



Management Report 2005-06

Société anonyme with share capital of €2,289,759,903
Registered offices: 2, rue Robert Esnault-Pelterie, 75007 Paris, France
Postal address: 45, rue de Paris, 95747 Roissy CDG Cedex, France
Paris Trade and Company Register: 552 043 002

Corporate governance

Corporate Governance

Board of Directors

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.

Board of Directors as at March 31, 2006

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. In effect, in order to avoid leaving the flight deck employees un-represented until the election of a new representative by the Shareholders' Meeting of July 12, 2006, the Board appointed Mr. Le Chaton who received the majority vote in the written consultation pursuant to the provisions of article 17 of the company's bylaws and the specific provisions of French law of April 9, 2003 modified with regard to the designation of directors representing employee shareholders. However, still pursuant to the different legal and statutory provisions, the Shareholders' Meeting must elect the representative for flight deck crew employees from those candidates having obtained more than 5% of votes cast during the written consultation.

Directors appointed by the Annual Shareholders' Meeting

Jean-Cyril Spinetta

Chairman and Chief Executive Officer of Air France-KLM

First appointed: September 23, 1997

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

Number of shares of 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

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 of 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 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, Mrs. Barbizet is a graduate of the Ecole Supérieure de Commerce de Paris.

Frits Bolkestein¹

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 of 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 of 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, an Italian national, is a graduate of the Polytechnic Institute of Milan.

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

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 Cosmétique 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.

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.

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 of 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.

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 of 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.

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 of 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 of 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 Belgium 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.

Directors Representing the French State

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-Louis Girodolle

Deputy Director with the Department of the 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 de 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.

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.

Directors Representing Employee Shareholders

Didier Le Chaton

Representative of flight deck crew

First appointed: January 26, 2006¹

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.

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.

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

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

Experience and Training of Members of the Board of Directors

Board of Directors Air France-KLM				Directors' main professional experience		
Director	Age at 31/03/2006	Date appointed to Board	Experience at 31/03/2006	Sector	Experience in the sector	Current position
Jean-Cyril Spinetta	62 years	September 23, 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	June 24, 2004	2 years	Air Transport (KLM)	35 years	Chairman of KLM Management Board
Patricia Barbizet	51 years	January 3, 2003	3 years	Industrial (Renault, Pinault group)	29 years	CEO and Director of Artémis
Frits Bolkestein	72 years	November 22, 2005	4.5 months	Industrial (Shell) and Public (Dutch Parliament and European Commission)	16 years 26 years	Company directorships
Giancarlo Cimoli	66 years	July 19, 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	January 25, 1995	11 years	Industrial (SNPA and Sanofi)	41 years	Chairman and CEO of Sanofi-Aventis
Jean-Marc Espalioux	54 years	September 14, 2001	5.5 years	Services (CGE, Accor)	19 years	Company directorships
Pierre-Henri Gourgeon	59 years	January 20, 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
Cornelis van Lede	63 years	June 24, 2004	2 years	Industrial (Shell, Akzo, Dutch Industry Federation) Consultancy (McKinsey & Company)	36 years	President of the Board of Directors of INSEAD
Floris Maljers	69 years	June 24, 2004	2 years	Industrial (Unilever)	35 years	Chairman of the Board of Directors of the Rotterdam School of Management
Pierre Richard	65 years	October 20, 1997	9 years	Public service and Banking (CDC, Crédit local de France)	23 years	Chairman of the Board of Dexia
Pierre-Mathieu Duhamel	49 years	January 15, 2003	3 years	Public	25 years	Director of Budget
Jean-Louis Girodolle	37 years	June 24, 2004	2 years	Public	13 years	Deputy Director at the French Treasury
Claude Gressier	62 years	June 24, 2004	2 years	Public	38 years	President of the Department of Economic Affairs, Counsel General for Public Works
Didier Le Chaton	55 years	January 26, 2006	3 months	Air Transport (Air France)	30 years	Flight Captain
Christian Magne	53 years	September 14, 2001	5 years	Air Transport (Air France)	32 years	Finance executive

Missions of the Board of Directors

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

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 or 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 this 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 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,
- 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 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.

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.

Regulated agreements

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 the 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 items:

- 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.

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 U.S. 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 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), 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.

Mission

The remuneration committee is primarily responsible for submitting recommendations for the level of and changes to the remuneration of corporate officers. It may also be 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 replacing corporate officers, particularly in the event of unforeseen vacancies.

The appointments committee 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

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 J.A. 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
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	553,028 euros	389,200 euros

(1) Amount paid directly to the French Treasury

(2) Resigned July 12, 2005

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

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

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

The Air France and KLM subsidiaries had issued, for their own executives or employees, stock subscription or purchase option schemes which, following the merger, have become 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 in favor of corporate officers and 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 and the balance subject to conditions

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

Air France scheme in favor of flight deck crew 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	Number of options granted/Number of shares subscribed or purchased			Number of shares exercised by allocation date
	Total number of options granted / shares purchased or subscribed	Weighted average price (in euros)	Allocation date	
Options exercised by employees who are not corporate officers having exercised the greatest number of options				
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		Plan 2001	28,685
			Plan 2002 A	97,531
			Plan 2002 B	13,974
			Plan 2003 B	86,057

(1) Scheme reserved for the flight deck crew employees who participated in the shares-for-salary exchange offering

(2) One third of these share options was at March 31, 2006 unconditionally granted and two thirds conditionally

Loans and guarantees granted to corporate officers of the company

None

Strategic Management Committee (SMC)

In line with the agreements concluded with KLM, a Strategic Management Committee was established on May 6, 2004 within Air France-KLM for a period of three years. After this date, the Chairman of the Air France Board of Directors may decide whether to retain the SMC or to create another equivalent body.

The SMC meets every two weeks, alternating between Amsterdam and Paris.

Composition 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 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.

Experience and training of SMC members

	SMC members			Professional experience in the air transport sector of SMC members		
	Age at 31/03/2006	Appointed to the SMC	Experience at 31/03/2006	Sector	Experience in the sector	Current position
Jean-Cyril Spinetta	62 years	May 6, 2004	2 years	Air Transport (Air Inter and Air France)	13 years	Chairman and CEO of Air France-KLM and Air France
Leo van Wijk	59 years	May 6, 2004	2 years	Air Transport (KLM)	35 years	Chairman of the KLM Management Board
Pierre-Henri Gourgeon	59 years	May 6, 2004	2 years	Aeronautics and Air Transport (Air France)	35 years	Deputy Chief Executive Officer Air France-KLM and Chief Operating Officer of Air France
Philippe Calavia	57 years	May 6, 2004	2 years	Banking Air Transport (Air France)	6 years 8 years	Vice President, Finance, Air France-KLM and Chief Financial Officer of Air France
Peter Hartman	57 years	May 6, 2004	2 years	Air Transport (KLM)	33 years	Chief Operating Officer of KLM and Member of the Management Board
Bruno Matheu	42 years	May 6, 2004	2 years	Air Transport (UTA and Air France)	20 years	Senior Vice President—Marketing and Network Management, Air France
Michael Wisbrun	54 years	December 8, 2004	1.5 year	Air Transport (KLM)	28 years	Executive Vice President for Cargo, KLM
Cees van Woudenberg	57 years	May 6, 2004	2 years	Air Transport (KLM)	17 years	Director of control and internal audit, Air France-KLM

Missions 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;
- mid-term planning and budgets to ensure compatibility with the strategy agreed by the SMC;
- appointments 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 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.

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;
 - related to 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.

Disclosure Committee

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

Composition of the Committee

The Committee is comprised of managers from the following functions:

- Group financial communication
- Group internal control
- Group accounting
- Group management control
- Group internal audit
- Group legal affairs

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

The Committee reports to the Vice-President in charge of Group finance.

