

FINANCIAL STATEMENTS

1st Half year as of 30 September 2004

AIR FRANCE – K.L.M Group

CONSOLIDATED INCOME STATEMENTS

In € millions

Half year ended September 30,		2004	2003	2003	Year ended March 31, 2004
	Notes		Pro forma		
Operating revenues	3	9 595	8 797	6 193	12 337
External expenses	4	(5 308)	(4 852)	(3 373)	(6 754)
Salaries & related costs	5	(2 874)	(2 776)	(2 025)	(4 079)
Taxes other than income tax		(114)	(102)	(88)	(186)
Gross operating result		1 299	1 067	707	1 318
Charge to depreciation/amortization, net	6	(794)	(802)	(604)	(1 184)
Charge to operating provisions, net	6	(24)	(25)	(14)	(46)
Gain on disposal of flight equipment, net		6	9	1	7
Other income and charges, net		(30)	(22)	(2)	44
Operating income		457	227	88	139
Restructuring costs		-	(11)	(11)	(22)
Net financial charges	7	(116)	(44)	(6)	(60)
Gains on disposals of subsidiaries and affiliates, net		-	12	-	5
Pretax income (loss)		341	184	71	62
Share in net income of equity affiliates		43	29	22	53
Amortization of goodwill		42	43	(8)	(15)
Income (loss) before income taxes and minority interests		426	256	85	100
Income tax	8	(121)	(61)	(32)	(2)
Income (loss) before minority interests		305	195	53	98
Minority interests		(9)	(6)	(1)	(5)
NET INCOME (LOSS)		296	189	52	93
Earnings (loss) per issued share		1,14		0,24	0,42
Earnings (loss) per share	9				
- basic		1,16		0,24	0,43
- diluted		1,16		0,24	0,43

2003 pro forma: consolidation of the Air France group, including KLM and its consolidated subsidiaries over 5 months, identical to the method used at September 30, 2004.

AIR FRANCE – K.L.M Group

CONSOLIDATED BALANCE SHEETS

In € millions

ASSETS as of		09.30.2004	03.31.2004	03.31.2003
	Notes			
Consolidation goodwill		91	95	112
Intangible fixed assets		173	149	171
Flight equipment	10	10 679	6 951	7 284
Other property and equipment	10	1 845	955	878
Investments in equity affiliates		550	336	316
Other investments		311	268	260
Total fixed assets		13 649	8 754	9 021
Inventory		394	151	220
Trade receivables		2 429	1 651	1 432
Income tax receivable		315	101	111
Other accounts receivable		1 745	494	592
Marketable securities		2 285	1 478	1 039
Cash		328	330	193
Total current assets		7 496	4 205	3 587
Total assets		21 145	12 959	12 608

AIR FRANCE – K.L.M Group

CONSOLIDATED BALANCE SHEETS (CONTINUED)

In € millions

LIABILITIES AND STOKHOLDERS' EQUITY as of		09.30.2004	03.31.2004	03.31.2003
	Notes			
Common stock	11	2 290	1 868	1 868
Additional paid-in capital	11	1 519	261	261
Retained earnings (accumulated deficit)	11	1 265	1 942	1 862
Cumulative translation adjustment		(6)	(9)	3
Stockholders' equity		5 068	4 062	3 994
Minority interests		79	23	33
Stockholders' equity and minority interests		5 147	4 085	4 027
Provisions for liabilities and charges	12	2 225	1 039	1 095
Short and long-term debt and capital leases	13	8 080	4 380	4 147
Trade payables		1 830	1 226	1 375
Income tax liability		456	21	5
Advance ticket sales		1 446	1 008	901
Other payables		1 961	1 200	1 058
Total liabilities		15 998	8 874	8 581
Total liabilities and stockholders' equity		21 145	12 959	12 608

AIR FRANCE – K.L.M Group

STATEMENTS OF MOVEMENTS IN STOCKHOLDERS' EQUITY

In € millions

Before allocation of income	Number	Common stock	Add'l	Réserves	Treasury Stock	Translation differences	Stockholders' equity	Minority interests	Stockholders'
	of shares comprising common stock		paid-in capital						equity and minority interests
March 31, 2002	219 780 887	1 868	261	1 813	-	19	3 961	29	3 990
Dividends paid				(28)			(28)	(2)	(30)
Change in treasury stock					(25)		(25)		(25)
Impact of changes in accounting policies				(18)			(18)		(18)
Translation differences						(16)	(16)	(1)	(17)
Current year net income (loss)				120			120	4	124
Changes in scope of consolidation							-	3	3
March 31, 2003	219 780 887	1 868	261	1 887	(25)	3	3 994	33	4 027
Dividends paid				(17)			(17)	(3)	(20)
Change in treasury stock				1	7		8		8
Impact of changes in accounting policies				(4)			(4)		(4)
Translation differences						(12)	(12)	(3)	(15)
Current year net income (loss)				93			93	5	98
Changes in scope of consolidation							-	(9)	(9)
March 31, 2004	219 780 887	1 868	261	1 960	(18)	(9)	4 062	23	4 085
Issuance of common stock	49 602 631	422	346				768		768
Contribution of assets			923	(923)			-		-
Exchange offer costs			(11)				(11)		(11)
Dividends paid				(17)			(17)	(1)	(18)
Change in treasury stock					(33)		(33)		(33)
Translation differences						3	3	1	4
Net income for the period				296			296	9	305
Changes in scope of consolidation							-	47	47
September 30, 2004	269 383 518	2 290	1 519	1 316	(51)	(6)	5 068	79	5 147

