after earning of the period and without capital	Capital share	Book value of shares		Loans and cash advances	Warranties & endor-sments	Fiscal year revenues	Fiscal year net profit or loss	Dividends received during the fiscal year
In euro million					Gross	Net					
Detailed informations on participations in excess of 15 million euros											
1 - Subsidiaries owned at 50% or more											
Société Air France (ex Air Orient) (France) (1)	420495178	1,901	2,248	100.0%	3,060	3,060			13,242	942	
KLM (Netherlands) (1)		94	2,466	97.48%	802	802			7,201	276	9
2 - Participations owned at less than 50%)											
ALITALIA (Italy) (2)		1,297	166	2.0%	45	32			4,217	(168)	

(1) Local accounts March 31, 2006
(2) Consolidated accounts December 31, 2005

Change in stockholder’s equity

Source of funds In euro million	**Capital**	**Additional paid-in capital**	**Reserves**	**Income (loss) for the year**	**Net position**
Situation at March 31, 2005	**2,290**	**384**	**1,178**	**(33)**	**3,819**
Income (loss) for 2004-05			(33)	33	
Dividend			(40)		(40)
Income (loss) for the period				(2)	(2)
Situation at March 31, 2006	**2,290**	**384**	**1,105**	**(2)**	**3,777**

Five-year financial summary

Year ended March 31,	2002 Air France published figures	2003 Air France published figures	2004 Air France published figures	2005	2006
1. Share capital at year end					
Share capital (in euro)	1,868,137,539	1,868,137,539	1,868,137,539	2,289,759,903	2,289,759,903
Number of ordinary shares outstanding	219,780,887	219,780,887	219,780,887	269,383,518	269,383,518
Number of prefered shares					
Maximum number of shares that may be created by					
• Conversion of bonds					21,951,219
• Exercise of subscription rights				30,062,199	30,060,411
2. Transactions and results for the year (in thousand euros)					
Net revenues	11,670,871	11,730,679	11,344,755		
Net income before income tax, employee profit-sharing, net depreciation, amortization and provisions	771,375	628,753	507,682	(30,307)	(4,031)
Income tax	0	(1,777)	15,945	(3,426)	(997)
Employee profit-sharing for the year	0	0	0	0	0
Net income/(loss) after income tax, employee profitsharing, net depreciation, amortization and provisions	41,917	(217,624)	(452,558)	(33,359)	(1,506)
Distributed net income	21,690	13,014	13,347	40,407	
3. Per share data (in euros)					
Net income after income tax and employee profit-sharing, but before net depreciation, amortization and provisions	3.51	2.86	2.24	(0.10)	0.019
Net income/(loss) after income tax, employee profit-sharing net depreciation, amortization and provisions	0.19	(0.99)	(2.06)	(0.12)	(0.006)
Dividend per share	0.10	0.06	0.05	0.15	0.3 (1)
4. Employees					
Average number of employees during the year	59,296	59,731	59,788		
Total payroll costs (in thousand euros)	2,443,904	2,528,771	2,639,480		
Employee welfare contributions and similar charges (social security, employee organizations, etc…) (in thousand euros)	869,692	907,126	975,878		

(1) based on the resolution that will be submitted to the Shareholders' Meeting to be held on July 12,2006.

Statutory auditors' report on the financial statements

Year ended March 31, 2006

To the Shareholders of Air France-KLM S.A.

In compliance with the engagement entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended March 31, 2006:
- the audit of the accompanying financial statements of Air France-KLM S.A.;
- the justification of our assessments; and
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities, as of March 31, 2006 and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the Commercial Code relating to the justification of our assessments, we inform you that the assessments made by us focused on the appropriateness of the accounting principles used and the reasonableness of the significant estimates made by the management relating particularly to investments in subsidiaries.
The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

III. Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.
We have no matters to report regarding the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.
In accordance with French law, we ensured that the various information related to the identity of the Company's shareholders and the voting rights have been appropriately disclosed in the management report of the Board of Directors.

Paris La Défense and Neuilly-sur-Seine, June 27, 2006

The Statutory auditors

KPMG Audit
Department of KPMG S.A.

Jean-Luc Decornoy
Partner

Jean-Paul Vellutini
Partner

Deloitte & Associés

Pascal Pincemin
Partner

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This report, together with the statutory auditors' report addressing financial and accounting information in the management report on internal control, should be read in conjunction with, and is interpreted in accordance with, French law and professional auditing standards applicable in France.

Statutory auditors' report on agreements involving members of the Board of Directors

Year ended March 31, 2006

In our capacity as statutory auditors of your Company, we hereby report on the agreements involving members of the Board of Directors.

Agreements authorized during the current year

Pursuant to Article L. 225-40 of the French Commercial Code, the following agreements, previously authorized by the Board of Directors of your Company, have been brought to our attention.
The terms of our engagement do not require us to identify such agreements, if any, but to communicate to you, based on information provided to us, the principal terms and conditions of those agreements brought to our attention, without expressing an opinion on their usefulness and appropriateness. It is your responsibility, pursuant to Article 92 of the decree of 23 March 1967, to assess the benefits arising from these agreements for the purpose of approving them.
We conducted our procedures in accordance with professional standards applicable in France. These standards require that we agree the information provided to us with the relevant source documents.

Services agreement between Air France-KLM and KLM

• Person concerned:
Leo Van Wijk, Director of Air France-KLM and Chairman of the KLM Management Board.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary KLM entered into a service agreement, for the purpose of providing Air France-KLM the means to operate, notably in accounting, administration, financial and legal matters. Accordingly, KLM is engaged to provide, at the request of Air France-KLM, its assistance and services in such matters. These services will be invoiced to Air France-KLM.
This agreement was authorized by the Board of Directors on September 1, 2005.
During the year ended March 31, 2006, your Company paid €1,856,007 with respect to this agreement.

Agreement between Air France-KLM and Air France

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement, for the purpose of organizing financial and legal relations between the two companies with respect to the issuance by Air France of convertible and/or exchangeable bonds for new or existing Air France-KLM shares.
The terms of this agreement stipulate:
- the remuneration paid by Air France to Air France-KLM in consideration for the option granted to bondholders to request the conversion of their bonds into Air France-KLM shares;
- the conditions in which, should this option be exercised by the bondholder, Air France-KLM will remit new or existing shares (or a combination of both), and deliver to the centralizing agent the corresponding number of shares;

- the terms and conditions covering the payment by Air France to Air France-KLM of the amount corresponding to the value of the bonds that are to be converted or exchanged.

This agreement was authorized by the Board of Directors on September 1, 2005.
During the year ended March 31, 2006, your Company collected €6,120,484 with respect to this agreement.

Trademark licensing agreement between Air France-KLM and KLM

• Person concerned:
Leo Van Wijk, Director of Air France-KLM and Chairman of the KLM Management Board.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary KLM entered into a licensing agreement for the “Air France-KLM” trademark.
This agreement was authorized by the Board of Directors on September 1, 2005.
During the year ended March 31, 2006, your Company collected €4,535,160 with respect to this agreement.

Trademark licensing agreement between Air France-KLM and Air France

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into a licensing agreement for the “Air France-KLM” trademark.
This agreement was authorized by the Board of Directors on September 1, 2005.
During the year ended March 31, 2006, your Company collected €9,691,347 with respect to this agreement.

Agreements approved during previous fiscal years that continued to be in effect during the current fiscal year
In addition, pursuant to the decree of 23 March 1967, we have been advised that the following agreements entered into and approved in previous years, have continued to be in effect during the current year.

Services agreement between Air France-KLM and Air France

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement, for the purpose of defining the conditions under which Air France will provide, at the request of Air France-KLM, technical and administrative support services to Air France-KLM. These services, of an accounting, administrative, legal and IT nature will be invoiced at cost.
During the year ended March 31, 2006, your Company paid €1,981,535 with respect to this agreement.

Cash agreement between Air France-KLM and Air France

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement in order to provide Air France-KLM with a credit line.
This cash agreement bears interest at EONIA + 60 points.
As of March 31, 2006, the amount payable by Air France-KLM to Air France in respect of this cash agreement totaled €136,925,118.
During the year ended March 31, 2006, your Company was invoiced €2,704,893 in interest with respect to this agreement.

Domiciliation agreement between Air France-KLM and Air France

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France.
• Nature, purpose and terms and conditions:
Air France-KLM and its subsidiary Air France entered into an agreement for the domiciliation and use of the premises of the registered office of Air France-KLM.
During the year ended March 31, 2006, your Company did not pay any amount in respect of the agreement, as the use of the premises are provided free of charge.

