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The attached document(s) are only being distributed to and are only directed at (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (ii) high net worth entities, and other persons to whom they may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as "relevant persons"). The bonds and shares into which they may be converted or exchanged and to which the attached document(s) relate are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such bonds or shares, will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on these document(s) or any of their content. Persons distributing such document(s) must satisfy themselves that it is lawful to do so.

Stabilisation/FSA

The attached document(s) have not been submitted to the clearance procedures of the French *Autorité des marchés financiers*, or AMF, and accordingly may not be used in connection with any offer to purchase or sell any bonds in France. For the purpose of the offering of the bonds in France and the listing of the shares into which they may be converted or exchanged on the *Eurolist Market* of Euronext Paris, a *prospectus* in the French language has been prepared (including a *Note d'opération*) and has received *visa* no. 05-259 dated April 14, 2005 from the AMF). This prospectus is the only document by which bonds may be subscribed for in France.

The securities may only be offered for sale, and an offer of the Bonds may only be communicated, to individuals or corporate bodies in the Netherlands that trade and invest in securities in the course of their profession or professional activities, including banks, investment companies, financial intermediaries, insurance companies, pension funds, and other institutional investors and companies that regularly invest in securities, within the meaning of Section 2 of the Exemption Regulation pursuant to the Netherlands Securities Market Supervision Act 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*).

The bonds and the shares into which they may be converted or exchanged are to subject to other significant restrictions on sales, offers and subscription. See Section 2.2.3.2. of the English language prospectus.

This document does not constitute or contain any offer to sell or invitation to subscribe or make commitments for or in respect of any securities.

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SOCIÉTÉ AIR FRANCE

Société Air France Bonds convertible and/or exchangeable for new or existing shares of Air France-KLM

Obligations à option de conversion et/ou d'échange en actions nouvelles ou existantes d'Air France-KLM

*The Société Air France bonds due April 1, 2020 (the "**Bonds**") convertible and/or exchangeable for new or existing shares of Air France-KLM are being offered by way of an offering to institutional investors (including qualified investors in France), the United States (pursuant to Regulation S of the U.S. Securities Act of 1933, as amended), Canada and Japan, followed by a public offering in France.*

*The terms and conditions of the Bonds and certain information in relation to Air France-KLM and Société Air France ("**Air France**") are set out in this translation into English of the French language Note d'Opération which received visa no. 05-529] from the French* Autorité des marchés financiers *on April 14 , 2005. This document is for information purposes only and should be read in conjunction with the translation into English of Air France-KLM's 2003-2004 Reference Document filed with the Autorité des marchés financiers on December 22, 2004 under number D.04-1625.*

THIS DOCUMENT CONTAINS A NON-CERTIFIED, NON-BINDING TRANSLATION FOR INFORMATION PURPOSES ONLY OF THE FRENCH LANGUAGE NOTE D'OPERATION RELATING TO THE ISSUANCE OF THE BONDS; IN THE EVENT OF ANY AMBIGUITY OR CONFLICT BETWEEN CORRESPONDING STATEMENTS OR OTHER ITEMS CONTAINED IN THESE DOCUMENTS, THE RELEVANT STATEMENTS OR ITEMS OF THE FRENCH VERSION OF THE NOTE D'OPERATION SHALL PREVAIL. NONE OF AIR FRANCE OR AIR FRANCE-KLM NOR THE JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS ASSUME ANY LIABILITY WITH RESPECT TO THIS NON-CERTIFIED TRANSLATION.

Application has been made to list the Bonds on the Eurolist market of Euronext Paris with effect from April 22, 2005. The existing shares of Air France-KLM are listed, and the new shares of Air France-KLM will be listed on the Eurolist market of Euronext Paris. The existing shares of Air France-KLM are also listed on Euronext Amsterdam and in the form of American Depositary Shares on the New York Stock Exchange.

BNP PARIBAS **JPMorgan** **SG CORPORATE & INVESTMENT BANKING**

Joint Lead Managers and Joint Bookrunners

The date of this document is April 14, 2005

THIS DOCUMENT HAS NOT BEEN AND WILL NOT BE SUBMITTED TO THE CLEARANCE PROCEDURES OF THE AUTORITÉ DES MARCHÉS FINANCIERS AND ACCORDINGLY MAY NOT BE USED IN CONNECTION WITH ANY OFFER OR SALE OF THE BONDS TO THE PUBLIC IN FRANCE. THE ONLY DOCUMENT WHICH MAY BE SO USED IS THE FRENCH LANGUAGE NOTE D'OPÉRATION WHICH RECEIVED A VISA FROM THE FRENCH AUTORITÉ DES MARCHÉS FINANCIERS.

The distribution of this document in certain jurisdictions may be restricted by law. This document does not constitue an offer or invitation to any person to subscribe for the Bonds in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such invitation under applicable securities laws. Persons into whose possession this document comes are required by each of Air France and Air France-KLM, and the Joint Lead Managers and Joint Bookrunners to inform themselves about, and to observe, any such restrictions. No action has been taken in any jurisdiction other than France that would permit a public offering of the Bonds, or the circulation or distribution of this document or any other offering material, where action for that purpose is required.

The delivery of this document, or any sale made in connection with the offering of the Bonds, shall under no circumstances imply that the information contained herein is correct as of any time subsequent to the date hereof or that there has not been any change in the affairs of Air France-KLM or Air France and their consolidated subsidiaries since the date hereof.

No representation or warranty, express or implied, is made, and no responsibility is accepted by BNP Paribas, J.P. Morgan Securities Ltd. or Société Générale as to the accuracy and completeness of the information set out in this document. No person has been authorized to give any information or to make any representation other than those contained in this document, and, if given or made, such information or representations must not be relied upon as having been authorized.

The offering is being conducted pursuant to the standards and requirements of French laws and regulations.

United States

The Bonds and the Air France-KLM shares issuable upon conversion and/or deliverable upon exchange of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, notwithstanding certain exceptions, will not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act), except in certain transactions exempt from, or not subject to, the registration requirement of the Securities Act. Accordingly, the Bonds are being offered and sold only outside the United States to persons other than U.S. persons in reliance on Regulation S under the Securities Act. Terms used in this paragraph that are defined in Regulation S of the Securities Act are used as defined therein.

Neither the Issuer nor Air France-KLM, nor any "distributor" (as defined in Regulation S of the Securities Act), nor any of the Bond Underwriters, nor any of their "affiliates" (as defined in Regulation 405 of the Securities Act), nor any person acting on behalf of any of them, has engaged in any "directed selling efforts" (as defined in Regulation S of the Securities Act) with respect to the Bonds and the Air France-KLM shares.

This document is not for distribution in the United States of America.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Bondholders who request to convert or exchange their Bonds will, by accepting delivery of this document and Air France-KLM shares, be deemed to have made certain representations and guarantees as set forth in paragraph 2.3.5.10 ("Statement of Bondholders in case of a request for conversion and/or exchange") of this document. Requests to convert or exchange Bonds sent by bondholders using US addresses will be deemed null and void.

United Kingdom

This document is for distribution only to persons who (i) are outside the United Kingdom, (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) (the "Order"), (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FMSA) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Italy

This document and the information contained herein are intended only for the use of its recipient and are not to be distributed or communicated to any third party resident or located in Italy for any reason. No individual resident or located in Italy other than the original recipients of this document may rely on it or its content.

The Bonds have not been submitted to the clearance procedure of the Commissione Nazionale per le Societa e la Borsa ("CONSOB") in accordance with applicable securities laws and regulations and will not be offered to the public in Italy ("sollecitazione all'investimento"), however, they may be offered, and copies of information documents relating to their issuance may be distributed in Italy to professional investors ("operatori qualificati"), as this term is defined at paragraph 2, Article 31 of CONSOB Regulation No. 11.522 of 1 July 1998, as amended, or in accordance with any other exemption from the terms and conditions provided for in Article 100 of legislative decree No. 58 of 24 February 1998 (the "Legislative Decree No.58") and in paragraph 1, Article 33 of CONSOB Regulation No. 11.971 of 14 May 1999.

The Bond Offering will be carried out in accordance with all Italian securities and tax laws and regulations and any other applicable Italian laws and regulations.

Any authorized offering of the Bonds and any authorized distribution of information documents relating to the Bonds will be carried on (i) by an investment firm, a credit agency, or a financial intermediary authorized to carry out such businesses in Italy in accordance with Legislative Decree No.58 and with any other applicable Italian law and regulation, (ii) in accordance with Article 129 of the Italian Banking Law and with implementing instructions of the Bank of Italy, pursuant to which any offering or issuance must be pre-notified to the Bank of Italy, except if there is any available exemption based, in particular, on the issued amount and the terms and conditions of the financial instruments involved, and (iii) in accordance with any notification requirement or restriction imposed by CONSOB or the Bank of Italy.

The Bonds have not been and will not be offered, sold or distributed, neither on the primary market nor on the secondary market, to an individual residing in Italy.

The liability of any investor subscribing to Bonds in the context of the Bond Offering will be limited to liability arising out of a breach of applicable laws and regulations during the offering or resale of the subscribed Bonds.

The Netherlands

In the context of the initial placing and any and all secondary offers thereafter, the Bonds may only be offered for sale and an offer of the Bonds may only be communicated, to individuals or corporate bodies in the Netherlands that trade and invest in securities in the course of their profession or professional activities, including banks, investment companies, financial intermediaries, insurance companies, pension funds, and other institutional investors and companies that regularly invest in securities, within the meaning of Section 2 of the Exemption Regulation pursuant to the Netherlands Securities Market Supervision Act 1995 ("Vrijstellingsregeling Wet toezicht effectenverkeer 1995").

Canada and Japan

No Bond has been or will be offered or sold in Canada or Japan.

SOCIÉTÉ AIR FRANCE

A French limited liability company
(*société anonyme*)
with a share capital of €1,901,231,625
Registered Office: 45, rue de Paris, 95747 Roissy – Charles de Gaulle
Registered with the Bobigny Registry of Companies and Commerce under number 420 495 178

PROSPECTUS (*NOTE D'OPÉRATION*)

MADE AVAILABLE TO THE PUBLIC IN RELATION TO THE ISSUANCE AND ADMISSION TO THE EUROLIST MARKET OF EURONEXT PARIS OF SOCIÉTÉ AIR FRANCE 2.75% 2005/2020 BONDS WITH AN AGGREGATE PRINCIPAL AMOUNT OF €402,499,993, WHICH MAY BE INCREASED TO €449,999,989.50, CONVERTIBLE AND/OR EXCHANGEABLE FOR NEW OR EXISTING SHARES (*OBLIGATIONS A OPTION DE CONVERSION ET/OU D'ÉCHANGE EN ACTIONS NOUVELLES OU EXISTANTES)* OF AIR FRANCE-KLM WITH A NOMINAL VALUE OF €20.50

A legal notice will be published in the *Bulletin des Annonces légales obligatoires* on April 18, 2005.

Visa of the *Autorité des marchés financiers*

Pursuant to articles L.412-1 and L.621-8 of the French *Code monétaire et financier*, this prospectus has received the visa no.05-259 dated April 14, 2005 of the *Autorité des marchés financiers* in accordance with Articles 211-1 to 211-42 of the *Règlement Général de l'Autorité des marchés financiers*. This prospectus has been prepared by the issuer and renders its signatories liable for the contents hereof. The visa does not imply approval of the suitability of the transaction or authentification of the accounting and financial items included herein. It has been granted after review of the relevance and consistency of the information in the light of the transaction proposed to investors.

Notice

The *Autorité des marchés financiers* draws the attention of the public to the particular characteristics of the financial instruments described in this prospectus. Governed by articles L.288-91 et seq. of the French *Code de commerce* as amended by the *ordonnance* no. 2004-604 dated June 24, 2004, which modifies the regime applicable to French commercial companies (*sociétés commerciales*) issuing securities, they do not present certain of the characteristics of convertible or exchangeable bonds issued prior to the enactment of this *ordonnance*. In particular, in the event of early redemption or redemption at maturity, holders shall be entitled to exercise their rights to receive shares only in the period between the date of the notice announcing such redemption (which shall be published at the latest 30 calendar days before the redemption date) and the seventh business day preceding the date set for such redemption.

This prospectus consists of:

- the reference document (*document de référence*) of Air France-KLM, which was filed with the *Autorité des marchés financiers* on 22 December 2004 under the number D.04-1625; and
- this prospectus (*note d'opération)*.

Copies of this prospectus are available free of charge at the offices of Société Air France and of Air France-KLM and of the institutions set forth below. This prospectus is also available on the websites of the *Autorité des marchés financiers* (www.amf-france.org) and of Air France-KLM (www.airfrance-finance.com)

BNP PARIBAS **JPMorgan** **SG CORPORATE & INVESTMENT BANKING**

Joint Lead Managers and Joint Bookrunners (the "**Bond Underwriters**")

TABLE OF CONTENTS

SOCIÉTÉ AIR FRANCE

PRINCIPAL CHARACTERISTICS OF THE BONDS

NUMBER OF BONDS ISSUED AND AGGREGATE PRINCIPAL AMOUNT OF THE BONDS ISSUED

The aggregate principal amount of the 2.75% bonds due 2020 is €402,499,993 represented by 19,634,146 bonds with an option to convert and/or exchange into new or existing shares of Air France-KLM (the "Bonds"). In order to cover over-allotments, if any, Société Air France ("Air France" or the "Issuer") has granted the Bond Underwriters an over-allotment option (which should be exercised, if at all, no later than April 20, 2005) representing 11.80% of the aggregate principal amount of the Bonds. This over-allotment option is exercisable once only, in whole or in part, at the latest on April 20, 2005. If the over-allotment option is exercised in full, the aggregate principal amount of the Bonds being issued will be increased to €449,999,989.50 represented by a maximum of 21,951,219 Bonds.

NOMINAL VALUE OF EACH BOND

The nominal value per Bond has been fixed at €20.50, which represents a premium of 50.80% over the reference price of €13.594 of the Air France-KLM share, which is equal to the volume-weighted average price of the Air France-KLM shares quoted on the Eurolist market of Euronext Paris (Compartment A) from the opening of trading on April 14, 2005, until the determination of the final terms of the offering of the Bonds (the "Bond Offering").

NO PREFERENTIAL SUBSCRIPTION RIGHTS AND NO PRIORITY SUBSCRIPTION PERIOD

The shareholders of Air France and of Air France-KLM have waived their preferential subscription rights and no priority subscription period is applicable.

INTENTION OF THE PRINCIPAL SHAREHOLDERS

To Air France's knowledge, no shareholder of Air France or of Air France-KLM has indicated an intention to subscribe for the Bonds.

OFFERING PERIOD

The Bonds were placed with institutional investors on April 14, 2005 (the "Private Placement"). Subscription will be open to the public in France from April 15, 2005 to April 19, 2005 (both dates inclusive).

FINANCIAL INSTITUTIONS MANAGING THE OFFERING

Subscription orders for the Bonds must be submitted to BNP Paribas, J.P. Morgan Securities Ltd. or Société Générale, Joint Lead Managers and Joint Bookrunners, or Barclays Capital, Citigroup Global Markets Ltd., Calyon or HSBC CCF, which are managing the Bond Offering.

INDICATIVE TIMETABLE

April 14, 2005 (morning):	Publication by Air France of a press release announcing the launch of the Bond Offering. Commencement of the bookbuilding for the Private Placement of the Bonds to institutional investors.
April 14, 2005 (evening):	End of the bookbuilding for the Private Placement of the Bonds to institutional investors.
April 14, 2005	Determination of the final terms of the Bonds. Publication by Air France of a press release detailing the final terms of the Bonds. *Visa* of the AMF in respect of the prospectus for the Bonds.
April 14, 2005	Publication by Air France of a press release announcing the *visa* of the AMF and the commencement of the French public offering.
April 15, 2005	Commencement of the French public offering.
April 19, 2005	End of the French public offering.
April 20, 2005	Deadline for the exercise of the over-allotment option.
April 22, 2005	Settlement and delivery of the Bonds – admission of the Bonds to trading on the Eurolist market of Euronext Paris.

ISSUE PRICE

The issue price will be equal to par, i.e., €20.50 per Bond, payable in full on the settlement date.

ISSUANCE DATE AND SETTLEMENT DATE

April 22, 2005.

ANNUAL INTEREST

The Bonds will bear interest at an annual rate of 2.75% of the nominal value, *i.e.* approximately €0.56375 per Bond, payable annually in arrears on April 1 of each year (or, if that date is not a business day, the next succeeding business day) and for the first time on April 1, 2006 (each of these dates being subsequently an "Interest Payment Date"). For the period from April 22, 2005, the settlement date, to and including March 31, 2006, interest will be payable in respect of the Bonds on April 1, 2006 (or, if that date is not a business day, the next succeeding business day) and will amount to approximately €0.53132 per Bond, calculated *pro rata temporis*.

REDEMPTION AT MATURITY

The Bonds will be redeemed in full at par on April 1, 2020 (or, if that date is not a business day, the next succeeding business day).

EARLY REDEMPTION AT THE OPTION OF THE ISSUER

Redemption at the option of the Issuer:

- at any time, without limitation of price or quantity, for all or part of the Bonds, by repurchasing Bonds either on or off the stock exchange or by means of public offers;
- for all outstanding Bonds, at any time from April 1, 2010 until the scheduled maturity date, upon at least 30 calendar days' notice, at a price equal to par value, plus accrued interest from the Interest Payment Date immediately preceding the early redemption date until the effective redemption date, if the product of (i) the arithmetic mean of the closing prices for the Air France-KLM shares on the Eurolist market of Euronext Paris during 10 consecutive trading days chosen by Air France during the 20 trading days immediately preceding the date of publication by Air France of the notice calling the Bonds for redemption, and (ii) the then applicable Conversion/Exchange Ratio (as defined in 2.3.5.3 ("Exercise Period and Conversion/Exchange Ratio")), is greater than 130% of the nominal value of the Bonds;
- for all outstanding Bonds, at any time upon at least 30 calendar days' notice, at a price equal to par value, plus accrued interest from the Interest Payment Date immediately preceding the early redemption date until the effective redemption date, when fewer than 10% of the Bonds initially issued remain outstanding.

EARLY REDEMPTION IN THE EVENT OF DEFAULT

The Bonds will become redeemable at the Bondholders' option, as described in 2.3.2.6.6 ("Early redemption of the Bonds in the event of default.")

EARLY REDEMPTION AT THE OPTION OF THE BONDHOLDERS

The Bonds may be redeemed at par, plus interest accrued from the last Interest Payment Date prior to the date of early redemption until the redemption date, on April 1, 2012 and April 1, 2016, at the request of the Bondholders in accordance with paragraph 2.3.2.6.7.

MATURITY

14 years and 344 days from the settlement date of the Bonds.

YIELD TO MATURITY

The gross annual yield to maturity will be 2.75% at the settlement date (absent conversion into or exchange for shares and absent early redemption).

RATING

As of the date of this Prospectus, no application for a rating of the Bonds has been made.

CONVERSION AND/OR EXCHANGE OF THE BONDS FOR AIR FRANCE-KLM SHARES

At any time from the 40th day following the settlement date, i.e., from June 1, 2005, until the seventh business day preceding the early redemption date or the maturity date, the Bondholders will be entitled to request that their Bonds be redeemed for Air France-KLM shares at a ratio of ONE Air France-KLM share (as may be adjusted pursuant to the provisions of 2.3.5.7 ("Maintenance of Bondholders' rights") for ONE Bond. Air France-KLM may at its option deliver new or existing shares or a combination thereof.

RIGHTS ATTACHED TO NEW AIR FRANCE-KLM SHARES ISSUED FOLLOWING CONVERSION

New Air France-KLM shares to be issued upon conversion of the Bonds shall bear all rights from the first day of the financial year the exercise of the conversion/exchange right occurs (as such term is defined in 2.3.5.4 ("Exercise of the Conversion/Exchange Right").

RIGHTS ATTACHED TO EXISTING SHARES RESULTING FROM EXCHANGE

Existing Air France-KLM shares to be delivered on exchange of the Bonds shall confer to their holders all the rights attached to such shares at the time of such delivery (*jouissance courante*).

TRANSFERABILITY AND COMPULSORY TRANSFER OF AIR FRANCE-KLM SHARES

In accordance with the new provisions in Articles L.360-1 to L.360-4 of the French Code of Civil Aviation, Air France-KLM has introduced into its articles of association a process enabling it to follow and control its shareholding in order to protect its nationality. In particular, in the event non-French shareholders hold 45% of the capital or voting rights, Air France-KLM may submit for the approval of its board of directors any acquisition of shares of Air France-KLM by a third party or a shareholder exceeding the threshold of 0.5 % of the share capital and the voting rights or of any multiple of such threshold. Air France-KLM may also oblige certain shareholders to give up all or part of their shares, for as long as the fraction of the share capital or of the voting rights held by non-French shareholders remains greater than or equal to 45%.

APPLICABLE LAW

French law.

DELIVERY AND SETTLEMENT OF THE BONDS

Application has been made for the Bonds to be admitted to settlement through Euroclear France (ISIN FR0010185975), Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* (Common Code 021784834).

LISTING OF THE BONDS

Application has been made to list the Bonds on the Eurolist market of Euronext Paris (Compartment A). The first listing of the Bonds is expected to take place on the settlement date, i.e., April 22, 2005 under ISIN FR0010185975.

LISTING OF THE AIR FRANCE-KLM SHARES

The Air France-KLM shares to be issued upon conversion or delivered upon exchange of the Bonds will be or are listed on the Eurolist market of Euronext Paris (Compartment A). Existing Air France-KLM shares are identified by the ISIN FR0000031122.

The Air France-KLM shares are also listed on Euronext Amsterdam and in the form of American Depositary Shares (ADSs) on the New York Stock Exchange (NYSE).

SHARE PRICE

Closing price of the Air France-KLM share on the Eurolist market of Euronext Paris (Compartment A) on April 13, 2005: €13.75.

USE OF PROCEEDS

This offering will in particular enable Air France to optimize its financing costs and extend the average maturity of its debt. The proceeds will be used to fund Air France's investment plan (new aircrafts and ground investments).

CHAPTER I
PERSONS ASSUMING RESPONSIBILITY FOR THIS PROSPECTUS AND THE AUDIT OF THE ACCOUNTS

1.1 Person responsible for the prospectus

Jean-Cyril SPINETTA, Chairman and Chief Executive Officer of Air France and of Air France-KLM.

1.2 Certificate by the person responsible for the prospectus

"To the best of my knowledge, all the information in this prospectus is true and accurate; this document contains all the information necessary to enable investors to form an opinion as to the assets and liabilities, activities, financial position and financial results and future prospects of Air France and its subsidiaries on the one hand, and of Air France-KLM and its subsidiaries on the other hand, as well as to the rights attached to the securities being offered; this document does not contain any information which makes it misleading."

Chairman and Chief Executive Officer
Air France

Jean-Cyril SPINETTA

Chairman and Chief Executive Officer
Air France-KLM

Jean-Cyril SPINETTA

1.3 Persons responsible for audit of the accounts

1.3.1 Air France Auditors

Statutory Auditors:

Deloitte & Associés
185 C, avenue Charles de Gaulle
92200 Neuilly sur Seine

Represented by Pascal Pincemin
Appointed for 6 financial years at a general meeting of shareholders of Air France held on May 19, 2004
Date of first appointment : May 19, 2004

KPMG Audit
Département de KPMG S.A.
1, Cours Valmy
92923 Paris La Défense

Represented by Jean-Luc Decornoy et Jean-Paul Vellutini

Appointed for 6 financial years at a general meeting of shareholders of Air France held on May 19, 2004
Date of first appointment: May 19, 2004

Substitute Auditors :

B.E.A.S.
7/9 Villa Houssay
92200 Neuilly sur Seine

Represented by Alain Pons
Appointed for 6 financial years at a general meeting of shareholders of Air France held on May 19, 2004
Date of first appointment : May 19, 2004

SCP Jean-Claude André et Autres
Les Hauts de Villiers
2 bis, rue de Villiers
92300 Levallois Perret

Represented by Jean-Claude André
Appointed for 6 financial years at a general meeting of shareholders of Air France held on May 19, 2004
Date of first appointment : May 19, 2004

1.3.2 Air France-KLM Auditors

Statutory Auditors :

Deloitte Touche Tohmatsu Audit
185 C, avenue Charles de Gaulle
92200 Neuilly sur Seine

Represented by Pascal Pincemin
Appointed for 6 financial years at a general meeting of shareholders of Air France-KLM held on September 15, 2004
Date of first appointment : September 25, 1998

KPMG Audit
Département de KPMG S.A.
1, Cours Valmy
92923 Paris La Défense

Represented by Jean-Luc Decornoy and Jean-Paul Vellutini

Appointed for 6 financial years at a general meeting of the shareholders of Air France-KLM held on September 25, 2002
Date of first appointment: September 25, 2002

Substitute Auditors :

B.E.A.S.
7/9 Villa Houssay
92200 Neuilly-sur-Seine
Represented by Philippe Vassor
Appointed for 6 financial years at a general meeting of shareholders of Air France-KLM held on September 15, 2004
Date of first appointment : September 25, 1998

SCP Jean-Claude André et Autres
Les Hauts de Villiers
2 bis, rue de Villiers
92300 Levallois-Perret
Represented by Jean-Claude André
Appointed for 6 financial years at a general meeting of shareholders of Air France-KLM held on September 25, 2002
Date of first appointment: September 25, 2002

1.4 Auditors' reports

1.4.1 Report of the Auditors of Air France

(*Free translation of a French language original for convenience purposes only*. *Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilized by the statutory auditors in France with respect to such financial statements included in a "document de référence" and its update, may differ from those generally accepted and applied by auditors in other countries. Accordingly the French financial statements and the auditors' report of which a translation for convenience purposes only is prested in this document are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.*)

As statutory auditors of Société Air France S.A. (formerly known as Air Orient S.A.) and in accordance with articles 211-1 through 211-42 of the AMF rules an regulations, we have performed, in accordance with professional standards applicable in France, procedures on the information relating to the financial position and the historical financial statements contained in the attached "note d'opération" related to the issuance by Société Air France S.A. of bonds convertible and/or exchangeable for new or existing shares of Air France-KLM.

The Chief Executive Officer of Air France S.A. and the Chief Executive Officer of Air France-KLM S.A. are responsible for the preparation of this "note d'opération". Our responsibility is to report on the fairness of the information presented in this "note d'opération" with respect to the financial position and the historical financial statements.

This "note d'opération" completes the "document de référence" of Air France-KLM, which was filed with the "Autorité des marches financiers" on December 22, 2004 under the number D.04-1625. In our statutory auditors' report of December 21, 2004 on this "document de référence", we concluded that, based on procedures performed, we did not have any matter to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in the 'document de référence" other than the explanatory paragraphs (included below) related to the statutory and consolidated financial statements of Air France S.A. (become Air France-KLM) as of and for the years ended March 31, 2004 and 2003, the interim consolidated financial statements of Air France-KLM for the period from April 1, 2004 to September 30, 2004, and the pro forma information.

We performed our procedures, in accordance with professional standards applicable in France. Those standards require that we report on the fairness of the information included in the "note d'opération" relating to the financial position and the historical financial statements, and its consistency with the audited financial statements. Our procedures also included reading the other information presented in the "*note d'opération*", including the quaterly financial statements of Air France-KLM for the period from April 1, 2004 to December 31, 2004 which were neither subject to an audit nor a limited review, in order to identify any material inconsistencies with the information relating to the financial position and the historical financial statements, and to report any apparent misstatement of facts that we may have uncovered based on our general knowledge of the Company obtained during the course of our engagement. This "note d'opération" does not include any separate prospective information.

> "We have audited, in accordance with professional standards applicable in France, the statutory and consolidated financial statements of Air France S.A. (now Air France-KLM) as of and for the years ended March 31, 2004 and 2003, approved by the board of directors, and issued an unqualified opinion with the following explanatory paragraphs:
>
> *Statutory financial statements as of and for the year ended March 31, 2004*
>
> Change in accounting principles relating to the accounting for engine maintenance expenses for aircrafts that are fully owned and under finance lease: following the adoption of regulation 2003-07 of the Committee of Accounting Regulations ("Comité de la Réglementation Comptable") which is effective for fiscal years beginning on January 1, 2003 and which updates article 15 of regulation 2002-10 relating to the amortization and depreciation of assets, Air France has to record in its statutory financial statements a provision for the maintenance of engines that are fully owned or under finance lease. The effect of this accounting change was entirely recognized in the income statement in accordance with statements 97-06 and 00-A issued by the French National Accounting Board ("Conseil National de la Comptabilité").
>
> Change in accounting principle relating to the accounting for long-service awards: following the recommendation of the French National Accounting Board ("Conseil National de la Comptabilité") on April 1, 2003 and in accordance with Regulation n°2000-06 relating to liabilities, Air France recorded a provision for the costs of long-service awards.
>
> Change in accounting estimate relating to the Fréquence Plus liabilities: following the study conducted during the fiscal year ended March 31, 2004 regarding the behavior of

passengers participating to the Fréquence Plus program and the evolution of the program, Air France had to revise its estimation of the liabilities relating to the program.

Statutory financial statements as of and for the year ended March 31, 2003

Changes in accounting principles relating to the first adoption of CRC Regulation n°2000-06 regarding liabilities and the recognition of certain long-term contracts involving maintenance activites of the Company.

Consolidated financial statements as of and for the year ended March 31, 2004

Changes in accounting principles relating to the accounting for certain long-service awards: following the recommendation of the French National Accounting Board ("Conseil National de la Comptabilité) on April 1, 2003 and in accordance with Regulation n°2000-06 relating to liabilities, Air France recorded a provision for the costs of long-service awards.

Change in accounting estimate relating to the Fréquence Plus liabilities: following the study conducted during the fiscal year ended March 31, 2004 regarding the behaviour of passengers participating to the Fréquence Plus program and the evolution of the program, Air France had to revise its estimation of the liabilities relating to the program.

Consolidated financial statements as of and for the year ended March 31, 2003

Changes in accounting principles relating to the first-time adoption of CRC Regulation n°2000-06 relating to liabilities and the recognition of certain long-term contracts involving maintenance activites of Air France.

Deloitte Touche Tohmatsu-Audit and Constantin Associés have audited, in accordance with professional standards applicable in France, and issued an unqualified opinion on the statutory and consolidated financial statements of Air France S.A. (now Air France-KLM) as of and for the year ended March 31, 2002 approved by the Board of Directors.

We have performed limited review procedures, in accordance with professional standards applicable in France, on the interim consolidated financial statements of Air France-KLM for the period from April 1, 2004 to September 30, 2004, approved by the Board of Directors, and issued a standard limited review report with an explanatory paragraph relating to footnote 2.3 which discloses the main assumptions made for the allocation of the purchase price of KLM at the date of its acquisition, and the fair value assessment of KLM's assets and liabilities at the date of acquisition which is preliminary.

We have performed limited review procedures, in accordance with professional standards applicable in France, on the interim consolidated financial statements of Air France S.A. (now Air France-KLM) for the period from April 1, 2003 to September 30, 2003, approved by the board of directors, and issued a standard limited review report with no explanatory paragraph.

Our procedures on the pro forma financial information disclosed on pages 57 to 65 and comprised of the unaudited consolidated condensed income statement for the year ended March 31, 2004 and the unaudited consolidated condensed balance sheet as of March 31, 2004 have consisted of assessing whether the assumptions as described on pages 57 and 61 through 65 of the "document de référence" provide a reasonable basis for their preparation, in verifying the mathematical accuracy of the application of these assumptions, and of ensuring the conformity of the accounting principles used with the ones used for the preparation of the latest year-end consolidated financial statements of Air France S.A.

> We draw you attention to the notes to the proforma financial information. These footnotes indicate that “this preliminary data is disclosed only for illustration purposes, and as such, do not necessarily reflect the combined operating results or the financial position that the Group Air France KLM would have reported as of the balance sheet dates or during the periods presented”. We draw your attention to the fact that the unaudited consolidated balance sheet as of March 31, 2004 is comprised of Air France’s balance sheet as of March 31, 2004 and KLM’s balance sheet as of April 30, 2004.”

Constantin Associés has audited, in accordance with professional standards applicable in France, the statutory financial statements of Air France S.A. (formerly known as Air Orient S.A.) as of and for the years ended March 31, 2004 and 2003 approved by the Boards of Directors and issued an unqualified opinion.

We have performed limited review procedures, in accordance with professional standards applicable in France, on the interim consolidated financial statements of Air France S.A. (formerly known as Air Orient S.A.) for the period from April 1, 2004 to September 30, 2004 approved by the Board of Directors. This financial statements are disclosed on pages 186 to 205 of the “*note d’opération*”. We have issued a standard limited review report with an explanatory paragraph relating to note 2 which explains that the comparative figures of the interim consolidated financial statements for the period from April 1, 2004 to September 30, 2004 relate to Air France (now Air France-KLM).

Based on the procedures performed, we have no other matter to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in this “note d’opération”.

Paris La Défense and Neuilly-Sur-Seine, April 14, 2005

KPMG Audit		Deloitte & Associés
Department of KPMG S.A.		
Jean-Paul Vellutini *Partner*	Jean-Luc Decornoy *Partner*	Pascal Pincemin *Partner*

Additional information :

The *document de référence* of Air France-KLM, which was filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625, and which completes the present “*note d’opération*”, includes:

- The statutory auditors’ report on the consolidated financial statements as of and for the year ended March 31, 2004 including repectively on pages 169 and 178 of the annual report of Air France S.A. (now Air France-KLM S.A.) the justifications of the assessement in accordance with article L225-235 paragraphs 1 and 2 of the “Code de Commerce”;
- on page 89 of the annual report of Air France S.A. (now Air France-KLM), the statutory auditors’ report, issued in accordance with arcticle L. 225-235 of the last paragraph of the “Code de Commerce”, on the report of the President of the Board of Directors of Air France S.A. (now Air France-KLM), describing the internal controls over the financial reporting process.

1.4.2 Report of the Auditors of Air France-KLM

(*Free translation of a French language original for convenience purposes only. Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilized by the statutory auditors in France with respect to such financial statements included in a "document de référence" and its update, may differ from those generally accepted and applied by auditors in other countries. Accordingly the French financial statements and the auditors' report of which a translation for convenience purposes only is prested in this document are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.*)

As statutory auditors of Air France-KLM S.A. and in accordance with articles 211-1 through 211-42 of the AMF rules an regulations, we have performed, in accordance with professional standards applicable in France, procedures on the information relating to the financial position and the historical financial statements contained in the attached "note d'opération" related to the issuance by Air France S.A. of bonds convertible and/or exchangeable for new or existing shares of Air France-KLM.

The Chief Executive Officer of Air France S.A. and the Chief Executive Officer of Air France-KLM S.A. are responsible for the preparation of this "note d'opération". Our responsibility is to report on the fairness of the information presented in this "note d'opération" with respect to the financial position and the historical financial statements.

This "note d'opération" completes the "document de référence" of Air France-KLM, which was filed with the "Autorité des marches financiers" on December 22, 2004 under the number D.04-1625. In our statutory auditors' report of December 21, 2004 on this "document de référence", we concluded that, based on procedures performed, we did not have any matter to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in the 'document de référence" other than the explanatory paragraphs (included below) related to the statutory and consolidated financial statements of Air France S.A. (now Air France-KLM) as of and for the years ended March 31, 2004 and 2003, the interim consolidated financial statements of Air France-KLM for the period from April 1, 2004 to September 30, 2004, and the pro forma information.

We peformed our procedures in accordance with professional standards applicable in France. Those standards require that we report on the fairness of the information included in the "note d'opération" relating to the financial position and the historical financial statements, and its consistency with the audited financial statements. Our procedures also included reading the other information presented in the "note d'opération", including the quaterly financial statements of Air France-KLM for the period from April 1, 2004 to December 31, 2004 which were neither subject to an audit nor a limited review, in order to identify any material inconsistencies with the information relating to the financial position and the historical financial statements, and to report any apparent misstatement of facts that we may have uncovered based on our general knowledge of the Company obtained during the course of our engagement. This "note d'opération" does not include any separate prospective information.

> "We have audited, in accordance with professional standards applicable in France, the statutory and consolidated financial statements of Air France S.A. (now Air France-KLM) as

of and for the years ended March 31, 2004 and 2003 approved by the board of directors, and issued an unqualified opinion with the following explanatory paragraphs:

Statutory financial statements as of and for the year ended March 31, 2004

Change in accounting principles relating to the accounting for engine maintenance expenses for aircrafts that are fully owned and under finance lease: following the adoption of regulation 2003-07 of the Committee of Accounting Regulations ("Comité de la Réglementation Comptable") which is effective for fiscal years beginning on January 1, 2003 and which updates article 15 of regulation 2002-10 relating to the amortization and depreciation of assets, Air France has to record in its statutory financial statements a provision for the maintenance of engines that are fully owned or under finance lease. The effect of this accounting change was entirely recognized in the income statement in accordance with statements 97-06 and 00-A issued by the French National Accounting Board ("Conseil National de la Comptabilité").

Change in accounting principle relating to the accounting for long-service awards: following the recommendation of the French National Accounting Board ("Conseil National de la Comptabilité") on April 1, 2003 and in accordance with Regulation n°2000-06 relating to liabilities, Air France recorded a provision for the costs of long-service awards.

Change in accounting estimate relating to the Fréquence Plus liabilities: following the study conducted during the fiscal year ended March 31, 2004 regarding the behavior of passengers participating to the Fréquence Plus program and the evolution of the program, Air France had to revise its estimation of the liabilities relating to the program.

Statutory financial statements as of and for the year ended March 31, 2003

Changes in accounting principles relating to the first adoption of CRC Regulation n°2000-06 regarding liabilities and the recognition of certain long-term contracts involving maintenance activites of the Company.

Consolidated financial statements as of and for the year ended March 31, 2004

Changes in accounting principles relating to the accounting for certain long-service awards: following the recommendation of the French National Accounting Board ("Conseil National de la Comptabilité) on April 1, 2003 and in accordance with Regulation n°2000-06 relating to liabilities, Air France recorded a provision for the costs of long-service awards.

Change in accounting estimate relating to the Fréquence Plus liabilities: following the study conducted during the fiscal year ended March 31, 2004 regarding the behaviour of passengers participating to the Fréquence Plus program and the evolution of the program, Air France had to revise its estimation of the liabilities relating to the program.

Consolidated financial statements as of and for the year ended March 31, 2003

Changes in accounting principles relating to the first-time adoption of CRC Regulation n°2000-06 relating to liabilities and the recognition of certain long-term contracts involving maintenance activites of Air France.

Deloitte Touche Tohmatsu-Audit and Constantin Associés have audited, in accordance with professional standards applicable in France, and issued an unqualified opinion on the statutory and consolidated financial statements of Air France S.A. (now Air France-KLM) as of and for the year ended March 31, 2002, approved by the Board of Directors.

We have performed limited review procedures, in accordance with professional standards applicable in France, on the interim consolidated financial statements of Air France-KLM for the period from April 1, 2004 to September 30, 2004, approved by the Board of Directors, and issued a standard limited review report with an explanatory paragraph relating to footnote 2.3 which discloses the main assumptions made for the allocation of the purchase price of KLM at the date of its acquisition and the fair value assessment of KLM's assets and liabilities at the date of acquisition which is preliminary.

We have performed limited review procedures, in accordance with professional standards applicable in France, on the interim consolidated financial statements of Air France S.A. (now Air France-KLM) for the period from April 1, 2003 to September 30, 2003, approved by the board of directors, and issued a standard limited review report with no explanatory paragraph.

Our procedures on the pro forma financial information disclosed on pages 57 to 65 and comprised of the unaudited consolidated condensed income statement for the year ended March 31, 2004 and the unaudited consolidated condensed balance sheet as of March 31, 2004 have consisted of assessing whether the assumptions as described on pages 57 and 61 through 65 of the "document de référence" provide a reasonable basis for their preparation, in verifying the mathematical accuracy of the application of these assumptions, and of ensuring conformity of the accounting principles used with the ones used for the preparation of the latest year-end consolidated financial statements of Air France S.A.

We draw you attention to the notes to the pro forma financial information. These footnotes indicate that "these preliminary data are disclosed only for illustration purposes, and as such, do not necessarily reflect the combined operating results or the financial position that the Group Air France-KLM would have reported as of the balance sheet dates or during the periods presented". We draw your attention to the fact that the unaudited consolidated balance sheet as of March 31, 2004 is comprised of Air France balance sheet as of March 31, 2004 and KLM balance sheet as of April 30, 2004."

Based on the procedures performed, we have no other matter to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in this "note d'opération".

Paris La Défense and Neuilly-Sur-Seine, April 14, 2005

KPMG Audit		Deloitte & Associés
Department of KPMG S.A.		
Jean-Paul Vellutini *Partner*	Jean-Luc Decornoy *Partner*	Pascal Pincemin *Partner*

Additional information :

The *document de référence* of Air France-KLM, which was filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625, and which completes the present "note d'opération", includes:

– The statutory auditors' report on the consolidated financial statements as of and for the year ended March 31, 2004 including repectively on pages 169 and 178 of the annual report of Air France S.A. (now Air France-KLM S.A.) the justifications of the assessement in accordance with article L225-235 paragraphs 1 and 2 of the "Code de Commerce";

– on page 89 of the annual report of Air France S.A. (now Air France-KLM), the statutory auditors' report, issued in accordance with arcticle L. 225-235 of the last paragraph of the "Code de Commerce", on the report of the President of the Board of Directors of Air France S.A. (now Air France-KLM), describing the internal controls over the financial reporting process.

1.5 Person responsible for communication

Air France – Service DB-AC –
Dominique Barbarin
Tel. + 33 1 41 56 88 60
Email : dobarbarin@airfrance.fr

Please note that, unless specified otherwise, the terms "Issuer" and "Air France" mean Société Air France as the issuer of the bonds[*].

The term the "French State" means the Republic of France.

In addition, "Bond" and "Bonds" mean the Air France bonds convertible into and/or exchangeable into new or existing Air France-KLM Shares.

[*] Previously Air Orient which underwent a change in corporate structure following a group reorganization, involving a partial contribution of Société Air France assets pursuant to the terms of the exchange offer for KLM shares. Société Air France became Air France-KLM (the only listed company), the group holding company. Société Air France S.A., formerly known as Air Orient, as mentioned in the auditors' reports, became, from an operational point of view, the new airline of the group alongside KLM.

CHAPTER II
ISSUANCE AND LISTING ON THE EUROLIST MARKET OF EURONEXT PARIS OF AIR FRANCE BONDS CONVERTIBLE INTO AND/OR EXCHANGEABLE FOR NEWLY ISSUED AND/OR EXISTING ORDINARY SHARES OF AIR FRANCE-KLM

2.1 Information relating to the issuance

2.1.1 Authorizations

2.1.1.1 Shareholders' meetings and meetings of the Board of Directors

Pursuant to

(a) the decision taken at the general meeting of the shareholders of Air France, held on November 23, 2004 in compliance with the rules relating to quorum and voting for general meetings and in particular, its second resolution:

- delegating to the board of directors (c*onseil d'administration*) all the powers necessary to proceed with the issuance of securities in euros, on the French market and/or abroad, by making an offer to the public or without such an offer, of securities giving access, immediately or in the future, to (new or existing) Air France-KLM shares provided that, if such securities give access to new Air France- KLM shares, the resulting nominal increase in the share capital of Air France-KLM will not exceed €450 million;
- acknowledging the first resolution of the general meeting of the shareholders of Air France-KLM held on April 20, 2004, which delegated to the board of directors (c*onseil d'administration*) of Air France-KLM all the powers necessary to issue the Air France-KLM shares to be issued after the issuance by Air France-KLM subsidiaries in which Air France-KLM directly or indirectly holds more than 50% of the share capital, of securities giving access by conversion or exchange to Air France-KLM shares;
- setting the term during which the delegation will be valid at 26 months starting from the date of the general meeting;
- setting the maximum limit for issues of securities that can be made by the board of directors pursuant to this delegation at €450 million;
- deciding that the pre-emption rights of shareholders to the securities that are the subject of the present resolution shall be removed;
- deciding that if all securities of any issuance are not subscribed for by shareholders and the public, the board of directors will be able to limit the issuance to the total amount of actual subscriptions received, provided that such subscriptions amount to at least three quarters of the proposed issuance;
- deciding that the board of directors will have all powers to implement this delegation, including in particular:
    - setting the terms of the issue;
    - taking any necessary decisions to ensure that the securities thus issued will be admitted to listing and traded on a regulated market in France or abroad, and more generally, entering into any agreements, taking any measures and carrying out any necessary formalities for the issuance and financial

servicing of the securities issued pursuant to this delegation and to the exercise of rights attaching to such securities;

(b) the decision taken at the general meeting of shareholders of Air France-KLM, held on April 20, 2004 in compliance with the rules relating to quorum and voting for extraordinary general meetings and in particular, its first resolution :

- delegating to the board of directors (*conseil d'administration*), with the right to sub-delegate to its chairman, subject to the conditions imposed by law, all the powers necessary to proceed with an increase in capital in euros, on one or more occasions, in such amounts and at such times as determined by it, on the French market and/or abroad, by making an offer to the public (such securities being issued without preferential subscription rights) of (i) shares and/or other securities (including subscription rights to be issued on a stand-alone basis for or without consideration) giving access, immediately or in the future, to (new or existing) Air France-KLM Shares by subscription, conversion, exchange, redemption, presentation of a note or otherwise, but excluding priority shares issued pursuant to Article 228-11 of the French *Code de Commerce*, and investment certificates issued pursuant to Article 228-30 of the French *Code de Commerce*, and (ii) Air France-KLM Shares to be issued after the issuance, with the approval of Air France-KLM, by Air France-KLM affiliates in which Air France-KLM directly or indirectly holds more than half of the share capital, of securities giving access by conversion, exchange, redemption, presentation of a note or otherwise, to a portion of the capital of Air France-KLM;
- setting the term during which the delegation will be valid to 26 months starting from the date of the general meeting;
- setting the following caps for the authorized issues made by the board of directors pursuant to this delegation:
    - the maximum nominal amount of increase in capital that may be realized at present or in the future pursuant to this delegation may not exceed €1,150,000,000, to which will be added the nominal amount of those securities, if any, to be issued in order to preserve the rights of the holders of securities to the capital of Air France-KLM in the future;
- deciding to eliminate the preferential subscription rights of shareholders considered in the present resolution but to retain the right of the board of directors to grant to such shareholders, within a specified period and in accordance with the conditions set by the board for all or part of an issuance, the ability to subscribe for shares in priority, such ability not giving rise to negotiable rights, but may nonetheless be exercised, if the board of directors so decides, to increase or decrease their shareholdings;
- deciding that if all securities of any issuance are not subscribed for, the board of directors will be able to limit the issuance to the total amount of actual subscriptions received, provided that such subscriptions amount to at least three quarters of the issuance decided upon;
- acknowledging that, as the case may be this delegation constitutes an express waiver by the shareholders of their preferential subscription rights, in favor of the

holders of the securities which may be issued giving rights to receive at present or in the future shares in Air France-KLM, :

- deciding that this delegation comprises a waiver by the shareholders of their preferential subscription rights to any shares to which any securities in the form of convertible bonds issued give rights;
- deciding that the sum immediately received or likely to be received by Air France-KLM for each of the shares issued pursuant to this delegation will be at least equal to the amount set by the applicable French law regulating French commercial companies (*sociétés commerciales)*;

The general meeting granted, by the same resolution, all powers to the board of directors, with the right to sub-delegate to its chairman, to implement this delegation in accordance with the conditions imposed by law.

(c) the decision of the board of directors of Air France-KLM dated April 13, 2005 made pursuant to the preceding subdelegation, delegating to its Chairman all powers to carry out the issuance of shares upon conversion of the Bonds.

The board of directors of Air France decided on April 14, 2005 to issue the Air France Bonds convertible into and/or exchangeable for new or existing Air France-KLM shares in a maximum aggregate principal amount of €450 million, and to determine on April 14, 2005 the final terms and conditions of the issuance.

2.1.1.2 Decision of the Chairman of Air France-KLM

Further to the delegation given by the above-mentioned general meeting of shareholders held on April 20, 2004, the Chairman of the board of directors of Air France-KLM took note of the final terms and conditions of the Bonds set by Air France's Board of Directors and decided on April 14, 2005 to set the definitive terms and conditions applicable to the issuance of shares required upon conversion of the Bonds and has determined the final terms of the issuance as described in this prospectus on April 14, 2005.

2.2 Terms and conditions of the Bonds

2.2.1 Number and nominal value of the Bonds

Air France will issue 19,634,146 2.75% 2005/2020 Air France bonds convertible into and/or exchangeable for new or existing Air France-KLM Shares with nominal value of €20.50 per bond (the "Bonds") for an aggregate principal amount of €402,499,993. In addition, in order to cover any over-allotments, Air France and Air France-KLM have granted to the Joint Lead Managers and Joint Bookrunners an over-allotment option exercisable, once only, in whole or in part, and at the latest on April 20, 2005. In the event that such over-allotment option is exercised in full, the aggregate principal amount of the offering would amount to €449,999,989.50 represented by a maximum of 21,951,219 Bonds.

2.2.2 Proceeds of the offering

The gross proceeds of the issuance will equal €402,499,993 and may be increased to €449,999,989.50 if the over-allotment option is exercised in full.

The net proceeds of the issuance after deduction of the fees due to the financial intermediaries and of the legal and administrative expenses will be approximately €397.87 million. These net proceeds may be increased to approximately €444.85 million if the over-allotment option is exercised in full.

2.2.3 Structure of the offering

2.2.3.1 Offering

The Bonds to which this *note d'opération* relates:

- were first offered in a private placement exclusively to qualified investors in France and to institutional investors outside of France, the United States, Canada and Japan, in accordance with the rules applicable in each country in which the placement was conducted (the "Private Placement");
- and thereafter, once the final terms of the issuance have been set at the end of the bookbuilding process, are being offered in a public offering in France only.

No specific tranche of Bonds is designated for a particular market.

2.2.3.2 Selling restrictions

The distribution of this prospectus and the offer or sale of the Bonds may be restricted by law in certain jurisdictions. Persons into whose possession this prospectus comes are required to inform themselves about and to observe any such restrictions.

The Bond Underwriters (as defined in 2.2.7 ("Financial institutions managing the offering") below) will comply with the laws and regulations in effect in the jurisdictions in which the Bonds are offered, including in particular the offer or sale restrictions set forth below.

Selling Restrictions relating to the United States

The Bonds and the Air France-KLM shares issuable upon conversion and/or deliverable upon exchange of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, notwithstanding certain exceptions, will not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act), except in certain transactions exempt from, or not subject to, the registration requirement of the Securities Act. Accordingly, the Bonds are being offered and sold only outside the United States to persons other than U.S. persons in reliance on Regulation S under the Securities Act. Terms used in this paragraph that are defined in Regulation S of the Securities Act are used as defined therein.

Neither the Issuer nor Air France-KLM, nor any "distributor" (as defined in Regulation S of the Securities Act), nor any of the Bond Underwriters, nor any of their "affiliates" (as defined in Regulation 405 of the Securities Act), nor any person acting on behalf of any of them or their affiliates, has engaged or will engage in any "directed selling efforts" (as defined in Regulation S of the Securities Act) with respect to the Bonds and the Air France-KLM shares.

Each Bond Underwriter has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf, has offered or sold or will offer or sell the Bonds within the United States or to, or for the account or benefit of, U.S. persons as part of their distribution at any time or otherwise until 40 calendar days after the settlement date of the Bond Offering (the "Distribution Compliance Period"). Each of them will send or cause to be sent, directly or indirectly, to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells, allocates or delivers Bonds in connection with the Bond Offering or during the Distribution Compliance Period a notice setting forth the restrictions on offers, sales and resales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph that are defined in Regulation S of the Securities Act are used as defined therein.

This prospectus is not for distribution in the United States of America.

In addition, until 40 days after the commencement of the offering of the Bonds, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Selling restrictions relating to the United Kingdom

Each Bond Underwriter has represented, warranted and agreed that:

(a) it has not offered or sold and, prior to the expiry of a period of six months from the issuance date of the Bonds, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 as amended;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issuance or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to Air France and Air France-KLM; and

(c) it has complied and will comply will all applicable provisions of the FMSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

This prospectus is for distribution only to persons who (i) are outside the United Kingdom, (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) (the "Order"), (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FMSA) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "Relevant Persons"). This prospectus is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

Selling Restrictions relating to Italy

The Bonds have not been submitted to the clearance procedure of the *Commissione Nazionale per le Societa e la Borsa* ("CONSOB") in accordance with applicable securities laws and regulations and will not be offered to the public in Italy ("*sollecitazione all'investimento*"), however, they may be offered, and copies of information documents relating to their issuance may be distributed in Italy to professional investors ("*operatori qualificati*"), as this term is defined at paragraph 2, Article 31 of CONSOB Regulation No. 11.522 of 1 July 1998, as amended, or in accordance with any other exemption from the terms and conditions provided for in Article 100 of legislative decree No. 58 of 24 February 1998 (the "Legislative Decree No.58") and in paragraph 1, Article 33 of CONSOB Regulation No. 11.971 of 14 May 1999.

The Bond Offering will be carried out in accordance with all Italian securities and tax laws and regulations and any other applicable Italian laws and regulations.

Any authorized offering of the Bonds and any authorized distribution of information documents relating to the Bonds will be carried on (i) by an investment firm, a credit agency, or a financial intermediary authorized to carry out such businesses in Italy in accordance with Legislative Decree No.58 and with any other applicable Italian law and regulation, (ii) in accordance with Article 129 of the Italian Banking Law and with implementing instructions of the Bank of Italy, pursuant to which any offering or issuance must be pre-notified to the Bank of Italy, except if there is any available exemption based, in particular, on the issued amount and the terms and conditions of the financial instruments involved, and (iii) in accordance with any notification requirement or restriction imposed by CONSOB or the Bank of Italy.

The Bonds have not been and will not be offered, sold or distributed, neither on the primary market nor on the secondary market, to an individual residing in Italy.

The liability of any investor subscribing to Bonds in the context of the Bond Offering will be limited to liability arising out of a breach of applicable laws and regulations during the offering or resale of the subscribed Bonds.

Selling Restrictions relating to the Netherlands

In the context of the initial placing and any and all secondary offers thereafter, the Bonds may only be offered for sale and an offer of the Bonds may only be communicated, to individuals or corporate bodies in the Netherlands that trade and invest in securities in the course of their profession or professional activities, including banks, investment companies, financial intermediaries, insurance companies, pension funds, and other institutional investors and companies that regularly invest in securities, within the meaning of Section 2 of the Exemption Regulation pursuant to the Netherlands Securities Market Supervision Act 1995 ("*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*").

Selling restrictions relating to Canada and Japan

Each Bond underwriter has represented, warranted and agreed that it has not offered or sold and will not offer or sell the Bonds in Canada and Japan.

2.2.4 No preferential subscription rights, no priority subscription period

The extraordinary general meeting of the shareholders of Air France held on November 23, 2004, in its second resolution, waived the preferential subscription rights of Air France shareholders in respect of the issuance of the Bonds.

The extraordinary general meeting of the shareholders of Air France-KLM held on April 20, 2004, in its first resolution, waived the preferential subscription rights of Air France-KLM shareholders in respect of the issuance of the Bonds. This resolution constitutes an express waiver of the preferential subscription rights of the shareholders of Air France-KLM in respect of the new shares which may be issued upon conversion of the Bonds.

No priority subscription period is applicable to the issuance of the Bonds.

2.2.5 Intention of the principal shareholders

To the Issuer's knowledge, no shareholder of the Issuer or of Air France-KLM has indicated its intention to subscribe for Bonds.

2.2.6 Subscription by the public and subscription period

The Private Placement took place on April 14, 2005. The final terms of the Bonds were determined on April 14, 2005. Subscription will be open to the public in France from April 15, 2005 to April 19, 2005 (both dates inclusive).

Indicative timetable of the Bond Offering:

April 14, 2005 (morning):	Publication by the Issuer of a press release announcing the launch of the Bond Offering. Commencement of the bookbuilding for the Private Placement.
April 14, 2005 (evening):	End of the bookbuilding for the Private Placement.
April 14, 2005	Determination of the final terms of the Bonds. Publication by the Issuer of a press release detailing the final terms of the Bonds. *Visa* of the AMF in respect of the prospectus for the Bonds.
April 14, 2005	Publication by the Issuer of a press release announcing the AMF's *visa* and the commencement of the French public offering.
April 15, 2005	Commencement of the French public offering.
April 19, 2005	End of the French public offering.
April 20, 2005	Deadline for the exercise of the over-allotment option.
April 22, 2005	Settlement of the Bonds – admission of the Bonds to trading on the Eurolist market of Euronext Paris.

2.2.7 Financial institutions managing the offering

The Private Placement and the public offer in France are lead-managed by BNP Paribas, J.P. Morgan Securities Ltd. and Société Générale, Joint Lead Managers and Joint Bookrunners (together, the "Bond Underwriters"), and Barclays Bank Plc., Calyon, Citigroup Global Markets Ltd., and HSBC Bank Plc.

2.3 Terms and conditions of the Bonds and of the Shares to be issued or delivered upon exercise of Conversion/Exchange Rights

2.3.1 Form and delivery of the Bonds

The Bonds will be governed by French law.

The Bonds may be in either registered (*nominatif*) or bearer (*au porteur*) form, at the option of the Bondholders. The Bonds will be recorded (*inscrits en compte*) in accounts held, as the case may be, by:

- BNP Paribas Securities Services, acting on the Issuer's behalf in respect of fully registered Bonds (*titres nominatifs purs*);
- an authorized financial intermediary (*intermédiaire financier habilité*) selected by the holder and BNP Paribas Securities Services, acting on the Issuer's behalf, in respect of Bonds in administered registered form (*titres nominatifs administrés*); or

- an authorized financial intermediary selected by the holder in respect of Bonds in bearer form.

The Bonds will be accepted for clearance through Euroclear France, which will ensure the clearing of Bonds between account holders (under ISIN FR0010185975). The Bonds will also be accepted for clearance through Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* (under Common Code 021784834).

The Bonds will be recorded in accounts (*inscrits en compte*) and negotiable as of the settlement date of the Bond Offering, which is expected to take place on April 22, 2005.

2.3.2 Other characteristics of the Bonds

2.3.2.1 Nominal value per Bond—Issue price

The nominal value of each Bond has been set at €20.50, which reflects a premium of 50.80% over the Air France-KLM share reference price of €13.594, which is equal to the volume-weighted average price of the Air France-KLM shares listed on the Eurolist market of Euronext Paris (Compartment A) from the opening of trading on April 14, 2005, until the determination of the final terms of the offering.

The Bonds will be issued at par, *i.e.* at a price equal to 100% of their nominal value, payable in full on the settlement date of the Bond Offering.

2.3.2.2 Issuance date

April 22, 2005.

2.3.2.3 Settlement date

April 22, 2005.

2.3.2.4 Nominal interest rate

2.75%

2.3.2.5 Annual interest

The Bonds will bear interest at a rate of 2.75% per annum, *i.e.* approximately €0.56375 per Bond, payable annually in arrears on April 1 of each year (or, if that date is not a business day, the next succeeding business day), and for the first time on April 1, 2006 (each being an “Interest Payment Date” and the period from one Interest Payment Date to the next Interest Payment Date (both dates inclusive) being an “Interest Period”). In respect of the period from April 22, 2005, the settlement date of the Bond Offering to, and including, March 31, 2006 (or, if that date is not a business day, the next succeeding business day), interest amounting to approximately €0.53132 per Bond will be payable on April 1, 2006 (or, if that date is not a business day, the next succeeding business day), calculated as described below.

All interest payments relating to an Interest Period of less than one full year will be equal to (i) the above-mentioned annual interest rate, multiplied by (ii) the number of days elapsed since the previous Interest Payment Date (or, as the case may be, if there is no such date, since the date of payment for the Bonds) until the end of the Interest Period and divided by 365 for a 365-day year (or by 366 for a leap year).

Subject to 2.3.5.5 (“Rights of Bondholders to payments of interest on the Bonds and dividends with respect to delivered Air France-KLM shares”) below, interest will cease to accrue from the maturity date or the date of early redemption of the Bonds.