Missions

The Committee assists the Chairman and Chief Executive Officer and the Vice-President in charge of Group 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 in charge of Group 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.

Activity

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.

Share capital and shareholder structure of Air France-KLM

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.

Variations in the share capital over the last three financial years

<u>Financial year to:</u>	<u>Issued capital</u>	<u>Number of shares</u>
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 in May 2004, 49,602,631 new shares were created.

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.

<u>Nature of the operation</u>	<u>Maximum amount of issues</u>	<u>Balance available at March 31, 2006</u>
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	500 million euros	500 million euros
Capital increase through capitalization of reserves and/or additional paid-in capital	500 million euros	500 million euros
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of the issue	
Issue of securities giving the right to debt instruments without giving rise to a capital increase	1 billion euros	1 billion euros

Securities conferring entitlement to shares

At March 31, 2006 certain securities giving rights to Air France-KLM capital were outstanding.

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

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable at any time into new and/or existing Air France-KLM shares, on the basis of one share per bond.

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 agreement, 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.

Dividend

For the last three financial years, Air France-KLM distributed the following dividends:

<u>Financial year</u>	<u>Earnings per share (in euros)</u>	<u>Dividend (in euro cents)</u>	<u>Tax credit (in euro cents)</u>
2002-03	0.55	6	3
2003-04	0.43	5	2.5
2004-05	1.36	15	0
2005-06	3.47	30	0

Shareholder structure of Air France-KLM

Breakdown of the capital

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.

<u>Financial year to</u>	<u>% of share capital</u>			<u>% of voting rights</u>		
	<u>March 31, 2006</u>	<u>March 31, 2005</u>	<u>March 31, 2004</u>	<u>March 31, 2006</u>	<u>March 31, 2005</u>	<u>March 31, 2004</u>
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 in Air France-KLM

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification. This operation has been carried out every quarter since the French State's shareholding was reduced in December 2004.

The TPI (identifiable bearer shares) analysis as at March 31, 2006, was carried out on the basis of the following thresholds: intermediaries holding a minimum of 132,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 94.8% of the capital have been identified. 85,830 shareholders have been listed, of whom 65,074 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' agreement.

Current breakdown of shareholders

At March 31	Number of shares			% of capital		
	2006	2005	2004⁽¹⁾	2006	2005	2004⁽¹⁾
French State	50,015,397	62,628,068	118,723,224	18.6	23.2	54.0
Employees	38,098,518	31,407,913	28,057,262	14.1	11.7	12.8
Individual shareholders	19,951,460	27,938,595	18,438,616	7.5	10.3	8.4
French Institutions	46,192,231	58,083,677	15,931,719	17.1	21.6	7.2
Non-resident shareholders	96,925,289	75,889,407 ⁽²⁾	25,883,182	36.0	28.2	11.8
Treasury stock	4,150,405	6,483,270	2,428,039	1.5	2.4	1.1
Un-identified shareholders	14,050,218	6,952,588	10,318,845	5.2	2.6	4.7
Total	269,383,518	269,383,518	219,780,887	100.0	100.0	100.0

(1) based on the TPI analysis conducted April 21, 2004

(2) the increase in non-resident shareholders between 2004 and 2005 is linked to the exchange offer for KLM

Shareholder analysis

In addition to the TPI analysis, a study carried out to identify non-resident shareholders shows a marked concentration in these shareholders, with European and North American institutions owning 86.5% of the shares held outside France.

At March 31, 2006	Number of shares	% of capital
Non-resident shareholders	96,925,289	36.0
Europe, of which:	47,007,645	17.4
United Kingdom	24,114,629	8.9
Italy	5,237,576	1.9
Netherlands	3,890,230	1.4
Germany	3,534,996	1.3
North America	36,499,176	
	of which 11,344,416 ADRs	13.5

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 capital	Market value at March 31, 2006
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	1,397,009	0.51	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

Activity report

Highlights of the year

Environment and Market

The year was characterized by:

- very strong global growth
- very dynamic passenger activity, with a record load factor
- a cargo activity affected by the weakness in European exports
- a continued high oil price throughout the year, with an increase of more than 50%, breaking the record 70\$ a barrel threshold on April 13, 2006.

Air France-KLM

The Group has been IFRS compliant since April 1, 2005. The adoption of these standards makes it mandatory to publish one year of comparable figures. The transition to the current standard was fixed at April 1, 2004.

In April 2005, Air France and KLM launched *Flying Blue*, the Group's joint frequent flyer program. It now has more than 10 million members, attracting some 1,200,000 new members since the launch.

Since April 1, 2005 in France and January 1, 2005 in the Netherlands, Air France and KLM no longer pay commissions to travel agencies, thus adopting the new economic model developed in Europe after the United States.

Air France tendered, in July 2005, its Amadeus shares in the public exchange offer launched by WAM. This operation released an accounting capital gain of 504 million euros and cash of 817 million euros after taking a 23% shareholding in WAM.

The US authorities, in December 2005, delayed granting anti-trust immunity to Air France, KLM, Alitalia, CSA Czech Airlines, Delta Air Lines and Northwest Airlines, but did, however, grant broad code sharing authority to the six airlines, allowing them to achieve network synergies.

The development of e-services and the implementation of joint applications at Air France and KLM were highlights of the year.

Air France-KLM, a sustainable competitive advantage

The Air France-KLM group is pursuing a strategy of profitable growth, supported by the complementarity of Air France and KLM in their three businesses (passenger, cargo and maintenance), a source of significant synergies, and by ongoing cost reduction.

The profitable growth strategy consists, while maintaining a high degree of flexibility, of developing the business in targeted zones, in order to respond to demand in the most promising markets, to customer expectations and to trends in the sector. Within the framework of the combination of the two companies, this objective is accompanied by a pragmatic approach and is adapted to the challenges specific to each business. In passenger transport, the Group coordinates networks and teams but has retained the two brands, Air France and KLM. In cargo, a single division, the *Joint Cargo Team*, has been created to manage sales, distribution, marketing and the network, together with strategy and development. In aeronautical maintenance, the Group opted to establish technical centers, based on each company's expertise.

The Group's strategy is accompanied by strict cost control, reflected in the cost saving plans implemented in the two companies, supported by the development of new technologies and a fleet management policy combining flexibility and modernization.

Customer focus at the heart of Air France-KLM strategy

Customer focus is right at the heart of Air France-KLM group strategy, not only in providing access to the best network in the world in terms of destinations and schedules but also in developing an innovative range of products. These include combinable fares, which offer many more flight options and access to attractive fares and the joint frequent flyer program, *Flying Blue*, the result of the merging of Air France and KLM's frequent flyer programs, and ground-breaking e-services.

To respond to passenger needs in terms of greater control over the travel process, simplicity, transparency and clarity, the Group is developing the use of new technologies: wider use of e-ticketing, development of self-service check in using the two companies' self-service kiosks or internet sites. The ongoing development of e-services will soon see new applications in the business-to-business space.

The development of e-services and the streamlining of procedures also open up real opportunities for the Group to reduce costs while improving service quality and customer satisfaction.

Fundamental advantages

A well-balanced network

The Air France-KLM group has a well-balanced network. Present in all the large markets, no one market represents more than 30% of total revenues. Thus the Group does not depend, for its results, on any one individual market with each sector showing, since 2001, different sensitivity to political or economic risks.

Two powerful hubs

The Group's well-balanced network is organized around the two intercontinental hubs at Roissy-Charles-de-Gaulle and Amsterdam-Schiphol, two of the four largest in Europe. Furthermore, these hubs, which combine point-to-point and transfer traffic are organized at airport platforms whose development potential is set to increase in step with growth in air transport traffic, thus reinforcing the role of the major intercontinental hubs.

