Air France – KLM Group

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2006

CONSOLIDATED INCOME STATEMENTS

In € millions

For the year ended March 31,	Notes	2006	2005
Sales	5	**21 448**	**18 978**
Other revenues		4	5
Revenues		**21 452**	**18 983**
External expenses	6	(12 090)	(10 629)
Salaries and related costs	7	(6 357)	(5 994)
Taxes other than income taxes		(228)	(225)
Depreciation and Amortization	8	(1 656)	(1 561)
Provisions	8	(109)	(28)
Other income and expenses	9	(76)	4
Income from current operations		**936**	**550**
Sales of aircraft equipment	10	2	19
Negative goodwill	4	5	1 354
Other non-current income and expenses	10	512	4
Income from operating activities		**1 455**	**1 927**
Cost of financial debt		(392)	(347)
Income from cash and cash equivalents		168	125
Net cost of financial debt	11	**(224)**	**(222)**
Other financial income and expenses	11	(31)	(8)
Income before tax		**1 200**	**1 697**
Income taxes	12.1	(256)	(133)
Net income of consolidated companies		**944**	**1 564**
Share of profits (losses) of associates		(23)	73
Net income from continuing operations		**921**	**1 637**
Net income from discontinued operations	13.1	-	59
Income for the period		**921**	**1 696**
• **Group (*)**		**913**	**1 710**
• Minority interests		8	(14)
Earnings per share - Group (*)	14.1		
• basic		3,47	6,61
• diluted		3,25	6,60
Earnings from continuing operations per share	14.2		
• basic		3,50	6,33
• diluted		3,28	6,32

(*) corresponds to the income attributable to the stockholders of Air France - KLM

CONSOLIDATED BALANCE SHEETS

In € millions

Assets	*Notes*	**March 31, 2006**	**March 31, 2005**
Goodwill	*15*	208	205
Intangible assets	*16*	428	437
Flight equipment	*17*	11 017	10 394
Other property, plant and equipment	*17*	1 955	1 895
Investments in equity associates	*19*	204	577
Pension assets	*20*	1 903	1 767
Other financial assets	*21*	1 182	1 113
Deferred tax assets	*12.5*	7	140
Other non current assets	*24*	1 082	336
Total non-current assets		**17 986**	**16 864**
Other short term financial assets	*21*	932	654
Inventories	*22*	340	382
Account receivables	*23*	2 518	2 272
Income tax receivables		1	6
Other current assets	*24*	1 756	969
Cash and cash equivalents	*25*	2 946	2 047
Total current assets		**8 493**	**6 330**
Total assets		**26 479**	**23 194**

In € millions

Liabilities and equity	Notes	March 31, 2006	March 31, 2005
Issued Capital	26.1	2 290	2 290
Additional paid-in capital	26.2	430	384
Treasury shares	26.3	(58)	(19)
Reserves and retained earnings	26.4	5 072	3 254
Equity attributable to equity holders of Air France KLM SA		**7 734**	**5 909**
Minority interests		119	111
Total Equity		**7 853**	**6 020**
Provisions and retirement benefits	28	1 453	1 516
Long-term debt	29	7 826	7 889
Deferred tax	12.5	839	313
Other non-current liabilities	30	417	481
Total non-current liabilities		**10 535**	**10 199**
Provisions	28	192	124
Short term portion of long-term debt	29	1 260	1 044
Trade payables		2 039	1 901
Deferred revenue on ticket sales		2 062	1 656
Current tax liabilities		167	8
Other current liabilities	30	2 269	1 980
Bank overdrafts		102	262
Total current liabilities		**8 091**	**6 975**
Total liabilities and equity		**26 479**	**23 194**

Air France – KLM Group

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

In € millions

	Number of shares	Issued capital	Additional paid-in capital	Treasury shares	Retained earnings	Derivatives reserve	Available for sale securities reserve	Currency translation adjustment	Other reserves	Total	Equity attributable to holders of Air France – KLM SA	Minority interests	Total equity
April 1, 2004	**219 780 887**	**1 868**	**261**	**(18)**	**1 277**	**-**	**-**	**(9)**	**-**	**1 268**	**3 379**	**87**	**3 466**
Currency translation adjustment	-	-	-	-	-	-	-	3	-	3	3	(1)	**2**
Income for the year	-	-	-	-	1 710	-	-	-	-	1 710	1 710	(14)	**1 696**
Total of gains / (losses) recorded	-	-	-	-	1 710	-	-	3	-	1 713	1 713	(15)	**1 698**
Issuance of share capital	49 602 631	422	346	-	-	-	-	-	-	-	768	-	**768**
Contribution of assets	-	-	(206)	-	206	-	-	-	-	206	-	-	**-**
Cost of exchange offer	-	-	(17)	-	-	-	-	-	-	-	(17)	-	**(17)**
Share purchase plan (« Offre Réservée aux Salariés : ORS »)	-	-	-	-	69	-	-	-	-	69	69	-	**69**
Stock Options	-	-	-	-	6	-	-	-	-	6	6	-	**6**
Dividends paid	-	-	-	-	(17)	-	-	-	-	(17)	(17)	(1)	**(18)**
Treasury shares	-	-	-	(1)	9	-	-	-	-	9	8	-	**8**
Change in consolidation	-	-	-	-	-	-	-	-	-	-	-	40	**40**
March 31, 2005	**269 383 518**	**2 290**	**384**	**(19)**	**3 260**	**-**	**-**	**(6)**	**-**	**3 254**	**5 909**	**111**	**6 020**
Gain / (loss) on revaluation of fixed assets reclassified as available for sale assets	-	-	-	-	-	-	(4)	-	-	(4)	(4)	-	(4)
Gain / (loss) on cash flow hedges	-	-	-	-	-	1 055	-	-	-	1 055	1 055	4	1 059
Currency translation adjustment	-	-	-	-	-	-	-	4	-	4	-	-	4
Income for the year	-	-	-	-	913	-	-	-	-	913	913	8	921
Total of gains / (losses) recorded	-	-	-	-	913	1 055	(4)	4	-	1 968	1 968	12	1 980
Stock based compensation (ESA)	-	-	-	-	(80)	-	-	-	-	(80)	(80)	-	(80)
Stock component of convertible bonds (Oceane)	-	-	46	-	-	-	-	-	-	-	46	-	46
Dividends paid	-	-	-	-	(40)	-	-	-	-	(40)	(40)	(1)	(41)
Treasury shares	-	-	-	(39)	-	-	-	-	-	-	(39)	-	(39)
Change in consolidation	-	-	-	-	-	-	-	-	-	-	-	(3)	(3)
Other	-	-	-	-	(30)	-	-	-	-	(30)	(30)	-	(30)
March 31, 2006	**269 383 518**	**2 290**	**430**	**(58)**	**4 023**	**1 055**	**(4)**	**2**	**-**	**5 072**	**7 734**	**119**	**7 853**

The change in the cash flow and fair value reserves between March 31 , 2005 and March 31, 2006 breaks down as follows :

In € millions	**Derivatives reserve**	**Available for sale securities reserve**	**Total**
March 31, 2005	-	-	-
Impact of the first application of IAS 32 and IAS 39 :			
Derivatives	1 168	-	1 168
Investments available-for-sale	-	(3)	(3)
Deferred tax	(397)	-	(397)
Impact for the period :			
Derivatives	428	-	428
Investments available-for-sale	-	(1)	(1)
Deferred tax	(144)	-	(144)
March 31, 2006	**1 055**	**(4)**	**1 051**

Air France – KLM Group

STATEMENTS OF CONSOLIDATED CASH FLOWS

In € millions

For the year ended March 31,	Notes	2006	2005
Income for the period		921	1 696
Amortization, depreciation and operating provisions		1 765	1 589
Financial provisions		24	6
Gain on disposals of tangible and intangible assets		(46)	(19)
Loss on disposals of subsidiaries and associates		(2)	(66)
Gain on Amadeus GTD transaction	10	(504)	-
Derivatives		(6)	-
Unrealized foreign exchange gains and losses, net		8	4
Negative goodwill		(5)	(1 354)
Share of profits (losses) of associates		23	(73)
Deferred taxes		99	139
Other non-monetary items		(183)	(143)
Subtotal		**2 094**	**1 779**
(Increase) / decrease in inventories		(18)	(16)
(Increase) / decrease in trade receivables		(215)	42
Increase / (decrease) in trade payables		96	313
(Increase) / decrease in other receivables and payables		699	(127)
Net cash flow from operating activities		**2 656**	**1 991**
Acquisitions of subsidiaries and investments in associates, net of cash acquired	37	(58)	506
Purchase of property plant and equipment and intangible assets	18	(2 544)	(2 131)
Proceeds on disposal of subsidiaries and investments in associates	37	35	109
Proceeds on Amadeus GTD transaction		817	-
Proceeds on disposal of property plant and equipment and intangible assets		227	157
Dividends received		10	25
Decrease (increase) in investments, net		(294)	116
Net cash used in investing activities		**(1 807)**	**(1 218)**
Issuance of long-term debt		1 410	858
Repayments on long term debt		(523)	(288)
Payment of debt resulting from finance lease liabilities		(580)	(381)
New loans		(155)	(101)
Repayments on loans		97	22
Dividends paid		(41)	(24)
Decrease in equity		-	(33)
Net cash flow from financing activities		**208**	**53**
Effect of exchange rate on cash and cash equivalents		**2**	**(5)**
Change in cash and cash equivalents		**1 059**	**821**
Cash and cash equivalents at beginning of period		1 785	964
Cash and cash equivalents at end of period	37.3	2 844	1 785
Interest paid (flow included in operating activities)		364	312
Interest received (flow included in financing activity)		154	123
Income tax paid (flow included in financing activity)		(4)	22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS DESCRIPTION

As used herein, the term "Air France–KLM" refers to Air France – KLM, a limited liability company organized under French law, without its consolidated subsidiaries. The terms the “Company” or the "Group" refer to Air France – KLM together with its consolidated subsidiaries.
The Company is headquartered in France and is one of the largest airlines in the world. The Company’s core business is passenger transportation. The Company’s activities also include cargo, industrial maintenance and other air-transport related activities, including principally catering and charter services.
The company Air France – KLM domiciled 2 rue Robert Esnault-Pelterie 75007 Paris – France, is the parent company of the Air France – KLM group.
The Group’s functional currency is the euro.

2. SIGNIFICANT EVENTS OF THE YEAR

The income for the financial year includes a gain of € 504 million before tax relating to the tender offer for Amadeus GTD made by WAM in July 2005 (see note 10).

3. ACCOUNTING POLICIES

3.1. Basis of presentation

Pursuant to the European Regulation 1606/2002 of July 19, 2002, the Company adopted International Financial Reporting Standards (“IFRS”) as adopted by the European Commission (“EU”) for use in the European Union for the first time in its consolidated financial statements for the year ended March 31, 2006, which includes comparative financial statements for the year ended March 31, 2005. IFRS 1, “First-time adoption of International Reporting Standards”, requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first annual IFRS consolidated financial statements (i.e. March 31, 2006). IFRS 1 also requires that those policies be applied as of the date of transition to IFRS (i.e. April 1, 2004) and throughout all periods presented in the first IFRS financial statements. The accompanying financial information as of and for the years ended March 31, 2006 and 2005 have been prepared in accordance with those IFRS as of May 17, 2006, date on which the accounts have been approved by the Board of Directors.

IFRS as adopted by the EU differ in certain respects from IFRS as published by the International Accounting Standards Board (“IASB”). The Company has, however, determined that the financial information for the periods presented would not be different had the Company applied IFRS as published by the IASB.

The note "Transition from French accounting principles to IFRS”, details the main effects of the transition to IFRS on the Company’s opening balance sheet as of April 1, 2004 and the principal differences with the French accounting standards previously applied. A reconciliation between the Company’s consolidated equity and net income as of and for the year ended March 31, 2005 and a reconciliation of the Company’s consolidated stockholders’ equity between April 1, 2004 and March 31, 2005 under the new accounting standards and the French accounting principles previously used is also disclosed.

In accordance with the option offered by IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement", relating to financial instruments, such standards are applied effective April 1, 2005.

In addition, the Group opted for the early adoption of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The effects of the early application of this standard are further explained in "Transition from French Accounting Principles to IFRS ".

3.2. Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. The main concerned items are:

- Revenue recognition related to deferred revenue on ticket sales,
- Tangible and intangible assets,
- Financial assets,
- Deferred tax assets
- Provisions

The Group's management makes these estimates and assessments continuously on the basis of its past experience and various other factors considered to be reasonable.

Actual results could differ from these estimates depending on changes in the assumptions used or different conditions.

3.3. Consolidation principles

3.3.1 Subsidiaries

Companies in which the Group exercises exclusive control are fully consolidated. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

Minority interests are presented within equity and on the income statement separately from the Group stockholders' equity and from the Group's net income.

3.3.2. Interest in associates and joint ventures

Companies in which the Group has the ability to exercise significant influence on financial and operating policy decisions are accounted for using the equity method; the ability to exercise significant influence is presumed to exist when the Group holds more than 20% of the voting rights.

In addition, companies in which the Group exercises joint control are accounted for using the equity method.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis from the date that significant influence starts until the date that significant influence ceases, adjusted for any impairment loss. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognized in the investee's profit or loss. The investor's share of those changes is recognized directly in the Group's equity.

The Group's share of losses of an associate that exceed the value of the Group's interest in this entity are not accounted for, unless:
- the Group has incurred contractual obligations; or
- the Group has made payments on behalf of the associate.

Any surplus of the investment cost over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the associate company on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

The investments in which the Group has ceased to exercise significant influence or joint control are no longer consolidated and are valued at the carrying value on the date of withdrawal from the consolidation scope.

3.3.3. Transactions eliminated on consolidation

All intragroup balances and transactions, including income, expenses and dividends are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.
Gains and losses on internal transfers with associates and joint control entities are eliminated to the extent of the Group's interest in the associate or joint control entity, only when they do not represent an impairment.

3.3.4 Closing date

With the exception of a few non significant subsidiaries and equity affiliates that close their books at December 31, all Group companies are consolidated based on annual accounts closed on March 31st.

3.4. Translation of foreign companies' financial statements and transactions in foreign currencies

3.4.1. Translation of foreign companies' financial statements

The financial statements of foreign subsidiaries are translated into euros on the following basis:

- with the exception of the equity for which historical prices are applied, balance sheet items are converted on the basis of the foreign currency rates in effect at the closing date;
- the income statement and the statement of cash flows are converted on the basis of the average foreign currency exchange rates for the period;
- the resulting translation adjustment is booked in the "Translation adjustments" item included within equity.

Goodwill is expressed in the functional currency of the entity acquired and is converted into euros using the foreign currency rate in effect at the closing date.

3.4.2. Translation of foreign currency transactions

Foreign currency transactions are translated using the exchange rate prevailing on the date of the transaction or at the exchange rate of the related hedge, if applicable.

Assets and liabilities denominated in foreign currencies are translated at the rates ruling at balance sheet date or at the rate of the related hedge for assets resulting from firm commitments documented in fair value hedge relationships.

The corresponding exchange rate differences are recorded in the Company's consolidated income statements. Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note "3.10., Financial instruments, valuation of financial assets and liabilities".

3.5. Business combinations

3.5.1. Business combinations that occurred before the transition date to IFRS (i.e. before April 1, 2004)

In accordance with the IFRS 1 exemption, business combinations that occurred prior to April 1, 2004 (essentially Air Inter and UTA) have not been accounted for in accordance with IFRS 3.
Business combinations that occurred prior to April 1st, 2004 were accounted for in accordance with French GAAP. Under French GAAP certain acquired assets and liabilities were not adjusted to fair value at the time of

the acquisition, or in the case of step acquisitions, the fair values of the assets acquired and liabilities assumed were assessed during the initial step of the acquisition.

3.5.2. Business combinations that occurred subsequent to April 1, 2004

Business combinations are accounted for using the purchase method in accordance with IFRS 3. In accordance with this standard, all assets, liabilities assumed and contingent liabilities are at fair value measured at the acquisition date. The time period for adjustments to goodwill / negative goodwill is limited to 12 months from the date of acquisition. Goodwill arising from the difference between the acquisition cost, which includes the potential equity instruments issued by the Group to gain control on the acquired entity and other costs potentially dedicated to the business combination, and the Group's interest in the fair value of the identifiable assets and liabilities acquired is no longer amortized, but instead is subject to annual impairment tests or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Negative goodwill is recognized immediately in the income statement.
Assets meeting the criteria of IFRS 5, as described in note 3.22, are recorded at the lower of their net book value and their fair value less costs to sell.

3.6. Sales

Sales related to air transportation operations are recognized when transportation service is provided, net of any discounts granted. Transportation service is also the trigger for the recognition of external expenses, such as the commissions paid to agents.

Upon issue, both passengers and cargo tickets are recorded as "Deferred revenue on ticket sales".

Revenues representing the value of tickets that have been issued, but which will never be used, are recognized as revenues at the date the tickets are issued. The amounts recognized are based on a statistical analysis, which is regularly updated.

Sales on third party maintenance contracts are recorded based on stage of completion.

3.7. Loyalty programs

Until June 1, 2005, each of the two sub-groups (Air France and KLM) comprising the Group had its own frequent flyer program: "Fréquence Plus" and "Flying Dutchman". Each program allowed members to acquire "miles" as they flew on Air France, KLM or with other partner companies. These miles entitled members to a variety of benefits such as free flights with the two companies.

Subsequent to the acquisition of KLM, a joint frequent flyer program "Flying Blue" was launched in June 2005 combining the miles accumulated from the two previous programs.

The probability of air miles being converted into award tickets is estimated using a statistical method.

The value of air miles is estimated based on the specific terms and conditions for the use of free tickets. This estimate takes into consideration the discounted marginal cost of the passenger concerned (e.g. catering, ticket issue costs, etc.) and discounted cost of the miles used on participating partner companies.

The estimated value of air miles is recorded as a deduction from revenues and recorded under the caption "Deferred revenue on ticket sales" on the balance sheet at the same time the qualifying flight for which air miles are awarded is recognized.

The Company also sell miles to partner companies participating in current loyalty programs, such as credit card companies, hotel chains and car rental firms. The Group defers a portion of this representing the value of the subsequent travel award to be provided, in a manner consistent with the determination of the liability for earned flight awards discussed above. The remainder is recognized as revenue immediately.

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

Income from current operations includes all the income and expenses directly related to the Group's ordinary operations. Unusual items defined as non-recurring income and expenses by virtue of their frequency, nature and amount (such as restructuring costs) and non-financial items are recorded as other non-current income and expenses, i.e. they are excluded from income from current operations.

3.9. Earnings per share

Earnings per share are calculated by dividing net income attributable to equity holders of Air France – KLM by the average number of shares outstanding during the period. The average number of shares outstanding during the current and prior years presented does not include treasury shares or shares held in connection with stock option plans.

Diluted earnings per share are calculated by dividing the net income attributable to equity holders of Air France – KLM adjusted of effects of dilutive instruments' exercise, by the average number of shares outstanding during the period, adjusted for the effect of all dilutive potential ordinary shares.

3.10. Financial instruments, valuation of financial assets and liabilities

The Group has applied standards IAS 32 and IAS 39 since April 1, 2005.

3.10.1 Valuation of trade receivables and non-current financial assets

Trade receivables, loans and other non-current financial assets are considered to be assets issued by the Company and are recorded using the amortized cost method less impairment losses, if any.

3.10.2 Investments in debt and equity securities

Investments in debt and equity securities qualify as assets available for sale and are stated at fair value in the Company's balance sheet with any resultant unrecognized gain or loss recognized in equity. For publicly-traded securities, the fair value is the market price. For other securities, if the fair value cannot be reliably estimated, it equals the acquisition cost less impairment if any. If there is an indication of impairment of the financial asset, the amount of the loss is recorded in the income statement for the period.

3.10.3 Derivative instruments

The Group uses various derivative instruments to hedge its exposure to the risks of changes in interest rates, exchange rates or fuel prices.

Forward currency contracts and options are used to cover exposure to exchange rates. For firm commitments, the unrealized gains and losses on these financial instruments are included in the carrying value of the hedged asset or liability.

The Group also uses rate swaps to manage its exposure to the rate risk. Most of the swaps traded convert floating-rate debt to fixed-rate debt.

Finally, exposure to the fuel risk is hedged by swaps or options on jet fuel, diesel or Brent.

Prior to April 1, 2005 , the Company applied the following accounting policies:

- Forward exchange contracts and foreign currency swaps were used to hedge foreign currency exchange rate exposures. Unrealized gains and losses on these investments were deferred and recorded against the carrying amount of the hedged asset or liability on firm commitments. Contract premiums were amortized on a straight line basis over the term of the hedge arrangement.

- The Company entered into various interest rate swaps to manage its interest rate exposure. The objectives of the swaps was to modify instruments from fixed rate to floating rate and floating rate to fixed rate. The difference between interest payable and receivable was recognized as interest expense or interest income.
- The petroleum options premiums were accounted for in the income statement on an accrual basis. The difference between interest payable and receivable on petroleum swaps was recognized as operating expense or operating income.

Effective April 1, 2005, the Group applied standards IAS 32 and IAS 39.