Claims in respect of interest will be barred after a period of five years from the date such interest becomes due.

2.3.2.6 Redemption, early redemption

2.3.2.6.1 Redemption at maturity

Unless they have been previously redeemed, exchanged for or converted into shares, the Bonds will be redeemed in full on April 1, 2020 (or, if that date is not a business day, the next succeeding business day) at their par value.

Claims in respect of principal will be barred after a period of 30 years from the redemption date.

2.3.2.6.2 Early redemption by repurchases or public offers

The Issuer reserves the right to redeem the Bonds early in whole or in part at any time, without limitation of price or quantity, by repurchasing Bonds, either on or off the stock exchange or by means of a cash tender or exchange offer.

Any such transaction will not affect the due date for redemption of any Bonds still outstanding.

Bonds acquired in this manner will cease to be considered outstanding and will be cancelled in compliance with applicable law.

2.3.2.6.3 Early redemption at the option of the Issuer

1. The Issuer may, at its sole option and at any time from April 1, 2010 until April 1, 2020, redeem all of the outstanding Bonds prior to maturity, subject to the following conditions:

(i) the early redemption price shall be equal to par value, plus accrued interest from the Interest Payment Date immediately preceding the early redemption date until the effective redemption date**.**

(ii) such early redemption shall only be possible if the product of:

- the arithmetic mean of the closing prices for the Air France-KLM shares on the Eurolist market of Euronext Paris during the 10 consecutive trading days on which Air France-KLM shares are traded chosen by the Issuer during the 20 consecutive trading days immediately preceding the date of publication by the Issuer of the notice calling the Bonds for redemption (described in 2.3.2.6.4 ("Publication of information at the time of early redemption or a redemption at maturity") below); and
- the then-applicable Conversion/Exchange Ratio (as defined in "2.3.5.3 Exercise period and Conversion/Exchange Ratio" below)

is greater than 130% of the nominal value of the Bonds.

A "trading day" is any business day on which Euronext Paris S.A. trades Air France-KLM shares, other than a day on which such trading ceases prior to the usual closing time.

A "business day" is any day (other than a Saturday or Sunday) on which banks are open in Paris and on which Euroclear France operates.

Interest accrued from the Interest Payment Date immediately preceding the early redemption date until the effective redemption date will be paid to each Bondholder concurrently with the redemption of the Bonds (except in the case where such holder exercises his Conversion/Exchange Right).

For purposes of illustration, the following table sets out, for each Interest Payment Date during the early redemption option period, the early redemption price of each Bond in the event of redemption, the minimum market price an Air France-KLM share needs to reach in order to allow for early redemption, the average annual growth rate for the Air France-KLM shares required to meet this minimum price and the yield to maturity for this minimum price in the event the Conversion/Exchange Right is exercised.

Early redemption date	Early redemption price	Minimum market price of Air France-KLM shares to allow for early redemption	Average annual growth rate for Air France-KLM shares(1)	Yield to maturity for holder in the event the Conversion/Exchange Right is exercised
April 1, 2010	€20.50	€26.65	14.59%	7.51%
April 1, 2011	€20.50	€26.65	11.99%	6.64%
April 1, 2012	€20.50	€26.65	10.18%	6.03%
April 1, 2013	€20.50	€26.65	8.84%	5.57%
April 1, 2014	€20.50	€26.65	7.82%	5.22%
April 1, 2015	€20.50	€26.65	7.01%	4.94%
April 1, 2016	€20.50	€26.65	6.34%	4.71%
April 1, 2017	€20.50	€26.65	5.80%	4.52%
April 1, 2018	€20.50	€26.65	5.34%	4.36%
April 1, 2019	€20.50	€26.65	4.95%	4.23%
April 1, 2020	€20.50	€26.65	4.61%	4.11%

(1) Excluding the effect of dividends, calculated using the reference share price of €13.594 and the issuance date of April 14, 2005.

2. The Issuer may, at its sole option, redeem at any time at a price equal to par value, together with interest accrued from the immediately preceding Interest Payment Date to the effective date of such redemption, all of the Bonds outstanding if fewer than 10% of the Bonds initially issued remain outstanding.

3. In each of the cases specified in paragraphs 1 and 2 above, the Bondholders will remain entitled to exercise their Conversion/Exchange Right in accordance with the provisions of "2.3.5.3 Conversion or exchange of Bonds into or for Shares" described below.

4. In each of the cases specified in paragraphs 1 and 2 above, interest on the Bonds will cease to accrue on the effective redemption date.

2.3.2.6.4 Publication of information at the time of redemption at maturity or early redemption

The number of Bonds redeemed, converted or exchanged, and the number of Bonds still outstanding, will be provided each year to Euronext Paris S.A. for the information of the public. This information will also be obtainable at any time from the Issuer or from the Paying Agent (as such term is defined in 2.3.4.1 ("General information concerning the Bonds — Paying agent") below).

The decision by the Issuer to redeem the Bonds upon or prior to maturity will be the object, at the latest 30 calendar days before the redemption date, of a notice published in the *Journal Officiel* (to the extent required by applicable law or regulations at that time), of a financial notice published in a daily financial paper having a national distribution in France and of a notice issued by Euronext Paris S.A.

2.3.2.6.5 Cancellation of the Bonds

Bonds redeemed upon or prior to maturity, Bonds repurchased on or off the stock exchange or by way of tender or exchange offers, as well as Bonds converted or exchanged, will cease to be considered outstanding and will be cancelled in accordance with applicable law.

2.3.2.6.6 Early redemption of the Bonds upon an event of default

If any of the events described below occurs and is continuing, the representative of the *Masse* of the Bondholders (as such term is defined under "2.3.2.14 Representation of Bondholders" below), upon a majority decision of the general meeting of the Bondholders, may, by written notice addressed to the Issuer and to the Paying Agent, require that all the Bonds be redeemed at their par value, together with interest accrued from the immediately preceding Interest Payment Date to the effective redemption date:

- in the event of a failure by the Issuer to a make payment when due of the interest in respect of the Bonds, if such default is not remedied within a period of 15 days from the date the interest is due; or
- in the event of a failure by the Issuer or by Air France-KLM, as applicable, to comply with any of its other obligations under the terms of the Bonds if such failure is not remedied within 30 days from the date on which written notice of such failure is received by the Issuer or by Air France-KLM, as applicable from the representative of the *Masse* of Bondholders; or
- in the event of a default by the Issuer in the payment of any borrowed money or loans guaranteed by the Issuer for an amount in excess of € 125 million on their due date as such date may have been extended by any applicable grace period, unless the Issuer challenges such default in good faith before a competent tribunal, in which case an early redemption of the Bonds will be mandatory only if the tribunal has found against the Issuer; or
- in the case where the Issuer or Air France-KLM applies for the appointment of a conciliator (*conciliateur*), enters into an amicable settlement (*accord amiable*) with its principal creditors, or a judgment is issued for the judicial liquidation (*liquidation judiciaire*) or for the transfer of the whole of the business (*cession totale de l'entreprise*) of the Issuer or of Air France-KLM or if the Issuer or Air France-KLM is subject to any other similar measure or proceeding; or
- in the event that the shares of Air France-KLM are no longer admitted for trading on the Eurolist market of Euronext Paris or on any regulated or similar market of any member countries of the European Union;
- in the event that Air France-KLM ceases to hold, directly or indirectly, at least two-thirds of the capital and voting rights of Air France.

2.3.2.6.7 Early redemption at the option of the Bondholders

Any Bondholder may, at its sole option, require early redemption in cash of all or part of the Bonds held by it on April 1, 2012, and April 1, 2016. Such decision will be irrevocable.

The Bonds will then be repaid at par, plus interest accrued from the immediately preceding Interest Payment Date to the effective redemption date.

In the event of exercise by a Bondholder of its right to early redemption of its Bonds, the following table sets out for the dates mentioned above certain information including, in particular the early redemption amount and the amount of accrued interest.

Redemption date	Issue price (euro)	Accrued interest	Early redemption amount (euro)
April 1, 2012	20.50	0.56375	21.06375
April 1, 2016	20.50	0.56375	21.06375

The Issuer will be required to inform Bondholders of their right to early redemption through the publication of a notice in the French *Journal Officiel* and in a financial newspaper of national distribution in France (*Les Echos* and/or *La Tribune*) between 45 and 30 days prior to each date on which the Bondholders are able to exercise such right to early redemption.

Bondholders who decide to exercise their right to early redemption must, between 20 and, at the latest, seven days prior to the early redemption date, notify the financial intermediary with whom their Bonds are registered of their decision.

2.3.2.7 Annual gross yield to maturity

2.75% at the settlement date (in the absence of a conversion or exchange into shares or redemption prior to maturity).

On the French bond market, the yield to maturity is the annual rate that, at a given date, renders equal at such rate and on a compounded interest basis, the net present value of all amounts payable and all amounts receivable under the Bonds (as defined by the Bond Standardization Committee (*Comité de normalisation obligataire*)).

For purposes of illustration, the table below sets out the prices that an Air France-KLM share must reach on the maturity date in order to give the yields to maturity specified therein as well as the implied average annual growth rate of the shares.

Yield to maturity at settlement date(1)	Air France-KLM share price on maturity date	Average annual growth rate(2) (3)
OAT - 1% = 2.22%	€19.163	2.32%
OAT = 3.22%	€22.875	3.54%
OAT + 1% = 4.22%	€27.165	4.74%
OAT + 2% = 5.22%	€32.110	5.92%

(1) Interpolated yield to maturity of French treasury bonds (*obligations assimilables du Trésor* – OAT) of the same maturity: 3.22% on April 14, 2005.

(2) Excluding the effect of dividends.

(3) Calculated using the reference share price of €13.594 and the issuance date of April 14, 2005.

2.3.2.8 Term and average duration of the bonds

14 years and 344 days from the settlement date to the date of redemption at maturity (the average duration is identical to the term of the Bonds in the absence of conversion or exchange and in the absence of early redemption of the Bonds).

2.3.2.9 Subsequent issues of fungible bonds

If the Issuer subsequently issues further bonds which offer in all respects the same rights as the Bonds, including, without limitation, with respect to principal amount, interest rate, interest payment dates, early redemption dates and conditions, conversion/exchange dates and conditions and guarantees, the Issuer may, without the consent of the Bondholders and provided that the terms of all such bonds so permit, consolidate (*assimilation*) bonds of any such further issues with the Bonds, thereby treating such bonds as the same issuance for the purposes of trading and fiscal agency servicing. In such case, all holders of these bonds will be grouped into a single *Masse*.

2.3.2.10 Status and negative pledge

2.3.2.10.1 Status

The Bonds and the interest thereon constitute direct, general, unconditional and unsubordinated unsecured obligations (*engagements chirographaires*) of the Issuer (subject to exceptions imposed by law), and rank equally amongst themselves and *pari passu* with all other unsecured and unsubordinated debts and guarantees, present and future, of the Issuer.

2.3.2.10.2 Negative pledge

The Issuer undertakes, until all the Bonds have been redeemed, not to grant to holders of other present or future bonds (*obligations*) any mortgage (*hypothèque*) over its present or future assets or real property interests, nor any pledge (*nantissement*) on its business (*fonds de commerce*), nor any other security on its present or future assets, without granting the same security and status to the Bonds. Such undertaking is given only in relation to security interests given for the benefit of holders of bonds (*obligations*) and does not affect in any way the right of the Issuer to dispose of its assets or to grant any security in respect of such assets in any other circumstance.

2.3.2.11 Guarantee

The payment of interest, principal, taxes, costs and ancillary amounts relating to the Bonds is not guaranteed.

2.3.2.12 Underwriting

The Bonds are being underwritten on a joint but not several basis by BNP Paribas, J.P. Morgan Securities Ltd. and Société Générale as Joint Lead Managers and Joint Bookrunners and by Barclays Bank Plc., Calyon, Citigroup Global Markets Ltd. and HSBC Bank Plc., as co-managers (the "Co-Managers") pursuant to the terms of an underwriting agreement (*contrat global de garantie et de placement*) dated April 14, 2005.

Air France-KLM has agreed (for itself and on behalf of its affiliates) with the Bond Underwriters and the Co-Managers not to, and to cause its subsidiaries not to, issue, offer or otherwise transfer or dispose of, directly or indirectly, any shares or other equity securities of Air France-KLM or securities giving direct or indirect access to the capital of Air France-KLM for a period of 90 calendar days beginning on the settlement date of the Bond Offering, except with the prior written consent of the Joint Lead Managers and Joint Bookrunners. This undertaking is subject to certain exceptions in accordance with market practice.

The Bond Underwriters and the Co-Managers may, from the date of the publication of the final financial terms and conditions of the Bonds, without any obligation to do so, effect transactions, through Société Générale acting as stabilizing agent, on the Air France-KLM Shares and the Bonds on the Eurolist market of Euronext Paris, until the date for the exercise of the Overallotment Option referred to in paragraph 2.2.1 and, at the latest, on April 20, 2005, in accordance with applicable legislation and regulations, with a view to stabilize, maintain or otherwise affect the prices of the Bonds or the Air-France-KLM shares. If commenced, such activities may be discontinued at any time.

The Bond Underwriters' obligations under the underwriting agreement are subject to conditions precedent and the underwriting agreement may be terminated under certain circumstances.

2.3.2.13 Rating

As of the date hereof, no application for a rating of the Bonds has been made.

2.3.2.14 Representation of Bondholders

In accordance with Article L.228-103 of the French *Code de commerce*, the Bondholders are grouped together in a collective group (the "*Masse*"), which has legal personality. The general meeting of Bondholders shall deliberate on all measures intended to ensure the defense of the Bondholders or the execution of any agreement to issue Bonds, as well as any proposal aimed at amending the agreement to issue Bonds. The general meeting of Bondholders shall also deliberate on any merger or demerger proposal of the Issuer in accordance with the provisions of articles L. 228-65, I(3), L. 236-13, L. 236-18 and L. 228-73 of the French *Code de commerce*.

2.3.2.14.1 Representatives of the Masse of the Bondholders

Pursuant to Article L.228-47 of the French *Code de commerce*, the following people have been appointed as the representatives of the *Masse* of the Bondholders: Cécile Heiser, residing at 28, rue Chauveau, 92200 Neuilly Sur Seine, and Anthony Martin, residing at 39, avenue Léonard de Vinci, 92400 Courbevoie.

The acting representatives of the *Masse* will have in the absence of any conflicting resolution by the Bondholders in general meeting, the power, without restriction or reservation, to carry out, on behalf of the *Masse*, all management actions necessary to protect the common interests of the Bondholders.

They will exercise their duties until their death, resignation or revocation by a general meeting of the Bondholders or until they become incompetent or incompatibly conflicted. Their appointment will automatically cease on the date of final or total redemption, prior to maturity or otherwise, of the Bonds. These appointments will be automatically extended, where applicable, until the final conclusion of any legal proceedings in which the representatives are involved and the enforcement of any judgments rendered or settlements made.

2.3.2.14.2 Deputy representatives of the Masse of the Bondholders

The deputy representatives of the *Masse* of the Bondholders will be: Jean-Pierre Pasquier, residing at 25, avenue de Verdun, 94000 Créteil, and Pascal Leclerc, residing at 118, rue Jeanne d'Arc, 75013 Paris.

These deputy representatives may be asked to take the place of, successively, any of the representatives of the *Masse* of Bondholders who would no longer be able to exercise their duties.

2.3.2.14.3 General points

The remuneration of each of the representatives of the *Masse* is €500 per year, payable by the Issuer. This remuneration will be payable on April 1 of each year from 2006 to 2020 inclusive, insofar as there are Bonds outstanding at such time.

The Issuer will bear the remuneration of the representatives of the *Masse* and the costs of calling and holding general meetings of the Bondholders and publishing their decisions.

In the event that a general meeting of the Bondholders is called, such meeting will be held at the registered office of the Issuer or such other place as is specified in the notices of the meeting.

Each Bondholder has the right, during the period of 15 days prior to any general meeting of the *Masse*, to examine and make copies of, or to cause an agent to do so on its behalf, at the registered office or administrative headquarters of the Issuer or, as the case may be, at such other place as is specified in the notice for such meeting, the text of the resolutions to be proposed and any reports to be presented to the meeting.

In the event that future issues of bonds give their holders rights identical to those of the Bonds and if the of such future bonds so permit, the holders of all such bonds shall be grouped together in a single *Masse*.

2.3.2.15 Public offers

Under current French law and regulations, any public tender or exchange offer by a third party for Air France-KLM shares would also be required to be made for all the securities giving access to the equity of or voting rights in Air France-KLM and therefore for the Bonds described herein. Any such tender or exchange offer proposal would be subject to prior review by the AMF, which would determine whether it is acceptable (*recevable*) based on the elements presented to it, including the valuation of the offer. In addition, a *note d'information* detailing the terms of the offer would also be required to be filed with the AMF for a visa.

2.3.2.16 Tax treatment of the Bonds

The only amounts deducted from the payment of interest and redemption of the Bonds will be withholding taxes and other taxes which the law imposes or may impose on Bondholders.

Under current French law, the following provisions summarize the tax consequences applicable to Bondholders having acquired their Bonds at the time of the issuance thereof. Individual or corporate residents or non-residents of France must nevertheless identify for themselves, through their regular tax advisors, the tax treatment that applies to their specific case.

On June 3, 2003, the Council of the European Union adopted a new directive regarding the taxation of savings income, as amended on July 19, 2004 (the "Directive"), and transposed into French law under article 242 *ter* of the French General Tax Code (the "FGTC"). The Member States will be required, as from July 1, 2005, to provide to the tax authorities of another Member State with details of payments of interests within the meaning of the Directive (interests, proceeds, premium or other income from indebtedness) made by a paying agent within its jurisdiction to an individual resident in that other Member State (the "Information System").

For purposes of the above, the term "paying agent" would be defined broadly and would include, in particular, any economic operator responsible for the payment of interests within the meaning of the Directive, directly to a beneficial owner who is an individual.

However, for a transitional period, certain Member States (Luxembourg, Belgium and Austria) will instead of the Information System applied by the other Member States, impose a withholding on all interest payments. The rate of such withholding should be 15% during the first three years, 20% during the three subsequent years and thereafter, 35% until the end of the transitional period. Pursuant to the agreement of the Council of the European Union, as implemented by the Directive, such transitional period will terminate upon, and subject to, the European Union entering into exchange of information agreements with several non-EU countries (Switzerland, Liechtenstein, San Marino, Monaco and Andorra) and the unanimous approval by the Council of the European Union of a commitment from the United States regarding on-demand exchange of information. Bondholders that are non-residents of France for tax purposes must comply with applicable tax law in their country of residence.

2.3.2.16.1 Tax residents of France

1. Individuals holding Bonds as part of their private assets and who do not undertake securities transactions on a regular basis.

(a) **Interest and redemption premiums**

Income from the Bonds received by individuals holding Bonds as part of their private assets are:

- Either included in the global income base subject to the progressive personal income tax, plus:
  - the general social security contribution (*contribution sociale généralisée* or *CSG*) of 8.2%, 5.8% of which is deductible from global taxable income in respect of the year of payment of the *CSG* (articles 1600-0 C and 1600-0 E of the FGTC);
  - the social security deduction (*prélèvement social*) of 2% (article 1600-0 F bis 1111 of the FGTC), non-deductible from the income tax base;
  - the contribution for repayment of the social debt (*contribution pour le remboursement de la dette sociale* or *CRDS*) of 0.5% (article 1600-0 L of the FGTC), non-deductible from the income tax base; and
  - the contribution of 0.3%, which is in addition to the social security deduction of 2%, non-deductible from the income tax base.
- Or, at their election, subject to the withholding in discharge (*prélèvement libératoire*) of 16% (article 125 A of the FGTC), plus:
  - the general social security contribution of 8.2% (article 1600-0 E of the FGTC), non-deductible from the income tax base;
  - the social security deduction of 2% (article 1600-0 F bis 1111 of the FGTC), non-deductible from the income tax base;
  - the contribution for repayment of the social debt of 0.5% (article 1600-0 L of the FGTC), non-deductible from the income tax base; and
  - the contribution of 0.3%, which is in addition to the social security deduction of 2%, non-deductible from the income tax base.

(b) **Capital gains**

Pursuant to article 150-0 A of the FGTC, capital gains realized by individuals on the sale of Bonds are taxable, as from the first euro, at the proportional income tax rate, currently of 16%, if the total proceeds of taxable sales of securities, shares or similar instruments realized by these persons during the calendar year exceeds a threshold of €15,000 per tax household, plus:

- the general social security contribution, of 8.2%, non-deductible from the income tax base;

- the contribution for repayment of the social debt of 0.5%, non-deductible from the income tax base;
- the social security deduction of 2%, non-deductible from the income tax base; and
- the contribution of 0.3%, which is in addition to the social security deduction of 2%, non-deductible from the income tax base.

Pursuant to the provisions of article 150-0 D 11 of the FGTC, capital losses incurred in a given year may only be offset against gains of the same nature recognized in the same year, or the next 10 years, provided that the annual threshold of €15,000 applicable to sales of securities (or shares or other similar instruments) is exceeded in the year the loss was incurred.

(c) **Conversion or exchange of Bonds into shares**

See 2.3.5.6 ("Tax treatment of the conversion or exchange") below.

(d) **Wealth tax (*Impôt de solidarité sur la fortune*)**

Bonds held by individuals are included within their taxable wealth, as the case may be, for wealth tax purposes, subject to applicable international tax treaties.

(e) **Estate and gift tax**

Bonds acquired by means of estate or gift are subject to estate or gift tax in France.

2. Legal entities subject to corporate income tax (standard regime)

(a) **Interest and redemption premium**

Interest accrued on the Bonds during a fiscal year is included in taxable income subject to corporate income tax at the rate of 331/3% plus an additional contribution equal to 1.5% of the corporate income tax for the fiscal year 2005 (Article 235 *ter* ZA of the FGTC).

A social contribution of 3.3% is also applicable (Article 235 *ter* ZC of the FGTC). It is based on the entire amount of the corporate tax, less a rebate capped at €763,000 per twelve-month period. Exempted from this contribution, however, are legal entities subject to corporate income tax whose gross revenues before taxes during the tax period or fiscal year in question is less than €7,630,000 and whose share capital is fully paid up and at least 75% of which is held continuously by individuals (or by a company) satisfying the same conditions. In addition, for these legal entities, the corporate income tax rate is equal to 15% for the first €38,120 of taxable profit per twelve-month period.

(b) **Capital gains**

Disposal of the Bonds may give rise to a gain or loss to be included in taxable income.

The amount of the gain or loss is equal to the difference between the price at which the Bond is sold and the price at which it was acquired. This amount is included in the income subject to corporate tax at a rate of 33 1/3% (or, if applicable, 15% for the first €38,120 of taxable earnings per twelve-month period for companies meeting the requirements set forth in "2.3.2.16.1(2)(a) Interest and redemption premium" above). To this is added the contribution provided by article 235 *ter* ZA of the FGTC, for financial years ending in 2005, and, as the case may be, the 3.3% contribution (article 235 *ter* ZC of the FGTC) mentioned above.

(c) **Conversion or exchange of Bonds into shares**

See 2.3.5.6 ("Tax treatment of the conversion or exchange") below.

2.3.2.16.2 Non-residents of France for tax purposes

(a) **Income (interests and redemption premium)**

Bonds issued in euros by French legal entities are considered to be issued outside France for purposes of article 131 *quater* of the FGTC (Administrative Instruction 5 I-11-98 of September 30, 1998). Consequently, the interests on the Bonds and, if applicable, the redemption premium for the Bonds paid to persons who have their tax residence or registered office outside the territory of the French Republic, are exempt from the withholding tax provided for under article 125 A III of the FGTC. The interest and redemption premium are also exempt from social contributions.

(b) **Capital gains**

Capital gains realized on the disposal of Bonds by persons not domiciled in France for French tax purposes within the meaning of article 4 B of the FGTC, or whose registered office is located outside France (without a permanent establishment or fixed base in France the assets of which would include the Bonds), are not subject to tax in France (article 244 bis C of the FGTC).

(c) **Conversion or exchange of Bonds into shares**

See 2.3.5.6 ("Tax treatment of the conversion or exchange") below.

(d) **Wealth tax (*Impôt de solidarité sur la fortune*)**

The wealth tax does not apply to bonds issued by French companies and held by individuals domiciled outside France within the meaning of article 4 B of the FGTC.

(e) **Estate and gift taxes**

France subjects securities issued by French companies acquired through inheritance or gift by a non-resident of France to estate or gift taxes. France has entered into tax treaties with a number of countries to avoid double taxation on inheritance and gifts, under the terms of which the residents of countries party to such tax treaties may, subject to certain conditions, be exempt from inheritance or gift taxes or benefit from a tax credit.

Potential investors are advised to promptly consult their tax advisors regarding whether they are subject to inheritance or gift taxes with respect to the holding of the Bonds, and the conditions for obtaining an exemption from estate and gift taxes under the tax treaties entered into with France.

2.3.3 Listing of the Bonds

2.3.3.1 Listing

Application will be made to list the Bonds on the Eurolist market of Euronext Paris . The first listing of the Bonds is expected to take place on the settlement date, i.e., April 22, 2005 under ISIN FR000010185975. No listing of the Bonds on any other regulated market is contemplated.

2.3.3.2 Restrictions on the transferability of the Bonds

No restrictions are imposed by the conditions of the issuance on the transferability of the Bonds.

2.3.3.3 Listing of similar securities

As of the date of this Prospectus, there are no other Air France or Air France-KLM bonds giving access to a portion of the capital of Air France-KLM.

2.3.4 General information concerning the Bonds

2.3.4.1 Paying agent

The centralization of the financial service of the issuance (payment of interest, redemption of matured Bonds, centralization of conversion and exchange requests, etc.) and the administrative servicing of the Bonds will be carried out by BNP Paribas Securities Services (the "Paying Agent").

2.3.4.2 Courts having jurisdiction in the event of a dispute

The courts having jurisdiction in the event of a dispute are those where the head office of the Issuer is located when the Issuer is the defendant and are designated according to the nature of the dispute, unless otherwise provided by the French Civil Procedure Code (*Nouveau code de procédure civile*).

2.3.4.3 Use of proceeds

This transaction will in particular enable Air France to optimize the its financing costs and extend the average maturity of its debt. The proceeds will be used to fund Air France's investment plan (new aircrafts and ground investments).

2.3.5 Conversion and/or exchange of the Bonds into or for Air France-KLM shares

2.3.5.1 Nature of rights of conversion or exchange

Bondholders shall have the right, at any time from the 40th day following the settlement date of the Bonds, *i.e.* from June 1, 2005, until seven business days prior to the maturity date or early redemption date, to receive new or existing Shares of Air France-KLM (the "Conversion/Exchange Right") that will be paid-up or settled by way of set off against amounts owed under the Bonds, subject to the conditions set out in 2.3.5.8 ("Treatment of fractional shares") below.

Air France-KLM may, at its option, deliver newly issued or existing shares, or a combination thereof.

Air France-KLM's general shareholders' meeting held on September 15, 2004 authorized the implementation of a share repurchase program that permits Air France-KLM to purchase Air France-KLM shares on the market. This authorization is valid for a period of 18 months from the date of this meeting, within a limit of 5% of its share capital. A *note d'information* with respect to this share repurchase program received a visa no. 04-737 from the *Autorité des marchés financiers* on August 27, 2004. As at March 31, 2005, Air France-KLM holds 6,483,270 of its own shares.

2.3.5.2 Suspension of the Conversion/Exchange Right for Air France-KLM shares

In the event of an issuance of new shares or issuance of new securities giving access to the share capital of Air France-KLM, or in the event of a merger (*fusion*) or split-up (*scission*) of Air France-KLM, Air France shall be entitled to suspend the Conversion/Exchange Right for a period not exceeding three months, according to the current applicable legislation. Such entitlement shall in no event affect the Conversion/Exchange Right of the Bondholders whose Bonds have been called for redemption, nor the exercise period provided for in "2.3.5.3 Exercise period and Conversion/Exchange Ratio for Air France-KLM shares" below.

The decision to suspend the Conversion/Exchange Right will be published in a notice in the *Bulletin des Annonces légales obligatoires* ("BALO") at least seven days before the date on which such suspension comes into force; it will mention particularly both the date on which the suspension comes into force and the date the suspension will end. This information will also be published during the same period in a daily financial paper having a national distribution in France and in a notice issued by Euronext Paris.

2.3.5.3 Exercise period and Conversion/Exchange Ratio for Air France-KLM shares

The Conversion/Exchange Right for Air France-KLM shares may be exercised at any time from the 40th day following the settlement date of the Bonds , *i.e.* from June 1, 2005, until the seventh business day immediately preceding the maturity date or early redemption date at a ratio, subject to "2.3.5.7 Maintenance of Bondholders' Rights" below, of ONE Air France-KLM share with a nominal value of €8.50 for ONE Bond (the "Conversion/Exchange Ratio").

With respect to Bonds redeemed upon, or prior to, maturity, the Conversion/Exchange Right will expire at the end of the seventh business day prior to the redemption date.

Any Bondholder who has not exercised his Conversion/Exchange Right prior to such date will receive the redemption price, determined under the conditions set out, as the case may be, in 2.3.2.6.1 ("Redemption at maturity") or in 1(i) of 2.3.2.6.3 ("Early redemption at the option of the Issuer").

2.3.5.4 Exercise of the Conversion/Exchange Right for Air France-KLM shares

To exercise their Conversion/Exchange Right to Air France-KLM shares, Bondholders must make their request to the intermediary with whom their Bonds are recorded in account (*inscrits en compte*). BNP Paribas Securities Services will ensure the centralization of such requests.

Any request for the exercise of the Conversion/Exchange Right received by BNP Paribas Securities Services in its capacity as centralizing agent during any calendar month (an "Exercise Period") will take effect on the earlier of the following two dates (an "Exercise Date"):

(i) the last business day of such calendar month; and

(ii) the seventh business day immediately preceding the date set for redemption (either an early redemption or at maturity).

In respect of Bonds having the same Exercise Date, Air France-KLM will be entitled, at its option, to choose between:

- new shares;
- existing shares; or
- a combination of new and existing shares.

All Bondholders holding Bonds that have the same Exercise Date will be treated equally and will have their Bonds converted or exchanged, as the case may be, in the same proportion, subject to any possible rounding adjustments.

Bondholders will receive Air France-KLM shares on the seventh business day following the Exercise Date.

2.3.5.5 Rights of Bondholders to payments of interest on the Bonds and dividends with respect to delivered Air France-KLM shares

In the event of an exercise of the Conversion/Exchange Right, no interest will be paid to Bondholders in respect of the period from the last Interest Payment Date immediately preceding the Exercise Date to the date on which the shares are delivered.

The rights attached to the new Air France-KLM shares issued as a result of a conversion are set out in 2.3.6.1.1 ("New Air France-KLM shares to be issued on conversion") below.

The rights attached to existing Air France-KLM shares delivered as a result of an exchange are set out in 2.3.6.1.2 ("Existing Air France-KLM shares resulting from exchange") below.

2.3.5.6 Tax treatment of the conversion or exchange

Under current legislation, the applicable tax regime is as described below. Nonetheless, investors should check with their regular tax advisor regarding the tax treatment applying to their specific situation.

Non-residents of France for tax purposes must comply with tax laws applicable in their country of residence.

2.3.5.6.1 Residents of France for tax purposes

2.3.5.6.1.1 Individuals holding Bonds as part of the management of their private assets and who do not undertake securities transactions on a regular basis

The conversion of Bonds into new shares or the exchange of Bonds for existing shares is not treated as a taxable event.

Capital gains realized upon conversion of the Bonds into new Shares and/or exchange of the Bonds into existing Shares shall benefit, within the limits of the exchange ratio, from the roll-over relief provided for in article 150-0 B of the FGTC.

Upon subsequent sale of the shares, the net gain, calculated on the basis of the acquisition price or value of the Bonds (article 150-0 D 9 of the FGTC), shall be subject to the tax regime applicable to capital gains resulting from the sale of securities (see 2.3.2.16.1.1(b) ("Tax residents of France")).

When subject to tax, such capital gains are taxed at the 27% rate (i.e., 16% of personal income tax, 8.2% of general social security contribution, 0.5% of contribution for repayment of the social debt, 2% of social security deduction and 0.3% of additional contribution to the social security deduction of 2%).

2.3.5.6.1.2 Legal entities subject to corporate income tax (standard regime)

1. Tax treatment of the conversion of the Bonds into new shares

Any capital gain or loss realized upon the conversion of the Bonds into new shares benefits from the roll-over relief provided for in article 38-7 of the FGTC, and shall thus be included in the income tax base in the year in which such shares are transferred.

Upon a subsequent transfer of shares received at the time of the conversion, the amount of the capital gain or loss shall be determined based on the seller's tax basis in the Bonds.

Companies benefiting from the roll-over relief shall comply with the annual tax filing requirements provided for in Article 54 *septies* I and II of the FGTC until the expiration date of the deferral or shall be subject to a penalty equal to 5% of the rolled-over amounts.

2. Tax treatment of the exchange of the Bonds for existing shares

The roll-over relief is not applicable in case of an exchange of the Bonds for existing shares. In such case, the gain realized upon the exchange is subject to corporate income tax under the generally applicable rules described in "2.3.2.16.1.2(b) Tax treatment of the Bonds—Tax residents of France—Legal entities subject to corporate income tax— Capital gains".

The same tax treatment would apply in case of combined issuance of new shares and delivery of existing shares for Bonds.

2.3.5.6.2 Non-residents of France for tax purposes

Capital gains realized upon conversion of Bonds into new shares and/or exchange of Bonds for existing shares by persons not domiciled for tax purposes in France or whose registered office is located outside of France (without a permanent establishment or fixed base in France on the assets of which would include the Bonds) shall not be subject to tax in France.

2.3.5.7 Maintenance of Bondholders' rights

2.3.5.7.1 Consequences of the issuance and undertakings of the Issuer and Air France-KLM

In accordance with article L.228-98 of the French *Code de commerce*, the Issuer and Air France-KLM agree, whilst any Bonds are in circulation, not to dilute their share capital nor to modify the way they allocate their profits without having taken the necessary measures to maintain the rights of Bondholders. In accordance with the first paragraph of article L. 228-98 of the French *Code de commerce* the Issuer and Air France-KLM are authorised to alter their legal form and corporate purpose.

2.3.5.7.2 Reduction in the capital of Air France-KLM resulting from losses

In the event of a reduction of the share capital of Air France-KLM resulting from losses, whether by way of reduction in the nominal value or the number of shares, the rights of Bondholders to receive shares will be reduced accordingly as if such Bondholders had exercised their Conversion/Exchange Right regarding the shares of Air France-KLM before the date as of which the reduction of the share capital became effective.

2.3.5.7.3 Financial transactions by Air France-KLM

As a result of any one of the following transactions:

1. issue of securities carrying preferential subscription rights reserved for shareholders of Air France-KLM;

2. free distribution of shares;

3. increase in the par value of the shares;

4. regrouping of shares;

5. distribution of reserves or of share premiums, in cash or in kind;

6. free distribution to shareholders of Air France-KLM of any financial instruments other than shares in Air France-KLM;

7. takeover, merger, split-up;

8. repurchase of its own shares at a price higher than the market price;

9. redemption of capital;

10. modification of the allocation of the profits of Air France-KLM through the issuance of preferred shares; or

11. distribution of an exceptional dividend;

which Air France-KLM may carry out after this issuance of the Bonds, the maintenance of the rights of Bondholders will be ensured by means of an adjustment of the Conversion/Exchange

Ratio up to the maturity date or early redemption date, in accordance with the provisions set forth below.

These adjustments will be effected in such a manner so as to equalize, to the nearest hundredth of a share, the value of the shares that would have been obtained upon exercise of the right immediately prior to the occurrence of any of the events listed above and the value of the shares that will be obtained upon exercise of the right immediately following the occurrence of such event.

In the event of adjustments carried out in accordance with paragraphs 1 to 11 below, the new Conversion/Exchange Ratio will be calculated to 2 decimal places by rounding up to the nearest hundredth (with 0.005 being rounded up to the nearest hundredth, being 0.01). Any subsequent adjustments will be carried out on the basis of such newly calculated and rounded Conversion/Exchange Ratio. However, since the Conversion/Exchange Ratio may only result in the delivery of a whole number of shares, fractional entitlements will be settled as specified below (see 2.3.5.8 ("Treatment of fractional shares") below).

1. In the event of a transaction conferring preferential subscription rights, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the transaction by the following formula:

$$1 + \frac{\text{Price of preferential subscription right}}{\text{Share price after detaching preferential subscription right}}$$

For the purposes of calculating the adjustment, the price of the preferential subscription right and the share price after detaching the preferential subscription right will be determined on the basis of the average of the opening prices quoted on the Eurolist market of Euronext Paris on all stock exchange trading days, including those falling in the subscription period.

2. In the event of a free distribution of free shares, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the transaction by the following formula:

$$1 + \text{number of free shares per existing share}$$

3. In the event of an increase in the nominal value of the shares, the nominal value of the shares which may be delivered to Bondholders upon exercise of their Conversion/Exchange Right will be increased accordingly.

4. In the event of a regrouping of shares, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the transaction by the following formula:

$$\frac{\text{Number of shares constituting the share capital after the regrouping}}{\text{Number of shares constituting the share capital before the regrouping}}$$

5. In the event of a distribution of reserves or share premiums in cash or in kind, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the transaction by the following formula:

$$\frac{1}{1 - \dfrac{\text{Amount of the distribution per share}}{\text{Share price before distribution}}}$$

For the purposes of calculating this adjustment factor, the share price before the distribution will be equal to the weighted average prices during the three latest stock exchange trading days on the Eurolist market of Euronext Paris immediately preceding the date of distribution.

6. In the event of a free distribution of financial instrument(s) hereafter referred to as "the Bonus Right" other than Air France-KLM shares, the new Conversion/Exchange Ratio of shares will be determined as follows:

(a) if the Bonus Right is listed, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the relevant transaction by the following formula:

$$1 + \frac{\text{Price of the Bonus Right}}{\text{Share price after detaching the Bonus Right}}$$

For the purposes of calculating this adjustment factor, the prices of the Bonus Right and the price of the share after detaching the Bonus Right will be determined on the basis of the average of the prices during the first three stock exchange trading days on the Eurolist market of Euronext Paris starting from the detachment of the Bonus Right.

(b) if the Bonus Right is not listed, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the transaction by the following formula:

$$1 + \frac{\text{Value of the financial instruments allotted}}{\text{Share price after detaching the Bonus Right}}$$

For the purposes of calculating this adjustment, the value of the financial instruments allotted and the price of the share after detaching the Bonus Right, will be determined on the basis of the weighted average prices during the first three stock exchange trading days on the Eurolist market of Euronext Paris starting from the detachment of the Bonus Right.

If the financial instruments are not listed on a market regulated by Euronext Paris, their value will be determined with reference to the principal regulated market where they are listed. Otherwise, their value will be determined by an independent expert of international standing chosen by Air France, whose choice will be final.

7. In the event that Air France-KLM is merged into another company (*absorption*) or is merged with one or more companies forming a new company (*fusion*) or is split-up (*scission*), the Bondholders may exercise their rights over the acquiring or new company or in the companies resulting from the split-up.

The new Conversion/Exchange Ratio of the shares will be determined by adjusting the number of shares which are to be issued prior to the commencement of the relevant transaction by reference to the ratio of exchange of Air France-KLM shares against the shares in new entity. Such company or companies will be substituted for Air France-KLM for the purpose of the provisions of the present paragraph 2.3.5.7, in order to ensure that the legal, regulatory and contractual rights of Bondholders are respected.

8. In the event of a buy-back by Air France-KLM of its own shares at an acquisition price higher than the market price, the new Conversion/Exchange Ratio shall be determined by multiplying the Conversion/Exchange Ratio in effect before the commencement of the buy-back by the following formula:

$$1 + Pc\,\%\ \mathrm{x}\ \frac{\text{Buy-back price – share price}}{\text{Share price}}$$

For the above calculation, the share price shall be equal to the volume-weighted average share price during the three latest stock exchange trading days on the Eurolist market of Euronext preceding the buy-back or the option to buy-back and “Pc%” shall mean the percentage of capital bought back.

9. In the case of a redemption of capital, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the commencement of the transaction by the following formula:

$$\frac{1}{1 - \dfrac{\text{Amount of the redemption per share}}{\text{Share price prior to the redemption}}}$$

To calculate this adjustment factor, the share price prior to the redemption will be equal to the volume-weighted average share price of the shares in the three stock exchange sessions on the Eurolist market of Euronext preceding the redemption date.

10. Change in profit distribution

If Air France-KLM changes its profit distribution by the creation of preference shares, the new Conversion/Exchange Ratio will be determined by multiplying the Conversion/Exchange Ratio in effect prior to the commencement of the transaction by the following formula:

$$\frac{1}{1 - \dfrac{\text{Reduced profit distribution per share}}{\text{Share price prior to the change}}}$$

To calculate this adjustment factor, the Share price prior to the change in the profit distribution will be equal to the volume-weighted average share price of the shares in the three stock exchange sessions on the Eurolist market of Euronext preceding the redemption date.

11. If Air France-KLM pays out, in a financial year, on one or several occasions, a total amount of dividends, in cash or in kind (before any withholding or other tax deductions and without taking any tax allowances, if any, into account) (the "Relevant Dividend"), such that the Distributed Dividends ratio (as defined below) for that financial year exceeds 3.5% (the "Exceptional Dividend"), an adjustment shall be made to the Conversion/Exchange Ratio of Air France-KLM shares following the distribution of dividends which led to the 3.5% limit being exceeded. The new Conversion/Exchange Ratio will be calculated as follows:

$$NRA = RA \times (1 + RDD - 3.5\%)$$

where:

- NRA means the new Conversion/Exchange Ratio;
- RA means the last Conversion/Exchange Ratio in effect before the distribution of the Relevant Dividend; and
- RDD means the Ratio of Distributed Dividends for the financial year being considered which corresponds to the sum of the ratios obtained by dividing the relevant Dividend and each previous dividend in cash or in kind paid to the shareholders during the same financial year (reduced, if applicable, by such proportion of the dividend that may be used for the calculation of a new Conversion/Exchange Ratio in accordance with the provisions of paragraphs 1 to 10 above) by the average market capitalization of Air France-KLM on the day immediately preceding the corresponding distribution date; the market capitalization to be used in calculating each of these ratios being equal to (x) the closing price per Air France-KLM Share on the Eurolist market of Euronext Paris on the day immediately preceding the date of distribution of the Relevant Dividend multiplied by (y) the respective number of Air France-KLM shares existing at each of these dates. Any dividends or fractions of dividends relating to an adjustment of the Conversion/Exchange Ratio of the shares by virtue of paragraphs 1 to 10 above is not taken into account for the purpose of this provision.

In addition, any dividend (before any withholding or other tax deductions and without taking any tax allowances, if any, into account), as, if the case arises, reduced by a fraction of the dividend needed to calculate the new Conversion/Exchange Ratio for the shares in accordance with paragraphs 1 to 10 above, paid between the date of distribution of a Relevant Dividend (having led to an adjustment being made to the Conversion/Exchange Ratio) and the end of the same financial year of the Issuer (a "Supplemental Dividend") will lead to an adjustment being made to the Conversion/Exchange Ratio using the following formula:

$$NRA = RA \times (1 + RDD)$$

where:

- NRA means the new Conversion/Exchange Ratio;
- RA means the last Conversion/Exchange Ratio in effect before the distribution of the Supplemental Dividend; and
- RDD means the ratio obtained by dividing (i) the amount of the Supplemental Dividend (before any withholding or other tax deductions and without taking any tax allowances, if any, into account), net of any part of the dividend giving rise to an adjustment to the Conversion/Exchange Ratio by virtue of paragraphs 1 to 10 above, by (ii) the market capitalization of Air France-KLM equal to the product of (x) the closing price per share of its shares on the Eurolist market of Euronext Paris. on the day prior to the distribution date of the Supplemental Dividend and (y) the number of shares of Air France-KLM in existence on such date.

If the shares are not admitted to trading on a market regulated by Euronext Paris, the value of the share and, where applicable, the attached right will be determined with reference to the principal regulated market where they are listed.

In the absence of a listing on a regulated market or otherwise, the value of the shares will be determined by an independent expert of international standing chosen by Air France, whose choice will be final.

In the event that Air France-KLM carries out transactions in respect of which an adjustment under paragraphs 1 to 11 above has not been carried out and where later French law or regulations would require an adjustment, Air France and Air France-KLM will carry out such an adjustment in accordance with the applicable laws and regulations and relevant market practices in effect at such time.

2.3.5.7.4 Publication of information relating to adjustments

If Air France-KLM undertakes a transaction of the type set out in paragraph 2.3.5.7, it will inform the Bondholders by means of a public announcement, in accordance with applicable legislation, in the *Bulletin des annonces légales obligatoires* at least 14 days before the planned date for the closing of the subscription, in the case of an issuance, or in the 15 days following the decision relating to the proposed transaction in other cases.

The new Conversion/Exchange Ratio will be notified to Bondholders as soon as possible by a notice published in the *Bulletin des annonces légales obligatoires*, in a financial paper having a general distribution in France and in a notice issued by Euronext Paris S.A..

The boards of directors of the Issuer and of Air France-KLM shall report on the components of the calculation and on the results of any adjustment in the annual report following such adjustment.

2.3.5.8 Treatment of fractional shares

Each Bondholder exercising its Conversion/Exchange Right under the Bonds may receive a number of shares equal to the product of the then-applicable Conversion/Exchange Ratio and the number of Bonds which it submits for conversion.

If the number of shares thus calculated is not a whole number, the fractional amount will be converted into cash. In this case, the Bondholder will receive a sum equal to the product of the fraction of the share and the value of the share, equal to the first listed price on the stock exchange trading day prior to the day on which the exercise of the conversion right becomes effective.

2.3.5.9 Effect of conversion or exchange on the position of holders of capital instruments and securities giving access to capital

The information provided below, together with the terms and conditions of the Bond Offering, will be included in the additional report prepared in accordance with articles 155-2 and 155-3 of the decree of March 23, 1967. This report, together with the additional report of the statutory auditors, will be made available to shareholders at the registered office of Air France-KLM during the legally prescribed periods and will be brought to their attention at the next general shareholders' meeting.

2.3.5.9.1 Effect on the position of holders of capital instruments

For illustration purposes, on the assumption that all the Bonds issued are converted into new Air France-KLM Shares, the effect of such conversion on the holding of a shareholder with a 1% interest in the share capital of Air France-KLM prior to the issuance and who does not subscribe for Bonds would be as follows:

	Holding of holder of capital instruments (in %)
Before issuance of the Bonds	1.000
After issuance and conversion of 19,634,146 Bonds.	0.932
After issuance and conversion of 21,951,219 Bonds(1)	0.925

(1) In the event of an increase in the number of Bonds in accordance with paragraph 2.2.1 above.

The effect of such conversion of all the Bonds into new Air France-KLM shares on the portion of the consolidated shareholders' equity as of September 30, 2004 for a shareholder who holds one share of Air France-KLM and does not subscribe to this issuance would be as follows:

	Shareholders' Equity per share
Before issuance of the Bonds	€18.81
After issuance and conversion of 19,634,146 Bonds.	€18.93
After issuance and conversion of 21,951,219 Bonds(1)	€18.94

(1) In the event of an increase in the number of Bonds in accordance with paragraph 2.2.1 above.

In the event that all the issued Bonds are exchanged for existing shares, the position of the holders of the capital securities should not be affected.

2.3.5.9.2 Effect on the position of holders of securities giving access to capital

As at the date of this document, the only securities giving access to the share capital of Air France-KLM are the Acquisition Warrants and/or the Subscription Warrants (BASA) with the number 45 093 299 that were the subject of a prospectus which received a *visa* from the AMF on 2 April 2004 under the number 04-0241. The BASA are listed on the Eurolist market of Euronext Paris under the code ISIN FR0010068965. Three BASA carry a right to acquire or subscribe for two new or existing Air France-KLM shares, with a nominal value of €8.50 and with an exercise price of €20 per Air France-KLM share.

For information purposes only, a holder of a number of BASA carrying the right to subscribe for 1% of the share capital of Air France-KLM (before the exercise of the BASA), being 2,711,915 BASA on the basis of an Air France-KLM share capital as at March 31, 2005, who exercises its BASA before all the Bonds have been converted into new shares in Air France-KLM, would be in the following position:

	Percentage shareholding of holders of BASA in the share capital
After the exercise of the BASA(1) and before the issuance of the Bonds	1.000%
After the exercise of all the BASA and before the issuance of the Bonds	0.909%
After the exercise of all the BASA and the conversion of the Bonds(2)	0.853%
After the exercise of all the BASA and the conversion of the Bonds(3)	0.847%

(1) Exercise of 2,711,915 BASA representing 1% of the share capital.
(2) After the conversion of 19,634,146 Bonds.
(3) After the conversion of 21,951,219 Bonds.

The impact of the issuance and conversion of the issued Bonds on the amount of consolidated share capital as at 30 September 2004 on the holder of three BASA (giving access to two shares) exercising his BASA before the conversion of all of the Bonds into new shares in Air France-KLM will be as follows:

	Shareholders' Equity per share
After the exercise of the BASA(1) and before the issuance of the Bonds	€18.83
After the exercise of all the BASA and before the issuance of the Bonds	€18.93
After the exercise of all the BASA and the conversion of the Bonds(2)	€19.03
After the exercise of all the BASA and the conversion of the Bonds(3)	€19.04

(1) Exercise of 2,711,915 BASA representing 1% of the share capital.
(2) After the conversion of 19,634,146 Bonds.
(3) After the conversion of 21,951,219 Bonds.

In the event that all the issued Bonds are exchanged for existing shares, the position of the holders of the securities giving access to the share capital should not be affected.

2.3.5.9.3 Theoretical effect on the listed value of Air France-KLM

Taking into consideration the issue price and the volume of this transaction, the issuance of the Bonds should not have a significant impact on the market value of the shares.

2.3.5.10 Statement of Bondholders in case of a request for conversion and/or exchange

Bondholders who request to exercice their right to convert or exchange their Bonds, by accepting delivery of this prospectus and Air France-KLM shares, will be deemed to have declared, guaranteed and recognised that they (and any other person with a beneficial right to the Bonds for whom a request to exercise a her right to convert or exchange Bonds has been made) are not based in the United States of America (as defined in Regulation S of the Securities Act (hereafter “Regulation S”)) and that they acquired the new or existing shares, pursuant to the exchange of the Bonds, in Air France-KLM by way of an “offshore transaction” (as defined in Regulation S) in accordance with Rule 903 or 904 of Regulation S and that the shares may only be resold in the United States of America on condition that they are exempt from the registration obligations of the Securities Act. Authorised financial intermediaries shall not accept requests to exercice rights to convert or exchange Bonds made by clients using addresses in the United States, and such requests shall be deemed null and void.

2.3.6 Air France-KLM shares issued upon exercise or delivered upon conversion of the Bonds

2.3.6.1 Rights attached to the Air France-KLM shares to be delivered

2.3.6.1.1 New Air France-KLM shares to be issued on conversion

Air France-KLM shares issued upon conversion of Bonds will be subject to all provisions of Air France-KLM’s by-laws and will carry full rights as of the first day of the fiscal year in which the Exercise Date of the Conversion/Exchange Right falls. Such shares will give holders the right, in respect of such fiscal year and the following fiscal years, to the same dividend per share (on the basis of the same nominal value) as that paid in respect of other shares carrying the same rights. As a result, they will be fully assimilated to such shares from the date of payment of the dividend relating to the immediately preceding fiscal year, or if none were distributed, following the annual general meeting called to approve the accounts of that fiscal year.

2.3.6.1.2 Existing Air France-KLM shares resulting from exchange

Air France-KLM shares delivered upon exchange of the Bonds will be existing ordinary shares carrying for their holders, from the date of delivery, all the rights attached to ordinary shares provided that in the case where the shares go ex-dividend between the Exercise Date and the delivery date, Bondholders will not be entitled to such dividend and will have no right to compensation therefor.

2.3.6.1.3 General provisions

Each new or existing Air France-KLM share gives the right to an interest in Air France-KLM’s assets, in the distribution of Air France-KLM’s profits and liquidation surplus in proportion to the part of the share capital represented by such share, taking account, where applicable, of whether any share capital has been redeemed or not, whether the shares have been fully paid up or not, the nominal amount of shares and the rights of different classes of shares.

Such shares are also subject to all of the provisions of the by-laws.

Dividends which have not been claimed five years after their payment are statutorily time-barred and become the property of the French State.

2.3.6.2 Transferability and compulsory transfer of the Air France-KLM shares

If 45% or more of the share capital or voting rights of Air France-KLM is held, directly or indirectly, by non-French nationals, the board of directors of Air France-KLM is authorized to decide that any further purchase of Air France-KLM shares, by a third party or an existing shareholder that would make the purchaser liable to produce a notification to Air France-KLM that it holds 0.5% or more of its share capital, would require the prior approval of the board of directors, subject to the conditions imposed by French law.

Apart from the above restriction, which was inserted in the by-laws of Air France-KLM after approval by the shareholders in an extraordinary general meeting held on July 10, 2003, there are no other provision in the by-laws limiting the free transferability of Air France-KLM shares.

The new articles L.360-1 to L.360-4 of the French *Code de l'aviation civile*, as amended by French Law no.2003-322 of April 9, 2003, and French Law no.2004-734 of July 26, 2004, allow listed companies providing passenger air travel services to include in their by-laws a mechanism enabling them to monitor and control their shareholding and also to formally require (*mettre en demeure*) that certain shareholders transfer all or a portion of their shares, so as to safeguard the company's nationality. The evolution in the shareholding of a company offering passenger air travel services whose shares are listed on a regulated market can endanger the company's license as an EU passenger air travel services provider (which mainly depends on a majority shareholding and effective control being by EU nationals) or the rights of traffic to which it is entitled as a French passenger air travel services provider, by virtue of the bilateral international treaties entered into by the French State with states that are not members of the European Union. Article 14 of the by-laws specify the information that needs to be published and announced by Air France-KLM to inform the public that the threshold of 45% of its share capital or voting rights has been attained by shareholders which are not French nationals. Air France-KLM will be entitled to operate the mechanism for compulsory transfer of its Shares only once this 45% threshold has been reached, to safeguard its nationality in accordance with the conditions and time limits specified in articles L.360-2 to L.360-4 and articles R.360-1 to R.360-5 of the French *Code de l'aviation civile* and articles 15 and 16 of its by-laws.

2.3.6.3 Form of the Air France-KLM shares

Air France-KLM shares may be held in registered or bearer form, at the option of the shareholder. Whatever their form, the shares are required to be recorded in an account (*inscrites en comptes*) maintained by Air France-KLM (or an agent chosen by Air France-KLM) or by an authorized intermediary. The rights of each holder will be represented by a book-entry of its name in an account maintained by an authorized financial intermediary of the holder's choice, in the case of shares in bearer form, by an authorized financial intermediary of the holder's choice and Société Générale, the agent of Air France-KLM, in the case of Shares in administered registered form and in bearer form, and in an account maintained by Société Générale, the agent of Air France-KLM, in the case of fully registered shares.

In addition, in accordance with the by-laws of Air France-KLM, any shareholder, acting alone or in concert with others, who holds 2% or more of the shares or voting rights of Air France-KLM, must, within five trading days of crossing the 2% threshold, request that its shares be recorded in registered form. This requirement to convert the shares to registered form applies to all shares already held and to shares that may be acquired over this threshold, as long as the particular shareholder holds 2% or more of the shares or voting rights of Air France-KLM. Any shareholder whose holding falls below the 2% threshold is also required to inform Air France-KLM of such in the manner prescribed in the by-laws of Air France-KLM.

The board of directors of Air France-KLM may at any time decide to lower the above threshold from a holding of 2% of the shares to a holding of 10,000 shares. The board of directors is, however, compelled to lower the 2% threshold to a threshold of 10,000 shares in the event 40% or more of the share capital or voting rights of Air France-KLM is held by non-French nationals.

When Air France-KLM has published an announcement informing the public that shareholders which are not French nationals that all shares hold 45% or more of its share capital or voting rights, the board of directors of Air France-KLM must resolve that its shares will be recorded exclusively in registered form.

In addition, without prejudice to the provisions of article L.233-7 of the French *Code de Commerce*, any individual or legal entity, acting alone or in concert with others, which holds directly or indirectly at least 0.5% of the share capital or voting rights of Air France-KLM or a multiple thereof must notify Air France-KLM within 15 calendar days of crossing this threshold, by certified mail with return receipt.

This notification will have to be renewed according to the conditions above each time a new threshold of 0.5% of the voting rights is attained up to a maximum of 50%. If such a threshold is reached due to a reduction in the holding, notification must also be made to Air France-KLM within the same 15 calendar days period, in accordance with the same conditions above.

2.3.6.4 Tax regime applicable to the shares

Under current French legislation, the tax treatment applicable to investors following the conversion or exchange of the Bonds is as described below. The attention of investors is called, however, to the fact that the information contained herein merely provides a summary of the tax regime currently in effect. Investors should check with their regular tax advisor regarding the tax treatment applicable to their specific situation.

Holders that are non-residents of France for tax purposes must comply with applicable tax law in their country of residence.

2.3.6.4.1 Tax residents of France

1. Individuals resident in France holding their shares as private assets and not undertaking regular market transactions

(a) **Dividends**

Dividends are subject to progressive personal income tax as income derived from securities in the year of receipt taken into account for the determination of the global income of the taxpayer as income derived from securities in the year of receipt.

The taxation of dividends is effected through the application of an uncapped general tax allowance of 50% on the amount paid plus a general annual tax allowance of €2,440 for married couples filing jointly and for partners filing a joint tax return pursuant to a civil solidarity agreement, as defined in Article 515-1 of the French civil code, or €1,220 for single or divorced taxpayers, widows or widowers or spouses filing separate returns.

Shareholders will also benefit from a tax credit equal to 50% of the amount of the dividend payment before the application of the 50% tax allowance and global annual tax allowance described above, capped at €115 for single or divorced taxpayers, widows or widowers and spouses filing separate returns and at €230 for spouses filing joint returns and for partners of a *PACS* filing a joint tax return. This tax credit is (i) deducted from the amount of personal income tax due in the year in which the income is received and (ii) as appropriate, refundable if the tax credit exceeds the amount of personal income tax due.

Dividends are also subject to the following deductions, which are calculated based on the amount received before application of any tax allowance:

- the general social security contribution of 8.2%, 5.8% of which is deductible from taxable income for the year in which it is paid;
- the contribution for repayment of the social debt of 0.5%, which is not deductible for income tax purposes;
- the social security deduction of 2%, which is not deductible for income tax purposes; and
- the contribution of 0.3%, which is in addition to the social security deduction of 2%, which is not deductible from the income tax base.

(b) **Capital gains**

Pursuant to the provisions of Article 150-0 A of the FGTC, capital gains realized from the sale of securities, shares or similar instruments are subject, from the first euro, to personal income tax at a rate currently set at 16% if the aggregate proceeds of taxable sales of securities, shares or similar instruments exceeds, for the year in question, per household, a threshold that is currently set at €15,000, applicable, in the aggregate, to all capital gains realized during the year.

Under the same annual threshold conditions, capital gains are also subject to:

- the general social security contribution of 8.2%, non deductible from the income tax base;
- the contribution for repayment of the social debt of 0.5%, which is not deductible for income tax purposes;
- the social security deduction of 2%, which is not deductible for income tax purposes; and
- the contribution of 0.3%, which is in addition to the social security deduction of 2%, which is not deductible from the income tax base.

Pursuant to the provisions of Article 150-0 D 11 of the FGTC, capital losses from security sales incurred following January 1, 2002 may only be offset against gains of the same kind realized during the same fiscal year as the sale or the ten subsequent years on the condition that the annual threshold for the sale of securities (and shares and similar instruments) applicable to the year during which the loss was incurred (currently €15,000) has been exceeded for the fiscal year in question.

(c) **Wealth tax**

Shares held by individuals as private assets are included in their assets subject, if applicable, to French wealth tax.