By offering the largest number of weekly connections in less than two hours, whether at CDG or at Schiphol, the Group is attracting premium transfer traffic, testifying to the quality of the Group's two hubs, this customer segment being very demanding in terms of flexibility and service.

A global alliance

Air France and KLM play a lead role in SkyTeam, the second largest global alliance in terms of market share. Bringing together ten European, American and Asian airlines, SkyTeam allows the Group to respond to market needs and contend with competition in both the passenger and cargo businesses.

This global alliance offers new products (Asia Pass, etc.) and is developing its offer for the corporate market. SkyTeam is growing fast and, having welcomed Aeroflot in April 2006, is set to integrate new airlines, notably within the framework of its associate airline program.

A modern fleet

The Group invests in new aircraft on an ongoing basis and currently operates one of the most modern, rationalized fleets in the sector. Such investment represents a triple advantage. With a modern fleet, the Group provides passengers with a higher level of comfort while making substantial savings on fuel and respecting its sustainable development commitments by keeping the noise impact on local residents and greenhouse emissions to a minimum.

Passenger activity

Air France-KLM is confirming its leadership position amongst the European airlines

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

Traffic saw strong growth (8.6%) with capacity up by 6.2%, taking the load factor to a record level of 80.6% (+1.8 points). The Group confirmed its leadership position amongst AEA member airlines, with AEA passenger growth of 4.8%, traffic growth at 6%, capacity up by 4.4% and a 1.1 point increase in the load factor to 76%.

Year to ⁽¹⁾	Traffic in RPK			Capacity in ASK			Load factor		
	31/3/06	31/3/05	Change %	31/3/06	31/3/05	Change %	31/3/06	31/3/05	Change in points
	<i>(in millions)</i>			<i>(in millions)</i>			<i>(in %)</i>		
Long haul	151,427	138,591	9.3%	180,733	168,284	7.4%	83.8%	82.4%	+1.4
Medium haul	37,825	35,620	6.2%	53,936	52,614	2.5%	70.1%	67.7%	+2.4
Total	189,253	174,211	8.6%	234,669	220,897	6.2%	80.6%	78.9%	+1.8

(1) 2004-05 financial year: consolidation of Air France and KLM over 12 months

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 points to 83.8%. The number of passengers carried totaled 21.1 million (+9.1%). 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. The weight of this network within the Group was little changed on 2004-05 with 80% of traffic and 77% of Group capacity.

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.

The North and South American markets cover 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 sales to 3.5 billion euros, increasing this sector's share of total scheduled passenger revenues by 1.5% 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. To respond to customer demand for oil industry-related destinations, KLM launched, as part of its 2005-2006 winter schedule, an Amsterdam-Houston (Texas), in Boeing 737-700s, equipped with exclusively "KLM World Business Class" seats. This new service is operated in code sharing with Northwest Airlines and is in addition to the flight already operated by KLM between Amsterdam and Houston. It completes Air France-KLM's services for oil and gas industry-related traffic, launched in 2004 with Air France's Dedicare product principally to Africa. Furthermore, Air France has added Detroit to its US destinations.

The North American network reported a record load factor of 87.0%, up by 1.3 points, with traffic up by 8.8%. In January 2006, Air France was voted "2005 best transatlantic airline" by readers of the US monthly Global Traveler Magazine. These same readers also named the SkyTeam alliance, of which both Air France and KLM members, "2005 best airline alliance".

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. Traffic followed with a 19.9% progression, allowing the load factor to remain at a very high level of 84.7%.

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 apiece, 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 capacities. It saw very strong activity with an 11.9% increase in traffic for capacities up by 7.0%, 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 account for 15.3% of the scheduled passenger total (14.7% at March 31, 2005).

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 14.0% of capacities 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 capacities (+9.5%). The load factor thus fell by 1.6 points 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.

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, 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.

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, with 52 destinations operated by both Groups.

This network represented 20.0% of traffic and 23.0% of total capacity, slightly less than in the previous year, the Group targeting long-haul growth. 48.9 million passengers (+5.2%) traveled with the Group, 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.

2005-06 financial year

Scheduled passenger revenues

	By destination			By sales area		
	In €m	% of total	Change	In €m	% of total	Change
Europe (including France)	6,525	41.0%	+5.9%	10,726	67.5%	+8.0%
North and South America	3,543	22.3%	+17.2%	2,523	15.9%	+23.1%
Asia	2,433	15.3%	+14.4%	1,230	7.7%	+9.2%
Africa-Middle East	2,246	14.1%	+13.6%	1,060	6.7%	+10.2%
Caribbean and Indian Ocean	1,155	7.3%	+1.5%	363	2.2%	+2.3%
Total	15,902	100.0%	+10.2%	15,902	100.0%	+10.2%

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 some 18,000 daily flights operated by SkyTeam member airlines as well as with 130 air or commercial partners. The program very rapidly became successful with 1.2 million new members just a year after its launch, of which 40% signed up using the Air France and KLM internet sites.

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 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. Today, 63% of KLM passengers departing from Schiphol use self-service check-in. They either check-in through the internet or use one of the self-service kiosk at Schiphol airport to print their boarding pass. KLM was the first airline in Europe to introduce internet check-in in combination with boarding pass printing at home. In 2005-06, more than 320 Air France or KLM self-service kiosks were in use in 50 European airports. This number will increase to 500 in close to 70 airports in 2006-07 with new functionalities and a greater number of eligible customers. In 2006, Schiphol will have a departure hall dedicated to self-service check-in kiosks and baggage drop off points.

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, Air France and KLM customers have been able to use the internet to check in for flights to nearly all the destinations offered by the two companies.

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 exchange rates, 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. KLM in January 2005 and 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 a 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.

Key figures for the passenger business

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

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

Cargo activity

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 principal of “one face to the customer” and allows the Group to offer all its customers one contact, one contract and a single network with the choice of two operational systems, via Roissy or Schiphol or a combination of the two hubs.

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 companies.

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.

Air France-KLM Cargo has 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, offered by 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 meet the needs of pharmaceutical company customers who are looking for reliable, effective and rapid execution of their special delivery requirements worldwide.

Improving profitability in the cargo activity

The Group’s cargo activity was affected by the weakness in European exports, which resulted in a fall in the load factor to 66.1% (-1.9 points). Traffic growth was just 3.5% for a 6.5% increase in capacity. Half of cargo is shipped in dedicated cargo planes and half in the holds of passenger aircraft. The increase in capacity in the passenger activity thus has an impact on cargo activity. The Group nonetheless transported 1.42 million tons, growth of 3.1% on the previous year.

Year to ⁽¹⁾	Traffic in RTK			Offer in ATK			Load factor		
	31/3/06	31/3/05	Change in %	31/3/06	31/3/05	Change in %	31/3/06	31/3/05	Change in points
	<i>(in millions)</i>			<i>(in millions)</i>			<i>(in %)</i>		
Medium-haul	85	99	-14.1%	544	571	-4.7%	15.6%	17.3%	-1.7
Long-haul	10,745	10,360	3.7%	15,850	14,828	6.9%	67.8%	69.9%	-2.1

(1) 2004-05 financial year: consolidation of Air France and KLM over 12 months

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 thousand tons, following the 14.1% drop in traffic. The load factor lost 1.7 points 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 thousand 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 thousand tons. Capacity having increased by 6.2%, the load factor was down by 1.1 point but remained at a high level of 73.0%. 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 thousand to 184 thousand tons (+7.0%). 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 10.3% 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 tons (+1.2%) generating revenues of 186 million euros(+7.5%). This network accounted for around 5% of cargo activity.