Most of these derivatives are classified as hedging instruments if the derivative is eligible as a hedging instrument and if the hedging contracts are documented as required by IAS 39.

These derivative instruments are recorded on the Company's consolidated balance sheet at their fair value. The method of accounting for changes in fair value depends on the derivative instruments classification. There are three classifications:

- *Derivatives classified as fair value hedge*: changes in the derivative fair value are recorded through income statement and offset within the limit of its effective portion against the changes in the fair value of the underlying item (assets, liability or firm commitment), which are also recognized as income.
- *Derivatives as cash flow hedge*: the changes in fair value are recorded in as equity for the effective amount and are reclassified as income when the hedged element affects earnings. The ineffective portion is recorded as financial income.
- *Derivatives classified as trading*: changes in the derivative fair value are recorded for as financial income.

3.10.4 Convertible bonds

Convertible bonds are financial instruments comprised of two components: a bond component recorded as debt and a stock component recorded in the equity. The bond component is equal to the discounted value of all coupons due for the bond at the rate of a simple bond that would have been issued at the same time as the convertible bond. The value of the stock component recorded in the Company's equity is calculated by the difference between such value and the bond's nominal value at issue. The difference between the financial expense booked and the amounts effectively paid out is added, at each closing, to the amount of the debt component so that, at maturity, the amount to be repaid if there is no conversion equals the redemption price.

3.10.5 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.10.6 Long-term debt

Long-term debt is recorded at amortized cost calculated on the basis of the effective interest rate. Under this principle, any redemption and issue premiums are recorded as debt in the balance sheet and amortized as financial items over the life of the loans.

In addition, long-term debt documented in the context of fair value hedging relationships is revalued at the fair value for the risk hedged, i.e. the risk related to the fluctuation in interest rates. Changes in fair value of the hedged debt are recorded symmetrically in the income statement for the period with the change in fair value of the hedging swaps.

3.11. Goodwill

Goodwill represents the excess of the cost of a business combination over the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

For acquisitions prior to April 1st, 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under French GAAP. The classification and accounting treatment of business combinations that occurred prior to April 1, 2004 has not been reconsidered in adopting international standards, as of April 1, 2004, in accordance with IFRS 1.

Goodwill is valued in the functional currency of the entity acquired. It is recorded as an asset.

It is not amortized and is tested for impairment annually and at any point during the year when an indicator of impairment exists. The impairment recorded, as discussed in Note 3.14, may not subsequently be reversed.

When the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the acquisition cost, there is negative goodwill which is recognized and immediately reversed in the Company's income statement.

At the time of the sale of a subsidiary, an equity affiliate or a jointly controlled entity, the amount of the goodwill attributable to the sold entity is included in the calculation of the income from the sale.

3.12. Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses.
Identifiable intangible assets acquired with a finite useful life are amortized over their useful life from the date they are available for use.
Identifiable intangible assets acquired with an indefinite useful life are not amortized but tested annually for impairment or whenever there is an indication that the intangible asset may be impaired. If necessary, an impairment as described in note 3.14 is recorded.

Intangible assets with a finite useful life are amortized on a straight line basis over the following periods:

Software	1 to 5 years
Customer relationships	5 to 12 years
Other	Based on their useful life

3.13. Property, plant and equipment

3.13.1 Specific rule applicable to the IFRS transition opening balance sheet

In accordance with IFRS 1, the Group has elected to value certain of its aircraft at the date of transition to IFRS at their fair value and to use this fair value as deemed cost.

This treatment thus allows the Group to have a portion of its fleet recorded at fair value (market value was used when accounting for KLM's business combination at May 1, 2004).

The fair value exercise was based on independent valuation by third parties.

3.13.2 Principles applicable since April 1, 2004

Property, plant and equipment are recorded at the historical acquisition or manufacturing cost, less any accumulated depreciation and any accumulated impairment losses.

The financial interest attributed to progress payments made on account of aircraft and other significant assets under construction is capitalized and added to the cost of the asset concerned. Insofar as investment installments are not financed by specific loans, the Group uses the average interest rate on the current unallocated loans of the period.

Maintenance costs are booked as expenses during the period when incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized (e.g. maintenance on airframes and engines, excluding parts with limited useful lives).

3.13.3 Flight equipment

The purchase price of aircraft equipment is denominated in foreign currencies. It is translated at the exchange rate at the date of the transaction or, if applicable, at the hedging price assigned to it. Manufacturers' discounts, if any, are deducted from the value of the related asset.

Aircraft are depreciated using the straight-line method over their average estimated useful life of 20 years, assuming no residual value.

IFRS requires an annual review of the residual value and the amortization schedule. During the operating cycle, in developing fleet replacement plans, the Group reviews whether the amortizable base or the useful life should be adjusted and, if necessary, determines whether a residual value should be recognized.

Any major airframes and engines (overhaul) are treated as a separate asset component with the cost capitalized and depreciated over the period between the date of acquisition and the next major overhaul.

Aircraft components are recorded in the consolidated balance sheet as fixed assets. The useful lives vary from 3 to 20 years depending on the technical properties of each item.

3.13.4 Other property, plant and equipment

Other property, plant and equipment are depreciated using the straight line method over their useful life. Such useful lives are as follows:

Buildings	20 to 40 years
Fixtures and fittings	8 to 15 years
Flight simulators	10 to 20 years
Equipment and tooling	5 to 15 years

3.13.5. Leases

In accordance with IAS 17 "Leases", leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The assets held under a finance lease are recognized as assets at the lower of the following two values: the present value of the minimum lease payments under the lease arrangement or their fair value determined at inception of the lease. The corresponding obligation to the lessor is accounted for as long term debt.

These assets are depreciated over the shorter of the useful life of the assets and the lease term when there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term.

In the context of sale and operating leaseback transactions, the related gains are accounted for as follows:

- they are immediately recognized as income when the transaction is established at fair market value;
- they are deferred and amortized over the lease term when the transaction is established under or over the fair value.

In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as finance income over the lease term. No loss is recognized unless the asset is impaired.

3.14. Impairment

In accordance with IAS 36, "Impairment of Assets", the Group reviews at each balance sheet date the carrying amount of tangible and intangible assets in order to assess whether there is any indication of impairment. If such an indication exists, the recoverable value of the assets is estimated in order to determine the amount, if any, of the impairment. The recoverable value is the higher of the following values: the fair value reduced by selling costs and its value in use.

When it is not possible to estimate the recoverable value for an individual asset, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.
The Group determined that the smallest level at which assets could be tested were the CGUs corresponding to the Group's operating segments (see segment information).

When the recoverable value of a CGU is lower than its carrying value, an impairment is recognized. This impairment loss is allocated first to the carrying amount of the goodwill. The remainder is allocated to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the unit.

The recoverable value of the CGUs is their value in use determined by using a discount rate corresponding to the weighted average cost of the Group's capital, which was 7.4% and 7.5% for the years ended March 31, 2006 and 2005, respectively. The value in use is estimated using cash flows assumptions made by management based on a duration that is consistent with the useful lives of assets.

3.15. Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. These costs include the direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis.

The net realizable value of the inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

3.16. Treasury shares

Air-France – KLM shares held by the Group are recorded for as a deduction from the Company's consolidated equity at the acquisition cost. Subsequent sales are recorded for directly against equity. No gains or losses are recognized in the Company's income statement.

As the Group has applied IAS 32 and 39 effective April 1, 2005, treasury shares held to fulfill stock options are classified until that date as marketable securities at their acquisition cost. The carrying amount of such shares is depreciated if necessary. Effective April 1, 2005, such shares are recorded for as a reduction of the Company's equity.

3.17. Employee Benefits

The Group's obligation in respect of defined benefit pension plans and termination indemnities on retirement are calculated, in accordance with IAS 19, using the projected units of credit method, factoring in the specific economic conditions in the various countries concerned. The commitments are covered either by insurance or pension funds or by provisions recorded on the balance sheet as and when rights are acquired by employees.
In accordance with IFRS 1, the Group has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS through the Company's equity.

Starting April 1, 2004, any actuarial gains or losses resulting from changes in actuarial assumptions are recognized in the Company's income statement only if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan asset at that date. The fraction exceeding 10% is then recognized over the expected average remaining working lives of the employees participating in the plan.

3.17.1 Specific information related to the recognition of some pension plan assets

Pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR"). Questions have been raised as to how such MFR might affect the recognition of a pension net asset that otherwise would be recognized under IAS 19 in respect of the surplus in a plan and thus, how the Group should account for certain pension asset surpluses of KLM in its consolidated financial statements.
Recognition of a pension net asset under IAS 19 is subject to interpretation. Because of this situation, and for the accounting treatment of companies of the KLM group, an interpretation of IAS 19 has been requested from the IFRIC, the interpretation technical body of the IASB.

3.17.2 Accounting for the pension fund surplus for the year-end closing

Although the IFRIC has yet to deliver its final conclusions, the Group defined its accounting position based on various publications during the period, and particularly the "IFRIC Update" dated September 2005.
According to these, the KLM pension fund surplus must be fully recognized in the balance sheet.

3.18. Provisions for restitution of aircraft under operating leases

The Group accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

When the condition of aircraft exceeds the return condition as set per the lease arrangement, the company capitalizes the related amount in excess. Such amount is further amortized on a straight line basis over a period ending when the restitution criteria are met.

3.19. Other provisions

The Group recognizes a provision in the balance sheet when the Group has an existing legal or implicit obligation to a third party as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amounts recorded as provisions are discounted when the effect of the passage of time is material.
The effect of the time value of money is presented as a component of financial income.
Restructuring provisions are recognized once the Group has established a detailed and formal restructuring plan which has been announced to the parties affected by it.

3.20. Equity and debt issuance costs - Redemption premiums

Debt issuance costs are amortized as financial expenses over the term of the loans using the interest method.

Common stock issuance costs are deducted from additional paid-in capital.

3.21. Deferred taxes

The Group accounts for deferred taxes using the balance sheet liability method, providing for any temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, with the exception of goodwill.

The tax rates used are those enacted or substantively enacted at the balance sheet date.

Net deferred tax balances are determined on the basis of each entity's tax position.

Deferred tax assets related to timing differences and carry forwards are recognized only to the extent it is probable that a future taxable profit will be available against which the asset can be utilized at the tax entity level.

A deferred tax liability is also recognized in the undistributed reserves of the equity affiliates.

Taxes payable and/or deferred are recognized in the income statement for the period, unless they are generated by a transaction or event booked directly as equity. In such a case, they are booked directly in equity.

3.22. Non-current assets held for sale and discontinued operations

Non-current assets or groups of assets intended for sale meet the criteria of such a classification if their carrying amount will be recovered principally through a sale rather than through their continuing use. This condition is considered to be met when the sale is highly probable and the asset (or the group of assets intended for sale) is available for immediate sale in its present condition. Management must be committed to a plan to sell, with the expectation that the sale will be realized within a period of twelve months from the date on which the asset or group of assets was classified as a non-current asset held for sale.

The Group determines on each closing date whether any assets or group of assets meet the above criteria and presents such assets, if any, as "non-current assets held for sale".
Any liabilities related to non-current assets to be sold are also presented on a separate line in liabilities on the balance sheet.

Non-current assets and groups of assets held for sale are valued at the lower of their book value or their fair value minus exit costs. As of the date of such a classification, the asset is no longer depreciated.

The results from discontinued operations are presented on the income statement separately from the results from continuing operations.

3.23. Share-based compensation

Pursuant to the transitional provisions of IFRS 2, only the plans granted after November 7, 2002, the rights to which were not acquired on April 1st, 2004, were valued and booked as personnel costs. The other plans are not valued and remain unrecognized. This last category affects only the Shares-for-Salary Exchange realized in 1998 for which stock subscription or purchase option schemes are valued at the fair value on the date the plans are awarded.
The fair value of the stock option scheme is determined using the Black & Scholes method. This method takes into account the features of the plan (exercise price, exercise period) and the market data at the time they are granted (risk-free interest rate, market value of the share, volatility and expected dividends).
This fair value is estimated to be the fair value of the services rendered by the employees in consideration for the options received. It is recognized as a personnel cost with a corresponding increase to equity over the period of acquisition of the rights. This personnel cost is adjusted, if applicable, to take into account the number of options effectively vested.

4. CHANGES IN THE SCOPE OF CONSOLIDATION

4.1. Acquisition of KLM

On April 5, 2004, Air France proposed a public exchange offer to shareholders of KLM common shares. The exchange ratio was set at 11 Air France shares and 10 Air France warrants for 10 KLM shares and 11 Air France American Depositary Shares (ADS), and 10 Air France American Depositary Warrants (ADW) for 10 KLM American Depositary Shares. As a result, Air France launched an initial offer that ended May 3, 2004.

Pursuant to Dutch law, Air France decided to launch, under the same conditions, a supplementary offer period which opened on May 4, 2004 and ended on May 21, 2004.
On that date, KLM shareholders had tendered a total of 45,093,299 common shares, representing approximately 96.33% of KLM common shares.
Following the acquisition of shares after the closing date of the operation, Air France, which became Air France-KLM, held 97.30% of the common shares representing 49% of KLM voting rights.

Based on the Air France-KLM ownership not only of voting shares but also of financial interest, and on the mode of functioning of the group's strategic management committee, Air France-KLM has the power to decide the company's financial and operational strategies and, therefore, controls KLM. KLM is therefore fully consolidated in Air France-KLM consolidated financial statements.

Pursuant to the provisions of IFRS 3, the acquisition of KLM has been accounted for using the purchase method.

- **Acquisition price**

The consideration paid for the acquisition of the 96.33% of KLM's common shares by Air France was based on the market price of the Air France share at the two closing dates of the exchange offer (May 3rd and 21st, 2004). Warrants issued as part of the transaction were also valued at those dates. The fair value of the warrants issued was calculated using the Black & Scholes valuation method. Assumptions were made on the expected volatility of the share price resulting from the combination, the expected dividend paid by the combined companies for the financial year, the average maturity of the warrants and the discount rate

In accordance with the provisions of IFRS 3, the additional costs directly attributable to KLM's acquisition were included in the acquisition price. They consisted primarily of the fees paid for accounting, legal, valuation and banking services.

The acquisition price breaks down as follows :

	Shares	Price (in €)	Consideration (in € millions)
Air France - KLM shares issued :			
May 3, 2004	45 938 857	14.65	673
May 21, 2004	3 663 774	12.81	47
Subscription warrants issued :			
May 3, 2004	41 762 597	1.07	45
May 21, 2004	3 330 702	0.98	3
Shares acquired after the closing of the second offer on May 21			5
Preferred and priority shares			15
Value of the shares which the Dutch State agreed to sell			20
Transaction costs			14
Stock options (stock options / rights related to appreciation of the shares)			9

Total acquisition price	831

Transaction costs amounted to € 30 millions, from which € 16 millions has been deducted from the additional paid-in capital related to the shares issuance.

- **Fair value of the assets and liabilities acquired**

Assets and liabilities acquired (in € millions) at April 30, 2004	**Fair value as published in consolidated financial statements as of September 30, 2005**	**Adjustments on pension**	**Fair value adjusted by adjustments on pension**
Goodwill	-	-	-
Intangible assets	435	-	435
Flight equipment	3 549	-	3 549
Other property, plant and equipment	805	-	805
Investments in equity associates	193	-	193
Pension assets	959	665	1 624
Other financial assets	569	-	569
Deferred tax assets	-	-	-
Other assets	235	(31)	204
Inventories	206	-	206
Account receivables	720	-	720
Income tax receivables	-	-	-
Cash and cash equivalents	719	-	719
Total assets	**8 390**	**634**	**9 024**
Provisions and retirement benefits	319	154	473
Long-term debt	4 153	-	4 153
Other liabilities	920	-	920
Trade payables	402	-	402
Deferred revenue on ticket sales	486	-	486
Current tax liabilities	181	165	346
Total liabilities	**6 461**	**319**	**6 780**
Percentage acquired	97.30%	97.30%	97.30 %
Net assets acquired	**1 877**	**306**	**2 183**
Acquisition price	831	-	831
Negative goodwill	**1 046**	**306**	**1 352**

It was impracticable to disclose in the Company's consolidated financial statements the IFRS carrying amount for each class of KLM's assets, liabilities and contingent liabilities immediately before the combination as KLM did not prepare its consolidated financial statements in accordance with IFRS prior to the acquisition. The above presented data correspond to the IFRS fair value balance sheet of KLM.

- **Adjustments on pension**

As explained in note 3.17.2, the Group has made a decision on the recognition of the KLM pension surplus. The recalculation of KLM's pension obligations translated into a € 306 millions increase in the negative goodwill, including the cancellation net of tax of the asset ceiling of the pilots' pension plan for € 251 millions and the finalization of the pension plan valuation for € 55 millions net of tax.

- **Recognition of negative goodwill**

Based on the fair valuation of KLM's assets and liabilities at the acquisition date, KLM's first consolidation resulted in the share acquired of the net fair value of KLM's identifiable assets, liabilities and contingent liabilities exceeding the acquisition cost by € 1 352 millions, including the recognition of the net pension asset related to the pilot retirement plan.

The negative goodwill was immediately and totally reversed to operating profit in the income statement. In the version of consolidated accounts for the year ended as of March 31, 2005 published in the condensed consolidated accounts for the six-months period ended as of September 30, 2005, the negative goodwill reversal was limited to € 424 millions, waiting for the IFRIC decision (see note 3.17.2).

- **Operating revenues and net income of KLM integrated in Group's financial statements as of March 31, 2005**

The public exchange offer was closed in May 2004; KLM's contribution to operating revenues and net income over as eleven-month period (from May 2004 to March 2005) amounts to € 5 919 millions and € 1 601 million, respectively.

- **Air France-KLM Proforma consolidated income statement as of March 31, 2005**

The proforma consolidated income statement as of March 31, 2005 has been established by including the KLM income statement for the month of April 2004 under IFRS.

In € millions ***Twelve months period ended March 31,***	**2005** **Proforma** **Unaudited**
Sales	**19 467**
Other revenues	5
Revenues	**19 472**
External expenses	(10 916)
Salaries and related costs	(6 136)
Taxes other than income taxes	(227)
Depreciation and Amortization	(1 601)
Provisions	(32)
Other income and expenses	(7)
Income from current operations	**553**
Sales of aircraft equipment	19
Negative goodwill	1 354
Other non-current income and expenses	5
Income from operating activities	**1 931**
Cost of financial debt	(356)
Income from cash and cash equivalents	127
Net cost of financial debt	**(229)**
Other financial income and expenses	(10)
Income before tax	**1 692**
Income taxes	(133)
Net income of consolidated companies	**1 559**
Share of profits (losses) of associates	73
Net income from continuing operations	**1 632**
Net income from discontinued operations	59
Income for the period	**1 691**
* **Group** (*)	**1 704**
* Minority interests	(13)
Earning per share - Group (*)	
* basic	6,59
* diluted	6,58
Net income from continuing operations per share	
* basic	6,31
* diluted	6,30

(*) corresponds to the result attributable to the stockholders of Air France - KLM

4.2. Disposal of subsidiaries

No significant disposal of subsidiaries occurred during the 2005-06 financial year.

On December 30, 2004, Air France – KLM Group sold its subsidiary Amadeus France SNC, in which it held 66% of voting rights, to Amadeus GTD (entity 23.4% held by the Group as of March 31, 2005).
The net assets of Amadeus France at the date of sale amounted to € (1) millions . The selling price of € 66 million was paid in cash.

5. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

The Air France-KLM group's primary reporting format is business segmentation.

Business segments' results, assets and liabilities are those that are either directly attributable or that can be allocated on a reasonable basis to these business segments. Amounts allocated to business segments mainly correspond

- as far as the income statement is concerned, to the current operating income and the share of results in associates,
- as far as the balance sheet is concerned, to intangible assets, flight equipment and Other property, plant and equipment, the share in equity affiliates, some account receivables, deferred revenue on ticket sales and a portion of provisions and retirement benefits.

Other elements of the income statement and of the balance sheet are presented in the "not allocated" column.

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

The Air France-KLM group's secondary reporting format is geographical segmentation, based on origin of sales.
Only segment revenue is allocated by geographical sales area.
The carrying amount of segment assets by geographical location and the costs incurred to acquire segment assets are not presented, since most of the Group's assets (flight equipment) cannot be allocated to a geographical area.

Business segments

Passenger: Passenger operating revenues primarily come from passenger transport services on scheduled flights with the Company's airline code, including flights operated by other airlines under code-sharing agreements. They also include commissions paid by SkyTeam alliance partners, code-sharing revenues, revenues from excess baggage and airport services supplied by the Group to third party airlines and services linked to IT systems.

Cargo: Cargo operating revenues come from freight transport on flights under the Companies codes, including flights operated by other partner airlines under code-sharing agreements. Other cargo revenues are derived principally from sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally.

Other: The revenues from this segment come primarily from catering supplied by the group to third-party airlines and to charter flights operated primarily by Transavia.

Geographical segments

Group activities are broken down into five geographical regions :

- Europe and North Africa
- Caribbean, French Guiana and Indian Ocean
- Africa, Middle East
- Americas, Polynesia
- Asia and New Caledonia

5.1. Information by business segment

Assets allocated by business segment are composed of goodwill, intangible and tangible assets, investments in equity associates and account receivables.
Liabilities allocated by business segment are composed of provision for restitution of aircraft, provision for pension, other provisions when they can be allocated, and deferred revenue on ticket sales.