(d) **Inheritance and gift taxes**

Shares inherited or acquired pursuant to a gift are subject to inheritance or gift taxes in France.

2. Corporate shareholders resident in France and subject to corporate income tax (standard regime)

(a) **Dividends**

Dividends received are subject to the generally applicable corporate income tax at the current rate of 33 1/3%, increased by the additional contribution of 1.5% in respect of financial years ending in

2005 (article 235 *ter* ZA of the FGTC) and the social contribution on profits of 3.3% on the amount of income tax minus a tax allowance that may not exceed €763,000 per twelve-month period (article 235 *ter* ZC of the FGTC).

However, for companies with revenues, excluding taxes, not in excess of €7,630,000, in which 75% of the fully paid up share capital has been held continuously during the relevant fiscal year by individuals or by companies meeting each of these conditions, the corporate income tax rate is 15%, within a limit of €38,120 of taxable income for any twelve-month period. In addition, these companies are exempt from the social contribution of 3.3% described above.

Under certain conditions, dividends cashed by corporate entities holding at least 5% of the capital of the distributing company may be exempted from corporate income tax under the parent companies-subsidiaries tax regime pursuant to Articles 145 and 216 of the FGTC. A lump-sum representing costs and expenses that the parent company has to bear in order to cash dividends must be added to its taxable income. Such a sum representing a share of the costs and expenses equals 5% of the amount of the dividends and may not exceed the total amount of costs and expenses of any kind paid by the company over the taxable period.

(b) **Capital Gains**

Capital gains realized upon the sale of portfolio securities are subject to corporate income tax at the rate of 33 1/3% (or, as the case may be, at the rate of 15% for the first €38,120 of taxable profit per twelve-month period for companies fulfilling the conditions described above), increased, in respect of financial years ending in 2005, by the additional contribution provided by article 235 *ter* ZA of the FGTC, and, as the case may be, the social contribution on profits of 3.3% (article 235 *ter* ZC of the FGTC) that is assessed on the amount of corporate income tax reduced by a tax allowance not exceeding €763,000 in any twelve-month period.

However, capital gains resulting from the disposition of controlling interests (within the meaning of articles 219 I a. *ter* or 219 I a. *quinquies* of the FGTC) may, under certain conditions, be subject to the reduced tax rate for long-term capital gains.

These capital gains are subject to corporate income tax at a reduced rate of 19% (or, as the case may be, 15% within the limit of €38,120 per twelve month period for companies satisfying the conditions set out above), increased, if applicable, by the contribution provided by article 235 *ter* ZA of the FGTC, and the 3,3% contribution (article 235 *ter* ZC of the FGTC), subject to the condition to create and to maintain the special reserve of long-term capital gains.

Investors should contact their tax advisor in order to determine the tax regime that will apply to them considering their specific situation.

2.3.6.4.2 Non residents of France

(a) **Dividends**

Dividends distributed by companies headquartered in France to non-resident individuals or corporate shareholders are subject to a 25% withholding.

However, shareholders whose registered office is located in a Member State of the European Union may, subject to the conditions set out under article 119 *ter* of the FGTC, benefit from an exemption of the withholding tax.

Furthermore, shareholders domiciled outside of France for tax purposes or whose registered office is located in a state which has entered into a tax treaty with France may, under certain conditions pertaining notably to the fulfilment of the applicable treaty benefits procedure, benefit from a total or partial reduction of such withholding tax.

French source dividends and paid to non-resident shareholders are only subject, at the time of payment, to the withholding tax the reduced rate under any applicable non-double taxation treaty, under certain conditions, including that such shareholders provide, before the date of payment of the dividends, evidence that they are residents of the other country within the meaning of the applicable tax treaty between France and such other country. Shareholders should consult their usual tax or financial advisers concerning their individual situation and their entitlement to the reduced withholding tax rate under any applicable tax treaty (see French tax authorities' official guidance 4-J-1-05, dated February 25, 2005).

(b) **Capital gains**

Capital gains realized when shares are sold by persons who are not domiciled for tax purposes in France, or whose registered office is located outside France (without having a permanent establishment or fixed location in France through which the shares are held), and who have not at any time during the five years preceding the sale held, directly or indirectly, alone or with members of their family, more than 25% of the financial rights in the Air France-KLM, are not subject to tax in France (articles 244 bis B and 244 *bis* C of the FGTC).

(c) **Wealth tax**

In principle, French wealth tax does not apply to individuals who are non-resident of France, within the meaning of article 4-B of the FGTC, who own directly or indirectly less than 10% of the capital of the Issuer, subject to the condition that such shares do no enable them to influence the issuing company.

France has entered into treaties with a number of countries for the avoidance of double taxation with respect to wealth tax, pursuant to which the residents of the relevant countries, may, subject to satisfying certain conditions, be exempted from inheritance or gift tax.

(d) **Inheritance and gift taxes**

In principle, shares inherited or acquired by a non-resident individual pursuant to a gift are liable to inheritance or gift taxes in France. However, France has entered into several inheritance and gift tax treaties with other countries pursuant to which residents of such countries may, subject to certain conditions, be exempt from inheritance and gift taxes or benefit from a tax credit for such taxes.

Investors should consult their usual tax or financial advisers concerning their individual situation with respect to inheritance and gift taxes on account of their investment in Air France-KLM and their entitlement to benefits under the inheritance and gift tax treaties France may be a party to.

2.3.6.5 Listing of new Air France-KLM Shares

Application will be made periodically to list the new Air France-KLM shares issued as a result of conversion on the Eurolist market of Euronext Paris S.A. Existing Air France-KLM Shares that have been delivered upon exchange will be immediately tradable.

2.3.6.5.1 Assimilation of new Air France-KLM Shares

Application will be made to list the new Air France-KLM shares resulting from conversion for trading on the Eurolist market of Euronext Paris based on the date from which they carry full dividend rights either directly on the same line with the existing Air France-KLM shares or, initially, on a second line until their assimilation with the existing Air France-KLM shares. Air France-KLM shares are listed on the Eurolist market of Euronext Paris (ISIN Code: FR0000031122).

2.3.6.5.2 Other markets and places of listing

Since May 5, 2004, the Air France-KLM hares are also quoted on Euronext Amsterdam and listed in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE).

CHAPTER III
GENERAL INFORMATION ON AIR FRANCE AND ITS SHARE CAPITAL

The *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625 also includes information on Air France and Air France-KLM. This information remains accurate, subject to the additional information included in this prospectus.

Introduction

On September 30, 2003, Air France and KLM announced the merger of their businesses by way of an exchange offer, which created Europe's leading air transport group, in terms of turnover as well as passenger traffic.

On October 16, 2003, the two companies signed a framework agreement detailing the practical terms of the merger.

Pursuant to this agreement, Air France launched an exchange offer for KLM securities, which opened on April 5, 2004 and closed successfully on May 3, 2004, with Air France having obtained, at that date, 89.22% of KLM's ordinary shares. The exchange offer was declared unconditional on May 4, 2004 and from May 5, 2004, Air France securities were listed on the stock exchanges of Paris, Amsterdam and New York.

The subsequent offer, launched on May 4, 2004, and closed on May 21, 2004 increased Air France's holding in KLM from 89.22% to 96.33% of the ordinary shares of KLM.

As a result of the exchange offer, the stockholders' holdings were diluted, with the French State's holding decreasing from 54% to 44%, Air France employees' holding decreasing from 12.8% to 10%. As a result, the holding of the public increased to 46%, of which 18.40% represent previous shareholders of KLM.

The agreements governing the merger envisaged that the group would have a listed holding company, Air France-KLM (previously Air France), holding two operational companies, Air France and KLM.

The final internal reorganization of the legal structures of the group, that the French law of 19 July, 2004 made possible, involved a transfer by Air France to one of its subsidiaries of all its property, assets, liabilities, activities and employees, with the exception of KLM securities obtained pursuant to the exchange offer, a minority stake (2% of share capital at April 1, 2004), in ALITALIA, own Air France shares, €17.1 million cash for distribution (dividends and refund of the equalization tax (*précompte*)) for the 2003-2004 financial year, and net current assets relating to fiscal integration for the 2003-2004 financial year for a net amount of €1.4 million. After completion of this transaction, Air France became the holding company and was renamed Air France –KLM and the subsidiary that was the transferee of Air France's assets and activities was renamed Air France. The resulting holding company now holds two operational subsidiaries, Air France and KLM.

The transfer of assets and activities by Air France to its subsidiary was subjected to the legal demerger regime in accordance with article L.236-22 of the French *Code de commerce*.

The transfer of assets and activities had retroactive effect for tax and accounting purposes as from April 1, 2004, the first day of the 2004 financial year.

In accordance with articles 210 A and B of the French *Code Général des Impôts*, this transfer constitutes a transfer of a business.

Information given below only concerns Air France, the company which benefited from the transfer of assets (see the explanations given at the beginning of chapter IV with regard to this). Concerning the former Air France, which is now Air France-KLM, see the document de référence of this company.

3.1 General information on the Issuer

3.1.1 Corporate name

The corporate name of the Issuer is Société Air France since September 15, 2004. The corporate name before that date was, since April 19, 2004, Air France – Compagnie Aérienne. Prior to that, its name was Air Orient. The business name of the Issuer is now Air France.

Registered and administrative office: 45, rue de Paris – 95747 ROISSY CDG CEDEX

3.1.2 Date of Incorporation

October 16, 1998

3.1.3 Corporate purpose

The primary purpose of the Issuer is to provide air transport services. It may also acquire stakes in any company irrespective of its structure.

3.1.4 Trade Register

Bobigny Trade and Issuer Register (*registre de commerce et des sociétés*) number 420.495.178 RCS Bobigny.

3.1.5 Legal Status

French limited liability company (*société anonyme*) with a board of directors.

Governing law:

The Issuer is governed by the French *Code de l'Aviation Civile*, and, for matters not covered in such code, by French legislative provisions on *sociétés anonymes* as well as law n°83-675 of July 26, 1983 relating to deregulation of the public sector.

3.2 General information relating to the Issuer's capital

3.2.1 Share capital

The share capital of the Issuer prior to the transfer of assets was €1,200,000, represented by 80,000 shares of €15 each.

Further to the transfer of assets described at the beginning of this Chapter III, and to the increase in capital (carried out in the context of the transfer of assets) by €1,900,031,625.00, raising a net amount of €3,059,006,136.16 (plus the share premium) by the issuance of 126,668,775 shares at a premium of €0.24 per share. The share capital at September 15, 2004 was €1,901,231,625 and was divided into 126,748,775 shares, having a nominal value of €15 each.

3.2.2 Proportion of share capital remaining unpaid

The share capital is entirely paid up.

3.2.3 Allocation of share capital

The share capital of Air France is held 99.9% by Air France-KLM.

3.2.4 Dividends

During the last three financial years, before the transfer or assets and activities, Air France has not declared dividends.

3.2.5 Listing of the Issuer's shares

The Issuer's shares are not listed.

3.3 Regulatory environment

Legislative and regulatory environment for the air transport industry

Commercial air transport is governed by various international conventions that each State undertakes to apply in its air space after ratification. Three principal treaties establish the legal and regulatory framework governing commercial air transport : the Montreal Convention, the Chicago Convention and the Rome Convention, which was not ratified by France.

The Montreal Convention

In May 1999, a new treaty was signed in Montreal by more than 50 States. It aims to provide better protection for victims for damages suffered.

This convention entered into force on June 28, 2004. It is based on several fundamental provisions, notably the principle of the unlimited liability of air transport companies in the event of physical injury with the implementation of a two-tier system :

- a first level that sets an objective liability for the air transport company of up to 100,000 Special Drawing Rights (SDR) ; and
- a second level, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages result exclusively from the acts of a third party.

Furthermore, with regard to compensation, the rule relative to the regional authority of courts has been extended.

The Chicago Convention (1944)

This convention sets out the legal, regulatory and technical rules governing international commercial aviation and its signatories are required to implement a common legal framework governing their domestic airspace and their relations with each other.

The Chicago Convention established the International Civil Aviation Organization (ICAO), which in 1947 became the aviation division of the United Nations, within the framework of which member States establish the international technical regulations governing civil aviation.

IATA

In addition to the inter-state regulatory framework, airlines created IATA in 1945. The role of this organization is to establish regulations for the air transport profession and to provide its members with a framework for the coordination and proper implementation of tariffs, together with commercial and financial support services.

European legislation

On April 1, 1997, a single European airspace was established within which all European airlines may freely operate and, in particular, perform *cabotage* (transport passengers or cargo from one city to another, either within a Member State or between Member States other than the airline's home country). Furthermore, any resident of an EU Member State may hold a stake in the shares of any EU registered airline, without limit, provided the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework does not prevent EU Member States from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention. It creates a standardized regulatory framework for all European air carriers and eliminates the need for bilateral treaties between Member States.

French regulations and legislation

Air transport in France is governed by the Civil Aviation Code, which groups together the legal and regulatory provisions applicable to aircraft, airfields, air transport and flight personnel.

Other legal issues relating to Air France's activities

Access to the main international airports is regulated by the allocation of time slots. A slot represents clearance given to a carrier to land at or take off from an airport at a specified time and date. Access to most European (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.) and Asian (Bangkok, Tokyo, Hong Kong, Singapore, etc.) airports is regulated through slots. In the United States, with the exception of John F. Kennedy Airport (New York) and O'Hare Airport (Chicago), access to airports is controlled by other regulations based on the assignment of boarding gates (e.g. Los Angeles, San Francisco).

For airports within the EU, Regulation 95/93 passed by the European Council on January 18, 1993 stipulates that each Member State will, in relation to all the airports under its responsibility, and after consulting the airlines that regularly use the airports concerned, their representative organizations and the airport authorities, designate an individual or an entity to be responsible for the allocation of slots and the monitoring of their use.

Such individuals or entities must have specialized knowledge in the area of coordinating aircraft routes for air transport companies.

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season (April to October summer season and November to March winter season) are being prepared, in line with the following procedure :

- Airlines file their slot applications with the coordinator five months prior to the beginning of each IATA season ;
- the coordinator first allocates slots to airlines that already had slots the previous season (known as "grandfather rights" of past operators) ;
- once the slots have been allocated, the coordinator gives all interested parties certain information about the requested slots: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available ;
- a pool is created that includes, for each coordination period, all available slots, whether they are newly created, unused, abandoned by a transporter or become available for any reason ; and
- the coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators in proportion to the slots.

An allocated slot that is not used is reclaimed and re-allocated to another airline. Since slots are first allocated to existing long-standing operators, and given the expansion plans of most airlines, requests for new slots are rarely satisfied at saturated airports.

At the end of this preliminary allotment (pre-coordination) process, a conference attended by virtually all airport coordinators and airlines is organized in order to enable airlines to :

- simultaneously coordinate the slots they are allocated in different airports so that when they operate flights between two coordinated airports they are granted compatible slots by each of them, and
- exchange slots among themselves in the event that the slots originally allocated by the airport coordinators are unsatisfactory.

The grandfather rights of long-standing users give established airlines a decisive commercial competitive edge over other airlines in saturated airports because they already enjoy the best slots in their principal airports in terms of both quality and quantity.

CHAPTER IV
INFORMATION ON THE BUSINESS OF AIR FRANCE

The *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625 also includes information on Air France and Air France-KLM. This information remains accurate, subject to the additional information included in this prospectus.

Important Information:

Because of the transfer of assets and activities with a retroactive effect in Air France's accounts and for tax purposes as from April 1, 2004 (as described at the beginning of Chapter III of this prospectus) and because of the resulting reorganization of the companies, the activities described below relate to the activities of the previous société Air France prior to March 31, 2004 and of the new société Air France from April 1, 2004.

In this chapter, the "Group" means the group of companies constituting the operational Air France company and its subsidiaries, unless it is expressly stated, or the context implies, that the reference should be to the Air France-KLM Group as a whole.

4.1 Presentation of Air France-KLM group and of société Air France

History of the Air France-KLM group's organization

1933 : Air France is formed by the merger of five French airlines.

1945 : Nationalization of Air France.

1946 : Inauguration of the Paris-New York service using a DC4 with a flight time of 23 hours and 45 minutes.

1959-1960 : Commissioning of the first Caravelle and Boeing 707s, the latter model reducing the flight time on the Paris-New York route to 8 hours.

1976 : Commissioning of Concorde, initially scheduled on the Paris-Rio, Paris-Caracas and Paris-Washington routes and then the Paris-New York service the following year, connecting the two cities in 3 hours and 45 minutes.

1990 : Acquisition of UTA, incorporated in 1963.

1992 : Merger of Air France and UTA. This gave Air France a 72% stake in Air Inter after combining its own interest with that of UTA.

1996 : Air Inter changed its name to Air France Europe.

1997 : Merger by absorption of Air France and Air France Europe.

1999 : Successful flotation of Air France with the participation of 2.4 million private individuals, international institutions and 72% of employees. The initial listing of Air France on the Monthly Settlement Market took place on February 22, 1999.

2000 : Launch of SkyTeam and SkyTeam Cargo alliances, of which Air France is a founding member along with Aeromexico, Delta and Korean.

Creation of a regional division following the acquisition of Regional Airlines, Flandre Air, and Proteus (which all merged into Régional CAE later), and Brit Air and CityJet.

2001 :	"Open sky" agreement between France and the United States. Alitalia and CSA join SkyTeam.
2002 :	SkyTeam is the only alliance in the world to benefit from antitrust immunity for its trans-Atlantic and trans-Pacific flights.
2003 :	Air France celebrates its 70th anniversary. Air France and KLM officially announce their business combination based on a friendly exchange offer by Air France for KLM.
February 11, 2004	Authorization granted by the EU and US anti-trust authorities
March 29, 2004 :	Authorization granted by the *Commission des participations et des transferts* (French state-governed authority) on the merger of Air France and KLM..
April 5, 2004 :	Exchange offering launched for KLM securities.
May 5, 2004 :	New group listed on the markets in Paris, Amsterdam and New York.
September 15, 2004 :	Partial merger by transfer of all the assets and liabilities of Air France, with the exception of Alitalia and KLM shares, to Air France – Compagnie Aérienne (the former Air Orient company). Reorganization of the Group with a new holding company (Air France was renamed Air France-KLM) holding two major subsidiaries, Air France and KLM.

Relations between Air France and the holding company, Air France-KLM

See the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

4.1.1 Description of the principal businesses of Air France S.A. (now known as Air France-KLM) as of March 31, 2004[1]

4.1.1.1 General points about the exercise closed on March 31, 2004

The air transport sector has just come through three years of crises. After the events of September 2001, the upturn in traffic was compromised by the war in Iraq, the SARS epidemic and the worldwide economic slowdown. Indeed, GDP growth in euro zone countries came out at around 0.4% in 2003. In light of these events, traffic was down 2.4% compared with 2002 (source: IATA December 2003). The beginning of 2003 was very difficult, although there was an improvement over the second half of the year, and this gathered pace at the beginning of 2004 (January-May 2004: international traffic up by 20.4% – source: IATA).

Despite these difficulties, the losses in the sector in 2003 were considerably lower than the previous year. The International Civil Aviation Organization (ICAO), which encompasses scheduled airlines from 188 member states, estimated their operational losses at 2.8 billion dollars for 312.9 billion dollars in revenues, a ratio of 0.9% compared with 1.6% the previous year. These figures support the data provided by IATA for international air transport, which announced a combined loss of 30 billion over 3 years, with some 4 billion in 2003.

[1] Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

Not all continents have been affected in the same way by the various crises in 2003, even though the sector as a whole has been adversely affected by the sluggish economic environment linked to international uncertainties. Asian airlines were hit particularly hard by the SARS epidemic, with traffic in this region down 51% in the midst of the health crisis. In total for the year, the level of international traffic for airlines in the AAPA (Association of Asia-Pacific Airlines) was down 9.7%. According to the AAPA, the SARS crisis cancelled out the growth seen in traffic over the last three years.

Scheduled American airlines have struggled to record profits since the 2001 crisis. They booked a total net loss of 4.9 billion dollars in 2003, although they did manage to cut their losses by half, down from 11 billion dollars in 2002. Certain American airlines filed for Chapter 11 bankruptcy, which protects them while requiring drastic cost cutting plans to be implemented thanks to major concessions on wages at three of them, including United Airlines in 2003. Despite strong cash positions, the deterioration of their financial situation continues to be a cause for concern, putting their recovery at risk. However, low-cost American airlines saw their performance improve over the course of 2003, with a total of 770 million dollars in net income for the four leading companies compared with 82 million in losses in 2002.

On the whole, AEA member airlines in Europe have weathered the different crises more successfully. In 2003, traffic was up 1.2% with a 1.4% increase in capacity thanks to the recovery seen at the end of the year, despite traffic in Asia being negative throughout the year, down 6.8% (source: AEA).

The situation in the air transport sector varies considerably across Europe. The scheduled airlines (Air France, British Airways, Lufthansa and KLM) with efficient hubs, more balanced financial structures and plans rolled out to achieve savings, have weathered the various crises and are ready to harness the upturn in traffic. Between 2001 and 2003, their market share of traffic measured in revenue passenger-kilometers rose from 59.0% to 62.0%. However, certain scheduled airlines have been hit particularly hard over the last three years and have either disappeared as is the case with Sabena, or had to scale down their operations as at Swissair and SAS.

The French market – the biggest in Europe – was worst hit by the SARS crisis and the fallout from the war in Iraq, since 80% of the traffic measured in revenue passenger-kilometers is generated from international flights. The CAA estimates that these two events led to the loss of between 1.2 and 1.8 million passengers. Furthermore, the air transport companies are in competition with the TGV high-speed train system and road travel on the domestic market and with the TGV on two European routes. As a result, the number of passengers transported on the French market was down 5% on 2002. However, the number of international passengers was up 1%.

Over the last few years, Europe has also seen the development of low-cost airlines, following the example of the US market. While 44 low-cost airlines have been set up since 1995, with around half coming after 2001, only 34 companies were still in business by the summer of 2004. The European low-cost airlines can be split into three categories: 19 low-cost companies have been created, eight of which have already disappeared; 13 low-cost carriers based on scheduled airlines, one of which has disappeared; in 2002, charter airlines and tour operators entered the low-cost transport market, creating a dozen airlines, one of which has disappeared.

The opening up of Europe to the east is bringing new airlines with even lower costs. While five such airlines have been announced, three are already up and running.

In France, the number of passengers transported by low cost airlines rose from 1.2 million in 1999 to 7.8 million in 2003. EasyJet is the second-largest airline with 3.2 million passengers transported in France in 2003 and Ryanair comes in fourth position with 2.5 million passengers, primarily between the United Kingdom and France.

4.1.1.2 Passenger activity

First signs of recovery in June 2003

The turnover of 2003-04 amounted to 10.3 billion euros, down 2.5% reflecting negative exchange rate fluctuations.

Once again this year, the activity saw sharp contrasts between the two half-year periods.

The first six months and more specifically the first quarter were adversely affected by the weakness in the European economy, the war in Iraq, the SARS epidemic and a series of strikes by air-traffic controllers linked to pensions system reforms. The first signs of recovery were seen from June and confirmed in the second quarter, even though the level of traffic in Asia remained lower than it had been prior to the epidemic. At September 30, 2003, traffic was down 0.5% on the first half of 2002-03, with capacity up slightly (+0.7%), which enabled the seat load factor to remain high, down by only 0.9 points to 76.4%. 22.4 million passengers traveled on our routes over this period, as in the first half of the previous year.

Unit revenue per available seat kilometers (ASK) decreased from 5.0% taking into account the negative exchange rate effects (3.8%) and the network mix effect (0.4%). Unit revenue passenger-kilometers (RPK) decreased from 4.3% taking into account the same effects.

Traffic up 1.7% over the year

The levels of traffic on the long-haul network were naturally marked by the various crises. As such, it was down 1.1% while capacity remained more or less stable (+0.5%), enabling the Group to achieve a high seat load factor of 79.7% (-1.2 points). The two sectors that were worst affected were Asia and the Middle East.

On the medium-haul network, traffic increased 1.7% while capacity was up 4.8%, leading to a 2 point reduction in the passenger load factor, down to 68.1%. The domestic market saw its traffic stabilize (+0.8%) with a 3.3% reduction in capacity. The seat load factor improved 2.7 points, rising to 67.8%.

In the second half of the year, the recovery continued with traffic up 4.1% and capacity rising 4.2%, even though the change was heightened by a favorable underlying effect. The seat load factor remained stable at 74.8%. Air France transported 21.3 million passengers, representing an increase of 9.2% (19.5 million passengers in the second half of the previous year). Long-haul traffic increased in line with capacity (+3.4% and +3.7% respectively), with a passenger load factor of 80% (+0.2 points). On the international medium-haul network, unlike the previous year, traffic picked up over the second half of the year (+7.9%). As such, the seat load factor levelled off at 59.5% factoring in the 7.6% increase in capacity. On the domestic network, traffic was up 2.2% with capacity increasing 4.6%.

Over the year, Air France weathered the environment well, with traffic up 1.7% and capacity rising 2.4%. The seat load factor fell slightly, down to 75.6% (-0.5 points). During this period, the Group maintained its market share (17.3% compared with 17.4% last year) after gaining two market points in three years.

	ASK [1]		**RPK** [2]		**Passenger load factor**		**Revenues**
2003-04 financial year	**€ Million**	**Change**	**€ Million**	**Change**	**%**	**Change**	**Scheduled passenger**
Long-haul	97,317	+1.9%	77,682	+1.3%	79.8%	-0.5 pt	-5.6%
International medium-haul	22,080	+6.2%	14,047	+4.5%	63.6%	-1.0 pt	-2.6%
Domestic medium-haul	15,047	+0.5%	9,915	+1.5%	65.9%	+0.6 pt	+5.7%
Total	134,444	+2.4%	101,644	+1.7%	75.6%	-0.5 pt	-2.6%

(1) ASK: Available Seat Kilometers
(2) RPK : Revenue Passenger Kilometers

Unit revenue weathers the conditions well (excluding exchange rate impacts)

On the long-haul network, with the exception of Asia in the first half of the year and the Middle East over the whole year, the other long-haul networks achieved a good level of activity, enabling the Group to maintain its passenger load factor at the high level of 79.8% (-0.5 points). However, its performances were adversely affected by the loss of revenue on the Asian market (-14%) and the appreciation of the euro in relation to other currencies. In the last quarter, traffic on the Caribbean and Indian Ocean network fell sharply (-8.1%) due to a more challenging competitive environment.

Unlike last year, the international medium-haul activity improved over the second half of the year, but continued to be badly affected by the poor levels of business traffic and competition on prices. In light of the structural changes in customer demand, the airline decided to revise its product on these medium-haul routes.

The domestic market has been sustained by a very strong performance on unit revenue against a backdrop of stable levels of activity, reflecting the relevance of the pricing strategy rolled out in the winter of 2003 and the disappearance of Air Lib Express.

Adjusted for the negative impact of exchange rate fluctuations (3.8%) and the network mix (0.4%), the unit revenue per available seat kilometer was down 5.0%. Adjusted for the same effects, the unit revenue per revenue passenger-kilometer was down 4.3%.

	31/03/2004	**31/03/2003**	**Change**
Total passenger revenues (in € million)	10,260	10,527	-2.5%
Scheduled passenger revenues (in € million)	9,465	9,713	-2.6%
Unit revenue per ASK (in € cents)	7.02	7.38	-5.0%
Unit revenue per RPK (in € cents)	9.29	9.70	-4.3%

While the weakness of the activity linked to the crises seen over the first half of the year and the depreciation of currencies against the euro weighed heavily on revenues, the balance of the network was not, however, called into question. It offers a natural hedging of risks and the Group is not dependent on the performance of any one market in particular. Furthermore, each market is sensitive to the economic or international environment in different ways. Accordingly, the Group has once again been able to offset the difficulties by transferring capacity from Asia to Africa and the Caribbean when the health crisis was at its peak. Moreover, despite a strong euro, revenues generated outside France still account for over 50% of sales.

2003-04 Financial year	**By destination**			**By sales area**		
Scheduled passenger revenues	In million euro	% of total	Change	In million euro	% of total	Change
France	2,024	21.4%	+5.7%	4,635	48.9%	+0.8%
Caribbean and Indian Ocean	1,023	10.8%	+2.9%	348	3.7%	+2.4%
Europe	2,501	26.4%	-2.6%	2,099	22.2%	+0.3%
Africa and Middle East	1,058	11.2%	-3.6%	577	6.1%	-3.5%
North and Latin America	1,850	19.5%	-5.9%	1,169	12.4%	-12.0%
Asia	1,009	10.7%	-14.1%	637	6.7%	-15.9%
Total	9,465	100.0%	-2.6%	9,465	100.0%	-2.6%

4.1.1.3 Cargo activity

The weakness of the dollar has weighed heavily on world trade

Cargo activity has been stable, adversely affected by the international environment and the weak dollar. For a capacity expressed in available tonne kilometers (ATK) up 1.8%, the traffic expressed in revenue tonne-kilometers (RTK) was down 0.2%, leading to a 1.3 point reduction in the cargo load factor, which came to 64.0% compared with 65.3% at 31 March 2003. The cargo business was hit harder than the passenger activity by the negative exchange rate fluctuations and more specifically the weakness of the dollar. Unit revenue per available tonne kilometer (RATK) was down 5.4% factoring in a negative currency effect of 6.1%.

	31/03/2004	31/03/2003	Change
Total freight revenues (in €e million)	1,412	1,479	-4.5%
Revenue from freight transport (in € million)	1,264	1,314	-3.8%
Unit revenue per ATK (in € cents)	14.89	15.74	-5.4%
Unit revenue per RTK (in € cents)	23.27	24.11	-3.6%

2003-04 financial year	by destination			By sales area		
Revenue from freight transport	In € million	% of total	Change	In € million	% of total	Change
France and Europe	181	14.3%	+28.4%	676	53.5%	-1.6%
Caribbean and Indian Ocean	153	12.1%	-0.6%	40	3.2%	-11.1%
Africa and Middle East	154	12.2%	-1.9%	86	6.8%	-11.3%
North and Latin America	342	27.1%	-11.4%	134	10.6%	-5.0%
Asia	434	34.3%	-8.8%	328	25.9%	-4.7%
Total	**1,264**	**100.0%**	**-3.8%**	**1,264**	**100.0%**	**-3.8%**

Segmented offering with four complementary products

In 2000, Air France Cargo launched a new range of products that was taken up by the members of the SkyTeam Cargo alliance, with four offerings:

– Dimension: the generic product, designed to meet the needs of freight grouping agents who require an airport-airport service (59% of revenues in 2003-04).

– Cohesion: a strategic product for companies working with just-in-time processes for their regular shipments and for their freight agents (7% of revenues in 2003-04).

– Variation: offers a transport solution for all specific freight, from live animals to non-standard packages and dangerous products (19% of revenues in 2003-04).

– Equation: is an express product with shorter handling times and guaranteed embarkation on the first flight leaving (10% of revenues in 2003-04).

Modernizing the fleet

Air France Cargo ships half its freight in the baggage hold of passenger aircraft and the other half in its fleet of dedicated cargo aircrafts that is composed of 13 aircrafts. In order to achieve its objectives with respect to quality of services and adaptation to market conditions, Air France Cargo insists on the renewal of its fleet.

On October 18, 2003, the first 747-400 ERF landed at Roissy-Charles-de-Gaulle airport and two others followed during the fall. A fourth one has been in operation since April 2004. This new generation aircraft is a significant tool with respect to competition for Air France Cargo. Its load capacity is 15% higher than the one of its predecessor, the 747-200 ERF, and it has a 40% greater range when fully loaded. This aircraft's performance enables Air France Cargo to serve all the main destinations on the Asian network direct from Paris, whereas an intermediary stop was necessary previously. This has resulted in productivity gains.

Reorganization of the G1XL cargo terminal

Located at Paris-CDG, the cargo hub has access to one of the largest cargo terminals in Europe: the G1XL terminal. With a total surface area of 111,900 square meters, and 52,000 square meters of warehouses, this cargo terminal can handle 1.08 million tonnes per year. It harnesses a range of cutting-edge techniques such as automatic pallet carts and an electronic labelling system for loadable containers. In January 2004, the G1XL2004 project was launched, aiming to offer better capacities for a growing activity, accompanied by technological innovations and an in-depth review of procedures in line with three key goals:

- adopt a customer focus, replacing the partitioned production approach, with an overhaul of the logistics chain within the terminal and the implementation of an arrival process and a departure process to facilitate the fluidity of operations.
- improve the responsiveness and efficiency of the terminal, changing the way it works by progressively enhancing the flexibility of agents. This approach involves a major training program.
- integrate the operating and commercial processes in order to facilitate synergies.

The main objectives of the restructuring program are to improve the quality of service and achieve 1 to 2% improvements in productivity every year.

Services and sales : a policy of technological innovation

The latest version of the Air France Cargo website (www.airfrancecargo.com) has been online since September 2003. Designed to provide users with more information and help their decision-making, it offers a more user-friendly interface and a series of new functionalities: a traceability option, carrier's timetables displayed, an interactive "Products" section, etc. GF-X (Global Freight Exchange), an Internet-based air freight market, has offered the services of Air France Cargo and Delta Air Logistics, members of SkyTeam Cargo, since November 2002. It gives freight agents numerous advantages in terms of speed, simplicity and cost. Today, it is already possible to reserve Dimension and Cohesion products using GF-X, as well as check flight availabilities for the Equation product. The aim is now to use GF-X to make the main Variation products available on this system. In the last quarter of 2003, ten additional destinations were launched on this e-market – Amsterdam, Basel-Mulhouse, Brussels, Geneva, Zurich, Stockholm, Singapore, Bangkok, Osaka and Tokyo – added to Paris (Charles-de-Gaulle), Hong Kong, London, Manchester, Milan and the main destinations in Germany. In a second phase, this list was enriched with new destinations flying out of the United States: New York, Chicago, Atlanta, Miami, Los Angeles, Dallas, Houston, San Diego and San Francisco.

4.1.1.4 Maintenance

Strong performance in 2003-04

For the 2003-04 financial year, Air France Industries, the second largest multi-product aircraft maintenance service provider worldwide, generated 1.9 billion euros in revenues, of which approximately 75% is derived from internal work and approximately 25% through its approximately one hundred airline clients. The 5.9% reduction in third-party revenues, down to 508 million euros, reflects the negative exchange rate fluctuations seen over the year. The activity has remained stable despite the impacts of the crisis. In 2003-04, Air France Industries serviced 260 engines and handled 900 flights per day to 154 destinations around the world.

Integrated offering, serving Air France and its partners

Air France has chosen to handle its own aircraft maintenance and has developed this expertise under the Air France Industries brand.

Structured around customer needs, Air France Industries offers a wide range of services, from comprehensive support to one-off operations, with an option for customized fleet service. Its services include:

- large-scale maintenance visits, for a complete overhaul of aircraft or modifications to systems and cabins ;
- daily support for fleets around the world (small-scale maintenance) ;
- servicing of engines, repairs and operating support for fleets ;
- servicing and logistics of equipment, essential in order to optimize the profitability and efficiency of operations for a fleet of aircraft ;
- servicing of thrust reversers.

The activity is based at four sites : Toulouse-Blagnac for large-scale maintenance on small-range aircraft, Orly for large-scale maintenance on long-haul craft, engines and equipment, Roissy for small-scale maintenance and Le Bourget for the maintenance of special fleets.

In October 2003, the Le Bourget center was ISO 14001 certified. In addition to leading-edge industrial resources, the activity of Air France Industries requires a very high level of expertise and qualifications for the entire workforce. In light of this, the Issuer aims to offer its employees every opportunity to develop their skills.

La Croix du Sud and EOLE : two new generation sites

Air France Industries aims to improve its working conditions and its performance, strengthening compliance with environmental constraints. The 2003-04 financial year marked a decisive phase in this program, with the opening of two centers incorporating these requirements : La Croix du Sud in Blagnac and EOLE in Villeneuve-le-Roi.

Delivered in December 2003 and officially inaugurated on April 2, 2004, the new Blagnac industrial center – La Croix du Sud – is intended to become a European center of excellence in its specialty: large-scale maintenance for small and medium-sized aircraft (Boeing 737 and Airbus A320 family). This vast hangar, with a surface area of 35,700 square meters, is located in the ZAC Aéroconstellation in Toulouse-Blagnac. Reflecting Air France's commitment to improving working conditions, it has progressively incorporated staff and equipment from the Montaudran factory, which closed its doors at the end of 2003.

With an innovative approach in terms of both maintenance processes and respect for the environment, it is designed to rationalize operating principles and meet market and customer expectations more effectively.

The total investment comes to 40 million euros.

At EOLE (Entretiens et Opérations Logistiques Équipement – equipment maintenance and logistics operations), there are two watchwords : modernity and growth. This new 41,000 square-meter factory required a total investment of 84 million euros. Scheduled to be fully operational from November 2004, it will guarantee quality service at lower costs. The two key factors driving its performance are, on the one hand, a major technological investment program (the site includes avionic, surface processing, hydraulic, pneumatic, and cabin technologies and all the product service entities), and, on the other hand, an internal organization and approach focused on process performance. Working conditions have been optimized in terms of luminosity, phonic isolation and safety. Lastly, this site has been designed in line with a QSE approach (Quality – Security – Environment), and is expected to be ISO 14001 certified in 2005.

Partnerships to conquer buoyant markets

Air France Industries must develop products and services tailored to keep pace with changes in a market that is now focused on modern fleets. To achieve this, it is harnessing a range of partnerships.

In September 2003, it concluded an agreement with Boeing for B777 repairs, including the pooling of inventories and spare parts: this represents an opportunity for Air France Industries, whose portfolio already includes 60 Boeing 777 for support services (24 for Air France), to be the world leader on this aircraft and this type of service.

In time, the objective is to ramp up this partnership to cover the B777-300, doubling the client fleet by 2008. This agreement will enable the two companies to combine their respective know-how: the technical capabilities for Air France Industries and the knowledge of the product and the sales network for Boeing. At the same time, Air France Industries has developed a partnership with General Electric covering very big, new generation engines. Since March 2004, the GE90, which is fitted on the Boeing 777, has been revised by the Engines Department. Expert knowledge of these products represents a key issue for the future, since the 777 fleet is reaching maturity, and foreign companies have already approached Air France Industries.

In June 2003, the Issuer signed a long-term renewable agreement for technical support for Régional's Embraer fleet. It is being rolled out in conjunction with TAT Industries, with which Air France Industries will share its repair workshops. The Issuer's logistics resources at Paris-CDG airport will be integrated into a pool, allowing the two operators to offer competitive rates, while cutting equipment repair and delivery lead-times. Thanks to this agreement, Air France Industries will be able to extend its support services to cover regional aircraft and develop its network of partners.

With KLM : production and procurement benefits

The business combination with KLM will make it possible for the Group to add to its range of products and services. Air France Industries will notably benefit from KLM E&M's expertise on the new generation B737 and B767. Since the two airlines are developing in different regions, they will be able to scale up their geographical coverage. Numerous synergies will be possible, enabling the Group to optimize its means of production, notably with regard to the B747 fleets and the CF6 80 engines. The two airlines will be implementing a mutual insourcing policy : providing support for B777 equipment to Air France Industries and power generation equipment to KLM, etc. However, production is not only concerned with these benefits : the business combination also represents an opportunity to rationalize purchases.

4.1.1.5 The fleet

The break-down of the fleet at March 31, 2004 is given below. For the break-down of the fleet on September 30, 2004, see Chapter IV paragraph **3** of the activity report (r*apport de gestion*).

The Air France Group's fleet comprised a total of 375 aircraft at March 31, 2004, with 245 in the Air France fleet and 130 in the regional fleet. Air France has a fleet of 245 aircraft, with 240 in operation, which can be broken down into 144 medium-haul aircraft, 83 long-haul, and 13 cargo.

The fleet has an average age of 8.6 years, with 7.1 for the long-haul fleet, 8.8 for the medium-haul fleet and 15.7 for the cargo fleet.

Over the year, there were 10 additions to the fleet and 22 retirements. In the medium-haul fleet, the additions consisted of five Airbus A 318 and one Airbus A320-200. There were 11 retirements (one Airbus A 320-200, two Airbus A321-200, three Boeing B737-300 and five Boeing B737-500).

In the long-haul fleet, there were four additions (one Boeing B747-400 pax and three Airbus A330-200) and 11 aircraft were retired (three Boeing B767-300, three Boeing 747-200 and five Concordes, which were donated to various museums in France, Germany and the United States).

During the year, the first Airbus A318 was brought into service at Air France, marking the latest stage in moves to rationalize the Issuer's medium-haul fleet. Indeed, this aircraft is intended to replace the Boeing B 737 case by case. Following the retirement of the Boeings in 2006, the medium-haul fleet will be made up of Airbus A320 aircraft, ranging from 123 seaters up to 200, based on the same fuselage section, the same equipment and the same engines. This program to rationalize the fleet is coupled with an economic benefit, by cutting maintenance and operating costs. At March 31, 2004, the fleet comprised five Airbus A 318.

To take account of the slowdown in growth, the decision was taken in November 2002 to postpone the delivery of six aircraft (two A330-200, two A320-200, one A319-100 and one A321-200). These aircraft are held by a special-purpose entity that purchased them from Airbus through a loan from two banks. Airbus is responsible for their storage, insurance and maintenance. Air France bears the financial costs on these borrowings together with the storage costs for the aircraft after 12 months. The contractual end dates for storage, which ran from November 2003 to April 2004 in the initial contract, were rescheduled over the year to run from April 2004 to April 2005. On March 31, 2004, one aircraft was delivered.

Investments in flight equipment over the year came to 922 million euros (including advances on orders). Out of a total fleet of 245 aircraft, 128 are owned outright by the Issuer, 25 are held under finance leases, and 92 aircraft are held under operating leases. At March 31, 2004, there were firm orders for 40 aircraft and options on 34.

Air France fleet at March 31, 2004

Type of aircraft	Owned by the Issuer		Finance lease		Operating leases		Total		In operation	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Concorde	-	5		-	-	-	-	5	-	4
A340-300	8	8	6	6	8	8	22	22	22	22
A330-200	3	2	1	1	9	7	13	10	12	10
B777-200	14	15	2	2	9	8	25	25	25	25
B747-400	9	12	1	1	5	1	15	14	15	13
B747-200/300	7	8	-	-	2	4	9	12	9	12
B767-300	1	1	-	-	-	3	1	4	-	2
B747-200 Cargo	5	5	1	1	4	4	10	10	10	10
B747-400 Cargo	1	1	-	-	2	2	3	3	3	3
Long-haul fleet	48	57	11	11	39	37	98	105	96	101
A 318-200	5	-	-		-		5	-	5	-
A319-100	17	17	4	4	18	18	39	39	39	39
A320-100/200	44	43	5	6	17	17	66	66	65	66
A321-100/200	8	8	2	2	2	4	12	14	12	13
B737-300/500	6	3	3	7	16	23	25	33	23	30
Medium-haul fleet	80	71	14	19	53	62	147	152	144	148
Total	128	128	25	30	92	99	245	257	240	249

Regional fleet at March 31, 2004

	Owned by the Issuer		Finance lease		Operating lease		Total		In operation	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Brit Air										
ATR42-300	-	1	-	-	-	2	-	3	-	-
ATR72-200	-		-	-	-	-	-	-	-	-
Canadair Jet 100	2	2	11	12	6	7	19	21	19	21
Canadair Jet 700	1	-	9	8	-	-	10	8	10	8
F100-100	1	1	-	-	9	7	10	8	10	8
Total Brit Air	4	4	20	20	15	16	39	40	39	37
Regional										
Embraer RJ 145	1	1	9	7	17	17	27	25	27	25
Embraer RJ 135	3	-	2	5	4	4	9	9	9	9
Embraer 120	3	-	3	6	8	10	14	16	12	16
Fokker 100	-	-	-	-	6	5	6	5	6	5
Fokker 70	-	-	-	-	3	-	3	-	3	-
Beech 1900	6	7	1	2	1	-	8	9	-	-

	Owned by the Issuer		Finance lease		Operating lease		Total		In operation	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
SAAB 2000	-	-	-	-	6	8	6	8	6	7
Total Regional	13	8	15	20	45	44	73	72	63	62
City Jet										
BAE 146-200	1	1	-	-	14	11	15	12	15	12
Total City Jet	1	1	-	-	14	11	15	12	15	12
Total regional fleet	18	13	35	40	74	71	127	124	117	111

The regional division has a fleet of 129 aircraft with a seating capacity of less than 100 seats, of which 117 are currently in operation, nine are leased from third parties and two Fokker 70 aircraft bought from Air Littoral, which are scheduled to enter into service in 2004-05 as part of the Régional fleet.

The fleet is essentially structured around two families : Embraer at Régional and Bombardier at Brit Air. CityJet has a fleet of BAE.

Brit Air added five aircraft to its fleet (one CRJ 100, two CRJ 700 and two Fokker 100) and retired six (three ATR42-300, one CRJ100 and two CRJ 700). At City Jet, four BAE 146/200-300 were added and one BAE 146-200 retired. At Régional, three Fokker 70 and one Fokker 100 were added, with nine aircraft retired (one Beech 1900-C, two SAAB 2000, four Embraer 120 and two Embraer 145). The average age of the fleet is 6.5 years at Brit Air, 17.5 at City Jet and 7.6 at Régional.

Investments in flight equipment came to 84 million euros for the year. Out of a total fleet of 127 aircraft, 18 are owned outright by the Issuer, 35 are held under finance leases and 74 are held under operating leases. There were 10 firm orders for aircraft at March 31, 2004. There are no options.

The new airline – Air Ivoire – in which Air France has a 76% stake, offers flights within Africa flying out of Abidjan, with three Fokker 28.

4.1.1.6 Strategy

The strategy of the Air France group has been implemented over several years and aims towards profitable growth while strengthening fundamental assets:

- Roissy-CDG hub permitting connections among Air France and its partners' medium-haul networks;
- a balanced network that offers a natural hedging of risks;
- a highly integrated and expanding global alliance;
- a range of products and services, permanently listening to customers; and
- a tight cost control policy.

The rationalization and flexibility of the fleet are also important factors in the group's profitable growth.

Thanks to this strategy, and despite the crisis, Air France has been making profits over the past seven years.

Air France's main hub is located at Paris-CDG, the third-largest airport in Europe in terms of passengers and the first in terms of movements (2002 AIC ranking). In nine years, the number of weekly connections for medium-long haul flights in less than two hours has been multiplied by 9.1, up from 1,886 opportunities when the system was set up in 1995 to 17,268 connections in the summer of 2004, putting the Air France hub way ahead of its main competitors. The efficiency of the hub is reflected in the 1.1% increase in the rate of connections on Air France flights, to 44.3% in the 2003-04 financial year, with a 3.5% increase in high-contribution passengers attracted by the speed of the connections, the frequency of flights and the density of the network (source: Air France).

A balanced network

Air France has a balanced network that offers a natural hedging of risks. Indeed, the airline is not dependent on any one market in particular and each market is sensitive to the economic or international outlook in different ways. In the summer of 2004, Air France covered 189 destinations in 84 countries.

Long-haul network

The airline serves 82 long-haul destinations in 52 countries with an average of 6.9 flights a week per destination and 57% of destinations served by at least one daily flight (summer 2004).

Furthermore, 93% are direct flights.

Seven new destinations were launched in the summer of 2004, including Canton in China, Teheran in Iran and five "oil" destinations covered by the new Dedicate product tailored to meet the needs of business clients in the energy and equipment sectors. In the IATA 2004 summer season (April-October), the capacity on the long-haul network will increase by a total of 9.4% (+5.6% compared with the initial 2003 summer schedule). The biggest increases are planned for Asia (+31.7%) and the Middle East (+21.8%), in light of the fact that these two networks had been hit particularly hard by the crises last year with major reductions in capacity. Latin America is also seeing strong growth in capacity linked to its dynamic development.

In the 2003-04 financial year, the long-haul network represented 72.4% of capacity (+1.9%) and 76.4% of traffic (+1.7%) with a passenger load factor of 79.8% (-0.5 points). Long-haul revenues came to 4.9 billion euros, representing 52.2% of scheduled passenger revenues, down 5.6% on the previous year due to the health crisis in Asia, international tensions and negative exchange rate fluctuations.

With 29.4% of total capacity (+4.8%) and 31.7% of total traffic (+6.6%), the North America and Latin America network covers 21 destinations in eight countries. Moreover, thanks to its partnership with Delta, Air France is able to offer its passengers a total of 119 destinations across the United States.

The seat load factor for this network rose 1.4 points to 81.6%. Growth on this network has been driven by Latin America, which saw its traffic increase 19.7%, with capacity up 13.8%. At March 31, 2004, the revenues came to 1.8 billion euros (19.5% of scheduled passenger revenues compared with 20.2% at March 31, 2003), down 5.9% primarily on account of negative exchange rate fluctuations.

The Asia network covers 16 destinations in nine countries. This network was seriously affected by the SARS crisis, which resulted in a major reduction in capacity at the beginning of the year. For 2003-04, the levels of capacity and traffic were down 4.7% and 8.4% respectively, driving the seat load factor down 3.1 points to 78.5%. This network represented 15.0% and 15.7% of total capacity and traffic. Revenues fell to 1.0 billion euros from 1.2 billion the previous year (-14.0%). Its share of scheduled passenger revenues decreased from 12.1% at March 31, 2003 to 10.7% at March 31, 2004.

The Africa and Middle East network offers 33 destinations in 29 countries, and accounts for 10.0% of total capacity and 9.9% of total traffic. In light of the international crisis, the Group scaled capacity down by 3.8% whereas traffic was down by only 2.2%, enabling it to improve its seat load factor by 1.2 points to 75.1%. Revenues totalled 1.1 billion euros, down 3.6%, representing around 11.2% of passenger revenues as in 2003-04.

In the 2003-04 financial year, the Caribbean and Indian Ocean network generated one billion euros in revenues, up 2.9% (10.8% of passenger revenues). This network covers 12 destinations in six countries and four French overseas territories. It accounts for 18% of total capacity and 19.3% of total traffic. Traffic grew 3.3%, lagging behind the increase in capacity (+6.8%), which resulted in a 2.7 point reduction in the seat load factor, although this remained very high (80.5%).

Medium-haul network

With its regional subsidiaries – Brit Air, Régional and CityJet – Air France offers a total of 107 medium-haul destinations in 33 countries. It operates an average of 5.8 flights per destination per day, and 45% of the destinations are covered by at least five daily flights (summer 2004). In the summer of 2004, the medium-haul capacity increased 3.7% in Europe with strong growth in Eastern Europe (+13.0%), North Africa (+6.5%) and the domestic network (+4.1%).

The international and domestic medium-haul network represented 27.6% of total capacity and 23.6% of total traffic for the 2003-04 financial year. The percentage for regional subsidiaries in this medium-haul network came to 13.2% of capacity and 12.0% of traffic.

The medium-haul network recorded 4.5 billion euros in scheduled passenger revenues, the same level as the previous year.

The international medium-haul network covers Europe and North Africa with 72 destinations in 32 countries. In June 2003, flights resumed between Paris and Algiers having been suspended eight years ago. This network accounts for 16.4% of total capacity and 13.8% of total traffic, with a seat load factor of 63.6%, down 1 point. The scheduled passenger revenues generated on this network came to 2.5 billion euros (26.4% of the total) compared with 2.6 billion at March 31, 2003 (26.5% of scheduled passenger revenues).

In the summer of 2004, the domestic medium-haul network covered 35 destinations, with 30 flying out of Paris. It operates primarily out of Orly, the second Paris hub and base of the Shuttle services, making it possible to link the capital with the main cities in France. The Lyon Saint-Exupéry airport is a regional hub for connections to secondary French and European cities. Lastly, to facilitate access to the long-haul network, destinations in France are also served by flights out of CDG.

The domestic network accounts for 11.2% and 9.8% of total capacity and traffic respectively. 15,2 million passengers flew with the domestic network. It generated 2.0 billion euros in revenues, representing 21.4% of scheduled passenger revenues. At March 31, 2003, it came to 1.9 billion and 19.7% of the total.

Launched in October 1996, the Shuttle links Paris with four of the main French cities with an average of around twenty flights per day, leaving every half hour or hour according to the level of traffic. With over 30 million passengers transported, the Shuttle has been a resounding success with business customers thanks to the simplicity and fluidity of the product, as well as its strong identity, with departures and arrivals always using the same terminal with dedicated sales and check-in desks. Moreover, passengers can check in up to just 20 minutes before the flight.

A rationalized fleet

Air France has a fleet of 245 aircraft, with 240 in operation (249 aircraft at March 31, 2003), which can be broken down into 144 medium-haul aircraft, 83 long-haul, and 13 cargo. The fleet has an average age of 8.6 years, with 7.1 for the long-haul fleet, 8.8 for the medium-haul fleet and 15.7 for the cargo fleet.

The fleet's development is being managed in line with a strategy combining both flexibility and rationalization :

- flexibility, thanks to clauses making it possible to adjust aircraft delivery dates or change models within the same family ;
- rationalization, by acquiring modern aircraft with similar technical characteristics, *i.e.* targeting "family effects" in order to capitalize on the technical uniformity of aircraft. Bringing these craft into service makes it possible to manage not only crew training costs but also maintenance and fuel costs more effectively. Lastly, the introduction of more efficient aircraft will enable the Group to optimize the overall level of environmental performance.

SkyTeam, a global alliance

The increased globalization of the market place requires companies to offer strong global solutions. Only an alliance between European, American and Asian partners is capable to respond to current market needs, at the level of both passenger as well as cargo transportation.

SkyTeam was created in 2000. In addition to the French airline, it groups together Aeromexico, Delta and Korean Air, which were joined by Alitalia and CSA in 2001. In September 13, 2004, thanks to the business combination with KLM, the alliance will integrate the Dutch company and its US partners Northwest and Continental, which had signed a commercial agreement with Delta in 2002 on the domestic American market.

Organized around the most efficient hubs (Paris-Amsterdam-Atlanta-Seoul), SkyTeam offers global coverage to its passengers with 630 destinations in 133 countries thanks to 13,540 daily departures. It is expected to transport some 330 million passengers per year. SkyTeam is the only alliance whose members benefit from anti-trust immunity over the North Atlantic and the Pacific, enabling it to develop a common commercial policy.

In June 2004, Aeroflot announced its intention to join SkyTeam and the alliance launched a development strategy to strengthen its position by selecting a Chinese partner. To this end, in August 2004, China Southern declared its intention to join the SkyTeam alliance.

Among the three world alliances, SkyTeam, Oneworld and Star Alliance, which together represent more than 60% of the world traffic measured in terms of passengers-kilometers transported (PKT), SkyTeam currently holds a 21% market share of the traffic, behind Star Alliance (24%) but before Oneworld (17%).

The founding companies of the SkyTeam alliance decided to expand the alliance to include their cargo activity, which led to the creation of SkyTeam Cargo in September 2000.

SkyTeam Cargo is the first world cargo alliance, grouping the activities of Aeromexico Cargo, Air France Cargo, Alitalia Cargo, CSA Czech Airlines Cargo, Delta Air Logistics and Korean Air Cargo.

It offers a global network of more than 500 destinations in 114 countries. In 2002, the SkyTeam Cargo partners transported the equivalent of 15.2 billion tonne-kilometers.

The member airlines have adopted a unique offering, organized around four segments originally developed by Air France. With this range of products, the alliance offers harmonized handling procedures between airlines, greater flexibility and simple solutions. Thanks to a "common roof" policy, 72% of the freight transported between SkyTeam destinations is handled using integrated procedures or common agents. Furthermore, Air France Cargo, Delta Air Logistics and Korean Air Cargo have created a centralized booking center as a joint venture in the United States.

SkyTeam Cargo will be strengthened by the arrival of KLM, whose cargo activity represented one billion euros in 2003-04.

A range of products to build customer loyalty

One of the keys to Air France’s commercial policy is to permanently listen to customers in order to tailor its products and services to meet their expectations. This has led to a segmentation based on the type of flight taken and resulted in two major changes : the creation of the New Air France Travel Concept on long-haul and the transformation of the medium-haul product.

The New Air France Travel Concept is based on a new layout for long-haul cabins split into two categories : twin-cabin aircraft with the new Business Section and the Tempo class, and tri-cabin aircraft made up of a new First Class Section, a new Business Section and the Tempo class. The whole long-haul fleet will be fitted out progressively. Only the Boeing 777-200/300 will be equipped with tri-cabins. The other long-haul aircraft will have twin-cabins.

The new First Class Section offers eights seats with 50% more space. Each one of the seats has among other things a PC power-supply plug and an individual telephone, and can be transformed into a proper bed with a mattress.

The new Business Section is characterized by 27% more space guaranteed by a fixed-shell seat that can be transformed into a fully reclinable (180°) chairbed.

These new fittings, with a total investment of 300 million euros over five years, will enable the airline to increase its long-haul capacity by around 2% while optimizing the ratio of the numbers of seats to cabin crew.

The emergence of the low-cost model has magnified the change in attitude among customers travelling on medium haul flights who want to see a more simple and accessible product in return for a reduction in fares. Consequently, the medium-haul network has been segmented according to the average length of the flight and the type of customers targeted. The main measures concern moves to increase cabin density, simplify the onboard product enabling a reduction in cabin crew and deploy the self-service format. This is based on an electronic ticketing system, Internet sales and self-service terminals that enable rapid check-in without having to go to the actual check-in desks. To accompany this new product, a harmonized pricing grid has been implemented on domestic and European lines. This product was rolled out at the beginning of the 2004 summer season.

Air France has innovated by launching Dedicate, a network designed to facilitate business travel to construction sites, production sites and business areas in far away regions.

The Dedicate product is particularly well suited to the needs of companies to facilitate their travel to destinations for which the volume of traffic does not make it possible to use traditional long-haul aircraft. It enables the Group to link these new destinations anywhere in the world thanks to direct flights via the Roissy-CDG Hub. Initially, this concept will apply to oil business traffic.

Dedicate flights use the Airbus A319 with 82 seats divided into two classes, the Business Section and Tempo. Air France has invested in a fleet of five of these aircraft, dedicated entirely to this network. Fitted with two additional fuel tanks, these aircraft can fly 3,600 nautical miles (6,500 km).

The ROC (Reservations Operations Center) service, which celebrated its third year in operation in November 2003, focuses on always being ready to listen to customers. Its objective is to provide passengers with a specific service through the proactive handling of any irregularities. ROC has progressively ramped up its scope and now handles all the flights operated by Air France and its regional subsidiaries around the world.

Operational 24 hours a day, seven days a week, the center is staffed by 80 people, who, in the event of an irregularity known between 3 days and 3 hours before the flight, are responsible for providing routing solutions for the customers concerned. This cross-airline activity that concerns both operational and commercial aspects, covers all markets worldwide.

Cost control policy

The growth strategy rolled out by the Air France Group over the last few years, capitalizing on the Roissy hub, harnessing its domestic market, developing the SkyTeam alliance and playing a leading role in the consolidation of the sector through the business combination with KLM, has been accompanied by a strict cost control policy.

Since 1998, Air France has been rolling out three-year savings plans. By March 31, 2004, the 2003 Performance plan, which aimed to save 280 million euros, had been completed. The objective was met successfully, with 300 million in savings, but all the efforts made by the airline did not result in a significant increase in profitability because they were offset by increases in other factors that were out of the airline’s control.

Since the events of September 11, 2001, Air France, together with all players in the sector, has had to cope with an increase in various expenses, including insurance costs, security charges and aeronautical taxes. For example, the different aero nautical expenses (civil aviation, airport and environmental taxes) paid by Air France in France have increased by 333 million euros in four years, representing a 51% increase, whereas global revenues have risen by only 4%. In light of the different crises, Air France has taken various other short-term savings measures in addition to the three-year plan. During the 2003-04 financial year, to cope with the difficulties linked to the reduction in traffic due to events in Iraq and the health crisis in Asia, a number of additional savings measures were rolled out. They made it possible to achieve 125 million in savings on operational expenses and 350 million in cash on investments.

To follow on from the 2003 Performance plan, a new three-year savings plan was drawn up and launched on April 1, 2004. This plan – Compétitivité Major 2007 – should enable the airline to achieve cost savings of up to 600 million by the third year, representing a 6% improvement in unit costs.