2005-06 financial year

Scheduled cargo revenues

	By destination			By sales area		
	In €m	% of total	Change	In €m	% of total	Change
Europe (including France)	75	2.8%	-2.6%	1,169	43.7%	+5.0%
North and South America	833	31.2%	+15.9%	337	12.6%	+23.0%
Asia	1,259	47.1%	+15.3%	961	36.0%	+21.8%
Africa-Middle East	320	12.0%	+4.6%	170	6.4%	+4.9%
Caribbean and Indian Ocean	186	7.0%	—	36	1.3%	-12.2%
Total	2,673	100.0%	+12.4%	2,673	100.0%	+12.4%

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 offset 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	2,882	2,576	+11.9%
Freight transport revenues	2,673	2,379	+12.4%
Unit revenue per ATK (in cts)	16.30	15.45	+5.5%
Unit revenue per RTK (in cts)	24.68	22.75	+8.5%
Unit cost per ATK	15.07	14.33	+5.2%
Operating income	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.

Maintenance activity

The merger 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 handled 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.

In a market where outsourced maintenance has been growing for several years, the Group signed numerous aircraft maintenance contracts in 2005-06 and maintains the fleets of more than 300 customers, including 150 airlines, representing over 800 aircraft.

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 Group's specialization in the maintenance of new generation aircraft was confirmed with the launch of servicing for the CFM56-7 (B737NG), CF6-80 E1 (A330) and GE90 (B777) engines, in addition to the CFM56-3 (B737CG), CFM56-5 (A320, A340) and CF6-80C2 (B747, B767, MD11...) support services. This is a promising market given the outlook for fleet growth and renewal, which is resulting in a rising proportion of new generation aircraft.

The engine servicing activities, mainly for the CF6, CFM 56-7 and GE90, as well as equipment on the Boeing B777 and B737NG, and Airbus A320, A330 and A340 fleets have grown rapidly through the development of integrated support service contracts. Furthermore, support services for the A320, A330, A340, B767 and B747 are still in demand and remain the Group's leading product.

New joint organization for the two entities

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 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.

A partnership policy with manufacturers and in strategic markets

The Group is committed to strategic partnerships with both engine and flight equipment manufacturers in order to bolster its commercial positioning in the maintenance of new generation aircraft.

Different contracts have been signed with Boeing for equipment on the B777 and the B737NG, with General Electric for the GE90 engines on the B777 and the CFM56-7 on the B737 NG, and with Engine Alliance for the GP-7200 engines on the Airbus A380.

Air France Industries also created Spairliners, 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 shared between the two businesses.

Air France-KLM also intends to capitalize on the commercial development of its joint ventures in the USA 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 in 2005.
- Hangxin group, an equipment repair shop for new generation aircraft located in China, allows the Group to benefit from the high growth rate in this market. Since the Group took control in May 2002, Hangxin group has seen annual growth of 20%. In 2005, the business continued to develop the capacity of a new technical workshop in Shanghai within the framework of a 3.5 million euro investment program and the bringing on line of new maintenance and avionics repair capacity.

Other activities

Other activities primarily include the Group's airline catering activity through its Servair and KLM Catering Services subsidiaries, and KLM's low-cost and charter subsidiary Transavia.com.

Catering

The Group's airline 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, flight 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, particularly in the North American market, since 2001.

With operations in 27 countries, Servair ranks number three in the global airline purser industry and, in 2005, prepared 38 million meal trays. The company has a 27% stake in Alpha Airport Limited and has built a network of partners which was strengthened, in 2005, by the acquisition of Mauritanie Catering. Over the year, Servair posted overall revenues of 573.3 million euros and operating income of 7 million euros.

In order to keep pace with the rapid changes in the airline purser 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 well-known chefs in France and in Europe. 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 in-flight 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 -800s from Amsterdam Schiphol and Rotterdam airports to more than 70 European destinations.

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 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 has also developed, since the summer of 2005, the sale of travel goods and taxi reservations on its site.

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.

Fleet

At March 31, 2006, the Air France-KLM group fleet consisted of 575 aircraft, of which 561 in operation 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 Air Ivoire, of which 3 were fully owned and 1 under operating lease. There were firm orders for 48 aircraft at March 31, 2006, 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.

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 outlook for development 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 manoeuvre on around 5% of its capacity by returning aircraft or extending their contract periods.

Thus, 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 4% only 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.

In addition, the two airlines have decided to accelerate the rationalization of their fleets under the combined effects of very high oil prices 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 B747-200Fs 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.

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 aircraft, 96 long-haul, and 12 cargo. The aircraft in the fleet have 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.

Air France fleet

	Owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
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	—	—	—
B 747-400 Cargo	2	1	1	—	—	—	3	3	2	5	4	3	5	4	3
B 747-200 Cargo	5	5	5	1	1	1	1	2	4	7	8	10	7	8	10
Long-haul	56	50	48	10	13	11	42	43	39	108	106	98	105	102	96
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
Medium-haul fleet	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

The regional fleet

The regional division has a fleet of 135 aircraft with up to 100 seats, with 128 in operation, and 5 leased from 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 at both Régional and Brit Air (capacity 79 and 100 seats) and the BAE family 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 aircraft in the operating 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.

Regional fleet

	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
F100-100	5	1	1	—	—	—	8	9	9	13	10	10	13	10	10
Total Brit Air	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 Regional	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 City Jet	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

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 aircraft, and 3 cargo. 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.

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.

KLM fleet

	Owned			Finance lease			Operating lease			Total			In operation		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
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
B 747-400 Cargo	—	—	—	3	3	3	—	—	—	3	3	3	3	3	3
Long-haul fleet	6	6	6	35	31	30	16	20	17	57	57	53	57	57	53
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
Medium-haul fleet	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

The regional fleet

KLM's regional fleet is composed of one family, Fokker, and consists of 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. 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 options.

The regional fleet

	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 KLM Cityhopper fleet	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 KLM Cityhopper UK fleet ..	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

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 off 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 do not use their flight slots at the required 80% level during the period in question.

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

Environmental risks

The air transport industry is governed by numerous environmental regulations and legislation, 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 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.

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 main 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 lines 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 line. 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 represented 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-CDG

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 Group risk reporting, 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 Boards.

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 Boards. 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 subsequent 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 income, 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 forecasts.

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 a minimum systematic hedging of 30% at the beginning of the year. During the 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 partially hedge 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.

Operating exposure 2006-07

<u>Currency</u>	<u>US Dollar (USD)</u>	<u>Pound sterling (GBP)</u>	<u>Yen (JPY)</u>
		<i>(in millions)</i>	
Net position before management	(2,390)	478	63,300
Currency hedge	<u>1,500</u>	<u>(186)</u>	<u>(20,000)</u>
Net position after management	<u>(890)</u>	<u>292</u>	<u>43,300</u>

Despite this active hedging policy, not all exchange rate risks are covered, notably in the event of a major currency devaluation. 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 practices. 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 1.2 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 3 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. A global decline of 1% would represent a risk of 0.98 million euros.

Fuel price risks

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
- following 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 loan is subject to Air France respecting the following financial covenants:

- net interest charges added to one third of operating lease expenses must not represent more than one third of gross operating result added to operating lease expenses;
- 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. In addition to bank financing, it has 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 issue of bonds convertible into new or existing shares, OCEANES, in April 2005 (see note 29.3 of the notes to the consolidated financial statements).

For KLM, the balance of the cash flows tied to capital expenditure activities has been over-covered during the year 2005-06 by the cash flows from operating activities. This free cash flow available has improved KLM 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 for financing: during summer 2005 KLM raised 174 million euros through real estate financing. KLM also concluded during the year a five-year credit facility of 540 million euros with a consortium of major international banks.