- **Year ended March 31, 2006**

In € millions	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	17 635	2 907	2 688	1 350	-	24 580
Intersegment sales	(693)	(25)	(1 792)	(622)	-	(3 132)
External sales	**16 942**	**2 882**	**896**	**728**	**-**	**21 448**
Income from current operations	686	166	54	30	-	936
Income from operating activities	686	166	54	30	519	1 455
Share of profits (losses) of associates	(41)	-	-	18	-	(23)
Net cost of financial debt and other financial income and expenses	-	-	-	-	(255)	(255)
Income taxes	-	-	-	-	(256)	(256)
Net income from continuing operations	**645**	**166**	**54**	**48**	**8**	**921**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**
Net depreciation and amortization for the period	(1 014)	(131)	(397)	(114)	-	(1 656)
Other non monetary items	(78)	(7)	(22)	(450)	-	(557)
In € millions						
Total assets	**11 411**	**1 511**	**1 859**	**792**	**10 905**	**26 478**
Segment liabilities	3 123	104	168	107	5 936	9 438
Financial debt and equity	-	-	-	-	17 040	17 040
Total liabilities and equity	**3 123**	**104**	**168**	**107**	**22 976**	**26 478**
Purchase of property, plant and equipment and intangible assets	**1 816**	**216**	**264**	**123**	**125**	**2 544**

Non allocated assets amounting to € 10.9 billions are mainly financial assets held by the Group, comprising cash and cash equivalent for € 2.9 billions, derivatives for € 2 billions, other financial assets for € 2.1 billions (including deposits and cash equivalent), pension assets for € 1.9 billions.
Non allocated liabilities amounting to € 5.9 billions, mainly comprise tax and employee-related liabilities (including deferred tax) for € 2.2 billions, derivatives for € 0.4 billion and trade payables and other creditors for € 3.1 billions.
Financial debts and equity are not allocated.

- **Year ended March 31, 2005**

In € millions	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	15 471	2 516	2 578	1207	-	21 772
Intersegment sales	(438)	(22)	(1 801)	(533)	-	(2 794)
External sales	**15 033**	**2 494**	**777**	**674**	**-**	**18 978**
Income from current operations	382	138	26	4	-	550
Income from operating activities	382	138	26	4	1 377	1 927
Share of profits (losses) of associates	22	-	-	51	-	73
Net cost of financial debt and other financial income and expenses	-	-	-	-	(230)	(230)
Income taxes					(133)	(133)
Net income from continuing operations	**404**	**138**	**26**	**55**	**1 014**	**1 637**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**59**	**59**
Net depreciation and amortization for the period	(831)	(199)	(395)	(136)	-	(1 561)
Other non monetary items	(25)	-	2	367	-	344
In € millions						
Total assets	**10 455**	**1 364**	**1 714**	**1 478**	**8 183**	**23 194**
Segment liabilities	2 678	84	140	110	4 967	7 979
Financial debt and equity	-	-	-	-	15 215	15 215
Total liabilities and equity	**2 678**	**84**	**140**	**110**	**20 182**	**23 194**
Purchase of property, plant and equipment and intangible assets	**1 499**	**173**	**223**	**142**	**94**	**2 131**

Non allocated assets amounting to € 8.2 billions are mainly financial assets held by the Group, comprising cash and cash equivalent for € 2 billions, derivatives for € 0.4 billion, other financial assets for € 1.8 billions (including deposits and cash equivalent), pension assets for € 1.8 billions.

Non allocated liabilities amounting to € 5 billions, mainly comprise tax and employee-related liabilities (including deferred tax) for € 1.2 billions, trade payables and other creditors for € 3.3 billions.
Financial debts and equity are not allocated.

- **Year ended March 31, 2005 – Proforma (unaudited)**

In € millions	Passenger	Cargo	Maintenance	Other	Non allocated	Total
Total sales	15 817	2 598	2 600	1 246	-	22 261
Intersegment sales	(438)	(22)	(1 801)	(533)	-	(2 794)
External sales	**15 379**	**2 576**	**799**	**713**	**-**	**19 467**
Income from current operations	384	140	25	4	-	553
Income from operating activities	384	140	25	4	1 378	1 931
Share of profits (losses) of associates	22	-	-	51	-	73
Net cost of financial debt and other financial income and expenses	-	-	-	-	(239)	(239)
Income taxes	-	-	-	-	(133)	(133)
Net income from continuing operations	**406**	**140**	**25**	**55**	**1 006**	**1 632**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**59**	**59**
Net depreciation and amortization for the period	(860)	(202)	(401)	(138)	-	(1 601)
Other non monetary items	(25)	-	1	386	-	362

5.2. Information by geographical area

Sales by geographical area

- **Year ended March 31, 2006**

In € millions	Europe North Africa	Caribbean, French Guiana Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia New Caledonia	Total
Scheduled passenger	10 726	363	1 060	2 523	1 230	15 902
Other passenger sales	736	61	44	81	118	1 040
Total passenger	**11 462**	**424**	**1 104**	**2 604**	**1 348**	**16 942**
Scheduled cargo	1 169	36	170	337	961	2 673
Other cargo sales	139	5	8	25	32	209
Total cargo	**1 308**	**41**	**178**	**362**	**993**	**2 882**
Maintenance	887	-	-	-	9	896
Others	708	16	4	-	-	728
Total	**14 365**	**481**	**1 286**	**2 966**	**2 350**	**21 448**

- **Year ended March 31, 2005**

In € millions	Europe North Africa	Caribbean, French Guiana Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia New Caledonia	Total
Scheduled passenger	9 718	348	939	1 997	1 097	14 099
Other passenger sales	700	57	33	48	96	934
Total passenger	**10 418**	**405**	**972**	**2 045**	**1 193**	**15 033**
Scheduled cargo	1 081	41	157	266	756	2 301
Other cargo sales	131	5	7	23	27	193
Total cargo	**1 212**	**46**	**164**	**289**	**783**	**2 494**
Maintenance	769	-	-	-	8	777
Others	642	21	11	-	-	674
Total	**13 041**	**472**	**1 147**	**2 334**	**1 984**	**18 978**

- **Year ended March 31, 2005 – proforma (unaudited)**

In € millions	Europe North Africa	Caribbean, French Guiana Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia New Caledonia	Total
Scheduled passenger	9 936	351	962	2 050	1 126	14 425
Other passenger sales	720	57	33	48	96	954
Total passenger	**10 656**	**408**	**995**	**2 098**	**1 222**	**15 379**
Scheduled cargo	1 113	41	162	274	789	2 379
Other cargo sales	133	5	7	23	29	197
Total cargo	**1 246**	**46**	**169**	**297**	**818**	**2 576**
Maintenance	791	-	-	-	8	799
Others	681	21	11	-	-	713
Total	**13 374**	**475**	**1 175**	**2 395**	**2 048**	**19 467**

Traffic sales by geographical area of destination

- **Year ended March 31, 2006**

In € millions	Europe North Africa	Caribbean, French Guiana Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia New Caledonia	Total
Scheduled passenger	6 524	1 155	2 247	3 543	2 433	15 902
Scheduled cargo	75	186	320	833	1 259	2 673
Total	**6 599**	**1 341**	**2 567**	**4 376**	**3 692**	**18 575**

- **Year ended March 31, 2005**

In € millions	Europe North Africa	Caribbean, French Guiana Indian Ocean	Africa, Middle East	Americas, Polynesia	Asia New Caledonia	Total
Scheduled passenger	6 049	1 123	1 923	2 942	2 062	14 099
Scheduled cargo	76	183	297	699	1 046	2 301

Total	6 125	1 306	2 220	3 641	3 108	16 400

- **Year ended March 31, 2005 – proforma (unaudited)**

In € millions	**Europe North Africa**	**Caribbean, French Guiana Indian Ocean**	**Africa, Middle East**	**Americas, Polynesia**	**Asia New Caledonia**	**Total**
Scheduled passenger	6 162	1 138	1 977	3 022	2 126	14 425
Scheduled cargo	77	185	306	719	1 092	2 379
Total	**6 239**	**1 323**	**2 283**	**3 741**	**3 218**	**16 804**

6. EXTERNAL EXPENSES

In € millions ***Year ended March 31,***	**2006**	**2005**	**2005 proforma (unaudited)**
Aircraft fuel	3 588	2 653	2 721
Chartering costs	605	558	565
Aircraft operating lease costs	637	595	611
Landing fees and en route charges	1 610	1 460	1 504
Catering	405	391	399
Handling charges and other operating costs	1 203	1 072	1 100
Aircraft maintenance costs	740	653	683
Commercial and distribution costs	1 232	1 404	1 435
Other external expenses	2 070	1 843	1 898
Total	**12 090**	**10 629**	**10 916**

The “Other external expenses” correspond mainly to rent expenses and insurance costs.

7. SALARIES AND NUMBER OF EMPLOYEES

Salaries and related costs

In € millions ***Year ended March 31,***	**2006**	**2005**	**2005 proforma (unaudited)**
Wages and salaries	4 707	4 438	4 557
Pension contributions	414	394	408
Other social contributions	1 112	1 062	1 073
Expenses related to share-based compensation	29	69	69
Other expenses	95	31	29
Total	**6 357**	**5 994**	**6 136**

Average number of employees

	2006	2005
Flight deck crew	7 870	7 786
Cabin crew	20 294	19 829
Ground staff	74 258	74 462
	102 422	**102 077**
Including:		
Managers	13 048	12 996
Supervisors and technicians	29 729	29 364
Other staff	31 481	32 102
	74 258	**74 462**
Pilots and cabin crew	26 517	25 995
Instructors	965	956
Management	682	664
	28 164	**27 615**

8. DEPRECIATION, AMORTIZATION AND PROVISIONS

In € millions **Year ended March 31,**	2006	2005	2005 proforma (unaudited)
Depreciation and amortization			
Intangible assets	39	30	33
Flight equipment	1 371	1 280	1 310
Other property, plant and equipment	246	251	258
	1 656	**1 561**	**1 601**
Provisions			
Fixed assets	-	34	37
Inventories	1	-	-
Trade receivables	12	7	8
Risks and contingencies	96	(13)	(13)
	109	**28**	**32**
Total	**1 765**	**1 589**	**1 633**

A description of changes in amortization and impairment is included in notes 16 and 17.

The detail of changes in inventory impairment is included in notes 22 and 23.

The movements in provisions for risks and charges are detailed in note 28.

9. OTHER INCOME AND EXPENSES

In € millions ***Year ended March 31,***	**2006**	**2005**	**2005 proforma (unaudited)**
Joint operation of routes	(61)	(47)	(52)
Operations-related currency hedges	25	12	12
Other	(40)	39	33
Total	**(76)**	**4**	**(7)**

10. OTHER NON-CURRENT INCOME AND EXPENSES

In € millions ***Year ended March 31,***	**2006**	**2005**	**2005 proforma (unaudited)**
Sales of aircraft equipment	**2**	**19**	**19**
Gain on Amadeus GTD transaction	504	-	-
Restructuring costs	(1)	(21)	(21)
Disposal of subsidiaries and affiliates	3	(1)	-
Compensation on slot swaps	4	17	17
Other disposal of assets	2	9	9
Other non-current income and expenses	**512**	**4**	**5**

Gain on Amadeus GTD transaction

During the year ended March 31, 2005, Air France and the other air carrier shareholders in Amadeus GTD initiated discussions with private equity investment funds to launch, through a company, WAM Acquisition SA, in which they would become shareholders, a tender offer for Amadeus GTD at a price of € 7.35 per share. This Leveraged Buy Out (LBO) allowed Air France to recognize a gain, while remaining an Amadeus GTD shareholder through the new company. The offer closed early in July 2005 and the pre-tax gain on this transaction totaled € 504 millions.

Disposal of subsidiaries and affiliates

No significant disposal of subsidiaries or affiliates occurred during the year ended March 31, 2005.

During the year ended March 31, 2005, the Group has sold Amadeus France SNC. Impacts of this disposal are described in note 13.

11. NET COST OF FINANCIAL DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

In € millions *Year ended March 31,*	**2006**	**2005**	**2005 Proforma (unaudited)**
Income from cash and cash equivalents			
Income from marketable securities	52	36	36
Other financial income	116	89	91
	168	**125**	**127**
Cost of financial debt			
Loan interests	(205)	(285)	(285)
Lease interests	(220)	(83)	(85)
Capitalized interests	40	25	25
Other financial expenses	(7)	(5)	(12)
	(392)	**(347)**	**(356)**
Net cost of financial debt	**(224)**	**(222)**	**(229)**
Other financial income and expenses			
Foreign exchange gains (losses), net	(13)	(2)	(4)
Change in fair value of financial assets and liabilities	6	-	-
Net (charge) release to provisions	(24)	(6)	(6)
	(31)	**(8)**	**(10)**
Total	**(255)**	**(230)**	**(239)**

The interest rate used in the calculation of capitalized interest for the year ended March 31, 2006 is 3.76% (3.80% for the year ended March 31, 2005).

Net foreign exchange losses for the period include an unrealized net loss of € 8 millions (against € 4 millions for the year ended March 31st, 2005). The impact related to currency derivatives amounted to € (4) millions.

Net charge to provisions includes an impairment on shares of Alitalia amounted to € 9 millions, stock price decreasing in a significant way during the year ended March 31, 2006.

12. INCOME TAXES

12.1. Income tax charge

In € millions *Year ended March 31,*	2006	2005	2005 Proforma (unaudited)
Current tax charge	**(158)**	**(7)**	**(7)**
Charge for the year	(158)	(7)	(7)
Adjustment of previous current tax charges	-	-	-
Deferred tax income / (charge)	**(98)**	**(126)**	**(126)**
Change in temporary differences	(54)	(114)	(114)
Change in tax rates	17	30	30
Use / recognition of tax loss carryforwards	(61)	(42)	(42)
Income tax (charge) / income	**(256)**	**(133)**	**(133)**
Tax on the net income from discontinued operations	-	(13)	(13)
Total income tax (charge) / credit	**(256)**	**(146)**	**(146)**

The current tax charge relates to amounts paid or payable in the short term to the tax authorities in respect of the current year, in accordance with the regulations prevailing in various countries and any applicable treaties.

12.2. Deferred tax booked directly in equity

In € millions *Year ended March 31,*	2006	2005
Hybrid instruments	(24)	-
Cash flow hedge	(541)	-
Total	**(565)**	**-**

12.3. Effective tax rate

The difference between the standard tax rate in France and the effective tax rate is detailed as follows :

In € millions ***Year ended March 31,***		**2006**		**2005**	**2005 Proforma (unaudited)**
Income before tax		1 200		1 697	1 692
Theoretical tax calculated with the standard tax rate in France	34.43 %	414	34,93 %	593	591
Differences in French / foreign tax rates		(17)		(14)	(14)
Negative goodwill		(2)		(473)	(473)
Non deductible expenses		51		27	27
Income taxed at non-current tax rates		(135)		7	7
Non-taxable income		(2)		(16)	(16)
Use of tax loss carryforwards		(4)		(8)	(8)
Change in tax rate		(17)		(30)	(30)
Adjustment of previous current tax charges		(4)		2	2
Tax on Amadeus GTD reserves		-		41	41
TSDI settlement		(28)		-	-
Other		-		4	6
Income tax expenses	**21,3%**	**256**	**7,8%**	**133**	**146**

The tax rate applicable in France was set at 34.43% by the 2005 French Financial Law for financial years closing from January 1st, 2006.

12.4. Unrecognized deferred tax assets

In € millions ***Year ended March 31,***	**2006**	**2005**
Temporary differences	98	89
Tax losses	355	373
Tax losses at non-current tax rates	100	106
Total	**553**	**568**

These unrecognized deferred tax assets represent future tax gains, and as of March 31st, 2006, are mainly due to subsidiaries tax loss carry forwards prior to the Air France group's tax integration, as well as tax loss carry forwards in the Group's UK subsidiaries.

Pursuant to Article 89 of the French Finance Law (loi de finances) for 2004, approved on December 18th, 2003, tax losses may now be carried forward for an unlimited period of time. These new provisions apply to financial years starting as of January 1st, 2004, as well as to losses to be carried forward at the end of the financial year preceding January 1st, 2004.
In the Netherlands, fiscal losses can be carried forward for an unlimited period.

12.5. Deferred tax recorded on balance sheet

In € millions	**April 1, 2005**	**Amounts recorded in income statement**	**Amounts recorded in equity**	**Reclassification**	**March 31, 2006**
Intangible assets	111	(8)	-	-	103
Flight equipment	691	(76)	1	-	616
Other property, plant and equipment	121	32	-	-	153
Investments in equity associates	46	(46)	-	-	-
Other non current financial assets	(103)	8	(1)	-	(96)
Pension assets	522	25	-	-	547
Other non current assets	7	(1)	271	-	277
Other short term financial assets	1	-	1	-	2
Other current assets	4	(47)	323	-	280
Provisions and retirement benefits – non current	(71)	91	-	-	20
Long-term debt	(517)	44	25	-	(448)
Other non-current liabilities	(1)	1	(38)	-	(38)
Provisions – current	(24)	(10)	-	-	(34)
Short term portion of long-term debt	(40)	(56)	-	-	(96)
Other current liabilities	(7)	3	(17)	-	(21)
Others	(39)	76	-	(4)	33
Deferred tax corresponding to fiscal losses	(528)	62	-	-	(466)
Deferred tax (Asset) / Liability	**173**	**98**	**565**	**(4)**	**832**

In € millions	**April 1, 2004**	**Amounts recorded in income statement**	**Acquisition of KLM**	**March 31, 2005**
Intangible assets	(3)	(22)	136	111
Flight equipment	833	131	(273)	691
Other property, plant and equipment	57	(18)	82	121
Investments in equity associates	5	41	-	46
Other non current financial assets	(99)	(2)	(2)	(103)
Pension assets	-	(75)	597	522
Other non current assets	(1)	8	-	7
Other short term financial assets	1	13	(13)	1
Inventories	-	(2)	2	-
Account receivables	-	(7)	7	-
Other current assets	(26)	30	-	4
Cash and cash equivalents	3	(3)	-	-
Provisions and retirement benefits – non current	(76)	12	(7)	(71)
Long-term debt	(509)	(5)	(3)	(517)
Other non-current liabilities	-	(1)	-	(1)
Provisions – current	3	(27)	-	(24)
Short term portion of long-term debt	(27)	(13)	-	(40)
Other current liabilities	(5)	14	(16)	(7)
Others	(38)	15	(16)	(39)
Deferred tax corresponding to fiscal losses	(391)	49	(186)	(528)
Deferred tax (Asset) / Liability	**(273)**	**138**	**308**	**173**

13. DISCONTINUED OPERATIONS

During the 2005-06 financial year, the Group initiated no disposal process which could be considered as a "discontinued operation".

As of December 30, 2004 the Group sold its shares in Amadeus France SNC to Amadeus GTD. This company's activity was to distribute the Amadeus booking system in France. The conditions allowing its classification as a "discontinued activity" occurred as of April 1, 2004. Amadeus France SNC was therefore reclassified from April 1, 2004 until December 30, 2004. Previously, Amadeus France SNC's activity was disclosed in the "Passenger" segment.

13.1. Net income from discontinued operations

Information regarding discontinued operations :

In € millions

Year ended March 31,	**2006**	**2005**	**2005 Proforma (unaudited)**
Sales	-	71	71
Expenses	-	(65)	(65)
Gain on disposal	-	66	66
Income before tax	-	73	73
Income taxes	-	(13)	(13)
Net income from discontinued operations	**-**	**59**	**59**

The gain on the disposal of subsidiaries and affiliates (€ 66 millions) is mainly due to proceeds on the sale of Amadeus France SNC to Amadeus GTD at December 30, 2004. This company was previously fully consolidated in the Air France-KLM consolidated financial statements. Between April 1, 2004 and December 30, 2004, the disposal date, operations of Amadeus France SNC have been classified as discontinued activities.

13.2. Impact on the cash flows statement of discontinued activities

Amadeus France's contribution to the cash flows statement of the Group is as follows :

In € millions

Year ended March 31,	**2006**	**2005**	**2005 Proforma (unaudited)**
Cash flow from operating activities	-	6	6
Cash flow from investing activities	-	66	66
Cash flow from financing activities	-	(4)	(4)

14. EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the income for the period – Group share adjusted of effects of dilutive instruments' exercise, by the average weighted number of shares outstanding during the period, adjusted for the effect of all dilutive potential ordinary shares.