This primarily concerns three areas : distribution costs, the medium-haul product and productivity. With regard to distribution costs, the aim is to implement a new compensation model for travel agencies with a view to replacing commissions paid by the airline to agencies with service charges received directly by them from their customers. After the United States in 2002, Europe will adopt this economic model on January 1, 2005. For its part, Air France entered into negotiations with the French union of travel agents and signed an agreement in July 2004 ratifying this change as of April 1, 2005. The change in the medium-haul flight product over a period of three years will involve increasing the density of cabins and simplifying the on-board product with a reduction in catering, leading to a new cabin crew structure similar to that seen on the domestic network. As a result, 450 cabin crew members have been transferred from the medium-haul network to the long the third year. All the measures combined should enable savings of approximately 100 million by the third year.

This Compétitivité Major 2007 plan also includes measures focusing on productivity such as the development of automatic check-in or the improvement of productivity linked to the progressive rollout of the New Air France Travel Concept on long-haul.

The plan Compétitivité Major 2007 also includes numerous actions designed to optimize external resources and the efficiency of processes, and incorporates a percentage of the synergies that the business combination with KLM will make possible.

The strategy of Air France forms a part of the global strategy elaborated at the Group level. This Group strategy is described in the *document de référence* of the holding company Air France-KLM.

4.1.1.7 Environment

The need for coherent action against noise

Since 1997, the Issuer has publicly set itself the objective of developing at constant noise energy. Since 1998, the number of Air France flights increased by 33% worldwide, while the overall noise energy indicator decreased by 21%. Air France continues to support this effort by equipping itself with the most modern aircraft and reducing night-time emissions to meet the more ambitious objectives of the new “weighted and measured” noise indicator established at Paris-CDG in 2003. At the same time, the Issuer is aiming to improve its operational procedures through the establishment of instructions limiting flying over local residential areas and raising the awareness of pilots to the environmental impact of their business (2,000 hours of training provided in 2003-04). But the success of all these efforts remains bound by the same environmental commitment from other operators and the capacity of governments to ensure that urbanization around airports is controlled in accordance with the recommendations of the ICAO. In fact, this is just one aspect of a balanced approach, alongside noise reduction at source, optimization of flight procedures and restrictions on use of the noisiest aircraft. The control of urbanization effectively enables accepted areas to be safeguarded from excessive noise, so that the actual reasons for discontent are not recreated in the course of time.

Meanwhile, airport activity contributes to the economic development of the region through the creation of jobs and by increased requirements for accommodation. A land-use compromise therefore has to be constantly accepted. For local residents already in place, the Issuer supports the residents’ soundproofing subsidy program, for which the allocated amount has just been multiplied by five, to some 55 million euros per annum. This measure means that the number of homes eligible for sound-proofing can be increased due to the voluntary enlargement of protected zones by reducing the noise indices around the ten main French airports.

Limiting gas emissions as far as possible

Air France has limited the increase in its production of the greenhouse gas carbon dioxide (CO2), to half the growth of its passenger traffic, which since 1991 represents a 22% decrease per kilometer and per passenger. This result is the fruit of the following three main spheres of action :

– renewal of the fleet, enabling a reduction in fuel consumption of around 1% per annum ;
– optimization of operations with the organization of Paris-CDG as a “hub” or connecting airport, which boosts the passenger load factor improved and non-stop service ;

– lastly, operational measures adopted by the Issuer – for example, on-board weight reduction and by Air Traffic Control such as the shortening of approach trajectories thanks to the reorganization of Paris air space in 2002.

Regarding low altitude emissions, especially nitrogen oxide (NOx), Air France encourages actions that limit its local emissions.

Since 1991, the production of NOx from its low altitude planes has been reduced by 35% per LTO cycle.

The Issuer continues to upgrade its vehicle and engine fleet, selecting the most environmentally-friendly models. However, the margin of progress has been reduced. The global effects of increased traffic cannot be totally offset despite investments and new technologies.

Local involvement, guaranteeing consistency of actions undertaken

Air France and its subsidiaries take part in all the Consultative Commissions on the Environment (CCE), which bring together airline professionals, local authorities, local residents' and environmental protection associations. Accordingly, during 2003-04, Air France station managers or their representatives participated in fifty-five local involvement meetings, this year bearing on the implementation of new French plans for noise exposure and noise pollution.

Integrated QSE (Quality–Safety–Environment) Management Promoting environmental commitment

The deployment of the QSE (Quality–Safety–Environment) program, instituted in 2002, is based on Quality values (strict professional integrity, personal respect, willingness to make progress, cohesion and management) to give everyone the methodologies and the tools for better performance in terms of risk management. This is based on a continuous process shared by all : customers, shareholders and the entire society in which the company is incorporated and develops. Environmental management is recorded in terms of an environment action plan that reflects a global commitment as it dovetails with a wider perspective of corporate responsibility. The plan was defined by Air France in 2002 and set in motion in 2003-04. A committee meets quarterly to monitor its progress. Each division in Air France has drawn up a specific action plan that is evaluated by a steering committee twice a year.

Upholding individual initiatives

The Quality Innovation Program, launched in 1994 by Air France Industries, expects each agent to design a viable solution to resolve a problem, from the most minor to a very important one, encountered during the course of his or her work.

The program is celebrating 10 years of operation in 2004. With 40,000 suggestions already, it is constantly evolving and is proof that everyone can contribute to the overall performance of the Issuer. In the last three years, the program has included health and safety at work, as well as environmental protection.

Thus, during the ceremony that took place on November 20, 2003, a trophy rewarded an initiative designed to reduce the quantity of solvents used and thus VOC (Volatile Organic Compound) emissions. The Environment Trophy itself was awarded to two units of Air France Industries (Génie Maintenance Industriels d'Orly, and the entire industrial site at Le Bourget), which have been particularly active in good environmental practices and whose efforts have led to ISO 14001 certification.

Raising awareness of partners in this approach

Air France also tries to raise awareness for environmental protection among the subcontractors and suppliers it selects. In its evaluation, it considers both their procedures and the environmental quality of the products they offer. A clause on “respect for the environment” has been introduced into contracts. It reminds suppliers that they must respect regulations in processing industrial waste.

Managing its impact on the ground : Villeneuve-le-Roi, a pilot site near Orly

Fiscal 2004 will see the opening of an Air France site designed in line with sustainable development principles. The new industrial maintenance unit at Villeneuve-le-Roi near Orly has been designed to meet social, economic and environmental criteria associated with its activity. It responds to several challenges: a significant reduction in energy consumption, water consumption (65%) and the elimination of industrial waste in waste water ; the maintenance of activities in the Orly employment catchment area and their expansion in new aeronautical technologies ; considerable improvement in ergonomics at work stations and risk management ; and research on all economic performance resources enabling processes to be optimized and productivity increased.

The new Air France center at Blagnac (Croix du Sud), delivered in December 2003, should also contribute to managing the environmental impact of its activity.

Rehabilitating of sites, assuming responsibility

Air France assumes responsibility both in the course of its activities, but also when it is a question of rehabilitating a site that it has occupied. This is particularly the case for the workshops at Montaudran near Toulouse where over fifty years of aeronautical maintenance have left ground-based residues from a time when regulations and methods were different. The Issuer has implemented the necessary surveys for its depollution and is financing this operation in conjunction with DRIRE, the French regional authority for the environment in Toulouse.

In addition, under the restructuring of 1,700 employees of Commercial France at Montreuil, the Blanqui building in Paris has been refurbished.

Finally, in the area where the Concorde accident occurred, 96% of the ground polluted by hydrocarbons had already been treated by May 2003. Works are scheduled to be completed during the summer of 2004.

4.1.2 Employees[2]

Air France group average workforce

(full-time equivalent)

Year ending March 31	2004	2003	Change
PNT	5, 041	4, 929	2.3%
PNC	13, 044	12, 938	0.8%

[2] Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

Air France group average workforce

(full-time equivalent)

Year ending March 31	2004	2003	Change
In France	12, 768	12, 590	1.4%
Abroad and French Overseas Territories	276	348	-20.7%
PS	53, 569	53, 658	-0.2%
In France	46, 924	47, 006	-0.2%
Abroad and French Overseas Territories	6, 645	6, 652	-0,1%
TOTAL	**71, 654**	**71, 525**	**0.2%**

Breakdown by category of personnel

	2004	2003	Change
PS			
– Management	9, 159	8, 980	2.0%
– Supervisors	21, 126	20, 217	4.5%
– Other staff	23, 284	24, 461	-4.8%
PN			
– Pilots and cabin crew	17, 140	16, 910	1.4%
– Instructors	620	644	-3.7%
– Management	325	313	3.8%

A contract-based policy, first adopted several years ago

For a number of years, the employee policy implemented by Air France has essentially been based on the signature of multi-year agreements, recruitment and training, and a profit-sharing plan covering all employees.

On July 10, 2002, the *Accord pour progresser ensemble (APPE)* for ground staff replaced the agreement signed in 1999.

It focuses on enhancing the value of internal resources and forms part of a sustainable development approach : health and safety at work, integration of employees with disabilities, male-female professional equality, and youth integration through work-study programs. The application of this agreement represents an initial positive proposal. The actions mainly involve the training program, revised to promote mobility ; “career assessment meetings”, especially for the over-50s, with a management arm providing executive job forums ; male-female professional equality ; prevention of harassment at work; the 25 establishment agreements on health and safety at work.

A collective agreement concerning cabin crew was signed at the beginning of 2003 and replaces the agreement that expired in December 2002.

A multi-year global agreement was signed with flight deck crew in October 1998. This agreement, which expired in October 2001 but could not be renewed due to the events of September 11, was extended by interim agreement. In October 2002, a new agreement submitted to pilots by referendum was not approved and further negotiations were therefore required. These negotiations resulted in a new agreement in May 2003 which was approved by 54.3% of pilots in a referendum in June 2003, with a participation rate of approximately 71%.

Concerning the organization of labor relations, the Protocol agreement on the exercise of trade union law, implemented in 2003, aims to reinforce the structure already in place in order to prevent labor problems. It stipulates that to prevent a conflict, a meeting be organized within a maximum of five days to address any claims, and in the event of a stalemate, a second meeting be programmed within the next five days.

Concluded for the first time in September 1999, incentive agreements were renewed in September 2002 for a three-year period and completed by an employee profit-sharing agreement. These agreements apply to all Air France employees in France and abroad, including local employees. Incentive bonuses are calculated based on financial and operating performance criteria. The economic indicator adopted is net operating income adjusted for aircraft disposals not corresponding to aircraft removed from the fleet, with a trigger threshold of €100 million. The overall performance of the Issuer is also taken into account, and is measured according to four criteria : timeliness, overall productivity, customer satisfaction and workplace safety.

The two agreements consolidate the system implemented by Air France to enable employees who so wish to invest in an employee savings fund. Employees can either receive their incentive payments in cash, or invest in five funds, including two funds invested in Air France stock, one of which receives an average matching contribution of 50%, and four diversified funds (one fixed-rate fund, one cash fund, one mixed fund and one equity fund).

An agreement on male-female professional equality was signed on November 29, 2002 with six trade union bodies. This agreement provides for the implementation of actions in four key areas : measurement and monitoring of professional equality trends within the Issuer, improvement of the male-female mix for certain target jobs, maintenance of a balance between professional and family life and, finally, promotion of equal opportunity for men and women. This led to specific actions in terms of selection procedures and the development of practices and attitudes (communication efforts, e.g. on International Women's Day).

A progressive early retirement plan was proposed to full-time employees over 55 years of age. Signed with the French State, this plan provides for up to 1,000 beneficiaries and will enable the recruitment of 500 replacement employees. During the initial phase of the plan (April 1, 2003 – March 31, 2004), the consultations of affected employees, made by decreasing age, rose to 2,849 employees. 1,000 employees asked to benefit from the plan and 500 replacement employees will be hired on June 30, 2004.

Air France has been particularly committed to the inclusion of people with disabilities in employment since 1991. Its employment rate of 5.6% in 2003-04 (compared with 4.7% the previous year) is higher than the national average. The basic principles of this target policy are non-discrimination and an ethical approach based on a desire to change attitudes to people with disabilities. Despite a difficult economic context, in January the Issuer signed a fifth corporate agreement for 2003-05 to guarantee the working conditions, after recruitment or reclassification, of its 1,637 employees with disabilities. This agreement, which is now open for the first time to employees' spouses and children with disabilities provides for a recruitment plan with a minimum objective of 65 recruitments in 3 years, of which 25 had already been made by December 31, 2003, and strengthening collaboration with the protected sector : in 2003, this led to a 25% increase in Group purchasing from centers for help through work (CAT) and sheltered workshops.

Finally, in 2001 Air France signed a social charter and code of ethics with all the European trade unions and the European Trade Union Confederation represented by the European Transport Workers' Federation.

By means of this charter, Air France pledges to promote and act according to the Conventions of the International Labor Organization and its Declaration on Fundamental Principles and Rights at Work, as well as the social charters adopted by the European Community and the Council of Europe. The charter applies to all the European employees of the group, and Air France has made a unilateral pledge to apply the charter to non - European establishments. It has also pledged to ensure that fundamental social rights and principles are respected by the subcontracting companies with which it deals worldwide.

Air France France and French Overseas Departments	Article NRE	2003	2002	Change	Breakdown for 2003: Ground staff	Flight deck crew	Cabin crew
Workforce							
- Physical workforce at 31/12	148-2.1°a	57,016	56,639	0.7%	39,290	4,154	13,572
- Average workforce (full-time equivalents)	"	54,415	54,119	0.5%	37,242	3,760	12,160
- Total payments to temporary agencies (thousand euros)	"	15,540	16,127	-3.6%	15,540	0	0
- Change in the external workforce (full-time equivalents, monthly average for temporary workers)	"	366	381	-4.1%	366	0	0
- New hires on non-fixed term contracts	"	1,790	1,480	20.9%	815	232	743
- Redundancies and dismissals	"	260	174	7.3%	126	49	85
including: For economic reasons	"	0	0	0.0%	0	0	0
For definitive unfitness	"	54	45	20.0%	0	25	29
Other	"	206	129	4.0%	126	24	56
- Average workforce on fixed-term contracts (full-time equivalents, including trainee contracts)	"	818	872	-6.2%	680	0	138
- % of fixed-term to non-fixed term contracts	"	1.5%	1.6%	-0.1%	1.9%	0.0%	1.1%
- Number of trainee contracts	-	717****	837****	-14.3%	677	40	0
- % of staff hired at the end of the contract	-	-	95.0%	-	n/d	n/d	n/d
- Part-time staff	148-2.2°	18.8%	17.3%	1.5%	16.2%	13.5%	28.3%
Labor relations							
- Number of collective agreements signed	148-2.4°	17	15	-	1*	7*	5*
Health and safety							
- Absenteeism***	148-2.4 et 5°	-	-	-	4.47% (+0.12%)	2.81% (+0.04%)	10.35% (+0.54%)
Of which: Sick leave***	"	-	-	-	3.31% (+0.14%)	2.31% (-0.13%)	6.16% (+0.7%)
Work-related accident***	"	-	-	-	0.47% (-0.01%)	0.14% (+0.04%)	0.58% (+0.03%)
Maternity leave***	"	-	-	-	0.78% (-0.01%)	0.35% (+0.12%)	3.79% (+0.44%)
- Coefficient for frequency of work-related accidents	"	5.3%	5.7	-7%	-	-	-
- Number of work-related accidents with time off work	"	2,683	2,975	- 9.8%	1,408	76	1,199
- Number of meetings of the committee on health, safety and working conditions	"	689	646	-	-	-	-
- Spending on safety (million euros)	"	15.28	13.75	-	-	-	-
Training							
- % of women in the company	148-2.6°	9.3%	9.8%	-0.6%	5.1%	18.6%	10.3%
- Number of beneficiaries	"	53 633	53 960	-0.6%	35,724	4,124	13,785
Diversity and equal opportunities							
- % of women in the company	148-2.3°	40.9%	40.5%	0.4%	36.3%	4.5%	65.3%
- Difference in salaries between men and women	"			No manifest difference**			
- Employment rate for people with a disability	148-2.7°	5.56%	4.94%	0.62%	5.56%	-	-
- Number of employees with disabilities	"	1,631	1,432	14.3%	1,637	0	0

** In addition, 4 agreements have been concluded for all staff*

*** Source - Air France: "Information on the comparative situation for men and women", 2002*

**** The percentages between brackets represent the change in relation to the previous year*

***** IATA year (from 01/04 to 31/03)*

Information on scheme for staff benefits

In September 2002, the incentive-payments and profit-sharing agreements were concluded for a three-year period. They concern all the Issuer's employees in France and abroad, including local staff. These two agreements reinforce the system implemented by Air France to enable those employees who so wish to invest in an employee savings fund.

In million euros	**Incentive-payments**	**Air France contribution**
Financial year 1999-00	24.9	5.6
Financial year 2000-01	36.2	6.3
Financial year 2001-02	29.4	4.6
Financial year 2002-03	-	-
Financial year 2003-04	4.6	-

Air France's employees are covered by statutory regulations scheme that includes, among other things, recruitment, working conditions, remuneration, disciplinary actions, transfers, union rights and retirement. Any elements not covered by the scheme are subject to labor law. At March 31, 2004, this system covered over 90% of Air France's French employees. Further to the privatization of Air France, this scheme will be phased out after two years and make way for a collective wage bargaining agreement to be negotiated during this period. The main modification concerns the change in social security contributions relative to the unemployment insurance system. Under the scheme, the Issuer and employees are exempt from contributions paid to UNEDIC, with the exception of redundancies, which lead to the payment of penalties by the Issuer. With the changeover to the common law system, the Issuer and employees will be required to pay unemployment insurance contributions. For Air France, this amount has been estimated at 149 million euros per year, in addition to 7 million euros in salary maintenance insurance (AGS).

In connection with its privatization, Air France signed an agreement with certain ground staff and cabin crew unions in January 2003, guaranteeing the current rights of employees and the scope of activities through to July 2005. A general wage bargaining agreement will be negotiated with specific agreements for each of the three categories of staff.

4.1.3 Expenditures[3]

Capital expenditure on tangible and intangible assets and acquisitions of subsidiaries and affiliates totalled 1.28 billion euros, down 12.1% on the previous year (1.46 billion euros).

In terms of acquisitions of subsidiaries and affiliates, investments in 2003-04 primarily concerned the acquisition of additional Servair securities (for 6 million euros) and the subscription for the new round of fundraising by Opodo (for 4 million euros). Investments for the year ended March 31, 2003 corresponded to the acquisition of a 2% interest in Alitalia (which had acquired a 2% stake in Air France) for 23 million euros and the continued investment in Opodo for 21 million euros.

Capital expenditure on tangible assets included the delivery of five Airbus A 318, one A 320-200, two Airbus A 330 for the Group, and two Embraer 145 and two CRJ 700 for the regional companies, as well as further down payments on future acquisitions scheduled in the fleet program for coming years (Airbus A318, A319, A320, A321, A330 and A380, in addition to B777-300 and

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[3] Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

B747-400ER Cargo). Ground investments included the delivery of the Blagnac factory, which entered into service in February 2004 (it has just replaced the Toulouse Montaudran establishment), continued work on the G1XL freight terminal at Roissy CDG, the work carried out on Hall E in Terminal 2, which was inaugurated in June 2003, work on the Nuie building, a new factory in Villeneuve-le-Roi (where the equipment division is due to be transferred), the development of the Commercial France site in Montreuil and continued research and work on the new flight crew site at Roissypôle. The other major ground investments concerned two B777 and A320 simulators and the acquisition of software and IT equipment.

Disposals of subsidiaries and affiliates (24 million euros) and sales of tangible and intangible assets (391 million euros versus 357 million euros in 2002-03), include Group sales of affiliates and aircraft. Furthermore, the figure booked for disposals of subsidiaries and affiliates includes 8 million euros in capital paid back by AFPL and the disposal of 8 million euros of Air France treasury stock.

Dividends received (15 million) primarily concern Amadeus GTD (7 million euros) and various other non-consolidated subsidiaries.

Overall, cash flow relating to investing activities totalled 849 million euros compared with 1,074 million in 2002-03, representing a decrease of 20.9%.

The balance of cash flow for investments (-849 million euros) was largely covered by cash flow from operating activities (141%), which came to 1.20 billion. This coverage of net capital expenditure by cash flow from operations enabled the Group to reduce its level of net debt. In this way, despite three years of major crises in the air transport industry, the Air France Group's net debt was down from 2.86 billion euros in March 2003 to 2.53 billion in March 2004. The net debt/equity ratio was also down : 71% at the end of March 2003 compared with 62% at the end of March 2004.

Air France continued rolling out its active policy in the financing market in order to reimburse debt maturing in the year ended March 31, 2004 and support its program of investments.

Debt reimbursement came to a total of 497 million euros, primarily comprising:

- 345 million euros in short and long-term debt, including 164 million euros in connection with the last payment on bonds redeemed in June 2003,
- 152 million euros in capital-lease.

To meet its refinancing needs, the Air France Group raised 901 million euros over the year ended March 31, 2004.

The Group conducted a particularly wide range of operations over the year:

- a securitization operation for a total of 435 million euros (with 337 million euros in 2003-04 and 98 million euros corresponding to down payments on assets to be received in 2004-05). This is a complex operation, enabling Air France to access the capital market in a difficult context and harness an alternative source of financing for the years to come; this operation was well received by the market and awarded a prize by Jane's Transport Finance and Airfinance Journal ;
- the refinancing of the headquarters on a finance lease ;
- an unsecured syndicated loan from credit institutions ;

– financing secured by assets (mortgages) with commercial banks that are partners of the Issuer.

Overall, Air France rolled out a proactive refinancing policy against a backdrop that is still particularly sensitive in terms of the financial markets' receptiveness to the air transport sector. On the whole, the financing conditions were not affected by this environment and enabled Air France to keep the interest rate on its debt down below 4%.

The situation has improved for the Group in terms of liquidity : at the end of the financial year, the Group had 1.5 billion euros in marketable securities in addition to a one billion euro credit line, which is still available and has not been drawn down, and 245 million euros corresponding to other credit lines that have been set up.

4.1.4 Subsidiaries[1]

Régional

Based in Nantes, Régional joined the Air France Group in 2001 and was created through the merger of Regional Airlines, Proteus and Flandre Air. It links the main cities in France and Europe, and its network is organized around four bases: Clermont-Ferrand, Bordeaux, Lyon and Paris-CDG. The airline operates around 400 flights a day to 24 destinations in France and 25 in Europe operating a fleet of 63 aircraft with an average age of 7.6 years. Régional generated 443.5 million euros in revenues and had 1,620 employees at March 31, 2004.

Brit Air

Brit Air has always been a long-term partner of Air France. From 1983, the Issuer operated as a franchise for Air France before becoming a subsidiary in 2000. Based in Morlaix, it is one of the leading regional airlines in Europe. Using a fleet of 39 regional aircraft with an average age of 6.5 years, it operates approximately 200 flights daily linking some 30 towns in France and Europe. With 1,007 employees, it generated 377.8 million euros in revenues, including 10.1 million euros for its Icare subsidiary, which provides airlines with certified training services for Embraer Jet aircraft.

City Jet

City Jet, a regional Irish airline, was also a long-term partner of Air France before becoming a subsidiary in 2000. Based in Dublin, City Jet has a fleet of 15 BAE aircraft, which allow the airline to operate from airports with short runways such as London City and Florence. In addition to these two cities, City Jet links Paris-CDG and Orly to Edinburgh, Gothenburg, Geneva and Zurich. In conjunction with Air France, it operates a flight between Dublin and Malaga. In the 2003-04 financial year, it recorded 171.4 million euros in revenues with 427 employees.

Servair

Created in 1971, Servair has become a key player in air catering and airport assistance with a global presence through 34 sites around the world. Servair has a workforce of 7,724 people, and recorded 489 million euros in revenues and 2.7 million in net income at December 31, 2003. Servair is 94.5%-owned by Air France.

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[1] Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

Servair meets the challenge to provide quality catering in accordance with the stringent rules specific to the air transport sector and deferred catering both in time and space 365 days a year, with 40 million tray-meals per annum.

Its food production subsidiary, CPA (Compagnie de Production Alimentaire) handles the production of cooked meals for all airlines and travel catering companies. Food health and safety are rigorously monitored, with a quality assurance process that has been ISO-certified since 1996. CPA has set up a comprehensive industrial tool, enabling it to tailor its production processes to the needs of customers in terms of lead-times, quantities, finishing, preserving and packaging. This subsidiary is also a source of proposals and recommendations, creating nearly 1,000 new preparations each month.

In light of the specific constraints associated with airline catering (level of hygrometry on board, restricted space, limited serving time, etc.), Servair has developed a range of innovative catering solutions to meet the needs of its 130 customer airlines. Servair develops and prepares the meals and handles the arrangement of trays to be put on board customer aircraft. This represents over 110,000 meals a day (on its Paris platforms alone), more than 1,000 menus and nearly 5,300 recipes.

Handling represents Servair's second core business, ensuring that aircraft are supplied on time. In line with the approach for catering, handling is a precise and diversified logistics activity, enabling the company, right up until the last minute, to route all the elements needed for an aircraft's supplies, from the first-aid kit to crockery, glasses and cutlery for each company as well as drinks, newspapers and magazines.

Amadeus

With a 23.4% stake held by Air France, the reference shareholder, Amadeus is the world leader for online reservations and sales, enabling travel industry professionals to obtain all the information that they need to meet the expectations of their customers. At the end of 2003, it was used by over 60,000 travel agencies and 10,000 agencies of 140 airlines in 216 countries, making it possible for each one to make reservations for 491 airlines, 322 hotel chains, 50 car hire companies, as well as rail and shipping companies, and even insurance companies. Amadeus has also developed an e-commerce activity as well as an information system solutions service for airlines.

In 2003, the company generated 1.9 billion euros in revenues, with 158.4 million euros in net income. It has 5,000 employees in 200 countries. Amadeus has been listed on the Madrid stock market since October 1999. Its shares are also traded in Paris and Frankfurt.

Subsidiaries results

The activities of the subsidiaries of Air France or Air France Finance, which is 100% owned by Air France, focus on four complementary areas of the air transport industry :

– catering with the Servair Group,
– commercial IT with a 23.4% interest in the Amadeus Global Travel Distribution Group and majority stakes in Amadeus France and Amadeus France services,
– aircraft maintenance with CRMA, and
– regional air transport with the three companies : Britair, Cityjet and Régional Compagnie Aérienne Européenne.

In the financial year ended March 31, 2004, the contribution of the main subsidiaries or sub-groups to consolidated revenues and net income was as follows:

In millions of euros	Revenues	Operating income	Net income [1]
Servair Group	157.0	0.4	-4.2
Amadeus	95.6	13.5	57.3
Régional CAE	367.3	-8.3	-22.7
Brit Air	310.5	17.7	8.6
City Jet	163.9	8.3	6.0

[1] Contribution to the results of the consolidated Group before deduction of minority interests and excluding goodwill

4.2 Activity report of Air France (formerly known as Air Orient) for the half-year ended September 30, 2004

4.2.1 Highlights of the period

For the Air France group, the first half of 2004-05 was marked by sustained growth in business in an economy that was still sluggish, although showing some signs of improvement, and marked by continued international tensions and the appreciation of the Euro against the principal currencies, notably the dollar.

The air carrier business was also impacted by soaring oil prices during the period, with this trend posing a new challenge for the civil aviation sector. The International Air Transport Association (IATA) reported early in November 2004 that the expected loss for the whole sector over 2004 could exceed 5 billion dollars, compared with an initial forecast of a 3 billion dollar profit at the beginning of the year. Despite the growth in air traffic, estimated at 14% over the full year, air carriers have been hit by higher fuel prices, the cost of which now represents nearly 18% of operational expenses compared with 10% in 1998. On the other hand, the IATA believes that if the price of oil falls to around 35 dollars a barrel, the airline industry could be back to recording profits again.

Air France took the decision to pass part of the impact of rising fuel prices on to passengers. The Company implemented an initial fuel surcharge of 3 euros per flight leg in May 2004. Then, during the summer, it decided to increase the fuel surcharge by 2 euros per leg on the domestic network and 3 euros per leg on the medium-haul network (Europe and North Africa). On long-haul routes, where the impact of fuel on costs is greater, the surcharge was raised by 12 euros per leg, with the exception of flights to and from French overseas departments (Cayenne, Fort-de-France, Pointe-à-Pitre, Réunion) where the increase was 10 euros per flight leg.

On April 1, 2004, Air France launched a new three-year savings plan designed to achieve a 6% improvement in unit costs within three years, by saving 200 million euros in 2004-05, 400 million the following year, and 600 million the third year.

Air France, in accordance with the announcements made early in 2004, signed an agreement in July 2004 with the French union of travel agencies (Syndicat National des Agences de Voyages, SNAV), paving the way for the progressive implementation of a new economic model for relations between travel agencies and Air France as of the beginning of 2005. In line with this agreement, the commission previously paid to travel agencies by the airline will be phased out and replaced with service fees collected by each travel agency from its customers for the various services provided by the agency. Air France will also collect service fees on its own direct sales. The travel agency will retain its current agent status and will sell all the products and public fares of the airline. Lastly, each IATA-approved travel agency will be paid a certain level of financial compensation by Air France, which may be as high as 0.6% of the travel agency's revenues for services provided to the air carrier.

In August 2004, Air France confirmed that financial investors had approached the reference shareholder airlines of Amadeus to propose an operation that could lead to an IPO for Amadeus, while indicating that talks were at a preliminary stage and that no agreement had yet been reached. Air France also indicated that it considered its stake in Amadeus strategic and that it intended to remain a significant long-term shareholder in connection with this operation.

On September 13, 2004, the SkyTeam alliance, of which Air France is a founding member, welcomed KLM and its American partners Northwest and Continental, making SkyTeam the second largest global alliance, with a market share of 20%, ranking behind Star Alliance (25% share) and ahead of Oneworld (18% market share) (source: IATA 2003). Furthermore, in June and August 2004, Aeroflot and China Southern announced their intention to join SkyTeam over the next few years. Within the alliance, Air France and KLM, which benefit from anti-trust immunity on transatlantic flights with their respective partners Delta and Northwest Airlines, have initiated measures to expand this immunity to the other four companies. Since November 13, 2004, Air France and Continental Airlines have obtained authorization from the American authorities to share codes.

4.2.2 Activity

At September 30, 2004, the Air France Group's revenues totalled 6.73 billion euros, up from 6.19 billion at September 30, 2003, representing an increase of 8.6%. Passenger revenues rose +8.4% to 5.60 billion euros compared with 5.17 billion at September 30, 2003. Cargo revenues came to 738 million euros, up from 692 million at September 30, 2003, an increase of 6.6%. These two businesses account for 94.2% of total revenues, compared with 94.4% during the previous six-month period. In the maintenance business, revenues fell 4.6% from 263 million to 251 million euros, while other activities jumped 90.3% to 137 million (72 million at September 30, 2003). All combined, the Group achieved strong growth in business, driven by the upturn in air traffic.

	Half-year ended September 30		Change
(in million euros)	2004	2003	
Scheduled passenger	5,184	4,779	+8.5%
Other passenger revenues	417	387	+7.8%
Total passenger	**5,601**	**5,166**	**+8.4%**
Scheduled cargo	666	615	+8.3%
Other cargo revenues	72	77	-6.5%
Total cargo	**738**	**692**	**+6.6%**
Maintenance	251	263	-4.6%
Other	137	72	+90.3%
Total revenues	**6,727**	**6,193**	**+8.6%**

4.2.2.1 Passenger activity

The Group achieved strong growth in its passenger business over the half-year, with revenues rising to 5.60 billion euros, up +8.4% on the same period the previous year.

Over the period, the Air France group's passenger activity was driven by sustained growth in an economic environment that was still challenging, although there were signs of a recovery. In June 2004, the Company was back up to levels of activity equivalent to those seen in 2002, with a very strong recovery on traffic for Asia, following the impact of the SARS health crisis last year.

This dynamic growth in the passenger business has been achieved thanks not only to Air France, but also the three regional subsidiaries of the Air France Group (Régional, Brit Air and CityJet). Indeed, the three regional partners recorded strong increases in activity compared with the previous year, continuing the turnaround in the regional sector, which is now profitable. They posted revenues of 461.3 million euros, up 12.7% from 409.2 million at September 30, 2003.

This growth in revenues primarily reflects the increase in traffic. Over the period, traffic was up 11.3%, while capacity rose only 9.2%, enabling a 1.5 point increase in the passenger load factor to 77.9%. 23.6 million passengers flew with our airlines, representing an increase of 6.8% on the first half of the previous year.

First-half ended September 30, 2004	Capacity (ASK)		Traffic (RPK)		Load factor		Revenues
	Million	%	Million	%	%	Change	Change
Long-haul	53,791	9.9%	44,008	12.9%	81.8%	2.2	10.9%
Europe	11,357	6.6%	7,706	7.2%	67.9%	0.3	5.4%
Domestic	8,143	8.1%	5,388	5.5%	66.2%	-1.7	6.3%
Group total	**73,290**	**9.2%**	**57,102**	**11.3%**	**77.9%**	**1.5**	**8.5%**

Long-haul traffic made the greatest contribution to overall growth, naturally benefiting from the recovery after the SARS epidemic and the geopolitical tensions linked to the war in Iraq. It grew 12.9% while capacity rose 9.9%, generating a high load factor of 81.8% (+2.2 points). The two sectors that saw a strong upturn in traffic were Asia (+47.9%) and the Near East (+30.1%).

The Asian network recorded a 47.9% increase in traffic, with capacity up 36.5% and the load factor up 6.2 points to 80.5%. This very strong growth is due to the base effect of the previous year, which was marked by the crisis linked to the SARS epidemic over the first half of the year, hitting traffic to and from Asia. It also reflects the development of capacity on China routes.

The Africa-Near East network, which continued to be affected by fallout from the Iraqi conflict and political instability in Africa, posted traffic growth of 13.3% with capacity up 10.9%, generating a 1.7 point improvement in the load factor, taking it up to 76.8%.

The North American network benefited from the dynamic performance of transatlantic routes over the period, with traffic rising 8.5% and capacity up 3.4%, resulting in a particularly high load factor of 87.7% (+4.1 points).

The South American network continued to grow, with traffic increasing 12.9% and capacity 9.3%, thanks to a decline in capacity on other carriers. The passenger load factor was also very high at 85.6% (+2.7 points). Furthermore, Air France has benefited from the position of the new Air France-KLM group, which is now the leading airline in terms of market share for flights between Europe and Latin America.

On the Caribbean and Indian Ocean network, where Air France represents more than 80% of capacity, the Company decided to scale down its available seats (-2.5%) to adapt to the new competitive environment created by the emergence of new small companies serving France and the French overseas departments and territories. However, the 6.3% fall in traffic led to a drop in the load factor to 76.7% (-3.1 points).

The international medium-haul network reaped the benefits of the attractive fares established with the Air France-KLM merger, with traffic rising 7.2% and capacity up 6.6%. The load factor was up 0.3 points to 67.9%.

With a 5.5% increase in traffic and capacity up 8.1%, the domestic market posted a 1.7 point reduction in the load factor, down to 66.2%.

Scheduled passenger revenues

First half 2004-05	By destination			By sales area		
	(in million euros)	% of the total	Change	(in million euros)	% of the total	Change
France	1,060	20.4%	6.3%	2,428	46.8%	7.5%
Caribbean and Indian Ocean	454	8.8%	-15.3%	180	3.5%	-13.9%
Europe	1,345	25.9%	5.4%	1,105	21.3%	8.3%
Africa & Middle East	610	11.8%	16.4%	346	6.7%	11.6%
North and Latin America	1,079	20.8%	8.6%	730	14.1%	10.6%
Asia	636	12.3%	40.7%	395	7.6%	22.7%
Total	**5,184**	**100%**	**8.5%**	**5,184**	**100%**	**8.5%**

In the first half, the Group's unit revenue per available seat-kilometer (RASK) was down 1.1%. However, it rose 0.5% after adjusting for negative currency effects (-1.4%) linked to the depreciation of most of the major currencies, particularly the dollar, against the euro, and the "network mix" (-0.2%), related to a slower rate of growth in traffic on short and medium-haul networks than on long-haul, where the unit revenue-seat-kilometer is lower.

After adjustments to factor in these same effects, the Group's unit revenue passenger-kilometer (RPK) was down 1.4%.

	First half ended		
	30/09/2004	30/09/2003	Change
Consolidated passenger revenues (in €m)	5,601	5,166	+8.4%
Consolidated scheduled passenger revenues (in €m)	5,184	4,779	+8.5%
Group unit revenue per ASK (in € cents)	7.05	7.13	-1.1%
Group unit revenue per RPK (in € cents)	9.05	9.34	-3.0%

4.2.2.2 Cargo activity

Over the six months ended September 30, 2004, the cargo activity was marked by three factors:

– first, the improvement in the economic context and exports in Asia, which contributed to the cargo activity;

– second, an upturn in the activity in the Latin America region and, to a lesser extent, North America;

– third, changes in currencies, notably the fall of the dollar (the currency in which a number of transport contracts are denominated), which impacted cargo unit revenues, a major portion of which is in dollars.

For the first six months of 2004-05, traffic was up 11.3% at a rate close to capacity, which rose 11.6%. The cargo load factor remained stable at 62.3% (-0.1 points compared with the first six months of 2003-04).

Half-year ended September 30, 2004	Capacity (ATK)		Traffic (RTK)		Cargo load factor	
	Million	%	Million	%	%	Change
	4,509	+11.6%	2,808	+11.3%	62.3%	-0.1

Cargo revenue totaled 738 million euros, up from 692 million at September 30, 2003, representing an increase of 6.6%. As such, it has grown more slowly than traffic, reflecting the currency impact linked to the decline in the dollar and a limited drop in unit revenue excluding currency effects.

	First-half ended		
	30/09/2004	30/09/2003	Change
Total cargo revenues (in €m)	738	692	+6.6%
Cargo transport revenues (in €m)	666	615	+8.3%
Unit revenue per available ton kilometer (ATK) (in € cents)	14.77	15.22	-3.0%
Unit revenue per RTK (in € cents)	23.72	24.39	-2.7%

Unit revenues per available ton kilometer (RATK) were down 3.0% (0.6% excluding currency impacts).

Cargo transport revenues

First half 2004-05	By destination			By sales area		
	(in million euros)	% of the total	Change	(in million euros)	% of the total	Change
France and Europe	87	13.1%	-1.1%	349	52.4%	6.4%
Caribbean and Indian Ocean	73	11.0%	-2.7%	20	3.0%	0.0%
Africa & Middle East	82	12.3%	10.8%	45	6.8%	-2.2%
North and Latin America	201	30.2%	18.2%	74	11.1%	10.4%
Asia	223	33.4%	7.2%	178	26.7%	15.6%
Total	**666**	**100%**	**8.3%**	**666**	**100%**	**8.3%**

4.2.2.3 Maintenance activity

Revenues for the maintenance activity fell 4.6% to 251 million euros from 263 million at September 30, 2003. This fall is primarily due to lower levels of business for customers linked to the downturn in activity for the sector as well as the decline in the dollar.

4.2.2.4 Other activities

Other activities surged 90.3% to 137 million euros, primarily driven by the impact of the consolidation of the Servair air catering group. Through March 31, 2004, the Servair Group was consolidated with a one-quarter lag. To make up for this difference, the Servair Group was consolidated over nine months (January–September 2004) over this first half. In addition, Air France increased its stake in the Servair Group by 3.1%, from 94.5% to 97.6%. This additional stock purchase had no significant impact on the consolidated financial statements at September 30, 2004.

4.2.3 Fleet

At September 30, 2004, the fleet of the Air France Group comprised 388 aircraft, with 373 in operation, 12 leased from third-party companies, and three not in use.

4.2.3.1 Air France Fleet

Air France has a fleet of 253 aircraft, with 250 in operation, including 150 medium-haul aircraft, 88 long-haul and 12 cargo.

In the medium-haul fleet, four aircraft were removed (three B737 and one A320) and eight aircraft added (one A318, four A319, two A320 and one A321). In the long-haul fleet, three aircraft were removed (three B747-200) and seven were added (one A330, four B777-300, one B747-400 cargo and one B747-400).

All of these operations are naturally in line with the Air France fleet strategy, which aims to increase the number of Airbus 330s and Boeing 777s in the long-haul fleet and progressively phase out the last Boeing 737s from the medium-haul fleet in order to eventually establish a medium-haul fleet based entirely on A320 category aircraft.

Air France fleet at September 30, 2004

Type of aircraft	Company-owned		Finance leases		Operating leases		Total		In operation	
	09/30/2004	*03/31/2004*	**09/30/2004**	*03/31/2004*	**09/30/2004**	*03/31/2004*	**09/30/2004**	*03/31/2004*	**09/30/2004**	*03/31/2004*
A340-300/300E	**8**	*8*	**6**	*6*	**8**	*8*	**22**	*22*	**22**	*22*
A330-200	**4**	*3*	**1**	*1*	**9**	*9*	**14**	*13*	**13**	*12*
B777-200	**14**	*14*	**2**	*2*	**9**	*9*	**25**	*25*	**25**	*25*
B777-300	**2**	-	**-**	-	**2**	-	**4**	-	**4**	-
B747-400	**8**	*9*	**1**	*1*	**7**	*5*	**16**	*15*	**16**	*15*
B747-200/300	**6**	*7*	**-**	-	**2**	*2*	**8**	*9*	**8**	*9*
B767-300	**1**	*1*	**-**	-	**-**	-	**1**	*1*	**-**	-
B747-200 Cargo	**5**	*5*	**1**	*1*	**2**	*4*	**8**	*10*	**8**	*10*
B747-400 Cargo	**1**	*1*	**-**	-	**3**	*2*	**4**	*3*	**4**	*3*
Long-haul fleet	**49**	*48*	**11**	*11*	**42**	*39*	**102**	*98*	**100**	*96*
A318-100	**6**	*5*	**-**	-	**-**	-	**6**	*5*	**6**	*5*
A319-100/ER	**18**	*17*	**4**	*4*	**21**	*18*	**43**	*39*	**43**	*39*
A320-100/200	**47**	*44*	**5**	*5*	**15**	*17*	**67**	*66*	**67**	*65*
A321-100/200	**11**	*8*	**-**	*2*	**2**	*2*	**13**	*12*	**13**	*12*
B737-300/500	**4**	*6*	**3**	*3*	**15**	*16*	**22**	*25*	**21**	*23*
Medium-haul fleet	**86**	*80*	**12**	*14*	**53**	*53*	**151**	*147*	**150**	*144*
Total	**135**	*128*	**23**	*25*	**95**	*92*	**253**	*245*	**250**	*240*

The commitments for aircraft equipment orders made in dollars and converted at the close of the period totaled 2.689 billion euros, down from 3.176 billion euros at March 31, 2004. Air France's order books with Airbus and Boeing did not change significantly over the past six months. Without any new orders made or options exercised, the total number of aircraft on order was 40 units at the end of March 2004 and 32 units at the end of September 2004, with this reduction reflecting the delivery of aircraft as planned for existing orders over the period and the processing of deliveries postponed further to the decision taken in the fall of 2003.

4.2.3.2 Regional fleet

On the same date, the regional fleet comprised 131 aircraft with fewer than 100 seats, with 119 in operation, 11 leased to third-party companies, and one not in operation.

Regional fleet at September 30, 2004

	Company-owned		Finance leases		Operating leases		Total		In operation	
	09/30 2004	*03/31 2004*	**09/30 2004**	*03/31 2004*	**09/30 2004**	*03/31 2004*	**09/30 2004**	*03/31 2004*	**09/30 2004**	*03/31 2004*
Brit Air										
CRJ-100ER	**2**	*2*	**11**	*11*	**6**	*6*	**19**	*19*	**19**	*19*
CRJ-700	**1**	*1*	**9**	*9*	**-**	*-*	**10**	*10*	**10**	*10*
F100-100	**1**	*1*	**-**	*-*	**9**	*9*	**10**	*10*	**10**	*10*
Total	**4**	*4*	**20**	*20*	**15**	*15*	**39**	*39*	**39**	*39*
City Jet										
BAE 146-200/300	**5**	*1*	**-**	*-*	**12**	*14*	**17**	*15*	**16**	*15*
Régional										
Beech 1900	**6**	*6*	**1**	*1*	**1**	*1*	**8**	*8*	**-**	*-*
Embraer 120 ER	**7**	*3*	**3**	*3*	**4**	*8*	**14**	*14*	**11**	*12*
Embraer 135 ER	**2**	*3*	**3**	*2*	**4**	*4*	**9**	*9*	**9**	*9*
Embraer 145	**2**	*1*	**8**	*9*	**17**	*17*	**27**	*27*	**27**	*27*
Fokker 70/100	**-**	*-*	**-**	*-*	**11**	*9*	**11**	*9*	**11**	*9*
Saab 2000	**-**	*-*	**-**	*-*	**6**	*6*	**6**	*6*	**6**	*6*
Total	**17**	*13*	**15**	*15*	**43**	*45*	**75**	*73*	**64**	*63*
Total regional fleet	**26**	*18*	**35**	*35*	**70**	*74*	**131**	*127*	**119**	*117*

4.2.3.3 Other

The new Air Ivoire company, controlled by the AAA holding company in which Air France has a 51% stake, operates medium-haul flights out of Abidjan to neighbouring countries and long-haul flights to Paris. Air Ivoire uses a fleet of four aircraft for these flights: one Airbus 321 under an operating lease, and three Fokker 28s at the end of financing.

4.2.4 Corporate governance

List of Directors of Air France:

- Jean-Cyril Spinetta, Chairman and Chief Executive Officer
- Pierre-Henri Gourgeon, permanent representative of Air France-KLM

- Jean-Pierre Aubert, Chairman and Chief Executive Officer of Consortium de Réalisation (CDR)
- Christian Boireau, Chief Executive Officer of Commercial France, Air France
- Philippe Calavia, Chief Financial Officer, Air France
- Jean-Louis Chambon, Vice President of Sustainable Development, Atomic Energy Commission
- Dominique-Jean Chertier, Vice President of Social and Institutional Affairs, Snecma
- Jean-François Colin, Vice President of Human Resources, Air France
- Michel Fauré, Director representing employees, Traffic Technician, Air France
- Pascal de Izaguirre, Chief Operating Officer, Air France
- Rose-Marie van Lerberghe, Director, Assistance Publique des Hôpitaux de Paris
- Daniel Mackay, Director representing employees, Supervisor, Air France
- Bernard Pedamon, Director representing employees, Captain, Air France
- Pierre Weil, Chairman of the Supervisory Board of TNS Sofres
- Pascal Zadikian, Director representing employees, Cargo Technician, Air France

At the meeting on September 15, 2004, the Board adopted the following resolutions:

- Appointment of Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France
- Appointment of Pierre-Henri Gourgeon as Deputy CEO of Air France
- Recording of the completion of the partial contribution of assets and powers for the signature of the declaration of compliance and other formalities
- Approval of a service agreement between Air France and Air France-KLM
- Authorization granted to the Chairman with regard to pledges, endorsements and guarantees

4.2.5 Results for the first half ended September 30, 2004

Air France recorded 6.7 billion euros in revenues, up from 6.2 billion in the first half of 2003/04. Operating income before aircraft disposals came to 154 million euros compared with 87 million euros over the first half of the previous year. Net profits for the period jumped 109.6% from 52 million in 2003-04 to 109 million euros.

2004-05 (in million euros)	Half-year ended September 30		
	2004	2003	Change
Revenues	6,727	6,193	+8.6%
Gross operating income before operating leases	1,018	946	+7.6%
Operating income before aircraft disposals	154	87	+77.0%
Aeronautical and financial disposals	6	1	N/A
Pre-tax net income	153	85	+80.0%
Net income after minority interests	109	52	+109.6%
Net earnings per share (in €)	0.86	0.24	+258.3%

4.2.5.1 Revenues

Consolidated revenues for the six-month period totaled 6.73 billion euros, up 8.6% on the first half of 2003-04. For a breakdown of revenues by activity, see the activity section above.

4.2.5.2 Income and expenses

Operating expenses rose 7.7% over the first half of the year, up from 6.11 billion euros to 6.57 billion. They grew more slowly than activity measured by passenger traffic (+9.5% in equivalent available seat-kilometers) and consolidated revenues (+8.6%).

Unit costs per equivalent available seat-kilometer (EASK), although they were heavily impacted by higher oil prices, were down 1.5%.

External expenses rose 10.4% over the half-year period ended September 30, 2004, up from 3.37 billion to 3.72 billion euros. This increase primarily concerns fuel and aircraft charters. Excluding fuel, the increase comes out at only 5.9%.

(in million euros)	Half-year ended September 30 2004	2003	Change %
Aircraft fuel	846	657	28.8%
Aircraft charters	232	193	20.2%
Operating leases	243	239	1.7%
Landing fees and en route charges	497	454	9.5%
Catering	168	154	9.1%
Layover fees	393	379	3.7%
Aircraft maintenance costs	201	186	8.1%
Sales and distribution costs	540	533	1.3%
Other expenses	603	578	4.3%
Total	**3,723**	**3,373**	**10.4%**

- **Aircraft fuel**

The fuel item, after taking into account the impact of the oil hedges set up by Air France, was up 28.8% to 846 million euros at September 30, 2004 compared with 657 million last year. This rise was driven by the increase in volumes purchased, which were greater as a result of the growth in capacity, and the increase in the price of jet fuel, which was not entirely offset by the favorable impact of the euro-dollar exchange rate. Oil hedges and options represented a gain of 85.8 million euros, compared with 25.9 million one year previously. The increase in oil costs is due to a combination of the following effects: a dollar effect of –6.9%, a price effect of +28.5% (after hedging) and a volume effect of +8.4%.

- **Aircraft charters**

Charters were up 20.2% to 232 million euros at September 30, 2004 compared with 193 million euros at September 30, 2003, factoring in the increase in code sharing with some of our partners (Korean Air, Japan Airlines, Vietnam Airlines, etc.) and the effects of the introduction of our new “Dedicate” service.

- **Operating leases**

Operating leases were kept down to 243 million euros compared with 239 million at September 30, 2003 (+1.7%). While capacity under operating leases rose with the addition of new leased aircraft to the fleet, this item benefited from the favorable impact of the decline in the dollar.

- **Landing fees and en route charges**

Landing fees and en route charges rose 9.5% to 497 million euros, up from 454 million at September 30, 2003, reflecting both the increase in capacity and traffic and the fare hikes rolled out.

- **Catering**

Catering costs were up 9.1% to 168 million euros (154 million at September 30, 2003), primarily driven by the increase in the number of passengers and traffic, particularly on the long-haul networks, where catering services are more expensive.

- **Layover fees**

Layover fees rose to 393 million euros (+3.7%).

- **Aircraft maintenance costs**

Maintenance costs totaled 201 million euros, representing an increase of 8.1% on September 30, 2003, but in line with the growth in the activity.

- **Sales and distribution costs**

Sales and distribution costs remained stable at 540 million euros (+1.3% compared with September 30, 2003). Higher advertising costs were partially offset by lower commissions paid to travel agencies.

- **Other expenses**

Other expenses totaled 603 million euros at September 30, 2004, up from 578 million at September 30, 2003 (+4.3%).

Personnel costs rose 5.0% to 2.13 billion euros from 2.03 billion at September 30, 2003. This increase is primarily the result of a reduction in the allowances for social costs that had been granted in connection with the changeover to the 35-hour working week in France. The total workforce grew +0.7% to 72,324 employees, with an increase of +2.1% in flight deck crews, +0.1% in cabin crews, and 0.6% in ground staff.

Other **taxes and duties,** which mainly consist of the French business tax charge (*taxe professionnelle*), were up 17.0% to 103 million euros.

Gross operating income before operating leases (EBITDAR) totaled 1.0 billion euros, up from 946 million euros at September 30, 2003, reflecting an increase of 7.6%. The ratio to revenues dropped from 15.3% at September 30, 2003 to 15.1% at September 30, 2004.

Gross operating income came to 775 million at September 30, 2004 compared with 707 million at September 30 the previous year (+9.6%). Air France's contribution rose 4.1% to 687.6 million euros. The regional subsidiaries achieved significant improvements in their performance, with a contribution to gross operating income of 51.8 million euros at September 30, 2004 compared with 30.2 million at September 30, 2003.

Amortization, depreciation and provisions remained stable at 623 million at September 30, 2004 compared with 618 million at September 30, 2003 (+0.8%).

Other income and expenses rose from a net loss of 2 million at September 30, 2003 to +2 million at September 30, 2004.

Aircraft equipment disposals rose from 1 million euros at September 30, 2003 to 6 million at September 30, 2004.

Operating income rose sharply over the six-month period to 160 million, up by nearly 81% from 88 million at September 30, 2003. The ratio of the operating margin to revenues rose from 1.4% to

2.4%, reflecting a substantial improvement in Air France's economic performance over the first half of 2004-05, under the combined effect of the recovery in business and the cost-cutting efforts initiated as part of the new three-year “2007 Major Competitiveness” plan.

The passenger activity made a strong contribution to this recovery: operating income rose from 68 million euros in the first half of the previous fiscal year to 127 million over the first half of this year. The upturn in traffic combined with the effective management of unit costs were also behind this improvement. In addition, the recovering regional carrier subsidiaries made a positive contribution to the improvement in operating income.

As in 2003-04, cargo made a negative contribution of 8 million to operating income over the first half of the year. It should be noted, however, that the cargo business is impacted by the seasonal nature of its activity: in 2003-04, despite a negative operating margin in the first half, cargo made a positive contribution to the Group's operating income over the full year.

Maintenance contributed 24 million euros to operating income, which was, however, down 10 million from the previous year. The decline in the dollar is penalizing this activity, giving foreign competitors, whose costs are indexed to the dollar, an advantage in relative costs.

The balance, which was a positive contribution of 17 million euros (versus a negative contribution of 6 million during the first six months of the previous year), reflects the improvement in operating income recorded by Servair, and the fact that, to make up for a difference in the consolidation of the Servair Group, Servair was consolidated over nine months (January-September 2004) for this first half.

First-half ended	September 30, 2004		September 30, 2003	
(in million euros)	Revenues	Operating income (loss)	Revenues	Operating income
Passenger activity	5,601	127	5,166	68
Cargo	738	-8	692	-8
Maintenance	251	24	263	34
Other	137	17	72	-6
Total	6,727	160	6,193	88

Restructuring costs dropped to zero in the first half of 2004-05, down from 11 million euros in the first half of 2003-04.

Net financial expenses deteriorated at September 30, 2004, falling from 6 million euros down to 31 million euros. A large percentage of this decline is due to the 15 million euro provisions booked on the Air France-KLM shares held by the Company, versus a write-back of 20 million at September 30, 2003.

Interest expenses remained stable at 69 million at September 30, 2004 (71 million at September 30, 2003), reflecting the quasi-stability of net debt from one year to the next and the weak impact of a change in interest rates on interest expenses as a result of the significant percentage of fixed-rate net debt.

Financial income rose from 20 to 56 million euros from one year to the next as a result of the implementation of a "rebate letter" providing for a reduction of the amount of the last repayment based on the market value of the aircraft financed when the financing was closed out. On the other hand, the currency adjustment deteriorated from 25 million at September 30, 2003 to -3 million at September 30, 2004.

Consolidated pre-tax income totaled 129 million euros at September 30, 2004, up from 71 million at September 30, 2003, representing an increase of 81.7%.

The share in **equity affiliates** rose to 32 million euros at September 30, 2004, up from 22 million at September 30, 2003.

Amortization of goodwill (8 million euros) at September 30, 2004 remained stable in relation to the first half ended September 30, 2003.

The **tax charge** totaled 41 million for the period, up from 32 million at September 30, 2003.

Consolidated net income after minority interests rose to 109 million euros at September 30, 2004 compared with 52 million at September 31, 2003 (+109.6%).

4.2.6 Group investments and financing

Investments in tangible assets and property, plant and equipment totaled 835 million euros for the half-year ended September 30, 2004, up from 484 million euros at September 30, 2003. Investments include the capitalization of a portion of maintenance costs under accounting standard IAS 16/SIC 23. For property, plant and equipment, Air France took delivery of one A318, one A319, two A320s, and one A321 in the first half of 2004-05, which all entered into service between April 2004 and July 2004. With the exception of the A318, the other aircraft were part of a delayed delivery operation. Air France also received two company-owned B777-300ER, the extended version of the B777-200ER long-haul aircraft. The company already has a fleet of 25 of these planes.

Income from sales of tangible and intangible assets totaled 66 million euros over the half-year period. This figure is much lower than the previous period (186 million in the first half of 2003/04).

Cash flow from investing activities came to 787 million euros after 17 million in dividends received, representing a sharp increase from 276 million euros at September 30, 2003.

94% of cash flow from investing activities was covered by operating cash flow (738 million compared with 346 million at September 30, 2003), resulting in a very small increase in net debt. The Group's net debt totaled 2.55 billion euros (2.53 billion at March 31, 2004) for equity of 4.15 billion euros (4.08 billion at March 31, 2004). In this way, the debt ratio remained almost stable at 0.62 at September 30, 2004 compared with 0.61 at March 31, 2004.

Over the half-year period, Air France paid back 145 million in borrowings and 68 million in liabilities primarily resulting from aircraft financial lease agreements. To guarantee its refinancing, Air France raised 334 million in new debt over the same period, with 120 million in aircraft financing, 98 million from securitization (final payment for an operation launched mid-2003) and 97 million in financing obtained from the European Investment Bank (EIB).

As a result of this active refinancing policy, Air France's liquidity position remained stable in relation to March 31, 2004. At September 30, 2004, Air France still had 1.5 billion euros in cash and cash equivalents, excluding investments that are scheduled to mature in less than three months at the time of acquisition or carry a significant risk of change in value.

Furthermore, Air France still has a revolving multi-currency syndicated credit line of 1 billion euros with a bank pool that is scheduled to mature in August 2006. This line was available in full on September 30, 2004.

4.2.7 Air France parent company financial results

Revenues totaled 6.14 billion euros versus 5.71 billion for the half-year ended September 30, 2003, representing an increase of 7.7%. Net income rose to 122.4 million euros compared with 17.8 million for the same period the previous year.

4.3 Risks relating to the Issuer

4.3.1 Risks linked to the air transport industry

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

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

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

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

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

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

4.3.2 Risks linked to the Group's activity

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

The development of the Group requires the coordination of two major and complex activities that were run separately until the beginning of the 2004-2005 fiscal year. The Group may encounter difficulties with the coordination of the activities of Air France and KLM and may not be able to achieve all of the objectives and synergies set.

Risks linked to competition from other air and rail transport operators

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

On its short and medium-haul flights to and from France and other European countries, the Group is in competition with alternative means of transport. More specifically, the high-speed TGV train system in France is competing directly with Air France for transport between Paris and the main French cities, which are the markets covered by the Air France Shuttle service. Air France flights to

London are in direct competition with the Eurostar train service. An enlargement of the high-speed train networks in Europe is likely to have a negative impact on the activity and economic results of the Group.

Today, Air France is also facing increasing competition from low-cost airlines. The percentage of lines on which Air France is in competition with these airlines has risen sharply over the last ten years. This competition is expected to continue or even intensify and could have a negative impact on the Group's business and economic situation.

Risks linked to changes in commercial alliances

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

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

Risks linked to financing

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

Risks linked to personnel costs and the negotiation of collective agreements

Personnel costs account for around 32% of the operating expenses of Air France. As such, the level of salaries has an impact on operating results. The profitability of the Group could be affected if the Group were unable to conclude collective agreements under satisfactory conditions.

Risks linked to labor relations conflicts

Air France has experienced periods of strikes, notably in 1998 and prior to the conclusion of a new agreement with pilots in June 2003. Any further strike or cause for work to be stopped could have a negative impact on the Group's activity and its economic results.

Risks linked to the use of third-party services

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

Risks linked to the closure of Terminal 2E at Roissy-CDG

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

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

For the European Commission to authorize the Issuer's merger with KLM, Air France agreed to make a number of commitments, notably with regard to making landing and takeoff slots available to rival airlines at certain airports. The implementation of these commitments is not expected to have a significant negative impact on the activities of Air France, although it is difficult to determine the corresponding financial impact.