AIR FRANCE – K.L.M Group

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In € millions</i>			
Half year ended September 30,	2004	2003	Year ended
			03.31.2004
	Notes		
Cash flows from operating activities	1 026	346	1 201
Gross operating result	1 299	707	1 318
Other income (expenses) received (paid)	(45)	(27)	(23)
Foreign exchange gains (losses)	1	2	3
Operating cash flows	1 255	682	1 298
Changes in working capital	(66)	(246)	54
Restructuring expenditure	(20)	(14)	(18)
Interest paid	(162)	(89)	(163)
Interest received	23	18	36
Income tax paid (received)	(4)	(5)	(6)
Cash flows from investing activities	(332)	(276)	(849)
Acquisitions of subsidiaries	585	(1)	(10)
Purchase of tangible and intangible fixed assets	(1 034)	(484)	(1 269)
Disposals of subsidiaries	6	9	24
Proceeds on disposal of tangible and intangible assets	94	186	391
Dividends received	17	14	15
Cash flows from financing activities	56	214	386
New debts	388	640	901
Repayment of debts	(148)	(294)	(345)
Repayment of capital lease obligations	(154)	(106)	(152)
Net decrease (increase) in loans	30	7	(29)
Net decrease (increase) in short-term investments	(37)	(11)	35
Dividends paid	(23)	(22)	(24)
Translation differences	-	(2)	(5)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	750	282	733
Opening cash and cash equivalents	17	1 405	672
Closing cash and cash equivalents	17	2 155	1 405

NOTES TO THE FINANCIAL STATEMENTS

AIR FRANCE – K.L.M Group

1. ACCOUNTING POLICIES

The half-year consolidated financial statements have been prepared in accordance with the accounting principles and valuation methods used for the annual financial statements, in agreement with:

- Regulation 99-02 of the French accounts committee, the *Comité de Réglementation Comptable (CRC)*, concerning consolidated financial statements of commercial companies and public organizations;
- Recommendation 99.R.01 of the *Conseil National de la Comptabilité (CNC)*, concerning interim financial statements.

2. CHANGES IN THE SCOPE OF CONSOLIDATION, COMPARABILITY AND VALUATION

2.1 - Scope of consolidation

As of September 30, 2004, the Group included 162 companies, 139 of which are fully consolidated, 3 are proportionately consolidated and 20 are consolidated using the equity method. The change in the scope of consolidation is mainly due to the consolidation of the KLM group.

As the Exchange Offer closed in May 2004, the group's results include KLM's results over a period of five months (May to September 2004). At this date, the group holds 97.1% of the common shares of KLM stock.

In addition, the Servair group was consolidated with one quarter difference until March 31, 2004. To make up for this difference, the Servair group was consolidated over 9 months (January-September 2004) in this first half. In addition, Air France increased its stake in the Servair group by 3.1 points, from 94.5% to 97.6%. This additional stock purchase had no significant impact on the consolidated accounts closed at September 30, 2004.

2.2 - Comparability

For the purposes of comparison, a pro forma consolidated statement of income at September 30, 2003 has been prepared using methods and consolidation scope identical to those used at September 30, 2004. The unaudited pro forma income statement does not necessarily give an indication of the earnings that would have been achieved by Air France – KLM if the merger with KLM had actually taken place on the date adopted for preparing the pro forma income statement.

AIR FRANCE – K.L.M Group

2.3 - Valuation

On the basis of these (still provisional) estimates of the assets and liabilities as valued on the date of acquisition, the first consolidation of the KLM group shows a “badwill” of 976 million euros. This has been determined on the basis of an acquisition price of 797 million euros and a share of the shareholders’ equity acquired of 1,773 million euros. Shareholders’ equity specifically includes the adjustment to market value of the KLM group’s fleet for a total of (873) million euros the recognition in the item “Other debtors” of the surplus value of the funds earmarked to cover employee retirement commitments for a total of 959 million euros.

As some valuations are still in process, this badwill may be adjusted during the appropriation period available to the group, which runs to the end of the fiscal year following the year of acquisition.

This is the case for the value of the funds allocated to cover personnel pension commitments. An in-depth review of this accounting standard is currently being carried out in order to determine whether this item may be recorded on the balance sheet.

Pending the definitive position that will be used for closing the annual accounts, the Group considers that according to accounting standards, this surplus may be recognized. However the Group has, as a precautionary measure, chosen not to amortize the portion of negative goodwill relative to the excess fund value in the second quarter.