14.1. Income for the period – Group share (*) per share

Reconciliation of income used to calculate earnings per share

In € millions *Year ended March 31,*	2006	2005	2005 Proforma (unaudited)
Income for the period – Group share (*)	913	1 710	1 704
Dividends to be paid to priority shares	-	-	-
Income for the period – Group share (*) (used to calculate basic earnings per share)	**913**	**1710**	**1 704**
Impact of potential ordinary shares :			
- interest paid on convertible bonds (net of tax)	10	-	-
Income for the period – Group share (*) (used to calculate diluted earnings per share)	**923**	**1 710**	**1 704**

(*) corresponds to the result attributable to the stockholders of Air France - KLM

Reconciliation of the number of shares used to calculate earnings per share

The number of shares used to calculate earnings per share breaks down as follows :

In € millions *Year ended March 31,*	2006	2005	2005 Proforma (unaudited)
Weighted average number of :			
- Ordinary shares issued	269 383 518	264 898 897	264 898 897
- Treasury stock held regarding stock option plan	(5 107 510)	(4 440 889)	(4 440 889)
- Treasury stock held in stock buyback plan	(852 430)	(1 752 865)	(1 752 865)
Number of shares used to calculate basic earnings per share	**263 423 578**	**258 705 143**	**258 705 143**
Weighted average number of ordinary shares :			
- Conversion of convertible bonds	20 628 132	-	-
- Exercise of stock options	175 362	189 861	189 861
Number of potential ordinary shares	**20 803 494**	**189 861**	**189 861**
Number of ordinary and potential ordinary shares used to calculate diluted earnings per share	**284 227 072**	**258 895 004**	**258 895 004**

14.2. Net income from continuing operations

Reconciliation of income used to calculate net income from continuing operations per share

Income used to calculate net income from continuing operations per share breaks down as follows :

In € millions			
Year ended March 31,	**2006**	**2005**	**2005 Proforma (unaudited)**
Net income from continuing operations	921	1 637	1 632
Dividends to be paid to priority shares	-	-	-
Net income from continuing operations (used to calculate basic earnings per share)	**921**	**1 637**	**1 632**
Impact of potential ordinary shares :			
- interest paid on convertible bonds (net of tax)	10	-	-
Net income from continuing operations (used to calculate diluted earnings per share)	**931**	**1 637**	**1 632**

Reconciliation of the number of shares used to calculate net income from continuing operations per share

The reconciliation of the number of shares used to calculate net income from continuing operations per share is presented in note 14.1.

14.3. Net income from discontinued operations per share

Net income from discontinued operations per share

In euros			
Year ended March 31,	**2006**	**2005**	**2005 Proforma (unaudited)**
Net income from discontinued operations per share (basic)	-	**0,23**	**0,23**
Net income from discontinued operations per share (diluted)	**-**	**0,23**	**0,23**

Reconciliation of incomes used to calculate net income from discontinuing operations per share

In € millions			
Year ended March 31,	**2006**	**2005**	**2005 Proforma (unaudited)**
Net income from discontinued operations	-	59	59
Dividends to be paid to priority shares			
Net income from discontinued operations (used to calculate basic earnings per share)	-	**59**	**59**
Impact of potential ordinary shares :			
- interest paid on convertible bonds (net of tax)			
Net income from discontinued operations			

(used to calculate diluted earnings per share)	-	**59**	**59**

Reconciliation of the number of shares used to calculate net income from discontinued operations per share

The reconciliation of the number of shares used to calculate net income from discontinued operations per share is presented in note 14.1

14.4. Non dilutive instruments

- **As of March 31, 2006**

As of March 31, 2006, non dilutive instruments comprise 45 090 617 equity warrants for new or existing shares, described in note 26.1 (45 093 299 as of March 31, 2005), and 3 821 040 stock options described in note 27, for an average exercise price of € 15.59 (4 763 763 stock options for an average exercice price of € 15.76 as March 31, 2005).

- **As of March 31, 2005**

Following the Exchange Offer for KLM shares into Air France-KLM shares in May 2004, 45 093 299 Equity Warrants for new or existing shares were issued in May 2004. These instruments are described in note 26.1.

14.5. Instruments issued after the closing date

No instrument was issued after the closing date.

15. GOODWILL

Detail of consolidated goodwill

The details of consolidated goodwill as of March 31, 2006 and 2005 is as follows:

In € millions **Year ended March 31,**	**2006**			**2005**		
	Gross value	**Accumulated depreciation**	**Net value**	**Gross value**	**Accumulated depreciation**	**Net value**
UTA	112	-	112	112	-	112
Régional	60	-	60	60	-	60
Britair	18	-	18	18	-	18
Cityjet	11	-	11	11	-	11
Others	7	-	7	4	-	4
Total	**208**	-	**208**	**205**	**-**	**205**

Goodwill has been allocated to the « Passenger » business.

Movement in net book value of goodwill

In € millions *Year ended March 31*	**2006**	**2005**
Opening balance	**205**	**202**
Additions	3	3
Closing balance	**208**	**205**

16. INTANGIBLE ASSETS

In € millions	**Trademarks and slots**	**Customers relationships**	**Other intangible assets**	**Total**
Gross value				
Amount as of April 1, 2004	26	-	135	**161**
Additions	-	-	23	**23**
KLM acquisition	280	107	48	**435**
Amount as of March 31, 2005	**306**	**107**	**206**	**619**
Additions	1	-	29	**30**
Disposals	(2)	-	(11)	**(13)**
Transfer	-	-	3	**3**
Amount as of March 31, 2006	**305**	**107**	**227**	**639**
Depreciation and impairment				
Amount as of April 1, 2004	**(2)**	**-**	**(135)**	**(137)**
Charge to depreciation	-	(15)	(15)	**(30)**
Transfers	2	-	(17)	**(15)**
Amount as of March 31, 2005	**-**	**(15)**	**(167)**	**(182)**
Charge to depreciation	-	(18)	(21)	**(39)**
Releases on disposal	-	2	11	**13**
Transfer	-	-	(3)	**(3)**
Amounts as of March 31, 2006	**-**	**(31)**	**(180)**	**(211)**
Net value				
as of April 1, 2004	24	-	-	**24**
as of March 31, 2005	306	92	39	**437**
as of March 31, 2006	305	76	47	**428**

Trademarks KLM and Transavia and slots were acquired by the Group with the acquisition of KLM. These intangible assets have an indefinite life as the nature of these assets means they have no time limit.

17. TANGIBLE ASSETS

Change by category

In € millions	Flight equipment				Other tangible assets				Assets in progress	Total
	Owned aircraft	Leased aircraft	Other	Total	Land and buildings	Equipment and fittings	Other	Total		
Gross value										
Amount as of April 1, 2004	**4 343**	**1 452**	**1 155**	**6 950**	**1 234**	**594**	**683**	**2 511**	**697**	**10 158**
Additions	439	174	914	1 527	100	80	91	271	340	2 138
Disposals	(512)	(108)	(326)	(946)	(52)	(32)	(32)	(116)	-	(1 062)
KLM acquisition	1 026	1 997	291	3 314	553	144	28	725	315	4 354
Transfer	328	203	(299)	232	77	7	(4)	80	(138)	174
Currency translation adjustment	(28)	211	(1)	182	-	-	(1)	(1)	(20)	161
Amounts as of March 31, 2005	**5 596**	**3 929**	**1 734**	**11 259**	**1 912**	**793**	**765**	**3 470**	**1 1194**	**15 923**
Additions	613	62	511	1 186	49	62	52	163	1 199	2 548
Disposals	(227)	(101)	(302)	(630)	(19)	(37)	(21)	(77)	(59)	(766)
Changes in consolidation scope	-	-	-	-	-	7	2	9	(32)	(23)
Transfers	231	310	324	865	139	26	(23)	142	(1 052)	(45)
Currency translation adjustment	11	-	-	11	-	(2)	-	(2)	14	23
Amount as of March 31, 2006	**6 224**	**4 200**	**2 267**	**12 691**	**2 081**	**849**	**775**	**3 705**	**1 264**	**17 660**
Depreciation and impairment										
Amount as of April 1, 2004	**(528)**	**(103)**	**(436)**	**(1 067)**	**(640)**	**(436)**	**(485)**	**(1 561)**	**-**	**(2 628)**
Charge to depreciation	(508)	(444)	(362)	(1 314)	(106)	(69)	(76)	(251)	-	(1 565)
Releases on disposal	282	25	300	607	25	21	24	70	-	677
Changes in consolidation scope	-	-	-	-	2	-	22	24	-	24
Transfers	(90)	83	(143)	(150)	-	1	(23)	(24)	-	(174)
Currency translation adjustment	26	4	(2)	28	(2)	5	1	4	-	32
Amount as of March 31, 2005	**(818)**	**(435)**	**(643)**	**(1 896)**	**(721)**	**(480)**	**(537)**	**(1 738)**	**-**	**(3 634)**
Charge to depreciation	(591)	(294)	(485)	(1 370)	(110)	(73)	(64)	(247)	-	(1 617)
Releases on disposal	171	39	245	455	14	33	17	64	-	519
Change sin consolidation scope	-	-	-	-	-	-	-	-	-	-
Transfers	(32)	32	-	-	1	7	37	45	-	45
Currency translation adjustment	3	(1)	(3)	(1)	-	-	-	-	-	(1)
Amount as of March 31, 2006	**(1 267)**	**(659)**	**(886)**	**(2 812)**	**(816)**	**(513)**	**(547)**	**(1 876)**	**-**	**(4 688)**
Net value										
as of April 1, 2004	3 815	1 349	719	**5 883**	594	158	198	**950**	**697**	**7 530**
as of March 31, 2005	4 778	3 494	1 091	**9 363**	1 191	313	228	**1 732**	**1 194**	**12 289**
as of March 31, 2006	4 957	3 541	1 381	**9 879**	1 265	336	228	**1 829**	**1 264**	**12 972**

Note 34 details the amount of pledged tangible assets.
Commitments to property purchases are detailed in notes 33 and 34.
The net value of tangible assets financed under capital lease amounts to € 3 912 millions as of March 31st, 2006 (€ 3 710 millions as of March 31st, 2005).

18. CAPITAL EXPENDITURE

The detail of investments in property, plant and equipment and intangible assets presented in the consolidated cash flow statements is as follows:

In € millions		
Year ended March 31,	**2006**	**2005**
Acquisition of tangible assets	2 548	2 138
Acquisition of intangible assets	30	23
Accounts payable on acquisitions	(34)	(30)
	2 544	**2 131**

19. EQUITY AFFILIATES

Movements over the period

The table below presents the movement in equity affiliates :

In € millions	**WAM Acquisition (Amadeus GTD)**	**Alpha Plc**	**Martinair**	**Other**	**Total**
Value of share in investment as at March 31, 2004	287	31	-	21	339
Share in net income of equity affiliates	50	3	9	11	73
Distributions	(8)	(2)	-	-	(10)
Changes in consolidation scope	-	-	146	29	175
Transfers and reclassifications	-	2	-	-	2
Currency translation adjustment	-	(2)	-	-	(2)
Value of share in investments as of March 31, 2005	**329**	**32**	**155**	**61**	**577**
Share in net income of equity affiliates	14	4	(59)	18	(23)
Distributions	-	(3)	(1)	(3)	(7)
Changes in consolidation scope	-	-	-	5	5
Amadeus transaction	(343)	-	-	-	(343)
Transfers and reclassifications	-	-	(3)	-	(3)
Currency translation adjustment	-	-	-	(2)	(2)
Value of share in investment as of March 31, 2006	**-**	**33**	**92**	**79**	**204**

During the year ended March 31, 2005, Air France and the other airline shareholders of Amadeus GTD began negotiations with private equity investors to launch a bid for Amadeus GTD at a price of €7.35 per share through WAM Acquisition a company, in which they would be partners. This Leverage Buy Out (LBO) enabled Air France to externalize its potential capital gains, while remaining a shareholder of Amadeus GTD through WAM Acquisition. This equity affiliate in the Air France-KLM group's consolidated accounts contributes for a nil value for the year ended March 31, 2006.

In addition, an impairment charge has been recorded on the Company's investment in Martinair for an amount of 59 million euros.

As of March 31, 2006, the ownership structure of WAM Acquisition was as follows: 23.4% Air France, 11.7% Iberia, 11.7% Lufthansa and 53.2% Amadelux Investments. The ownership structure of Alpha plc was as follows: 27% Servair ; the other shareholders are mainly institutional investors. The KLM and P&O Nedlloyd Groups each hold 50% of the capital of Martinair.

As of March 31, 2005, Air France held 23.4% of Amadeus GTD, Iberia 18.3%, Lufthansa 5% and the general public 53.3%. Amadeus was listed for trading on a regulated market and the market value of Amadeus shares owned by the Group amounted to € 1 003 millions.
The ownership structure of Alpha plc was as follows: 27% by Servair ; the other shareholders were mainly institutional investors. The KLM and P&O Nedlloyd Groups each held 50% of the capital of Martinair.

Simplified accounts of the main equity affiliates

The equity affiliates as of March 31, 2006 mainly concerned the following companies, in which the Group has a significant stake.

- **WAM Acquisition (Group publishing consolidated financial statements)**
  This Group develops booking tools and technology solutions dedicated to business and leisure travels. This expertise makes it the global partner of choice for : travel agents, rail and airlines operators, hotel chains, car rental companies. Furthermore, the Group also partners businesses involved in the reservation and management of business travel.

- **Alpha Airport PLC (Group publishing consolidated financial statements)**
  The Alpha Airports Group provides retail and catering services for airlines and airports. The Group operates over 150 retailing and catering outlets in 74 airports in 13 countries across five continents. The Group's inflight catering business offers a comprehensive range of catering logistics, flight catering and management services for over 100 airlines. The Group also provides inflight sales services.
  The Alpha Airport Group offers airport customers customized retail and catering services. The Group operates stores at 26 airports in the United Kingdom and Ireland, 2 airports in the USA, 2 airports in Turkey and 3 airports on the Indian sub-continent.

- **Martinair (Group publishing consolidated financial statements)**
  Located in the Netherlands, Martinair's core business is the air transport of passengers and freight out of Amsterdam.

The following accounting information for the 2005 and 2006 financial years represents in 100% of equity affiliates.

In € millions	**WAM Acquisition (Amadeus GTD)**	**Alpha Plc**	**Martinair**
	31/12/2004	**31/01/2005**	**31/12/2004**
% holding as of March 31, 2005	23.4%	26.2%	50.0%
Operating revenues	2 057	715	959
Operating income	343	22	23
Net income	208	13	13
Group's share in net income	**50**	**3**	**9**
Stockholder's equity as of March 31, 2005	942	62	318
Group's share in net equity	**220**	**16**	**159**
Total assets	1 675	243	682
Total liabilities and stockholder's equity	1 675	243	682
	31/07/2005	**31/01/2006**	**31/12/2005**
% holding as of March 31, 2006	23.4%	26.1%	50.0%
Operating revenues	180	807	1 121
Operating income	(68)	30	22
Net income	(89)	20	17
Group's share in net equity	**14**	**4**	**(59)**
Stockholders' equity as of March 31, 2006	21	62	322
Group's share in net equity	**-**	**33**	**92**
Total assets	5 252	294	710
Total liabilities and stockholders' equity	5 252	294	710

Other information

The share of WAM Acquisition's loss that has not been recorded in the Group's consolidated financial statements amounted to € (21) millions for the year ended March 31, 2006. Given the negative net equity after neutralization of amounts reinvested by the Air France-KLM Group, its contribution to consolidated financial statements is nil.

20. Pension assets

The changes of the pension asset recorded in the balance sheet are as follows :

In € millions ***Year ended March 31,***	**2006**	**2005**
Opening balance	1 767	23
Net periodic pension cost for the period	(115)	(106)
Contributions paid to the funds	249	226
Acquisition of KLM	-	1 624
Currency translation adjustment	2	-
Closing balance	**1 903**	**1 767**

The detail of this pension asset is presented in note 28.1.

21. Other financial assets

In € millions ***Year ended March 31,***	**2006**		**2005**	
	Current	**Non current**	**Current**	**Non current**
Marketable securities	865	-	578	-
Treasury shares	-	-	-	27
Loans and receivables	65	1 130	45	986
Miscellaneous financial assets	2	24	31	75
Financial assets available for sale	-	77	-	57
Other	-	-		15
Impairment	-	(49)	-	(47)
Total	**932**	**1 182**	**654**	**1 113**

Treasury shares

As of April 1, 2005, due to the implementation of IAS 32 and 39, treasury shares held are presented as a reduction of equity and therefore no longer appear in financial assets.

Loans and receivables

Loans and receivables mainly include deposits on flight equipment operating and capital leases.

Financial assets available for sale

In € millions	**Fair Value**	**% interest**	**Stockholder's equity**	**Net income**	**Stock price (in €)**	**Closing date**
As of March 31, 2006						
Alitalia (*) (**)	32	2.00%	1 462	(167)	1.15	December 2005
Austrian Airlines (*)	4	1.50%	566	(129)	8.39	December 2005
Opodo	3	5.94%	(4)	(50)	NA	December 2004
Voyages Fram	9	8.70%	123	(17)	NA	December 2004
Others	29					
As of March 31, 2005						
Alitalia (*)	16	2.00%	1 264	(520)	0.228	December 2004
Austrian Airlines (*)	9	1.50%	631	40	7.87	December 2004
Opodo	-	8.30%	(15)	(64)	NA	December 2003
Voyages Fram	9	8.7 %	142	(15)	NA	December 2003
Others	23					

(*) Listed company

(**) A reverse stock split occurred during the financial year, which replaced aggregating 30 shares with 1 new share.

22. INVENTORY AND WORK IN PROGRESS

The detail of inventory and work in progress as of March 31, 2006 and 2005 is as follows:

In € millions **Year ended March 31**	**2006**	**2005**
Aeronautical spare parts	331	305
Other supplies	134	125
Production work in progress	2	55
Gross value	**467**	**485**
Opening valuation allowance	**(103)**	**(116)**
Charge allowance	(29)	-
Use of allowance	5	-
Releases of allowance no longer required	-	13
Closing valuation allowance	**(127)**	**(103)**
Net value of inventory	**340**	**382**

23. TRADE ACCOUNTS RECEIVABLE

In € millions **Year ended March 31,**	**2006**	**2005**
Passenger	1 330	977
Cargo	392	330
Maintenance	303	382
Airlines	503	438
Other	97	247
Gross value	**2 625**	**2 374**
Opening valuation allowance	**(102)**	**(99)**
Charge to allowance	(17)	(30)
Use of allowance	12	27
Closing valuation allowance	**(107)**	**(102)**
Net value	**2 518**	**2 272**

24. OTHER ASSETS

In € millions ***Year ended March 31,***	2006		2005	
	Current	**Non current**	**Current**	**Non current**
Suppliers with debit balances	70	-	153	-
State	79	7	82	-
Group and associates	35	-	16	-
Derivative instruments	1 022	973	88	299
Prepayments	294	-	304	-
Other debtors	261	102	331	37
Gross value	**1 761**	**1 082**	**974**	**336**
Opening valuation allowance	**(5)**	-	**(5)**	**-**
Charge to allowance	-	-	-	-
Use of allowance	-	-	-	-
Release of allowance no longer required	-	-	-	-
Closing valuation allowance	**(5)**	-	**(5)**	**-**
Net realizable value of other assets	**1 756**	**1 082**	**969**	**336**

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

In € millions **Year ended March 31,**	**2006**	**2005**
Negotiable debt securities	25	32
Mutual funds (SICAV)	2 062	963
Bank deposits	639	654
Cash in hand	220	398
Total	**2 946**	**2 047**

The effective interest rate for term deposits for the year ended March 31, 2005 amounted to 2.26%, compared with 2.69% for the year ended March 31, 2006.

26. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AIR FRANCE-KLM SA

26.1. Issued capital

As of March 31, 2006, the issued capital of Air France-KLM represented 269 383 518 fully paid-up shares. Each share is entitled to one vote. The nominal value of each share amounts to 8.5 euros.

Breakdown of stock and voting rights

The breakdown of stock and voting rights is as follows :

Year ended March 31,	% stock		% of voting rights	
	2006	2005	2006	2005
French State	18%	23%	19%	24%
Employees and former employees	14%	12%	14%	12%
Treasury shares	2%	2%	-	-
Other	66%	63%	67%	64%
	100%	**100%**	**100%**	**100%**

The item "Employees and former employees" includes shares held by employees and former employees identified in funds or by a Sicovam code.

Other securities giving access to common stock

Following the Exchange Offer, 45,093,299 Equity Warrants for new or existing shares (Bons d'Acquisition et/ou de Souscription d'Actions (BASA) were issued. Three BASAs give the holder the right to purchase and/or subscribe to two new or existing shares of Air France-KLM stock, with a par value of 8.50 euros, at an exercise price of 20 euros per Air France-KLM share. BASA holders will have the option, at any time during a 24-month period beginning November 2005, to obtain new or existing shares, at the Company's discretion, upon exercise of the BASA. The maximum potential increase in the equity capital of Air France-KLM is € 601 millions. As the exercise price of the BASA is higher than the Air France-KLM stock price, they are not taken into account for the calculation of diluted earnings per share.

26.2. Additional paid-in capital

Additional paid-in capital represents the difference between the nominal value of equity securities issued and the value of contributions in cash or in kind received by Air France-KLM.

In € millions **Year ended March 31,**	**2006**	**2005**
Equity part of Hybrid instruments	46	-
Other paid-in capital	384	384
	430	**384**

26.3. Treasury shares

As of March 31, 2006, the Group held 4 129 088 shares of its own stock. The Group also held 21 047 shares of its own stock within the framework of a liquidity agreement approved by the Shareholders' Meeting of July 12, 2005. All these treasury shares are classified as a reduction of equity as of March 31, 2006.