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

Unfair competition risks between EU and US airlines

Following the events of September 11, 2001, most governments took measures to help airlines supplement their cover for damage caused to third parties on the ground in the event of terrorist acts, with such coverage capped by the insurance market at a uniform amount of 50 million dollars. This additional coverage was granted in return for premiums paid by airlines.

European governments terminated these measures at the end of 2002 and European airlines were required to take out additional policies on the insurance market. The United States, however, passed legislation to allow federal authorities to maintain state guarantees for US airlines covering damage caused to third parties on the ground, passengers, crew and aircraft, at costs that are significantly lower than those applicable to European airlines.

Added to the substantial subsidies received from the US federal authorities since the events of September 11, 2001, the lower insurance costs paid by US air transport companies are likely to offer these companies a significant competitive advantage over their European competitors, particularly on North Atlantic routes.

Risk of loss of flight slots

Due to the saturation at major European airports, all air carriers must obtain flight slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Under this regulation, the series of flight slots held by each air carrier must be used up to at least 80% during the period for which they are allocated. Failing this, all the slots will be lost by this carrier and transferred into a “pool”. The regulation does not provide for an exemption for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and do not use their flight slots at the required 80% level during the period in question.

Like many other European airlines, Air France had to scale down its capacity following the outbreak of hostilities in Iraq and, as a result, temporarily ceased to use certain flight slots at its airport platforms. After the terrorist attacks on September 11, 2001, airlines had been faced with a similar risk of losing flight slots. As such, the European Community decided to amend Regulation 95/93 in order to temporarily suspend the rule governing the loss of unused flight slots (Regulation 894/2002 of May 27, 2002). The same approach was adopted for the conflict in Iraq and the SARS epidemic (Regulation 1554/2003 of July 22, 2003).

Risks linked to the environment

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

Risks linked to the application of new accounting standards

Under European regulations, all companies that have financial instruments listed in Europe are required to apply International Financial Reporting Standards (IFRS) to their financial statements as from January 1, 2005. The IFRS system focuses on the fair value of assets and liabilities and is likely to have a significant impact on certain key items, notably the booking of goodwill, the salary-share swap, depreciation of assets, profit-sharing schemes for staff, intangible fixed assets and credit derivative debt instruments and equity securities and their accounting classification. The valuation method used by analysts to measure and assess the performance of the Issuer and its listed financial instruments could be affected by this.

4.3.3 Market risks

Foreign exchange risk.

The majority of the Group's revenues are generated in euros. However, on account of its international activities, the Group is subject to foreign exchange risk on the main currencies around the world and specifically with respect to the dollar, yen, pound sterling and Swiss franc. As such, any changes in the exchange rates for these currencies in relation to the euro will have an impact on the Group's financial results.

With regard to the US dollar, since the amount of spending (such as fuel costs, operating lease costs for part of the fleet and a portion of maintenance costs) exceeds the level of income, any significant appreciation in the dollar against the euro could have a negative effect on the Group's activity and financial results.

Air France estimates that its net exposure to the dollar excluding investments (*i.e.* the difference between income and spending in dollars) represented around one billion dollars for the year ended March 31, 2005. For the yen, Swiss franc and pound sterling, the level of revenues is higher than spending. As such, any significant fall in these currencies against the euro could have a negative effect on the Group's activity and financial results.

In order to reduce its exchange rate exposure, Air France has adopted policies to hedge the exchange rate risk. For the US dollar, the company has a systematic hedging policy designed to cover at least 30% of its net exposure at the beginning of the year. This percentage may be scaled up to factor in market conditions and forecasts. For other currencies, depending on the market conditions, the levels of hedging may be up to 30% to 40% of expected revenues for the following year and in certain cases for the following two or three years.

As far as investments are concerned, the Group has a high level of exposure to a rise in the dollar against the euro. Indeed, all of the Group's aircraft and spare parts are purchased in dollars. Air France has adopted a more flexible approach in light of the current market situation. In 2003, taking advantage of the historically low level of the dollar against the euro, Air France launched a major hedging program. At March 31, 2005, Air France had a forward buying portfolio of 1.3 billion dollars partially hedging aeronautical investments over the next four years.

The exchange rate risk on the Group's financial debt is relatively limited at present. At March 31, 2005, approximately 90% of Air France's debt had been issued or converted into euros, thereby considerably reducing the risk of fluctuations in exchange rates on debt.

With respect to risks linked to fuel prices, see below "*Risk linked to fuel prices".*

Despite this hedging policy, not all exchange rate risks are covered, notably in the event of a major devaluation of a currency. The Issuer and its subsidiaries could face difficulties in the management of foreign exchange risks, which could have a negative impact on the activity and the financial results of the Group.

Interest rate risk

Most of Air France's financial debt is based on floating-rate instruments in line with market practices. However, Air France is working to reduce its exposure to interest rate risk. In line with this approach, capitalizing on the historically low level of fixed rates over the last two years, Air France has developed strategies to swap part of its variable-rate debt for fixed-rate debt.

At March 31, 2005, net exposure to interest rates after floating-rate short-term investments came to 465 million euros in net financial debt at variable interest rates for Air France. A 1% change in euro short-term interest rates would cause a 4.6 million euros change in the financial results.

Equity risk

When Air France uses financial investments to manage its cash position, with the acquisition of SICAV/UCITS or equivalent instruments, it systematically gives preference to short-term monetary instruments in order to minimize the corresponding risk. As such, it is not exposed to a significant equity risk with regard to cash management.

Furthermore, at September 30, 2004, the net total of the Issuer's portfolio of shares issued by listed companies was 7 million euros.

Risk linked to fuel prices

Aircraft fuel represents the second-biggest operating expense for Air France after personnel costs: over the last two years, Air France purchased 5.9 million cubic meters per year, at a total cost of around 1.3 billion euros in 2003-2004 and 1.4 billion euros in 2002-2003. At September 30, 2004, purchases of aircraft fuel were 0.85 billion euros, a 29% increase compared to the same period of the previous financial year.

In order to limit the impacts of fluctuations in fuel prices, Air France has set up for itself and its air subsidiaries an oil price hedging policy, structured around Brent IPE and Gasoil IPE. This policy is implemented by a seven-strong team headed by the Procurement Director, and decided during regular meetings chaired by the Chief Executive Officer and attended by the Chief Financial Officer. The dollar risk linked to the oil risk is managed by the Treasury Department. Based on a policy of systematic intervention, the minimum hedging level is from 60% to 90% for 12 months, 40 to 60% for the following 12 months, 10 to 30% for the other twelve months and 0 to 20% over the fourth year (45% minimum between 13 and 15 months and 30% maximum between 16 and 24 months). The main hedging instruments used are swaps and options. The quality of counterparties is verified by the Finance Department. A weekly report is submitted to the executive management team.

Despite the measures taken by Air France to reduce its exposure to the risk of fluctuations in oil prices (and consequently fuel prices) and the possibility of charging financial "surcharges" to passengers during high-price periods, rising oil prices could have a negative effect on the Group's activity and financial results.

Liquidity risk

For Air France, the balance of cash flow relating to investing activities was more than covered by cash flow from operations over the last three years. This coverage of net capital expenditure by cash flow from operations enabled Air France to reduce its level of net debt. In this way, despite three years of major crises in the air transport industry, Air France's net debt was down from 2.86 billion euros in March 2001 to 2.53 billion euros in March 2004. In order to ensure that it has the financing required to pay back loans and cover its debt, Air France has been developing an active financing policy over the last few years. More specifically, it has sought to diversify its means of financing by harnessing a wide range of operations.

In line with this strategy, Air France signed a syndicated loan with a pool of 15 banks in August 2001 for one billion euros; this loan was available in full on September 30, 2004.

Air France has also carried out various financing operations on aeronautical assets (mortgages on aircraft, sales with reservation of title, French tax lease financing arrangements, Japanese operating leases) and on real estate assets (leasing for the Roissy headquarters). Furthermore, in order to diversify its sources of financing by working directly with the non-banking investor market, Air France carried out an innovative operation in 2003 to securitize a sub-fleet of 16 medium and long-haul aircraft.

The one billion euro facility contains a covenant to comply with certain financial cost-coverage and non-pledged asset ratios. These ratios are calculated every six months, and, as at September 30, 2004, the Issuer was in full compliance with its covenants.

Management of market risks

In order to assess and manage market risks, Air France has set up a Treasury Department of 11 staff, which reports directly to the Chief Financial Officer. The treasurer manages a front-office of two employees who manage interest and exchange rate transactions, a back-office of five employees (one manager and four staff) and three other managers who are in charge of credit cards, debt monitoring, banking conditions and relations with Air France's offices abroad. The cash position is monitored daily. Each month, the Treasury Department draws up a comprehensive report detailing, among other things, the Issuer's interest rate and foreign exchange positions, the portfolio of hedging operations, a summary of investments and financing for each currency as well as a statement monitoring counterparty limits. This report, which also includes monthly forecasts on cash available for the current year, is submitted to the Chief Financial Officer for analysis. Regular meetings are held with the executive management team to review interest rate and foreign exchange positions. Hedging decisions are taken during these meetings (hedging amounts, instruments, etc.) and implemented by the Treasury Department in accordance with the procedures governing the delegation of powers. The aim is to safeguard the budgetary margins. The instruments used are futures, swaps and options and no speculation on these instruments is authorized. All the transactions carried out are intended to reduce Air France's exposure to risks.The Treasury Department obtains information from the Reuters Cashflow.

4.3.4 Insurance and risk coverage

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

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

The policy covers the civil liability of Air France for up to 1.5 billion dollars. The Issuer and its French subsidiaries have also taken out an additional civil liability policy for 500 million dollars, as well as specific cover against terrorist acts for damage caused to third parties for up to 1 billion dollars.

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

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

After the World Trade Center tragedy, airline premiums increased significantly, notably to cover terrorism and related risks, generating an additional cost of 1.95 dollars per passenger transported. The renewals of insurance policies on December 1, 2002 enabled a reduction in these premiums by incorporating part of this additional cost into the global premium.

4.3.5 Exceptional event and disputes

In connection with the normal performance of its activities, Air France is involved in disputes, for which provisions have not necessarily been made.

For instance, a class action has been filed against Air France and KLM, as well as another European airline and several US companies, by five travel agencies based in the United States and their professional association (Association of Retail Travel Agents) for acts of unfair competition contrary to the provisions of the Sherman Antitrust Act. The amount of damages claimed against the airlines comes to a total of 17.5 billion dollars and this could be tripled under US legislation on collusion. An initial ruling was handed down on October 30, 2003 in favor of the airlines. The travel agencies have lodged an appeal.

On December 9, 2004, before the expected date, the court of appeal of Richmond affirmed the initial ruling issued on October 30, 2003. Pending the recourse period, all of the airline companies, including Air France, have been cleared of the alleged charges. No provision had been recorded with respect to this class action.

A similar suit is currently being reviewed by the federal courts in Ohio. Around 150 travel agents (that were initially plaintiffs in the case mentioned above, but later withdrew) have filed a case for breach of antitrust measures against Air France, KLM, eight other European airlines and 11 US airlines. The amount of damages claimed by the 150 travel agents has not yet been estimated.

Lastly, in 2000 and 2001, several Servair employees opened proceedings against their employer claiming that their mealtimes in the workplace should be remunerated in the same way as working time since they were still available for their employer. Servair on the other hand considered that mealtimes represented an interruption in working time and as such should not be paid. In a definitive ruling on November 8, 2001, the Paris court of appeal dismissed the claims made by Servair's employees. Other suits focusing on the same issue have been filed by another 471 Servair employees and are currently being reviewed. On October 29, 2004, a court dismissed the action that had been brought by approximately thirty Servair employees.

In December 2004, IAP Intermodal, a company incorporated in the United States, filed suit in a United States court in Texas against several airlines companies, including Air France. IAP Intermodal claims that the defendants' use of software for scheduling flights infringes three patents it owns. Based on a legal opinion received from a specialized US law firm, Air France believes that this claim is unfounded.

Air France considers the claims to be unfounded and as such has not recorded any provisions for this dispute.

None of the other current disputes, for which Air France may not have set aside reasonably sufficient provisions, are likely to have a significant impact on the activities, financial position or operating results of the Group.

CHAPTER V
INFORMATION ON THE ASSETS, THE FINANCIAL SITUATION AND THE RESULTS OF AIR FRANCE

The *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625 also includes information on Air France and Air France-KLM. This information remains accurate, subject to the additional information included in this prospectus.

5.1 Prior to the definite transfer of assets and activities

Information on the definite transfer of assets and activities is contained at the beginning of Chapter III.

The balance sheet of Air France (formerly known as Air Orient) as at March 31, 2004 was as follows:

– liabilities:
  - capital: €1,200,000;
  - reserves: €19,592; and
  - liabilities: €5,301;
– assets:
  - liquid assets: €1,229,592; and
  - debtors: €5,301.

It should be noted that the above information should not be relied upon in considering the definite transfer of assets and liabilities having retroactive effect for accounting and tax purposes at April 1, 2004.

The consolidated accounts of Air France (now Air-France-KLM) at March 31, 2004, as they appear below, should thus be considered.

The financial information presented from page 110 to page 175 of this prospectus is taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

5.2 Consolidated financial statements of Air France (now known as Air France-KLM) as at March 31, 2004

Consolidated income statement

In EUR millions Year ended March 31,	Notes	Air France (now known as Air France-KLM)(1)		
		2004	**2003**	**2002**
Operating revenues	4	**12,337**	**12,687**	**12,528**
External expenses	5	(6,754)	(7,174)	(7,466)
Salaries and related costs	6	(4,079)	(3,856)	(3,738)
Taxes other than income tax		(186)	(187)	(163)
Gross operating result		**1,318**	**1,470**	**1,161**
Charge to depreciation/amortization, net	7	(1,184)	(1,195)	(972)
Charge to operating provisions, net	7	(46)	(115)	(39)
Gain on disposal of flight equipment, net		7	30	78
Other operating income and charges, net	8	44	2	7
Operating income		**139**	**192**	**235**
Restructuring costs	9	(22)	(13)	(11)
Net financial charges	10	(60)	(85)	(112)
Gains on disposals of subsidiaries and affiliates, net	11	5	4	24
Pre-tax income (loss)		**62**	**98**	**136**
Share in net income of equity affiliates, net	16.1	53	29	31
Amortization of goodwill	14	(15)	(16)	(16)
Income (loss) before income tax and minority interests		**100**	**111**	**151**
Income tax	12	(2)	13	5
Income (loss) before minority interests		**98**	**124**	**156**
Minority Interest		(5)	(4)	(3)
NET INCOME (LOSS)		**93**	**120**	**153**
Earnings (loss) per issued share		0.42	0.55	0.69
Earnings (loss) per share				
- basic	13	0.43	0.55	0.70
- diluted		0.43	0.55	0.70

(1) Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

The income statement for the 2001/2002 financial year does not take into account the component-based approach (see Note 2.1).

Consolidated balance sheet of Air France (now known as Air France-KLM)[(1)]

Assets
In EUR millions
As at March 31,

	Notes	2004	2003	2002
Consolidation goodwill	14	95	112	125
Intangible fixed assets	14	149	171	190
Flight equipment	15	6,951	7,284	7,446
Other property and equipment	15	955	878	847
Investments in equity affiliates	16.1	336	316	303
Other investments	16	268	260	237
Total fixed assets		**8,754**	**9,021**	**9,148**
Inventory	17	151	220	266
Trade receivables	18	1,651	1,432	1,495
Income tax receivable	19	101	111	80
Other accounts receivable	18	494	592	712
Marketable securities	20	1,478	1,039	1,408
Cash		330	193	255
Total current assets		**4,205**	**3,587**	**4,216**
Total assets		**12,959**	**12,608**	**13,364**

Liabilities and stockholders' equity
In EUR millions
As at March 31

	Notes	2004	2003	2002
Common stock	21.1	1,868	1,868	1,868
Additional paid-in capital	21.5	261	261	261
Retained earnings (accumulated deficit)	21.6	1,942	1,862	1,813
Cumulative translation adjustment		(9)	3	19
Stockholders' equity		**4,062**	**3,994**	**3,961**
Minority interests		23	33	29
Stockholders' equity and minority interests		**4,085**	**4,027**	**3,990**
Provisions for liabilities and charges	22	1,039	1,095	937
Short and long-term debt and obligation under capital leases	23	4,380	4,147	4,616
Trade payables		1,226	1,375	1,525
Income tax liability	24	21	5	22
Advance ticket sales and loyalty program	25	1,008	901	1,024
Other payables	26	1,200	1,058	1,250
Total liabilities		**8,874**	**8,581**	**9,374**
Total liabilities and stockholders' equity		**12,959**	**12,608**	**13,364**

(1) Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

Consolidated statement of changes in stockholders' equity of Air France (now known as Air France-KLM)[1]

In EUR millions Before allocation of income	Number of shares comprising common stock	Common stock (par value)	Add'l paid-in capital	Retained earnings	Treasury stock	Cumulative translation adjustment	Total stock-holders equity	Minority interests	Total stockholders' equity and minority interests
March 31, 2001	**219,780,887**	**1,868**	**261**	**1,723**	**-**	**22**	**3,874**	**25**	**3,899**
Dividends paid				(61)			(61)	(5)	(66)
Offset of stock issue costs				(2)			(2)		(2)
Translation differences						(3)	(3)		(3)
Current year net income				153			153	3	156
Changes in scope of consolidation							-	6	6
March 31, 2002	**219,780,887**	**1,868**	**261**	**1,813**	**-**	**19**	**3,961**	**29**	**3,990**
Dividends paid				(28)			(28)	(2)	(30)
Treasury stock					(25)		(25)		(25)
Impact of changes in accounting policies (*see Note 2.1))*				(18)			(18)		(18)
Translation differences						(16)	(16)	(1)	(17)
Current year net income				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)
Treasury stock				1	7		8		8
Impact of changes in accounting policies *(see Note 2.1)*				(4)			(4)		(4)
Translation differences						(12)	(12)	(3)	(15)
Current year net income				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**
Proposed dividends				17			17		

(1) Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

Consolidated statement of cash flow of Air France (now known as Air France-KLM)(1)

In EUR millions Year ended March 31,	Notes	Air France (now known as Air France-KLM)		
		2004	**2003**	**2002**
Gross operating result		1,318	1,470	1,161
Other income (expenses) received (paid)		(23)	(50)	(62)
Foreign exchange gains (losses)		3	(9)	(5)
Operating cash flows		**1,298**	**1,411**	**1,094**
Changes in working capital		54	(150)	97
Restructuring expenditure		(18)	(12)	(15)
Interest paid		(163)	(189)	(213)
Interest received		36	58	61
Income tax paid (received)		(6)	(3)	(7)
Cash flows from operating activities		**1,201**	**1,115**	**1,017**
Acquisition of subsidiaries and affiliates	31.2	(10)	(46)	(27)
Purchase of tangible and intangible fixed assets		(1,269)	(1,410)	(1,448)
Disposals of subsidiaries and affiliates		24	8	59
Proceeds on disposal of tangible and intangible assets		391	357	454
Dividends received		15	17	7
Cash flows from operating investing activities		**(849)**	**(1,074)**	**(955)**
Issuance of common stock		-	5	1
New debts		901	834	884
Repayments of debts		(345)	(745)	(168)
Repayments of capital lease obligations		(152)	(508)	(157)
Net decrease (increase) in loans		(29)	(29)	(20)
Net decrease (increase) in short-term investments		35	62	201
Dividends paid		(24)	(34)	(66)
Cash flows from financing activities		**386**	**(415)**	**675**
Translation differences		**(5)**	**(1)**	**-**
Increase (decrease) in cash and cash equivalents		**733**	**(375)**	**737**
Opening cash and cash equivalents	31.1	672	1 047	310
Closing cash and cash equivalents	31.1	1,405	672	1,047

(1) Financial information taken from the 2003-2004 Annual Report and Report of Sustainable Development of Air France annexed to the *document de référence* filed with the *Autorité des marchés financiers* on December 22, 2004 under number D.04-1625.

5.2.1 Notes to the financial statements

1 Business description

The terms “Air France company” and “Air France S.A.” used hereafter refer to Air France, a public limited company (*société anonyme*) incorporated under French law, without its consolidated subsidiaries. The terms “the Company”, “the Group” and “Air France” refer to Air France S.A. and its consolidated subsidiaries.

The Company is headquartered in France and is one of the world’s leading airlines. The Company’s core business is the air transport of passengers, with other activities including the air transport of cargo, aircraft maintenance and any other activity linked to air transport, principally catering.

2 Accounting policies

The consolidated financial statements of the Company are prepared in accordance with French accounting regulations applicable for the year ended March 31, 2004.

2.1 Change in accounting methods

The French National Accounting Board (*Conseil National de la Comptabilité)* issued a recommendation on April 1, 2003, excluding long-service awards (*médailles du travail*) from the scope of rules governing pensions, thereby associating them with Regulation 2000-06 on liabilities. As such, all companies are required to record a provision in their statutory and consolidated accounts corresponding to the expected payments as of January 1, 2004, with early application recommended. The impact of this first application is reflected in retained earnings for an amount net of tax, 4 million euros.

Note that the Company has adopted the component-based approach for recording large-scale maintenance operations on airframes and engines at March 31, 2003.

Until March 31, 2002, the Company accrued in advance for estimated costs of major airframe maintenance. Engines maintenance, including the change of parts with limited useful lives, was expensed as incurred.

In accordance with the CNC (“Conseil National de la Comptabilité”) statements of July 25, 2002 and January 15, 2003 following the CRC (“Comité de la Réglementation Comptable”) regulation on liabilities applicable to fiscal years as from January 1, 2002, and the regulation on the depreciation, amortization and write-down of assets applicable to fiscal years as from January 1, 2003, the Company (Air France and its air transport subsidiaries) adopted the component approach in its consolidated financial statements for the recognition of maintenance operations on airframes and engines (excluding parts with limited useful lives) under full ownership and capital leases. This change in accounting principle also resulted in the recognition of provisions for restitution for aircraft and engines under operating leases. Consequently, the accrual for airframe maintenance was eliminated as of March 31, 2003 and the accrual recognized as of March 31, 2002 was reversed to retained earnings. The component approach consists of allocating a portion of the cost of the airframe to capitalized maintenance costs and amortizing them over the period between two maintenance operations. The retrospectively assessed impact of this change in method was recorded in retaining earnings at the beginning of the period. The impact of this change in method resulted in a decrease in stockholders’ equity as of April 1, 2002 of 18 million euros and an increase in net income for the period of 13 million euros.

The Company was unable to assess the impact of the change in method on the financial statements for the period ended March 31, 2002 and, consequently, has not presented pro forma financial statements adjusted for the impact of the change in method on the prior period.

2.2 Change in estimate

In light of the studies carried out over the year focusing on the behavior of passengers that are members of the Fréquence Plus loyalty program and changes in this program, Air France adjusted the estimate for the corresponding debt. These changes in estimates had a positive impact of 23 million euros on earnings for the financial year ended March 31, 2004.

2.3 Consolidation principles

Companies under the Company's exclusive control are fully consolidated.

Companies jointly controlled by a limited number of parties including the Company are proportionally consolidated. Companies over which the Company has significant influence in terms of management and finance policy are accounted for under the equity method; significant influence in this case is deemed to exist where the Company holds 20% or more of voting rights.

Companies which meet the criteria highlighted above, but which are unlikely to be held for any significant length of time, are not consolidated. Companies in liquidation and/or located in countries from which fund transfers are not possible towards the parent company are also excluded from the scope of consolidation. The Group's investment in such companies is stated at cost, net of any impairment provision where appropriate.

Affiliates over which the Company no longer has significant influence are deconsolidated at the lower of their carrying value at the date of removal from the scope of consolidation and their fair value to the Company.

All intercompany transactions, including significant asset and liability transfers between fully-consolidated companies, are eliminated. The same treatment applies to internal Group items such as dividends and capital gains. Gains and losses on internal transfers between equity affiliates are eliminated up to the effective percentage interest of the Company in such affiliates.

The fiscal year of certain subsidiaries and affiliates, which are listed in note 34, ends on December 31. Those subsidiaries and affiliates are consolidated by the Company with a three-month lag with the exception of Amadeus G.T.D. There have been no significant transactions for such subsidiaries for the period from January 1, 2004 to March 31, 2004.

The consolidated income statement includes the income statements of all companies acquired during the year from the date of the acquisition. It also includes the income statements of companies disposed of during the year up to the date of disposal.

The portion of the earnings or losses of consolidated subsidiaries that represent ownership interests other than those of Air France (*i.e.* subsidiaries that are not wholly owned) is reflected as a deduction from the determination of consolidated net income as minority interests.

The portion of the company's consolidated stockholders' equity that is attributable to outside owners of subsidiaries that are not wholly-owned is reflected in the consolidated balance sheets as minority interests.

2.4 Translation of financial statements of foreign operations

The financial statements of foreign entities, the activities of which are not an integral part of those of the reporting enterprise, are translated into Euros on the following basis:

- the balance sheet is translated using the exchange rate prevailing at year-end,
- the income statement is translated at the average exchange rate for the year,
- translation differences resulting from differences between the opening and closing exchange rates, as well as between the closing rate and the average exchange rate for the year, are recorded as Translation differences within Consolidated stockholders' equity.

The financial statements of foreign operations, the activities of which are an integral part of the reporting enterprise, are translated into Euros at historical rates of exchange.

2.5 Foreign currency transactions

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction or at the hedging rate.

Assets and liabilities denominated in foreign currencies are translated at the year-end rate or, where applicable, at the hedging rate. All corresponding differences are reflected in the income statement.

2.6 Exchange rate and interest rate financial instruments

The Company uses a number of financial instruments to limit its exposure to interest and exchange rate risks. These instruments are traded on organized markets or on an over-the-counter basis.

Gains and losses arising on financial instruments used for hedging purposes are recognized in symmetrical fashion to the items hedged.

Financial instruments used to hedge future transactions are certain or likely to materialize are considered hedging instruments.

2.7 Operating revenues

For air transportation transactions, revenues are recognized as and when transportation is completed. Transportation is also the trigger for the recognition of external charges such as commissions paid over to agents.

Upon issuance, both passenger and cargo tickets are recorded as liabilities under "Advance tickets sales".

Revenues representing the value of tickets that have been issued, but which will never be used, are recognized as operating income at the date the tickets are issued on a statistical basis that is regularly updated.

In connection with power by the hour maintenance operations on airframes and engines, operating revenues are recorded based on the flight time declared by the customer. For maintenance contracts other than those described above, the company recognizes revenues using the percentage of completion method.

2.8 Frequent flyer program

The Company offers a frequent flyer loyalty program (Fréquence Plus) which enables members to accumulate air miles when traveling on Air France flights and certain airline partners. These air miles entitle members to a variety of benefits such as free Air France flights.

The probability of converting air miles into Award tickets is estimated according to a statistical method.

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

The estimated value of air miles is deducted from revenues and recorded under the caption “Advance tickets sales and loyalty program” of the balance sheet, as and when revenue from the qualifying flight for which air miles are awarded is recognized.

The Company also sells mileage credits in its frequent flyer program to participating partners such as credit card companies, hotels and car rental agencies. The Company allocates a portion of the revenues received from the sale of mileage credits to a component 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. The remainder is recognized as income immediately.

2.9 Information by activity and geographical area

The Company’s activity involves three sectors: passenger activities, cargo services and aircraft maintenance.

The Company has defined six discrete geographical sectors, in which revenues are broken down on the basis of origin of sale and destination.

- Origin of sale :

Revenues from air transport operations are broken down by geographical area, based on ticket issuing locations.

Where a third party is responsible for issuance of the ticket, revenues are allocated to the appropriate location of the issuing airline.

- Destination :

Revenues for air transport operations are broken down on the basis of the following:

– Non-stop flights: revenues are allocated to the geographical network to which the route belongs.

– Stop-over flights: revenues are split between the various sections of the route in accordance with IATA standards (based on a weighting of passenger-kilometers).

The Company’s fixed assets mainly consist of flight equipment located in France.

2.10 Calculation of earnings per share

Basic earnings per share (before dilution) is obtained by dividing attributable net income for the year by the average number of shares outstanding during the year. The average number of shares outstanding during the current and prior years does not include treasury stock and is adjusted retrospectively in respect of bonus share issues or discount share issues.

2.11 Distinction between net income on ordinary activities and extraordinary items

Net income on ordinary activities includes all income and expenses arising within the Company's ordinary activities, whether such income and expenses are recurring or nonrecurring. Unusual items defined as non-recurring income and expenses by virtue of their incidence, nature and amount (such as restructuring costs) are recorded within Net income on ordinary activities.

The definition of extraordinary items is restricted narrowly to unusual income and expenses of major significance.

2.12 Goodwill

Goodwill is recognized upon first-time consolidation after allocation to the various identifiable assets and liabilities.

Amounts of goodwill are amortized on a straight-line basis over periods determined in each case but which do not exceed 20 years.

2.13 Other intangible fixed assets

Goodwill ("Fonds de commerce") acquired in conjunction with the acquisition of UTA in 1990 is being amortized on a straight-line basis over a period of 20 years.

Software and licenses are amortized on a straight-line basis over periods of between one and four years.

2.14 Impairment of goodwill and other intangible fixed assets

The Company records impairment charges on goodwill and other intangible assets when events and circumstances indicate that the assets are impaired the undiscounted cash flow estimated to be generated by those assets are less than the carrying amount of those assets. Measurement of any potential impairment on goodwill and other intangible assets is based on discounted cash flows.

2.15 Tangible fixed assets

Tangible fixed assets are stated at historical cost of acquisition or manufacture.

From April 1, 1997, interest incurred in connection with the financing of capital expenditure (including flight equipment) during the period prior to commissioning is capitalized within the overall cost of the asset concerned and depreciated over the useful life of the related asset . The interest rate adopted is the average interest rate for debts outstanding at the end of the year in question unless capital expenditure or advance payments are themselves funded by specific loans.

The Company accounts for lease arrangements as capital lease when such arrangements include a bargain purchase option provision. The related assets are recorded in the balance sheet at historical cost. Obligations arising under the lease are recorded as liabilities in the consolidated balance sheet.

Maintenance costs are expensed, with the exception of those major maintenance programs which extend the useful life of the asset or increase its overall value, and which are, as a result, capitalized (maintenance on airframes and engines excluding parts with limited useful lives).

As discussed in note 2.1, the Company changed its method of accounting for major maintenance programs and lease restitution obligations effective April 1, 2002.

Following the change in method described in note 2.1, beginning April 1, 2002, airframe and engine potential (excluding parts with limited useful lives) is separated from the acquisition cost of aircraft and amortized over the period until the next scheduled maintenance operation.

2.15.1 Flight equipment

Flight equipment is acquired in foreign currency and translated at prevailing exchange rates or hedging rates where a hedging instrument has been used. Manufacturers' discounts are usually deducted from the value of the asset in question. Aircraft are depreciated using the straight-line method over their average estimated useful life.

From April 1, 1997, this useful life has been estimated at 18 years, with an estimated residual value of 10% of original cost.

Aircraft fixtures and fittings acquired from April 1, 1997 are separated from the total acquisition cost of the aircraft and depreciated using the straight-line method over a period of five years, corresponding to their average useful lives.

Fixtures and fittings related to aircraft acquired prior to April 1, 1997 are depreciated over the same period as the aircraft to which they relate (22 years).

In addition, the estimated costs of major maintenance operations (airframes and engines excluding parts with limited useful lives) to be performed according to specifications and schedules defined by manufacturers and government authorities are capitalized and amortized over the future period separating the maintenance operations.

Spare parts, other than consumables, are recorded in the consolidated balance sheet as fixed assets. Useful lives vary from 3 to 18 years depending on the technical characteristics of each. Furthermore, depending on estimated use and consideration of retirement decisions pertaining to the specific fleet to which the spare parts relate, the Company revises the depreciation period accordingly.

2.15.2 Other property and equipment

Other property, plant and equipment is depreciated using the straight-line method over its estimated useful life as follows:

Buildings	30 years
Fixtures and fittings	8 to 15 years
Equipment and tooling	5 to 15 years
Flight simulators	10 to 20 years

2.15.3 Impairment of flight equipment

When events and circumstances indicate that these assets need to be impaired, the Company assesses the existence of impairment losses at the entire aircraft fleet level under full ownership or capital leases and capitalized spare parts on the basis of their recoverable value.

2.16 Investments

Investments in non-consolidated companies and other long-term equity investments are stated in the balance sheet at cost net of provisions for impairment in value. A provision for impairment is recorded where the fair value at the reporting date is lower than acquisition cost. Increases and decreases in this provision are recorded in the consolidated income statements.

The fair value of investments corresponds to the utility value to the Company. This value is determined based on the Company's share of net equity (subject to fair value adjustments), profitability forecasts and, for listed companies, changes in stock prices. Other financial assets which are primarily comprised of deposits, are valued at the lower of cost or market value.

2.17 Inventories

Inventories consist primarily of expendable parts related to flight equipment and are initially recorded at cost. A provision is recorded to reduce inventory values at the lower of cost or realizable value.

Cost represents acquisition cost or manufacturing cost, the latter including direct and indirect production costs incurred under normal operating conditions.

Inventories are valued on a weighted average basis. A provision for obsolescence is recorded based on respective inventory ages.

2.18 Marketable securities

Marketable securities are stated in the consolidated balance sheet at the lower of cost or market value. For listed securities, market value is determined using the stock market price at balance sheet date.

Investments in debt securities are recorded upon acquisition at nominal value, adjusted for any issue premium or discount.

Accrued interest receivable is also recorded under this heading. Investments in mutual funds (“SICAVs”) are recorded at acquisition cost excluding any entrance charges. Thereafter, they are stated at net realizable value as of the reporting date. If net asset value is lower than acquisition cost, a provision is raised.

Negotiable debt securities (deposit certificates and bonds from financial companies) are recorded at acquisition cost. Interest income is recognized using an effective interest rate method.

2.19 Treasury stock

The acquisition cost of interests in the common stock of Air France S.A. held other than temporarily by consolidated companies is deducted from consolidated stockholders’ equity. Gains and losses on disposal of such securities are taken to stockholders’ equity.

Treasury stock held for future allocation related to stock options and stock compensation plans is recorded at cost in marketable securities. A provision is recorded to reduce these shares to the lower of cost or market value.

2.20 Retirement benefit and similar obligations

The Company's obligations in respect of defined benefit pension schemes and lump-sum termination payments on retirement are calculated using the projected credit method, taking into consideration specific economic conditions prevailing in the various countries concerned.

These obligations are covered either by pension and/or plan assets. Provisions for these plans are valued and recorded in accordance with IAS 19 Employee Benefits.

2.21 Provisions for restitution for aircraft under operating leases

Following the change in accounting method described in paragraph 2.1, the Company accrues for restitution costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria set as per the lease arrangement between the Company and the lessor.

When the condition of the aircraft exceeds the return condition criteria set as 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 is met.

2.22 Equity and debt issuance costs – redemption premiums

Debt issuance costs are amortized over the term of the debts using an effective interest rate method. Common stock issuance and merger costs are deducted from additional paid-in capital.

Debts are recorded at redemption value. Redemption and issue premiums are recorded under debts in the balance sheet and charged to income under net financial items over the term of the debts.

2.23 Deffered tax

The Company records deferred tax using the liability method for all timing differences between the tax and book values of assets and liabilities shown in the consolidated balance sheet, with the exception of consolidation goodwill and UTA purchased goodwill.

Net deferred tax balances are determined on the basis of each entity's tax position based on tax jurisdiction and taking into consideration consolidated tax returns when applicable.

Net deferred tax assets relating to timing differences and carry forward losses are only recognized to the extent that the tax entity is expected to generate sufficient taxable income in the future to absorb such carry-forward losses or timing differences.

No tax is provided on the undistributed reserves of consolidated entities unless a distribution is expected in the short term or the Company has no control over the distribution of reserves.

2.24 Cash flow

Cash and cash equivalents include cash, short-term deposits and bank overdrafts initially established for less than three months and whose value is not susceptible of significant changes.

2.25 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

3 Changes in the scope of consolidation

As of March 31, 2004, the Group comprised 90 companies, of which 70 were fully consolidated, 3 proportionally consolidated and 17 were recorded as equity affiliates. The list of companies within the scope of consolidation is shown in note 34.

During the fiscal year ended March 31, 2004, 22 companies were created, including 18 within the Uileag Holding company ltd group in connection with the operation to securitize aircraft assets finalized in July 2003. The Servair group set up two new companies, Prestair and Aéroform, specialized in providing catering services for low-cost airlines and training services for airport assistance staff respectively. Fréquence Plus Services participated in the creation of FPSEA and Team Trackers to run call centers for remote management of customer complaints, principally related to baggage claims.

Lastly, Air France acquired 15,122 Servair shares that were previously owned by CDR Participations, raising its stake to 94.5%. This additional purchase of shares did not have any significant impact on the consolidated financial statements at March 31, 2004.

Following the decision made by Lufthansa to dispose of part of its stake in Amadeus GTD, the percentage of voting rights held by Air France in connection with its interest in Amadeus GTD was up from 35.69% at March 31, 2003 to 43.21% at March 31, 2004. However, this increase in the percentage of voting rights does not change the position of Air France with regard to control over Amadeus GTD. Air France has neither exclusive nor joint control over Amadeus GTD. As such, Amadeus GTD is still accounted for within the Air France Group under the equity method.

The 22.86% equity interest of Air France Finance in Opodo is recorded in Air France's consolidated financial statements at its acquisition cost net of a 26 million euro depreciation allowance booked over the course of the financial year ended March 31, 2004. The equity method was not used to record the interest in Opodo since the interest in its share capital is only expected to remain over 20% on a temporary basis: Opodo was created by nine airlines in 2000 with a view to enabling third-parties to acquire interests in its equity over the short to medium term and the company does not believe it exercises significant influence.

4 Information by activity and geographical area

4.1 Information by sector of activity

In EUR millions Year ended March 31	2004			2003		
	Operating revenues	**Operating income**	**Property and equipment**	**Operating revenues**	**Operating income**	**Property and equipment**
Passenger	10,260	67	6,688	10,527	101	6,978
Cargo	1,412	15	371	1,479	48	508
Maintenance	508	50	759	540	67	580
Others	157	7	88	141	(24)	96
Total	**12,337**	**139**	**7,906**	**12,687**	**192**	**8,162**

The various sources of the Company's operating revenues are described below:

Passenger: Passenger operating revenues consist of scheduled passenger and other passenger revenues. Scheduled passenger operating revenues are derived from passengers transported on flights which have the Company's code, including flights that are operated by other airlines pursuant to code sharing agreements. Other passenger operating revenues are derived from commissions from Sky Team alliance partnership arrangements, revenue from block-seat sales, information systems revenues, and revenues from airport services.

Cargo: Cargo operating revenues are subdivided into freight transportation and other cargo operating revenues. Operating revenues from freight transportation consist of the transportation of cargo on flights which have the Company's code, including flights that are operated by other airlines pursuant to code sharing agreements. Operating revenues from other cargo transportation are derived principally from sales of cargo capacity to third parties.

Maintenance: Maintenance operating revenues are generated principally by the Air France Industries division of Air France. Air France Industries performs aircraft maintenance for the Company and provides maintenance services to approximately one hundred clients throughout the world.

Other: Other operating revenues currently consist of catering revenues.

4.2 Analysis of operating revenues by geographical area of sale

In EUR millions	France metropolitan	West Indies Caribbean French Guiana Indian Ocean	Europe North Africa	Africa Middle East	Americas Polynesia	Asia New Caledonia	Total
Year ended March 31, 2004							
Scheduled passenger	4,635 (48.9%)	348 (3.7%)	2,099 (22.2%)	577 (6.1%)	1,169 (12.4%)	637 (6.7%)	9,465
Other passenger revenues	482 (60.7%)	28 (3.5%)	151 (19.0%)	40 (5.0%)	56 (7.0%)	38 (4.8%)	795
Total passenger	**5,117 (49.9%)**	**376 (3.7%)**	**2,250 (21.9%)**	**617 (6.0%)**	**1,225 (11.9%)**	**675 (6.6%)**	**10,260**
Scheduled cargo	373 (29.5%)	40 (3.2%)	303 (24.0%)	86 (6.8%)	134 (10.6%)	328 (25.9%)	1,264
Other cargo revenues	93 (62.8%)	5 (3.4%)	22 (14.9%)	4 (2.7%)	15 (10.1%)	9 (6.1%)	148
Total cargo	**466 (32.9%)**	**45 (3.2%)**	**32 (23.0%)**	**90 (6.4%)**	**149 (10.6%)**	**337 (23.9%)**	**1,412**
Maintenance	501 (98.6%)	- -	- -	- -	- -	7 (1.4%)	508
Others	143 (91.1%)	11 (7.0%)	- -	3 (1.9%)	- -	- -	157
Total	**6,277 (50.4%)**	**432 (3.5%)**	**2,575 (20.9%)**	**710 (5.8%)**	**1,374 (11.1%)**	**1,019 (8.3%)**	**12,337**
Year ended March 31, 2003							
Scheduled passenger	4,596 (47.3%)	340 (3.5%)	2,093 (21.5%)	598 (6.2%)	1,329 (13.7%)	757 (7.8%)	9,713
Other passenger revenues	451 (55.4%)	26 (3.2%)	196 (24.1%)	39 (4.8%)	63 (7.7%)	39 (4.8%)	814
Total passenger	**5,047 (47.9%)**	**366 (3.5%)**	**2,289 (21.7%)**	**637 (6.1%)**	**1,392 (13.2%)**	**796 (7.6%)**	**10,527**
Scheduled cargo	368 (28.0%)	45 (3.4%)	319 (24.3%)	97 (7.4%)	141 (10.7%)	344 (26.2%)	1,314
Other cargo revenues	47 (28.4%)	10 (6.1%)	45 (27.3%)	9 (5.5%)	34 (20.6%)	20 (12.1%)	165
Total cargo	**415 (28.1%)**	**55 (3.7%)**	**364 (24.6%)**	**106 (7.2%)**	**175 (11.8%)**	**364 (24.6%)**	**1,479**
Maintenance	533 (98.7%)	- -	- -	- -	- -	7 (1.3%)	540
Others	122 (86.5%)	18 (12.8%)	- -	1 (0.7%)	- -	- -	141
Total	**6,117 (48.1%)**	**439 (3.5%)**	**2,653 (20.9%)**	**744 (5.9%)**	**1,567 (12.4%)**	**1,167 (9.2%)**	**12,687**

4.3 Analysis of operating revenues by geographical area of sale

In EUR millions	France metropolitan		West Indies Caribbean French Guiana Indian Ocean		Europe North Africa		Africa Middle East		Americas Polynesia		Asia New Caledonia		Total
Year ended March 31, 2004													
Scheduled passenger	2,024	(21.4%)	1,023	(10.8%)	2,501	(26.4%)	1,058	(11.2%)	1,850	(19.5%)	1,009	(10.7%)	9,465
Scheduled cargo	61	(4.8%)	153	(12.1%)	120	(9.5%)	154	(12.2%)	342	(27.1%)	434	(34.3%)	1,264
Total	**2,085**	(19.4%)	**1,176**	(11.0%)	**2,621**	(24.5%)	**1,212**	(11.3%)	**2,192**	(20,4%)	**1,443**	(13.4%)	**10,729**
Year ended March 31, 2003													
Scheduled passenger	1,914	(19.7%)	994	(10.2%)	2,567	(26.5%)	1,098	(11.3%)	1,966	(20.2%)	1,174	(12.1%)	9,713
Scheduled cargo	31	(2.4%)	154	(11.7%)	110	(8.4%)	157	(11.9%)	386	(29.4%)	476	(36.2%)	1,314
Total	**1,945**	(17.6%)	**1,148**	(10.4%)	**2,677**	(24.3%)	**1,255**	(11.4%)	**2,352**	(21.3%)	**1,650**	(15.0%)	**11,027**

5 External expenses

In EUR millions Year ended March 31	2004	2003	Variation
Aircraft fuel	1,302	1,369	-4.9%
Chartering costs	414	415	-0.2%
Aircraft operating lease costs	458	522	-12.3%
Landing fees and en route charges	913	934	-2.2%
Catering	296	319	-7.2%
Handling charges and other operating costs	756	768	-1.6%
Aircraft maintenance costs	381	477	-20.1%
Commercial and distribution costs	1,051	1,157	-9.2%
Other external expenses	1,183	1,213	-2.5%
Total	**6,754**	**7,174**	**-5.9%**

“Other external expenses” primarily correspond to leasing and insurance expenses.

External expenses decreased by 420 million euros (or -5.9%); this drop primarily reflects:

– fuel costs, down 4.9% (67 million euros) on account of the favorable impact of the dollar (-15.7%), stable levels of consumption and lastly, a 10.5% increase in the purchase price after hedging;

– operational rent, down 12.3% (64 million euros), primarily due to the depreciation of the US dollar against the euro;

– aircraft maintenance costs, down 96 million euros (-20.1%) due to the depreciation of the US dollar, lower levels of activity and the phasing out of Concorde;

– sales, marketing and distribution costs, down 106 million euros (-9.2%), thanks to the reduction in travel agency commissions and spending on advertising;

– the reduction in “other expenses”, driven primarily by the decrease in the “insurance” item.

6 Salaries and number of employees

6.1 Salaries and related costs

In EUR millions Year ended March 31	**2004**	**2003**	**Variation**
By cost category			
Wages and salaries	2,955	2,815	5.0%
Pension contributions	248	236	5.1%
Social security contributions	876	805	8.8%
Total	**4,079**	**3,856**	**5.8%**
By geographical area			
France	3,824	3,583	6.7%
Overseas territories	11	17	- 35.3%
Abroad	244	256	-4.7%
Total	**4,079**	**3,856**	**5.8%**

Personnel costs are up 5.8%, while the workforce increased by 0.2% compared with the previous year. Social security charges (“pension payments” and “other social charges”) increased by nearly 8%.

6.2 Average number of employees

In EUR millions Year ended March 31	**2004**	**2003**	**Variation**
Total	**71,654**	**71,525**	**0.2%**
Flight deck crew	5,041	4,929	2.3%
Cabin crew	13,044	12,938	0.8%
– of which employed in France	12,768	12,590	1.4%
– of which employed in Overseas territories and abroad	276	348	-20.7%
Groundstaff	53,569	53,658	-0.2%
– of which employed in France	46,924	47,006	-0.2%
– of which employed in Overseas territories and abroad	6,645	6,652	-0.1%
Management	9,159	8,980	2.0%
Supervisors	21,126	20,217	4.5%
Other staff	23,284	24,461	-4.8%
Pilots and cabin crew	17,140	16,910	1.4%
Instructors	620	644	-3.7%
Management	325	313	3.8%

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

6.3 Compensation paid to members of the board of directors and executive committee

The compensation of the Executive Committee consists of direct and indirect remuneration paid by Group companies. For the year ended March 31, 2004, such compensation totaled 3.6 million euros covering 15 people, 13 present during 12 months and 2 present during 6 months (3.4 million euros for the year ended March 31, 2003 covering 14 people present during 12 months).

The members of the Board of Directors do not receive any fees for their duties as directors.

7 Depreciation and amortization

In EUR millions Year ended March 31	2004	2003	Variation
Net charge to depreciation/amortization	1,184	1,195	-0.9%
– Intangible fixed assets	37	37	0.0%
– Flight equipment	996	1,017	-2.1%
– Other property, plant and equipment	151	141	7.1%
Net charge to operating provisions	46	115	N.S
– Fixed assets	3	57	N.S
– Inventories	-	(9)	N.S
– Trade receivable	12	5	N.S
– Liabilities and charges	31	62	N.S
Total	**1,230**	**1,310**	**-6.1%**

The provisions recorded for the 2002/03 financial year included a 59 million euro allowance for impairment relative to moves to phase out the Concorde fleet. Concorde was phased out definitively on May 31, 2003.

8 Other income and charges, net

In EUR millions Year ended March 31	2004	2003
Joint operation of passenger and cargo lines	5	5
IT fees	(7)	(8)
Disposal of land	-	5
Compensation on slot swaps	50	-
Other operating income and expenses	(4)	-
Total	**44**	**2**

Income linked to financial compensation corresponds to slot swaps at Heathrow airport (London).

9 Restructuring costs

The restructuring costs (22 million euros) primarily correspond to the second early-retirement plan (Plan de Préretraite Progressive, PRP) implemented at Air France. This agreement concluded during the 2003/2004 fiscal year provides for the progressive retirement of 1,000 people and the hiring of 500 new employees. This plan, offered to full-time employees aged 55 and over, involves an adjustment to the working time of employees for the duration of the PRP while complying with an average working time of 50%. Over this period, employees receive 80% of their salary, with 50% paid by Air France and 30% by the Fonds National pour l'Emploi (FNE). Air France contributes to the financing of the FNE and pays higher contributions into the supplementary pension funds for the duration of the PRP.

For the previous fiscal year, the restructuring costs (13 million euros) primarily corresponded to the closing of the Nouméa site for commercial cabin crew, following the decision by Air France to stop operating flights between New Caledonia and Japan. The costs amounted to 7 million euros during the financial year ended March 31, 2004 and were entirely covered by a provision. At March 31, 2004, there was still a provision in the amount of one million euros relating to the closing of the Nouméa site (such provision amounted to 7.6 million euros during the fiscal year ended March 31, 2004).

10 Net financial charges

In EUR millions Year ended March 31	2004	2003	Variation
Financial expenses	(139)	(161)	-13.7%
– Loan interest	(98)	(108)	-9.3%
– Lease interest	(52)	(72)	-27.8%
– Capitalized interest	20	25	-20.0%
– Other financial expenses	(9)	(6)	50.5%
Financial income	38	50	-24.0%
– Interest on securities	3	23	-87.0%
– Net gains on securities	24	15	60.0%
– Other financial income	11	12	-8.3%
Net charges	**(101)**	**(111)**	**-9.0%**
Foreign exchange losses, net	35	62	N.S
Net (charge) release to provisions	6	(36)	N.S
Total	**(60)**	**(85)**	**-29.4%**

The net release of financial provisions of 6 million euros for the 2003/04 financial year includes 34 million euros in provisions released relative to: the treasury stock held by Air France and the commitments taken in connection with stock options granted to pilots (19 million euros) following the increase in the Air France stock price; the settlement of the tax dispute with the German tax authorities (8 million euros: see Note 12.2); the losses on foreign exchange options maturing (7 million euros); and an allowance for the impairment in value of the Company's interest in Opodo (26 million euros).

In the 2002/03 financial year, a net depreciation allowance of 36 million euros was booked, primarily corresponding to a 5.5 million euro allowance relative to the equity interest in Cordiem on account of the liquidation of this company, which served as a procurement portal. Located in Arlington (Virginia), it had been set up by a certain number of the leading airlines from America and Europe. Similarly, in light of Air France's average share price in March 2003, a 23 million euros depreciation allowance was booked in order to factor in the discount between the average purchase prices of shares held by Air France in connection with stock options granted to pilots.

The interest rate used in the calculation of capitalized interest for the year ended March 31, 2004 was 4.10% (5.51% for the year ended March 31, 2003).

Foreign exchange losses for the period include an unrealized net gains of 31 million euros (against a net gains of 71 million euros for the year ended March 31, 2003).

"Other financial income" includes dividends received from non consolidated companies in the amount of 3 million euros for the year ended March 31, 2004 (compared with 3 million euros for the year ended March 31, 2003).

11 Disposals of subsidiaries

Disposals of subsidiaries and affiliates (5 million euros) essentially involved the sale of "Société immobilière 3F" shares held by Air France.

During the period ended March le 31, 2003, the Company had sold the Sita Telecom shares, resulting in a profit of 4 million euros.

12 Income tax

The Company elected to file a consolidated tax return for Group tax consolidation as of April 1, 2002. The scope of consolidation mainly includes Air France, Air France Finance and French regional airline companies.

12.1 Analysis of the income tax charge

In EUR millions Year ended March 31	**2004**	**2003**
Current tax charge	10	(9)
Deferred tax credit (Charge)	(12)	22
Total tax credit (Charge)	**(2)**	**13**

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 Effective tax rate

The difference between the standard rate of tax in France and the effective rate incurred breaks down as follows:

In EUR million As of March 31	**2004**	**2003**
Net income (loss)	93	120
Minority interests	5	4
Amortization of goodwill	15	16
Share in net income of equity affiliates	(53)	(29)
Income Tax	2	(13)
Taxable income – current rate	**62**	**98**
Current rate of tax	35.43%	35.43%
Theorical tax	**(22)**	**(35)**
Permanent differences	(24)	(4)
Income taxed at non-current tax rates	5	4
Impact of unrecognized tax assets	15	45
Unrecognized tax assets	(4)	-
Differences in France/foreign tax rates	-	3

In EUR million As of March 31	2004	2003
Settlement of tax dispute	33	-
Other	(5)	-
Consolidated tax charge	**(2)**	**13**
Effective tax rate	**3.23%**	**13.27%**

During the course of the financial year ended March 31, 2004, Air France came to an amicable agreement in its dispute with the German tax authorities.

The settlement of the tax dispute concerns the territoriality of taxation of the capital gains generated on the disposal of Amadeus KG, which were taxed in France, in accordance with the analysis that had previously been confirmed by the French tax authorities (Service de la Législation Fiscale). The German tax authorities claimed that these capital gains should have been taxed in Germany. The case was submitted to the combined Franco-German commission and a compromise was found in the second half of the year. The German tax authorities agreed to scale their request down to 50% of the amount initially claimed and cancel all interest for late payment charged to Air France. The impact on the consolidated financial statements represents 38 million euros in net income and can be analyzed as follows:

- reversal of the provision for liabilities: 33 million euros corresponding to the initial tax and 8 million euros corresponding to interest for late payment
- tax charge of 17 million euros corresponding to the tax due in Germany
- 14 million euros of deferred tax income corresponding to the recognition of deferred tax asset on the tax charge to be paid to the German State and for which the French State granted deductibility retroactively.

12.3 Deffered tax recorded on balance sheet

In EUR millions Year ended March 31	2004	2003
Tax losses	383	243
Long-term capital losses	15	10
Pension provisions	214	198
Deferred charges	(64)	(53)
Capital gains on intra-group disposals	32	35
Tax-driven provisions	(367)	(388)
Difference between the tax bases and consolidated values of fixed assets	35	44
Other	(152)	17
Net deferred tax assets (note 19)	**96**	**106**

Net tax assets are restricted according to the capacity of each tax entity to recover its assets in the near future.

12.4 Unrecorded tax assets

Unrecorded tax assets relating to timing differences and carry forwards may be carried forward as follows:

In EUR millions Year ended March 31	2004	2003
Net timing differences-assets	**7**	**5**
Carryforward tax losses for utilization	**-**	**211**
Y+1-Y+3	-	127
Y+4-Y+5	-	84
6 years and beyond		
Losses for carryforward indefinitely	**244**	**50**
Total at standard rate	**251**	**266**
Reduced rate tax credits	**-**	**4**

These unrecognized tax assets represent future tax savings and, as of March 31, 2004, correspond essentially to loss carry forwards of subsidiaries prior to the Group tax consolidation.

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

13 Earnings per share

In EUR millions Year ended March 31	2004	2004
Weighted average of :		
– ordinary shares issued	219,780,887	219,780,887
– treasury stock held regarding stock option plan	(1,249,464)	(1,249,464)
– treasury stock held to regulate stock market price	(1,621,935)	(1,262,371)
Number of shares used in the calculation of basic earnings per share	216,909,488	217,269,052
Number of shares used in the calculation of diluted earnings per share	216,909,488	217,269,052

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

In EUR millions Year ended March 31.	2004	2003
Income used to calculate basic net earnings per share	93	120
Income used to calculate diluted net earnings per share	93	120
Basic earnings (loss) per share	**0.43**	**0.55**
Diluted earnings (loss) per share	**0.43**	**0.55**

14 Consolidated goodwill and intangible fixed assets

Consolidated goodwill essentially concerns the regional airlines acquired between March and September 2000 and is amortized over a ten-year period, with accelerated amortization of 47 million euros for the year ended March 31, 2001.

In EUR millions Year ended March 31	2004			2003		
	Gross value	**Amortization & depreciation**	**Net book value**	**Gross value**	**Amortization & depreciation**	**Net book value**
Consolidation goodwill	214	119	95	216	104	112
Purchased goodwill	363	246	117	365	229	136
Other intangible fixed assets	157	125	32	148	113	35
Total	**734**	**490**	**244**	**729**	**446**	**283**

The movement in the net book value of intangible fixed assets are as follows:

In EUR millions Year ended March 31	**2004**	**2003**
Opening balance	**283**	**315**
Additions	17	21
Charge to amortization of goodwill	(15)	(16)
Charge to amortization of other intangible fixed assets	(37)	(37)
Disposals	(3)	(2)
Impact of changes in scope of consolidation	-	-
Exchange fluctuations	-	-
Transfers	(1)	2
Closing balance	**244**	**283**

15 Property and equipment

	Flight equipment				**Other property and equipment**				
	Owned aircraft	**Leased aircraft**	**Other**	**Total**	**Land and buildings**	**Equipment and fittings**	**Other**	**Total**	**TOTAL**
Gross value (03/31/03)	7,788	2,229	1,802	11,819	1,049	593	731	2,373	14,192
Additions	405	94	527	1,026	118	34	90	242	1,268
Disposals	(863)	(86)	(371)	(1,320)	(28)	(17)	(54)	(99)	(1,419)
Change in scope of consolidation	-	-	-	-	-	2	-	2	2
Exchange fluctuation	-	-	-	-	-	-	-	-	-
Transfers	358	(177)	(167)	14	26	(18)	(10)	(2)	12
Gross value (03/31/04)	**7,688**	**2,060**	**1,791**	**11,539**	**1,165**	**594**	**757**	**2,516**	**14,055**
Accumulated depreciation (03/31/04	3,340	691	504	4,535	600	435	460	1,495	6,030
Charge to depreciation	556	155	285	996	59	34	58	151	1,147
Releases on disposal	(538)	(62)	(370)	(970)	(18)	(16)	(53)	(87)	(1,057)
Changes in scope of consolidation	-	-	-	-	-	2	-	2	2
Exchange fluctuations	-	-	-	-	-	-	-	-	-
Transfers	105	(95)	17	27	(1)	(19)	20	-	27
Accumulated depreciation (03/31/04)	**3,463**	**689**	**436**	**4,588**	**640**	**436**	**485**	**1,561**	**6,149**
Net book value (03/31/04)	**4,225**	**1,371**	**1,355**	**6,951**	**525**	**158**	**272**	**955**	**7,906**
Gross value (03/31/02)	7,295	2,524	1,888	11,707	1,002	567	686	2,255	13,962
Impact of changes in accounting (*Note 2.1*)	215	61	(46)	230	-	-	-	-	230

	Flight equipment				Other property and equipment				
	Owned aircraft	Leased aircraft	Other	Total	Land and buildings	Equipment and fittings	Other	Total	TOTAL
Additions	516	102	549	1,167	27	29	114	170	1,337
Disposals	(773)	(126)	(386)	(1,285)	(6)	(14)	(41)	(61)	(1,346)
Changes in scope of consolidation	-	-	-	-	2	5	7	14	14
Exchange fluctuations	-	-	-	-	-	-	(1)	(1)	(1)
Transfers	535	(332)	(203)	-	24	6	(34)	(4)	(4)
Gross value (03/31/03)	**7,788**	**2,229**	**1,802**	**11,819**	**1,049**	**593**	**731**	**2,373**	**14,192**
Accumulated depreciation (03/31/02)	2,984	705	572	4,261	554	415	439	1 408	5,669
Impact of changes in accounting (*Note 2.1*)	127	75	(34)	168	-	-	-	-	168
Charge to depreciation Concorde	-	-	45	45	-	-	-	-	45
Charge to depreciation	554	158	305	1,017	50	32	59	141	1,158
Releases on disposal	(339)	(233)	(384)	(956)	(5)	(13)	(40)	(58)	(1,014)
Change in scope of consolidation	-	-	-	-	-	2	4	6	6
Exchange fluctuations	-	-	-	-	-	-	-	-	-
Transfers	14	(14)	-	-	1	(1)	(2)	(2)	(2)
Accumulated depreciation (03/31/03)	**3,340**	**691**	**504**	**4,535**	**600**	**435**	**460**	**1,495**	**6,030**
Net book value (03/31/03)	**4,448**	**1,538**	**1,298**	**7,284**	**449**	**158**	**271**	**878**	**8,162**

The net book value of aircraft acquired subject to a reservation of ownership clause totaled 358 million euros as of March 31, 2004 (356 million euros as of March 31, 2003). The net book value of other property and equipment financed under capital lease amounts to 172 million euros as of March 31, 2004 (78 million euros as of March 31, 2003). Over the course of the 2003/2004 financial year, Air France refinanced its head office.