The estimated amount of this portion came to 610 million euros at September 30, 2004. The impact of this amount on income, had it been amortized in the second quarter, would have generated an increase of approximately 30 million euros in net income.

The amortization period retained is 5 years, reflecting the length of time that the group considers reasonable for implementing the anticipated synergies, and the costs incurred in achieving them. The allocation for the period totaled 51 million euros at September 30, 2004.

Badwill is recognized in the item “Provisions for liabilities and charges” on the liabilities side of the balance sheet.

3. INFORMATION BY ACTIVITY AND GEOGRAPHICAL AREA

3.1 - Information by sector of activity

Half year ended September 30,	2004		2003		2003	
	Operating revenues	Operating income	Operating revenues	Operating income	Operating revenues	Operating income
			<i>Pro forma</i>			
Passenger	7 597	349	6 956	147	5 166	68
Cargo	1 147	13	1 072	3	692	(8)
Maintenance	377	26	362	37	263	34
Others	474	69	407	40	72	(6)
Total	9 595	457	8 797	227	6 193	88

Consolidated sales revenues for the first half of the year totaled 9.6 billion euros, an increase of 9.1% over revenues for the previous pro forma first half. This increase was generated by all activity sectors, particularly passengers and cargo.

Operating income rose from 230 to 457 million euros against 227 million euros at September 30, 2003. All activities made a positive contribution to this result; passenger activity grew substantially to 349 million from 147 million euros at September 30, 2003.

AIR FRANCE – K.L.M Group

3.2 - Analysis of operating revenues by geographical area of sale

In € millions

	Europe		Caribbean		Africa		Americas		Asia		Total
	North Africa		French Guiana	Indian Ocean	Middle East		Polynesia		New Caledonia		
Half year ended September 30, 2004											
Scheduled passenger	4 686	(65,8%)	200	(2,8%)	514	(7,2%)	1 102	(15,5%)	616	(8,7%)	7 118
Other passenger revenues	344	(71,8%)	21	(4,4%)	23	(4,8%)	44	(9,2%)	47	(9,8%)	479
Total Passenger	5 030	(66,2%)	221	(2,9%)	537	(7,1%)	1 146	(15,1%)	663	(8,7%)	7 597
Cargo	511	(48,1%)	22	(2,1%)	72	(6,8%)	120	(11,3%)	337	(31,7%)	1 062
Other cargo revenues	60	(70,6%)	3	(3,5%)	3	(3,5%)	9	(10,6%)	10	(11,8%)	85
Total Cargo	571	(49,8%)	25	(2,2%)	75	(6,5%)	129	(11,2%)	347	(30,3%)	1 147
Maintenance	373	(98,9%)	-	-	-	-	-	-	4	(1,1%)	377
Others	455	(96,0%)	12	(2,5%)	7	(1,5%)	-	-	-	-	474
Total	6 429	(66,9%)	258	(2,7%)	619	(6,5%)	1 275	(13,3%)	1 014	(10,6%)	9 595
Half year ended September 30, 2003 (pro forma)											
Scheduled passenger	4 328	(66,3%)	233	(3,6%)	475	(7,3%)	971	(14,9%)	516	(7,9%)	6 523
Other passenger revenues	343	(79,3%)	14	(3,2%)	21	(4,8%)	34	(7,9%)	21	(4,8%)	433
Total Passenger	4 671	(67,2%)	247	(3,6%)	496	(7,1%)	1 005	(14,4%)	537	(7,7%)	6 956
Cargo	494	(50,4%)	21	(2,1%)	72	(7,3%)	113	(11,5%)	282	(28,7%)	982
Other cargo revenues	49	(54,4%)	5	(5,6%)	5	(5,6%)	18	(20,0%)	13	(14,4%)	90
Total Cargo	543	(50,7%)	26	(2,4%)	77	(7,2%)	131	(12,2%)	295	(27,5%)	1 072
Maintenance	359	(99,2%)	-	-	-	-	-	-	3	(0,8%)	362
Others	399	(98,1%)	7	(1,7%)	1	(0,2%)	-	-	-	-	407
Total	5 972	(67,9%)	280	(3,2%)	574	(6,5%)	1 136	(12,9%)	835	(9,5%)	8 797
Half year ended September 30, 2003											
Scheduled passenger	3 278	(68,6%)	209	(4,4%)	310	(6,5%)	660	(13,8%)	322	(6,7%)	4 779
Other passenger revenues	310	(80,1%)	14	(3,6%)	18	(4,7%)	28	(7,2%)	17	(4,4%)	387
Total Passenger	3 588	(69,5%)	223	(4,3%)	328	(6,3%)	688	(13,3%)	339	(6,6%)	5 166
Cargo	328	(53,3%)	20	(3,3%)	46	(7,5%)	67	(10,9%)	154	(25,0%)	615
Other cargo revenues	43	(55,8%)	5	(6,5%)	4	(5,2%)	16	(20,8%)	9	(11,7%)	77
Total Cargo	371	(53,6%)	25	(3,6%)	50	(7,2%)	83	(12,0%)	163	(23,6%)	692
Maintenance	260	(98,9%)	-	-	-	-	-	-	3	(1,1%)	263
Others	64	(88,9%)	7	(9,7%)	1	(1,4%)	-	-	-	-	72
Total	4 283	(69,2%)	255	(4,1%)	379	(6,1%)	771	(12,4%)	505	(8,2%)	6 193

Changes in sales revenues varied by geographic region; thus, the change on a pro forma basis included a 1.1 point increase from Asia and 0.4 point from the Americas, while the Africa-Middle East region remained stable, and Europe and the West Indies-Caribbean-Indian Ocean markets fell by 1 and 0.5 point respectively.