As at March 31, 2005, shares held by the Group were classified as marketable securities for an amount of € 27 millions, Air France-KLM having implemented IAS 32 and 39 as of April 1, 2005 and in accordance with the exemption provided by IFRS 1.

26.4. Reserves and retained earnings

In € millions **Year ended March 31,**	**2006**	**2005**
Legal reserve	46	46
Statutory reserve	1 059	1 133
Other reserves	3 054	365
Net income (loss)	913	1 710
Total	**5 072**	**3 254**

As of March 31, 2006, the legal reserve of € 46 millions represents 2% of Air France-KLM's issued capital. French company law requires that a limited company (société anonyme) allocate 5% of its unconsolidated statutory net result each year to this legal reserve until it reaches 10% of the company's issued capital. The amount allocated to this legal reserve is deducted from the distributable income for the current year. This restriction on the payment of dividends also applies to each of the French subsidiaries on an individual statutory basis. The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

Other reserves also include (i) the distributable reserves corresponding to the parent company Air France-KLM's share of income which was appropriated to reserves by annual shareholders meetings, and (ii) to the aggregate results of consolidated subsidiaries.

Distributable income and reserves

In € millions **Year ended March 31,**	**2006**	**2005**
Distributable reserves	1 053	1 129
Net income (loss), Group share	913	1 710
Distributable income	**1 966**	**2 839**

The Board of Directors proposed a dividend distribution amounting to € 80 millions (€ 0.30 per share) which is subject to approval by the shareholders at the annual general meeting to be held on July 12, 2006.

27. SHARE BASED COMPENSATION

As of March 31, 2006, outstanding share-based compensation plans were:

Plans	Grant date	Number of shares granted	Start date for option exercise	Date of expiry	Exercise price (euros)	Number of options exercised as of 31/03/2006
Stock-options plans						
KLM	30/06/2000	34 419	30/06/2003	20/10/2005	32.86	-
KLM - actions A	30/06/2001	343 642	30/06/2004	20/10/2006	20.44	-
KLM - actions B	30/06/2001	114 162	30/06/2004	20/10/2006	16.22	65 400
KLM - actions A	30/06/2002	341 350	30/06/2004	19/10/2007	12.80	223 948
KLM - actions B	30/06/2002	119 105	30/06/2004	19/10/2007	10.07	89 142
KLM	30/06/2003	355 379	30/06/2004	30/06/2008	6.48	272 768
KLM	30/06/2004	463 884	30/06/2004	25/06/2009	13.19	-
KLM	31/07/2005	390 609	31/07/2005	16/07/2010	13.11	-
Other plans :						
Air France - ESA (*) 1998 pilots	01/05/1999	15 023 251	N/A	31/05/1999	14.00	15 023 251
Air France – ESA (*) 1998 options	30/05/2000	3 516 596	31/05/2005	31/05/2007	15.75	868 070
Air France - KLM - ESA(*) 2003	01/02/2005	12 612 671	N/A	21/02/2005	14.00	12 612 671
Air France - KLM – ORS(**)	01/02/2005	8 414 273	N/A	21/02/2005	14.30	8 414 273

(*) ESA : Shares-for-salary exchange
(**) ORS : Offer reserved for employees

27.1. Plans granted prior to November 7, 2002

In accordance with the transitional provisions of IFRS 2, only plans granted after November 7, 2002 and not yet vested as of April 1, 2004 were valued and recorded as salary expense. IFRS 2 is therefore not applicable to the plans described below :

On October 28, 1998, Air France signed an agreement granting Air France shares to pilots in return for a reduction in salary (these shares being attributed by the French State, the major shareholder at the time). The offer was launched on May 1, 1999 and closed on May 31, 1999. By the end of the offer, 15,023,251 shares were allocated to pilots. Payment for these shares, priced at € 14, would be made through a reduction in salary spread over (i) a 7 year period for 10,263,001 shares and (ii) the remaining career of pilots for the remaining 4,760,250 shares.

Moreover, within the same agreement, Air France also granted 3,516,596 stock purchase options on May 30, 2000 to certain of its employees. These options will be exercisable at € 15.75 per share between May 31, 2005 and May 31, 2007. These options were granted without vesting conditions of service and were considered vested at their grant date May 30, 2000.
As of March 31, 2006, 868,070 of these options had been exercised and 50,290 cancelled. As of March 31, 2005, none of these options had been exercised and 19,659 had been cancelled.

27.2. Plans granted after November 7, 2002

Stock-option plans

Prior to the combination with Air France, members of the board of Directors and the key executives of KLM had been granted KLM stock options.

Within the combination agreement between KLM and Air France, stock-options and SAR (Share Appreciation Rights) that were not exercised during the operation were modified on May 4, 2004, so that their holders could purchase Air France-KLM shares and SARs attached to Air France-KLM shares.
The shares held by KLM within this plan were converted into Air France-KLM shares and transferred to a foundation whose sole purpose is their retention until the stock options are exercised or forfeited.

The fair value of these options, amounting to € 10 millions, was determined at the acquisition date of KLM (i.e. May 1, 2004) using the Black and Scholes model with the following assumptions:

Fair value at grant date (in € millions)	10
Share price (in €)	16.61
Option exercise price (in €)	Between € 6.48 and € 32.86
Estimated volatility of dividends on the shares	33.7%
Option duration	Between 0.46 and 4.17 years
Share's expected dividend yield	1.40%
Risk free interest rate	Between 2.06% and 3.26%

The changes in options during the years ended March 31, 2006 and 2005 are as follows:

	Average exercise price (€)	Number of options
Options outstanding as of April 1, 2004		
KLM acquisition	13.54	1 771 941
Options forfeited during the period	-	-
Options exercised during the period	7.31	(112 673)
Options granted during the period	-	-
Options outstanding as of March 31, 2005	**13.97**	**1 659 268**
Options forfeited during the period	26.18	(58 512)
Options exercised during the period	10.71	(538 585)
Options granted during the period	13.11	390 609
Options outstanding as of March 31, 2006	**14.45**	**1 452 780**

2003 Shares-for-salary exchange (ESA 2003)

On February 1, 2005, the Group launched a shares-for-salary exchange scheme, in which all Air France employees residing in France were offered the opportunity to purchase Air France-KLM shares at a price of € 14 per share in exchange for wage concessions over a 6-year period. The offer was limited to a maximum of 13,186,853 ordinary shares. At the date the offer was closed, February 21, 2005, Air France employees had acquired 12,612,671 Air France-KLM shares.

These shares were allocated by the French State, the largest Air France-KLM shareholder, subject to payment of a € 109 millions balance by Air France-KLM. The wage concessions cover the period from May 2005 to May 2011. The fair value of the services provided under the shares-for-salary exchange scheme was calculated on the basis of the market price of the Air France-KLM share on the date the offer was closed, namely 14.30 euros and amounts to € 180 millions. The corresponding salary expense covers the acquisition period of voting rights from May 2005 to May 2011.

Offer Reserved for Employees (ORS)

Pursuant to the privatization law of August 6, 1986, the French State, the main Air France-KLM shareholder, on February 1, 2005, offered employees the opportunity to subscribe to Air France-KLM shares under the following preferential conditions:

- a subscription price at a 20% discount to the market price of the Air France-KLM share;
- the allocation of bonus shares ;
- an employer's contribution of up to 40% of the amount subscribed by employees ;
- payment facilities.

The offering covered a maximum of 8,414,273 shares. At the close of the offer, on February 21, 2005, the entire offering had been taken up to. No vesting conditions were applicable after the allocation date of this scheme. The service cost within the framework of this scheme was calculated on the basis of the Air France-KLM share price at the date on which the offer closed, namely 14.30 euros, except for the employer's contribution which was accounted for on the basis of its nominal value. Given that this scheme was not subject to any vesting condition, a cost of € 69 millions was recorded in the year ended March 31, 2005.

Salary expenses related to share-based compensation

Their breakdown is as follows:

In € millions **Year ended March 31,**	**Note**	**2006**	**2005**
ESA 2003		(29)	-
ORS		-	(69)
Stock option plan		-	-
Salary expense	**7**	**(29)**	**(69)**

28. PROVISIONS AND RETIREMENT BENEFITS

In € millions	**Retirement benefits note 28.1**	**Restitution of aircraft**	**Restruc-turing**	**Litigation**	**Others**	**Total**
Amount as of April 1, 2004	**658**	**279**	**13**	**64**	**51**	**1 065**
New provision	102	139	18	12	89	**360**
Use of provision	(50)	(80)	(45)	(7)	(23)	**(205)**
Reversal of unnecessary provisions	-	(59)	-	(2)	-	**(61)**
Acquisition of KLM	347	67	59	-	-	**473**
Currency translation adjustment	(4)	5	3	-	3	**7**
Discount impact	-	1	-	-	-	**1**
Amount as of March 31, 2005	**1 053**	**352**	**48**	**67**	**120**	**1 640**
On which : non current	*1 053*	*281*	*16*	*61*	*105*	***1 516***
Current	*-*	*71*	*32*	*6*	*15*	***124***
New provision	74	136	1	63	39	**313**
Use of provision	(129)	(112)	(31)	(14)	(18)	**(304)**
Reversal of unnecessary provisions	-	(17)	(1)	-	-	**(18)**
Currency translation adjustment	7	-	-	-	-	**7**
Discount impact	-	7	-	-	-	**7**
Amount as of March 31, 2006	**1 005**	**366**	**17**	**116**	**141**	**1 645**
On which : non current	*1 005*	*261*	*-*	*66*	*121*	***1 453***
Current	*-*	*105*	*17*	*50*	*20*	***192***

28.1. RETIREMENT BENEFITS

The Group has a large number of retirement plans for the majority of its employees. The specific characteristics (benefit formulas, funding policies and types of assets held) of the plans vary according to the regulations and laws in the particular country in which the employees are located. Several of the plans are defined benefit plans.

The € 7,627 millions increase in obligation and € 8,912 millions increase in the value of the plan's pension fund assets were due to the acquisition of KLM, as of April 30, 2004. These amounts correspond to the fair value of obligations and plan assets at the date of the inclusion of KLM in the consolidation scope. They are shown in the breakdown of pension benefit obligations and other benefits on the line "Acquisition of KLM".

The Group has accounted for the actuarial gains and losses directly in equity as of April 1, 2004, the transition date to IFRS, in accordance with the exemptions provided by IFRS 1.

Since April 1, 2004, the Group amortizes actuarial gains and losses if at the beginning of the period the net unrealized actuarial gain or loss exceeds 10% of the greater of the projected obligation or the market value of plan assets.

Ceiling of the pension fund surplus

For a certain number of pensions obligations, the Group funds pensions funds.

The obligations of KLM Group are for the most part funded in accordance with the Dutch regulation and the company's collective agreement. With regard to the level of coverage of the commitments, particularly for the pilots' program, significant "safeguard" constraints force the company to be always in a position of "over-coverage".

Actuarial assumptions used

Actuarial valuations of the Group's benefit obligation were computed as of March 31, 2006 and 2005. These calculations include :

- Assumptions on staff turnover, life expectancy and salary inflation.
- A retirement age of 55 to 65 depending on localizations and applicable laws.
- Discount rates used to determine the actuarial present value of the projected benefit obligations are as follows :

Year ended March 31,	**2006**	**2005**
Euro zone	Between 4.1% and 4.5%	Between 4.5% and 5.25%
United Kingdom	Between 4.8% and 4.9%	Between 5.3% and 5.4%
USA-Canada	Between 4.8% and 5.8%	Between 5.25% and 6.5%
Other countries	Between 1.7% and 15.25%	Between 1.9% and 11%

- Expected long-term rates of return for plan assets ere as follows :

Year ended March 31,	**2006**	**2005**
Euro zone	Between 4.0% and 7.0%	Between 5% and 7%
United Kingdom	Between 6.1% and 6.8%	6.8%
USA-Canada	Between 6.1% and 6.8%	Between 6.8% and 7.5%
Other countries	Between 0.5% and 12.0%	Between 4.8% and 11%

- Assumption on increase in healthcare costs :

Year ended March 31,	**2006**	**2005**
USA-Canada	10.0%	8.5%

A +/- 1 point variation in the increase in healthcare costs would have no significant impact on the projected benefit obligation, or the accumulated service cost and nor on the interest cost.

On average, the main assumptions used in the actuarial valuations of obligations are summarized below :

	Pension benefits		**Other benefits**	
Year ended March 31,	**2006**	**2005**	**2006**	**2005**
Discount rate	4.49%	4.55%	4.49%	4.55%
Salary inflation rate	2.70%	2.91%	N/A	N/A

Expected long-term rate of return on plan assets	5.70%	5.13%	N/A	N/A

Changes in obligations

The following chart details the reconciliation between the benefits obligation and plan assets of the Group and the amounts recorded in the financial statements for the years ended March 31, 2006 and 2005.

(In € millions)	Pension benefits		Other benefits	
	2006	2005	2006	2005
Benefit obligation at beginning of year	**10 313**	**1 680**	**115**	**3**
Service cost	359	275	2	2
Interest cost	461	447	6	5
Employees' contribution	36	32	-	-
Plan amendments	49	16	-	-
Acquisition of KLM	-	7 528	-	99
Settlements / curtailments	(11)	(1)	(55)	-
Benefits paid	(398)	(352)	(5)	(8)
Actuarial loss / (gain)	106	707	8	14
Currency translation adjustment	6	(19)	3	-
Benefit obligation at end of year	**10 921**	**10 313**	**74**	**115**
Fair value of plan assets at beginning of year	**10 782**	**1 024**	-	-
Actual return on plan assets	1 747	913	-	-
Employers' contributions	358	261	-	-
Employees' contributions	37	32	-	-
Acquisition of KLM	-	8 912	-	-
Settlements / curtailments	(6)	-	-	-
Benefits paid	(383)	(345)	-	-
Currency translation adjustment	3	(15)	-	-
Fair value of plan assets at end of year	**12 538**	**10 782**	**-**	**-**
Funded status	1 617	469	(74)	(115)
Unrecognized prior service cost	59	25	-	-
Unrecognized actuarial (gains) / losses	(710)	322	6	13
Prepaid (accrued) pension cost	**966**	**816**	**(68)**	**(102)**
Amounts recorded in the balance sheet :				
Pension asset (note 20)	1 903	1 767	-	-
Provision for retirement benefits	(937)	(951)	(68)	(102)
Net amount recognized	**966**	**816**	**(68)**	**(102)**
Net periodic pension cost :				
Service cost	359	275	2	2
Interest cost	461	447	6	5
Expected return on plan assets	(616)	(532)	-	-
Settlement / curtailment	(8)	-	(44)	-
Amortization of prior service cost	12	15	-	-
Amortization of unrecognized actuarial (gain) loss	16	(4)	4	-
Other	(1)	-	-	-
Net periodic pension cost	**223**	**201**	**(32)**	**7**
Amount of obligation calculated with salaries at the end of the year (Accumulated Benefit Obligation) :				
All plans	9 656	9 081		
Plans with an accumulated benefit obligation in excess of plan assets	965	1 793	-	-

Except for the KLM pension plans, for which the balance is a net asset fully recorded as a non current asset, all the obligation is recorded as non-current.

Asset allocation

The weighted average allocation of funds invested in Group pension plans as of March 31, 2006 and 2005 is as follows :

Year ended March 31,	**Funds invested**	
	2006	**2005**
Equities	40%	50 %
Bonds	48%	37 %
Real estate	10%	10 %
Short term investments	-	2 %
Other	2%	1 %
Total	**100%**	**100 %**

Expected cash outflows

The table below shows the expected cash outflows on pensions and other post-employment benefits over the next ten years :

In € millions	**Pensions and similar benefits**
Estimated employer's contribution in 2007	
Estimated benefit payments :	
2007	371
2008	395
2009	431
2010	459
2011	495
2012-2016	2 825

28.2. OTHER PROVISIONS

Provisions for the restitution of aircraft under operating leases

The provisions for the restitution of aircraft under operating leases correspond to the commitments made by Air France-KLM under the aircraft operating leases signed with lessors at the time its financial statements are established.

Restructuring provision

KLM had booked, prior to May 1st 2004, a restructuring provision amounting to € 75 millions, to cover redundancy costs associated with the execution of a cost-cutting program. At the date of acquisition by the Group, this provision amounted to € 59 millions. The remaining provision is € 8 millions and € 32 millions as of March 31, 2006 and 2005, respectively.
The restructuring provision mainly corresponds to headcount reduction.

Provision for litigation with third parties

An assessment of litigation risks with third parties was carried out with the Group's attorneys and provisions were booked whenever circumstances rendered it necessary.

Provisions for litigation with third parties also include provisions for tax risks. Such provisions are set up when the Group considers that the tax authorities could challenge a tax position adopted by the Group or one of its subsidiaries.

Other provisions

Other provisions are mainly provisions for power-by-hour contracts (maintenance activity of the Group).

29. FINANCIAL DEBT

In € millions **Year ended March 31,**	**2006**	**2005**
Non current financial debt		
Perpetual subordinated loan stock in Yen	226	225
Perpetual subordinated loan stock in Swiss francs	265	270
Repackaged perpetual loans	122	152
OCEANE (convertible bonds)	382	-
Capital lease obligations	4 668	5 008
Other long-term debt	2 163	2 234
	7 826	**7 889**
Current financial debt		
Perpetual subordinated loan stock	25	23
Capital lease obligations (current portion)	763	444
Accrued interest	107	79
Other	365	498
	1 260	**1 044**

29.1. Perpetual subordinated loan stock

29.1.1 Perpetual subordinated loan stock in Yen

The perpetual subordinated loan stock in Yen was issued by KLM in 1999 for a total amount of 30 billions Yen, i.e. € 226 millions as of March 31, 2006.
The perpetual subordinated loan stock in Yen is subject to the payment of a coupon considered to be fixed-rate (5.065% on a 10 billions Yen portion, and 4.53% on a 20 billions Yen portion) after the use of swaps.
The debt is perpetual ; the date of reimbursement is, however, expected to be August 28, 2019. The debt's reimbursement does not involve a premium. A premium would be due if the debt were to be reimbursed in a currency other than the yen. The borrower would also have to reimburse to the issuer for all reasonable legal fees.

This debt is subordinated to all other existing and future KLM debts.

29.1.2 Perpetual subordinated loan stock in Swiss francs

The perpetual subordinated loan stock in Swiss francs was issued by KLM in two tranches in 1985 and 1986 for a total original amount of 500 millions Swiss francs. The subordinated loan amounts to 420 millions Swiss francs, i.e. € 265 millions as of March 31, 2006.

This loan is subject to the payment of a coupon considered to be fixed-rate (5¾ % on a 270 millions Swiss francs portion and 2 7/8 % on a 150 millions Swiss francs portion) for the years ended as of March 31, 2006 and 2005.

This debt is subordinated to all other existing and future KLM debts.

29.2. Repackaged perpetual loan securities

The Air France group issued two repackaged perpetual loan securities, one in June 1989 and the other in May 1992, for respective approximate amounts of € 381 millions and € 395 millions.

The first issuance, restructured in 1998, was repurchased by Air France in March 2006.

Interest paid by Air France on the nominal amount of the debt are recorded as financial expenses. Interest received from the zero coupon deposit (or equivalent) are offset against financial expense, and the counterpart from the debt. The net debt balance is repaid over 15 years. As of March 31, 2006, the 1992 perpetual loan represents a € 147 millions debt, including a non current portion of € 122 millions.

In France, the tax regime for perpetual loans was approved by the tax authorities and interests is thus deductible for the portion effectively received.

29.3. OCEANE (Convertible bonds)

As of April 22, 2005, Air France issued a 15-year bond with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE). 21,951,219 bonds were issued for a total amount of € 450 millions. Each bond has a nominal value of € 20.50.
The maturity date was fixed at April 1, 2020. Bonds holders may ask for reimbursement as of April 1, 2012 and April 1, 2016. Air France holds a call option triggering early reimbursement which can be exercised starting April 1, 2010 under certain conditions. The annual coupon is 2.75% payable at the end of each period ended April 1.
The conversion period of these bonds started as of June 1, 2005 and ends March 23, 2020.

Upon issue of this convertible debt, Air France recorded a debt of € 379 millions, corresponding to the present value of future payments for interest discounted at the rate of a similar bond without a conversion option.
The option value was evaluated by deducting this debt value from the total nominal amount (i.e. € 450 millions) and was recorded in equity (see note 26.2).

29.4. Capital lease commitments

The breakdown of total future minimum lease payments related to capital leases is as follows :

Year ended March 31, *In € millions*	**2006** Minimum Lease Payments	Interest	Principal	**2005** Minimum Lease Payments	Interest	Principal
Aircraft						
Due dates						
N + 1	979			671		
N + 2	974			974		
N + 3	632			946		
N + 4	682			581		
N + 5	648			495		
Over 5 years	2 381			2 227		
	6 296	**1 224**	**5 072**	**5 894**	**713**	**5 181**
Buildings						
Due dates						
N + 1	45			35		
N + 2	44			35		
N + 3	44			34		
N + 4	42			33		
N + 5	41			32		
Over 5 years	273			211		
	489	**133**	**356**	**380**	**112**	**268**
Other property, plant and equipment	**3**		**3**	**3**		**3**

The lease expenses over the period do not include contingent leases. Deposits made on purchase options are presented in note 21.