Agreement relating to the remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer

• Person concerned:
Jean-Cyril Spinetta, Director of Air France-KLM and of Air France and Pierre-Henri Gourgeon, Director of Air France-KLM and of Air France (as representative of Air France-KLM).
• Nature, purpose and terms and conditions:
The remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of Air France-KLM is invoiced to Air France based on the actual activity devoted to Air France.
During the year ended March 31, 2006, your Company collected €1,160,073 with respect to this agreement.

Cross shareholding agreement with Alitalia

• Person concerned:
Giancarlo Cimoli, Director of Air France–KLM and of Alitalia
• Nature, purpose and terms and conditions:
A reciprocal shareholding agreement was entered into between Air France and Alitalia under which the companies agree to hold a 2% reciprocal shareholding. This agreement became effective in January 2003.

Paris La Défense and Neuilly-sur-Seine, June 27, 2006

The Statutory auditors

KPMG Audit
Department of KPMG S.A.

Jean-Luc Decornoy   Jean-Paul Vellutini

Deloitte & Associés

Pascal Pincemin

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

WAM Acquisition (Amadeus GTD) simplified financial statements

Following the bid from WAM Acquisition for Amadeus in July 2005, in which Air France participated, Air France took a 23.4% holding in WAM Acquisition, the 100% holder of Amadeus. Amadeus financial statements being published in the annual report filed with the SEC in the form of the 20-F, the simplified financial statements are included in the reference document.

Consolidated statements of income

	July 31, 2005 (7 months)	**December 31, 2004 (12 months)**	**July 31, 2004 (7 months) (unaudited)**
Revenue (Note 16)	1,406,285	2,056,680	1,212,871
Cost of sales	1,104,382	1,620,379	923,919
Gross profit	**301,903**	**436,301**	**288,952**
Selling, general and administrative expenses	59,349	92,887	44,779
Operating income	**242,554**	**343,414**	**244,173**
Other income (expense)			
Interest expense, net (Note 18)	(3,354)	(6,045)	(4,000)
Exchange gains (losses), net	1,901	(4,109)	514
Other income (expense), net	1,691	397	364
Income before income taxes	**242,792**	**333,657**	**241,051**
Income tax (Note 20)	90,317	129,018	95,694
Income after taxes	152,475	204,639	145,357
Equity in income (losses) from associates	12,562	(8,279)	(5,018)
Net income	**165,037**	**196,360**	**140,339**
Attributable to:			
Equity holders of the parent	**172,396**	**208,032**	**142,341**
Minority Interest	(7,359)	(11,672)	(2,002)
Basic earnings per class “A” share, in EURs (Note 21)	0.30	0.36	0.25

Consolidated balance sheet

Assets

In euro thousand	July 31, 2005	December 31, 2004
Current assets		
Cash and cash equivalents (Note 22)	192,467	104,669
Accounts receivable, net (Note 5)	300,567	245,228
Accounts receivable – affiliates, net (Notes 5 and 15)	73,341	58,921
Loans receivable and advances – affiliates (Note 15)	-	1,190
Taxes receivable (Note 20)	57,489	41,611
Prepayments and other current assets (Note 6)	73,957	77,456
Total current assets	**697,821**	**529,075**
Tangible assets (Note 7)		
Land and buildings	129,451	130,142
Data processing hardware and software	508,518	465,097
Other tangible assets	145,527	138,616
	783,496	733,855
Less accumulated depreciation	472,080	446,321
Net tangible assets	311,416	287,534
Intangible assets (Note 8)		
Patents, trademarks and licenses	101,422	79,903
Purchased technology	83,459	72,282
Software development projects	415,923	371,859
Purchased contracts	325,153	274,748
Goodwill	450,413	453,383
Other intangible assets	2,476	9,137
	1,378,846	1,261,312
Less accumulated amortization	513,283	604,103
Net intangible assets	865,563	657,209
Deferred income taxes (Note 20)	107,410	108,779
Loans receivable – affiliates (Note 15)	1,955	1,015
Investments in associates (Note 9)	17,726	27,588
Other long-term investments, net (Note 9)	58,171	63,839
Total other non-current assets	185,262	201,221
Total non-current assets	**1,362,241**	**1,145,964**
Total assets	**2,060,062**	**1,675,039**

Liabilities and shareholders' equity

In euro thousand	**July 31, 2005**	**December 31, 2004**
Current liabilities		
Accounts payable, net (Note 5)	427,877	316,768
Accounts payable – affiliates, net (Note 5 and 15)	43,121	27,032
Dividends payable	43	34
Debt payable within one year (Note 11)	13,483	8,562
Current obligations under finance leases (Note 12)	24,196	9,996
Income taxes payable (Note 20)	38,752	32,651
Other current liabilities (Note 6)	134,996	127,863
Total current liabilities	**682,468**	**522,906**
Long-term liabilities		
Long-term debt (Note 11)	2,304	2,538
Obligations under finance leases (Note 12)	101,840	96,003
Deferred income taxes payable (Note 20)	87,464	74,528
Other long-term liabilities (Note 13)	46,359	37,303
Total long-term liabilities	**237,967**	**210,372**
Shareholders' equity (Note 14)		
Share capital	23,044	23,044
Additional paid-in capital	380,358	365,219
Treasury shares and other similar equity instruments	(107,923)	(109,499)
Retained earnings and other reserves	846,905	681,517
Cumulative translation adjustments	(20,518)	(28,557)
Subtotal shareholders' equity	1,121,866	931,724
Minority interest	17,761	10,037
Total shareholders' equity	**1,139,627**	**941,761**
Total liabilities and shareholders' equity	**2,060,062**	**1,675,039**

Consolidated statements of cash flows

in euro thousand	July 31, 2005 (7 months)	December 31, 2004 (12 months)	July 31, 2004 (7 months) (unaudited)
Cash flows from operating activities			
Operating income	242,554	343,414	244,173
Adjustments for:			
Depreciation and amortization	130,542	205,991	111,243
Employee stock compensation expense	13,575	-	2,229
Operating income before changes in working capital net of amounts acquired	386,671	549,405	357,645
Accounts receivable	(34,032)	4,334	(36,009)
Taxes receivable	(23,906)	(5,810)	(5,249)
Other current assets	7,883	8,053	55,311
Accounts payable	73,840	(24,855)	(34,094)
Other current liabilities	(2,052)	(10,397)	(12,283)
Other long-term liabilities	2,368	(5,127)	(4,258)
Cash provided from operating activities	410,772	515,603	321,063
Taxes paid	(69,838)	(105,621)	(62,764)
Net cash provided from operating activities	**340,934**	**409,982**	**258,299**
Cash flows from investing activities			
Additions to tangible assets	(50,403)	(77,011)	(44,325)
Additions to intangible assets	(54,586)	(73,830)	(45,400)
Investment in subsidiaries and associates, net of cash acquired	(146,106)	(55,884)	39,476
Proceeds from sale of investments in associates	2,506	-	-
Interest received	3,022	4,631	1,988
Sundry investments and deposits	(4,315)	(4,257)	(58)
Loans to third parties	(795)	(4,367)	(4,913)
Loans to affiliates	-	(585)	(585)
Cash proceeds collected/(paid) - derivative agreements	(7,703)	3,889	1,465
Disposals of sundry investments	9,048	3,663	1,223
Dividends received	2,838	7,828	2,673
Proceeds obtained from disposal of fixed assets	2,722	3,598	3,324
Net cash used in investing activities	**(243,772)**	**(192,325)**	**(45,132)**
Cash flows from financing activities			
Proceeds from borrowings	60,647	32,864	23,416
Repayments of borrowings	(56,204)	(106,076)	(92,048)
Interest paid	(6,674)	(12,533)	(6,993)
Redemption of Class “B” shares	-	(485)	(485)
Acquisition of Treasury shares	(29)	(63,086)	(40)
Disposals of Treasury shares	1,604	39,215	209
Dividends paid	-	(35,000)	(35,000)
Payments of finance lease liabilities	(9,651)	(10,419)	(5,517)
Net cash used in financing activities	**(10,307)**	**(155,520)**	**(116,458)**
Effect of exchange rate changes on cash and cash equivalents	**943**	**431**	**194**
Net increase / (decrease) in cash and cash equivalents	**87,798**	**62,568**	**96,903**
Cash and cash equivalents at beginning of period	**104,669**	**42,101**	**42,101**
Cash and cash equivalents at end of period (Note 22)	**192,467**	**104,669**	**139,004**