AIR FRANCE – K.L.M Group

3.3 - Analysis of operating revenues by geographical area of destination

In € millions

	Europe		Caribbean		Africa		Americas		Asia		Total
	North Africa		French Guiana		Middle East		Polynesia		New Caledonia		
	Indian Ocean										
Half year ended September 30, 2004											
Scheduled passenger	3 058	(42,9%)	538	(7,6%)	934	(13,1%)	1 570	(22,1%)	1 018	(14,3%)	7 118
Cargo	96	(9,0%)	87	(8,2%)	133	(12,5%)	297	(28,0%)	449	(42,3%)	1 062
Total	3 154	(38,7%)	625	(7,6%)	1 067	(13,0%)	1 867	(22,8%)	1 467	(17,9%)	8 180
Half year ended September 30, (pro forma)											
Scheduled passenger	2 893	(44,4%)	626	(9,6%)	834	(12,8%)	1 418	(21,7%)	752	(11,5%)	6 523
Other passenger revenues	99	(10,1%)	82	(8,4%)	120	(12,2%)	277	(28,2%)	404	(41,1%)	982
Total	2 992	(39,9%)	708	(9,4%)	954	(12,7%)	1 695	(22,6%)	1 156	(15,4%)	7 505
Half year ended September 30, 2003											
Scheduled passenger	2 273	(47,5%)	536	(11,2%)	524	(11,0%)	994	(20,8%)	452	(9,5%)	4 779
Other passenger revenues	88	(14,4%)	75	(12,2%)	74	(12,0%)	170	(27,6%)	208	(33,8%)	615
Total	2 361	(43,8%)	611	(11,3%)	598	(11,1%)	1 164	(21,6%)	660	(12,2%)	5 394

Changes in revenues by network also showed variations. Asia's share of revenues rose 2.5 points and Africa-Middle East gained 0.3 point, while the share of the markets in the West Indies-Caribbean-Indian Ocean, Europe and the Americas fell by 1.8, 1.2, and 0.2 point respectively.

4. EXTERNAL EXPENSES

In € millions

Half year ended September 30,	2004	2003	2003	Variation
	Pro forma			
Aircraft fuel	1 248	985	657	26,7%
Chartering costs	268	237	193	13,1%
Aircraft operating lease costs	316	312	239	1,3%
Landing fees and en route charges	736	680	454	8,2%
Catering	210	191	154	9,9%
Handling charges and other operating costs	538	533	379	0,9%
Aircraft maintenance costs	321	300	186	7,0%
Commercial and distribution costs	730	725	533	0,7%
Other external expenses	941	889	578	5,8%
Total	5 308	4 852	3 373	9,4%
Excluding aircraft fuel	4 060	3 867	2 716	5,0%

External charges were up 9.4% at September 30, 2004, increasing from 4.85 billion euros to 5.30 billion euros. This change, close to the growth in the group's available seats (+ 9.6% in EASK), is due primarily to fuel costs which rose significantly because of the surge in oil prices. Excluding fuel, the growth in external charges was limited to 5.0%.

Aircraft charters rose 13.1% to 268 million euros at September 30, 2004, up from 237 million euros in the previous half, due to greater use of code shares with some of our partners (such as Korean Air, Japan Airlines, and Vietnam Airlines) and as a result of the implementation of Air France's new "Dedicate" product.

AIR FRANCE – K.L.M Group

5. SALARIES AND NUMBER OF EMPLOYEES

5.1 - Salaries and related costs

<i>In € millions</i>				
Half year ended September 30,	2004	2003	2003	Variation
		Pro forma		
<i>By cost category</i>				
Wages and salaries	2 185	2 135	1 511	2,3%
Pension contributions	198	194	118	2,1%
Social security contributions	537	506	431	6,1%
Amount capitalized	(46)	(59)	(35)	-22,0%
Total	2 874	2 776	2 025	3,5%
<i>By geographical area</i>				
France	1 992	1 900	1 899	4,8%
Overseas territories	5	5	5	0,0%
Abroad	877	871	121	0,7%
Total	2 874	2 776	2 025	3,5%

Personnel costs totaled 2.87 billion euros versus 2.78 billion euros at September 30, 2003, an increase of 3.5% in personnel on a constant consolidation basis, and down 1.1% to 102 607 employees. This increase is primarily the result of a reduction in the allowances for social costs that had been granted, in France, for the change to the 35-hour working week.