16 Investments

In EUR millions **Year ended March 31**	**2004**	**2003**
Investments in equity affiliates	**336**	**316**
Investments in non-consolidated companies	128	125
Loans and receivables relating to investments	142	107
Other financial assets	89	98
Other investments, gross	**359**	**330**
Provisions for impairment	(91)	(70)
Other investments, net	**268**	**260**
Of which less than one year	*11*	*25*

Investments in non-consolidated companies consist of securities which the Company considers to be of strategic interest and which it intends to hold for the long-term, together with equity interests in companies over which the Company does not exercise any significant influence.

Other financial assets mainly consist of guarantee deposits and loans (*i.e.* 1% construction contributions, the Company's Central Employee Committee, personnel, etc.).

The increase in loans is primarily due to operations for the securitization of aircraft assets (see Note 23).

16.1 Equity affiliates

The Company's share in the net equity and net income of equity affiliates is as follows:

In EUR millions Year ended March 31	Amadeus GTD	AFPL	Alpha PLC	Other	Total
As of March 31, 2002	**203**	**32**	**48**	**20**	**303**
Translation adjustments	-	(7)	(5)	(2)	(14)
Distributions	(9)	-	(3)	-	(12)
Change in structure	-	-	-	-	-
Net income/(Loss) of entity	33	-	4	(1)	36
Adjustments	3	(10)	-	-	(7)
Share in net income of equity affiliates	**36**	**(10)**	**4**	**(1)**	**29**
Transfers	-	10	-	-	10
As of March 31, 2003	**230**	**25**	**44**	**17**	**316**
Translation adjustments	-	(3)	(6)	-	(9)
Distributions	(7)	(8)	(2)	(1)	(18)
Change in structure	-	-	-	(2)	(2)
Net income/(Loss) of entity	37	-	2	2	41
Adjustments	8	4	-	-	12
Share in net income of equity affiliates	**45**	**4**	**2**	**2**	**53**
Transfers	-	(4)	-	-	(4)
As of March 31, 2004	**268**	**14**	**38**	**16**	**336**

As of March 31, 2004, the ownership structure of the Amadeus Group was as follows: Air France (23.4%), Iberia (18.3%), Lufthansa (5%) and the public (53.3%). Over the year, Lufthansa sold off 13% of the Amadeus GTD share capital to the public.

The Company leases aircraft from Air France Partnairs Leasing (AFPL) through various operating leases.

Air France Partnairs Leasing was held 45% by the Company as of March 31, 2004 and 2003. The other stockholders are financial institutions.

Alpha PLC is held 27% by Servair, 31% by institutional investors and 42% by the public.

16.2 Simplified accounts of equity affiliates

The published accounts of the major equity affiliates are presented below.

As part of the consolidation of the Group's financial statements, adjustments are made to the accounts of equity affiliates, mainly in respect of internal transactions with société Air France (transfers of assets).

- **Amadeus GTD (consolidated accounts)**

The simplified consolidated accounts include Amadeus Global Travel Distribution, S.A., domiciled in Spain and its consolidated subsidiaries (the "Group").

The Group is a leader in information technology, serving the marketing, sales and distribution needs of a global travel and tourism industry. Its world-wide data network and database of travel information are used by travel agencies and airlines sales offices. Today travel agencies and airline offices can make bookings with airlines, hotel chains, car rental companies and newer groups of providers such a ferry, rail, cruise, insurance and tour operators.

The Group provides the above-mentioned services through a computerized reservation system ("CRS"). Additionally, the Group provides services through its new e-commerce channel of distribution and through information technology (IT) services and solutions to the airline industry which include inventory management and passenger departure control.

In EUR million As of March 31	**2003**	**2002**
Income Statement		
Operating Revenues	1,929	1,856
Operating Income	321	307
Including net charges to depreciation, amortization and provisions	(212)	(184)
Net income	**160**	**147**

In EUR millions Year ended December 31	**2003**	**2002**
Balance Sheet		
Fixed assets	998	913
Current assets	539	567
Total assets	**1,537**	**1,480**
Stockholder's equity	759	623
Short and long-term debt and capital leases	280	326
Other liabilities	498	531
Total liabilities and stockholder's equity	**1,537**	**1,480**

- **AFPL (statutory)**

The activity of AFPL consists in renting aircraft. At March 31, 2004 AFPL owned 4 B747.

In EUR million Year ended December 31	2003	2002
Income Statement		
Operating Revenues	16	26
Operating Income	1	2
Including net charges to depreciation, amortization and provisions	(15)	(24)
Net income	**0**	**1**

In EUR millions Year ended December 31	2003	2002
Balance Sheet		
Fixed assets	42	70
Current assets	13	23
Total assets	**55**	**93**
Stockholder's equity	31	59
Short and long-term debt and capital leases	19	28
Other liabilities	5	6
Total liabilities and stockholder's equity	55	93

- **Alpha Airports PLC (consolidated accounts)**

The simplified consolidated accounts include Alpha Airports PLC, domiciled in England, and its consolidated subsidiaries (the "Group").

The Group provides retail and catering services for airlines and airports. The Group operates from over 150 retailing and catering outlets in 69 airports in 11 countries across 5 continents. The Group flight services serves airline companies by offering a comprehensive range of catering logistics, flight catering and management services for over 100 airlines. The Group also provides In-flight retail management services.

Alpha Retail serves airport customers by offering purpose-designed retailing and catering services. The Group operates stores at 12 UK airports, 2 airports in North America and 3 airports in the Indian Sub-Continent.

In EUR million Year ended January 31	2004	2003
Income Statement		
Operating Revenues	662	608
Operating Income	33	33
Including net charges to depreciation, amortization and provisions	(15)	(15)
Net income	**14**	**19**

In EUR million Year ended January 31	2004	2003
In EUR millions Year ended January 31	**2004**	**2003**
Balance Sheet		
Fixed assets	107	102
Current assets	89	76
Total assets	**196**	**178**
Stockholder's equity	83	74
Short and long-term debt and capital leases	11	10
Other liabilities	102	94
Total liabilities and stockholder's equity	**196**	**178**

16.3 Group transactions with equity affiliates

The major transactions by the Company with equity affiliates were as follows:

In EUR millions Fiscal year ended March 31 in the accounts of Air France Group	2004		2003	
	Amadeus GTD	**AFPL**	**Amadeus GTD**	**AFPL**
Income Statement				
Operating Revenues	115	-	118	-
Operating Income	189	16	188	27
Balance sheet				
Other accounts receivable	25	-	23	-
Other payables	34	1	34	2

- **Fees paid and received in respect of reservation systems (AMADEUS):**

Amadeus GTD SA, through its subsidiaries, markets, develops and manufactures a computerized reservation system.

The Company receives fees for the distributor services performed on behalf of Amadeus, as well as in respect of on-line assistance and travel agency training. These services are rendered by the Company's subsidiary Amadeus France, a distributor on the French market. Furthermore, the Company receives commissions from Amadeus for issues made with its own agencies. These fees and commissions totaled 115 million euros for the year ended March 31, 2004 (118 million euros for the year ended March 31, 2003).

Furthermore, the Company pays Amadeus GTD SA booking fees in connection with use of the Amadeus reservation system. These fees totaled 189 million euros for the year ended March 31, 2004 (compared to 188 million euros in the year 2002/2003).

- **Operating leases-AFPL:**

The Company leases aircraft from its subsidiary Air France Partnairs Leasing through various operating leases. These fees totaled 16 million euros for the year ended March 31, 2004 (compared to 27 million euros the previous year).

16.4 Investments in non-consolidated companies

The breakdown of net book value of investments in non consolidated companies (81 million euros) is as follows:

In EUR millions As of March 31, 2004	Net book	% holding	Holding	Net income (loss)	Year end
Opodo	26	22.9%	31	(88)	Dec.02
Alitalia	23	2.0%	1,768	93	Dec.02
Austrian Airlines	9	1.5%	604	46	Dec.03
Voyages Fram	9	8.7%	159	4	Dec.02
Others	14	-	-	-	-

As of March 31,2003, the breakdown was:

In EUR millions As of March 31, 2003	Net book	% holding	holding	Net income (loss)	Year end
Opodo	48	22.9%	31	(88)	Dec.02
Alitalia	23	2.0%	1,768	93	Dec.02
Austrian Airlines	11	1.5%	557	43	Dec.02
Voyages Fram	9	8.7%	158	5	Dec.01
Others	15	-	-	-	-

The change in this item is primarily due to the 26 million euro impairment in the value of the equity interest in Opodo.

17 Inventory

In EUR millions As of March 31	2004	2003
Aeronautical spare parts	136	172
Other supplies	60	61
Production work in progress	3	52
Gross value	**199**	**285**
Valuation allowance	(48)	(65)
Net book value	**151**	**220**

18 Trade and other receivables

In EUR millions As of March 31	2004	2003
Passenger operations	693	618
Cargo operations	200	231
Maintenance operations	401	271
Airlines	308	291
Other trade receivables	143	110
Valuation allowance	(94)	(89)
Total (1)	**1,651**	**1,432**
Suppliers with debit balances	120	150
State	56	83
Group and associates	5	10
other	169	177
Prepayments and accrued income	149	176
Provision	(5)	(4)
Total (2)	**494**	**592**

(1) Due > 1 year

(2) Due > 1 year

19 Income tax receivables

In EUR millions As of March 31	2004	2003
Current tax	5	5
Deferred tax (note 12.3)	96	106
Total	**101**	**111**
Portion > 1 year	*96*	*104*

20 Marketable securities

The market value of financial instruments is disclosed in note 27.5 below.

In EUR millions As of March 31	Net book value **2004**	 **2003**
Original maturity more than three months and/or subject to exchange rate risk		
Treasury shares (note 21.2)	19	11
Negotiable debt securities	2	279
Bonds	-	-
Mutual funds (Sicav)	-	-
Bank deposits	93	3
Sub-total	**114**	**293**
Original maturity less than three months with no exchange rate risk		
Negotiable debt securities	30	44
Mutual funds (Sicav)	1,332	672
Bank deposits	2	30
Sub-total cash equivalents	**1,364**	**746**
Total	**1,478**	**1,039**

21 Stockholders' equity

21.1 Common stock

As of March 31, 2004 and 2003, the common stock of the Company totaled 1,868 million euros, comprising 219,780,887 fully paid up shares of 8.5 euros nominal value each.

In number of shares As of March 31	**2004**	**2003**
Opening	219,780,887	219,780,887
Closing	219,780,887	219,780,887

21.2 Breakdown of stock and voting rights

	% stock		% of voting rights	
	2004	**2003**	**2004**	**2003**
French state	54.0	54.4	54.6	55.1
Employees and former employees (1)	12.8	12.9	12.9	13.1
Treasury shares (2)	1.1	1.3	-	-
Other	32.1	31.4	32.5	31.8
Total	**100**	**100**	**100**	**100**

(1) Personal 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 maximum number of shares authorized to be purchased was 3,525,000 (including 1,200,000 lent to a third party). Within this authorization, the company purchased 1,249,646 of its own shares during the period ending March 31, 2000 that are classified as marketable securities. As of March 31, 2004, the Company also held 1,185,847 of its own shares (0.5% of common stock) in accordance with the share buyback program authorized by the General Meeting of September 25, 2002, which are classified as a reduction of shareholders equity (see note 21.3).

Each share is entitled to one vote. As of March 31, 2004 and 2003, the percentage of shares and voting rights owned by members of the Company's executive committee was to the best of our knowledge less than 0.5% of the outstanding shares.

21.3 Treasury stock

As of March 31, 2004, Air France held 1,185,847 of its own shares (0.5% of common stock) in accordance with the share buyback program authorized by the General Meeting of September 25, 2002.

21.4 Other securities giving access to common stock

As of March 31, 2004, there were no securities giving access to the common stock of Air France.

21.5 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.

21.6 Retained earnings (accumulated deficit)

In EUR millions As of March 31	**2004**	**2003**
Distributable reserves	366	599
Accumulated deficit	-	-
Other reserves	1,501	1,168
Treasury books	(18)	(25)
Net income (loss)	93	120
Total	**1,942**	**1,862**

Distributable reserves mainly comprise that part of parent company reserves appropriated to reserves by annual stockholder meetings and special reserves of long-term capital gains taxed at reduced rates. Other reserves include the aggregate results of consolidated subsidiaries and the “Légale réserve” of Air France SA.

French company law requires that Air France allocate 5% of its unconsolidated statutory net result (as determined on a parent company basis) for each year to its legal reserves before dividends may be paid with respect to that year. Net profits must be so allocated until the amount in the legal reserve is equal to 10% of the aggregate nominal value of the issued and outstanding share capital of Air France.

This restriction on the payment of dividends also applies to each of our French subsidiaries on an individual unconsolidated basis. At March 2004, air France’s legal reserve was 45.7 million euros, or 2.4% of the aggregate nominal value of issued and outstanding capital.

The legal reserve of any company subject to this requirement may only be distributed to shareholders upon liquidation of the company.

22 Provisions for liabilities and charges

In EUR millions As of March 31	2004	2003
Provisions for pensions and for termination payments on retirement	636	581
Provisions for restitution for aircraft under operating leases	275	307
Restructuring provisions	13	11
Provisions for third party litigations	23	39
Other provisions for liabilities and charges	92	157
Total	**1,039**	**1,095**
Of which short-term	*261*	*193*

The movement in the book value of the provisions for liabilities and charges are as follows :

In EUR millions As of March 31	2004	2003
Opening balance	**1,095**	**937**
Charges		
• Operating	248	206
• Financial	-	22
• Restructuring	10	8
Releases for consumption		
• Operating	(228)	(151)
• Financial	(8)	(1)

In EUR millions As of March 31	2004	2003
• Restructuring	(8)	(7)
• Tax	(17)	-
Releases of provisions no longer required		
• Operating	(10)	(19)
• Financial	(20)	-
• Tax	(16)	-
Impact of changes in accounting policies(1)	-	82
Transfers	(7)	21
Change in group structure	-	(3)
Closing balance	**1,039**	**1,095**

(1) Represents the recognition at the opening balance sheet date of the provision for restitution for aircraft under operating leases (270 million euros) and the cancellation of the provision for airframe maintenance operations as of March 31, 2002 (188 million euros).

During the course of the financial year ended March 31, 2004, Air France came to an amicable agreement in its dispute with the German tax authorities. The details of this agreement and its impact on the financial statements are presented in note 12.2.

22.1 Pension schemes for employees in France

The Company previously maintained an independent pension plan for its ground staff administered by the Caisse de Retraite Air France (CRAF). This plan was terminated and incorporated into the AGIRC-ARCCO national retirement fund as at January 1, 1993. Upon incorporation, current pensions and entitlements were made subject to a formal company agreement, under whose terms:

- retirees as of December 31, 1992 continue to benefit from an overall guarantee of income, revalued in terms of Air France pension points, from which external pensions are deducted at actual value (social security, as well as ARCCO and AGIRC at their reconstituted values).
- employees and former employees in service as of December 31, 1992 were granted an additional pension benefit, expressed in terms of Air France pension points, independent from all other external pension plans.

CRAF is therefore still responsible for the benefits with respect to employees who contributed up to December 31, 1992. As the pension fund created by the Company was insufficiently funded, a top-up plan was introduced. This plan, administered by CRAF is jointly funded by the Company and CRAF, under the following terms:

– from January 1, 1993 and until the existing pension fund is exhausted, CRAF bears 50% of the cost of any shortfall between pensions paid and fund revenues;

– Air France undertakes to offer an identical contribution and, as soon as the existing pension fund has been used up, to bear the full cost of pensions payable under the initial CRAF pension plan.

The Company is under no additional obligation with regard to entitlements for the period after January 1, 1993.

The following table shows a reconciliation between the valuation of pension commitments of CRAF and the provisions recorded in the consolidated financial statements:

In EUR millions As of March 31	**2004**	**2003**
Defined benefit obligation	911	877
Fair value of plan assets	613	590
Projected benefit obligation in excess of plan assets	**(298)**	**(287)**
Unrecognized net actuarial gains (losses)	21	25
Provisions for pensions	**319**	**312**
Of which short-term	*18*	*17*

The charge with respect to obligations of the CRAF is 14 million euros for the year ended March 31, 2004 (compared to 10 million euros for the year ended March 31, 2003).

In EUR millions As of March 31	**2004**	**2003**
Interest cost on projected benefit obligations	(44)	(45)
Amortization of actuarial gains (losses)	-	3
Expected return on plan assets	30	32
Net charge	**(14)**	**(10)**

The effective return on the CRAF plan assets 13.2% for the year ended March 31, 2004 (0.7% for the prior year).

Amounts paid by the Company to the CRAF totaled 8 million euros for the year ended March 31, 2004 and 24 million euros for the prior year.

The assumptions used in the valuation of pension commitments are as follows:

In EUR million As of March 31	**2004**	**2003**
Gross discount rate	5.00%	5.25%
Rate increase of CRAF points	1.70%	1.20%

22.2 Foreign pension schemes and termination benefit schemes in France and abroad

In addition to defined benefit pension schemes for employees in France, the Company grants various defined pension benefits to its employees abroad and termination benefit schemes.

The major foreign employee benefit liabilities of the Company are located :

- in the USA, linked to two defined benefit pension plans which are overfunded;
- in the UK, where employees of the local representation office and local subsidiaries are granted a supplemental pension benefit administered through a specific pension fund;
- in Japan, where employees benefit from a supplemental pension plan and lump-sum termination payments.

In addition to this, almost all other foreign representation offices grant termination benefits or lump-sum payments to their employees.

Employees in France benefit from 2 specific schemes :

- a retirement lump-sum scheme for all employees ;
- an additional retirement indemnity scheme.

For all schemes identified as material, an actuarial valuation as of March 31, 2004 was performed, using the projected unit credit method and :

- turn-over rates for active employees, mortality rates, salary increase scales;
- retirement age assumptions ranging from 51 to 65 for French employees, and depending on the various local economic and demographic contexts for employees of foreign entities;
- discount rates : 5% for French entities and ranging from 2% to 9% for foreign entities ;
- long term expected rates of return on pension plan assets ranging from 4% to 15%.

The following table shows the amounts recorded in the balance sheet :

In EUR million As of March 31	**2004**	**2003**
Defined benefit obligation	738	650
Fair value of plan assets	(394)	(371)
Projected benefit obligations in excess (less) than plan assets	**344**	**279**
Unrecognized net actuarial gains (losses)	(33)	(37)
Unrecognized prior services cost	(24)	-
Unrecognized surplus	18	18
Net obligation in the balance sheet of subsidiaries	12	9
Net obligation in the balance sheet	**317**	**269**

Retirement charges include the following components:

In EUR million As of March 31	**2004**	**2003**
Current service cost	(35)	(29)
Interest cost	(35)	(35)
Amortization of actuarial gains (losses)	(1)	1
Amortization of services cost	(2)	-
Expected return on plan assets	26	34
Net retirement charge of subsidiaries	(3)	(9)
Net retirement charge	**(50)**	**(38)**

The assumptions used in the valuation of retirement benefit obligations are as follows:

As of March 31	**2004**		**2003**	
	France	**Abroad**	**France**	**Abroad**
Gross discount rate	5.00%	2 to 9%	5.25%	2 to 10%
Gross rate of increase in salaries	1.5 to 4.5%	2 to 12%	2.8 to 5.1%	2 to 9%

The Company does not disclose details of balance sheet reconciliations or effective rates of return at the individual program level.

23 Short and long-term debt and capital leases

In EUR million As of March 31	**2004**	**2003**
Perpetual subordinated loan stock	116	169
Bonds	18	187
Capital-lease obligations	1,453	1,413
Other long-term loans	2,461	1,914
Accrued interest not yet due	43	47
Bond redemption premiums	-	-
Long-term debt and capital leases (1)	**4,091**	**3,730**
Borrowings with short-term original maturities		
Commercial paper	-	150
Short-term bank finance facilities and similar facilities	289	267
Short-term debts	**289**	**417**
Total short and long-term debt and capital leases	**4,380**	**4,147**
(1) Less than one year	*429*	*548*

23.1 Other long-term loans

In July 2003, Air France finalized the securitization of aeronautic assets for an amount of 435 million euros.

This financing arrangement was secured by sixteen aircraft. Three ten-year debt tranches were issued.

A senior floating rate A1 tranche of 98.4 million euros with an average maturity of 5.6 years, a second senior outstanding fixed rate A2 tranche of 194 million euros with a maturity of ten years (both tranches are secured by MBIA Assurance S.A and were given an Aaa/AAA rating by the Moody's and Fitch rating agencies respectively), a mezzanine floating rate B tranche of 142.6 million euros with an average maturity of 5.6 years. The latter was given an A3/A rating by Moody's and Fitch respectively.

The company had not yet taken delivery of three aircraft; as a result, the company only received 337 million euros during the fiscal year 2003/04.

In addition to this transaction, the figure for other long-term loans includes 1,881 million euros in debt linked to sales with reservation of title and mortgaged loans. The net book value of the assets pledged as security (primarily 52 aircraft) came to 1,886 million euros as at March 31, 2004.

23.2 Perpetual subordinated loan securities (TDI)

Société Air France issued two TDI perpetual subordinated loan securities, one in June 1989 and a second in May 1992, in the amounts of €381 million and €395 million, respectively.

The first issuance was restructured in the year 1998/99: the original securities were bought back from their holders and were substituted by a perpetual non-subordinated loan issued under the same financial conditions (Euribor + 0.38 % for the first tranche of 114 million euros and a fixed rate of 10% for the second tranche of 267 million euros). Under the terms of issuance, holders of the new securities will receive a nominal amount of interest from June 23, 2004. The lender securitized this loan in the form of units in a mutual debt fund of which the remaining units could be bought by Air France at any time.

The TDIs issued in 1992 bear interest at a fixed rate of 10.06%. Payment of interest is not subordinated, although the Board of Directors may decide to suspend payment thereof if net consolidated losses exceed 30% of stockholders' equity and no dividend is paid. The securities were designated as subordinated financing following the conclusion of an issuance agreement with certain trusts. The trusts thereby undertook, via a series of separate subscriber agreements, to buy back the securities after a period of 15 years, requiring an initial payment from the Company of 94 million euros. The agreements also stipulate that the trusts will only receive a nominal interest from the sixteenth year onwards.

TDIs were recorded at the date of their issuance under short and long-term debt net of amounts paid to the trusts, *i.e.* 281 million euros for the 1989 issuance and 301 million euros for the 1992 issuance. The perpetual loan which replaced the 1989 issuance is recorded in the same way.

Interest paid by the Company on the TDIs issued is recorded as an interest expense. Interest receivable on the zero-coupon bonds is credited to the interest charge and debited to the outstanding balance on the debts. The net balance of the loan is being written down over a period of 15 years.

The tax regime for perpetual subordinated loan stock was approved by the Tax Authorities and interest is henceforth deductible for the portion effectively received.

23.3 Bonds

In EUR million As of March 31	Nominal	2004	2003
Bonds denominated in EUR	EUR		
1993 bond at 7.5%	229	-	167
Other bonds		18	20
Total bonds denominated in EUR		**18**	**187**
Accrued interest payable		-	9
Bond redemption premiums		-	-
Total bonds		**18**	**196**

23.4 Analysis by maturity date

In EUR million As of March 31	2004	2003
Matures in		
Y + 1	429	548
Y + 2	523	354
Y + 3	600	489
Y + 4	312	538
Y + 5	435	270
> 5 years	1,792	1,531
Total	**4,091**	**3,730**

23.5 Analysis by currency

The breakdown of all long-term debt and capital leases taking into account the effects of derivative financial instruments is as follows :

In EUR million As of March 31	2004	2003
EUR	3,720	3,252
USD	366	374
CHF	-	68
JPY	-	29
Other currencies	5	7
Total	**4,091**	**3,730**

23.6 Credit lines

On August 8, 2001, Air France signed the opening of a revolving, syndicated multi-currency credit line of 1 billion euros for a period of five years, unused as of March 31, 2004. In addition, the

Company benefits from a medium-term credit line of 245 million euros (11 million euros drawn as of March 31, 2004), with repayment deadlines between April 2004 and October 2006.

24 Income tax liability

In EUR million As of March 31	2004	2003
Current tax	21	5
Deferred tax	-	-
Total	**21**	**5**
Of which > 1 year	-	-

25 Advance tickets sales

In EUR million As of March 31	2004	2003
Tickets	781	693
Frequent Flyer Program	80	90
Other	147	118
Total	**1,008**	**901**

26 Other payables

Other payables consist, for the most part, of salaries and other amounts owed to employees including corresponding social security contributions.

In addition, during 1997 and 1998, the Company sold its investment in Amadeus Data Processing (a subsidiary had been consolidated) and 33% of its investment in Amadeus France (which remains a consolidated subsidiary of the Company) to Amadeus G.T.D., an equity affiliate. The gains on disposal of these investments have been eliminated to the extent of Air France's continuing investment in Amadeus G.T.D. These amount will continue to be deferred until such time as the Air France investment in Amadeus G.T.D. is reduced by sale or other means.

In EUR million As of March 31	2004	2003
Employee-related liabilities	491	467
Tax liabilities	193	166
Other	516	425
Total	**1,200**	**1,058**
Of which > 1 year	-	1

27 Financial instruments

27.1 Exposure to interest rate risk

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

In EUR million As of March 31	**2004**	**2003**
Fixed to variable-rate swaps	172	181
Variable to fixed-rate swaps	1,105	1,209

These instruments have different objectives:

- hedging price risk relating to fixed-rate short and long-term debt and capital leases: by contracting a fixed-rate debt, the company is exposed to an opportunity risk if the rate falls. Given the current position of market rates in comparison with fixed contractual rates on certain of its short and long-term debt and capital leases, société Air France entered into a number of fixed to variable-rate swaps.
- hedging of cash-flow risk relating to variable-rate short and long-term debt and capital leases: the Company has sought to fix the rate of certain variable-rate debts and thus entered into a number of variable to fixed-rate swaps.

Based on the above hedging arrangements, the Group's interest rate exposure can be presented as follows:

- Fixed-rate financial assets and liabilities

In EUR millions As of March 31	**Bases**		**Average rate of interest**	
	2004	**2003**	**2004**	**2003**
Fixed-rate financial assets	**13**	**15**	**9.30%**	**7.02%**
Perpetual subordinated loan securities	97	144	10.04%	10.04%
Bonds	-	99	6.54%	6.88%
Other long-term debt and capital leases	1,800	1,628	5.18%	4.82%
Short-term bank finance facilities and similar facilities	-	-	-	-
Fixed rate financial liabilities	**1,897**	**1,871**	**5.46%**	**6.36%**

- Variable-rate assets and liabilities

In EUR millions As of March 31	**Bases**		**Average rate of interest**	
	2004	**2003**	**2004**	**2003**
Variable-rate financial assets	**163**	**403**	**2.25%**	**2.84%**
Perpetual subordinated loan securities	19	25	2.70%	3.74%
Bonds	18	88	1.16%	1.57%
Other long-term debt and capital leases	2,114	1,699	3.12%	4.31%

Short-term bank finance facilities and similar facilities	289	417	2.04%	2.80%
Fixed rate financial liabilities	**2,440**	**2,229**	**2.93%**	**3.96%**

27.2 Exchange rate risk

Current operations:

Although the Company's reporting currency is the euro (EUR), part of its cash flow is denominated in other currencies, such as the dollar (USD), the yen (JPY), the pound sterling (GBP) and the Swiss franc (CHF).

Commercial activities also generate and incur income and expenses in foreign currency. The Company's policy is to hedge against exchange risks relating to forecast cash surpluses or shortfalls in various currencies (USD, JPY, non-euro European currencies, etc.). Hedging takes the form of forward sales or purchases and/or option-based strategies.

Acquisitions of flight equipment:

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

Long-term debt and capital leases:

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

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

In EUR million As of March 31			2004	2003
Operating hedges:				
Forward sales				
–	JPY		124	276
–	CHF		57	102
Maturity -		min	April 2004	April 2003
		max	April 2006	October 2006
Forward purchases				
–	USD		182	37
Maturity -		min	April 2004	April 2003
		max	March 2005	September 2003
Exchange rate options				
–	USD		227	-
–	GBP		45	106
–	JPY		-	4

In EUR million As of March 31		2004	2003
Maturity -	min	April 2004	April 2003
	max	March 2005	September 2004
Flight equipment acquisition hedging:			
– forward purchases		1,091	30
– forward sales		-	-
– call options			200
Maturity -	min	April 2004	April 2003
	max	May 2008	November 2003

27.3 Commodity risk - fuel prices

In the normal course of its business, the Company conducts transactions on the petroleum products markets in order to effectively manage the risks related to its purchases of aircraft fuel.

The Company's commitments on the crude and refined oil markets are shown below (nominal amounts):

In EUR million As of March 31		2004	2003
Petroleum swaps		25	202
Petroleum options		842	764
Maturity -	min	April 2004	April 2003
	max	June 2007	March 2005

27.4 Counterparty risk management

Transactions which potentially generate counterparty risk for the Company are as follows:

- temporary financial investments,
- derivatives,
- trade receivables.

Financial investments are diversified investments in blue-chip securities negotiated with leading banks.

Company transactions in derivatives have the sole aim of reducing overall exposure to exchange rate and interest rate risks to which the Company is exposed in the normal course of business. Such transactions are limited to organized markets or over-the-counter transactions with first-class counterparties with no counterparty risk.

Counterparty 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, 2004, the Company had not identified any specific counterparty risks relating to trade receivables.

27.5 Market value of financial instruments

Market values of financial instruments are estimated for the most part 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 are subject to the following inherent limitations:

- market values do not take into consideration the effect of subsequent fluctuations in interest or exchange rates,
- estimated amounts as of March 31, 2004 and 2003 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 shown.

The methods used are as follows:

- *cash, trade receivables, other receivables, short-term bank finance, trade payables and other payables* : the Company believes that, due to the short-term nature of the above, 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 on the market price or the prices available on other similar securities markets. Where no benchmark exists, net book value is used, which is deemed a reasonable approximation of market value in this instance ;
- *loans and other long-term debts and capital leases :* the exchange and interest rate swaps are specifically hedged against long-term debt and capital leases. The market value of these long-term debt and capital leases and loans has been determined after having taken the hedged swaps into account. Variable-rate loans and other long-term debt and capital leases are recorded at net book value. The market value of fixed-rate loans and other long-term debt and capital leases 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, 2004 and 2003 calculated using the year-end market rate.

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

In EUR millions As of March 31	2004		2003	
	Net book value	**Estimated market value**	**Net book value**	**Estimated market value**
Balance Sheet				
Investment securities	81	76	104	90
Loans				
- fixed rate	4	4	4	4
- variable rate	36	36	11	11
Marketable securities	1,478	1,478	1,039	1,039
Bonds				
- fixed rate	-	-	99	105
- variable rate	18	18	88	88
Perpetual subordinated loan securities	116	155	169	182
Other loans and long-term debt and capital leases				
- fixed rate	1,800	1,822	1,628	1,723
- variable rate	2,114	2,114	1,699	1,697
Other short-term debt and capital leases	289	289	417	417
Off-balance sheet(1)				
Treasury management instruments				
- exchange rate options	-	5	-	(2)
- forward currency contracts	-	21	-	(14)
- currency swaps	-	-	-	28
Commodity instruments				
- petroleum swaps	-	154	-	29

(1) For off-balance sheet financial instruments, the figures quoted as market values represent unrealized gains and losses as of March 31,2004 and 2003

28 Leases

28.1 Capital leases

In EUR million As of March 31	2004	2003
Aircraft		
Minimum lease payments by maturity		
Y + 1	161	202
Y + 2	134	162
Y + 3	281	134

In EUR million As of March 31	2004	2003
Y + 4	172	258
Y + 5	100	174
> 5 years	591	644
Total	**1,439**	**1,574**
Of which interest	185	229
Aircraft capital leases	**1,254**	**1,345**
Buildings		
Minimum lease payments by maturity		
Y + 1	20	11
Y + 2	21	11
Y + 3	22	11
Y + 4	21	11
Y + 5	19	10
> 5 years	127	21
Total	**230**	**75**
Of which interest	34	11
Building capital leases	**196**	**64**
Equipment capital leases	**3**	**4**
Total capital leases	**1,453**	**1,413**

28.2 Operating leases

In EUR million As of March 31	2004	2003
Aircraft		
Minimum lease payments by maturity		
Y + 1	502	465
Y + 2	467	466
Y + 3	388	404
Y + 4	319	328
Y + 5	241	257
> 5 years	370	439
Total	**2,287**	**2,359**

For practical reasons, it is not Company policy to disclose the schedule of minimum payments for other operating leases.

29 Flight equipment orders

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

In EUR million As of March 31	2004	2003
Y + 1	779	661
Y + 2	839	1,065
Y + 3	332	849
Y + 4	375	530
Y + 5	590	301
> 5 years	261	740
Total	**3,176**	**4,146**

These commitments relate to the amounts in USD which are converted into Euros at the year-end exchange rate.

During the year ended March 31, 2004, decrease in the number of Air France's orders primarily reflect continued rolling out the deliveries schedules in accordance with initial backlog. The Company has consequently received eight aircraft between April 1, 2003 and March 31, 2004: two A330-200s, one A320 and five A318s.

Over this period, no new commitments or orders have been made or options signed, since the main decisions regarding the renewal of the passenger and cargo fleet had already been agreed upon and incorporated into contracts with manufacturers.

Regional-company fleet

The regional companies received delivery of two CRJ 700s and two Embraer 145s.

Five planes (four A320 family aircraft and one A330) were in storage as of March 31, 2004. The planes are owned by a financing company in which Air France has no equity interest. Had this company been consolidated, financial debt and flight equipment fixed assets would have increased by 171 million euros. These aircraft are included in the commitments below.

Medium-haul fleet

The main event over this period was the introduction of the A318, which began in October 2003. As of March 31, 2004, five planes have been delivered to Air France, with a sixth A318 to be delivered in April 2004, taking the fleet in operation up to six by the summer of 2004. The fleet is moving on to the last stage in its streamlining process centered on these four models from the A320 family. This process will end with the last of the B737s scheduled to be retired in the winter of 2006-2007. The last nine planes from the order are scheduled to be delivered over the next few financial years, in connection with the B737 fleet retirement program.

In connection with the "A320 Family" contract, Air France received one A320 in December 2003.

Furthermore, the last two firm orders as part of this contract, scheduled to be delivered in April 2005 and March 2006 respectively, have been changed from A320s to A319s.

The four planes (two A320s, one A321 and one A319), included in the storage operation decided on in the fall of 2002, were still the property of the financing vehicle set up for this purpose as of March 31, 2004, although traffic forecasts have made it possible to begin taking them out of storage for the summer of 2004.

Long-haul fleet

In the fourth quarter, Air France received delivery of two A330-200s, one of which corresponded to the taking out of storage of one of the two planes included in the deferral operation that occurred during the fall of 2002. In the summer of 2004, the fleet will be increased to thirteen A330-200s, with the introduction of one leased plane. The outstanding number of orders in the backlog at March 31, 2004, included three aircraft: two new A330-200s to be delivered during the 2005-2006 financial year and a second stored plane, which is scheduled to enter into service in the summer of 2005.

Air France did not receive deliveries of any Boeing planes in the 2003-2004 financial year. At year-end, the orders placed with this manufacturer consisted primarily of the ten new long-haul 777-300ERs, which are scheduled to be brought into service during the 2004-2005 financial year, and the last 747-400ER, which is to be delivered in June 2005.

Company's commitments concern the following aircraft:

			To be delivered in					
			Y + 1	**Y + 2**	**Y + 3**	**Y + 4**	**Y + 5**	**> 5 years**
A 318	**March 31,2004**	Firm orders	4	3	3	-	-	-
		Options	-	-	5	2	-	3
	March 31, 2003	Firm orders	5	3	4	3	-	-
		Options	-	-	3	4	3	-
A 319	**March 31, 2004**	**Firm orders**	1	2	-	-	-	-
		Options	-	-	-	-	-	-
	March 31, 2003	Firm orders	1	-	-	-	-	-
		Options	-	6	4	1	-	6
A 320	**March 31, 2004**	**Firm orders**	2	-	-	-	-	-
		Options	-	1	2	1	-	-
	March 31, 2003	Firm orders	2	2	1	-	-	-
		Options	-	-	-	-	-	-
A 321	**March 31, 2004**	**Firm orders**	1	-	-	-	-	-
		Options	-	-	-	-	-	-
	March 31, 2003	Firm orders	1	-	-	-	-	-
		Options	-	-	1	-	1	-
A 330	**March 31, 2004**	**Firm orders**	-	3	-	-	-	-
		Options	-	1	2	2	-	1
	March 31, 2003	Firm orders	3	1	1	-	-	-
		Options	-	1	3	2	-	-
A 380	**March 31, 2004**	**Firm orders**	-	-	-	3	5	2
		Options	-	-	-	-	2	2
	March 31, 2003	Firm orders	-	-	-	3	2	5
		Options	-	-	-	-	2	2
B 747	**March 31, 2004**	**Firm orders**	-	1	-	-	-	-
		Options	-	-	-	-	-	-
	March 31, 2003	Firm orders	-	-	1	-	-	-
		Options	-	-	-	-	-	-

			To be delivered in					
			Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	> 5 years
B 777	**March 31, 2004**	**Firm orders**	3	5	2	-	-	-
		Options	-	-	2	4	3	1
	March 31, 2003	Firm orders	-	4	6	-	-	-
		Options	-	-	-	-	3	7
Embraer 145	**March 31, 2004**	**Firm orders**	1	5	2	-	-	-
		Options	-	-	-	-	-	-
	March 31, 2003	Firm orders	2	3	3	2	-	-
		Options	-	-	-	-	-	-
CRJ 700	**March 31, 2004**	**Firm orders**	1	1	-	-	-	-
		Options	-	-	-	-	-	-
	March 31, 2003	Firm orders	3	1	-	-	-	-
		Options	-	-	-	-	-	-

30 Other commitments

30.1 Commitments provided

In EUR million As of March 31	2004	2003
Call on investment securities	13	9
Put on investment securities	(2)	(2)
Total	**11**	**7**
Warranties, sureties and guarantees	16	35
Mortgaged or secured assets	1,650	1,311
Other purchase (*Commandes de biens au sol*)	215	189

At March 31, 2003, the warranties, sureties and guarantees given corresponded primarily to the guarantee given by Air France to financial institutions relative to the leasing of five Fokkers by Air Littoral. Pursuant to this agreement, if Air Littoral were to default on payments, Air France would cover the payment of the leasing fees due by Air Littoral, and in return, would be entitled to use these planes. The guarantee given, which corresponds to the minimum amount of future lease charges for the five Fokkers in the event of failure to meet payments by Air Littoral, came to a total of 23 million euros at March 31, 2003 (37 million at March 2002). As Air Littoral was declared bankrupt during the financial year ended March 31, 2004, Air France has taken on Air Littoral's commitments relative to the leasing agreements for the five Fokkers, with three of them brought into service on its own lines between November 2003 and March 2004. The other two will enter into service in May and July 2004.

30.2 Commitments received

In EUR million As of March 31	2004	2003
Warranties, sureties and guarantees	106	151
Other	9	6

Warranties, sureties and guarantees are comprised primarily of letter of credit received from financial institutions.

30.3 Litigation and court action

To the company's knowledge, there is no litigation, arbitration or exceptional event likely to have or have had in the recent past a significant impact on the financial position, net income, and assets of the company or the group.

39th hour litigation

Before it was reduced to 35 hours, the legal working week of ground staff as set by regulation in January 1995 was increased from 38 to 39 hours in connection with the "Reconstruire Air France" plan. Beginning in 1999, more than 4,000 employees contested the modified working week before the courts, claiming payment for the 39th hour worked each week.

In September 2002, the Court of Cassation rendered several rulings in favor of the company, which should put an end to the current proceedings. There are currently no risks to report. This dispute has now been settled.

Hall litigation

In June 2000, several travel agents residing in the state of North Carolina, USA, as well as the professional association to which they belonged (Association of Retail Travel Agents), launched a suit before a federal court of the state against several major US airlines for collusion, following a reduction in 1999 of commissions paid to the agents by these companies for the issuance of tickets.

During 2002, these same travel agents gradually drew three major European airlines, including Air France, 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 believes 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).

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 before the Court of the State of California. This litigation is identical to the Hall case.

Certain defendants have requested that the Tam Travel case be stayed until the appeal in the Hall case is decided. The judge rejected this request on May 3, 2004. As the consequence, the procedure is still pending.

No provision has been recorded in this regard.

Litigation between Servair and its employees

During 2000 and at the start of 2001, a considerable number of Servair employees launched a suit before the Labor Court for payment of backdated 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. Conversely, Servair considered that the time spent on meals constituted an interruption in working time that is not entitled to remuneration.

In a definitive ruling on November 8, 2001, the Court of Appeal sided with the position argued by Servair.

Other suits representing a total of 471 individual claims initiated by Servair employees over this same issue are still before the courts. The Company has not recorded any provisions with respect to these disputes.

Security lawsuit in U.S

Certain beneficiaries of victims of the terrorist attacks on September 11, 2001, filed a lawsuit in New York at the end of 2003 against the airport authorities responsible for running the Newark, Washington and Boston airports, from which the planes used for the attacks took off.

As part of this case, all the subcontractors and airlines working at these airports have also been summoned, including Air France, which at the time of the attacks operated flights out of these three hubs.

The plaintiffs allege that the airport authorities, their subcontractors and the airlines in question are guilty of negligence, notably with regard to the choice of companies appointed to manage security at the aforementioned hubs.

Air France, which has an aviation policy covering its third-party liability up to 2 billion dollars, believes that the claim against it in this lawsuit is totally unfounded. No provision has been recorded in this regard. See 4.3.5 ("Exceptional event and disputes") above.

31 Cash flow statement

31.1 Cash and cash equivalents

In EUR million As of March 31	**2004**	**2003**
Cash at bank	330	193
Cash equivalents *(note 20)*	1,364	746

In EUR million As of March 31	2004	2003
Short-term bank finance and similar facilities *(note 23)*	(289)	(267)
Cash and cash equivalents	**1,405**	**672**

31.2 Acquisition of subsidiaries and investments

In the 2003/2004 financial year, 6 million euros were invested in the acquisition of additional Servair securities and 4 million euros on the Opodo capital increase.

In the 2002/2003 financial year, investments corresponded primarily to the acquisition of a 2% equity interest in Alitalia for 23 million euros and 21 million euros as part of the ongoing program to invest in Opodo.

32 Other key events over the year

On September 18, 2003, Air France concluded a "salary-share swap" agreement with its staff, under which the company's employees will be able to purchase Air France shares directly from the French State in return for voluntary wage cuts over a six-year period. This possibility is only available if and when the French State decides to sell part of its interest in Air France.

The "salary-share swap" agreement is dependent on the State conducting an operation to sell off part of its stake. On July 29, 2002, the Government announced its intention to scale its interest in Air France down to 20%. A commitment moving in this direction was also included in the statement of intent issued by the French and Dutch governments concerning the proposed merger of Air France and KLM. The total number of Air France shares that may be transferred by the French State in connection with the "salary-share swap" agreement is limited by law to 6% of the total number of Air France shares outstanding, *i.e.* 13,186,853 shares. Insofar as the French state will be providing all the shares offered to employees, but will share the profits generated by the reduction in salaries with the other shareholders of Air France, an agreement has been concluded between Air France and the French State, with Air France to pay compensation to the State for the costs relative to the "salary-share swap".

As of the date on which the French Government allocates its shares to Air France employees, Air France will have two years to pay such compensation. Funds owed to the State will begin to accrue interest after 90 days. To compensate the State, Air France may either make a payment in cash to the State or provide the State with additional Air France securities.

33 Subsequent events review

On April 5, 2004, Air France proposed a public exchange offer to holders of KLM ordinary shares. The exchange ratio was set at 11 Air France shares and 10 warrants for 10 KLM shares and 11 Air France American Depositary Shares (ADS), and 10 Air France American Depositary Warrants (ADW) for 10 KLM New York Registry Shares. Three Air France warrants would entitle holders to acquire and/or subscribe to two Air France shares at an exercise price of 20 euros per Air France share. The warrants have a maturity of three and a half years as of May 6, 2004, and may be exercised beginning on November 6, 2005. The ADWs will be subject to the same strike price and conditions for conversion into Air France shares or ADSs as the Air France warrants.

At the end of the offer period (May 3, 2004), KLM's shareholders submitted 41,762,597 ordinary shares, including 7,708,460 New York Registry Shares. Accordingly, Air France issued 45,938,857 new shares and 41,762,597 warrants. The new breakdown of Air France's capital is as follows: French government 44.7%, Air France employees 10.5%, Public 44.8%. Air France is a privatized company and its shares are listed on the Paris, Amsterdam and New York stock exchanges. Air France has decided to launch a supplementary offer period, under the same conditions, which started on May 4, 2004, and is scheduled to end on May 21, 2004.

34 Scope of consolidation at March 31, 2004

	Address	Siren	Stock	% Interest	% control	Method	Year end
AIR FRANCE SERVICES LTD	Room 229 – Terminal 2 Office Block London Heathrow Airport - Hounslow MDDX TW6 1 RR – Great Britain	Foreign	7,000,000 gbp	100	100	Fully consolidated	Dec-31
AMADEUS FRANCE	2-8 avenue du Bas Meudon 92445 Issy les Moulineaux	348 702 457	1,600 €	74	66	Fully consolidated	Mar-31
AMADEUS FRANCE SERVICES	2-8 avenue du Bas Meudon 92445 Issy les Moulineaux	356 305 326	2,880,016 €	42	57	Fully consolidated	Mar-31
AMADEUS GLOBAL TRAVEL DISTRIBUTION	Salvador de Madariaga 1 28046 Madrid - Spain	Foreign	27,898,000 €	23	43	Equity method	Dec-31
CRMA	ZA de la Clef de Saint-Pierre BP 10F 78996 Elancourt	312 139 215	1,300,000 €	100	100	Fully consolidated	Mar-31
GIE ITAB 320	45, rue de Paris 95747 Roissy CDG Cedex	347 907 636	-	100	100	Fully consolidated	Mar-31
HEATHROW CARGO HANDLING	Building 558-Shoreham road West Heathrow Airport – Hounslow MDDX TW6 3RN - Great Britain	Foreign	800,000 gbp	50	50	Equity method	Dec-31
SODEXI	14 rue des Voyelles - BP 10301 Bat. AFE 3512 - Zone Fret 4 95703 Roissy CDG Cedex	347 960 825	2,400,000 €	60	60	Fully consolidated	Mar-31
Sous Groupe REENTON DEVELOPMENT LTD							
REENTON DEVELOPMENT LIMITED	Room 901, 9th Floor, Tien Cheung Hong Building- 77-81 Jervois Street - Sheung Wan - Hong Kong	Foreign	10,000 hkd	51	51	Fully consolidated	Dec-31
HANGXIN HITECH RESOURCES HOLDING LTD	Room 901, 9th Floor, Tien Cheung Hong Building -77-81 Jervois Street Sheung Wan - Hong Kong	Foreign	77,984 hkd	41	80	Fully consolidated	Dec-31
HARBIN HANGXIN N°8, AVIONICS CO. LTD	Bohaiyi Road, Jizhongqu, Hapin Road Harbin Economic Development Zone Harbin 150060 – China	Foreign	1,283,865 cny	41	80	Fully consolidated	Dec-31
GUANGZHOU HANGXIN AVIONICS CO. LTD	N° 2, Kexin Road, TIANHE, 510630 Guangzhou - China	Foreign	26,944,758 cny	41	80	Fully consolidated	Dec-31
SHANGHAI HANGXIN AERO MECHANICS CO. LTD.	N° 12-C, Jinwen Road, Zhuqiao, Nanhui District, 201323 Shanghai – China	Foreign	3,476,424 cny	41	80	Fully consolidated	Dec-31
SINGAPORE HANGXIN AVIATION ENG. PTE	N° 66, Loyang Way Singapore 508756	Foreign	16,000 sgd	12	30	Equity method	Dec-31
SHANGDONG XIANGYU AERO-TECHNOLOGY	Yaogiang International Airport, Jinan	Foreign	3,380,000 cny	8	20	Equity method	Dec-31
Sous Groupe UILEAG HOLDING COMPANY LTD							
UILEAG HOLDING COMPANY LIMITED	5 Harbourmaster Place, Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
O'FIONNAGAIN HOLDING COMPANY LIMITED	5 Harbourmaster Place, Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31

	Address	Siren	Stock	% Interest	% control	Method	Year end
TAKEOFF 1 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 2 LIMITED	5 Harbourmaster Place. International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 3 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 4 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1. Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 5 LIMITED	5 Harbourmaster Place. International Financial Services Center, Dublin 1, Irlande	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 6 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 7 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 8 LIMITED	5 Harbourmaster Place. International Financial Services Center, Dublin 1, Irlande	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 9 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Irlande	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 10 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 11 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 12 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 13 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 14 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Irlande	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 15 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
TAKEOFF 16 LIMITED	5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland	Foreign	1 €	100	100	Fully consolidated	Mar-31
Sous Groupe AIR FRANCE FINANCE							
AIR FRANCE FINANCE	45, rue de Paris 95747 Roissy CDG Cedex	341 178 697	200,000,000 €	100	100	Fully consolidated	Mar-31
AIR AUSTRAL	BP 611 97473 Saint Denis de la Réunion	323 650 945	1,984,000 €	30	30	Equity method	Mar--31
AIR FRANCE FINANCE IRELAND	69/71 st Stephen's Green Dublin 2 Ireland	Foreign	3,502,508 usd	100	100	Fully consolidated	Dec-31
AIR FRANCE PARTNAIRS LEASING NV	130 Schottegativeg Oost Curaçao- Dutch Antilles	Foreign	39,209,180 usd	45	45	Fully consolidated	Dec-31
ALL AFRICA AIRWAYS	Les Cascades, Edith Cavell Street Port-Louis - Maurice	Foreign	6,697,487 usd	51	51	Fully consolidated	Dec-31

	Address	Siren	Stock	% Interest	% control	Method	Year end
BRIT AIR	Aéroport BP 156 29204 Morlaix	927 350 363	23,483,376 €	100	100	Fully consolidated	Mar-31
CITY JET	Swords Campus, Balheary Road Swords Co. Dublin – Ireland	Foreign	5,079,968 €	100	100	Fully consolidated	Mar-31
FREQUENCE PLUS SERVICES	51/59 avenue Ledru Rollin 94 200 Ivry sur Seine	347 944 259	2,288,000 €	100	100	Fully consolidated	Mar-31
FPSEA	57 rue Ledru Rollin 94 200 Ivry sur Seine	449 171 222	1,000,000 €	49	49	Proportionally consolidated	Dec-31
GIE JEAN BART	260 Bd Saint Germain 75007 Paris	430 337 766	-	10	10	Fully consolidated	Dec-31
GIE SURCOUF	260 Bd Saint Germain 75007 Pans	432 655 785	-	100	100	Fully consolidated	Mar 31
ICARE	Aéroport BP 156 29204 Morlaix	380 582 346	1,035,488 €	100	100	Fully consolidated	Mar-31
PROTEUS DEVELOPPEMENT	Aéroport de Dijon Bourgogne 21600 Longvic	399 132 554	5,559,063 €	100	100	Fully consolidated	Mar-31
PROTEUS FINANCE	Zone industriel La Plaine - BP 134 42163 Andrezieux	428 865 141	40,000 €	100	100	Fully consolidated	Mar-31
REGIONAL COMPAGNIE AERIENNE EUROPEENNE	Aéroport de Nantes Atlantique 44340 Bouguenais	335 351 920	100,000,000 €	100	100	Fully consolidated	Mar-31
SOCIETE D'EXPLOITATION AERONAUTIQUE	45 rue de Paris 95747 Roissy CDG Cedex	379 316 276	38,112 €	100	100	Fully consolidated	Mar-31
SOCIETE NOUVELLE AIR IVOIRE	Place de la République – Abidjan Ivory Coast	Foreign	3,600,000,000 xof	39	76	Fully consolidated	Dec-31
TEAM TRACKERS	Olivova 4/2096 - 11000 Praha 1 Czech Republic	Foreign	17,500,000 czk	49	49	Proportionally consolidated	Dec-31
Sous Groupe SERVAIR							
SERVAIR (Cie d'exploitation des services auxiliaires aériens)	4 place de Londres Roissypole 95726 Roissy CDG Cedex	722 000 395	52,386,208 €	94	94	Fully consolidated	Dec-31
ACNA	Bat. 3416 Modules 100 et 200 BP 10605 95724 Roissy CDG Cedex	382 587 558	250,000 €	94	100	Fully consolidated	Dec-31
ACSAIR	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	437 568 702	1,500,000 €	48	51	Fully consolidated	Dec-31
AEROFORM	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	448 568 702	8,000 €	94	100	Fully consolidated	Dec-31
AEROSUR	Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy CDG Cedex	432 219 940	40 000 €	94	100	Fully consolidated	Dec-31
AFRIQUE CATERING	4 place de Londres Roissypole BP 10701 95726 Roissy CDG Cedex	403 236 714	450,000 €	48	51	Fully consolidated	Dec-31
AIR CHEF	Via Venezia Guilia 5/a Milano – Italy	Foreign	2,000,000 €	30	25	Equity method	Dec-31
ALPHA AIRPORTS GROUPE PLC	Europa House – 804 Bath road Cranford Middlesex TW5 9US Great Britain	Foreign	17,068,000 gbp	26	27	equity method	Dec-31
BRUNEAU PEGORIER	15 rue de la Grande Borne 77 990 Le Mesnil Amelot	572 129 377	1,365,500 €	90	95	Fully consolidated	Dec-31
CARBAG	12 chemin des glirettes 95000 Le Thillay	382 587 558	10,000 €	94	100	Fully consolidated	Dec-31

	Address	Siren	Stock	% Interest	% control	Method	Year end
CENTER DE PRODUCTION ALIMENTAIRE	16 rue de la Grande Borne 77990 Le Mesnil Amelot	380 885 129	1,500,000 €	94	100	Fully consolidated	Dec-31
CULIN'AIR PARIS	8 rue des acacias 77230 Villeneuve sous Dammartin	430 048 959	914,760 €	53	56	Fully consolidated	Dec-31
DAKAR CATERING	PO Box 8431 Aéroport de Dakar Yoff Dakar Senegal	Foreign	215,000,000 cfa	48	51	Fully consolidated	Dec-31
EUROPEAN CATERING SERVICES	The Corporation Trust Company 1209 Orange Street Wilmington DE 19801 USA	Foreign	4,860,000 usd	94	100	Fully consolidated	Dec-31
FLYING FOOD CATERING	1209 Orange Street City of Wilmington 400 – State of Delaware USA	Foreign	920,000 usd	46	49	Equity method	Dec-31
FLYING FOOD MIAMI	1650 N.W. – 70 th Avenue Miami, Florida 33299 USA	Foreign	6,000,000 usd	46	49	Equity method	Dec-31
FLYING FOOD SAN FRANCISCO	810 Malcolm Road Burlingame California 94010 USA	Foreign	3,000,000 usd	42	44	Equity method	Dec-31
FLYING FOOD SERVICES	1209 Orange Street City of Wilmington 400 – State of Delaware USA	Foreign	450,000 usd	46	49	Equity method	Dec-31
JET CHEF	Zone d'aviation d'affaires 93350 Aéroport du Bourget	382 587 541	380,000 €	94	100	Fully consolidated	Dec-31
LOGAIR	4 place de Londres Roissypole 95726 Roissy CDG Cedex	443 014 527	40,000 €	47	50	Proportionally consolidated	Dec-31
LOME CATERING SA	Aéroport de Lomé BP 3688 Togo	Foreign	100,000,000 cfa	17	35	Equity method	Dec-31
MACAU CATERING SERVICES	Catering Building Macau International Airport Pac on Taipa - Macao	Foreign	16,000,000 mop	16	34	Equity method	Dec-31
MALI CATERING	Aéroport de Bamako Sénou BP E3803 – Bamako - Mali	Foreign	350,000,000 cfa	68	99	Fully consolidated	Dec-31
ORLY AIR TRAITEUR	1 rue du Pont des Pierres 91320 Wissous	384 030 680	5,700,000 €	95	100	Fully consolidated	Dec-31
PASSERELLE	Route du Midi Bât. 3441 – BP 10605 95724 Roissy CDG Cedex	433 032 828	7,500 €	94	100	Fully consolidated	Dec-31
PRESTAIR	1 rue du Pont de Pierre BP 61 – Wissous 91422 Morangis Cedex	429 723 737	7,500 €	94	100	Fully consolidated	Dec-31
PMAIR	Bât. 3416 – Route du Midi 93290 Tremblay	437 927 882	8 ,000 €	48	51	Fully consolidated	Dec-31
SEREP	PO Box 8431 Aéroport de Dakar Yoff Dakar - Senegal	Foreign	30,600,000 cfa	32	33	Equity method	Dec-31
SERVAIR EUREST	Avenida 11 de Septiembre Poligono Mas Blau 08820 El Prat de Llobregat Barcelona – Spain	Foreign	710,797 €	33	35	Equity method	Dec-31
SERVAIR SATS	PO Box 3 Singapoure Changi Airport – 918141 Singapore	Foreign	1,040,000 sgd	48	51	Fully consolidated	Dec-31
SERVANTAGE	12 chemin des glirettes 95000 Le Thillay	424 657 179	37,500 €	94	100	Fully consolidated	Dec-31
SESAL	Aéroport Léon Mba	Foreign	250,000,000	38	40	Equity method	Dec-31

	Address	Siren	Stock	% Interest	% control	Method	Year end
	PO Box 20303 Libreville – Gabon		cfa				
SOCIETE IMMOBILIERE AEROPORTUAIRE	4 place de Londres Roissypole BP 10701 95726 Roissy CDG Cedex	722 003 795	1,905,000 €	94	100	Fully consolidated	Dec-31
SKYCHEF	International Airport PO Box 450 Victoria – Point Lanue Mahé – Seychelles	Foreign	312,500 scr	52	55	Fully consolidated	Mar-31
SKYLOGISTIC	BP 121 69125 Lyon St Exupéry Aéroport	423 049 089	547,500 €	94	100	Fully consolidated	Dec-31
SOGRI	Aéroport de Cayenne Rochambeau 97351 Matoury	320 750 763	225,000 €	92	97	Fully consolidated	Dec-31
SORI	Zone de fret Nord Aéroport Pôle Caraïbes 97139 Abymes	322 055 187	50,000 €	47	50	Fully consolidated	Dec-31
SPECIAL MEALS CATERING	16 rue de la Grande Borne 77990 Le Mesnil Amelot	429 627 474	7,622 €	94	100	Fully consolidated	Dec-31

5.2.1.1 Auditors' report on the consolidated financial statements

Dear Shareholders,

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Air France for the year ended March 31, 2004.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as at March 31, 2004 and the results of its operations for the year then ended.

Without qualifying the opinion expressed above, we would draw your attention to Notes 2.1 and 2.2 of the consolidated financial statements, which present the following changes in accounting methods and estimates:

- the change in accounting method related to the recognition of long-service medals detailed in Note 2.1: subsequent to the April 1, 2003 recommendation of the *Conseil National de la Comptabilité* and pursuant to regulation 2000-06 on liabilities, Air France now provides for the cost of long-service medals ;

- the change in method for estimating the debt related to the "frequent flyer" loyalty program (*Fréquence Plus*) detailed in Note 2.2: following studies carried out during the year ended March 31, 2004 in regard to the actions of passengers who were members of the *Fréquence Plus* program and developments in the program, Air France adjusted the estimate of the debt recorded.