Concerning the liquidity risk management, KLM had a cash level of over 1.5 billion euros at March 31, 2006, and the recently negotiated 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 policies. This strategy will enable 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 ancillary air transport 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 policies 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 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 air transport 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 performance 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).

Environment and social data

Employment data for the Air France-KLM group

The weighted average number of employees of the Air France-KLM group was 102,422 people for the 2005-06 financial year, in progression of 0.3% from last fiscal year.

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

Because of the differences between Dutch and French social legislation, and under the terms of the combination, each company will pursue its own separate human resources management policy while ensuring a socially responsible combination.

Air France human resources and employment policy

With the development of e-technologies and changes in customer expectation and the competitive environment, the company's businesses are evolving rapidly. The Human Resources department is responding to these changes in developing the forward-looking management of jobs and skills, in order to make the most of the opportunity presented by the retirement departures in coming years and facilitate the professional and geographical mobility essential to the preservation of the company's social model.

Employment: stabilizing the work force and supporting change

2005-06 saw the continued stabilization of the company's work force against a background of growth in activity, with the 0.8% increase in staff largely due to cabin crew (+1.6%). The policy of control of the work force was primarily reflected in the priority given to internal resources, with a special emphasis on professional and geographical mobility and on specific hiring follow-up.

For 2005, recruitment of permanent employees amounted to 1,625 in France. The increase in ground staff recruitment was partly explained by the need to replace personnel retiring. After several years of steep rises, this retirement curve has stabilized since 2004.

The percentage of part time employees stabilized at 18% of the company total 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 (with part time fixed at 50%).

In 2005, Air France spent a sum of 25 million euros on interim staff. The company's strategy being to concentrate on tasks associated with its core activities, it calls on out-sourcers in the following areas: airport services, handling, gardiennage, cleaning and certain IT developments.

Preserving the employability of employees also means adapting professional training to new requirements. The first priority for the air transport sector is safety, with technical and regulatory training representing around 45% of the training programs. Expenditure for the 2005 training program totaled close to 200 million euros, or 8.7% of the payroll, well in excess of the obligation under French law. In 2005, the rate of access to training for all personnel reached 92%. The training program deals with all stages of professional life and supports mobility.

In February 2006, the Training Department was granted ISO 9001 certification.

Pursuant to the application of the provisions of the French law of May 4, 2004 on career-long professional training, the company is seeking to promote the consumption of individual training quotas (so-called *DIF* or *Droit Individuel à la Formation*) and to develop the periods dedicated to professional training.

Compensation and sharing the value created

According to the salary agreement of May 10, 2005 (Ground staff and Cabin crews), the general measures represented an average increase of 1.6% plus individual measures (merit, promotion, 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 3,281 million euros in incentive payments distributed among all Air France employees. An exceptional bonus of 200 euros was, in addition, paid to all employees.

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.

Social dialogue: transition from the Air France statutory regime and contract policy

In 2005-06, Air France continued work alongside union organizations on developing corporate collective agreements to replace the Air France statutory regime (a joint convention and 3 specific conventions for each personnel category—ground staff, cabin and cockpit crew). These conventions were signed by the union organizations representing the majority of the company's personnel and came into effect as of May 6, 2006. They maintain all the rights and acquired benefits of employees. In addition, ground staff are now included in the collective bargaining agreement for air transport (known as the *CCNTA*).

2005-06 was also particularly fruitful in terms of the contract policy adopted by Air France for many years, with the renewal of the following 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 of the course of work doctor's duties in Air France's health services (December 21, 2005). Finally, an agreement on the implementation of local social and cultural commissions following the revision of the scope of the Works Councils was signed on December 16, 2005. In addition, negotiations of two collective category agreements (ground staff and cockpit crew) were underway in April 2006.

Health and safety in the workplace

Improving safety and protecting the health of employees have long been priorities for the company. In 2005, a Charter for Preventive Management directed at safety in the work place was signed by all the operating divisions, guaranteeing their commitment to implementing specific contractual aims tailored to the company's different activities over the 2006-2008 period.

The work place accident rate in France, stable at 5.75 at end April 2005, included some marked differences between categories (Ground staff: 3.8%, Cabin crew: 12.4%, cockpit crew: 2.6%).

In 2005, Air France expenditure on safety amounted to close to 20 million euros in France.

For more information (facts and figures) regarding health and safety, please refer to Air France-KLM sustainability report 2005-06

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 (June 25, 2001) and in the Charter to prevent work place harassment (November 3, 2003). This policy is applied particularly in the following areas: gender equality, vocational integration of disabled persons, employment of young people and territorial employment.

Professional equity between men and women is the subject of a specific agreement, renewed in 2006. This policy is informed by a number of major commitments: to develop the mix (the percentage of women has risen 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 ensure salary equality between men and women and to adapt work conditions.

Under a specific agreement renewed in 2005, Air France has been committed since 1991 to the insertion of disabled people into the work force. Thus more than 900,000 euros was dedicated to adapting work positions and to the transport of disabled people in 2005. In addition, 81 disabled people were recruited in the period between 2003 and 2005 (of which 25 in 2005). Thanks to this pro-active policy, some 1,878 disabled employees are currently contributing to the company's future, with a employment rate of disabled staff of 6.6% in 2005, exceeding the legal requirement of 6%. The adoption of the French law of February 11, 2005, applicable from

January 1, 2006, will reduce this level significantly due to the inclusion of cabin and cockpit crew into the calculation and the end of the weighting linked to the degree of disability. Efforts must thus continue: the sixth agreement on the social and professional insertion of disabled workers, renewed in 2006, provides for 75 new hires in the 2006-2008 period (of which 32 as of 2006).

Air France attaches particular importance to the incorporation of young people into the work force. In the 2002-2005 period, the company offered 1,000 internships, of which 686 between April 2005 and March 2006. With 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, renewed in 2005.

For many years Air France has been playing a major role in the regions in which it operates and continues to play 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: the Jérémy association, which promotes the hiring of young job-seekers in the Roissy-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-CDG 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 development group «Aviation without borders». It is also associated with the French National Health Institute (INSERM) in helping children suffering from serious illnesses.

For more information (facts and figures) regarding local initiatives and humanitarian aid, please refer to Air France-KLM sustainability report 2005-06

KLM human resources and employment policy

KLM has a variety of people with different disciplines, backgrounds and specializations. KLM stimulates employees therefore not only to have the flexibility to deal with this diversity; but also have the drive and ability to make use of the opportunities presented to them. They are motivated to find the dynamics of the aviation industry a prime environment to make their abilities count, with reliability and professionalism always given top priority.

Sustainable employability and cost control

The main objectives of KLM's employment policy are sustainable employability and cost control. KLM has formulated four themes to improve sustainable employability: flexibility, mobility, health and participation. Flexibility will enable KLM to balance workloads and manpower. Mobility is the staff's ability to carry out all manner of work and a variety of functions adequately. Health is a basic condition for current and future productivity, flexibility and mobility. Participation is the degree to which employees can continue to work during the various stages of their lives.

Cost control is another important objective. Higher productivity through efficiency gains has consequences for the staff. To reduce their workload, KLM will increase productivity chiefly by working smarter, for example by having fewer people during off-peak hours and by building in flexibility for peak hours.

The total KLM Group full-time equivalent workforce moved from 30.045 to 30.118 FTE between fiscal year 2004-05 and 2005-06. Most structural measurements have been realised during the year 2003 and 2004. With 1.345 leavings in 2005 in the Netherlands, the number of leavings has been decreased to the usual KLM-level.

In the Netherlands, after the structural measurements in 2003 with a lowering impact on the permanent recruitments, in 2004 the number increased to 609 and in 2005 to 1066 new permanent employees; 613 ground staff, 341 cabin crew and 112 cockpit crew. Fixed term contracts are raising as well in the categories cabin crew (300 employees) and ground staff (415 employees).