5.2 - Average number of employees

Half year ended September 30,	2004	2003	2003	Variation
		Pro forma		
Total	102 607	103 796	71 855	-1,1%
Fligh deck crew	7 792	7 804	5 012	-0,2%
Cabin crew	19 941	20 102	13 242	-0,8%
Groundstaff	74 874	75 890	53 601	-1,3%
Management	12 975	12 737	9 138	1,9%
Supervisors	29 245	29 135	20 699	0,4%
Other staff	32 654	34 018	23 764	-4,0%
Pilots and cabin crew	26 078	26 153	17 295	-0,3%
Instructors	993	1 065	646	-6,8%
Management	662	688	313	-3,8%

The above number of employees is calculated on a weighted average basis based on actual paid presence.

AIR FRANCE – K.L.M Group

6. DEPRECIATION AND AMORTIZATION

<i>In € millions</i>				
Half year ended September 30,	2004	2003	2003	Variation
	Pro forma			
Net charge to depreciation/amortization	794	802	604	-1,0%
- Intangible fixed assets	24	24	18	0,0%
- Flight equipment	656	669	514	-1,9%
- Other property, plant and equipment	114	109	72	4,6%
Net charge to operating provisions	24	25	14	-
- Fixed assets	-	(4)	(6)	-
- Inventories	1	2	2	-
- Trade receivable	1	5	5	-
- Liabilities and charges	22	22	13	-
Total	818	827	618	-1,1%

7. NET FINANCIAL CHARGES

<i>In € millions</i>				
Half year ended September 30,	2004	2003 ⁽¹⁾	Variation	
Financial expenses	(145)	(71)	104,2%	
- Loan interest	(62)	(48)	29,2%	
- Lease interest	(73)	(28)	160,7%	
- Capitalized interest	13	10	30,0%	
- Other financial expenses	(23)	(5)	360,0%	
Financial income	66	20	230,0%	
- Interest on securities	3	1	200,0%	
- Net gains on securities	16	12	33,3%	
- Other financial income	47	7	571,4%	
Net charges	(79)	(51)	54,9%	
<i>Foreign exchange losses, net</i>	(14)	25	-	
<i>Net (charge) release to provisions</i>	(23)	20	-	
Total	(116)	(6)	-	

⁽¹⁾ with a constant group structure

The interest rate used in the calculation of capitalized interest for the half year ended September 30, 2004 was 3.67 %.

Foreign exchange gains for the period include an unrealized net gain of EUR 12 million (against a net gain of EUR 23 million for the period ended September 30, 2003).

The item “Other financial income” includes a financial gain of 27.6 million euros arising from the financing contract for one of the Air France aircraft. The realization of this gain and the determination of its amount were subject to the outcome of a financial agreement between Air France and the financial organization at a date close to the debt’s maturity. This final agreement was reached on July 21, 2004.

“Other financial income” includes also dividends received from non consolidated companies in the amount of EUR 5 million for the half year ended September 30, 2004 (compared with EUR 3 million for the half year ended September 30, 2003).

AIR FRANCE – K.L.M Group

8. INCOME TAX

	<i>In € millions</i>	
Half year ended September 30,	2004	2003 ⁽¹⁾
Current tax charge	(3)	(3)
Deferred tax credit (charge)	(118)	(29)
Total tax credit (charge)	(121)	(32)

⁽¹⁾with a constant group structure

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.

AIR FRANCE – K.L.M Group

9. EARNINGS PER SHARE

	<i>In number of shares</i>	
Half year ended September 30,	2004	2003
<i>Weighted average of :</i>		
- ordinary shares issued	260 438 781	219 780 887
- treasury stock held regarding stock option plan	(3 685 758)	(1 249 464)
- treasury stock held to regulate stock market price	(1 863 037)	(1 621 935)
Number of shares used in the calculation of basic earnings per share	254 889 986	216 909 488
Number of shares used in the calculation of diluted earnings per share	254 889 986	216 909 488

As the exercise price for the equity warrants for new or existing shares was at 20 euros, they were not used in calculating diluted earnings per share.

Income used to calculate earnings per share breaks down as follows:

	<i>In € millions</i>	
Half year ended September 30,	2004	2003
Income used to calculate basic earnings per share	296	52
Income used to calculate diluted earnings per share	296	52
	<i>In €</i>	
Basic earnings (loss) per share	1,16	0,24
Diluted earnings (loss) per share	1,16	0,24

10. PROPERTY AND EQUIPMENT

	<i>As of September 30, 2004</i>			<i>As of March 31, 2004</i>		
	Gross value	Accumulated depreciation	Net book value	Gross value	Accumulated depreciation	Net book value
Owned aircraft	9 841	4 482	5 359	7 688	3 463	4 225
Leased aircraft	5 513	2 201	3 312	2 060	689	1 371
Other	2 797	789	2 008	1 791	436	1 355
Flight equipment	18 151	7 472	10 679	11 539	4 588	6 951
Land & buildings	2 226	1 093	1 133	1 165	640	525
Equipment & fittings	1 170	873	297	594	436	158
Other	995	580	415	757	485	272
Other property & equipment	4 391	2 546	1 845	2 516	1 561	955
Total	22 542	10 018	12 524	14 055	6 149	7 906

The net book value of aircraft acquired subject to a reservation of ownership clause totaled EUR 379 million as of September 30, 2004 (EUR 358 million as of March 31, 2004).