Change in stockholder's equity

In euro thousand	Share capital	Additional paid-in capital	Treasury shares and other similar equity instruments	Retained earnings and other reserves	Cumulative translation adjust-ments	Minority interest	Total
Balance as of December 31, 2003	**27,898**	**379,358**	**(126,899)**	**502,879**	**(25,523)**	**1,029**	**758,742**
Changes in accounting policy							
Fair value approach employee stockoptions	-	757	-	(757)	-		-
Restated balance as of December 31, 2003	**27,898**	**380,115**	**(126,899)**	**502,122**	**(25,523)**	**1,029**	**758,742**
Available for sale financial assets				(2,373)	-		(2,373)
Tax impact	-	-	-	828	-	-	828
Hedging instruments				(4,131)	2,155	-	(1,976)
Tax impact	-	-	-	1,444	(755)	-	689
Other gains (losses)	-	-	-	(632)	(4,434)	-	(5,066)
Gains (losses) not recognized in the statement of income	**-**			**(4,864)**	**(3,034)**		**(7,898)**
(Acquisitions)/disposals of Treasury shares, net	-	(19,286)	17,400	11,248	-		9,362
Employee Share Options	-	4,390	-	(4,390)	-	-	-
Dividends		-	-	(35,000)	-		(35,000)
Redemption of Class "B" shares	(4,854)			4,369	-		(485)
Business Combinations	-	-	-	-	-	20,681	20,681
Net income for the period	-	-	-	208,032	-	(11,673)	196,359
Balance as of December 31, 2004	**23,044**	**365,219**	**(109,499)**	**681,517**	**(28,557)**	**(10,037)**	**941,761**
Available for sale financial assets	-	-	-	828	-	-	828
Tax impact	-	-	-	(281)	-	-	(281)
Hedging instruments	-	-	-	(21,375)	-	-	(21,375)
Tax impact	-	-	-	7,481	-	-	7,481
Other gains (losses)	-	-	-	-	8,039	-	8,039
Gains (losses) not recognized in the statement of income	**-**	**-**	**-**	**(13,347)**	**8,039**	**-**	**5,308**
(Acquisitions)/disposals of Treasury shares, net	-	1,564	1,576	(1,576)	-	-	1,564
Employee Share Options	-	13,575	-	-	-	-	13,575
Business Combinations	-	-	-	7,915	-	15,083	22,998
Net income for the period	-	-	-	172,396	-	(7,359)	165,037
Balance as of July 31, 2005	**23,044**	**380,358**	**(107,923)**	**846,905**	**(20,518)**	**17,761**	**1,139,627**

Additional information

History

Two companies born on the same day

October 7, 1919

KLM, Koninklijke Luchtvaartmaatschappij, is founded, Royal Dutch Airline for the Netherlands and its Colonies.

In 1920, KLM inaugurates the Amsterdam-London link with a De Havilland DH-16. Today, this is still the longest-standing route served by the same company.

In 1924, KLM inaugurates its first intercontinental flight from Amsterdam to Jakarta using a Fokker F-VII. This route, which became a scheduled flight as of 1929 is, at this time, the longest airline route in the world.

From 1926, cooperation begins between KLM and Air Union (Air France founding company) on the transport of mail to the Far East.

October 7, 1933

Air France is born out of the combination of five French airlines (Air Union, Air Orient, Société Générale de Transport Aérien (SGTA), CIDNA and Aéropostale).

Air France and KLM jointly operate the Amsterdam-Rotterdam-Paris route within the framework of a commercial agreement.

1934

KLM offers its first trans-atlantic service from Amsterdam to Curaçao using a Fokker F-XVIII Snip.

1945-1990 – Air transport and the two companies take off

1945-46

Air France is nationalized.
KLM flights, interrupted by the war, resume service.

Introduction of scheduled flights between Europe and New York, in DC-4s from Paris with Air France and from Amsterdam with KLM. At this time, the journey lasts close to 24 hours.

Air France and KLM are equipped with Constellations and engage in mutual assistance.

1958

Air France and KLM inaugurate the polar route, flying from Paris or Amsterdam to Tokyo via the North Pole.

1959-1960

Dawn of the jet era: Air France brings the first Caravelle and Boeing 707 aircraft into service, reducing the duration of the Paris-New York flight to 8 hours. KLM brings its first Douglas DC-8 aircraft into service.

1961

Air France bases its operations and maintenance at Orly Sud.

1967

First KLM flight takes off from the new Schiphol airport.

1970-71

Boeing 747 aircraft first used on long-haul routes by Air France in 1970 and KLM in 1971.

1972

Air France establishes a cargo division.

1974-1982

Air France operations established at the new Terminal 1 at Roissy-Charles de Gaulle, then Terminal 2 in 1982.

1976

Concorde is commissioned, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes and then Paris-New York in 1977, connecting the two cities in 3 hours 45 minutes.

1989-2004 – Development of the two “majors”

1989

Conclusion of an alliance, the first in the history of air transport, between KLM and the US company Northwest Airlines.

1990

Air France acquires UTA (Union des Transports Aériens), founded in 1963.

1991

KLM founds a regional company, KLM Cityhopper, by merging NLM Cityhopper and Netherlines.
The Company increases its share holding in transavia from 40 to 80%.

1992

Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own interest in this company with that of UTA.

KLM establishes the first European medium-haul–long-haul hub at Schiphol airport.

First "Open Sky" agreement between the Netherlands and the United States.

1993

All KLM and Northwest Airlines flights between Europe and the United States are operated by a joint venture.

1996

Air Inter becomes Air France Europe.

Establishment of Air France's medium-haul – long-haul hub at Roissy-Charles de Gaulle.

1997

Air France Europe is merged with Air France.

1999

Air France is successfully floated, with the participation of 2.4 million individuals, international institutional investors and 72% of staff.
Air France is listed on the Monthly Settlement Market of the Paris stock exchange for the first time on February 22, 1999.

2000

Air France, Aeromexico, Delta Airlines and Korean Air found the SkyTeam and SkyTeam Cargo alliances.

Creation of the Air France regional division following the acquisition of Régional Airlines, Flandre Air, Proteus, Brit Air and City Jet.

2001

"Open Sky" agreement concluded between France and the United States.
Alitalia and CSA Czech Airlines join the SkyTeam alliance.

2002

SkyTeam is the only alliance in the world to benefit from anti-trust immunity on its trans-atlantic and trans-pacific flights.

KLM announces the renewal of its fleet, with the arrival of the Boeing B747-400 ER Freighter, the Boeing B777-200 ER and the Airbus A330-200.

2004 – Creation of Air France-KLM, the leading European air transport group

2003

September 30: Air France and KLM announce their intention to merge, through a public exchange offer.

2004

April 5: Air France launches its public exchange offer (PEO) for KLM shares.

May 5: Air France-KLM shares listed for trading on Euronext Paris and Amsterdam as well as on the New York Stock Exchange.

May 6: Privatization of Air France, following the transfer of the majority of its shares to the private sector with the dilution of the French State's share holding.

September 15: Finalization of the Group's organizational structure with the creation of the Air France-KLM holding company, regrouping the two airline subsidiaries: Air France and KLM.
KLM and its US partners Northwest Airlines and Continental join the SkyTeam alliance.

December 9: The French State reduces its shareholding from 44% to 23%.

2005

Air France-KLM named 'Airline of the Year'.

General information

Corporate name
Air France-KLM

Registered office
2, rue Robert Esnault-Pelterie, 75007 Paris

Mailing address
45, rue de Paris, 95747 Roissy-CDG Cedex
Tel: +33 1 41 56 78 00

Legal status
French limited liability company (Société Anonyme) with a Board of Directors.

Legislation
French law.
Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003 relating to air transport companies and notably Air France.
The law of April 9, 2003 amended the Civil Aviation Code, introducing a provision designed to safeguard the nationality of air transport companies whose securities are admitted to trading on a regulated market.

Incorporation and expiry dates
Incorporated on: April 23, 1947.
Due to expire on: July 3, 2045 barring early liquidation or extension.

Corporate purpose (Article 2 of the bylaws)
The primary purpose of Air France-KLM is to hold a direct or indirect interest in the capital of air transport companies and more generally stakes in any companies in France or elsewhere, whose purpose is related to the air transport business.

Trade register
Paris Trade and Company Register: 552 043 002
APE Code: 741 J

Consultation of legal documents
Air France-KLM's legal and corporate documents may be consulted at 45, rue de Paris, 95747 Roissy-CDG Cedex, or requested by calling the following toll-free number in France 0 800 320 310 or + 33 1 41 56 88 85 from outside France and from the French overseas territories.

Financial year
The financial year runs from April 1 to March 31 of the following year (IATA financial year) (see Glossary).

Appropriation of profits
After approving the financial statements and taking due note of the profits available for distribution, shareholders vote in Shareholders' Meetings to decide on the total or partial distribution of such profits (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable profits to one or more reserve accounts.