Part time staff in the Netherlands represented 36% of the total workforce in 2005, a small increase compared to 35% in 2004.

Salary and compensation

According to the CLA-agreement the salaries are increased with 1% as from August 2005. In July 2005 employees are paid one-off 4% of their salary of July. The good results made it possible to distribute pro rata a one-off bonus of €200 among all employees in December 2005. As per April 2006 the salaries of the employees will increase with 1% and in January 2007 with 0,75%.

Social dialogue

Based on the common interest of employment, KLM and unions have over the years a good and constructive relationship. Till 2003 KLM facilitated 4 collective labour agreements CLA's (Ground Staff, Pilots, Cabin Staff and Flight Engineers). As a consequence of outsourcing the Flight Engineers, KLM now applies 3 CLA's.

During the recent period KLM has incorporated the labour relation theme "From Industrial Relations to Human Relations". As a consequence the collective bargaining in the CLA 2005 has been concentrated on strengthening trust, managing by commitment and reducing complexity. The new CLA was agreed for the period of 27 months (2005-2007). Besides the above mentioned leading principles, the pillars under the agreement were sustainable employability of all members of staff and cost control.

As a result of social developments in The Netherlands and changes in the Dutch labour law, the new CLA also includes collective agreements on pensions, life-course plans, medical insurance and salary payment during the second year of sickness.

Health and safety in the workplace

KLM remains focused on protecting the health of employees. Modifications in the medical care and social security system in the Netherlands trigger KLM even more to focus on prevention and lifestyle. The effects of the new policy, also stimulated by government support, are visible as the rate of absenteeism for illness fell further during the year: from 5.9% in 2004 to 5.6% in 2005.

Prevention of occupational accidents has a prominent place on the agenda of KLM top management, even more so since occupational safety is a subject in the Occupational Safety & Environment Board. In this board the evaluation of serious incidents and accidents and the monitoring of accident reports and corrective actions take place. In KLM again no fatal accidents have taken place. The number of reported work related lost time accidents showed a 10% decrease since the previous year, the total number of reported lost work days due to accidents increased.

Training our employees

KLM helps its staff to plan their personal and professional development and facilitates follow-up projects at various levels. The KLM Academy for instance was established to improve the quality of KLM's organizational and management potential. During the fiscal year, several workshops were organized at which masters with proven skills shared their knowledge with others. It included issues as change management, innovation management, strategic cost management and bridging cultural and behavioral differences. The Management Development program for KLM's high potentials has been extended to include a new module. Under the title Focus on your Future, the participants take a multiyear program of workshops, coaching interviews, mentoring and a closing workshop based on their own input.

Social responsibility

As an employer, KLM actively works on matching education to the needs of industry. In January 2006, for example, KLM and Breda University of Applied Sciences signed an agreement regarding knowledge development and innovation in Aviation Management and Imagineering. KLM expects these to become very important issues for the future competitiveness of the aviation industry and Breda University of Applied Sciences will provide an opportunity to develop new curricula.

Maintenance and revision are playing an increasingly important role in the use of aircraft. Air France-KLM therefore sponsors the chair in Maintenance, Repair and Overhaul (MRO) at the Aerospace Engineering Faculty of Delft University.

In July 2005 the KLM Flight Academy in Eelde and Hanze University Groningen signed an agreement to provide an unique combined Technology Management / Commercial Pilot course. This course is a response to the trend that the commercial pilots of the future will increasingly be flight managers, the link between people / passengers, technology and the air traffic organization.

Together with Amsterdam Airport Schiphol, KLM is helping prevent youth unemployment through a project in which underprivileged young people take a training course and then start work at one of the two employers. KLM has signed a covenant with Amsterdam Airport Regional Education Center to provide traineeships for students with a technical education. Students that complete the course with an Aircraft Maintenance License are offered a three-year employment contract.

KLM works with the Reading and Writing Foundation and highlights the opportunities, such as literacy courses, it offers to staff who have reading and writing difficulties.

In 2006 KLM was named as the favorite employer in The Netherlands among students from ethnic minorities and won the employer's award for the organization with the highest staff satisfaction in 2005.

Since 1999, KLM has participated in aid programs for less fortunate children through its KLM AirCares program, a charity sponsorship program.

For more information (facts and figures) regarding local initiatives and humanitarian aid, please refer to Air France-KLM sustainability report 2005-06

Social indicators for the Air France–KLM group

Note on methodology

In 2005-06, under the aegis of the Group's Disclosure Committee, with the participation of the Statutory Auditors, an « instruction memo », relating to the social indicators and the reporting scope retained, was established.

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

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

The information supplied for KLM covers the company KLM NV and KLM Cityhopper, representing around 76% of the consolidation scope for the whole KLM Group in terms of employees.

Comments

The figures relating to work place accidents at Air France and KLM are not comparable. This difference is explained in part by the fact that barotraumatic otitis is taken into account in the reporting of work place accidents at Air France and not at KLM.

Dutch and French law do not employ the same definition for disabled workers, thus the indicators for Air France and KLM relating to disabled employees are not comparable.

The information gathering process being more precise at KLM (SAP HR system since 2005), the 2004 data has been updated in respect of KLM staff figures. They concern KLM staff figures on departures and recruitment, part time working and the percentage of women per category.

At the time of publication, certain data has not been able to be submitted by all of our subsidiaries. This is, notably, the case for Régional which, for 2005, has been able to provide only information concerning staff and the number of work place accidents.

The figures relating to absenteeism at Air France and KLM are not comparable. The calculation method are different.