The net book value of other property and equipment financed under capital lease amounts to EUR 165 million as of September 30, 2004 (EUR 172 as of March 31, 2004).

AIR FRANCE – K.L.M Group

11. STOCKHOLDERS' EQUITY

The public exchange offer for KLM shares to Air France-KLM shares took place in May 2004. A total of 49,602,631 new shares representing a capital increase of 422 million euros, with paid-in capital of 346 million euros against which was charged the costs incurred in the public exchange offer of (11) million euros. At September 30, 2004, the share capital of Air France-KLM was divided into 269,383,518 shares. Each share is entitled to one vote.

With earnings of 296 million euros, distributed dividends of (17) million euros and accounting for the acquisition cost for the period through treasury shares (33) million euros, the group share of shareholders' equity amounts to 5,068 million euros.

11.1 - Breakdown of stock and voting rights

	As of September 30, 2004		As of March 31, 2004	
	% stock	% of voting rights	% stock	% of voting rights
French State	44,1	45,3	54,0	54,6
Employees and former employees ⁽¹⁾	9,4	9,7	12,8	12,9
Treasury stock ⁽²⁾	2,8	-	1,1	-
Other	43,7	45,0	32,1	32,5
Total	100	100	100	100

⁽¹⁾ Personnel and former employees identified in funds or by a Sicovam code.

⁽²⁾ The general shareholders meeting from September 28, 1999 has adopted a plan for purchasing its own shares in order to provide certain categories of its personnel with incentive plans. The number of shares maximum authorised to be purchased was 3,525,000. Within this authorisation, the company purchased 1,249,464 of its own shares during the period ending March 31, 2000.

11.2 - Retained earnings

As of	In € millions	
	09.30.2004	03.31.2004
Distributable reserves	-	366
Treasury stock	(51)	(18)
Other reserves	1 020	1 501
Net income	296	93
Total	1 265	1 942

At September 30, 2004, the item "Retained earnings for distribution" corresponds to that of Air France-KLM (March 31, 2004: Air France), the holding company for the Air France and KLM shares.

Other reserves include the aggregate results of consolidated subsidiaries.

11.3 - Treasury stock

At September 30, 2004, the Air France-K.L.M Group held 3,078,165 shares of its own stock under stock option plans. Those shares are recorded in the item "Other marketable securities". In addition, the Air France-K.L.M group holds 4,460,893 of its own shares (1.66% of the capital) without specific allocation as of this date. These shares are deducted from reserves.

11.4 - 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. 3 BASA will give the right to purchase and/or subscribe to 2 new or existing shares of Air France-K.L.M. stock, with a par value of 8.50 euros, at an exercise price of 20 euros per Air France-K.L.M 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, in exchange for the BASA. The maximum potential increase in the equity capital of Air France-K.L.M is 601 million euros.

AIR FRANCE – K.L.M Group

12. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>In € millions</i>	
As of	09.30.2004	03.31.2004
Provisions for pensions and termination payments on retirement (1)	806	636
Provisions for restitution for aircraft under operating leases	323	275
Restructuring provisions	49	13
Provisions for third party litigations	22	23
Other provisions for liabilities and charges	100	92
Negative goodwill (2)	925	-
Total	2 225	1 039
<i>Of which short-term</i>	333	261

(1) French Law 2003-775 of August 21, 2003 amended the pension rules in France that stipulated, in particular, the impossibility of retirement before age 65 or retirement subject to a minimum number of vested quarters between the ages of 60 and 65. As a result of the privatization of Air France on May 5, 2004, the current statutory regulations will have to be adapted to harmonize with the ordinary law regulations.

All employees are eligible for a statutory retirement indemnity calculated on the basis of seniority, which may be allocated on or after the age of 60. Cabin crew are also eligible for a special retirement indemnity available under certain conditions on or after the age of 50.

Air France has a period of two years in which to sign a sector agreement as required by the implementation of the pensions reform law.

In the event that this agreement is not signed, the service termination indemnity, if it is maintained as is (retirement at age 60), may be awarded only in cases of voluntary retirement and would, as a result, be subject to social security taxes. If there is a change in the rules, the impact of this provision would generate an additional cost, spread over time, to the annual charge.

Moreover, as regards flight deck and cabin crew, under the regulations pilots must retire at age 60 and cabin crew at age 55. French law 2004-734 July 26, 2004 of the civil aviation code, does not change the age for retirement, but may change the type of lay-off classified in the past as a "case of *force majeure*", if reclassification of ground staff fails. This type of lay-off which derives from a government action is not normally subject to the Delalande tax. If this is not the case, the impact of this additional cost would be booked as an actuarial variance and spread over the average residual period of the employee's term of employment.