2. Justification of our assessments

Pursuant to Article L.225-235 of the French *Code de commerce* governing the justification of our assessments, as introduced by the French Financial Security Act of August 1, 2003, which applies for the first time this year, we hereby report on the following.

As detailed in Note 2.25 to the consolidated financial statements, Air France management makes estimates and assumptions that affect the amounts shown in its financial statements and the notes thereto. This note also indicates that actual results could differ from estimates. As part of our audit of the consolidated financial statements for the year ended March 31, 2004, we consider that among the accounts subject to significant accounting estimates and a justification of our assessments are goodwill, tangible and intangible fixed assets, long-term investments, deferred tax assets, advance ticket sales, and provisions for liabilities.

In accordance with the French professional standard applicable to accounting estimates, we have:

• for the aforementioned assets and advance ticket sales, assessed the data and assumptions on which the estimates are based, reviewed the company's calculations, compared the accounting estimates of prior periods with the corresponding actual figures and examined the management approval procedures for these estimates.

• for the provisions for liabilities, assessed the bases on which these provisions were recognized, reviewed the information relative to these liabilities contained in the notes to the consolidated financial statements and examined the management approval procedures for these estimates.

As part of our assessment of your company's accounting policies, we have satisfied ourselves as to the validity of the aforementioned changes in accounting methods and estimates and their presentation.

These assessments are part of our audit approach to the consolidated financial statements taken as a whole and therefore contribute to the expression of the unqualified opinion given in the first part of this report.

3. Specific procedures

We have also verified the information given in the Group management report. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, July 22, 2004

The Auditors

KPMG Audit
Department of KPMG S.A.

Deloitte Touche Tohmatsu - Audit

Jean-Paul Vellutini
Partner

Jean-Luc Decornoy
Partner

Pascal Pincemin
Partner

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditors' report, whether qualified or not, an explanatory paragraph separate from and presented below the audit opinion discussing the auditors' assessment of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. Such report, together with the statutory auditors' report addressing financial reporting in management's report on internal control, should be read in conjunction and construed in accordance with French law and French auditing professional standards.

5.3 Comments on consolidated results on March 31, 2004

Changes in Air France group structure

In the year ended 31 March 2004, the Air France group comprised 90 companies, with 70 fully consolidated, 3 proportionally consolidated and 17 consolidated based on the equity method.

Over the 2003/04 financial year, 22 companies were created, including 18 within the Uileag Holding Company Ltd group in connection with the operation to securitize aeronautical assets finalized in July 2003. The Servair Group set up two new companies – Prestair and Aéroform – specializing respectively in catering for low-cost airlines and training for airport assistance staff. Fréquence Plus Services contributed to the creation of FPSEA and Team Trackers to run call centercenters handling customer complaints on a remote basis notably with regard to baggage disputes.

Air France also acquired 15,122 Servair securities that had previously been held by CDR Participations. Air France now has a 94.5% interest in Servair. This additional purchase of shares has not had a significant impact on the consolidated financial statements at 31 March 2004.

Change in accounting method

The French National Accounting Board issued a recommendation on April 1, 2003, which excludes long-service awards from the scope of rules governing pensions, thereby associating them with Regulation 2000-06 on liabilities. As such, all companies must book a provision in their individual and consolidated financial statements corresponding to the likely cost of these payments as of January 1, 2004, with early application recommended. These changes in legislation constitute a change of accounting method. At the start of the financial period, the impact of this change in the accounting method was estimated at 4 million euros and booked as retained earnings.

During the previous financial year, the group adopted the component-based approach for the recognition of large-scale maintenance operations on airframes and engines.

Air France's consolidated results

The air transport activity was primarily marked over the first half of the year by the crisis linked to the SARS epidemic that hit traffic to and from Asia. The sluggish European economy and the fallout from the war in Iraq also adversely affected business. In France, the strikes by air traffic controllers linked to reforms to the pensions systems and the organization of the Paris airspace also had a negative impact on our results. The Air France group generated 12.34 billion euros in revenues compared with 12.69 billion euros the previous year, down 2.8%. Operating income before aircraft disposals totaled 132 million euros compared with 162 million euros the previous year. Net profit amounted to 93 million euros compared with 120 million euros the previous year, representing a reduction of 22.5%.

Revenues for the group's three main businesses (passenger, cargo and maintenance) are reviewed in the Activity section of this report. This section focuses on "other" revenues, which came out at 157 million euros, up 11.3% from the 141 million euros recorded the previous year. "Other" revenues concern solely the catering activity of the Servair group. Servair's third-party revenues were up compared with the previous financial year, reflecting the company's responsiveness, which enabled it to win over new customers, primarily on the Roissy CDG hub (Servair's main activity base) and on airports serving French overseas territories.

Gross operating income before aircraft operating lease charges (EBITDAR) came to 1.78 billion euros over the year, compared with 1.99 billion euros for the year ended 31 March 2003, down 10.8%.

Gross operating income came to 1.32 billion euros for the year, down from 1.47 billion euros for the previous financial year. Air France contributed 1.20 billion euros to consolidated gross operating income, down 13.1% on the previous financial year (1.38 billion euros). The regional air transport subsidiaries contributed 71 million euros to consolidated gross operating income, compared with 42 million euros for the previous year, representing an increase of 29 million euros; this improvement is mainly due to Régional. The contribution of the other subsidiaries was stable compared with the previous financial year at 51 million euros.

Operating expenses (external expenses, personnel costs, taxes and duties, depreciation, amortization and provisions, other operating income and expenses) decreased by 2.6% versus the previous financial year (12.21 billion euros down from 12.53 billion euros).

External expenses totaled 6.75 billion euros over the year compared with 7.17 billion euros the previous year, down 5.9% at group level. This effective management of external expenses reflects moves to strengthen control over costs, which required the implementation of a new series of short-term measures over the second half of the year, and the continued rollout of measures to address the crisis (MAC plan) as implemented since the beginning of the conflict in Iraq.

In the previous financial year, Air France received compensation from the French State (authorized by the European Commission in Brussels) in respect of additional insurance costs and new safety measures adopted for 18 million euros.

			in millions of euros
Year ended March 31	**2004**	**2003**	**Change**
Aircraft fuel	1,302	1,369	-4.9%
Chartering costs	414	415	-0.2%
Aircraft operating lease charges	458	522	-12.3%
Landing fees and en route charges	913	934	-2.2%
Catering	296	319	-7.2%
Handling charges and other operating costs	756	768	-1.6%
Aircraft maintenance costs	381	477	-20.1%
Commercial and distribution costs	1,051	1,157	-9.2%
Other expenses	1,183	1,213	-2.5%
Total	**6,754**	**7,174**	**-5.9%**

Aircraft fuel costs fell 67 million euros (-4.9%) compared with the year ended March 31, 2003, due to the drop in the dollar and the hedging policy implemented by Air France, despite the surge in oil prices over the year. Consumption remained more or less stable. US dollar exchange rate fluctuations had a favorable impact of 15.7% and the price effect after hedging came out at +10.5%. In light of the uncertainty weighing heavily over oil markets, Air France continued rolling out its hedging policy aiming to cover approximately 70% of fuel expenses for the next twelve months.

Chartering costs were stable over the year (414 million euros compared with 415 million euros for the year ended March 31, 2003). It is interesting to note two different effects: on the one hand, an increase in block seat purchases at Air France further to the conclusion of a new series of agreements, primarily with Air Calédonie International (Tokyo-Nouméa and Osaka-Nouméa), Air Austral (Paris-Reunion), Korean Air (Paris–Seoul), Japan Airlines (Paris-Tokyo and Paris-Osaka), and at Britair with ATR aircraft chartered from Airlinair to incorporate a certain number of lines that had previously been served by Air Lib (Paris-Metz, Paris-Lannion, Paris-Annecy); and on the other, a reduction in chartering at Régional and the almost total disappearance of one-off chartering operations at Air France, reflecting an improvement in operating conditions.

Aircraft operating lease charges decreased considerably (-12.3%) over the year, falling to 458 million euros (522 million euros in 2002-03). This is linked primarily to the fall in the US dollar (-15.7% from the corresponding prior period). Over the year, Air France had an average of 96 aircraft under operating lease (36 on long-haul and 60 on medium-haul), up from 94 the previous year (32 in long-haul and 62 in medium-haul). At March 31, 2004, the group had 168 aircraft under operating leases: 94 at Air France (39 long-haul and 55 medium-haul) and 74 at regional subsidiaries.

Landing fees and en route charges were down 2.2% (913 million euros for the current financial year compared with 934 million euros in the previous year), reflecting the fall in the dollar and the airport taxes paid by companies for connecting passengers up until last year.

Catering expenses were down 7.2% to 296 million euros compared with 319 million euros in 2002-03, reflecting the impact of the downturn in business and the cost reduction program targeting this item (in particular the double-carry policy on European flights).

Handling charges and other operating costs totaled 756 million euros for the current financial year, down slightly (-1.6%) compared with the previous financial year (768 million euros). These costs were kept down despite the increases in capacity carried out over the year (notably, the opening of Terminal E at Roissy CDG in June 2003) thanks to a major reduction in the cost of commercial incidents due to improved operations and no further problems encountered for security companies, which held strikes at the Paris hubs during the summer of 2002.

Aircraft maintenance costs came to 381 million euros, down 20.1% on the previous financial year (477 million euros) in line with the slowdown in activity seen in this sector worldwide combined with the fall of the US dollar and the phasing out of the Concorde activity.

Commercial and distribution costs decreased 9.2% (1.05 billion euros in 2003-04 versus 1.16 billion euros in 2002-03), as a result of a drop in commissions paid to travel agencies (base rates were decreased or even eliminated in many countries), and the decision to significantly scale down advertising campaigns in light of the international geopolitical and economic context.

Other expenses also fell over the year, down 2.5% (1.18 billion euros for the current financial year compared with 1.21 billion euros the previous year), primarily due to the reduction in insurance premiums paid after 2002 which had been marked by a sharp rise in insurance premiums (+59.3% for the parent company). Safety-related costs (+54 million euros for the parent company) are on the rise, given that the group benefited from compensation from the French state last year (10.1 million euros for the period from April to August 2003). Changes in other items, and more specifically professional fees, were kept under control.

Personnel costs came to a total of 4.08 billion euros over the year compared with 3.86 billion for the year ended March 31, 2003, representing an increase of 5.8%. The ratio of personnel costs to revenues worsened, coming out at 33.0% compared with 30.4% the previous year. This change was partly linked to the downturn in revenues, reflecting the highly negative impact of exchange rate fluctuations (the currency part of personnel costs is very small). The increase in personnel costs factors in the impacts of the collective agreement concluded with flight deck crew in 2003 combined with the delayed effect of the agreement signed in 2002 with cabin crew, as well as the sharp rise in social security contributions driven by lower subsidies related to the adjustment of the working week in France (21 million for the parent company alone) and the capping of the basic salary for flight crew members. The workforce saw a slight increase, up 0.2% notably with regard to the parent company (+0.1% for an increase in activity measured in equivalent available seat kilometers of +2.3%). Over the year, the threshold for profit-sharing at the parent company was reached, with a total of 4.6 million euros to be paid out under this system (no profit-sharing bonuses were paid out in 2002-03). However, the threshold for incentive payments was not reached.

Taxes and duties other than income tax, which mainly consist of the business tax charge (43% of the total), remained stable from one year to the next (186 million euros over the year compared with 187 million euros for the year ended March 31, 2003).

Depreciation and amortization charges totaled 1.18 billion euros for the year, down 11 million euros (– 0.9%) on the previous year (1.19 billion euros). This decrease primarily reflects the reduction in the number of company-owned aircraft acquired over the year, further to the group’s decision to focus on acquiring aircraft on operating leases in a year marked by a great deal of uncertainty, and the sale and lease-back operations on a number of aircraft (one B737-300, one A330, one A320, one B777-200 and three 747-400).

Net changes to operating provisions came to 46 million euros compared with 115 million euros for the year ended March 31, 2003. This major reduction is mainly due to the charges to provisions over the past year, representing 59 million euros on the assets of Air France at March 31, 2003 relative to Concorde, whose commercial flights were stopped from June 1, 2003. Releases were also booked on provisions following work carried out on aircraft held under operating leases or more favorable conditions governing the restitution of aircraft than initially forecast.

Aircraft disposals totaled 7 million euros over the year, down from 30 million euros in 2002-03. Disposals during the year concerned one Airbus A320, one Boeing 737, one Airbus A330, one Boeing 777-200 and three Boeing 747-400 for the parent company, and one ATR 72, one Beech 1900 and one CRJ 100 for the regional companies (compensation insurance on this last aircraft which was involved in an accident in Brest).

Other income and charges came to a total of 44 million euros (compared with 2 million euros the previous year). This result primarily includes income from the joint operation of passenger and cargo services for 5 million euros (also 5 million euros in 2002-03), 7 million euros in spending on IT fees (8 million euros for the previous financial year), income linked to financial compensation received for slot swaps at London's Heathrow Airport for a total of 50 million euros, net losses on real estate reforms and aeronautical spares for 2 million euros, and 2 million euros in other charges.

Operating income came to a total of 139 million euros for the year ended March 31, 2004, down 27.6% on the previous year, representing 1.1% of revenues. Air France contributed 108 million euros to consolidated operating income, while regional subsidiaries improved their contribution, up from 6 to 18 million euros.

An analysis by sector shows that passenger activities contributed 67 million euros to operating income, compared with 101 million euros last year. Cargo activities, affected by the global economic crisis, contributed some 15 million euros to operating income, down compared with last year (48 million euros). Lastly, the maintenance sector maintained its strong performance, contributing 50 million euros to operating income compared with 67 million euros the previous year. The balance, *i.e.* a positive contribution of 7 million euros (versus a negative contribution of 24 million euros the previous year), primarily consists of proceeds from aircraft disposals and the results of other group activities. The downturn seen over the past year was due to the inclusion of 59 million euros in provisions on this item further to the decision to phase out Concorde.

in millions of euros

Year ended March 31	**2004**			**2003**		
	Revenues	**Operating Income**	**Tangible Assets**	**Revenues**	**Operating Income**	**Tangible Assets**
Passenger activities	10,260	67	6,688	10,527	101	6,978
Cargo activities	1,412	15	371	1,479	48	508
Maintenance	508	50	759	540	67	580
Other	157	7	88	141	(24)	96
Total	**12,337**	**139**	**7,906**	**12,687**	**192**	**8,162**

Restructuring costs (22 million euros) correspond primarily to the second progressive early retirement plan (PRP) rolled out at Air France. Signed in 2003-04, this plan provides for the departure of 1,000 beneficiaries on PRP and will enable the recruitment of 500 replacement employees. This plan, offered to full-time employees over 55, is based on an adjustment of working time for employees throughout the PRP with an average working time of 50%. During this time, employees receive 80% of their initial salary, with 50% covered by Air France and 30% paid by the national employment fund (FNE). Air France contributes to the financing of the FNE and pays higher contributions into the supplementary pensions funds for the duration of the PRP. The previous year, restructuring costs came out at 13 million euros, primarily reflecting the closure of cabin crew operations for Nouméa, following Air France's decision to stop operating lines between New Caledonia and Japan with its own resources.

Net financial charges came to a total of 60 million euros for the 2003-04 financial year, up 29.4% on the previous year. Net financial expenses (101 million euros) are down year-on-year (-10 million euros), reflecting the reduction in interest rates seen over the course of the year combined with operations to pay back high-interest borrowings. Foreign exchange gains totaled 35 million euros, although this item was even higher in 2002-03 at 62 million euros. This situation reflects the revaluation of the euro, which continued to rise against both the US dollar and the Japanese yen over the period, enabling to generate significant unrealized gains on Air France's debt in these two currencies. A release of 6 million euros was booked for net charges to financial provisions (compared with a net charge of 36 million euros for the year ended March 31, 2003). This item is primarily made up of an almost total release of the charge that had been booked the previous year on Air France treasury stock in order to factor in the discount between average share prices and average purchase prices on such shares held by Air France in connection with stock option schemes for pilots. Similarly, further to the resolution of a legal dispute with the German tax authorities (concerning the sale of Amadeus KG securities to Amadeus GTD), a release was booked on the provisions for late-payment interest that had been recorded (8 million euros). In addition, a 26 million euro provision was booked in 2003 on the securities of Opodo (online travel agent) due to the delay seen with the development of this structure, whose capital is split between nine airlines, which continued to record major losses in 2003.

Gains on disposals of subsidiaries and affiliates over the year (5 million euros) correspond primarily to the sale of HLM Immobilière 3F securities held by Air France. For the year ended

March 31, 2003, the majority of such gains were generated on the disposal of Sita Telecom securities (4 million euros).

Consolidated pre-tax income totaled 62 million euros, down 37% from 98 million euros the previous year.

The **share in net income of equity affiliates** came to 53 million euros for the year (versus 29 million euros last year) and is mainly attributable to Air France's 23.4% stake in Amadeus GTD.

Goodwill amortization (15 million euros) has remained stable from one year to the next, since the group has not seen any significant changes.

The **tax charge** totaled two million euros over the year, further to Air France's decision to opt for tax consolidation as of April 1, 2002. The scope of consolidation primarily includes the parent company, Air France Finance and the French regional airlines. For the year ended March 31, 2004, the group recorded a 38 million euro net gain linked to the resolution of the tax dispute with the German authorities on the disposal of Amadeus KG securities. A compromise was reached by the joint Franco-German commission, with the German tax authorities agreeing to cut their demand to 50% of the tax initially claimed and cancel all interest due for late payments charged to Air France. Last year, this item represented a tax credit of 13 million euros.

Net income after minority interests came to a total of 93 million euros compared with 120 million euros the previous year, representing a decrease of 22.5% year-on-year.

These results illustrate how the international crisis, the war in Iraq and the health crisis in Asia have seriously affected the group. Nevertheless, it managed to record net operating income and profit for the seventh year running.

5.4 IFRS

Regulation (EC) 1606/2002 issued by the European Parliament and Council on July 19, 2002 relative to the application of the international accounting standards (IAS regulation) harmonizes the financial information to be published by companies listed for trading on a regulated market within the European Union, in order to ensure a high level of transparency and comparability for financial statements; the accounting standards concerned are known as the International Financial Reporting Standards (IFRS).

They concern the consolidated financial statements of companies, with Article 5 of Regulation 1606/2002 granting Member States the option to authorize or require listed European companies to apply the IAS adopted for their annual parent company financial statements. The provisions of Article 5 of the IAS regulation have not been incorporated into French accounting standards and, unless they change subsequently, Air France will have to continue applying the generally accepted accounting principles for France to its parent company financial statements published for 2005.

The Air France group already has experience with IFRS and changes in accounting standards. In 1998-1999, it carried out work to bring its accounts into line with the "former IFRS" when the company went public (excluding the recording of convertible bonds and the publication of certain items of information as notes); this was followed in 2000-02 by monitoring the impact of the standards revised in 1999 and the new standards; in 2002-03 by the first analyses relative to the group's financial information and issues relating to IAS 39; and lastly, in 2003-04, the establishment of a reconciliation with US GAAP standards and the publication of a Form 4 document filed with the SEC in connection with the business combination with KLM.

The Air France group has launched a project to convert its consolidated financial statements to IFRS with a view to identifying the main differences in accounting methods by September 2004, and preparing the opening balance sheet at April 1, 2004 in line with these new standards in the second half of 2004 or at the beginning of 2005, according to the latest standards issued by the IASB and their approval by the European Community. Furthermore, over the last few years, the Air France group chose to anticipate the application of certain IFRS provisions where they were compatible with French accounting standards. This was notably the case with the decision to adopt the component-based approach for recording tangible assets or valuing pension commitments.

In order to ensure the consistency of the accounting policies and their implementation within the group, the IFRS conversion project is being carried out by a central team to coordinate the whole project for the parent company and its subsidiaries. The first "analysis" phase of the project is now underway, and aims to measure and simulate the main impacts and differences between the new standards and the practices currently in force within the Air France group. It will be followed by a second phase to select options, draw up the IFRS manual in light of the decisions taken and identify the impacts on information systems. The third phase will involve distributing the manual of IFRS accounting principles within the group, training all the staff involved in the conversion to IFRS, drawing up the opening IFRS balance sheet as at April 1, 2004, defining the specifications and implementing the changes on the information system.

5.5 Fees of statutory auditors of Air France (contributor of the assets) for 2003-2004

Review of stand alone and consolidated accounts

	Deloitte Touche Tohmatsu			
	2003-04		2002-03	
In EUR thousands	Total	%	Total	%
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3,503	94%	676	95%
Other accessory services and other audit services	223	6%	-	-
Subtotal	**3,726***	**100%**	**676**	**95%**
Other services				
Legal, tax, corporate	13	0%	20	3%
Information, technology	-	-	-	-
Internal audit	-	-	-	-
Other	-	-	19	3%
Subtotal	**13**	**0%**	**39**	**5%**
Total Air France group	**3,739**	**100%**	**715**	**100%**

*Including fees related to the audit of Air France financial statements over 3 years under US GAAP.

In EUR thousands	KPMG			
	2003-04		**2002-03**	
	Total	**%**	**Total**	**%**
Audit				
Statutory audit, certification, review of stand-alone and consolidated accounts	3,339	96%	775	100%
Other accessory services and other audit services	143	4%	-	-
Subtotal	**3 ,482***	**100%**	**775**	**100%**
Other services				
Legal, tax, corporate	-	-	-	-
Information, technology	-	-	-	-
Internal audit	-	-	-	-
Other	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
Total Air France group	**3,482**	**100%**	**775**	**100%**

*Including fees related to the audit of Air France financial statements over 3 years under US GAAP.

5.6 Half–yearly results of Air France (formerly known as Air France-Companie Aérienne) on September 30, 2004 and appendix

Consolidated Income Statement

	Notes	Half-year period ended September 30, 2004 Air France[(1)] (formerly known as Air Orient)	Half-year period ended September 30, 2003 Air France[(1)] (now known as Air France-KLM)	Fiscal year ended March 31, 2004 Air France[(1)] (now known as Air France-KLM)
			(in millions of euros)	
Operating revenues	3	6,727	6,193	12,337
External expenses	4	(3,723)	(3,373)	(6,754)
Salaries and related costs	5	(2,126)	(2,025)	(4,079)
Taxes other than income tax		(103)	(88)	(186)
Gross operating income		775	707	1,318
Operating depreciation, amortisation and provisions	6	(599)	(604)	(1,184)
Operating provisions	6	(24)	(14)	(46)
Income from aircraft sales		6	1	7
Other income and expenses		2	(2)	44
Operating income		160	88	139
Restructuring costs		-	(11)	(22)
Net financial charges	7	(31)	(6)	(60)
Income from sales of subsidiaries and affiliates		—	—	5
Pre-tax income (loss)		129	71	62
Share in net income of equity affiliates		32	22	53
Amortisation of goodwill		(8)	(8)	(15)
Income (loss) before income tax and minority interests		153	85	100
Income tax	8	(41)	(32)	(2)
Income (loss) before minority interests		112	53	98
Minority interests		(3)	(1)	(5)
Net Income - Group Share		109	52	93
Net earnings per issued share		0.86	0.24	0.42
Net earnings per share in monetary	9			

	Notes	Half-year period ended September 30, 2004 Air France(1) (formerly known as Air Orient)	Half-year period ended September 30, 2003 Air France(1) (now known as Air France-KLM)	Fiscal year ended March 31, 2004 Air France(1) (now known as Air France-KLM)
			(in millions of euros)	
units				
- basic		0.86	0.24	0.43
- diluted		0.86	0.24	0.43

(1) The definite transfer of assets and activities from Air France (now known as Air France-KLM) to Air France (formerly known as Air Orient) described in Chapter III of this prospectus took place with a retroactive effect in Air France's accounts and for tax purposes as from April 1, 2004.

The statements presented here for comparison purposes correspond to the ones of Air France (now known as Air France-KLM) (see Note 2).

Consolidated Balance Sheet

Assets

	Notes	September 30, 2004 Air France(1) (formerly known as Air Orient)	March 31, 2004 Air France(1) (now known as Air France-KLM)	March 31, 2003 Air France(1) (now known as Air France-KLM)
			(in millions of euros)	
Consolidation goodwill		91	95	112
Intangible fixed assets		138	149	171
Flight equipment	10	7,150	6,951	7,284
Other property and equipment	10	986	955	878
Investments in equity affiliates		358	336	316
Other investments		219	268	260
Total non-current assets		8,942	8,754	9,021
Inventory and work in-process		154	151	220
Trade receivables		1,652	1,651	1,432
Income tax receivable		162	101	111
Other accounts receivable		533	494	592
Marketable securities		1,580	1,478	1,039
Cash at bank and in hand		290	330	193
Total current assets		4,271	4,205	3,587
Total		13,213	12,959	12,608

(1) The definite transfer of assets and activities from Air France (now known as Air France-KLM) to Air France (formerly known as Air Orient) described in Chapter III of this prospectus took place with a retroactive effect in Air France's accounts and for tax purposes as from April 1, 2004.

The statements presented here for comparison purposes correspond to the ones of Air France (now known as Air France-KLM) (see Note 2).

Consolidated Balance Sheet (continued)

Liabilities and Shareholders' Equity

	Notes	September 30, 2004 Air France(1) (formerly known as Air Orient)	March 31, 2004 Air France(1) (now known as Air France-KLM)	March 31, 2003 Air France(1) (now known as Air France-KLM)
			(in millions of euros)	
Share capital	11	1,902	1,868	1,868
Additional paid-in capital		29	261	261
Retained earnings	11	2,208	1,942	1,862
Translation adjustments		(6)	(9)	3
Capital stock-Group share		4,133	4,062	3,994
Minority interests		20	23	33
Shareholders' equity and minority interests		4,153	4,085	4,027
Provisions for liabilities and charges	12	1,054	1,039	1,095
Short and long-term debt and capital lease obligations	13	4,461	4,380	4,147
Trade payables		1,344	1,226	1,375
Income tax liability		20	21	5
Advance ticket sales		945	1,008	901
Other liabilities		1,236	1,200	1,058
Total liabilities		9,060	8,874	8,581
Total		13,213	12,959	12,608

(1) The definite transfer of assets and activities from Air France (now known as Air France-KLM) to Air France (formerly known as Air Orient) described in Chapter III of this prospectus took place with a retroactive effect in Air France's accounts and for tax purposes as from April 1, 2004.

The statements presented here for comparison purposes correspond to the ones of Air France (now known as Air France-KLM) (see Note 2).

Change in Consolidated Shareholders' Equity[1]

Before allocation of income	Number of shares representing capital	Share capital	Addtl. paid-in capital	Reserves	Treasury stock	Translation adjustments	Shareholders' equity-Group share	Minority interests	Shareholders' equity and minority interests
					(in millions of euros)				
As at 31 March 2002	219,780,887	1,868	261	1,813	—	19	3,961	29	3,990
Air France (now known as Air France-KLM)									
Dividends paid				(28)			(28)	(2)	(30)
Treasury stock					(25)		(25)		(25)
Effects of change in methods				(18)			(18)		(18)
Translation adjustments						(16)	(16)	(1)	(17)
Net income/(loss) for the period				120			120	4	124
Change in consolidation							—	3	3
As of 31 March 2003	219,780,887	1,868	261	1,887	(25)	3	3,994	33	4,027
Air France (now known as Air France-KLM)									
Dividends paid				(17)			(17)	(3)	(20)
Treasury stock				1	7		8		8
Effects of change in methods				(4)			(4)		(4)
Translation adjustments						(12)	(12)	(3)	(15)
Net income/(loss) for the period				93			93	5	98
Change in consolidation							—	(9)	(9)
As of 31 March 2004	219,780,887	1,868	261	1,960	(18)	(9)	4,062	23	4,085
Air France (now known as Air France-KLM)									
Wholesale transmission of holdings	(93,032,112)	34	(232)	139	18		(41)		(41)
Dividends paid							—		—
Treasury stock							—		—
Translation adjustments						3	3		3
Net income for the period				109			109	(3)	106
Change in consolidation							—		—
As of 30 September 2004	126,748,775	1,902	29	2,208	—	(6)	4,133	20	4,153
Air France (formerly known as Air Orient)									
Proposed dividends							—		

(1) The definite transfer of assets and activities from Air France (now known as Air France-KLM) to Air France (formerly known as Air France Orient) described in Chapter III of this prospectus took place with a retroactive effect in Air France's accounts and for tax purposes as from April 1, 2004.

Financial data concerning financial years ended March 31, 2002, 2003 and 2004 correspond to the changes in consolidated shareholders' equity of Air France (now known as Air France-KLM) (see Note 2).

Consolidated Statement of Cash Flows

Half-year period ended 30 September

	Notes	2004 Air France (formerly known as Air Orient)	2003 Air France (now known as Air France-KLM)	Fiscal year ended March 31, 2004 Air France (now known as Air France-KLM)
			(in millions of euros)	
Cash flows from operating activities		738	346	1,201
Gross operating income		775	707	1,318
Other income (expenses) received (paid)		(18)	(27)	(23)
Foreign exchange gains (losses)		4	2	3
Operating cash flows		761	682	1,298
Changes in working capital requirement		44	(246)	54
Disbursement for restructuring		(2)	(14)	(18)
Interest paid		(84)	(89)	(163)
Interest received		23	18	36
Income tax paid (received)		(4)	(5)	(6)
Cash flows from investing activities		(787)	(276)	(849)
Acquisition of subsidiaries		(39)	(1)	(10)
Tangible and intangible investments		(835)	(484)	(1,269)
Sales of subsidiaries		4	9	24
Proceeds from disposal of tangible and intangible assets		66	186	391
Dividends received		17	14	15
Cash flows from financing activities		111	214	386
Issuance of common stock		—	—	—
New borrowings		334	640	901
Repayments of borrowings		(145)	(294)	(345)
Repayments of capital lease obligations		(68)	(106)	(152)
Net decrease (increase) in loans		37	7	(29)
Net decrease (increase) in short-term investments		(42)	(11)	35
Dividends paid		(5)	(22)	(24)
Translation adjustments		—	(2)	(5)
Change in Cash Flows		62	282	733
Opening cash and cash equivalents	17	1,405	672	672
Closing cash and cash equivalents	17	1,467	954	1,405

The statements presented here for comparison purposes correspond to the ones of Air France (now known as Air France-KLM) (see Note 2).

5.6.1 Notes to financial statements (half-year ended September 30, 2004)

1. Accounting Principles

The half-year consolidated financial statements of the Group have been prepared in accordance with current French accounting regulations governing interim accounts, and in accordance with the accounting rules and methods adopted for the financial statements for the fiscal year ended 31 March 2004.

2. Changes in the Scope of Consolidation

As of 30 September 2004, the Group included 91 companies, 71 of which are fully consolidated, three are proportionately consolidated and 17 are consolidated using the equity method. As a result of the spin-off on 15 September, of the Air France company, which was renamed Air France–KLM, to Air France–Compagnie Aérienne, which became Air France, the parent company of the Air France group is wholly owned by Air France–KLM.

Because of this operation, the statements presented for comparison purposes correspond to the ones of Air France (now known as Air France-KLM) (see Note 2).

The Servair group was consolidated with one quarter difference until 31 March 2004. To make up this discrepancy, the Servair group was consolidated over nine months (January-September 2004) over this first half. In addition, Air France increased its stake in the Servair group by 3.1 per cent, from 94.5 per cent to 97.6 per cent. This additional purchase of shares did not have any significant impact on the consolidated financial statements at 30 September 2004.

3. Sector Information

3.1 Information by sector of activity

	Half-year period ended 30 September			
	2004		2003	
	Operating revenues	Net operating income	Operating revenues	Net operating income
	(in millions of euros)			
Passenger activity	5,601	127	5,166	68
Cargo	738	(8)	692	(8)
Maintenance	251	24	263	34
Other	137	17	72	(6)
Total	6,727	160	6,193	88

Consolidated revenues for the first half were 6.73 billion euros, an increase of 8.6 per cent over the previous first half. All sectors, with the exception of third-party maintenance, contributed to this increase.

Operating income rose 72 million euros to 160 million euros. This improvement is primarily due to the passenger activity, which rose significantly to 127 million euros from 68 million euros at 30 September 2003.

3.2 Analysis of operating revenues by sales region

	Europe North Africa		West Indies Caribbean French Guiana Indian Ocean		Africa Middle East		Americas Polynesia		Asia New Caledonia		Total
	(in millions of euros)										
Half-year period ended 30 September 2004											
Scheduled passenger	3,533	(68.1%)	180	(3.5%)	346	(6.7%)	730	(14.1%)	395	(7.6%)	5,184
Other passenger revenues	299	(71.7%)	21	(5.0%)	19	(4.6%)	36	(8.6%)	42	(10.1%)	417
Passenger activity	3,832	(68.4%)	201	(3.6%)	365	(6.5%)	766	(13.7%)	437	(7.8%)	5,601
Scheduled cargo	349	(52.4%)	20	(3.0%)	45	(6.8%)	74	(11.1%)	178	(26.7%)	666
Other cargo revenues	54	(75.0%)	3	(4.2%)	2	(2.8%)	8	(11.1%)	5	(6.9%)	72
Cargo	403	(54.6%)	23	(3.1%)	47	(6.4%)	82	(11.1%)	183	(24.8%)	738
Maintenance	247	(98.4%)	-	-	-	-	-	-	4	(1.6%)	251
Other	118	(86.1%)	12	(8.8%)	7	(5.1%)	-	-	-	-	137
Total	4,600	(68.4%)	236	(3.5%)	419	(6.2%)	848	(12.6%)	624	(9.3%)	6,727
Half-year period ended 30 September 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
Passenger activity	3,588	(69.5%)	223	(4.3%)	328	(6.3%)	688	(13.3%)	339	(6.6%)	5,166
Scheduled 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
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
Other	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 included a 1.1 point increase from Asia and 0.2 points from the Americas, while the Africa-Middle East region remained stable, and Europe and the West Indies-Caribbean-Indian Ocean markets fell by 0.8 and 0.6 points respectively.

3.3 Analysis of traffic revenues by destination

	Europe North Africa		West Indies Caribbean French Guiana Indian Ocean		Africa Middle East		Americas Polynesia		Asia New Caledonia		Total
	(in millions of euros)										
Half-year period ended 30 September 2004											
Scheduled passenger	2,405	(46.3%)	454	(8.8%)	610	(11.8%)	1,079	(20.8%)	636	(12.3%)	5,184
Scheduled cargo	87	(13.0%)	73	(11.0%)	82	(12.3%)	201	(30.2%)	223	(33.5%)	666
Total	2,492	(42.6%)	527	(9.0%)	692	(11.8%)	1,280	(21.9%)	859	(14.7%)	5,850
Half-year period ended 30 September 2003											
Scheduled passenger	2,273	(47.5%)	536	(11.2%)	524	(11.0%)	994	(20.8%)	452	(9.5%)	4,779
Scheduled cargo	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 varied. Asia's contribution improved significantly (+2.5 points), Africa-Middle East rose 0.7 points and Americas rose 0.3 points, while the contributions from the West Indies-Caribbean-Indian Ocean network and Europe declined by 2.3 and 1.2 points respectively.

4. External Expenses

	Half-year period ended 30 September		
	2004	2003	Change
	(in millions of euros)		
Aircraft fuel	846	657	28.8%
Chartering costs	232	193	20.2%
Airline operating lease charges	243	239	1.7%
Landing fees and en route charges	497	454	9.5%
Catering	168	154	9.1%
Handling charges and other operating costs	393	379	3.7%
Aircraft maintenance costs	201	186	8.1%
Commercial and distribution costs	540	533	1.3%
Other costs	603	578	4.3%
Total	3,723	3,373	10.4%
Excluding fuel	2,877	2,716	5.9%

External charges were up 10.4 per cent at 30 September 2004, increasing from 3.37 billion euros to 3.72 billion euros. This change, which is close to the growth in the group's available seats (+9.5 per cent in EASK), is due primarily to fuel costs, which rose significantly because of the surge in oil prices. Excluding fuel, the growth in external expenses was limited to 5.9 per cent.

Chartering costs rose 20.2 per cent to 232 million euros at 30 September 2004, up from 193 million euros in the previous half, due to greater use of charters 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.

5. Salaries and Number of Employees

5.1 Salaries and related costs

	Half-year period ended 30 September		
	2004	2003	Change
	(in millions of euros)		
By cost category			
Wages and salaries	1,563	1,511	3.4%
Pension contributions	123	118	4.2%
Social security contributions	477	431	10.7%
Transferred expenses	(37)	(35)	5.7%
Total	2,126	2,025	5.0%
By region			
France	1,992	1,899	4.9%
Overseas Territories	5	5	0.0%
Abroad	129	121	6.6%
Total	2,126	2,025	5.0%

Personnel costs were 2.13 billion euros, up from 2.03 billion euros at 30 September 2003, an increase of 5.0 per cent for employees on a constant consolidation basis, and down 0.7 per cent at 72,324 employees. This increase primarily reflects the reduction in the allowances for social taxes that had been granted for the change to the 35-hour work week.

The effect of the consolidation of Servair over nine months heavily impacted this item: excluding consolidation of Servair for an additional quarter, the increase in personnel costs was limited to 4.0 per cent.

5.2 Average number of employees

	Half-year period ended 30 September		
	2004	2003	Change
	(in millions of euros)		
Total	72,324	71,855	0.7%
Flight deck crew	5,116	5,012	2.1%
Cabin crew	13,259	13,242	0.1%
- personnel employed in France	12,984	12,974	0.1%
- personnel employed in Overseas Territories and abroad	275	268	2.6%

	Half-year period ended 30 September		
	2004	2003	Change
Ground staff	53,949	53,601	0.6%
- ground staff in France	47,435	47,041	0.8%
- ground staff in Overseas Territories and abroad	6,514	6,560	(0.7)%
Management	9,401	9,138	2.9%
Supervisors and technicians	21,361	20,699	3.2%
Other staff	23,187	23,764	(2.4)%
Pilots and cabin crew	17,465	17,295	1.0%
Instructors	601	646	(7.0)%
Management	309	313	(1.3)%

The headcount is the weighted average number of employees by hours worked.

6. Amortisation, Depreciation and Provisions

	Half-year period ended 30 September		
	2004	2003	Change
	(in millions of euros)		
Net charge to depreciation/amortisation	599	604	(0.8)%
- Intangible fixed assets	18	18	0.0%
- Flight equipment	501	514	(2.5)%
- Other property, plant and equipment	80	72	11.1%
Net charge to operating provisions	24	14	71.4%
- Tangible and intangible fixed assets	—	(6)	—
- Inventories	1	2	(50.0)%
- Trade receivables	7	5	40.0%
- Liabilities and charges	16	13	23.1%
Total	623	618	0.8%

7. Net Financial Charges

	Half-year period ended 30 September		
	2004	2003(1)	Change
	(in millions of euros)		
Financial expenses	(69)	(71)	(2.8)%
- Loan interest	(52)	(48)	8.3%
- Interest on capital leases	(26)	(28)	(7.1)%
- Capitalised interest	11	10	10.0%
- Other financial expenses	(2)	(5)	(60.0)%
Financial income	56	20	180.0%
- Interest on securities	2	1	100.0%
- Net gains on securities	16	12	33.3%
- Other financial income	38	7	442.9%
Net charges	(13)	(51)	(74.5)%
Net foreign exchange income (loss)	(3)	25	—
Net (charge) write-back of provisions	(15)	20	—
Total	(31)	(6)	416.7%

Note:

(1) At constant consolidation

The rate used to determine the amount of the interim interest is 3.67 per cent for the half-year period ended 30 September 2004.

Foreign exchange losses for the period include an unrealised net loss of 7 million euros (against a net gain of 23 million euros at 30 September 2003).

The item “Other financial income” includes a gain of 27.6 million euros arising from the financing contract for one of the Air France aircraft. The realisation of this gain and the determination of its amount were subject to the outcome of a financial agreement between Air France and the financial organisation at a date close to the maturity date of the debt. This final agreement was reached on 21 July 2004. This item also includes dividends received from unconsolidated companies in the amount of 5 million euros for the half-year period ended 30 September 2004 (3 million euros for the half-year ended 30 September 2003).

8. Income Tax

	Half-year period ended 30 September	
	2004	2003
	(in millions of euros)	
Current tax charge	(3)	(3)
Deferred tax credit (charge)	(38)	(29)
Total tax credit (Charge)	(41)	(32)

Net tax assets are limited to the capacity of each tax entity to recover its assets in the near future.

9. Earnings Per Share

	Half-year period ended 30 September	
	2004	2003
	(in shares)	
Weighted average number of shares		
- ordinary shares issued	126,748,775	219,780,887
- treasury stock held regarding stock option plans		(1,249,464)
- treasury stock held under the stock buyback plan		(1,688,561)
Number of shares used in the calculation of basic earnings per share	126,748,775	216,842,862
Number of shares used in the calculation of diluted earnings per share	126,748,775	216,842,862

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

	Half-year period ended 30 September	
	2004	2003
	(in millions of euros)	
Net income Group share (used to calculate net earnings per share)	109	52
Income used to calculate diluted net earnings per share	109	52
	(in euros)	
Basic earnings per share	0.86	0.24
Diluted earnings per share	0.86	0.24

10. Property, Plant and Equipment

	As of 30 September 2004			As of 31 March 2004		
	Gross values	Amortisation and depreciation	Net values	Gross values	Amortisation and depreciation	Net values
			(in millions of euros)			
Aircraft	8,016	3,544	4,472	7,688	3,463	4,225
Leased aircraft	1,923	692	1,231	2,060	689	1,371
Other	1,941	494	1,447	1,791	436	1,355
Flight equipment	11,880	4,730	7,150	11,539	4,588	6,951
Land and buildings	1,228	659	569	1,165	640	525
Facilities and equipment	601	441	160	594	436	158
Other	759	502	257	757	485	272
Other property and equipment	2,588	1,602	986	2,516	1,561	955
Total	14,468	6,332	8,136	14,055	6,149	7,906

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

The net value of other property and equipment financed under capital leases was 165 million euros as of 30 September 2004 (172 million euros as of 31 March 2004).

11. Shareholders' Equity

11.1 Breakdown of share capital and voting rights

	As of 30 September 2004		As of 31 March 2004	
	capital	Voting rights	capital	Voting rights
		(%)		
Air France-KLM	100.0	100.0	—	—
French state	—	—	54.0	54.6
Current and former employees	—	—	12.8	12.9
Treasury shares	—	—	1.1	—
Public	—	—	32.1	32.5
Total	100	100	100	100

As a result of the spin-off on 15 September 2004, of the Air France company, which was renamed Air France–KLM, to Air France–Compagnie Aérienne, which became Air France, the parent company of the group is wholly owned by Air France–KLM.

Each share is entitled to one vote.

11.2 Reserves and income

	30 September 2004	31 March 2004
	(in millions of euros)	
Distributable reserves	102	366
Retained earnings	—	—
Treasury stock	—	(18)
Other reserves	1,997	1,501
Net income-Group share	109	93
Total	2,208	1,942

Distributable reserves mainly comprise special reserves for long-term capital gains taxed at a lower rate.

Other reserves record the aggregate results of the consolidated subsidiaries and rose 33.0 per cent, from 1.5 billion euros at 31 March 2004 to 2 billion euros at 30 September 2004.

12. Provisions for Liabilities and Charges

	30 September 2004	31 March 2004
	(in millions of euros)	
Provisions for pensions and for termination payments on retirement[1]	654	636
Provisions for restitution for aircraft under operating leases	268	275
Restructuring provisions	10	13
Provisions for third party litigations	22	23
Other provisions for liabilities and charges	100	92
Total	1,054	1,039
Of which short-term	267	261

Note:

(1) French Law 2003-775 of 21 August 2003 amended the pension rules 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 privatisation of Air France on 5 May 2004, the current statutory regulations will have to be adapted to harmonise 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 pension 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, thus increasing 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. The new French law 2004-734 on air transport companies, enacted on 26 July 2004, does not change the retirement age, 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 about the results of the negotiations to finalise a branch agreement.

13. Short and Long-Term Debt and Capital Lease Obligations

	30 September 2004	31 March 2004
	(in millions of euros)	
Perpetual subordinated loan stock	76	116
Bonds	—	18
Capital-lease obligations	1,394	1,453
Other long-term loans	2,708	2,461
Accrued interest not yet due	36	43
Bond redemption premiums	—	—
Long-term debt and capital leases[(1)]	4,214	4,091
Borrowings with short-term original maturities		
Commercial paper	20	—
Short-term bank financing and similar facilities	227	289
Short-term debt	247	289
Total short and long-term debt and capital leases	4,461	4,380
[(1)] Less than one year	601	429

13.1 Analysis by currency

	30 September 2004	31 March 2004
	(in millions of euros)	
EUR	3,822	3,720
USD	388	366
CHF	—	—
JPY	—	—
CHF	—	—
Other	4	5
Total	4,214	4,091

The group has a syndicated, multi-currency revolving line of credit in the amount of one billion euros maturing in August 2006, and unused at 30 September 2004. In addition, the group has medium-term lines of credit for 50 million euros (including 22 million euros drawn at 30 September 2004) with repayment deadlines between October 2004 and October 2006.

14. Lease Commitments

14.1 Finance leases (capital leases)

	30 September 2004	31 March 2004
	(in millions of euros)	
Aircraft	1,364	1,439
Buildings	223	230
Equipment	2	3
Total commitment	1,589	1,672

Note:

(2) amounts not discounted

14.2 Operating leases

	30 September 2004	31 March 2004
	(in millions of euros)	
Aircraft	2,190	2,287

Note:

(3) amounts not discounted

15. Aircraft Equipment Orders

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

	30 September 2004	31 March 2004
	(in millions of euros)	
Y + 1	667	779
Y + 2	562	839
Y + 3	603	332
Y + 4	253	375
Y + 5	354	590
> 5 years	250	261
Total	2,689	3,176

These commitments relate to amounts in USD, which have been converted into euros at the exchange rate at 30 September 2004 and 31 March 2004.

Air France’s order books with Airbus and Boeing did not change substantially over the first half of 2004-05. As 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 two A330-200 and four 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 service in April 2004, bringing the Airbus A318 fleet in operation to six planes in the summer of 2004. The other changes involved the four aircraft included in the postponed operation: one A321, one A319 and two A320, which all entered service over the period from April 2004 to July 2004.

Long-haul

The first deliveries of 777-300ER were made over the period. At the end of September 2004, Air France operated a fleet of four of these aircraft, two acquired with full ownership and two under operating leases. This new long-haul model is an extended version of the B777-200ER. Air France already operates a fleet of 25 of these planes.

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

The option book with Airbus was restructured to adjust our portfolio of rights to match our future fleet changes, reducing the residual number of options on the A320 and A330-200 families. A similar approach was conducted with Boeing in 2003.

Regional fleet

Firm orders of the Air France group include two CRJ 700 and eight Embraer 145.

These commitments are for the following aircraft:

	Aircraft type	Year of delivery	Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	More than 5 years
A318	At 30 September 2004	Firm orders	3	4	2	—	—	—
		options	—	—	5	2	—	—
	At 31 March 2004	Firm orders	4	3	3	—	—	—
		options	—	—	5	2	—	3
A319	At 30 September 2004	Firm orders	1	1	—	—	—	—
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	1	2	—	—	—	—
		options	—	—	—	—	—	—
A320	At 30 September 2004	Firm orders	—	—	—	—	—	—
		options	—	1	2	1	—	—
	At 31 March 2004	Firm orders	2	—	—	—	—	—
		options	—	1	2	1	—	—
A321	At 30 September 2004	Firm orders	—	—	—	—	—	—
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	1	—	—	—	—	—
		options	—	—	—	—	—	—
A330	At 30 September 2004	Firm orders	2	—	—	—	—	—
		options	—	—	2	1	—	—
	At 31 March 2004	Firm orders	—	3	—	—	—	—
		options	—	1	2	2	—	1
A380	At 30 September 2004	Firm orders	—	—	3	2	3	2
		options	—	—	—	—	1	3
	At 31 March 2004	Firm orders	—	—	—	3	5	2
		options	—	—	—	—	2	2
B737	At 30 September 2004	Firm orders	—	—	—	—	—	—

	Aircraft type	Year of delivery	Y + 1	Y + 2	Y + 3	Y + 4	Y + 5	More than 5 years
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	—	—	—	—	—	—
		options	—	—	—	—	—	—
B747	At 30 September 2004	Firm orders	1	—	—	—	—	—
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	—	1	—	—	—	—
		options	—	—	—	—	—	—
B777	At 30 September 2004	Firm orders	2	3	3	—	—	—
		options	—	—	3	3	4	—
	At 31 March 2004	Firm orders	3	5	2	—	—	—
		options	—	—	2	4	3	1
Embraer 145	At 30 September 2004	Firm orders	1	5	2	—	—	—
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	1	5	2	—	—	—
		options	—	—	—	—	—	—
CRJ700	At 30 September 2004	Firm orders	1	1	—	—	—	—
		options	—	—	—	—	—	—
	At 31 March 2004	Firm orders	1	1	—	—	—	—
		options	—	—	—	—	—	—

16. Litigation

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, into the proceedings. The suit initiated by the travel agents was recognised 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 U.S. legislation governing collusion be applied. Air France believes the collusion charge is without merit and will seek its dismissal before the ruling court. In its decision of 30 October 2003, the Court dismissed the travel agents' claims and cleared all the U.S. 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.

See 4.3.5 ("Exceptional event and disputes") above.

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 U.S. Federal law, the case has been assigned to an Ohio Court, which, in a pre-trial ruling handed down on 3 May 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

During 2000 and at the start of 2001, a considerable number of Servair employees launched a suit before the Labor Court for payment of backdated 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 with normal working hours. Conversely, Servair considered that the time spent on meals constituted an interruption in working time that is not entitled to remuneration. In a definitive ruling on 8 November 2001, the Court of Appeals upheld 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 29 October, the Court dismissed the claims in a suit filed by about 30 employees. Air France 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 11 September 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 by the Court removing Air France from the lawsuit, thus ending Air France's involvement in this case.

17. Cash and Cash Equivalents

	30 September 2004	31 March 2004
	(in millions of euros)	
Cash at bank and in hand	290	330
Cash equivalents	1,404	1,364
Short-term bank financing and similar facilities	(227)	(289)
Cash and cash equivalents	1,467	1,405

Marketable securities with a maturity greater than three months at the time of acquisition or which present a significant risk of a change in value are excluded from cash equivalents.

5.7 Report of the auditors of Air France (formerly known as Air Orient S.A.) on the limited review of half-year consolidated statements (from April 1, 2004 to September 30, 2004)

In our capacity as statutory auditors and in accordance with Article L. 232-7 of French Company Law (Code de commerce), we have performed the following procedures:

- A review of the accompanying summary of operations and income statement as they appear in the half year consolidated financial statements, presented in euros, for the six month period ended September 30, 2004,

A verification of the information provided in the Company's half year management report.

These half year consolidated financial statements are the responsibility of the management board. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with professional standards in France. These standards require that we plan and perform limited review procedures to obtain moderate assurance, lesser than that which would result from an audit, as to whether the consolidated interim financial statements are free from material misstatement. A review excludes certain audit procedures and is limited to performing analytical procedures and to obtaining information which we considered necessary from Company management and other appropriate sources.

Based on our limited review, nothing has come to our attention that causes us to believe that the half year consolidated financial statements, prepared in accordance with accounting principles generally accepted in France, do not present fairly, in all material respects, the financial position, the assets and liabilities of the group as of September 30, 2004 and the results of its operations for the six month period then ended.

We draw your attention to note 2 of the half year consolidated financial statements for the six-month period ended September 30, 2004 which discloses that the comparative figures of the interim consolidated financial for the period from April 1, 2004 to September 30, 2004 relate to Air France (become Air France-KLM).

We have also reviewed, in accordance with professional standards in France, the information contained in the half year management report on the half year consolidated financial statements on which we have based our review.

We have nothing to report with respect to the fairness of such information and its consistency with the half year consolidated financial statements.

Paris La Défense et Neuilly-Sur-Seine, April 12, 2005

KPMG Audit		Deloitte & Associés
Department of KPMG S.A.		
Jean-Paul Vellutini	Jean-Luc Decornoy	Pascal Pincemin
Partner	*Partner*	*Partner*

CHAPTER VI
CORPORATE GOVERNANCE

The *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625 also includes information on Air France and Air France-KLM. This information remains accurate, subject to the additional information included in this prospectus.

6.1 Composition of the current Board of Air France

6.1.1 Board of directors

6.1.1.1 Organization

Air France is subject to French corporate law and to the French Civil Aviation Code. As such, the Chairman must be appointed by the Board of Directors. At the meeting on September 15, 2004, the Board of Directors voted not to separate the functions of the Chairman and Chief Executive Officer. In addition, it nominated a Deputy Chief Executive Officer.

Directors are appointed for a six-year period of office. The minimum number of shares to be held by directors has been set at 1.

In addition to the legal and statutory provisions, the Board of Directors is governed by Air France's bylaws in accordance with the rules of good governance presented in the 2002 AFEP-MEDEF reports. A Code of ethics defines the rights and obligations of Directors, notably for Directors' obligations on confidentiality issues, conflicts of interest and trading in Air France-KLM's stock, as well as the matters to be decided on by the Board.

The roles of the two specialized committees on the Board are defined in the bylaws : the Audit Committee and the Strategy Committee.

Since September 15, 2004, the Board of Directors met five times. On average, Board meetings last for four hours. The attendance rate for directors was 92%. The Board oversaw a number of key projects relative to Air France's business.

6.1.1.2 Composition of the Board of directors

The current Board of Directors comprises 18 members:

- 11 representatives of shareholders other than the employees, appointed at the General Shareholders' Meeting ;
- 1 representative of the French state appointed at the General Shareholders' Meeting; and
- 6 employee representatives, pursuant to the provisions of the Civil Aviation Code, including :
  - 1 elected by flight deck crew ;
  - 1 elected by cabin crew ; and
  - 4 elected by other employees, including a representative of managerial staff.

The status and the rules and procedures for electing those representatives are provided for both in Articles L.225-27 to L.225-34 of the French *Code de commerce* and in the issuer's bylaws.

As at March 31, 2005, the issuer's Board of Directors is composed as follows:

Name	First appointed	Directorships
Chairman and Chief Executive Officer:		
M. Jean-Cyril SPINETTA	September 15, 2004	Chairman and Chief Executive Officer. Chairman and Chief Executive Officer of Air France-KLM. Director of Alitalia. Permanent Representative of Air France on the Board of Directors of the company Le Monde Entreprises.
Directors :		
M. Pierre-Henri GOURGEON	September 15, 2004	Chief Operating Officer (*Directeur Général Délégué*) and Permanent Representative of Air France-KLM, Chief Operating Officer of Air France-KLM, Chairman of Amadeus GTD. Director of ASF and Stéria.
M. Jean-Pierre AUBERT	September 15, 2004	Chairman and Chief Executive Officer of Consortium de Réalisation (CDR).
M. Christian BOIREAU	September 15, 2004	Senior Vice President Commercial France (*Directeur Général Adjoint Commercial France*). Director of Fréquence Plus and Amadeus GTD (Madrid).
M. Philippe CALAVIA	September 15, 2004	Chief Financial Officer (*Directeur Général Délégué Economie-Finances*). Chairman and Chief Executive Officer of Air France Finance SA. Director of : Air France Finance Ireland, Amadeus GTD, Pension fund of Air France employees. Member of the Supervisory Board of Horizon Epargne Mixte. Permanent Representative of Air France on the Board of Directors of Servair SA. Permanent Representative of Air France Finance on the Board of Directors of Brit Air SA.
M. Philippe CADOREL	September 15, 2004	Director representing cabin crew.
M. Jean-Louis CHAMBON	September	Director of Sustainable Development,

	15, 2004	Atomic Energy Commission. Member of the Supervisory Board of Maurel et Prom.
M. Dominique-Jean CHERTIER	September 15, 2004	Vice President of Social and Institutional Affairs (*Directeur Général Adjoint Affaires sociales et institutionnelles*), SNECMA. Director of the company Messier-Dowty International (SNECMA Group).
M. Jean-François COLIN	September 15, 2004	Senior Vice President of Human Resources (*Directeur Général Adjoint Politique Sociale*).
M. Michel FAURÉ	September 15, 2004	Director representing employees.
M. Pascal de IZAGUIRRE	September 15, 2004	Senior Vice President Ground Operations. Director (*Directeur Général Adjoint Exploitation Sol*) of Servair.
Mme Rose-Marie van LERBERGHE	September 15, 2004	Director of Assistance Publique des Hôpitaux de Paris. Member of the Board of Directors of Institut Pasteur.
M. Daniel MACKAY	September 15, 2004	Director representing employees.
M. Pascal MATHIEU	September 15, 2004	Director representing managers employees.
M. Bernard PÉDAMON	September 15, 2004	Director representing flight deck crew.
M. Jean PEYROT	January 20, 2005	Director representing the French State.
M. Pierre WEILL	September 15, 2004	Chairman of the Supervisory Board of TNS Sofres. Director of TNS Intersearch, and of Leger Marketing (Quebec).
M. Pascal ZADIKIAN	September 15, 2004	Director representing employees.

6.1.1.3 Committees of the Board of Directors

The Board of Directors is the corporate body that directs and controls the management of Air France. As such, the Board works with the Executive Management team to ensure that Air France runs smoothly based on the opinions and recommendations of the specialized committees.

To provide assistance to it, the Board of Directors created on November 23, 2004, two specialized committees : an audit committee and a strategy committee.

- the Audit Committee is composed of seven board members, including three independent directors, three directors elected by employees and a representative of the French State. The first meeting of this committee is expected to take place in May 2005, before the cut-off date for the annual financial statements.
- the Strategy Committee is composed of six board members, including two independent directors and three directors elected by employees. This committee is chaired by the Chief Executing Officer. It met on February 7, 2005 and its attendance rate was 100%. This meeting focused on the long-haul fleet.

6.1.1.4 Executive Committee

The executive committee meets each week to discuss principal issues and is responsible for the management of Air France: it includes the main managers of each of the company's activities and operational functions. It is presided over by the Chief Executive Officer. This committee is composed of the following members:

Jean-Cyril SPINETTA
Chairman of the Board and Chief Executive Officer

Pierre-Henri GOURGEON
Chief Operating Officer (*Directeur Général Délégué*)

Philippe CALAVIA
Chief Financial Officer (*Directeur Général Délégué Affaires Economiques et Financières*)

Auguste GAYTE
Deputy Chief Operating Officer General Coordination (*Directeur Général Délégué Coordination*)

Patrick ALEXANDRE
Senior Vice President International Commercial Affairs (*Directeur Général Adjoint Commercial International*)

Alain BASSIL
Senior Vice President Industrial Logistics (*Directeur Général Adjoint Logistique Industrielle*)

Marc BOUDIER
Executive Vice President Air France Cargo
(*Directeur Général Adjoint d'Air France Cargo*)

Christian BOIREAU
Executive Vice President Commercial France
(*Directeur Général Adjoint Commercial France*)

Jean-François COLIN
Senior Vice President of Human Resources
(*Directeur Général Ressources Humaines*)

Pascal de IZAGUIRRE
Senior Vice President Ground Operations
(*Directeur Général Adjoint Exploitation Sol*)

Bruno MATHEU
Senior Vice President Network Management
(*Directeur Général Adjoint Marketing et Réseau*)

Jacques PICHOT
Senior Vice President Social Policy (*Directeur Général Adjoint Politique Sociale*)

Gilbert ROVETTO
Senior vice President Flight Operations
(*Directeur Général Adjoint Exploitation Aérienne*)

6.1.2 Internal control procedures as at March 31, 2004

The below description of the internal control as at March 31, 2004 remains valid for Air France (beneficiary of the transfer of assets and activities).

6.1.2.1 Functioning of the internal control structure

Chairman of the Board of directors' report on internal control

Internal control procedures

Definition of internal control and the Company's objectives relative to internal control

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

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

It corresponds to a specific set of actions, tasks, practices and controls for each of the Company's functions.