	AIR FRANCE				KLM ⁽³⁾				FILIALES ^{(a)(4)}			
	2003	2004	2005	05/04	2003	2004	2005	05/04	2003	2004	2005	05/04
HEADCOUNT AT 31/12 (permanent contracts and fixed terms contracts):												
Ground staff	45,921	45,387	45,688	0.7%	21,862	19,366	19,550	0.95%	8,770	8,666	8,445	-2.55%
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	2.82%	877	898	940	4.68%
Total	63,647	63,156	63,873	1.1%	31,814	29,530	30,046	1.75%	10,287	10,235	10,108	-1.24%
% OF WOMEN PER CATEGORY AT 31/12:												
Ground staff	39%	39%	40%	2.1%	25%	24%	25%	3%	33% ^(b)	33% ^(b)	33% ^(b)	1%
Cabin crew	66%	66%	66%	-0.1%	84%	84%	84%	-0.6%	89% ^(b)	89% ^(b)	87% ^(b)	-2%
cockpit crew	4%	5%	5%	4.3%	4%	4%	4%	-1.5%	3% ^(b)	3% ^(b)	3% ^(b)	-7%
% of women at 31/12	42%	43%	43%	1.6%	43%	44%	44%	0.8%	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%	11% ^(c)	3%
Amounts paid to temporary work companies (M€)												
	15.5	18.1	25	38%	N.A.	N.A.	N.A.		25.7 ^(d)	25.3 ^(d)	6 ^(e)	16%
RECRUITEMENT BY PERMANENT CONTRACT:												
Ground staff	815	637	994	56%	427	420	981	134%	483	402	465 ^(f)	33%
Cabin crew	743	387	519	34%	2	349	518	48%	1	8	0 ^(f)	0%
Cockpit crew	232	152	112	-26%	82	97	112	15%	43	38	6 ^(f)	-25%
total	1,790	1,176	1,625	38%	511	866	1,611	86%	527	448	471^(f)	32%
LEAVINGS:												
Ground staff	682	1,017	1,135	12%	524	2,144	3,322	55%	391 ^(b)	403 ^(b)	403 ^(b,f)	10%
Cabin crew	333	276	317	15%	77	549	311	-43%	7 ^(b)	4 ^(b)	4 ^(b,f)	0%
Cockpit crew	143	112	116	4%	52	64	123	92%	7 ^(b)	7 ^(b)	7 ^(b,f)	0%
Total	1,158	1,405	1,568	12%	2,611	3,660	1,345	-63%	437	439	473^(f)	21%
Retirements	525	976	1,060	9%	332	363	332	-9%	36	60	43 ^(f)	-28%
Redundancies (incl.economic)	314	172	157	-9%	297	393	532	35%	200	231	271 ^(f)	30%
Resignations	235	188	250	33%	1,958	2,861	450	-84%	184	142	151 ^(f)	30%
Deaths	84	69	101	46%	24	43	31	-28%	17	6	8 ^(f)	33%
ABSENTEEISM:												
due to illness												
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%	4.9%	-17%	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 ⁽⁵⁾												
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 ⁽⁵⁾												
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:												
Industrial Injury Frequency Rate (IIFR)												
	24.1	22.7	23.05	1.5%	8.8	11.06	11.16	0.9%	N.A.	N.A.	N.A.	
Severity of industrial accidents	0.87	0.93	0.88	-5.4%	0.1	0.09	0.1	10.1%	N.A.	N.A.	N.A.	
Spending on safety (M€)	15.3	18.2	N.A.		1.0	0.8	4.2		N.A.	N.A.	N.A.	
Total industrial accidents	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												
Ground staff	9.3%	8.7%	8.7%		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cabin crew	5.1%	5.6%	5.4%		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cockpit crew	10.3%	8.9%	8.9%		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Total number of hours of training	18.6%	15.5%	16.3%		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Ground staff			43		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Cabin crew			33		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
cockpit crew			36		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
Participation rate (number of agents trained/workforce)			166		N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	
DISABLED STAFF												
Number of disabled workers	1,637	1,759	1,878	6.8%	1,302	1,336	1,211	-9.4%	N.A.	N.A.	N.A.	
% of disabled staff	5.60%	6.20%	6.60%	6.5%	N.A.	N.A.	N.A.		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 area and KLM in Netherlands

- (a) Subsidiaries included: Servair SA, Brit Air, Régional, OAT, ACNA, BPC, Fréquence plus, Sodexi
- (b) Missing data for Brit Air
- (c) Missing data for Régional and Servair SA
- (d) Missing data for Sodexi
- (e) Missing data for Régional, Servair SA, BPC and OAT
- (f) Missing data for Régional

Environmental data for the Air France-KLM group

Air France and KLM have separate environmental management systems and follow environmental policies adapted to their individual contexts.

However, the two Environmental departments work side by side on a large number of issues and synergies are implemented as soon as it is possible.

The identification of joint issues is underway with a view to harmonization and potentially a joint approach.

This is, for example, the case for the impact of the air transport activity on climate change for which there is already a joint Air France-KLM policy.

On projects such as the implementation of an environmental reporting tool or the putting together of the sustainable development report, work is undertaken jointly.

Air France

Environmental management

The Air France group has long been 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 the Air France group, reflected in the establishment of an action plan involving all the employees of the company and its subsidiaries.

In spring 2002, the Executive Management of Air France decided to set up an Environment function with environmental liaison officers in each of the company's departments. The coordination of this function 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 via dedicated action plans. Each Department appoints a dedicated environmental liaison officer, who most of the time 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 approaches and action plans;
- establish control mechanisms, analyse the results and identify preventive and corrective measures.

Environmental evaluation or certification programs

Air France is progressively achieving ISO 14001 certification.

Air France Industries aims to have IMS (integrated management system) certification for 90% of its industrial sites by mid-2007. ISO 14001 certification is, of course, within the IMS scope.

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

Measures designed to guarantee the Group's compliance with legal and regulatory requirements

A reference framework and mechanism to monitor regulatory compliance was set up with the help of the Huglo-Lepage consultancy, a specialist in environmental law. This tool may be used by all the operational divisions. It was developed to assemble all the regulatory texts, interpret them within the context of our activities and sort them so that each local entity can access the legal texts specifically concerning them.

Furthermore, the implementation on April 1 of a reporting and management tool within Air France Industries facilitates the tracking of environmental performance and the early detection of any abnormality or transgression of a limit by automating the process of information reporting.

Air France Cargo ensures its regulatory compliance by undertaking site environmental audits whose contents are based on the various prefectorial decrees granting authorization for operation. The Air France Cargo action plan takes the conclusion of these audits into account.

Environmental risk management

Identification of risks

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

Control of at-risk activities

The necessary preventive or corrective measures are implemented by the different action plans of the entities.

Furthermore, the planned implementation this year 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.

Amount of environmental risk prevention provisions and guarantees

Provisions

Air France has provisioned 1.7 million euros for the clean-up program of the Montaudran site and 0.7 million for the rehabilitation of the Orly industrial facilities.

Guarantees

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.

Amount of indemnities paid and actions carried out to repair environmental damage

Indemnities linked with the air transport operations

In respect of the 2004-05 financial year Air France will pay out 375,800 euros in noise fines, most of them in connection with delayed late flight departures, infringing Roissy airport regulation.

For 2005, 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 sound proofed. 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.

Indemnities and actions linked to ground operations:

The second phase in the rehabilitation and clean-up of the Montaudran industrial site, after 50 years of operations, is underway (estimated cost 2.5 million euros). As a reminder, this action is being carried out subsequent to a formal demand from the French Regional Industry, Research and Environmental Agency (DRIRE) in connection with 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. It concerns the Operations Department of Air France, which has invested 292,000 euros in various materials.

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.

Measures taken to improve energy efficiency

The main drivers in improved energy efficiency are:

- the renewal of our aircraft and vehicle fleets;
- the continuous improvement of operating procedures linked to aircraft and ground vehicles in order to limit fuel consumption;
- the implementation of an IT system to monitor licensed vehicle fuel (January 2006);
- the quarterly tracking of energy consumption in the company's different departments;
- employee energy saving awareness initiatives;
- the inclusion of energy saving in the design of new facilities (cf. Villeneuve-le-Roi and Blagnac industrial sites, new flight crew center at Roissy).

Objectives for the 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 like, for example, the regulatory monitoring mechanism.

As a consequence of its ISO 14001 (1999) certification, CRMA, a DGI 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

Environmental management

KLM's environmental management system was developed and introduced in 1999 in accordance with ISO 14001. This international standard for environmental management is based on a continuous 'plan, do, check, act' cycle.

The environmental responsibilities have been outlined for the entire KLM organization. At the highest level, a member of the Board of Managing Directors is responsible for environmental issues. Every business unit has an environmental liaison officer to coordinate environmental issues and advise the line management. At corporate level the Corporate Environmental Center assists the Board of Managing Directors and the business units. It also monitors internal and external developments relating to the environment. Based on the ambitious aims of KLM's environmental policy, a KLM-wide annual environmental program is developed and executed. The targets and related measures of the program are directed towards continuous improvement of the environmental performance, improvement of the environmental management and active internal and external communication.

The Corporate Environmental Center holds periodic meetings with the environmental liaison officers to discuss environmental issues. The responsible Managing Director attends the meeting once every three months.

Environmental evaluation or certification programs

All KLM N.V's activities with the exception of ground operations at KLM's outstation are ISO 14001 certified. Due to the recent revision of the ISO 14001 standard, KLM has implemented some changes in its environmental management system. For instance, the revised ISO standard now includes the evaluation of

compliance not only with legal, but with all ‘requirements’ and specifies that records of the results of this evaluation must be kept. KLM has thus revised its procedure for environmental records management and updated its record books. The revised standard also requires a more thorough evaluation of areas potentially impacted by business activities. KLM is thus reviewing whether the present policy on supply chain management, currently focused on purchasing procedures, should be extended.