To date, Air France does not have sufficiently detailed work data and assumptions to allow it to calculate the impact that these new provisions may have on commitments to employees.

In addition, Air France remains confident regarding the result of negotiations designed to reach a sector agreement.

(2) Details of this item are given in paragraph 2.3 – Valuation.

AIR FRANCE – K.L.M Group

13. SHORT AND LONG-TERM DEBT AND CAPITAL LEASES

	<i>In € millions</i>	
As of	09.30.2004	03.31.2004
Perpetual subordinated loan stock	580	116
Bonds	-	18
Capital-lease obligations	4 036	1 453
Other long-term loans	3 115	2 461
Accrued interest not yet due	102	43
Bond redemption premiums	-	-
Long-term debt and capital leases ⁽¹⁾	7 833	4 091
Borrowings with short-term original maturities		
Commercial paper	20	-
Short-term bank finance facilities and similar facilities	227	289
Short-term debts	247	289
Total short and long-term debt and capital leases	8 080	4 380
⁽¹⁾ Less than one year	798	429

The change in financial liabilities is primarily due to the change in the scope of consolidation.

As of September 30, 2004, the group had unused borrowing capacity of EUR 1 billion under syndicated multi-currency revolving credit lines facilities which expire in August 2006. Furthermore, the Group benefits from medium-term credit facilities totaling EUR 50 million, EUR 22 million of which has been drawn as of September 30, 2004. Repayment deadlines vary between October 2004 and October 2006.

13.1 - Analysis by currency

	<i>In € millions</i>	
As of	09.30.2004	03.31.2004
Euro	6 678	3 720
USD	760	366
CHF	278	-
JPY	28	-
GBP	85	-
Other currencies	4	5
Total	7 833	4 091

AIR FRANCE – K.L.M Group

14. LEASES

14.1 - Capital leases

	<i>In € millions</i>	
As of	09.30.2004	03.31.2004
Aircraft	4 199	1 439
Buildings	223	230
Equipment	2	3
Total	4 424	1 672

* amounts not discounted

14.2 - Operating leases

	<i>In € millions</i>	
As of	09.30.2004	03.31.2004
Aircraft	3 179	2 287

* amounts not discounted

AIR FRANCE – K.L.M Group

15. FLIGHT EQUIPMENT ORDERS

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

As of	In € millions	
	09.30.2004	03.31.2004
Y + 1	727	779
Y + 2	763	839
Y + 3	757	332
Y + 4	253	375
Y + 5	354	590
> 5 years	250	261
Total	3 104	3 176

These commitments relate to amounts in USD which are converted into euros at September 30 and March 31, 2004 exchange rates.

Air France sub-group

Air France's order books with Airbus and Boeing did not change substantially over the first half of 2004-05, and there were no new orders or options exercised. The total number of aircraft on order, which was 40 units at the end of March 2004, was 32 at the end of September 2004. This decline is the result of both ongoing deliveries as expected for existing orders and postponed deliveries decided in the fall of 2003 (note: this operation involving 2 A330-200 and 4 medium-haul planes was intended to adjust capacity to the downturn in traffic caused by the war in Iraq and the SARS epidemic).

Medium-haul:

One A318 entered in service in April 2004, bringing the A318 fleet operated to 6 planes in the summer of 2004. The other changes involved the four aircraft included in the postponed operation: 1 A321, 1 A319 and 2 A320, which all entered service over the period from April 2004 to July 2004.

Long-haul:

The first deliveries of 777-300ER occurred over the period. At the end of September 2004, Air France operated a fleet of 4 of these aircraft, including 2 purchased and 2 used under operating leases. This new long-haul model is an extended version of the 777-200ER of which Air France already operates a fleet of 25 aircraft.

The consolidated financial statements at September 30, 2004 include an Airbus A330-200. This aircraft is held by the Nogues, a company created specifically in connection with the postponed deliveries described above, and which is consolidated in the financial statements at September 30, 2004.

Regional companies fleet:

Firm orders of the Air France group include 2 CRJ 700 and 8 Embraer 145.

KLM sub-group

The order books of the KLM group include commitments to Boeing and Airbus.

Medium-haul:

At the end of September 2004, the KLM group had one firm orders for B737 and 13 options on this same type of aircraft.

Long-haul:

The order book of the KLM group includes 1 B777-200ER, which will be delivered in December 2004, and six A330-200, the first of which is to be delivered in August 2005.

Regional companies fleet:

The KLM group has also agreed to acquire one Fokker 70.