Information on the share capital

Share capital

At March 31, 2006, the share capital of Air France-KLM came to a total of 2,289,759,903 euros, split into 269,383,518 fully paid up shares with a par value of 8.5 euros, held in registered or bearer form according to shareholder preference.

Authorizations to increase the capital

The Extraordinary Shareholders' Meeting of July 12, 2005, authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities giving immediate or future rights to Air France-KLM capital.

Nature of the operation	Maximum amount of issues	Balance available at March 31, 2006
Capital increase via the issue of shares or other securities giving rights to the capital		
with preferential subscription rights	500 million euros	500 million euros
without preferential subscription rights	500 million euros	500 million euros
Capital increase through capitalization of reserves and/or additional paid-in capital	500 million euros	500 million euros
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of the issue	
Issue of securities giving the right to debt securities without giving rise to a capital increase	1 billion euros	1 billion euros

Authorization to buy back Air France-KLM's own shares

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 12, 2005 authorized the Board of Directors, for a period of 18 months, to trade its own shares pursuant to the buyback program approved by the AMF under No. 05-584. The maximum purchase price was set at 25 euros and the minimum sale price at 8.5 euros. Air France-KLM agreed not to acquire more than 5% of its stock. The objectives of this buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with SG Securities (Rothschild & Cie Banque since May 2, 2006), the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees or directors and, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition.

As of March 31, 2006, the Air France-KLM group held 4,150,405 shares of Air France-KLM, or 1.5% of the capital, of which 4,129,358 shares held by its subsidiaries to satisfy the exercise of the different stock option plans and 21,047 shares under the liquidity agreement. The book value of Air France-KLM treasury stock amounted to 59.2 million euros at March 31, 2006.

During the financial year and pursuant to this and the previous contract, the number of shares purchased amounted to 6,823,078 shares at an average price of 15.56 euros and the number of shares sold amounted to 7,804,828 shares at an average price of 16.20 euros.

Variations in the share capital over the last three financial years

Financial year to	Total capital	Number of shares
March 31, 2004	1,868,137,540	219,780,887
March 31, 2005	2,289,759,903	269,383,518
March 31, 2006	2,289,759,903	269,383,518

Following the exchange offer for KLM securities by Air France 49,602,631 new shares were created.

Current breakdown of the capital and voting rights

The variation in the shareholder structure of Air France-KLM in the last three financial years is linked to:
- the 2004 capital increase reserved for KLM shareholders who tendered their shares in the exchange offer, which resulted in the effective privatization of Air France-KLM through the dilution of the French State's shareholding;
- the sale by the French State of 47.7 million shares in the market in December 2004 and 21 million shares to Air France employees in two tranches in March and April 2005.

Financial year to	% of share capital			% of voting rights		
	March 31, 2006	March 31, 2005	March 31, 2004	March 31, 2006	March 31, 2005	March 31, 2004
French State	18.6	23.2	54.0	18.9	23.8	54.6
Current and former employees	14.1	11.7	12.8	14.4	11.7	12.9
Treasury stock	1.5	2.4	1.1	-	-	-
Free float	65.8	62.7	32.1	66.7	64.5	32.5

Shareholders owning more than 0.5% of the capital

On the basis of declarations available at March 31, 2006, the following shareholders hold 0.5% or more of Air France-KLM capital.

Shareholders	Number of shares	% of share capital	Market value (in euros)
Alitalia	4,395,618	1.63	85,406,838
Barclays	17,352,202	6.44	337,153,285
BNP PAM Group	2,883,940	1.07	56,034,954
CDC	2,314,517	0.85	44,971,065
Cie d'investissement de Paris	3,349,720	1.24	65,085,060
CNCE	1,399,009	0.52	27,143,885
DNCA Finance	1,400,842	0.52	27,218,360
Tocqueville Finance	1,647,000	0.61	32,001,210
UBS	2,708,056	1.01	52,617,528

Stock price evolution and trading volumes over 18 months

	Trading days	Average price (in €)	Highest and lowest price (in €)		Volume	Amount (in € m)
			High	Low		
2004						
October	21	12.98	13.87	12.52	19,852,525	258.6
November	22	14.20	14.85	13.50	24,276,968	344.5
December	23	14.17	15.00	13.86	29,098,085	413.4
2005						
January	21	13.89	14.27	13.36	28,041,883	389.0
February	20	14.52	15.14	13.98	33,033,615	481.6
March	21	14.13	14.66	13.53	28,962,252	409.0
April	21	13.17	14.02	11.98	35,195,326	464.0
May	22	12.68	13.33	12.00	32,471,258	412.9
June	22	12.88	13.34	12.13	30,209,686	386.6
July	21	13.16	13.68	11.78	29,287,572	379.6
August	23	13.57	14.12	13.15	24,190,620	328.4
September	22	13.93	14.44	13.24	26,966,806	328.7
October	21	14.12	14.73	13.61	25,439,962	360.8
November	22	14.71	16.11	13.97	33,313,550	500.7
December	21	17.43	18.39	15.79	39,785,372	685.1
2006						
January	22	18.33	19.00	17.45	43,384,319	796.3
February	20	19.47	20.50	18.37	37,378,318	731.2
March	23	19.61	19.93	19.07	28,993,931	563.2
April	18	18.95	20.22	17.81	29,718,741	559.9

Legal and statutory investment thresholds

Pursuant to Article L.233-7 of the French Commercial Code, Article 13 of the Air France-KLM bylaws stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's voting rights or any multiple thereof lower than 5%, must notify Air France-KLM by registered mail with delivery receipt within 15 days of the date on which the threshold is exceeded.

Notice must be given under the same conditions each time a further 0.5% of the capital and voting rights is crossed up to 50%. Any shareholder whose holding falls below one of the thresholds listed above must also inform the Company within the same deadline of 15 days and under the same conditions.

The aforementioned obligations under the bylaws do not replace the legal obligation to inform Air France-KLM and the French securities regulator (the Autorité des Marchés Financiers) within five trading days if the legal thresholds on share capital and voting rights are exceeded.

Furthermore, if the 10% and 20% share capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF of its objectives for the next 12 months within 15 days. This notification is subject to the conditions and sanctions set forth in Article L.233-14 of the Commercial Code. In addition, in the event of failure to comply with this notification requirement and at the request of one or more shareholders holding at least 0.5% of the share capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all Shareholders' Meetings held for a period of two years following compliance with notification procedures.

Additionally, any shareholder acquiring over 2% of Air France-KLM's voting rights is required to register these securities within 15 days of the date on which the threshold is exceeded (Extraordinary Shareholders' Meeting of September 25, 1998).

Following the public exchange offer on KLM securities, Air France-KLM was privatized, with the French State's interest being diluted from 54% to 44.1%. As a result, the statutory changes in the bylaws relating to the transfer of the majority of the capital stock to the private sector, which were approved at the Shareholders' Meeting of July 10, 2003, now apply.

These changes primarily concern the monitoring and identification of shareholders, formal notices to sell shares and the mandatory sale of shares, and the composition of the Board of Directors, as presented in the "Corporate Governance" section.

Identification of shareholders

Identification of holders of bearer shares

The Shareholders' Meeting of September 25, 1998 authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at Shareholders' Meetings.

Pursuant to the new Articles L.360-1 to L.360-4 of the Civil Aviation Code, as amended under the French law of April 9, 2003, listed French air transport companies are authorized to incorporate a provision into their bylaws allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relative to their nationality.

This is because, over time, changes in the shareholding structure of an air transport company whose shares are traded on a regulated market could jeopardize its operating license as an EU air transport carrier, the retention thereof being conditional on EU interests holding a majority of the shares and maintaining effective control, or the traffic rights held by the company as a French air transport company, pursuant to bilateral international agreements concluded between France and other States outside the European Union.

Statutory provisions concerning shareholders

Identification and monitoring of shareholders: Articles 9 and following of the Air France-KLM bylaws set the conditions the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form.

However, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors must decide to reduce this 2% threshold to 10,000 shares.

When Air France-KLM has published a notice informing the shareholders and the public that non-French shareholders own, directly or indirectly, 45% of Air France-KLM's capital or voting rights, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form. The Group may at any time and at its cost submit a request to the organization responsible for the compensation of securities to provide full details regarding the identification of holders of Air France-KLM securities conferring immediate or future entitlements to vote at its Shareholders' Meetings, as well as information on the quantity of shares held by each of them.

Article 10 of the bylaws specifies the information that must be provided to Air France-KLM by shareholders – both private individuals and corporate bodies – subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder.

Article 11 of the Air France-KLM bylaws specifies the conditions under which the Board of Directors may exercise its right to approve new shareholders.