29.5. Other long-term debt

Other long-term debt breaks down as follows :

In € millions *Year ended March 31,*	**2006**	**2005**
Flight equipment securitization	394	421
Reservation of ownership clause and mortgage debt	1 747	1 966
Other long term debt	387	345
Total	**2 528**	**2 732**

- Flight equipment securitization

In July 2003, Air France finalized the securitization of flight equipment for an amount of € 435 millions.

This financing arrangement was secured by a portfolio of sixteen aircraft valued at € 525 millions. Three ten-year debt tranches were issued:

- a senior A1 floating rate tranche of € 98 millions with a final maturity of July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 82 millions (€ 93 millions as at March 31, 2005).

- A senior A2 fixed rate (4,575%) non amortized tranche of € 194 millions with a final maturity as at July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 194 millions (€ 194 millions as at March 31, 2005).
- A mezzanine floating rate B tranche of € 143 millions with a final maturity as of July 20, 2013. As of March 31, 2006, this tranche's book value amounted to € 118 millions (€ 135 millions as of March 31, 2005).

The floating rate of the A1 tranche averaged 4.03% for the period ended March 31, 2006, compared with 3.81% as of March 31, 2005.

29.6. Maturity analysis

The maturities of long-term debts break down as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Maturities in		
N+1	1 260	1 044
N+2	1 081	1 205
N+3	883	957
N+4	749	840
N+5	763	680
Over 5 years	4 350	4 207
	9 086	**8 933**

29.7. Currency analysis

The breakdown of all long-term debt by currency after impact of derivative instruments is as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Euro	7 938	7 629
US dollar	792	890
Swiss franc	274	281
Yen	22	29
Pound Sterling	59	100
Other	1	4
Total	**9 086**	**8 933**

29.8. Credit lines

The Group had credit lines amounting to € 1.8 billion as of March 31, 2006. The two main credit lines, undrawn as of March 31, 2006, amounted respectively, to € 1.2 billion and to € 540 millions. They mature in April and July 2010, respectively. Moreover, the Group had medium term credit lines of € 45 millions (€ 33 millions had been drawn as of March 31, 2006). They mature between April 2006 and October 2006.

30. OTHER LIABILITIES

Other current liabilities as of March 31, 2006 and 2005 break down as follows :

In € millions **Year ended March 31,**	**2006**		**2005**	
	Current	**Non current**	**Current**	**Non current**
Tax liabilities	352	-	234	-
Employee-related liabilities	882	-	739	3
Non current assets' payables	178	-	214	
Financial derivatives	220	154	88	218
Deferred income	57	-	128	
Other	580	263	577	260
Total	**2 269**	**417**	**1 980**	**481**

31. FINANCIAL INSTRUMENTS

31.1. Derivative instruments

- **Year ended March 31, 2006**

Book value *in € millions*	**Assets**		**Liabilities**	
	non current	**current**	**non current**	**current**
Currency exchange risk (operating and financial operations)				
Fair value hedge	16	11	26	42
Cash flow hedge	-	47	-	25
Interest rate risk				
Cash flow hedge	36	3	35	4
Fair value hedge	108	24	73	-
Trading derivatives	49	-	9	-
Commodities risk				
Fair value hedge	-	-	-	-
Cash flow hedge	764	937	11	149

- **As of April 1, 2005 (date of first implementation of IAS 32 and 39)**

Book value *in € millions*	**Assets**		**Liabilities**	
	non current	**current**	**non current**	**current**
Currency exchange risk (operating and financial operations)				
Fair value hedge	1	13	140	98
Cash flow hedge	-	26	3	22
Interest rate risk				
Cash flow hedge	(5)	-	77	5
Fair value hedge	123	1	137	2
Trading derivatives	69	-	23	-
Commodities risk				
Fair value hedge	674	663	38	124
Cash flow hedge	-	-	-	-

Interest rate derivatives :

Exposure to the interest rate risk

In order to manage interest rate risk, on short-term and long–term borrowings, the Group uses instruments with the following nominal values as of the balance sheet date :

- **Year ended March 31, 2006**

In € millions	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging								
Interest rate swaps	3 742	491	340	494	279	238	1 900	-
Operations qualified as fair value hedging								
Interest rate swaps	2 082	356	476	359	276	205	410	59
Operations qualified as trading activities	641	87	25	167	68	14	280	40
TOTAL	**6 465**	**934**	**841**	**1 020**	**623**	**457**	**2 590**	**99**

Mtm* = Marked-to-market : fair value

- **As of April 1, 2005 (date of first implementation of IAS 32 and 39)**

In € millions	Nominal	Maturity below 1 year	Maturity between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Operations qualified as cash flow hedging								
Interest rate swaps	2 280	352	384	217	377	79	871	(87)
Others	5	2	3	-	-	-	-	-
Operations qualified as fair value hedging								
Interest rate swaps	1 780	113	100	375	587	141	464	(15)
Others	3	2	1	-	-	-	-	-
Operations qualified as trading activities								
Interest rate swaps	507	10	76	13	146	6	256	46
TOTAL	**4 575**	**479**	**564**	**605**	**1 110**	**226**	**1 591**	**(56)**

Mtm* = Marked-to-market : fair value

These instruments have different purposes :

- Hedging price risk related to fixed-rate financial debt :
  In contracting a fixed-rate debt, the Group is exposed to an opportunity risk if the rate decreases. Given the current position of market rates compared with fixed contractual rates on certain of its financial debt, the Group entered into a number of fixed to floating-rate swaps.

- Hedging of cash-flow risk related to floating-rate financial debt :
  The Group has sought to fix the rate of certain floating-rate loans and thus entered into a number of floating to fixed-rate swaps.

Based on the hedging arrangements, the Group's interest rate exposure breaks down as follows:

In € million *Year ended March 31,*	2006				2005			
	Before hedging		**after hedging**		**before hedging**		**after hedging**	
	Base	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**	**Base**	**Average interest rate**
Fixed-rate financial assets and liabilities								
Fixed-rate financial assets	**770**	**6.7%**	**770**	**6.7%**	**930**	**6%**	**930**	**6%**
Repackaged perpetual loans	147	10.1%	147	10.1%	175	10.1%	175	10,1%
Perpetual subordinated loans	491	4.4%	491	4.4%	495	4.8%	495	4,8%
Bonds	382	4.4%	382	4.4%	-	-	-	-
Other financial debts	3 175	6.5%	5 221	4.8%	3 919	6.0%	4 957	4,8%
Fixed-rate financial liabilities	**4 195**	**6.2%**	**6 241**	**4.9%**	**4 589**	**6.0%**	**5 627**	**6.0%**
Floating-rate financial assets and liabilities								
Floating-rate financial assets	**3 967**	**2.8%**	**3 967**	**2.8%**	**2 366**	**2.3%**	**2 366**	**2.3%**
Other financial debts	4 891	3.0%	2 845	3.0%	4 344	2.9%	3 306	2,8%
Bank overdraft	102		102		262		262	
Floating-rate financial liabilities	**4 993**	**3.0%**	**2 947**	**3.0%**	**4 606**	**2..9%**	**3 568**	**2,8%**

Exposure to exchange rate risk

Current operations :
Although the Group's reporting currency is the euro, part of its cash flow is denominated in other currencies, such as the US dollar, the yen, the pound sterling and the Swiss franc. Commercial activities also generate and incur income and expenses in foreign currencies. The Group's policy is to hedge against exchange risks related to forecast cash surpluses or shortfalls in main currencies (US dollars, yens, non-euro European currencies). Hedging is achieved through forward sales or purchase contracts and/or option-based strategies.

Acquisition of flight equipment :
Capital expenditure for flight equipment is denominated in US dollars. The Group hedges on the basis of projected fluctuations in the US dollar exchange rate via forward sales and purchases and/or option-based strategies.

Long-term debt and capital leases
A number of loans are denominated in foreign currencies so as to diversify sources of funding and take into account cash surpluses generated in various currencies. In order to hedge against the risk of exchange rate fluctuations on debt and capital leases, currency rate swaps are used. This is a micro-hedging mechanism matched specifically to the borrowing to which it relates.

Nominal amounts of forward currency hedges and swaps are shown below, based on the nature of the hedging instrument:

- **Year ended March 31, 2006**

In € millions	Nominal	Maturity Below 1 year	Maturities between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**2 092**	**1 907**	**76**	**26**	**15**	**15**	**53**	**23**
Exchange rate options								
US Dollar	736	700	36	-	-	-	-	(1)
Pound sterling	105	92	13	-	-	-	-	2
Yen	78	78	-	-	-	-	-	7
Canadian dollar	11	11	-	-	-	-	-	(1)
Other	41	-	12	12	1	1	15	-
Forward purchases								
US Dollar	617	522	15	14	14	14	38	11
Forward sales								
US Dollar	2	2	-	-	-	-	-	-
Yen	69	69	-	-	-	-	-	3
Pound sterling	177	177	-	-	-	-	-	3
Swiss franc	36	36	-	-	-	-	-	1
Singapore Dollar	30	30	-	-	-	-	-	(1)
Norwegian Krone	87	87	-	-	-	-	-	-
Swedish Krona	61	61	-	-	-	-	-	-
Polish New Zloty	9	9	-	-	-	-	-	-
Korean Won	33	33	-	-	-	-	-	(1)
Exchange risk (Fair value hedging of flight equipment acquisition)	**2 746**	**849**	**800**	**628**	**400**	**62**	**7**	**(41)**
Forward purchases of US dollars	2 746	849	800	628	400	62	7	(41)
Total	**4 838**	**2 756**	**876**	**654**	**415**	**77**	**60**	**(18)**

* Mtm = Marked-to-market : fair value

- **As of April 1, 2005 (date of first application of IAS 32 and 39)**

In € millions	Nominal	Maturity Below 1 year	Maturities between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Exchange risk (cash flow hedging of operating flows)	**2 067**	**1 929**	**138**	**-**	**-**	**-**	**-**	**1**
Exchange rate options								
US Dollar	651	651	-	-	-	-	-	(9)
Pound sterling	66	66	-	-	-	-	-	-
Yen	60	44	16	-	-	-	-	10
Swiss franc	22	22	-	-	-	-	-	1
Forward purchases								
US Dollar	621	499	122	-	-	-	-	(2)
Forward sales								
Yen	93	93	-	-	-	-	-	2
Pound sterling	321	321	-	-	-	-	-	(1)
Swiss franc	40	40	-	-	-	-	-	-
Singapore Dollar	28	28	-	-	-	-	-	-
Norwegian Krone	87	87	-	-	-	-	-	-
Swedish Krona	70	70	-	-	-	-	-	-
Polish New Zloty	8	8	-	-	-	-	-	-
Exchange risk (Fair value hedging of flight equipment acquisition)	**2 079**	**882**	**372**	**365**	**337**	**123**	**-**	**(224)**
Forward purchases of US dollars	1 850	653	372	365	337	123	-	(215)
Forward sales of US dollars	11	11	-	-	-	-	-	-
Exchange rate options of US dollars	218	218	-	-	-	-	-	(9)
Total	**4 146**	**2 811**	**510**	**365**	**337**	**123**	**-**	**(223)**

* Mtm = Marked-to-market : fair value

Commodity risk linked to fuel prices

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

- **Year ended March 31, 2006**

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)	**5 548**	**2 854**	**1 120**	**1 042**	**532**	**-**	**-**	**1 540**
Swap	3 194	1 415	902	432	445	-	-	637
Options	2 354	1 439	218	610	87	-	-	903

* Mtm = Marked-to-market : fair value

- **As of April 1, 2005 (date of first application of IAS 32 and 39)**

In € millions	Nominal	Maturity below 1 year	Maturities between 1 and 5 years					Mtm*
			1-2 years	2-3 years	3-4 years	4-5 years	+ 5 years	
Commodity risk (cash flow hedging operating flows)	**4 575**	**2 274**	**1 291**	**605**	**405**	**-**	**-**	**1 175**
Swap	1 772	1 037	454	155	126	-	-	108
Options	2 803	1 237	837	450	279	-	-	1 067

* Mtm = Marked-to-market : fair value

Counterpart risk management

Transactions which can lead to counterparty risk for the Group are as follows:
- temporary financial investments;
- derivative instruments;
- trade receivables.

- Financial investments are diversified, in blue-chip securities with top tier banks.
- Group transactions on derivative instruments have the sole aim of reducing its overall exposure to exchange and interest rate nad commoditu price risks in its normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties with no counterparty risk.
- Counterpart risk relating to trade receivables is limited due to the large number and geographical diversity of customers comprising the trade receivables portfolio.

As of March 31, 2005 and March 31, 2006, the Group did not identify any specific counterpart risk.

31.2. Market value of financial instruments

Market values are estimated for most of the Group's financial instruments using a variety of valuation methods, such as discounted future cash flows. However, the methods and assumptions used to provide the information set out below are theoretical in nature. They bear the following inherent limitations:

- Market values cannot take into consideration the effect of subsequent fluctuations in interest or exchange rates,
- Estimated amounts as of March 31, 2006 and 2005 are not indicative of gains and/or losses arising upon maturity or in the event of cancellation of a financial instrument.

Application of alternative methods and assumptions may, therefore, have a significant impact on the estimated market values.

The methods used are as follows:

- *Cash, trade receivables, other receivables, short-term bank facilities, trade payable and other payables :*
  The Group believes that, due to their short-term nature, net book value can be deemed a reasonable approximation of market value.

- *Marketable securities, investments and other securities:*
  The market value of securities is determined based mainly on the market price or the prices available on other similar securities markets. Where no benchmark exists, the Group uses the book value, which is deemed a reasonable approximation of market value in this instance.

- *Borrowings, other financial debts and loans:*
  Floating-rate loans and financial debts are recorded at net book value.
  The market value of fixed-rate loans and financial debts is determined based on discounted future cash flows at market interest rates for instruments with similar features.

- *Off balance-sheet instruments*
  The market value of off-balance-sheet instruments corresponds to the amounts payable or receivable were the positions to be closed out as of March 31, 2006 and 2005 calculated using the year-end market rate.

Market values calculated in this way are shown in the table below :

In € millions	**March 31, 2006**		**April 1, 2005 (date of first implementation of IAS 32 and 39)**	
	Net book value	**Estimated market value**	**Net book value**	**Estimated market value**
Financial assets				
Investment securities	69	69	56	56
Loans				
fixed-rate	351	362	890	887
floating-rate	151	151	81	81
Marketable securities	3 587	3 587	2 216	2 216
Interest rate derivative instruments				
Interest rate swaps	220	220	188	188
Exchange rate derivative instruments				
exchange rate options	21	21	11	11
forward currency contracts	54	54	29	29
Commodity derivative instruments				
Petroleum swaps and options	1 700	1 700	1 337	1 337
Financial liabilities				
Bonds (*)				
Fixed-rate	382	548	-	-
Perpetual subordinated loans	638	633	670	649
Other borrowings and financial debt				
Fixed-rate	3 175	3 182	3 919	4 146
variable-rate	4 891	4 891	4 344	4 344
Interest rate derivative instruments				
Interest rate swaps	121	121	244	244
Exchange derivative instruments				
Exchange rate options	15	15	18	18
forward currency contracts	78	78	245	245
Commodity derivative instruments				
Petroleum swaps and options	160	160	162	162

(*) Bonds are only made of OCEANE (convertible bonds) issued in April 2005.The market value, which amounts to € millions 548, was determined based on the bond's quote as of March 31, 2006. This market value includes the fair value of the debt component (amount of € 383 millions in the financial statements as of March 31st, 2006) as well as the option value recorded in equity for € 71 millions.

32. LEASE COMMITMENTS

32.1. Capital leases

The debt related to capital leases is detailed in note 29.

32.2. Operating leases

The breakdown of minimum future payments on operating leases is as follows:

In € millions **Year ended March 31,**	**Minimum lease payments**	
	2006	**2005**
Flight equipment		
due dates		
N + 1	645	631
N + 2	580	531
N + 3	457	438
N + 4	354	345
N + 5	298	256
Over 5 years	613	573
	2 947	**2 774**
Buildings		
due dates		
N + 1	106	144
N + 2	102	119
N + 3	90	107
N + 4	79	88
N + 5	67	73
Over 5 years	592	633
	1 036	**1 164**

The payments relating to operating leases for flight equipment amounted to € 637 millions for the year ended March 31, 2006 and to € 595 millions for the year ended March 31, 2005.
The Group may sub-lease flight equipment and buildings. The revenue generated by this activity is not significant for the Group.

33. FLIGHT EQUIPMENT ORDERS

Due dates for commitments in respect of flight equipment orders are as follows :

In € millions **Year ended March 31,**	**2006**	**2005**
N+1	989	1 157
N+2	951	608
N+3	731	422
N+4	545	537
N+5	137	121
> 5 years	135	117
Total	**3 488**	**2 962**

These commitments relate to amounts in US dollars, converted into euros at the closing date exchange rate.

The number of aircraft on firm order as of March 31, 2006 remained stable compared with March 31, 2005 at 48 units. The number of options increased by 3 units over the same period to reach 35 aircraft. These movements can be explained by:

- the delivery of seventeen aircraft over the period;
- new orders: twelve firm orders and twelve options;
- the conversion of six options into firm orders, and the cancellation of three options;
- the change in the Embraer order producing a one-unit decrease in the backlog.

Long-haul fleet

Passenger

The Group received five Airbus A330s and four Boeing 777. As far as the Boeing 777s are concerned, it also confirmed two options and placed an additional order for six aircraft.
Delays in the delivery of Airbus A380-800s were announced by the manufacturer during the first half of the financial year. As of March 31, 2006, a new delivery schedule was being negotiated with the manufacturer.
As of March 31, 2006, the Group's backlog for the long-haul fleet comprised firm orders for of three Airbus 330s, ten Airbus 380s and sixteen Boeing 777s, as well as options for four Airbus 380s and eight Boeing 777s.

Cargo

To replace the 747-200, the Group ordered five long-range 747-400 ERFs, the last of which entered into service during the period.
In addition to this first renewal phase, Air France placed an additional order with Boeing for eight 777Fs (five firm orders and three options), the new cargo unit based on the 777-200LR and the 777-300ER. First deliveries will begin during the winter of 2008-2009.

Medium-haul fleet

The Group took delivery of three Airbus 318s, two Airbus A319s and one Boeing 737. As far as the Boeing 737 is concerned, it placed a new firm order for one aircraft and confirmed one option. The Group also confirmed three options for Airbus 318s.
As of March 31, 2006, the Group's backlog comprised of six Airbus 318s and two Boeing 737s under firm order as well as four Airbus 318s , one Airbus 320 and fifteen Boeing 737s under option.

Regional fleet

The Group took delivery of one CRJ 70 and placed an order for six Embraer ERJ 190s, the new plane (100 seater) from the Brazilian manufacturer. This order replaces a previous order for seven 50-seat Embraer ERJ 145s. Deliveries will begin during the fall of 2006.

The Group's commitments concern the following aircraft:

Aircraft type		To be delivered in	N+1	N+2	N+3	N+4	N+5	Beyond N+5
A 318	As of March 31, 2006	Firm orders	6	-	-	-	-	-
		Options	-	1	2	1	-	-
	As of March 31, 2005	Firm orders	3	3	-	-	-	-
		Options	-	*5*	*2*	-	-	-
A319	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Firm orders	2	-	-	-	-	-
		Options	-	-	-	-	-	-
A 320	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	1	-	-	-	-
	As of March 31, 2005	Firm orders	-	-	-	-	-	-
		Options	-	*2*	*1*	-	-	-
A 330	As of March 31, 2006	Firm orders	3	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Firm orders	6	2	-	-	-	-
		Options	-	-	*1*	-	-	-
A 380	As of March 31, 2006	Firm orders	-	2	3	3	1	1
		Options	-	-	-	-	1	3
	As of March 31, 2005	Firm orders	-	-	3	5	1	1
		Options	-	-	-	*1*	*1*	*2*
B 737	As of March 31, 2006	Firm orders	1	1	-	-	-	-
		Options	-	2	9	4	-	-
	As of March 31, 2005	Firm orders	1	-	-	-	-	-
		Options	-	*2*	*4*	*4*	*1*	-
B 747	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Firm orders	1	-	-	-	-	-
		Options	-	-	-	-	-	-
B 777	As of March 31, 2006	Firm orders	7	6	1	2	-	-
		Options	-	-	1	4	3	-
	As of March 31, 2005	Firm orders	5	5	2	-	-	-
		Options	-	-	*2*	*4*	-	-
B777 F	As of March 31, 2006	Firm orders	-	-	3	2	-	-
		Options	-	-	-	1	2	-
	As of March 31, 2005	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
Embraer	As of March 31, 2006	Firm orders	3	3	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Firm orders	5	2	-	-	-	-
		Options	-	-	-	-	-	-
CRJ 700	As of March 31, 2006	Firm orders	-	-	-	-	-	-
		Options	-	-	-	-	-	-
	As of March 31, 2005	Firm orders	1	-	-	-	-	-
		Options	-	-	-	-	-	-

34. OTHER COMMITMENTS

34.1. Commitments made

In € millions **Year ended March 31,**	**2006**	**2005**
Call on investment securities	3	23
Put on investment securities	(3)	(2)
Warranties, sureties and guarantees	98	105
Mortgaged or secured assets	7 572	7 593
Other purchase commitments	187	167

The restrictions and pledges as of March 31, 2006 were as follows:

In € millions	**Starting date of pledge**	**End of pledge**	**Amount pledged**	**NBV of balance sheet entry concerned**	**Corresponding %**
Intangible assets				428	-
Tangible assets	March 1998	September 2017	6 163	12 972	47.51%
Financial assets				1 374	-
			6 163	**14 774**	**41.72%**

34.2. Commitments received

In € millions **Year ended March 31,**	**2006**	**2005**
Warranties, sureties and guarantees	198	145
Other	133	3

Warranties, sureties and guarantees are principally comprised of letters of credit from financial institutions.