AIR FRANCE – K.L.M Group

Group's commitments concern the following aircraft :

Aircraft type	As of	To be delivered in	Y+ 1	Y+ 2	Y+ 3	Y+ 4	Y+ 5	> 5 years
A318	09.30.2004	Firm orders	3	4	2	-	-	-
		options	-	-	5	2	-	-
	03.31.2004	Firm orders	4	3	3	-	-	-
		options	-	-	5	2	-	3
A319	09.30.2004	Firm orders	1	1	-	-	-	-
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	1	2	-	-	-	-
		options	-	-	-	-	-	-
A320	09.30.2004	Firm orders	-	-	-	-	-	-
		options	-	-	2	1	-	-
	03.31.2004	Firm orders	2	-	-	-	-	-
		options	-	-	-	-	-	-
A321	09.30.2004	Firm orders	-	-	-	-	-	-
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	1	-	-	-	-	-
		options	-	-	-	-	-	-
A330	09.30.2004	Firm orders	2	4	2	-	-	-
		options	-	-	2	1	-	-
	03.31.2004	Firm orders	-	3	-	-	-	-
		options	-	1	2	2	-	1
A380	09.30.2004	Firm orders	-	-	3	2	3	2
		options	-	-	-	-	1	3
	03.31.2004	Firm orders	-	-	-	3	5	2
		options	-	-	-	-	2	2
B737	09.30.2004	Firm orders	1	-	-	-	-	-
		options	-	2	7	2	2	-
	03.31.2004	Firm orders	-	-	-	-	-	-
		options	-	-	-	-	-	-
B747	09.30.2004	Firm orders	1	-	-	-	-	-
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	-	1	-	-	-	-
		options	-	-	-	-	-	-
B777	09.30.2004	Firm orders	3	3	3	-	-	-
		options	-	-	3	3	4	-
	03.31.2004	Firm orders	3	5	2	-	-	-
		options	-	-	2	4	3	1
Embraer 145	09.30.2004	Firm orders	1	5	2	-	-	-
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	1	5	2	-	-	-
		options	-	-	-	-	-	-
CRJ 700	09.30.2004	Firm orders	2	-	-	2	-	1
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	1	1	-	-	-	-
		options	-	-	-	-	-	-
Fokker 70	09.30.2004	Firm orders	1	-	-	-	-	-
		options	-	-	-	-	-	-
	03.31.2004	Firm orders	-	-	-	-	-	-
		options	-	-	-	-	-	-

AIR FRANCE – K.L.M Group

16 LITIGATION AND COURT ACTION

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

HALL litigation

In June 2000, several travel agents in the state of North Carolina in the United States, as well as the professional association to which they belonged (Association of Retail Travel Agents), filed suit in a North Carolina Federal Court against several major American airlines for collusion, following a reduction in 1999 of commissions paid to the agents by these companies for the issue of tickets. In 2002, these same travel agents gradually drew three major European airlines, including Air France and KLM, into the proceedings. The suit initiated by the travel agents was recognized as a class action suit by the court hearing the case. The amount of damages claimed jointly and severally against the airlines, for the alleged losses, totals USD 17,500,000,000. The amount could be tripled should the US legislation governing collusion be applied. Air France and KLM believe the collusion charge is without merit and will seek its dismissal before the ruling court. In its decision of October 30, 2003, the Court dismissed the travel agents' claims and cleared all the US and European airlines involved in the suit. The plaintiffs have appealed this decision before the Court of Richmond (Virginia), which is expected to issue its ruling early in 2005.

No provision has been recorded in this regard.

TAM Travel litigation

A certain number of travel agents, who were initially plaintiffs in the Hall case, decided to sue individually in another Federal Court. This litigation is identical to the Hall case. Pursuant to US Federal law, the case has been assigned to an Ohio Court which, in a pre-trial ruling handed down on May 3, 2004, dismissed the motion of the airlines to stay this case until the appeal in the Hall case is decided. As a consequence, this proceeding is continuing in the Ohio Court.

No provision has been recorded in this regard.

Litigation between Servair and its employees

In 2000 and early 2001, a large number of Servair employees filed a suit before the Labor Court for payment of back wages. The plaintiffs stated that the time spent when dining in the company restaurant constituted a period during which the employee is under the authority of the employer and should, therefore, be paid as for normal working hours. In contrast, Servair considered that meal times were an interruption in working time not entitled to compensation.

In a definitive ruling on November 8, 2001, the Court of Appeals sided with the position argued by Servair. Other suits representing a total of 377 individual claims are still pending in the Labor Court. In a ruling issued on October 29, the Court dismissed the claims in a suit filed by about thirty employees. The Company has not recorded any provisions with respect to these disputes.

Security lawsuit in the United States

Certain beneficiaries of victims of the terrorist attacks on September 11, 2001, filed a lawsuit in New York at the end of 2003 against all air carriers operating flights from the Newark, Washington and Boston airports, from which the planes used for the attacks took off, alleging that these airlines, like the airport authorities, had been negligent in their choice of the companies and persons responsible for airport security. In 2004, the actions filed against Air France resulted in decisions from the Court removing Air France from the lawsuit, thus ending the Company's involvement in this case.

AIR FRANCE – K.L.M Group

17. CASH AND CASH EQUIVALENTS

	<i>In € millions</i>	
AS OF	09.30.2004	03.31.2004
Cash at bank	328	330
Cash equivalents	2 054	1 364
Short-term bank finance and similar facilities	(227)	(289)
Cash and cash equivalents	2 155	1 405

Marketable securities with a term of more than three months upon acquisition or with a significant risk of fluctuations in value are excluded from cash equivalents.

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