Formal notice to sell and mandatory sale of shares:
Article 15 of the Air France-KLM bylaws stipulates the information that Air France-KLM must publish and distribute to inform the public that over 45% of the share capital or voting rights is held by shareholders who are not of French nationality.

Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to protect its nationality. Articles 15 and 16, respectively, concern formal notices to sell and the mandatory sale of shares held in breach of regulations.

Relations between Air France-KLM and its subsidiaries (1)

Air France-KLM and its Air France and KLM subsidiaries have concluded agreements whose objective is to define the conditions under which Air France and KLM provide technical and administrative support services requested by Air France-KLM.

These accounting, administrative, legal and IT services will be invoiced at cost. Furthermore, on the same date, Air France-KLM and its subsidiaries also concluded:
- a cash management agreement (credit line made available to Air France-KLM),
- a domiciliation agreement (site of Air France-KLM's headquarters made available).

(1) See principal regulated agreements in the Corporate governance section

Information on the agreements concluded in connection with the combination between Air France and KLM

In connection with the agreements concluded between Air France and KLM for the creation of the Air France-KLM group, various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.

Agreements on the shareholding structure

KLM set up two Dutch foundations, SAK I and SAK II, to handle the administration of KLM shares transferred as part of the combination operations and acquired by Air France [1] from KLM shareholders until May 2007.

SAK I and SAK II are each managed by Boards of Directors comprised of three members. One member is appointed by Air France, one by KLM and the third, acting as Chairman, is appointed by the first two. The majority of the members of the Boards of Directors of each of the foundations, including the Chairman, must be of Dutch nationality and live in the Netherlands. Board decisions are taken unanimously.

In return for the shares transferred to SAK I and SAK II, Air France [1] received share certificates enabling it to benefit from all the economic rights associated with the underlying shares. SAK I and SAK II, however, retain the voting rights linked to these shares. These voting rights are exercised by the two Boards of Directors of SAK I and SAK II in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France, in the best interests of KLM, Air France-KLM and its shareholders.

Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France and KLM concluded the following agreements with the Dutch State.

Agreement for the acquisition of cumulative preference A shares held by the Dutch State

On October 16, 2003, Air France, KLM and the Dutch State signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in Air France's [1] share capital. As such, the Dutch State will sell its cumulative preferential A shares to Air France [1] or to SAK I in the name of and on behalf of Air France [1] if the transfer takes place during the first three years following the combination. In the second case, SAK I will issue share certificates for Air France [1] corresponding to the cumulative preferential A shares transferred to SAK I.

These share certificates will confer all the economic rights associated with the shares to Air France [1], while the corresponding voting rights will be exercised by SAK I until the share certificates have been exchanged by Air France [1] against the said shares.

At the end of the initial three-year period, Air France [1] will be entitled to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly.

The Dutch State benefits from the right to sell as many cumulative preferential A shares as it wishes to Air France [1] at any time.

(1) Became Air France-KLM following the creation of the holding company in September 2004.

Amendments made to the Dutch State's option and the related agreements

Since 1994, the Dutch State has benefited from an option to subscribe for preferential KLM B shares, enabling it to increase its stake to 50.1% of the capital and voting rights of KLM irrespective of the amount of capital issued by KLM when the said option is exercised.

The Dutch State may exercise its option, after consultation with KLM, if another country were to limit KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals.

This option is based on the Chicago Convention and bilateral air service agreements according to which KLM's operational right to operate air transport services on international lines generally depends on the obligation for a majority or a significant percentage of the capital to be held by Dutch or other European nationals or for the effective control of KLM to be exercised by Dutch or European nationals.

Air France, KLM and the Dutch State signed an agreement on October 16, 2003 to amend certain terms of the existing option for the Dutch State. In accordance with the amended terms of the option, the Dutch State may exercise its option if another country, representing a key market served by KLM, provides written notice that it intends to limit or terminate KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals.

The Dutch State's amended option was initially set for a period of three years from October 13, 2003, and may be renewed on three occasions by the Dutch State for periods of twelve months each.

This period may be renewed if the Dutch State deems that it is necessary owing to a threat to KLM's traffic rights on certain key markets. The State will be required to give written notice to KLM and Air France of its intention to renew this option.

This notification should notably include the reasons behind such a renewal and the names of the countries contesting KLM's traffic rights.

This agreement also stipulates that the parties will discuss upstream and in good faith the need to exercise the amended option for the Dutch State and the corresponding schedule, although such discussions will not necessarily represent a prior authorization right for Air France.

After exercising the option, the Dutch State will be required to inform Air France at least every six months of progress made on discussions with the countries contesting KLM's traffic rights. The amended option also states that the Dutch State will exercise the voting rights associated with the preferential B shares acquired as a result of this option being exercised, in accordance with the best interests of KLM, Air France-KLM and its shareholders and the corporate governance guidelines indicated in the global agreement.

If after exercising the amended option, the Dutch State establishes that KLM's key markets are no longer threatened, KLM will be required to buy back the preferential B shares with a view to cancelling them, at a price equal to the amount paid at the time of the issue of the preferential B shares, increased to factor in the amount of any dividends accrued but not yet paid.

Such a buyback operation will not affect the Dutch State's option, which will remain in force as stipulated.

Assurances given to the Dutch State

On October 16, 2003, Air France and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

The following assurances given to the Dutch State will be applicable for an eight-year period, up to May 5, 2012:

- Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licences, and will continue to fulfill all of the conditions required for the maintenance of these licences;

- Working with the relevant Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are necessary for running international lines. To this end, if an economic decision to shut a service down was likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision;

- Air France and KLM confirmed that passenger traffic on flights out of Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on these two airports;

- Air France and KLM agreed that the cargo activities on the Roissy CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group;

- Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

The following assurances given to the Dutch State will be applicable for a five-year period up to May 5, 2009:

- Subject to any measures for adaptations required in the event of a crisis, the passenger traffic at Roissy-CDG will not be developed in such a way that it is significantly detrimental to the existing portfolio of key destinations operated by KLM out of Schiphol, provided that the said destinations maintain their economic interest for the Air France-KLM group. Similarly, the passenger traffic at Schiphol will not be developed in such a way that it is significantly detrimental to the current portfolio of key Air France destinations operated out of Roissy-CDG. The Air France-KLM group will be able to transfer up to five key KLM destinations, which will become destinations operated by Air France out of Roissy-CDG, insofar as the transfer of these lines is accompanied by the symmetrical transfer of five Air France destinations that will then be operated by KLM out of Schiphol;

- Subject to any measures for adaptations required in the event of a crisis, the Air France-KLM group's cargo activity at Roissy-CDG will not be developed in such a way that it is significantly detrimental to KLM's global cargo activity at Schiphol. Similarly, the Air France-KLM group's cargo activity at Schiphol will not be developed in such a way that it is significantly detrimental to Air France's global cargo activity operated out of Roissy-CDG.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State has agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

Any action or decision to be taken while the assurances given to KLM are still in force that could result in a change in these assurances, including amongst other things a change in the articles of association of the Dutch foundation, Fondation des Assurances KLM, in that it would affect the assurances given to the Dutch State, is subject to the prior agreement of the Dutch State.

Assurances given to KLM

In order to safeguard the long-term interests of each party as well as the interests of the Air France-KLM group and its shareholders, Air France has given KLM the following assurances:

- Air France and KLM recognize the importance of human resources and the need to develop and maintain centers of excellence within the Air France-KLM group. They agree that promotions will be based on merit and skills with no discrimination. Similarly, any restructuring operations will be carried out in accordance with the principle of non-discrimination;

- Air France and KLM confirm that passenger traffic on flights out of Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on these two airports;

- by setting up a combined integrated network, Air France and KLM intend to optimize the current portfolio of Air France and KLM destinations in favour of the Air France-KLM group, while seeking to maintain and ensure the long-term development of lines operated by the two companies for flights to or from Roissy-CDG and Schiphol. The balanced nature of this long-term development will be ensured through compliance with the fleet plan already defined by each of the parties for the period from 2003 to 2005, and will be determined based on the following factors:
  - a common economic strategy and, for the development of business plans for the two airlines, a common objective of global profitability and financial solidity;
  - the suitability of business plans for the development of traffic flows;
  - a reasonable division of new opportunities between the two networks, in line with natural traffic flows and the economic conditions applicable to each of the two hubs;
  - subject to the aforementioned criteria, the development of one hub must not be detrimental to the other hub, its existing portfolio of key destinations and its potential development. A transfer of destinations from one hub to another will not be authorized unless this option is of obvious interest and significance for the combined operational entities or it is offset by the symmetrical transfer of another destination.