35. CONTINGENT LIABILITIES

The Group is involved in several disputes, and the potential losses have not necessarily been recorded in the consolidated financial statements.

The Company was definitively removed by the Court of Appeals of Richmond, Virginia on December 9, 2004, from in the HALL action, the name of one of the travel agents who had filed a class action suit against American and European airlines, including Air France and KLM, accusing them of illegal agreements to reduce the commissions collected on the sale of airline tickets.

A lawsuit based on the same complaints, filed by fifty travel agents acting individually against the same airlines is still pending in the Federal Court of the Northern District of Ohio. However, given the small number of agents involved in this action, the financial stakes for the Company are not significant. No provisions have been recorded in connection with this suit.

In the case with IAP Intermodal, an American company, concerning the alleged infringement of three patents by several air carriers including Air France, a judgment dismissing the case against the Company is expected to be handed down in the near future by the Federal Court of the East District of Texas. No provisions have been recognized for this dispute.

In the dispute between Servair a subsidiary of the Company, and its employees for payment of meal times, all judgments issued to date by the courts have dismissed the claims of the employees involved. Only one proceeding with 255 employees is still pending before the Labor Board. This action, like the preceding cases, is considered to be not relevant by the Company and no provisions have been recorded.

As of February 14, 2006, authorities from the EU Commission and the US Department Of Justice (DOJ) presented themselves at the offices of Air France and KLM, as well as most airlines and world major cargo operators, formally requesting information about an alleged conspiracy to fix the price of air shipping services. Skyteam Cargo, a US joint venture in which Air France is a participant, was subject to the same investigations. Air France-KLM as well as Air France and KLM are cooperating with these investigations.
Subsequently, as of March 31, 2006, over 40 purported class action lawsuits have been filed against air cargo operators including Air France-KLM, Air France, KLM and/or related entities. Plaintiffs allege that defendants engaged in a conspiracy to fix the price of air shipping services since January 1, 2000 including various surcharges in air cargo services in violation of antitrust laws. They consequently seek compensatory damages and treble monetary damages in unspecified amounts, costs and attorney’s fees, as well as injunctive relief amounting to triple amount of compensatory damages. Currently, there are motions pending to transfer all cases to a single federal law court. Air France and KLM intend to defend these cases vigorously.

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

To the Company's knowledge, there is no other litigation, arbitration or other threatened or pending disputes that could have or has had in the recent past a material impact on the financial position, earnings, business or holdings of the Company.

36. Related parties

36.1. Transactions with the principal executives

Directors and their relatives hold less than 0.05% of the voting rights.

Advantages granted to the three principal executives are detailed as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Short term benefits	2.9	2.2
Post employment benefits	0.2	0.2
	3.1	**2.4**

Fees paid during the year ended March 31, 2006 but concerning the year ended March 31, 2005, for attendance at Board Meetings amounted to € 0.6 millions.

36.2. Transactions with other related parties

Cumulated amounts of transactions with related parties for the financial years ended March 31, 2006 and 2005. are as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Assets		
Net trade accounts receivable	114	90
Other non-current assets	8	14
	122	**104**
Liabilities		
Trade accounts payable	128	120
Other current liabilities	-	32
Other long-term liabilities	93	92
	221	**244**

In € millions **Year ended March 31,**	**2006**	**2005**
Net sales	281	394
Landing fees and other rents	(571)	(570)
Other selling expenses	(209)	(268)
Passenger service	(91)	(37)
Other	(19)	(16)
	(609)	**(497)**

As a part of its normal business, the Company enters into transactions with related parties among which transactions with state-owned and governmental entities such as the Defense Ministry, the Paris Airport Authority ("Aéroports de Paris", or "ADP") and the French civil aviation regulator ("DGAC"). Air France-

KLM considers that such transactions are concluded on terms equivalent to those of transactions with third parties. The most significant transactions are described below:

Aéroport De Paris (ADP)

- Land and property rental agreements,
- Airport and passenger related fee arrangements

In addition, ADP collects airport landing fees on behalf of the French State.

Total expenses incurred by the Company in connection with the above mentioned arrangements amounted to € 500 millions and € 446 millions for the periods ended March 31, 2006 and 2005.

Defense Ministry

The Company entered into contracts with the French Defense Ministry to maintain certain aircraft of the French Air Force. The net revenue derived from such arrangements amounted to € 110 millions for the year ended March 31, 2006, and € 139 millions for the year ended March 31, 2005.

DGAC

The civil aviation regulator is the French State service organization which manages security and safety in French air space. As a result, the DGAC charges fees to Air France-KLM for the use of installations and services amounting to € 98 millions for the year ended March 31, 2006, and € 112 millions for the year ended March 31, 2005.

Transactions with equity affiliates

During the financial year, Air France-KLM executed transactions with equity affiliates. The principal transaction concerned Amadeus GTD (WAM Acquisition). For the year ended March 31, 2006, total transactions with Amadeus GTD amounted to a gain of € 68 millions (€ 100 millions for the year ended March 31, 2005) and a charge of € 177 millions (€ 226 millions for the year ended March 31st, 2005). The Group also conducted business with Martinair, with revenues amounting to € 26 millions for the year ended March 31, 2006 and € 60 millions for the year ended March 31, 2005. Moreover, the Group contracted Martinair's services amounting to € 35 millions for the year ended March 31, 2006 and € 70 millions for the year ended March 31, 2005.

During the period, Air France-KLM executed transactions with the other equity affiliates, including Heathrow Cargo Handling, Alpha Airport Plc and Air Chef. Total transactions realized with equity affiliates is not significant for periods ended March 31, 2006 and 2005.

37. CASH FLOW STATEMENT

37.1. Acquisition of subsidiaries and investments in associates

Net cash disbursements related to acquisition of subsidiaries and investments in associates were as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Cash disbursement for acquisitions	(58)	(69)
Cash from acquired subsidiaries	-	575
Net cash disbursement	**(58)**	**506**

- **Year ended March 31, 2006**

The cash disbursement related to acquisition corresponds mainly to the subscription to the Ilitalia capital increase of amounting to € 25 millions, the acquisition of KLM's shares for a total of € 13 millions, to the acquisition of shares in Aero Maintenance Group (AMG) for an amount of € 12 millions and of Airlinair shares for an amount of € 4 millions.

- **Year ended March 31, 2005**

The acquisition of subsidiaries and stakes mainly corresponds to KLM's cash at the acquisition date for an amount of € 575 millions and the acquisition of treasury shares for an amount of € 32 millions. Additional shares were purchased in Servair and Air Chef for respective amounts of € 3 millions and € 4 millions.

37.2. Disposal of subsidiaries

Net proceeds from disposals of subsidiaries can be analysed as follows:

In € millions **Year ended March 31,**	**2006**	**2005**
Proceeds from disposals	35	109
Cash of disposed subsidiaries	-	-
Net proceeds from disposals	**35**	**109**

- **Year ended March 31, 2006**

Net proceeds from disposals mainly correspond to the sale of treasury shares for an amount of € 22 millions and to the disposal of Air Austral shares for an amount of € 9 millions.

- **Year ended March 31, 2005**

Net proceeds from disposals mainly correspond to the sale of the holding in Amadeus France for a total amount of € 91 millions, to capital stock reimbursement by AFPL (€ 5 millions) and by Opodo (€ 4 millions).

37.3. Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise the following items :

In € millions **Year ended March 31,**	**2006**	**2005**
Cash and cash equivalent	2 946	2 047
Bank overdraft	(102)	(262)
Cash and cash equivalent (cash flow statement)	**2 844**	**1 785**

38. SUBSEQUENT EVENTS

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

39. RECENT ACCOUNTING PRONOUNCEMENTS

New standards, interpretations and amendments to existing standards, effective for periods beginning on or after January 1, 2006, were not early adopted by the Group:

- the amendment to IAS 19 regarding recognition of actuarial gains and losses, group plans and disclosures, effective for periods beginning on or after January 1, 2006;
- the amendment to IAS 1 related to disclosures on capital, effective for periods beginning on or after January 1, 2007;
- the amendment to IAS 39 regarding the fair value option, effective for periods beginning on or after January 1, 2006;
- the amendment to IAS 39 related to hedging of intra-group future transactions, effective for periods beginning on or after January 1, 2006;
- the standard IFRS 7 “Financial Instruments: Disclosures”, effective for periods beginning on or after January 1, 2007;
- the interpretation IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, effective for periods beginning on or after January 1, 2006.

40. CONSOLIDATION SCOPE AS OF MARCH 31, 2006

The scope includes 143 fully consolidated entities and 27 equity affiliates

40.1. Fully consolidated

	Segment	Country	% interest	% control
AIR FRANCE SA	Multisegment	France	100	100
KLM N.V.	Multisegment	Netherlands	97	49
AIR FRANCE SERVICES LTD	Passenger	United Kingdom	100	100
BRIT AIR	Passenger	France	100	100
CITY JET	Passenger	Ireland	100	100
CYGNIFIC (UK) LIMITED	Passenger	United Kingdom	97	49
CYGNIFIC B.V.	Passenger	Netherlands	97	49
FREQUENCE PLUS SERVICES	Passenger	France	100	100
IAS ASIA INCORPORATED	Passenger	Philippines	97	49
IASA INCORPORATED	Passenger	Philippines	97	49
ICARE	Passenger	France	100	100
INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL AIRLINE SERVICES LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL AIRLINE SERVICES OFFSHORE LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED	Passenger	United Kingdom	97	49
INTERNATIONAL MARINE AIRLINE SERVICES LIMITED LIABILITY COMPANY	Passenger	United States	97	49
KLM CITYHOPPER B.V.	Passenger	Netherlands	97	49
KLM CITYHOPPER UK LTD	Passenger	United Kingdom	97	49
KLM GROUND SERVICES LIMITED	Passenger	United Kingdom	97	49
KLM LUCHTVAARTSCHOOL B.V.	Passenger	Netherlands	97	49
REGIONAL COMPAGNIE AERIENNE EUROPEENNE	Passenger	France	100	100
SOCIETE D'EXPLOITATION AERONAUTIQUE	Passenger	France	100	100
SOCIETE NOUVELLE AIR IVOIRE	Passenger	Ivory Coast	39	76
STICHTING STUDENTENHUISVESTING VLIEGVELD EELDE	Passenger	Netherlands	97	49
AIR FRANCE PARTNAIRS LEASING NV	Cargo	Dutch West Indies	45	45
BLUE CROWN B.V.	Cargo	Netherlands	97	49
CSC INDIA	Cargo	India	97	49
ROAD FEEDER MANAGEMENT B.V.	Cargo	Netherlands	97	49
SODEXI	Cargo	France	60	60
AIR FRANCE INDUSTRIE US	Maintenance	United States	100	100
CRMA	Maintenance	France	100	100
EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V.	Maintenance	Netherlands	97	49
GUANGZHOU HANGXIN AVIONICS CO. LTD	Maintenance	China	41	80
HANGXIN HITECH RESOURCES HOLDING LTD	Maintenance	China	41	80
HARBIN HANGXIN AVIONICS CO. LTD	Maintenance	China	41	80
KLM UK ENGINEERING LIMITED	Maintenance	United Kingdom	97	49
LYON MAINTENANCE	Maintenance	France	100	100
REENTON DEVELOPMENT LIMITED	Maintenance	China	51	51
SHANGHAI HANGXIN AERO MECHANICS CO. LTD	Maintenance	China	41	80
ACNA	Others	France	98	100
ACSAIR	Others	France	50	51
AEROFORM	Others	France	98	100
AEROSUR	Others	France	98	100
AFRIQUE CATERING	Others	France	50	51
AIR FRANCE FINANCE	Others	France	100	100
AIR FRANCE FINANCE IRELAND	Others	Ireland	100	100
AIR UK (JERSEY) LIMITED	Others	United Kingdom	97	49
AIR UK LEASING LIMITED	Others	United Kingdom	97	49
AIRCRAFT MAINTENANCE AMSTERDAM B.V.	Others	Netherlands	97	49
AIRGO B.V.	Others	Netherlands	97	49
AIRPORT MEDICAL SERVICES B.V.	Others	Netherlands	97	49
ALL AFRICA AIRWAYS	Others	Mauritius	51	51
AMA HOLDING B.V.	Others	Netherlands	97	49
AMSTERDAM SCHIPOL PIJPLEIDING BEHEER B.V.	Others	Netherlands	58	49
AMSTERDAM SCHIPOL PIJPLEIDING C.V.	Others	Netherlands	70	49
AQUILA INVEST B.V.	Others	Netherlands	97	49
BASE HANDLING	Others	France	98	100
BLUE YONDER II B.V.	Others	Netherlands	97	49
BLUE YONDER IX B.V.	Others	Netherlands	97	49
BLUE YONDER X B.V.	Others	Netherlands	97	49
BLUE YONDER XI B.V.	Others	Netherlands	97	49
BLUE YONDER XII B.V.	Others	Netherlands	97	49
BLUE YONDER XIII B.V.	Others	Netherlands	97	49
BLUE YONDER XIV B.V.	Others	Netherlands	97	49
BRUNEAU PEGORIER	Others	France	93	95
CELL K16 INSURANCE COMPANY	Others	Channel Islands	97	0
CENTRE DE PRODUCTION ALIMENTAIRE	Others	France	98	100
CULIN'AIR PARIS	Others	France	55	56

	Segment	Country	% interest	% control
DAKAR CATERING	Others	Senegal	49	50
ETS EQUIPMENT TECHNO SERVICES	Others	Netherlands	97	49
EUROPEAN CATERING SERVICES	Others	United States	98	100
GIE JEAN BART	Others	France	10	10
GIE SCHIPHOL	Others	France	100	100
GIE SERVCENTER	Others	France	98	100
GIE SURCOUF	Others	France	100	100
HEESWIJK HOLDING B.V.	Others	Netherlands	97	49
INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V.	Others	Netherlands	97	49
JET CHEF	Others	France	98	100
KES AIRPORT EQUIPMENT FUELLING B.V.	Others	Netherlands	97	49
KES AIRPORT EQUIPMENT LEASING B.V.	Others	Netherlands	97	49
KLEUR INVEST B.V.	Others	Netherlands	97	49
KLM AIRLINE CHARTER B.V.	Others	Netherlands	97	49
KLM CATERING SERVICES SCHIPOL B.V.	Others	Netherlands	97	49
KLM EQUIPMENT SERVICES B.V.	Others	Netherlands	97	49
KLM FINANCIAL SERVICES B.V.	Others	Netherlands	97	49
KLM FLIGHT CREW SERVICES GMBH	Others	Germany	97	49
KLM HEALTH SERVICES B.V.	Others	Netherlands	97	49
KLM INTERNATIONAL CHARTER B.V.	Others	Netherlands	97	49
KLM INTERNATIONAL FINANCE COMPANY B.V.	Others	Netherlands	97	49
KLM OLIEMAATSCHAPPIJ B.V.	Others	Netherlands	97	49
KLM UK HOLDINGS LIMITED	Others	United Kingdom	97	49
KLM UK LIMITED	Others	United Kingdom	97	49
KROONDUIF B.V.	Others	Netherlands	97	49
LYON AIR TRAITEUR	Others	France	98	100
MALI CATERING	Others	Mali	70	99
MARTINIQUE CATERING	Others	France	91	93
MAURITANIE CATERING	Others	Mauritania	25	51
MICOPA B.V.	Others	Netherlands	97	49
OCCABOT BEHEER B.V.	Others	Netherlands	97	49
O'FIONNAGAIN HOLDING COMPANY LIMITED	Others	Ireland	100	100
ORION-STAETE B.V.	Others	Netherlands	97	49
ORLY AIR TRAITEUR	Others	France	98	100
OUAGA CATERING SERVICE	Others	Burkina Faso	98	100
PASSERELLE	Others	France	98	100
PELICAN	Others	France	100	100
PHK FREIGHT SERVICES B.V.	Others	Netherlands	97	49
PMAIR	Others	France	50	51
PRESTAIR	Others	France	98	100
PYRHELIO-STAETE B.V.	Others	Netherlands	97	49
QUASAR-STAETE B.V.	Others	Netherlands	97	49
RIGEL-STAETE B.V.	Others	Netherlands	97	49
ROSC LIMITED	Others	United Kingdom	97	49
SERVAIR	Others	France	98	98
SERVAIR SATS	Others	Singapor	50	51
SERVANTAGE	Others	France	98	100
SKYCHEF	Others	Seychelles	54	55
SKYLOGISTIC	Others	France	98	100
SOCIETE IMMOBILIERE AEROPORTUAIRE	Others	France	98	100
SOGRI	Others	France	95	97
SORI	Others	France	49	50
SPECIAL MEALS CATERING	Others	France	98	100
SPICA-STAETE B.V.	Others	Netherlands	97	49
TAKEOFF 1 LIMITED	Others	Ireland	100	100
TAKEOFF 10 LIMITED	Others	Ireland	100	100
TAKEOFF 11 LIMITED	Others	Ireland	100	100
TAKEOFF 12 LIMITED	Others	Ireland	100	100
TAKEOFF 13 LIMITED	Others	Ireland	100	100
TAKEOFF 14 LIMITED	Others	Ireland	100	100
TAKEOFF 15 LIMITED	Others	Ireland	100	100
TAKEOFF 16 LIMITED	Others	Ireland	100	100
TAKEOFF 2 LIMITED	Others	Ireland	100	100
TAKEOFF 3 LIMITED	Others	Ireland	100	100
TAKEOFF 4 LIMITED	Others	Ireland	100	100
TAKEOFF 5 LIMITED	Others	Ireland	100	100
TAKEOFF 6 LIMITED	Others	Ireland	100	100
TAKEOFF 7 LIMITED	Others	Ireland	100	100
TAKEOFF 8 LIMITED	Others	Ireland	100	100
TAKEOFF 9 LIMITED	Others	Ireland	100	100
TRANSAVIA AIRLINES BV	Others	Netherlands	97	49
TRANSAVIA AIRLINES C.V.	Others	Netherlands	97	49
TRAVEL INDUSTRY SYSTEMS B.V.	Others	Netherlands	97	49

	Segment	Country	% interest	% control
UILEAG HOLDING COMPANY LIMITED	Others	Ireland	100	100
WEBLOK B.V.	Others	Netherlands	97	49

40.2. Equity affiliates

	Segment	Country	% interest	% control
FINANCIÈRE LMP	Passenger	France	20	20
AEROMAINTENANCE GROUP (AMG)	Maintenance	United States	39	39
SHANGDONG XIANGYU AERO-TECHNOLOGY SERVICES LTD	Maintenance	China	8	20
SINGAPORE HANGXIN AVIATION ENG. PTE	Maintenance	Singapor	12	30
SPAIRLINERS	Maintenance	Allemagne	50	50
AIR CHEF	Others	Italy	49	50
ALPHA AIRPORTS GROUP PLC	Others	United Kingdom	26	27
BAAN TARA DEVELOPMENT LTD	Others	Thailand	97	49
BAAN TARA HOLDING LTD	Others	Thailand	97	49
FLYING FOOD CATERING	Others	United States	48	49
FLYING FOOD MIAMI	Others	United States	48	49
FLYING FOOD SAN FRANCISCO	Others	United States	43	44
FLYING FOOD SERVICES	Others	United States	48	49
HEATHROW CARGO HANDLING	Others	United Kingdom	50	50
INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L.	Others	Italy	20	20
KENYA AIRWAYS LIMITED	Others	Kenya	26	26
LOGAIR	Others	France	49	50
LOME CATERING SA	Others	Togo	17	35
MACAU CATERING SERVICES	Others	China	17	34
MARTINAIR HOLLAND N.V.	Others	Netherlands	50	49
SEREP	Others	Senegal	38	39
SERVAIR EUREST	Others	Spain	34	35
SESAL	Others	Gabon	39	40
TEAMTRACKERS SA	Others	France	49	49
TEAMTRACKERS SRO	Others	Czech republic	49	49
TOGA	Others	United States	25	25
WAM ACQUISITION	Others	Spain	23	23

TRANSITION FROM FRENCH ACCOUNTING STANDARDS TO IFRS

This transition note details the principal impacts of the transition to IFRS on the Company's consolidated equity as of April 1, 2004, the differences from the French accounting standards previously applied, and the related effects on the Company's balance sheet as of March 31, 2005, the income statement and statement of change in equity for the year ended March 31, 2005.
In accordance with the information provided during the Company's first communication on the calculated impacts of the transition to IFRS, the financial information presented below has been slightly adjusted as compared to the one initially presented.