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

Measures designed to guarantee the Group’s compliance with legal and regulatory requirements

Regulatory compliance is part of KLM’s ISO 14001 (version 2004) management system and includes an annual inventory of all requirements that need to be controlled and met. The relevant business units monitor their compliance on an annual basis. Furthermore, compliance is verified through internal and external audits. The results of the monitoring of the business units, the results of the audits and progress on the execution of corrective actions, is regularly evaluated and discussed by the Board of Directors.

All notified environmental events are monitored and reported to the authorities. In 2005-06, 221 events were recorded, of which the majority were small fluid spills without any environmental consequences. All events are managed and discussed with the authorities according to KLM’s environmental licenses.

To ensure compliance with the legal and regulatory requirements relating to KLM’s ground operations outside the Netherlands, KLM implements Good Environmental Practices at its outstations.

Environmental risk management

The identification and management of environmental risks within KLM is an integral part of the ISO 14001 management system. Every year, the relevant business units check and update their environmental records to identify environmental risk and to define mitigating measures. The comprehensiveness of records and the exhaustiveness of corrective measures are the subject of regular checks by internal and external audit teams.

Environmental risks are included in the KLM-wide risk management system, which is run every quarter. The risk management system, includes risk identification, impact analysis and the definition of corrective measures. The results are discussed every quarter at board level.

Amount of environmental risk prevention provisions and guarantees

KLM requires no specific financial provisions and guarantees for environmental risk, however the regular financial provisions of KLM are applicable.

Amount of indemnities paid and actions carried out to repair environmental damage

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

Environmental expenditure and investment

It is KLM’s policy to fully integrate environmental management in the business operation. This means that it is not possible to determine exactly the environmental expenditure and benefits. However, KLM lists the most significant expenditure that can be directly related to environmental legislation or environmental management.

The most significant environmental expenditures is noise related (see also above for expenditure on sound proofing). Noise regulations result in altered landing and take-off procedures and in circumnavigation to avoid densely populated areas. KLM estimates that, last year, this involved extra costs of 10 million euros.

In 2005-06, expenditure to ensure environmental sound waste disposal, waste water treatment and cleaning processes amounted to 3.4 million euros.

Approximately 4 million euros was spent in 2005-06 on external environmental communication and on initiatives to encourage staff to use the public transport system.

Soil use conditions

KLM has remedied all relevant soil or groundwater contamination from outside buildings. Where the removal has been partial, containment measures have been implemented and are functioning properly.

Measures taken to improve energy efficiency

In 2005, KLM concluded, with the Dutch Ministry of Economic Affairs, the second Multiyear Energy Agreement on the energy efficiency of its buildings. Since 1989, KLM has implemented a range of energy saving measures and increased its energy efficiency by 46%. As part of the second Multiyear Agreement KLM will reduce its energy consumption by a further 6% to 20% as of 2007.

Objectives for the Group's subsidiaries

KLM's subsidiaries are responsible for their own environmental policies and 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 environmental performance. The environmental aspects of KLM Cityhopper and KLM catering services are included in KLM's environmental indicators (see next section).

Main environmental indicators

In 2005-06, under the aegis of the Group's Disclosure Committee, with the participation of the Statutory Auditors, an « instruction memo », relating to the social indicators and the reporting scope retained, was established.

For the environment the scope is, for the Air France group, that of the company Air France and its main subsidiaries (Servair SA, BritAir, Régional, OAT, ACNA, BPC, CRMA, Fréquence +, Sodexi). The information supplied by KLM covers the company KLM and KLM Cityhopper.

Air operations (Air France and KLM)

<u>Environmental indicators</u>	<u>Unit</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>Pro forma change</u>	<u>2005-06 Air France</u>	<u>2005-06 KLM</u>	
Consumption								
Consumption of raw materials: fuel	000 tons	7,625	8,026	8,373	4%	5,392	2,981	
Emissions								
Greenhouse gas emissions	CO2	000 tons	24,064	25,327	26,422	4%	17,012	9,410
Emissions of substances contributing to acidification and eutrophication	NOx	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%	5.63	2
	SOx	000 tons	3,430	4,605	6,421	39%	4,135	2,286
	Of which low altitude (< 3000 ft)	000 tons	0.26	0.33	0.44	32%	0.30	0.14
In-flight 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 (< 3000 ft)	000 tons	1.2	1.2	1.1	-7%	0.86	0.27
Noise impact								
Global noise energy indicator	***	10 ¹⁵ J	1.48*	1.81	1.79	-0.01%	1.41	0.38

*: Air France data only

** : KLM data only

***: Air France data calculated over the calendar year.

Ground operations (Air France & KLM)

Environmental Indicators		Unit	2003-04	2004-05	2005-06	Pro forma change	2005-06 Air France	2005-06 KLM	
Consummation									
Water consumption		000 m3	1,173	1,230	1,210	-2%	954	256	
Raw materials consumption: fuel oil		m3	ND	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 Superheated consumption water	MWh	388,875	156,371	146,939	-6%	146,936	0	
	Iced water	MWh		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		CO2	tons	71,300	76,235	75,893	0.4%	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
		NOx	tons	366**	355**	285**	-20%**	ND	285
		SOx	tons	43**	42**	47**	12%**	ND	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	5,132	8,323	5,721	-35%	4,626	1,095
		% of waste recycled	%	27%**	37%**	28%**	-24%**	ND	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
Toxic metals		Toxic metals (Cr, Cd, Ni, Cu, Sn, Zn, Pb)	kg	74	63	78	26%	73.3	4.9

*: Air France data only

** : KLM data only

***: Data over an IATA year for Air France

Comments on the financial statements

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 pro forma financial statements.

	Financial year to March 31			
	2006	2005 unaudited pro forma	Change^(*)	2005 reported under French GAAP
	<i>(in millions of euro)</i>			
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	1,691	N/A	359
Net income, Group share	913	1,704	N/A	351
Basic earnings per share (in €)	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 milliards 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 production 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, they rose by 3.8% with the breakdown as follows:

	Financial year to March 31		Change in %
	2006	2005 unaudited pro forma	
	<i>In millions of euros</i>		
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 228 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 recurring operating income (ROI) by activity is as follows:

<u>Financial year to</u>	<u>March 31, 2006</u>		<u>March 31, 2005</u> <u>pro forma unaudited</u>	
	<u>Operating revenues</u>	<u>ROI</u>	<u>Operating revenues</u>	<u>ROI</u>
	<i>(in millions of euros)</i>			
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	<u>21,448</u>	<u>936</u>	<u>19,467</u>	<u>553</u>

Operating income

Operating income 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, operating income 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 229 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 OCEANEs, interest expense and income taxes.

According to the Article 39.4 of the French tax code, there is no non tax deductible amortization or charges.

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).

Group investment and financing

Capital investments on tangible and intangible assets made during the year totaled 2.54 billion euros, compared with 2.13 billion euros for the previous year.

Disposals totaled 1.08 billion euros, of which 817 million euros of net cash from the Amadeus transaction and 227 million of proceeds on the sale of other assets.

Overall, net cash used in investing activities showed a net disbursement of 1.51 billion euros, largely covered by cash flows from operating activities, which totaled 2.66 billion euros.

Net financial liabilities amounted to 4.4 billion euros, for total stockholders' equity including minority interests of 7.9 billion euros at March 31, 2006, resulting in a gearing ratio of 0.56 at March 31, 2006, after taking financial instruments into account.

Subsequent events review

There has been no significant event since the close of the financial year.