- Air France and KLM agreed not to operate flights from the two hubs to any long-haul destination serviced up until this point by only one of the companies from its hub, subject to certain conditions;

- Air France and KLM will continue to use their respective codes: “AF” and “KL”;

- on lines between the Netherlands and France, Air France and KLM will optimize the use of their fleet, services and crews in order to reduce costs by eliminating non-use of aircraft at night and optimizing schedules and capacities. Air France and its subsidiaries will serve the hubs at Roissy-CDG, Clermont-Ferrand and Lyon. KLM and KLM Cityhopper will serve the Schiphol hub, with no less than 50% of flights;

- Air France and KLM agreed that the cargo activity and its potential for growth at Roissy-CDG and Schiphol are vital to the success of their cooperation;

- Air France and KLM agreed to ensure the balanced development of capacity at each hub including, if economically justified, investments in cargo planes or aircraft conversions in order to maintain the capacity and development of cargo destinations, and investments to develop the capacity of cargo infrastructures for hubs. The Air France-KLM group’s business plan aims to maintain the long-term development of each hub. The fair nature of this long-term development will be determined on the following basis:
  - a common economic strategy and, for the development of business plans for the two companies, a common objective of global profitability and financial solidity;
  - the suitability of business plans for the development of the air cargo transport market;
  - the development of one hub will not be detrimental to the cargo activity at the other hub, subject to all the measures for adaptations required in the event of a crisis.

- Air France and KLM agreed to draw up a “cargo agreement”, which will not impede the potential integration of Martinair into the Air France-KLM group if this is beneficial for the two parties and strengthens the position of Schiphol. Air France will not block the project, subject to a review of the lines operated by the two airlines and a comparison of the benefits, synergies and risks involved including the securing of acceptable conditions for the operation to be approved by the Dutch and European authorities;

- Air France and KLM agreed that the combination should lead to an increase in the portfolio of products offered by the Air France-KLM group in terms of engineering and maintenance services;

- Air France and KLM agreed that for commercial and heritage reasons, the identity of each party should be preserved;

- Air France and KLM agreed to continue using, for as long as they believe it to be necessary, their brand and logo, of which they recognize the value and heritage, until the Air France-KLM group has acquired an equivalent or higher level of recognition; and

- Air France and KLM will make every effort to retain the term “Royal” for KLM.

The assurances given to KLM entered into effect on May 5, 2004 and will continue to apply for a five-year period until May 5, 2009, it being understood that at the end of a three-year period, the assurances given relative to the passenger and cargo networks, hubs and engineering and maintenance activities will be revised jointly by Air France and KLM in order to take the current and future Air France-KLM group environment into consideration.

Implementation of a mechanism to ensure compliance with the assurances given

Air France and KLM set up a Dutch foundation, Fondation des Assurances KLM, in order to facilitate the formation of binding advices on the interpretation of assurances given to the Dutch State and KLM.

The Fondation des Assurances KLM comprises two committees, which issue binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France Board of Directors appear to contravene the assurances given to the Dutch State or KLM.

The foundation was established for a period of eight years up to May 6, 2012, subject to one of the committees not being affected by a possible contravention of the assurances on this date. In this case the foundation will only be liquidated after having given its opinion on the alleged contravention. When giving its opinions, the Foundation must act in the best interests of KLM, the Air France-KLM group and its shareholders.

The Foundation is managed by a board of four independent directors:

- one appointed by Air France,
- one appointed by KLM,
- one appointed by the Dutch State,
- one appointed by the other three directors.

The director appointed by Air France has double voting rights with regard to the appointment of the fourth director. Notices relative to a possible contravention of the assurances given to the Dutch State will be issued by a committee made up of the director appointed by Air France, the director appointed by the Dutch State and the director appointed by the other directors.

Notices relative to a possible contravention of the assurances given to KLM will be issued by a second board comprising the director appointed by Air France, the director appointed by KLM and the director appointed by the other directors.

The submission of a case to the Foundation’s relevant board may be carried out either by the Dutch State with regard to the assurances given to it, or by several members of the KLM Supervisory Board acting together with regard to the assurances given to KLM.

If the relevant committee of the Fondation des Assurances de KLM issues a mandatory notice indicating that the decision that was submitted to it contravenes the assurances given, the KLM Supervisory Board, KLM Management Board or Air France Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The two committees will take their decisions based on a majority of votes.

At March 31, 2006, no cases had been submitted to the Foundation’s committees.

Strategic Management Committee (SMC)

Under the agreements signed with KLM, a Strategic Management Committee (the “SMC”) was formed within Air France-KLM on May 6, 2004 for a period of three years.

After May 6, 2007 the Chairman of the Air France Board may decide whether to retain the SMC or create another equivalent body.

The SMC meets every two weeks, alternating between Amsterdam and Paris.

The members of the SMC are appointed by the Air France-KLM appointments committee after consultation and on the recommendation of the Chairman of the Air France Board of Directors for the members representing Air France and exercising management functions; after consultation and on the recommendation of the members of the KLM Supervisory Board for the three members representing KLM, who are either members of the Management Board of KLM or KLM employees exercising management functions.

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

Members of the SMC

The SMC comprises eight members:
- the Chairman of the Board of Air France (Chairman of the SMC);
- three members who are employees of Air France exercising management positions;
- the Chairman of the KLM Management Board;
- three members who are either members of the KLM Management Board or KLM employees exercising management positions.

The SMC is chaired by the Chairman of the Board of Air France, who has a casting vote in most decisions, with the exception of those which are reserved for other bodies.

The members of the SMC are appointed by the Air France-KLM appointments committee after consultation and on the recommendation of the Chairman of the Board of Directors of Air France for the three members representing Air France and exercising management positions, and after consultation and on the recommendation of the Chairman of the Supervisory Board of KLM for the appointment of the three members who are either members of the KLM Management Board or KLM employees exercising management positions.

Role and responsibilities of the SMC

SMC decisions express the joint position of Air France and KLM on all significant strategic decisions relating to commercial, financial, technical and operational issues, particularly as regards:
- the strategy of the Air France-KLM group with respect to its competitors, partners and the public authorities;
- the definition of the strategic orientation with respect to network management including hub development, significant changes in the network structure, the introduction of overlapping routes, agreements with other carriers, the division between KLM and Air France of traffic rights in the event of a decision to lift the national origin restrictions at European level;
- financing, debt issuances and significant investments in fleet, information systems and all other major projects;
- significant financial investments and strategic airline partnerships or cooperation agreements and alliances;
- procurement policy ;
- mid-term planning and budgets to ensure compatibility with the strategy agreed by the SMC;
- appointment of key personnel in Air France and KLM (to be selected from lists prepared by Air France and KLM, respectively);
- inclusion of other airlines in the Air France-KLM group;
- human resources policies covering multi-company issues;
- any decision concerning the Dutch airline Martinair, of which KLM is a shareholder;
- any reserved or consultation matters requiring prior consideration (such as discussed below).

The SMC makes binding recommendations with respect to the above matters to the Board of Directors of Air France and the KLM Supervisory and Management Boards. The Chairman of the KLM Management Board, the Chairman of the Board of Directors of Air France and any Chairman, Board member or key officer of the combined operating companies or their subsidiaries may not take or implement any strategic decisions before the strategic management committee has been consulted and issued its binding recommendation. The SMC also acts as mediator in the event of any disagreement on the application of the bilateral commercial agreements or the management of entities jointly held or managed by Air France and KLM.

The Strategic Management Committee oversaw the establishment of the operational sub-committees to handle matters such as the network, pricing and revenue management, sales and distribution, products and brands, the frequent flyer program, engineering and maintenance, information technologies, the regulatory environment and the marketing agreements.

Role and responsibilities of the Chairman of the SMC

The Chairman of the SMC chairs SMC meetings and has a deciding vote in the event of an even number of votes for every decision requiring submission to the SMC, with the exception of the following reserved matters.

The Chairman of the SMC must, until May 6, 2007, consult the Chairman of the KLM Management Board before casting his deciding vote relating to the following matters:

- the coordination of Air France and KLM capacities, schedules and days of operation relating to joint destinations;
- the coordination in order to avoid unfair behavior of any partner in alliance with one of the two subsidiaries towards the other subsidiary;
- the scheduling of passenger services between France and the Netherlands.

The following reserved matters require the unanimous consent of all SMC members:

- any decision proposing an amendment to the assurances given to KLM;
- any decision whose purpose or effect is:
  - to combine or create common activities among the Air France and KLM operating activities existing as of October 16, 2003 such as the integration into a joint structure of catering or cargo activities or any global reorganization of any such operating activities by way of discontinuation or disinvestment by Air France and KLM;
  - to alter the allocation of key management personnel or of an entire operating activity between Air France and KLM;
  - the timing, phasing in and structure of any decision with regard to the two matters noted immediately above;
  - any decision to enter into an intercompany agreement other than at under usual, current conditions.