These adjustments are primarily due to the following:

- the inclusion of the most recent updates for the interpretation of the existing standards;
- the finalization of the fair valuation adjustment in relation to KLM's business combination;
- the finalization of the validation of the restatements for the maintenance agreements;
- and reclassifications of accounts, particularly on the balance sheet.

The regulatory framework used as well as the options taken for the first application of IFRS are described in note 3 to these consolidated financial statements.

Lastly, as described in note 3.17.1, pension plans in the Netherlands are generally subject to minimum funding requirements ("MFR"). Questions have been raised as to how such MFR might affect the recognition of a pension net asset that otherwise would be recognized under IAS 19 in respect of the surplus in a plan and thus, how the Group should account for certain pension asset surpluses of KLM in its consolidated financial statements.
Recognition of a pension net asset under IAS 19 is subject to interpretation. Because of this situation, and for the accounting treatment of companies of the KLM group, an interpretation of IAS 19 has been requested from the IFRIC, the interpretation technical body of the IASB.
In its transition note published in the interim consolidated financial statements as of September 30, 2005, the Group had decided for valuation of assets, liabilities and contingent liabilities of KLM group acquired as of May 4, 2004, to "freeze" the reversal in income statement of the part of negative goodwill attached to this pension surplus.
Although IFRIC has not given its definitive conclusions, the Group has adopted its accounting position in its IFRS accounts as of March 31, 2005 and has recognized all the pension surplus in KLM accounts. This led to a new valuation of the negative goodwill, and the reversal of the amount recorded in earnings during 2004-05.

1. Reconciliation of equity as of April 1, 2004

In € millions

Equity, attributable to equity holders of Air France-KLM S.A.– French GAAP as of April 1, 2004	*Note*	**4,062**
Effect of transition to IFRS:		
Property, plant and equipment fair value adjustment	**a**	(740)
Pension	**b**	(20)
Business combination	**c**	-
Deferred taxes on TSDI (perpetual subordinated notes)	**d**	(80)
Deferred taxes on distributable reserves of equity affiliates	**e**	(4)
Scope of consolidation – exclusive control	**f**	(58)
Scope of consolidation– significant influence	**g**	(24)
Other adjustments	**h to m**	(2)
Deferred taxes on the above adjustments	**n**	245
Equity, attributable to equity holders of Air France-KLM S.A. – IFRS as of April 1, 2004		**3,379**

Minority interests – French GAAP	23
IFRS adjustments impact	64
Total equity – IFRS as of April 1, 2004	**3,466**

First time application of IFRS:

a) Property, plant and equipment fair value adjustment

According to French GAAP, all property, plant and equipment were previously accounted for at historical cost less accumulated depreciation.
Under IFRS 1, an entity may elect to value an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.
Due to the recent acquisition of KLM, for which the fair value was used in the procedure to value the acquisition balance sheet and, second, the euro/US dollar parity, which changed significantly between the date of acquisition of the aircraft and the date of adoption of IFRS, the Group has elected to fair value Air France Group fleet at the transition date to IFRS. The aircraft of the Air France group for which fair value was used were individually valued by independent experts. The application of this option has a pre-tax impact of € (740) millions on the Company's consolidated equity as of April 1, 2004.

b) Pension obligation

Under French GAAP, actuarial gains and losses were amortized over the average remaining working lives of the employees participating in the plan when they exceeded the larger of the following two values:

a. 10% of the discounted value of the obligation for the benefits, and
b. 10% of the fair value of any plan assets.

In accordance with IFRS 1, a first time adopter may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses.
Accounting for the actuarial variances under the option offered by IFRS 1 had a pre-tax impact of € (20) millions on the Company's consolidated equity as of April 1, 2004.

c) Business combinations

The Group has elected to use the exemption provided by IFRS 1 which allows it not to apply IFRS 3 "*Business Combinations*" retrospectively for business combinations that occurred prior to the Company's transition date to IFRS, i.e. April 1, 2004.
As a result, no impact on the Company's opening equity was accounted for as of April 1, 2004.
In addition, in accordance with IFRS 3, the Company does not amortize goodwill since April 1, 2004, but instead tests such goodwill for impairment at least on an annual basis.

Deferred taxes:

d) Perpetual subordinated loans

In accordance with IAS 12, the Group recognized a deferred tax liability on the potential gain when the financial instrument comes to maturity. The effect of the recognition of this deferred tax liability resulted in a decrease in the Company's consolidated equity of € 80 millions as of April 1, 2004.

e) Distributable reserves of equity affiliates

In accordance with IAS 12, a deferred tax liability on the undistributed reserves of the equity affiliates must be accounted for.

Therefore, a deferred tax liability was recognized, primarily on the undistributed reserves of Amadeus GTD, for an amount of € (4) millions taken against equity attributable to equity holders of Air France KLM SA at April 1, 2004.

Scope of consolidation:

f) Exclusive control

Under French GAAP, exclusive control is presumed when a company holds 50% of the voting rights.
Under IAS 27, exclusive control is presumed when the power to direct the financial and operating policies of an entity in order to obtain the benefits of its activities is demonstrated. As such, despite a percentage of voting rights lower than 50%, an entity might be fully consolidated.
Based on the provisions of IAS 27, the Group concluded that it exercised control over its subsidiary Air France Partnairs Leasing (AFPL) and has therefore fully consolidated this entity (previously consolidated using the equity method), thus eliminating intragroup transactions in their entirety and not on the holding percentage. As a result of such GAAP difference, the company recorded a reduction in equity attributable to equity holders of Air France KLM SA of € 58 millions, before tax, as of April 1, 2004.

g*) Significant influence*

Under French GAAP, significant influence on an entity was assumed when the percentage of voting rights held in that entity reached at least 20%. However, when the significant influence was not exercised, the company could be excluded from the scope of consolidation, even when this threshold was reached.
This possibility of exclusion does not exist under IAS 28. The Group has therefore incorporated the entities Opodo and TOGA in its scope of consolidation using the equity method. The impact on the Company's consolidated equity attributable to equity holders of Air France KLM SA as of April 1, 2004 was € (24) millions.

Other adjustments :

h) Property, plant and equipment

IAS 16 "*Property, Plant and Equipment"* requires the recognition of all obtained and reasonably applicable discounts, rebates and returns as a reduction of the acquisition price of property, plant and equipment. Under French GAAP, certain incentives received from aircraft manufacturers were recorded in the income statement at the time the incentive was paid.
At the transition date to IFRS, such incentives were accounted for as a reduction of the cost of the related aircraft and thus, reduced the Company's consolidated equity as of April 1, 2004 by € 25 millions before tax.

IAS 23 "*Borrowing Costs"* allows the capitalization of financial interest for fixed assets which require a long period of preparation before installation for use. Under French GAAP, this method had been applied prospectively by the Group since April 1st, 1997. The application of IFRS being retrospective, the Group included interest, as of April 1, 2004 in the tangible assets acquired before April 1st, 1997 and recognized in the opening balance sheet at the amortized historical cost. This restatement increased the Company's consolidated equity by € 11 millions, before tax, as of April 1, 2004.

i) Exchange of slots

The Group entered into a series of agreements with airline companies in order to exchange some of its summer and winter slots, which it does not intend to use, for other slots. This exchange of similar assets also included a cash consideration. Under French GAAP, the Group recognized the entire gain resulting from the exchange of the summer and winter slots as of March 31, 2004, considering that all uncertainties related to the timing and resolution of the conditions for the exchange of the winter slots were assured beyond a reasonable doubt.

Under IFRS, the Group considered that the culmination of the earning process was not reached for the exchange of the winter slots and consequently, has deferred as of April 1, 2004 the recognition of a gain before tax of € 20 millions for the slots, resulting in a decrease in the Company's consolidated equity as of April 1, 2005.

j) Leases

Under French GAAP, the Group accounted for leases arrangements based on the legal form of the arrangement. As a result, a lease was considered to be a finance lease only in the case where the lease agreement provides for a bargain purchase option.
The application of IAS 17 "Leases" resulted in the reclassification of certain lease agreements. This reclassification resulted in a pre-tax increase in the Company's consolidated equity of April 1, 2004 by € 18 millions.

k) Provisions for restitution

The commitments related to the maintenance expected at the end of contracts for certain aircraft were recorded as expense when the costs became certain, in accordance with French GAAP. According to IAS 37, they are recorded as a provision as of the contract's starting date. Furthermore, the discounting of long-term provisions, forbidden under French GAAP, was also taken into account. The cumulative pre-tax impact on the Company's consolidated equity amounted to € (7) millions at April 1, 2004.

l) Trademark registration costs

Under IAS 38 "Intangible Assets", trademark registration costs do not meet the intangible assets recognition criteria. As a result, such trademark registration costs were therefore eliminated for a pre-tax amount of € (8) millions.

m) Statistical provisions

The Group's application of IAS 37 "*Provisions, Contingent Liabilities and Contingent Assets"* prohibits the recognition of statistical provisions. As a result, the Group eliminated such provision recording a pre-tax adjustment of € 15 millions in the Company's consolidated equity attributable to equity holders of Air France KLM SA as of April 1, 2004.

n) Deferred taxes on the above adjustments

The tax effect of the adjustments included in the reconciliation of equity under French GAAP to IFRS was calculated by applying the applicable tax rate to the pretax adjustment where such adjustments have a tax effect. The applicable tax rate was the tax rate expected to apply at the time the temporary difference reverses based on the specific tax jurisdiction in which the reversal will occur.

2. Reconciliation of equity and net income as of and for the year ended March 31, 2005

The table below shows the IFRS transition effects on the Company's consolidated income statement for the year ended March 31, 2005 and consolidated equity as of March 31, 2005.

In € millions	Note	April 1, 2004	Net Income March 31, 2005	Share capital increase	Other	March 31, 2005
Equity, attributable to equity holders of Air France-KLM S.A.– French GAAP		**4,062**	**351**	**768**	**(20)**	**5,161**
Effect of transition to IFRS:						
Property, plant and equipment fair value adjustment	**(a)**	(740)	89			(651)
Pension		(20)	71			51
Deferred taxes on TSDI (perpetual subordinated notes) ...		(80)	(7)			(87)
Deferred taxes on distributable reserves of equity affiliates	**(b)**	(4)	(41)			(45)
Scope of consolidation – exclusive control	**(c)**	(58)	38			(20)
Scope of consolidation – significant influence	**(d)**	(24)	11			(13)
Goodwill	**(e)**		36			36
Negative goodwill – KLM	**(f)**		1 279			1 279
Share-based compensation	**(g)**		(69)		69	-
Recognition of intangible assets – KLM	**(h)**		(15)			(15)
Residual value adjustment	**(i)**		(23)			(23)
Other adjustments		(2)	(5)		3	(4)
Deferred taxes impact on the above adjustments		245	(5)			240
Equity, attributable to equity holders of Air France-KLM S.A. – IFRS		**3,379**	**1,710**	**768**	**52**	**5,909**
Minority interests – French accounting standards		23	7		35	65
IFRS adjustments impact		64	(21)		3	46
Total Equity – IFRS		**3,466**	**1,696**	**768**	**90**	**6,020**

The main reconciling items are described below:

Property, plant and equipment fair value adjustment:

(a) Property, plant and equipment fair value adjustment

In accordance with IFRS 1, the Group has elected to fair value the tangible assets at the transition date to IFRS (cf. 1.a) and adjusted depreciation for the year ended March 31, 2005 accordingly.
The impact on the Company's consolidated pre-tax income for the year ended March 31, 2005 was a profit amounting to € 89 millions.

Distributable reserves of equity affiliates:

(b) Deferred taxes on distributable reserves of equity affiliates

The deferred tax liability recorded on the undistributed reserve (see note 1.e) was adjusted in the 2004-05 period due to the LBO operation of Amadeus GTD initiated during the period and inducing a change in tax rate. This adjustment resulted in the recognition of a tax charge amounting to € 41 millions during the year ended March 31, 2005.

Scope of consolidation:

(c) Scope of consolidation – exclusive control

The company AFPL sold two aircraft to companies outside the Air France-KLM group during the year ended March 31st, 2005, for which internal sale gains had been neutralized in the opening balance sheet (see note 1.f). These disposals generated an realization of these capital gains previously considered intercompany amounting to € 38 millions before tax on the income statement for the year ended March 31, 2005.

(d) Scope of consolidation – significant influence

During the year ended March 31, 2005, the Company ceased to account for under the equity method its interest in Opodo. During the year ended March 31, 2005, Air France-KLM's interest in Opodo dropped below 20% following a capital increase in which the Group did not participate. Air France-KLM believes that it no longer has the ability to exercise significant influence on this investment. Until June 30, 2004, the Opodo shares were accounted for using the equity method under IFRS. This restatement resulted in a pre-tax impact of € 11 millions on the Company's consolidated income for the year ended March 31, 2005.

Business combinations:

(e) Goodwill at April 1, 2004

In accordance with IFRS 3, the Group ceased to amortize goodwill effective April 1, 2004. Such goodwill is tested for impairment at least annually. Under French GAAP, such goodwill was amortized.
The impact for cancelling amortization recorded under French GAAP on the Company's consolidated income statement for the year ended March 31, 2005 is € 36 millions.

(f) Negative goodwill - KLM

The only business combination since April 1, 2004 is the combination with KLM effective May 1, 2004. . Under French GAAP, negative goodwill arising from this business combination is recognized on the Company's income statement over the estimated period of the expected economic returns related to the combination.
Under IFRS 3, negative goodwill arising from a business combination shall be immediately recognized in the Company's income statement.
Such GAAP difference resulted in an adjustment to the Company's consolidated income statement for the year ended March 31, 2005 amounting to € 1 279 millions.

Share-based compensation

(g) Offering reserved for employees

Pursuant to the transitional provisions of IFRS 2, the Group applied this standard for the stock option plans granted after November 7, 2002.
The stock option and purchase plans are valued at fair value on the date the plans are granted. This fair value is estimated to equal the fair value of the services rendered by the employees in consideration for the options received.

With regard to the Offering Reserved for the Employees (“ORS”, see note 27.2), which took effect on February 21, 2005, given that there was no service condition after the date this plan was granted, the entire charge of € (69) millions corresponding to the valuation of the benefits at fair value received was recognized in the Company’s income statement during the year ended March 31, 2005.

KLM tangible and intangible assets

(h) Intangible assets

Certain intangible assets (customer relationships) valued under IFRS 3 in the context of the fair valuation of KLM’s assets and liabilities at the acquisition date have a finite life (between 5 and 12 years). Such intangibles are amortized over their estimated useful life. Such intangible assets were not identified under French GAAP as it is not permitted to recognize intangible assets as part of a business combination when such business combination results in negative goodwill.
This amortization had a pre-tax impact of € (15) millions on the Company’s consolidated income statement for the year ended March 31, 2005.

(i) Tangible assets

In the context of the transition to IFRS, the useful life of the Group's fleet was reviewed and estimated at 20 years, without residual value.
This change in amortization period and method had a pre-tax impact on net income of € (23) millions for the 2004-05 financial year.

3. Reconciliation of French standards/IAS-IFRS on the balance sheet at March 31, 2005

In € millions

ASSETS	Published accounts	Property, plant and equipment fair value	Pension	Deferred tax on TSDI	Deferred tax on distributable reserves of equity affiliates	Scope of consolidation	Goodwill	Recognition of intangible assets	Other adjustments	Deferred tax impact on the adjustments	Reclassification	IFRS balance sheet
Non-current assets												
Goodwill	83						16				106	205
Intangible assets	159						18	-15	386		-111	437
Flight equipment	10 917	-651				39			84		5	10 394
Other property, plant and equipment	1 837								58			1 895
Investments in equity associates	564					-9	2		13		7	577
Pension assets			72						494		1 201	1 767
Other financial assets	548			94		-11			331		151	1 113
Deferred tax assets	97					-5			4	218	-174	140
Other non curent assets									51		285	336
Total non-current assets	14 205	-651	72	94		14	36	-15	1 421	218	1 470	16 864
Current assets												
Other short term financial assets											654	654
Inventories	389								-7			382
Account receivables	2 272					1			-1			2 272
Income tax receivables										5	1	6
Other current assets	2 001								-37		-995	969
Cash equivalent	2 254										-605	1 649
Cash	386					13					-1	398
Total current assets	7 302					14			-45	5	-946	6 330
Total assets	21 507	-651	72	94		28	36	-15	1 376	223	524	23 194

In € millions

LIABILITIES AND EQUITY	Published accounts	Property, plant and equipment fair value	Pension	Deferred tax on TSDI	Deferred tax on distributable reserves of equity affiliates	Scope of consolidation	Goodwill	Recognition of intangible assets	Other adjustments	Deferred tax impact on the adjustments	Reclassification	IFRS balance sheet
Issued capital	2 290											2 290
Additional paid-in capital	390									-6		384
Treasury shares											-19	-19
Reserves and retained earnings	2 490	-651	51	-87	-45	-33	1 315	-15	-27	246	10	3 254
Currency translation adjustment	-9										9	
Equity attributable to equity holders of Air France - KLM	**5 161**	**-651**	**51**	**-87**	**-45**	**-33**	**1 315**	**-15**	**-27**	**240**		**5 909**
Minority interests	65					34			12			111
Total equity	**5 226**	**-651**	**51**	**-87**	**-45**	**1**	**1 315**	**-15**	**-15**	**240**		**6 020**
Provisions and retirement benefits	2 265		21				-1 279		467		42	1 516
Long-term debt	8 268			87		16			522		-1 004	7 889
Deferred tax	81			87	45				291	-17	-174	313
Other non-current liabilities						11			213		257	481
Total non-current liabilities	**10 614**		**21**	**174**	**45**	**27**	**-1 279**		**1 493**	**-17**	**-879**	**10 199**
Provisions									26		98	124
Short term portion of long-term debt				7					27		1 010	1 044
Trade payables	1 905								-3		-1	1 901
Deferred revenue on ticket sales	1 656								16		-16	1 656
Current tax liabilities											8	8
Other current liabities	2 106								-168		42	1 980
Bank overdraft											262	262
Total current liabilities	**5 667**			**7**					**-102**		**1 403**	**6 975**
Total liabilities and equity	**21 507**	**-651**	**72**	**94**		**28**	**36**	**-15**	**1 376**	**223**	**524**	**23 194**

The columns presented above summarize the adjustments made for the implementation of the IFRS and described earlier in the reconciliation of equity capital.

The "reclassification" columns primarily concern:

- the classification of receivables, fixed assets, provisions and liabilities between the current portion and the non-current portion;
- the elimination of the deposits and securities related to aircraft finance leases
  pursuant to IAS 1.

4. Presentation of French standards to IFRS in the 2004-05 income statement

	Published accounts	Property, plant, and equipment fair value	Pension	Deferred on TSDI	Deferred tax on distributable reserves of equity affiliates	Scope of consolidation	Goodwill	Share-based compen-sation	Recognition of intangible assets	Other adjustments	Deferred tax impact on the adjustments	Reclassification	*IFRS*
Sales	**19 078**									**(86)**		**(14)**	**18 978**
Other revenues										0		5	5
External charges	(10 687)					13				82		(37)	(10 629)
Salaries and related costs	(5 922)		71					(69)		13		(87)	(5 994)
Taxes other than income taxes	(226)									1			(225)
Gross operating result	**2 243**												
Other income and expenses	(1 746)	66				(4)	18		(15)	(39)		135	(1 585)
Income from current operations / Operating income	**497**	**66**	**71**	**0**	**0**	**9**	**18**	**(69)**	**(15)**	**(29)**	**0**	**2**	**550**
Restructuring costs	(21)									1		20	0
Sales of subsidiaries and affiliates	67									0		(67)	0
Sales of aircraft equipment		23								(2)		(2)	19
Other non-current income and expenses										(48)		52	4
Negative goodwill							1 279			0		75	1 354
Income from operating activities		**89**	**71**	**0**	**0**	**9**	**1 297**	**(69)**	**(15)**	**(78)**	**0**	**80**	**1 927**
Financial result	(219)					11				(15)		(7)	(230)
Income before tax	**324**	**89**	**71**	**0**	**0**	**20**	**1 297**	**(69)**	**(15)**	**(93)**	**0**	**73**	**1 697**
Share of profits (losses) of associates	73					(4)	3			1			73
Amortization of goodwill	58						15			0		(73)	0
Income (loss) before income tax and minority interests	**455**	**89**	**71**	**0**	**0**	**16**	**1 315**	**(69)**	**(15)**	**(92)**	**0**	**0**	**1 770**
Income taxes	(96)			(7)	(41)	11				5	(5)		(133)
Net income from continuing operations													**0**
Net income from discontinued operations										59			59
Income for the period	**359**	**89**	**71**	**(7)**	**(41)**	**27**	**1 315**	**(69)**	**(15)**	**(28)**	**(5)**	**0**	**1 696**
Group	**351**	**89**	**71**	**(7)**	**(41)**	**49**	**1 315**	**(69)**	**(15)**	**(28)**	**(5)**	**0**	**1 710**
Minority interests	(8)					22				0			14