Any rejection by the SMC of a proposed action on one of these reserved matters will be binding.

Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each State undertakes to apply in its air space after ratification.

Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

1st freedom – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State.

2nd freedom – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the “transit right”.

3rd freedom – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State.

4th freedom – A carrier that leaves from a foreign State has the right to load passengers in this foreign State to unload them in its State of origin.

5th freedom – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States.

6th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State.

7th freedom – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin.

8th freedom – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

European legislation

Single European airspace

Within the European Union, these eight freedoms are completed, since April 1,1997, by common legislation that creates a homogenous regulatory situation for all European carriers.

All European airlines may freely operate and, in particular, perform cabotage operations within a single European airspace. Furthermore, any resident of an EU Member State may now hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State.

This framework eliminates the need for bi-lateral agreements between EU Member States and does not prevent them from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

Passenger rights

Passenger rights in the European Union are defined by regulations applied in 2005. They apply to all flights — both scheduled and unscheduled — departing from an airport located in a Member State of the European Union, and established common rules for indemnification and assistance, if embarkation is refused or delayed substantially, a flight is cancelled, or class is downgraded.

In the area of overbooking, air carriers are above all encouraged to develop their policy to call for volunteers. If this policy does not prevent refusals for boarding, the passengers affected receive an indemnification, calculated on the basis of the final destination mileage zone and the delay in terms of the initial arrival time. This indemnification may vary from €250 to €600.

In addition, when a flight is delayed for at least five hours, passengers may request reimbursement for their ticket (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

If a flight is cancelled, the air carrier's obligations are based on the carrier's ability to react to inform the passenger. The earlier the carrier informs the passenger, the fewer constraints it has.

If these obligations are not met, the passenger may claim an indemnity that varies from €250 to €600, on the basis of the final destination mileage zone and the time period in which he or she was rescheduled.

Finally, a passenger who is seated in a class lower than the reservation class will now benefit from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone.

International conventions

In addition to the eight air transport freedoms and legislation, three main treaties establish the legal and regulatory framework governing commercial air transport: the Montreal Convention, the Chicago Convention and the Rome Convention.

The Montreal Convention (1999)

The Montreal Convention, signed in May 1999 by more than 50 States, aims to provide better protection for victims for damages suffered. This convention entered into force on June 28, 2004.

It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system:

- a first level that sets an objective liability for the air transport company of up to 100,000 Special Drawing Rights (SDR);
- a second level, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages are exclusively a result of the acts of a third party.

Furthermore, with regard to compensation, the rule relative to the regional authority of courts has been extended.

The Chicago Convention (1944)

The Convention relating to international commercial aviation, known as the Chicago Convention, sets out the legal, regulatory and technical rules governing commercial aviation and its Member State signatories are required to implement a common legal framework governing their domestic airspace and their relations with one another.

Signed in December 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) as the instrument of cooperation between the 189 signatory States in all areas of civil aviation.

The Rome Convention (1952)

The Rome Convention, signed in 1952, covers damages caused to third parties on the ground by foreign aircraft. This convention has not been ratified by France or the Netherlands.

Other legal aspects of Air France-KLM's activities

Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. This regulation concerns most European (London, Paris, Frankfurt, Milan, Madrid, Amsterdam) and Asian (Bangkok, Tokyo, Hong Kong, Singapore,...) airports.
In the United States, with the exception of John F. Kennedy Airport (New York) and O'Hare Airport (Chicago), access to airports is controlled by other regulations based on the assignment of boarding gates.

For airports within the EU, each Member State, with coordinated airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, designates an individual or an entity to be responsible for the allocation of slots and the monitoring of their use. Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season.

The allocation procedure is as follows:
- airlines file their slot applications with the coordinator five months prior to the beginning of each season;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as "grandfather" rights) for past operators;
- once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- a pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a transporter or have become available for any other reason;
- the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators in proportion to the slots allocated previously; any remaining slots are also allocated based on the same procedure.

An allocated slot that is not used is reclaimed and re-allocated to another airline. Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allocation (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable the airlines to:
- simultaneously coordinate the slots they are allocated on different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them; and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

The grandfather rights of long-standing users give established airlines a decisive commercial competitive edge over other airlines on saturated airports because they already enjoy the best slots in their principal airports in terms of both quality and quantity.

Glossary - Air transport

AEA

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members at the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

Available seat-kilometers (ASK)

Total number of seats available for the transportation of passengers multiplied by the number of kilometers flown.

Available ton-kilometers (ATK)

Total number of tons available for the transport of freight, multiplied by the number of kilometres covered.

Biometry

Technique allowing the identity of an individual to be checked, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

Cabotage

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country.

Catering

Inflight catering involving the planning and preparation of meals and the assembly of meal trays designed to be served on board an aircraft.

Code sharing

In accordance with a code sharing agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

Combi

Aircraft where the main deck is equipped for both the transportation of passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

Coordinated airport

Airport where a coordinator has been appointed to allocate landing and take off slots according to rules established in advance. All large European Union airports are coordinated.

DGAC

Direction Générale de l'Aviation Civile. Under the authority of the French Ministry of Transport, the DGAC is in charge of the security of air transport and of air space in France.

DGTL

Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch Ministry of Traffic and Public Works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

EASA

European Aviation Safety Agency. EASA develops safety and environmental protection knowhow in civil aviation in order to assist the European institutions in preparing legislation and implement measures regarding aircraft security, organizations and associated staff.

Electronic ticketing

All the travel information for one or several passengers which, instead of being printed, is recorded in an airline company's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces the traditional paper ticket.

E-services

Range of ground services for Air France and KLM passengers, based on new information technology. E-services notably allow passengers to check in using self-service kiosks or via the companies' internet sites as well as the use of electronic tickets.

FAA

Federal Aviation Administration. Authority in charge of civil aviation security in the United States.

Fare combinability

System which offers customers on destinations served by both Air France and KLM to choose between an outbound trip via KLM's Amsterdam hub and an inbound trip with Air France via Paris, or vice-versa, benefiting from the advantages of two half return tickets. With fare combinability, customers benefit from more frequencies from each of the hubs, on the inbound or outbound trip.

Fuel hedging

Financial mechanism aimed at protecting Air France-KLM from risk involved in increased fuel prices. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price. Two types of financial instruments are used, options and swaps.

Handling

Preparation of the aircraft, involving loading and unloading, as well as the associated logistics such as management and storage of hotel products.

Hub

Term used for a connecting platform where departures and arrivals are scheduled to minimize transfer times. Air France-KLM has two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the options for connections available to the customers.

IATA

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with commercial and financial support services.

IATA year

Financial year for many airlines, including Air France-KLM, which runs from April 1 to March 31 the following year. This system makes it possible to track changes in activity more effectively based on the "seasons" defined by IATA, i.e. a summer season and a winter season.

ICAO

International Civil Aviation Organization, a UN Specialized Agency, promotes the safe, secure and sustainable development of civil aviation worldwide. It establishes the standards and regulations necessary to ensure the safety, security, efficiency and continuity of aviation operations as well as environmental protection.

Joint-venture

Joint company with two partners, often held equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

Multi-hub

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the offer of destinations.

Occupancy rate or passenger load factor

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK).

Over-reservation or over-booking

Over-reservation or over-booking means accepting a higher number of reservations than seats available. Practiced by all airline companies and allowed by European legislation, this allows many passengers per year to find a seat on board aircraft by freeing up additional seats. Airlines usually have a passenger indemnification policy.

Point-to-point traffic

Traffic between two airports, excluding all passengers taking a connecting flight.

Premium class

Tariff classifications corresponding to business or first class.

Ramp

Airport support activity, particularly runway maintenance and safety

Revenue management

Technique designed to optimize revenue on flights, by constantly seeking the balance between the cargo load factor and the rates offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers multiplied by the number of kilometers that they have flown.

Revenue ton-kilometer (RTK)

Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is flown.

Safety and security

Airline safety includes all the measures implemented by air transport professionals aimed at ensuring the reliable operating and maintenance of aircraft.

Airline security includes the measures implemented by air transport professionals to prevent any illicit or malicious act. Air transport is particularly exposed to terrorist acts due to the considerable media exposure offered by such activity. Airline security notably includes luggage screening and the questioning of passengers.

Segment

Section of a flight between two destinations.

Self-service check-in kiosk

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards, without having to go to a check-in counter.

Slot

A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date.

Sub-fleet

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration etc.)

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of 7 months.

Ton-kilometers transported

Total number of tons transported multiplied by the number of kilometers covered.

Unit revenue

In the passenger business, corresponds to the revenues for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenues for one ton transported over one kilometer.

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over 5 months.

Financial glossary

ADR – American Depositary Receipt.
Air France-KLM is listed on the New York Stock Exchange under ADR. The ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars.

ADW – American Depositary Warrant.
The ADWs correspond to warrants listed on the New York Stock Exchange.

Earnings per share – Earnings per share corresponds to net income divided by the number of shares.

Equity warrant – A warrant gives the right to purchase or sell a share at a fixed exercise price within a pre-determined time period. Warrants are created by financial institutions who ensure their distribution and trading.

ESA – Shares-for-salary exchange.

Gearing ratio – The gearing ratio reflects the respective proportions of Group net debt and stockholders' equity at a given time. This ratio gives a measure of the company's financial independence: the lower it is, the greater the company's margin for manoeuvre.

IFRS – International Financial Reporting Standards.
International accounting standards used by European Union listed companies in drawing up their consolidated financial statements. Adopted on January 1, 2005, they allow investors to compare European companies more easily.

ISIN – International Securities Identification Number.

Market capitalization – The market capitalization corresponds to the share price multiplied by the number of shares comprising the company's capital.

Net income – Net income, Group share, corresponds to the share of operating income reverting to shareholders after net financial charges, exceptional items and taxation. Net income can be distributed in the form of dividends or retained as reserves, thus increasing the company's stockholders' equity.

OCÉANE – Bonds convertible into new or existing shares.

Operating income - Operating income is the amount remaining after operating expenses (external expenses, payroll, amortization and provisions) have been deducted from revenues. It shows what the company earns from its principal activity before the impact of financial and exceptional items.

PEO – Public Exchange Offer corresponds to an offer to purchase shares in a target company in exchange for shares in the company initiating the offer.

Revenues – Revenues corresponds to the total revenues generated by the Air France-KLM group in its three core activities (passenger, cargo, maintenance) and its ancilliary activities.

Share capital – Share capital corresponds to the total contributions either financial or in kind made by the shareholders either at the time the company is created or during capital increases. It is equal to the number of shares multiplied by the nominal value of the share.

Stockholders' equity – Stockholders' equity represents the capital contributed by the shareholders to establish the company or subsequently, or left at the disposal of the company as income not distributed in the form of dividends. Corresponds to total balance sheet assets, net of total debt.

US GAAP - Generally Accepted Accounting Principles in the United States. Accounting standards generally adopted in the United States.

Information and control

Person responsible for the reference document

I hereby certify that, to the best of my knowledge, and having taken all reasonable precautions to this effect, that the information contained in this reference document reflects reality and that no information has been omitted that would be likely to change the significance thereof.

I have obtained an end-of-engagement letter from the statutory auditors, in which they state that they have verified the information regarding the financial situation and the financial statements contained here within and have reviewed the entire reference document.

The parent company and consolidated financial statements for the financial years ended March 31, 2005 and 2004, established under French GAAP, were the subject of Statutory Auditors' reports presented in the reference documents for 2004-05 and 2003-04.

They are included in this document by reference pursuant to article 28 of (EC) regulation n° 809/2004 of April 29, 2004.

Without calling into question their opinion on the parent company financial statements, the Statutory Auditors in their report on the parent company financial statements for the year ended March 31, 2005, highlighted the change in the company's activity to a holding company within the framework of the acquisition of KLM, arising during the year and described in the introduction to the appendix of the notes on the financial statements.

Without calling into question the opinion they made on the consolidated financial statements, the statutory auditors in their report on the consolidated financial statements for the year to March 31, 2005, highlighted:

- the change in accounting evaluation relating to the debt linked to the Air France and KLM frequent flyer programs which have been merged and to the new terms for use of air miles (see 2.2 of the appendix),
- the principal assumptions retained within the framework of the appropriation of the KLM acquisition price and the provisional determination of the fair value of KLM assets and liabilities on the acquisition date (see 3.2 of the appendix).

Without calling into question the opinion they made on the financial statements, the Statutory Auditors, in their report on the parent company and consolidated financial statements for the year ended March 31, 2004, highlighted the changes in accounting principles and estimation shown in note 1 of the appendix:

- the change in accounting principles relating to the accounting of engine maintenance expenses for aircraft which are wholly owned or under financial lease following the adoption of regulation 2003-07 of the Committee of Accounting Regulations,
- the change in accounting principles relating to the accounting of the long-service awards following the recommendation of the Committee of Accounting Regulations of April 1, 2003,
- the change in the estimation of the debt linked to the Fréquence Plus frequent flyer program.

Jean-Cyril Spinetta
Chairman and Chief Executive Officer

Statutory auditors

Incumbent Statutory auditors

Deloitte et Associés
185, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine
represented by Pascal Pincemin
Renewal for six years submitted for approval
to the Shareholders' Meeting of September 15, 2004
Start of first mandate: September 25, 1998

KPMG Audit
Division of KPMG SA
1, cours Valmy - 92923 Paris La Défense
represented by Jean-Luc Decornoy
Appointed for six years by the Shareholders' Meeting
of September 25, 2002
Start of first mandate: September 25, 2002

Deputy Statutory auditors

B.E.A.S.
7/9, Villa Houssaye - 92200 Neuilly-sur-Seine
represented by Alain Pons
Renewal for six years submitted for approval
to the Shareholders' Meeting of September 15, 2004
Start of first mandate: September 25,1998

SCP Jean-Claude André et Autres
2 bis, rue de Villiers - 92300 Levallois-Perret
represented by Jean-Claude André
Appointed for six years by the Shareholders' Meeting
of September 25, 2002
Start of first mandate: September 25, 2002

Person responsible for financial information

Dominique Barbarin
Tel. 33 1 41 56 88 60

Information included by reference

Pursuant to article 28 (EC) n°809/2004, the following information is included by reference in this reference document.

2004-05 financial year
The reference document for the 2004-05 financial year was filed with the Autorité des Marchés Financiers on June 29, 2005 under the number D.05-0950.
The consolidated financial statements are presented on pages 113 to 182 and the Statutory Auditors' certification on page 183.

2003-04 financial year
The Air France-KLM reference document for the 2003-04 financial year was filed with the Autorité des Marchés Financiers on December 22, 2004 under the number D.04-1625. The Air France 2003-04 annual and sustainability reports were appendices to the reference document.
The Air France consolidated financial statements are presented on pages 110 to 167 and the Statutory Auditors' certification is presented on page 168 of the annual report.
The financial situations and certain information relating to the activities of the new Air France-KLM group on a consolidated pro-forma basis over 12 months for 2003-04 are presented in the reference document on pages 57 to 65.
The opinion of the statutory auditors is presented on page 105.

Documents available to the public

Amongst the documents available on the company's website (www.airfranceklm-finance.com) are, notably:
- the 2003-04, 2004-05 and 2005-06 reference documents filed with the Autorité des Marchés,
- the financial announcements (traffic, quarterly, half-year and annual results),
- transaction notes,
- financial presentations,
- the company bylaws.

Fees of Statutory auditors

(in euro thousands)	KPMG network including KPMG N.V.			
	2005-06		2004-05	
	Total	%	Total	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3,650	75	5,138	77
Other accessory services and other audit services	885	18	984	15
Subtotal	**4,535**	**93%**	**6,122**	**92%**
Other services Legal, tax, corporate	324	7	515	8
Information technology				
Internal audit				
Other				
Total Air France-KLM	**4,859**	**100%**	**6,637**	**100%**

(in euro thousands)	Deloitte et Associés			
	2005-06		2004-05	
	Montant	%	Montant	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3,661	75	2,815	79
Other accessory services and other audit services	1,200	25	767	21
Subtotal	**4,861**	**100%**	**3,582**	**100%**
Other services				
Legal, tax, corporate				
Information technology	-	-	-	-
Internal audit				
Other				
Total Air France-KLM	**4,861**	**100%**	**3,582**	**100%**

Cross-reference table

The table below provides cross references between the pages in the reference document and the key information required under European Commission Regulation no. 809/2004 implementing the EC Directive 2003-1971/CE.

In this reference document, Air France-KLM asked photographer Grégoire Korganow
to highlight the diversity of the roles within the Group. Demanding and complex,
they call on the human qualities of its personnel, reflected in the photographs presented.

The Group would also like to pay tribute to the commitment and professionalism
of the men and women who, each in their mission, contribute daily to the success of Air France-KLM.

Grégoire Korganow has carried out various photographic reports in Cuba, Chile, Mexico and Bolivia.
His photographs pay faithful testimony to the situations and meetings encountered and the emotions experienced.

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