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

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

In order to ensure that the internal control system and procedures are compliant with the new French and American legal requirements, Air France launched a Groupwide project supervised by a member of the Executive Committee in order to analyze the situation and recommend a plan of action.

6.1.3 The committees of the Board of Directors

6.1.3.1 Management committees

The Executive Committee meets on a weekly basis to review key issues and is responsible for the management of the Company. It groups together all the main managers representing the Company's businesses and operational and support functions. It is chaired by the Chairman and Chief Executive Officer.

The Management Board meets on average once a month and its members are the Company's main managers. Chaired by the Chairman and Chief Executive Officer or the Chief Operating Officer, it reviews the Company's activities and provides information for the management team.

The Commercial Committee meets on average once a month and, chaired by the Chief Operating Officer, addresses issues relative to the network, the management of revenues, distribution, company sales as well as alliances and cargo.

6.1.3.2 Operational committees

The Operations and Maintenance Committee, which meets every two weeks, provides feedback and reports on operating events to the Chief Operating Officer, in his capacity of Managing Director pursuant to French air transport regulations, and to the main operational managers for the Secretary General, Air Transportation, Ground Operations, Maintenance, Cargo, Safety, Network Management, etc.

It builds on the work carried out for the weekly meetings on feedback from experiences in the field, during which the quality managers from each business unit analyze the main events encountered.

The Prevention and Flight Safety Committee meets once a year, chaired by the Chief Operating Officer. It reports on the main risks associated with flight safety and looks at the preventive measures adopted to manage them.

This committee's work is prepared by the cross-company prevention and flight safety group that meets every two months.

The review carried out by the Quality/Health and Safety at Work/Environment (QSE) board, chaired by the Chief Operating Officer, takes place at a meeting attended by all the members of the Management Board twice a year. It is the key body responsible for quality management Group-wide.

At these reviews, the following information is presented :

- summary results on the management of and levels of performance on key processes ;
- update on the regulatory supervision program (program of audits and implementation of corrective actions) ;

- progress made on the Company's QSE Plan and the associated indicators, focusing on four key components – customer focus, process management, quality assurance and management – and broken down in a coherent manner for the whole Company.

6.1.3.3 The Secretary General

The Secretary General guarantees the consistency and compliance of operations. A cross-company management vehicle, this office provides support and advice for different entities and acts as a central coordination and mediation body.

It specifically comprises:

- the Operations Control Center, which is responsible for the real-time steering and coordination of operations and the management of crises ;
- the Quality Department, which steers and implements the QSE policy, checks compliance with standards and oversees the continuous improvement of processes ;
- the Environment and Sustainable Development Department, which publishes a comprehensive environmental report each year; an action plan for this area has been included since 2002.

6.1.3.4 The Finance Department

Reporting directly to the Deputy Chief Executive Finance, the Finance Department is responsible for implementing the financial policy defined by the Group's Executive Management.

The Finance Department is split into several departments :

- the Financial Affairs Department, which is in charge of financing resources, cash management, overseeing the auditing of subsidiaries and affiliates, tax and financial communications ;
- the Accounting Department, which is responsible for drawing up the individual and consolidated financial statements, providing information about and monitoring compliance with the accounting standards adopted by the Group as well as the accounting and financial procedures. The Accounting Department is the dedicated contact for the statutory auditors in connection with their legal mission ;
- the Commercial Revenue Department, which is responsible for drawing up transport revenues and inter-company billing ;
- the Management Control Department, which is responsible for drawing up budgets, reports, estimated monthly management figures, savings on lines, investment plans and medium-term plans (in conjunction with the Development Department for the last point) ;
- the Legal Affairs Department, which is responsible for the secretary's office for the Board of Directors, representing the Company in disputes, providing legal advice for the Executive Management team and the various Company managers, and overseeing the Group insurance strategy.

6.1.3.5 The Internal Audit Department

The management of a group such as Air France hinges on the principle of a broad delegation of responsibilities. This principle of delegation implies a strengthening of control functions in order to provide Executive Management with the assurance that this autonomy is being used correctly by each entity.

Reporting directly to the Chairman and Chief Executive Officer, the Internal Audit Department has been tasked to assess the overall level of internal control for the Company and provide the Executive Management team with analyses, assessments and recommendations enabling them to strengthen this control.

To perform its mission, the Internal Audit Department intervenes on its own initiative or as requested by the Executive Management team, corporate or operational divisions and the Audit Committee.

An annual program of missions is drawn up and submitted to the Executive Committee and Audit Committee.

The missions carried out include:

- recurring missions in the Company's various sectors,
- special-interest missions focusing on an issue common to several functions or entities, or on the Company's projects,
- specific missions carried out on request for the Executive Management team or the heads of operational units.

Assignments in the field are based on a program of work that has been validated beforehand.

A synopsis of the audits carried out is given in a report presenting the conclusions of the mission, highlighting the corresponding assessments, risks and recommendations. Corrective action plans are then drawn up by the audited parties and followed up over the next 6 to 12 months.

The Internal Audit department also reports on its work in an annual summary document presented to the Executive Committee and the Audit Committee.

6.1.3.6 The Safety Department

The Safety Department is tasked to ensure that all parts of the Company's safety system comply with the legal and regulatory provisions in force.

It defines the measures to be adopted, draws up and validates rules, and checks their application.

It has operational responsibility for safety, notably with regard to staff who are in charge of flight safety and the coherency of measures applied by all the Company's entities. It reports directly to the Chairman and Chief Executive Officer.

6.1.3.7 The Insurance Department

The Insurance Department is responsible for:

- identifying the Group's vulnerabilities and determining how they may be reduced or transferred either to insurers by means of insurance policies, notably aviation, or to third parties using contractual provisions,
- managing claims,
- providing advice and support for all the Group's entities in order to minimize or manage their risks effectively.

6.1.3.8 The Legal Affairs Department

- provide advice to the Company's Executive Management team and decentralized entities in the areas of corporate law, transport law, labor law and insurance law,

- when necessary, liaising with the decentralized entities and the corporate procurement department, participate in preparations and negotiations for legal documentation,
- coordinate the activities of decentralized legal experts who are functionally linked to the department,
- systematically draw up an inventory of the disputes in process with a view to assessing the corresponding provisions booked as liabilities.

6.1.4 Standards

6.1.4.1 Organization of responsibilities/Delegation of powers

The Company's organizational structure has been defined with a view to ensuring compliance with the principles of secure and efficient operations, factoring in the constraints resulting from the regulatory obligations governing air transport, notably with regard to air transportation, ground operations, industry and aircraft maintenance as well as catering.

The managers of the entities of the Company and its subsidiaries are required to apply these principles and organizational structures at their level, ensuring that the following elements are up to date:

- organization charts: hierarchical links, functional links, regulatory responsibilities ;
- job descriptions: individual roles and responsibilities ;
- procedures: roles and responsibilities defined by business processes.

They must ensure that their organizational structure is coherent and compliant, that it is taken into account in the information systems that are vital to the Company's operations and that it is appropriately integrated within the organization.

In its legal structure, the Company has implemented a system for the delegation of powers both to comply with obligations under air transportation regulations and to ensure that its decision-making processes are effective thanks to clear definitions of the roles and responsibilities of each agent.

6.1.4.2 Social Charter and Code of Ethics

Signed by the trade unions represented on Air France's European Works Council, the European Trade Union Confederation and the Chairman of Air France, Jean-Cyril Spinetta, on June 25, 2001, the Social Charter and Code of Ethics is designed to meet a key requirement: involving the employees of Air France and its subsidiaries around the world in a common vision of the Company, in line with the fundamental values and rights on which the Group's identity is founded, and that guide its social and ethical policy based on respect for people at a professional, social and citizen level.

As such, this Charter and Code of Ethics reflect the Air France Group's commitment to being a socially responsible company.

6.1.4.3 Charter for the Prevention of Harassment at Work

The Charter for the Prevention of Harassment at Work, which is in line with French legislation and the Company's contractual approach through agreements concluded in favor of ground staff and flight crew, is designed to:

- incorporate the legal provisions for the protection of employees,
- define prevention principles,

- outline prevention actions,
- highlight the human and legal responsibilities of all In order to safeguard the dignity of each individual,
- set up internal prevention procedures.

This Charter, which concerns all the Company's staff (ground and flight) performing their professional activities in Metropolitan France and French overseas territories will be distributed to all employees in booklet form, including a presentation on the appropriate application of the Charter.

6.1.4.4 Internal Audit Charter

The Internal Audit Charter defines the mission of the Audit Department as well as its objectives and responsibilities, and guarantees the right conditions for performing the function. In accordance with the international and national professional code of ethics, it formalizes the position of the Audit Department within the Company and defines its sphere of action.

It also specifies the methods for its operations and the various stages in the audit process as well as a summary of the missions carried out.

6.1.4.5 Procurement Quality Manual

The Procurement Quality Manual describes the procurement process and the associated procedures applied within the Company. This process is based on mandatory phases such as the "Consult Suppliers" stage, which ensures that the selection of suppliers or service providers is impartial and objective.

The Procurement Quality Manual also includes the Procurement Code of Ethics, which defines guidelines for the behavior of all Company staff dealing with suppliers or service providers and informs all the players concerned about the limits that should not be crossed.

6.1.4.6 Safety Manual

The Safety Manual fulfils the need to submit a safety program defining the conditions for obtaining and maintaining the air transport certificate delivered by the Civil Aviation Authority. It must be compliant with European standards as well as the national safety program.

The manual incorporates the new European regulations and French decrees relative to air safety. It represents the frame of reference used by the Company's agents, once they have been given specific training by accredited trainers.

6.1.4.7 Quality System

Air France's Quality System is based on the following main internal and external standards:

(a) **External standards:**

- regulations: French regulations (based on European regulations) and general laws applicable;
- passenger service: European commitments under the Association of European Airlines (AEA), service level agreements for air transport players (Airports);
- management systems: ISO 9000 and 14000 series.

(b) **Internal standards:**

These represent the application of the external standards, tailored to the Company's processes:

- regulations: regulatory manuals (operating manual, maintenance manuals, safety manual, health and safety at work manual, etc.) and associated general procedures, which in most cases have been formally validated by the supervisory authorities issuing accreditations (CAA, FAA, etc.);
- passenger service: 330 indicators covering the entire passenger handling chain, serving as a basis for the service certification process;
- management systems: the Company's quality manual and the associated general procedures.

6.1.5 Summary information on internal control procedures

6.1.5.1 Procedures associated with steering processes

6.1.5.1.1 Organization and structure of the Group (including subsidiaries)

Air France's structure is based on the Company's main businesses:

- commercial business: with the Marketing and Network Departments – French Commercial Affairs and International Commercial Affairs – responsible for planning, products, sales, revenue management and distribution ;
- production business: with the Ground Operations Department, which is chiefly responsible for the connection platform at the Roissy CDG hub, and the Air Transportation Department, which is chiefly responsible for carrying out the Company's flights ;
- cargo business: managed by the Cargo Department ;
- industrial business: managed by the Industrial Department, which is responsible for aircraft maintenance and industrial activities for airframes, equipment and engines ;
- central support functions: support operations (Human Resources, Economics and Finance, General Secretariat, Coordination, Information Systems, International Affairs and Alliances).

Air France has a controlling interest in some sixty subsidiaries and affiliates. For the 13 biggest, which account for over 95% of revenues for all subsidiaries combined, a budget procedure has been defined and is overseen by the Air France Finance Department.

Every month, the 13 main subsidiaries send in a management report, analyzing the change in financial results over the month in question in relation to the budget and the previous year. A procedure has been rolled out in these subsidiaries for a monthly close of accounts in order to be able to consolidate the financial data for the Air France Group each month. The Group publishes quarterly consolidated financial statements.

Each year, the subsidiaries take part in the medium-term strategic planning procedure, which is incorporated into the Air France strategic plan (MTT – medium-term target).

Air France's Audit Department conducts missions in subsidiaries, as requested by the Air France Executive Management team or Finance Department, which makes it possible to validate the correct application of the Air France Group's procedures in specific cases.

The policy for using the same statutory auditors at the subsidiaries as at Air France makes it possible to further strengthen the coherency of accounting and financial methods and procedures within the Air France Group.

The Company's management forecasting system is based on the following three key approaches:

- the corporate strategic vision (CSV), with a long-term focus (5 to 10 years), which is updated every year in September at a seminar for the Executive Committee attended by representatives from the Development, Corporate Control and Innovation Departments ;
- the medium-term target (MTT), which represents the expression of this vision, looking three years ahead in terms of growth, investments and the associated human resources, with comprehensive economic figures presented and discussed in December, and a definition of action plans on revenues and costs ;
- the IATA budgets for the year, which incorporate the first year of the MTT and are drawn up per cost center and consolidated for the Company.

6.1.5.2 Procedures associated with operational processes

6.1.5.2.1 Quality System management:

Air France's Quality Manual describes all the general provisions of the Air France Quality System, *i.e.* all the organization, management, customer satisfaction and support processes, procedures and necessary resources to implement the system to manage quality and satisfy customers. This manual is gradually developing into a QSE Manual (Quality/Health and Safety at Work/Environment).

In each of the Company's main divisions, Quality/QSE reviews are held on a regular basis in order to review the Quality/QSE management systems and measure the performances of the main processes managed by the Department.

In addition to the regulatory agreements that enable the Company to conduct its business, the recognition of progress made is reflected in certifications obtained from independent bodies, notably:

- ISO 9001 certification (2000 version) for the efficiency of the management systems (55 entities certified at March 31, 2004) ;
- certification of services in line with the Company's commitment on services provided to passenger customers (50% of the scope certified since 2001) ;
- ISO 14001 certification for the validation of the environmental systems (3 entities certified at March 31, 2004).

6.1.5.2.2 Quality Assurance

Control over operational processes is based primarily on three means of supervision.

Internal supervision carried out by the quality assurance departments, based on:

- a program of audits (focusing on the areas of organization and management, air transportation, flight preparation, ground and cargo operations, dangerous goods, engineering and maintenance),
- regular monitoring of operations, with an analysis of incidents and feedback on experiences implemented systematically,
- proactive prevention processes.

External supervision performed by the authorities (CAA, FAA, etc.) and organizations specializing in certification, with audits of the operating principles and internal supervision system. Air France is also regularly assessed by its customers and partners.

Supervision of our partners sub-contractors or suppliers, notably charter, franchised or code-sharing companies are subject without exception to a preliminary audit, and then a twice-yearly review by the CAA.

The effective implementation of preventive/corrective actions resulting from this global supervision system is monitored by the quality assurance departments, coordinated by the Corporate Quality Department. Monthly meetings are held, notably making it possible to validate the correct implementation of this surveillance system and assess its impacts.

6.1.5.3 Procedures associated with the support processes

6.1.5.3.1 Finance processes

The Investment Committee:

The investment committee meets each year in connection with preparations for the budget for the coming financial year and is made up of the Chief Operating Officer, the Chief Financial Officer and the other Managers concerned by the investment projects submitted to the Committee.

The investment committee reviews progress made and the implementation of investments for the current financial year and the global budget for investments for the following year, and on an individual basis looks at the main components: fleet, commercial and technical aeronautical modifications, real estate projects, etc.

Furthermore, an Information System Committee (ISC), comprising the members of the Executive Committee and chaired by the Chairman and Chief Executive Officer, rules on the strategies adopted for the development of information systems downstream from the investment committee.

Each investment project is then subject to a specific authorization process (Request for Authorization to Invest), analyzing the economic viability of the project and its feasibility for major investments. Above certain thresholds, investments must first be authorized by the Head of Management Control, the Chief Financial Officer or the Chief Operating Officer.

Risk coverage:

The Group's cash position is monitored daily. Every month, the treasury department draws up a comprehensive report detailing, among other things, the Company's interest rate and foreign exchange positions, the portfolio of hedging operations, a summary of investments and financing for each currency as well as a statement monitoring counterparty limits. This report is submitted to the executive management team. Regular meetings are held with executive management to review interest rate and foreign exchange positions. Hedging decisions are taken during these meetings, then implemented by the treasury department in accordance with the procedures governing the delegation of powers.

In order to limit the impact of fluctuations in oil prices, the Air France Group has introduced a price hedging policy. It is implemented by a specific team under the responsibility of the Chief Procurement Officer and decided on during regular meetings chaired by the Chief Operating Officer and attended by the Chief Financial Officer. The main hedging instruments used are swaps and options. The quality of counterparties is verified by the Finance Department. A weekly report is submitted to executive management.

6.1.5.3.2 Revenue reporting process

The Commercial Revenue Department is structured so as to provide the amount of revenues on passenger and cargo transport based on two methods: a daily method (called ¡°progressive revenues¡±), which enables Executive Management to know within two days the estimated amount of passenger revenue for the day in question as well as the total accrued since the beginning of the month, and another monthly method, which makes it possible to have the actual revenues for the month as booked in the accounts after processing for passenger and cargo applications.

In addition, a department from the Marketing and Network Division and Air France Cargo analyses the results for each market, line and product (unit revenues per passenger kilometer, per available seat kilometer, etc.).

6.1.5.3.3 Accounting processes and production of accounts

The financial statements are drawn up by the Accounting Department based on the information submitted by the finance departments of the Company and its subsidiaries around the world. The manual of accounting procedures is designed to meet the objective for the compliance of accounting records. The accounting information provided by subsidiaries must comply with the Group's accounting rules, methods and standards defined by the parent company and the financial statements must be presented in accordance with the format defined by the Group.

The consolidated and parent company financial statements are submitted to the Chief Financial Officer and the auditors for review prior to being approved at a summary meeting.

They are then submitted to the Audit Committee, which meets to validate the accounts twice a year for the interim and annual financial statements. Furthermore, the Chairman and the Chief Financial Officer sign a statement that is issued to the statutory auditors twice a year (for the half-year financial statements, subject to a limited review, and the annual financial statements, subject to an audit).

6.1.5.3.4 Management reporting process

The Management Control Department is responsible for coordinating the Company's reporting process and at the beginning of each month, draws up management estimates based on the activity information available. Then, once the accounting results are known, it produces a monthly document grouping together the main items on the activity, workforce, accounting and financial elements. Each month, the Corporate Control Department works with the Company's main departments to review and analyze the economic performance over the past month and evaluate the results of the months to come, through to the end of the current financial year.

6.1.5.3.5 Information systems

The control processes cover the Company's information and telecommunication systems and are based on an approach to formalize ISO 9001-certified procedures.

The systems implemented seek to guarantee:

- the reliability of the IT and telecommunications resources;
- the integrity of the data through dedicated resources, infrastructures and controls;
- the continuity of IT services and the availability of data on the three production sites with a common local contingency strategy, secure architecture and a security system covering external points of access;
- the confidentiality of information and the security of IT infrastructures by setting up an access system that is secure, monitored and effective.

The Information Systems Department defines the policies for managing the operations, security and coherency of the information systems installed.

6.1.5.3.6 Procurement

The Procurement function's operations are based on a procurement policy focusing on seven key goals:

- improve control over the Company's external spending ;
- drive down global costs, factoring in spending linked to sourcing for logistics, maintenance, inventories, etc ;
- continuously optimize the supplier panel ;
- separate the functions of orderer, buyer and supplier in order to optimize the definition of requirements and ensure compliance with the code of ethics for purchases ;
- systematically draw up contracts with suppliers to secure the relationship and manage risks effectively ;
- guarantee the compliance of the goods and services purchased by putting suppliers under the supervision of the panel based on Quality Assurance processes ;
- make the Procurement function more professional and manage skills.

6.1.5.3.7 Human resources

The human resources process covers the management of recruitment, skills, development and internal mobility as well as labor relations with both ground staff and flight crew.

It is based on procedures for the hiring, training and development of staff in addition to a compensation policy.

The dialogue between trade unions and employers is reflected in a policy of drawing up contracts with the labor-management partners.

The agreement for making progress together concerning ground staff will be in force until 2005; the collective agreement for cabin crew runs from 2003 to 2008; the collective agreement for flight deck crew covers the period from 2003 to 2005; furthermore, a medium-haul service level agreement was recently concluded with cabin crew representatives.

6.1.5.3.8 Chairman of the Board of Directors' report on internal control

As indicated at the beginning of the second chapter in this report, the Company has set up a taskforce to oversee the project on internal control; its mission is to conduct an analysis based on external advice and propose a development plan in conjunction with each of the entities, with particular emphasis on monitoring significant risks.

This process takes into account the new legal context in which Air France is operating and chiefly the creation of the Air France-KLM Group and its listing in the United States.

6.1.5.4 Statutory Auditors' report, prepared in accordance with article L. 225-235 of the French *Code de commerce*, regarding the report prepared by the President of the Board of Air France S.A. (now known as Air France-KLM) on the internal control procedures relating to the preparation and processing of financial and accounting information

To the shareholders,

In our capacity as statutory auditors of Air France S.A. and in accordance with article L. 225-235 of the French *Code de commerce*, we report to you on the report prepared by the President of your company in accordance with article L. 225-37 of the French *Code de commerce* for the year ended March 31, 2004.

Under the responsibility of the board, it is for management to determine and implement appropriate and effective internal control procedures. It is for the President to give an account, in his report, notably of the conditions in which the duties of the board of directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These guidelines require us to perform procedures to assess the fairness of the information set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of our procedures, we have no matters to report in connection with the information given on the internal control procedures of the Company relating to the preparation and processing of financial and accounting information, contained in the President of the board's report, prepared in accordance with article L. 225-37 of the French *Code de commerce*.

Paris La Defense and Neuilly-sur-Seine, July 22, 2004

The Statutory Auditors

KPMG Audit Department of KPMG S.A.		Deloitte Touche Tohmatsu - Audit
Jean-Paul Vellutini	Jean-Luc Decornoy	Pascal Pincemin
Partner	*Partner*	*Partner*

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

6.2 Interest of managers and representatives of the Issuer

6.2.1 Compensation of directors and members of Board Committees

At the Annual General Meeting on September 15, 2004, a total of 400,000 euros was allocated to the members of the Board of Directors for attendance fees (*jetons de présence*) as of the 2004-05 financial year. On March 16, 2005, the Board of Directors decided that attendance fees should be allocated as follows:

In euros	Fixed compensation	Variable compensation*
Director	6,000	6,000
Committee Chairman		-
• Audit Committee	5,000	-
• Other committees	3,500	-
Committee member		-
• Audit Committee	1,500	1,500
• Other committees	1,000	1,000

*The variable part of the attendance fees is based on the actual attendance of members at the meetings of the Board of Directors and General Shareholders' Meetings.

6.2.2 Compensation for corporate officers and representatives

On November 23, 2004, the Board of Directors of société Air France decided that neither the Chairman and Chief Executive Officer, nor the Deputy Chief Executive Officer would get compensation for fulfilling their duties as Chairman and Chief Executive Officer and Chief Operating Officer of Air France, respectively.

6.2.3 Stock options granted to corporate officers and representatives

None.

6.2.4 Executive interests in the issuer's capital

None.

6.2.5 Regulated transactions

1. On forming the holding company, three agreements were approved by the Boards of Directors of Air France and Air France-KLM, respectively, on September 15, 2004 :

- a services agreement that defines the terms and conditions under which Air France will provide Air France-KLM, at Air France-KLM's request, technical and administrative support, including, if necessary, secondments. Fees for such services equal the cost price of such services;
- a domiciliation agreement (use of office space located at Invalides for free);
- a cash and cash equivalents facility (*convention de trésorerie*), including the availability of a credit line. The effective interest rates is EONIA + 60 points.

2. The procedure provided for Article L225.38 of the French *Code de commerce* was followed by both Air France and Air France-KLM with respect to the agreements relating to the sale of Amadeus France to Amadeus GTD, as Air France and Air France-KLM had directors in common. Under the same procedures the agreements relating to the variation of Air France's stake in Amadeus GTD were pre-approved by both companies (decisions of their respective Boards of Directors dated November 23, 2004 and January 20, 2005).

3. The agreement relating to the compensation of the Chairman and Chief Executive Officer and of the Deputy Chief Executive Officer, which included an agreement on passing on Air France its share of the amounts paid by Air France-KLM, was also approved by both Air France and Air France-KLM (decisions of their respective Boards of Directors dated November 23, 2004).

6.3 Loans and guarantees granted to corporate officers and representatives

None.

6.4 Employees participation

See the 4.1.2 ("Employees") above.

CHAPTER VII
INFORMATION ON RECENT DEVELOPMENTS AND FUTURE PROSPECTS

The *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625 also includes information on Air France and Air France-KLM. This information remains accurate, subject to the additional information included in this prospectus.

7.1 "Salary-share swap" agreement and reserved offering to employees

On September 18, 2003, Air France concluded, in accordance with applicable legal and regulatory terms and conditions, a "salary-share swap" agreement with its staff, under which the company's employees will be able to purchase Air France shares directly from the French State in return for voluntary wage cuts over a six-year period. This possibility has been available when the French State sold part of its interest in Air France.

On December 9, 2004, the French State decreased its stake in Air France-KLM, which made it possible to carry out the following two operations: (i) a reserved offering of Air France shares to current employees of both Air France and Air France's subsidiaries in which Air France holds a majority stake, and to former Air France's employees, and (ii) a "salary-share swap" agreement.

Insofar as the French state will provide all the shares offered to employees, but will share the profits generated by the reduction in salaries with the other shareholders of Air France-KLM, an agreement was concluded between Air France and the French State, with Air France to pay compensation to the State for the costs relative to the "salary-share swap". As of the date on which the French Government allocates its shares to Air France employees, Air France will have two years to pay such compensation.

Under the "salary-share swap" agreement, employees acquired 96% of the offered shared, *i.e.* 12,612,671 Air-France-KLM shares.

Under the offering reserved to employees, the employees subscribed to 8,414,273 Air France-KLM shares, such demand amounting to 149% of the offered shares.

7.2 Third and fourth quarters 2004-05 Air France traffic

Over the 2004-05 financial year, Air France passenger load factor increased by 1.6 point (77.2%) as passenger traffic increased by 8.3% (estimated in revenue pax-kilometers) on a 6.1% higher passenger capacity (estimated in available seat-kilometers). Over the third and fourth quarters of 2004-05, Air France passenger load factor increased by 1.4 point (76.4%) as passenger traffic increased by 5.2% on a 3.0% higher passenger capacity.

Over the 2004-05 financial year, Air France cargo load factor increased by 0.1 point (63.4%) as cargo traffic increased by 9.8% (estimated in revenue tonne-kilometers) and on a 9.6% higher cargo capacity (estimated in available tonne-kilometers). Over the third and fourth quarters of 2004-05, Air France cargo load factor increased by 0.4 point (64.2%) as cargo traffic increased by 8.4% on a 7.7% higher cargo capacity.

7.3 Sale of interest in Amadeus France to Amadeus GTD

7.3.1 Air France-KLM press release dated January 12, 2005, regarding Amadeus

Following the announcements of the 17th August, 25th November and 30th December 2004, the airline reference shareholders of Amadeus, Air France, Iberia and Lufthansa confirm that BC Partners and Cinven have submitted a proposal to launch, through a new company, together with the airline reference shareholders a public tender offer over 100% of the Class A shares of

Amadeus at an offer price of EUR 7.35 per A share with the aim to de-list Amadeus as soon as possible. The reference shareholders have selected this proposal and have hence entered into exclusive negotiations with BC Partners and Cinven with a view to agreeing the terms and conditions of the proposed transaction as soon as possible. If the corresponding agreements are reached, the reference shareholders, BC Partners and Cinven will immediately launch the said public tender offer.

The airline reference shareholders have the intention to remain as shareholders in Amadeus without prejudice that they will also tender part of their shareholding and they will make public any other relevant fact that may arise in this transaction.

7.3.2 Air France-KLM press release dated February 7, 2005, regarding Amadeus

In compliance with Article 82 of Spanish Securities Market Law 24/1988, Société Air France, Iberia Líneas Aéreas de España S.A. and Deutsche Lufthansa AG hereby notify the Spanish Securities Market Commission of the following.

Société Air France, Iberia Líneas Aéreas de España S.A. and Deutsche Lufthansa AG with BC Partners and Cinven through the Luxembоug company Amadelux Investment, announce that on February 10, 2005 the funds BC Partner and Cinven have filed with the European Commission the Form CO provided for in Council Regulation (EC) Nº 139/2004, dated 20 January 2004, seeking authorisation for the Public offer that they intend to launch on the Amadeus class A shares at 7,35 euros per share. The notification to the European Commission has been made on the merits of the expected framework of the transaction, whose details the Airlines, BC Partners and Cinven continue negotiating. An announcement will be made when there are any developments in this regard.

The merger control procedure before the European Commission generally takes twenty-five (25) business days in phase 1.

It is expected that Amadelux will notify the transaction to the United States Federal Trade Commission and the United States Department of Justice (collectively the “United States of America Antitrust Authorities”) pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended on or about 16 February 2005. Amadeus will also notify the transaction to the United States of America Antitrust Authorities; it is expected that Amadeus will file such notification on the day Amadelux files its notification or within 15 calendar days thereafter.

The Airlines will also announce any decision that may be adopted by the European Commission under the merger control regime and by the United States of America Antitrust Authorities.

7.3.3 Air France-KLM press release dated March 11, 2005, regarding Amadeus

In compliance with Article 82 of Spanish Securities Market Law 24/1988, Société Air France, Iberia Líneas Aéreas de España S.A., Deutsche Lufthansa AG and Amadelux Investment S.A. hereby notify the Spanish Securities Market Commission of the following:

In the context of the negotiation exclusivity granted by Société Air France, Iberia Líneas Aéreas de España S.A. and Deutsche Lufthansa AG (the “**Airlines**”) to BC Partners and Cinven and in accordance with the relevant event dated 12 January 2005, the Airlines have reached today an agreement with BC Partners and Cinven:

- on the main terms and conditions for Wam Acquisition S.A. (the “**Bidder**”), a newly created company to be held by the Airlines and by Amadelux Investments S.A, a Luxembourg company owned by funds managed by Cinven and BC Partners to launch a public offer for the acquisition of 100% of the Class A shares in Amadeus Global Travel Distribution S.A. ("**Amadeus**") at the price of 7.35 euros per share; and

- the terms governing their relationship as shareholders of the Bidder.

The financing documents are in the process of being finalised.

The offer will be launched upon satisfaction of the following conditions:

(i) clearance by the European Commission and the United States of America Antitrust Authorities under the relevant merger control regimes; and

(ii) execution of the financing documents.

The Airlines and Amadelux will publicly announce the fulfilment of the aforementioned conditions as soon as they are met and the Bidder will apply accordingly to the CNMV for the offer to be authorised.

7.3.4 Air France-KLM press release dated March 18, 2005, regarding Amadeus

In compliance with Article 82 of Spanish Securities Market Law 24/1988, and in relation to the relevant events dated 20 February and 11 March 2005, Société Air France, Iberia Líneas Aéreas de España S.A., and Deutsche Lufthansa AG (the "Airlines") and Amadelux Investment S.A. ("Amadelux"), hereby communicate to the Spanish Securities Market Commission the following.

The proposed joint takeover bid by the Airlines and Amadelux for the acquisition of 100% of the Class A shares in Amadeus (other than Amadeus' treasury shares and those Class A shares in Amadeus owned by the Airlines that will be blocked from accepting the public bid) at a price of €7.35 per share has been cleared :

- on 16th March by the European Commission under Article 6(1)(b) of the Council Regulation (EC) No. 139/2004, of 20 January 2004
- on 17th March by the end of the waiting period required by the relevant United States of America regulatory authorities under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

The aforementioned joint takeover bid remains subject to the finalization of the financing documentation in respect of the bid.

7.3.5 Air France-KLM press release dated April 8, 2005, regarding Amadeus

In relation to the relevant event dated 18 March 2005, and following the fulfilment of the conditions therein, Société Air France, Iberia Líneas Aéreas de España S.A. and Deutsche Lufthansa AG (through its subsidiary Lufthansa Commercial Holdings GmbH) (the **"Airlines"**) and Amadelux Investment S.A., (**"Amadelux"**, a Luxembourg company fully owned by funds managed by BC Partners and Cinven), have resolved to launch a public bid for the class A shares of Amadeus Global Travel Distribution, S.A. through a newly incorporated company Wam Acquisition S.A. (the **"Bidder"** and the **"Bid"**). To this purpose, they have filed today with the Spanish Securities Market Commission the necessary documentation applying for the authorisation of the Bid, which main terms are the following:

1. The Bid will be addressed to 100% of Amadeus Class A Shares (*i.e.* 590,000,000 Class A Shares) except for: (i) 24,298,558 class A shares blocked by Air France (*i.e.* 16,418,621 shares) and Iberia (*i.e.* 7,879,937 shares), and which will be directly contributed or transferred to the Bidder upon the successful outcome of the Bid and at the same price offered in the Bid (*i.e.* € 7.35), and (ii) 13,726,927 Amadeus treasury class A Shares that have also been blocked by this later company.

Consequently, the Bid will be addressed to a maximum of 551,974,515 Class A shares in Amadeus.

The total number of class B shares which have been equally blocked by the Airlines will be contributed to the Bidder upon the successful outcome of the Offer at nominal value (€0.10).

In any case, and taking into account that Amadeus class A shares are also listed in the stock exchanges of Paris (France) and Frankfurt (Germany), the Offeror will comply with the appropriate formalities legally required as to extend the Offer to these jurisdictions.

2. This Offer is structured as a sale and purchase. The consideration offered by the Bidder amounts to SEVEN EUROS AND THIRTY-FIVE CENTS OF A EURO (7.35 €) for each class A share in Amadeus. This price represents a 49.4 % premium with regard to the closing price of Amadeus shares on the last trading day prior to 17 August 2004. On this date the first relevant fact informing the market on the interest of several investors in Amadeus was published.

In order to guarantee the execution and payment of the price of the sale and purchases having place as a result of the Offer, the Offeror has filed with the CNMV a first demand and irrevocable bank guarantee for the amount of euros 4,057,012,685.25, such amount being equivalent to the price offered for all the shares to which the Offer is addressed.

3. The Bid is conditioned to the acquisition of a minimum of 428.796.291 class A shares in Amadeus, representing 77.68 % of the shares to which the Bid is addressed.

4. The Airlines, which jointly own 46,69 % of Amadeus class A shares (in the case of Deutsche Lufthansa AG, through its subsidiary Lufthansa Commercial Holdings GmbH), have committed to accept the Bid with all the class A Shares owned by them save for the Class A Shares that will be directly contributed to the offeror upon the successful outcome of the Bid as per number 1 above and in the terms described in the prospectus.

5. The Offer will be funded by means of equity and shareholders' loans as well as by bank financing, which has already been committed.

6. Provided the Bid is successful, the shareholding of the Airlines and Amadelux in the Bidder will be as follows:

Shareholder	**Pecentage of equity (common stock and preference shares)**
Amadelux	53.27 %
Air France-KLM	23.37 %
Iberia	11.68 %
Lufthansa Commercial Holdings GmbH	11.68 %
Total	**100 %**

Furthermore, approximately 100 members of Amadeus' management team worldwide may subscribe for a shareholding in the Bidder jointly amounting to 2.08% of its capital stock. In such case, the above shareholdings would be as follows:

Shareholder	Percentage of equity (common stock and preference shares)
Amadelux	52.16 %
Air France-KLM	22.88 %
Iberia	11.44 %
Lufthansa Commercial Holdings GmbH	11.44 %
Management	2.08 %
Total	**100 %**

7. In the event the Bid is successful, the Bidder, Amadelux and the Airlines have agreed to seek simultaneously the delisting of the shares of Amadeus within the shortest possible term from all the relevant Stock Exchanges. All the necessary legal requirements will be fulfilled for this purpose. Without prejudice to the decisions of the Spanish Securities Market Commission, the Bidder, Amadelux and the Airlines consider that the purchase of the shares which may take place within the frame of the delisting procedure will be carried out at the price of the Bid, i.e., € 7.35 per share.

For this purpose, an evaluation report produced by an independent expert has been filed together with the relevant Explicative Prospectus for the Offer.

8. In addition, as indicated in the relevant event dated 18 March 2005, in relation to the antitrust regulations it is stated that the concentration resulting from the Bid has been approved by the European Commission by decision dated 16 March 2005. Moreover, on 17 March 2005 expired the waiting period set forth in the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

7.4 Air France-KLM press release dated April 7, 2005, regarding the signing of a €1.2 billion syndicated multicurrency revolving credit facility

Air France today signed a € 1.2 billion five year syndicated multicurrency revolving credit facility with 19 international banks.

€ 1.2 billion facility to sustain Air France's expansion

Taking advantage of favourable market conditions, Air France finalised on 7th April 2005 the early refinancing of its € 1 billion credit facility which was due to mature in August 2006.

The 5-year facility - with two one-year extension options exercisable after years 1 and 2 - will enable Air France to:

- strengthen its liquidity position and can be used for its general corporate purposes,
- diversify its sources of financing, in addition to existing structured aviation finance deals.

It allows Air France to start the new fiscal year with a full commitment now maturing in April 2010.

International banking syndicate

The syndicate comprises 19 leading banks: 7 from France, 3 from the United Kingdom, 4 from Germany, 2 from the United States, 2 from Benelux and 1 from Japan.

The facility was oversubscribed and Air France decided to increase the total amount of the facility from the current € 1 billion line to € 1.2 billion. However, in spite of this increase, a scale-back for the participant banks was necessary.

Bookrunners and Mandated Lead Arrangers of the facility were *Bank of Tokyo-Mitsubishi, BNP Paribas, Crédit Mutuel - CIC* and *Natexis Banques Populaires. Natexis Banques Populaires* will act as Facility Agent. Each of the four Bookrunners has a final take of € 100 million.

The commitments of the other syndicate banks are as follows :

- Mandated Lead Arrangers, *ABN AMRO Bank N.V., Barclays Capital (the investment banking division of Barclays Bank PLC), Calyon, Citigroup, HSBC CCF* and *SG Corporate & Investment Banking,* each has an allocated commitment of € 70 million,
- *BRED Banque Populaire, Deutsche Bank Luxembourg S.A., Dresdner Bank AG, Fortis Bank, IXIS Corporate and Investment Bank, The Royal Bank of Scotland plc* and *WestLB AG*, as Arrangers, each has an allocated commitment of € 45 million as well as JP Morgan Chase Bank N.A. at € 40 million,
- *Landesbank Hessen - Thüringen Girozentrale* as Co-Arranger has a € 25 million commitment.

<u>Financing conditions</u>

Compared to the 2001 Credit Facility, financing conditions have improved: the Margin is at a level of 21 basis points p.a. over Euribor, and reaches 23.5 bp pa if drawdown exceeds 66% of the facility amount. The commitment fee applied to the undrawn amount of the facility amounts to 7 bp pa.

7.5 Press release dated April 12, 2005: Air France and KLM increase their fuel surcharge

In response to the very high level of fuel prices, Air France is increasing its fuel surcharge by 1 euro on French domestic flights, by 2 euros on medium-haul flights and by 8 euros on long-haul flights.

This increase, valid on tickets issued in France as from 20 April 2005, will be withdrawn as soon as the price of the barrel goes below 45 dollars for 30 consecutive days.

KLM Royal Dutch Airlines will increase its fuel surcharge by 6 euros per stretch on long-haul flights and 3 euros per stretch on European flights.

This increase, imposed on tickets issued as of April 15, 2005, will be withdrawn as soon as the barrel price drops below 45 dollars for 30 consecutive days.

CHAPTER VIII
INFORMATION ON AIR FRANCE-KLM

Information relating to this Chapter is included in the *document de référence* of Air France-KLM filed with the *Autorité des marchés financiers* on December 22, 2004 under the number D.04-1625. This information remains accurate, subject to the following additional information which should be read together with the *document de référence* of Air France-KLM.

8.1 General information on Air France-KLM and its share capital

General information on Air France-KLM and its share capital is included in the *document de référence* mentioned above.

This information remains accurate, subject to the following additional information, at the date of this prospectus.

After the offering of Air France shares reserved to employees and the "salary-share swap" were completed, the French State's interest in Air France went below 20% of Air France's capital to 18.6%.

8.2 Information on the business of Air France-KLM

To Air France-KLM's knowledge, as of the filing of the *document de référence*, there is no 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 Air France-KLM and of its subsidiaries, Air France and KLM.

8.3 Information on the assets, the financial situation and the results of Air France-KLM

8.3.1 Press release dated February 17, 2005, regarding third quarter 2004-05 results

FISCAL YEAR 2004-05

THIRD QUARTER 2004-05

- Positive results against a backdrop of steep increases in oil prices
- Good performance of the passenger activity with a load factor of 77.7% (up 0.3 point)
- Strong recovery confirmed in the cargo activity
- Operating costs under control (excluding fuel)

YEAR TO DATE AT DECEMBER 31, 2004

- Significant Improvement of the results compared with last year
- half-point increase in operating margin
- Net group income share up 42.8%

The Board of Directors of Air France-KLM, which met on February 16, 2005 under the chairmanship of Jean-Cyril Spinetta, reviewed the accounts for the third quarter of 2004-05.

8.3.1.1 Consolidated Figures

Fiscal 2004-05	Quarter ending December 31			Year to date at December 31		
(in M€)	2004 unaudited	2003 pro forma	2003 published (1)	2004 (2) (3) unaudited	2003 (2) pro forma	2003 published (1)
Turnover	4,858	4,598	3,132	14,453	13,395	9,325
EBITDAR	647	719	468	2,262	2,098	1,414

Operating income before aircraft sales	29	153	61	480	371	148
Earnings before taxes and amortization of goodwill	61	72	44	445	285	137
Net group income	61	61	28	357	250	80
Net earnings per share (in €)	-	-	-	1,35	-	0,36

(1) Air France Group only

(2) Consolidation of the Air France group over 9 months (April-December) and the KLM group over 8 months (May-December)

(3) Consolidation of Servair over 12 months (January-December 2004)

Third quarter ended December 31, 2004: operating income before aircraft disposals of 29 million euros

The Air France-KLM group posted a satisfactory performance in terms of activity during the third quarter of fiscal 2004-05 particularly in its cargo business. However, the huge increase in oil prices negatively impacted the group's profitability.

Turnover was up 5.7% to 4.86 billion euros after a negative currency impact of 1.9%. Operating expenses grew 8.6% to 4.83 billion euros, after a 57.8% hike in the fuel item to 786 million euros (498 million at December 31, 2003) due to the combined effects of a 4.4% increase in volumes, a 64.2% increase in the price of fuel after hedge, and a positive dollar effect of 7.6%. Hedging saved 85 million euros, or approximately 11% of the oil bill. Excluding oil prices, operating expenses were up 2.4%, compared with production measured in equivalent available seat kilometers (EASK), which rose 5.8%.

Personnel costs rose 3.5% to 1.50 billion euros (1.45 billion at December 31, 2003), with a total work force of 102,252 employees (-1.1%).

Unit costs measured in equivalent available seat kilometers (EASK) were up 3.1%, but declined 2.2%, however, at constant currency and oil prices.

EBITDAR totaled 647 million euros (-10.0%). After gains on aircraft disposals of 2 million, operating income was 31 million euros (149 million euros at December 31, 2003).

Financial income rose sharply (-40 million euros at December 31, 2004, up from -87 million at December 31, 2003), due to a decline in net interest charges, currency gains (20 million euros), and net provision write-backs (7 million euros).

After taking into account net gains of 64 million (mainly from Air France's sale of its stake in Amadeus France to Amadeus GTD) and 15 million in income from the equity affiliates, earnings before taxes and amortization of goodwill totaled 61 million. After taxes and amortization of goodwill, net income group share was 61 million (61 million at December 31, 2003).

8.3.1.2 Sector information

8.3.1.2.1 Passenger activity

Over the quarter ended December 31, 2004, traffic grew 5.9% with an increase of 5.4% in capacities, resulting in a load factor that improved by 0.3 point to 77.7%.

Total turnover for the passenger business totaled 3.77 billion euros (+3.9%) after a negative currency impact of 1.8%. Under the impact of the hike in oil prices, which was partially offset by the fuel surcharges, the operating loss for passenger activity was 39 million euros versus operating income of 114 million at December 31, 2003.

	Quarter ended December 31		
	2004 Unaudited	2003 Pro forma	Variation
Scheduled passenger turnover (in M€)	3,534	3,408	+3.7 %
Unit revenue per ASK (in € cents)	6.52	6.63	-1.7 %
Unit revenue per RPK (in € cents)	8.39	8.57	-2.1 %
Unit cost per ASK (in € cents)	6.50	6.32	+2.9 %

Unit revenue per available seat kilometer remained stable, excluding a negative currency effect of 1.8%. Passenger yield was down 0.3% on a constant currency basis. Unit costs per available seat kilometer were down 1.7% at constant currency and oil prices.

8.3.1.2.2 Cargo activity

The cargo activity continued the strong recovery that began in the second quarter, with a 10.3% increase in traffic for an 8.0% increase in capacities for the third quarter. The cargo load factor improved 1.5 points to 72.2%.

Total Cargo turnover grew 15.4% to 718 million euros despite a negative currency impact of 3.5%. Cargo operating income was up substantially to 63 million euros (34 million euros at December 31, 2003).

8.3.1.2.3 Chart

	Quarter ended December 31		
	2004 Unaudited	2003	Change
Cargo traffic turnover (in M€)	668	571	+17.0 %
Unit revenue per ATK (in € cents)	17.30	15.97	+8.1 %
Unit revenue per RTK (in € cents)	23.91	22.57	+6.0 %
Unit cost per ATK (in € cents)	15.42	14.81	+4.1 %

Unit revenue per available tonne kilometer was up 12.4% excluding a negative currency impact of 4.3%. Unit costs per available tonne kilometer were down 3.4% at constant currency rates and oil prices.

8.3.1.2.4 Maintenance

The maintenance sector posted third-party sales of 189 million euros (up 3.8%). Operating income was 11 million euros compared with a loss of 5 million at December 31, 2003. This improvement is due to the first impact of the synergies between Air France and KLM.

8.3.1.2.5 Other activities

Revenues from other activities totaled 180 million euros (+9.1%), including 90.0 million in revenues from Transavia and 43.3 million in sales from the Servair group. The operating loss was 4 million euros (income of 6 million at December 31, 2003).

8.3.1.3 Earnings before taxes and amortization of goodwill of 445 million euros as of YTD at December 31, 2004 (285 million at December 31, 2003)

Turnover rose 7.9% to 14.45 billion euros. Operating expenses increased 7.3% to 13.97 billion euros under the impact of a 37.2% jump in the oil bill to 2.03 billion euros. Unit costs measured in equivalent available seat kilometers (EASK) were down 1.0%, and declined 4.0% at constant currency and oil prices.

Operating income before aircraft disposals was 480 million (371 million euros at December 31, 2003). The operating margin (the ratio of operating income before aircraft disposals to turnover) improved by a half point, rising from 2.8% at December 31, 2003 to 3.3% at December 31, 2004.

The financial result deteriorated slightly, increasing from a charge of 131 million to a charge of 156 million, which included net increases of 16 million in financial provisions, compared with net write-backs of 26 million one year earlier, and much lower foreign exchange gains (6 million at December 31, 2004 versus 31 million at December 31, 2003).

Earnings before taxes and amortization of goodwill was 445 million euros versus 285 million at December 31, 2003. After a tax charge of 136 million (80 million at December 31, 2003), net group income totaled 357 million euros, an increase of 42.8% (250 million at December 31, 2003). Earnings per share amounted to 1.35 euro.

For the year to date at December 31, 2004, the restatement of the KLM financial statements according to French standards and the accounting treatment of the acquisition price, which will only be finally fixed on 31 March 2005, had a positive impact of 78 million on operating income (80 million at December 31, 2003) and a positive impact of 107 million (95 million at December 31, 2003) on net income, including 69 million in positive goodwill amortization.

8.3.1.4 Sector information

8.3.1.4.1. Passenger activity

Passenger activity posted an increase of 9.7% with an 8.0% growth in capacities, resulting in a load factor that improved 1.2 points to 78.9%.

Total turnover for passenger activity rose 7.4% to 11.37 billion euros. Operating income for passenger operations totaled 310 million euros (+18.8%).

	Year to date at December 31 [(1)]		
	2004 Unaudited	2003 Pro forma	Variation
Scheduled passenger turnover (in M€)	10,652	9,931	+7.3 %
Unit revenue per ASK (in € cents)	6.60	6.66	-0.7 %
Unit revenue per RPK (in € cents)	8.38	8.57	-2.2 %
Unit cost per ASK (in € cents)	6.33	6.40	-1.0 %

[(1)] Consolidation of the Air France group over 9 months (April-December) and the KLM group over 8 months (May-December).

Unit revenue per available seat kilometer was up 1.0% excluding a negative currency impact of 1.7%. Unit costs per available seat kilometer declined 3.5% at constant currency and oil prices.

8.3.1.4.2 Cargo activity

Cargo traffic was up 10.5% with capacities up 9.8% generating a gain of 0.4 point in the cargo load factor to 68.9%.

Turnover totaled 1.87 billion euros (+10.1%). Cargo operating income more than doubled from 37 million at December 31, 2003 to 76 million at December 31, 2004.

	Year to date at December 31 [1]		
	2004 Unaudited	2003	Variation
Cargo traffic turnover (in M€)	1,730	1,553	+11.4 %
Unit revenue per ATK (in € cents)	15.70	15.50	+1.5 %
Unit revenue per RTK (in € cents)	22.83	22.65	+0.8 %
Unit cost per ATK (in € cents)	14.85	14.95	-0.7 %

[1] Consolidation of the Air France group over 9 months (April-December) and the KLM group over 8 months (May-December)

Unit revenues per available tonne kilometer rose 4.7% on a constant currency basis. Unit costs declined 5.0% at constant currency and oil prices.

8.3.1.4.3 Maintenance

The maintenance sector recorded third-party revenues of 566 million euros (up 4.0%). Operating income was 37 million compared with 32 million euros at December 31, 2003.

8.3.1.4.4 Other activities

Turnover for other activities totaled 654 million (+14.3%) including 12 months of Servair revenues. Excluding the Servair impact, the growth was 6.6%. Operating income improved to 65 million from 46 million at December 31, 2003. This increase was primarily driven by the strong performance of the charter operations of the KLM subsidiary Transavia and Servair during the first half.

8.3.1.4.5 Financial position: debt/equity ratio under control

The tangible and intangible investments of the Air France-KLM group totaled 1.62 billion euros at December 31, 2004. These investments include the capitalization of a portion of the maintenance costs for around 200 million euros. These investments were financed by operating cash flow of 1.56 billion euros and 260 million euros from sales of fixed assets.

The structure of the balance sheet again improved with net long-term debts of 5.33 billion (5.36 billion at September 30, 2004) and equity capital of 5.22 billion (5.15 billion at September 30, 2004). Thus, the gearing of the group improved from 1.04 at September 30 to 1.02 at December 31, 2004.

8.3.1.4.6 Outlook for the current financial year

The rollout of the synergies allows the Group to confirm that the amount of 90 million euros remains on track for completion in this fiscal year. Moreover, the two airlines continue to implement their cost-saving programs. In a context characterized by a historic high level of fuel prices but given the sustained activity at the beginning of this fourth quarter, the group confirms in its target of a higher operating income than last year.

8.3.1.4.7 Corporate governance

On December 9, 2004, the French State sold 17.7% of its stake in Air France-KLM through an accelerated book building . The Board of Directors was modified as a result. Messrs. Delahousse, Faréniaux, Guyard, Lambert and Samuel-Lajeunesse, directors representing the State, resigned. The Board appointed director Pierre-Henri Gourgeon, Deputy CEO of Air France.

8.3.2 Consolidated income statements of Air France-KLM (nine months period ended December 31, 2004)

Financial statements presented in this paragraph have not been audited.

CONSOLIDATED INCOME STATEMENTS

In € millions

Nine months ended 31 December	Notes	**2004** Unaudited	**2003** Pro forma unaudited	**2003**	Year ended **31 March 2004**
Operating revenues	3	**14,453**	**13,395**	**9,325**	**12,337**
External expenses	4	(8,118)	(7,377)	(5,072)	(6,754)
Salaries & related costs	5	(4,378)	(4,229)	(3,048)	(4,079)
Taxes other than income tax		(172)	(159)	(141)	(186)
Gross operating result		**1,785**	**1,630**	**1,064**	**1,318**
Charge to depreciation/amortization, net	6	(1,207)	(1,187)	(887)	(1,184)
Charge to operating provisions, net	6	(58)	(42)	(39)	(46)
Gain on disposal of flight equipment, net		8	5	1	7
Other income and charges, net		(40)	(30)	10	44
Operating income		**488**	**376**	**149**	**139**
Restructuring costs		(9)	(17)	(17)	(22)
Net financial charges	7	(156)	(131)	(30)	(60)
Gains on disposals of subsidiaries and affiliates, net		64	13	1	5
Pretax income (loss)		**387**	**241**	**103**	**62**
Share in net income of equity affiliates		58	44	34	53
Amortisation of goodwill		55	55	(11)	(15)
Income (loss) before income taxes and minority interests		**500**	**340**	**126**	**100**
Income tax	9	(136)	(80)	(43)	(2)
Income (loss) before minority interests		**364**	**260**	**83**	**98**
Minority interests		(7)	(10)	(3)	(5)
Net income (loss)		**357**	**250**	**80**	**93**
Earnings (loss) per issued share		1.35		0.36	0.42
Earnings (loss) per share					
basis		1.39		0.37	0.43
diluted		1.39		0.37	0.43

2003 pro forma: consolidation of the Air France group, including KLM and its consolidated subsidiaries over 8 months, identical to the method used at December 31, 2004.

CONSOLIDATED BALANCE SHEETS

In € millions

Assets as of	Notes	December 31, 2004 Unaudited	March 31, 2004	March 31, 2003
Consolidation goodwill		87	95	112
Intangible fixed assets		160	149	171
Flight equipment		10,865	6,951	7,284
Other property and equipment		1,830	955	878
Investments in equity affiliates		546	336	316
Other investments		441	268	260
Total fixed assets		**13,929**	**8,754**	**9,021**
Inventory		367	151	220
Trade receivables		2,025	1,651	1,432
Income tax receivable		66	101	111
Other accounts receivable		1,645	494	592
Marketable securities		2,554	1,478	1,039
Cash		400	330	193
Total current assets		**7,057**	**4,205**	**3,587**
Total assets		**20,986**	**12,959**	**12,608**

CONSOLIDATED BALANCE SHEETS (CONTINUED)

In € millions

LIABILITIES AND STOCKHOLDERS' EQUITY as of	Notes	December, 31 2004 Unaudited	March 31, 2004	March, 31 2003
Common stock		2,290	1,868	1,868
Additional paid-in capital		1,518	261	261
Retained earnings (accumulated deficit)		1,358	1,942	1,862
Cumulative translation adjustment		(8)	(9)	3
Stockholders' equity		**5,158**	**4,062**	**3,994**
Minority interests		68	23	33
Stockholders' equity and minority interests		**5,226**	**4,085**	**4,027**
Provisions for liabilities and charges		2,190	1,039	1,095
Short and long-term debt and capital leases		8,419	4,380	4,147
Trade payables		1,761	1,226	1,375
Income tax liability		159	21	5
Advance ticket sales		1,423	1,008	901
Other payables		1,808	1,200	1,058
Total liabilities		**15,760**	**8,874**	**8,581**
Total liabilities and stockholders' equity		**20,986**	**12,959**	**12,608**

STATEMENTS OF MOVEMENTS IN STOCKHOLDERS' EQUITY

Before allocation of income	Number of shares comprising common stock	Common stock	Add'l paid-in capital	Reserves	Treasury Stock	Translation difference	Stockholders' equity	Minority interests	Stockholders' 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			922	(922)			-		-
Exchange offer costs			(11)				(11)		(11)
Dividends paid				(17)			(17)	(1)	(18)
Change in treasury stock					(2)		(2)		(2)
Translation differences						1	1		1
Net income for the period				357			357	7	364
Changes in scope of consolidation							-	39	39
December 31, 2004 Unaudited	**269,383,518**	**2,290**	**1,518**	**1,378**	**(20)**	**(8)**	**5,158**	**68**	**5,226**

CONSOLIDATED STATEMENT OF CASH FLOWS

In € millions

Nine months ended December 31,	**2004** Unaudited	**2003**	Year ended **March 31, 2004**
Cash flows from operating activities	**1,564**	**836**	**1,201**
Gross operating result	1,785	1,064	1,318
Other income (expense) received (paid)	(67)	(37)	(23)
Foreign exchange gains (losses)	(2)	(2)	3
Operating cash flows	**1,716**	**1,025**	**1,298**
Changes in working capital	81	(83)	54
Restructuring expenditure	(34)	(16)	(18)
Interest paid	(218)	(110)	(163)
Interest received	41	27	36
Income tad paid (received)	(22)	(7)	(6)
Cash flows from investing activities	**(751)**	**(647)**	**(849)**
Acquisitions of subsidiaries	586	(5)	(10)
Purchase of tangible and intangible fixed assets	(1,623)	(892)	(1,269)
Disposals of subsidiaries	114	9	24
Proceeds on disposals of tangible and intangible assets	146	226	391
Dividends received	26	15	15
Cash flows from financing activities	**287**	**222**	**386**
New debt	724	657	901
Repayment of debts	(189)	(340)	(345)
Repayment of capital lease obligations	(264)	(127)	(152)
Net decrease (increase) in loans	19	(25)	(29)
Net decrease (increase) in short-term investments	22	82	35
Dividends paid	(25)	(25)	(24)
Translation differences	**-**	**(1)**	**(5)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,100**	**410**	**733**
Opening cash and cash equivalents	1,405	672	672
Closing cash and cash equivalents	2,505	1,082	1,405

8.3.2.1 Notes to the financial statements (nine months period ended December 31, 2004)

1. Account policies

The consolidated financial statements ended December 31, 2004 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

2.1 Scope of consolidation

As of December 31, 2004, the Group included 158 companies, 135 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 eight months (May to December 2004). At this date, the group holds 97.2% 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 12 months (January-December 2004) in the period ended December 31, 2004. 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 December 31, 2004.

Moreover, Air France transferred on 30 December 2004 all its stake in Amadeus France to Amadeus GTD. The net income of Amadeus France and its subsidiary have been consolidated within the Group until 30 December 2004.

Proteus Developpement and Proteus Finance merged with Air France Finance.

2.2 Comparability

For the purposes of comparison, a pro forma consolidated statement of income at December 31, 2003 has been prepared using methods and consolidation scope identical to those used at December 31, 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.

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 "badwill" of 967 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 1,764 million euros. Shareholders' equity specifically includes the adjustment to market value of the KLM group's fleet for a total of (883) 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 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 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 and the third quarter.

The estimated amount of this portion came to 610 million euros at December 31, 2004. The impact of this amount on income, had it been amortized in the second and the third quarter, would have generated an increase of approximately 63 million 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 66 million euros at December 31, 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

						In € millions
	2004		**2003**		**2003**	
	Operating revenues	**Operating income**	**Operating revenues**	**Operating income**	**Operating revenues**	**Operating income**
Nine months ended December 31,	*Unaudited*		*Pro-forma*			
Passenger	11,368	310	10,585	261	7,759	106
Cargo	1,865	76	1,694	37	1,071	9
Maintenance	566	37	544	32	380	35
Others	654	65	572	46	115	(1)
Total	**14,453**	**488**	**13,395**	**376**	**9,325**	**149**

Consolidated sales revenues, for the period ended December 31, 2004, totaled 14.5 billion euros, an increase of 7.9% over revenues for the previous pro forma period. This increase was generated by all activity sectors, particularly passengers and cargo.

Operating income rose from 112 to 488 million euros against 376 million euros at December 31, 2003. All activities made a positive contribution to this result; passenger and cargo activities grew substantially.

3.2 Analysis of operating revenues by geographical area of sale

	Europe North Africa		Caribean French Guiana Indian Ocean		Africa Middle East		Americas Polynesia		Asia New Caledonia		Total
Nine months ended December 31, 2004 (unaudited)											
Scheduled passenger	7,203	(67.6%)	277	(2.6%)	740	(6.9%)	1 561	(14.7%)	871	(8.2%)	**10,652**
Other passenger revenues	521	(72.8%)	30	(4.2%)	34	(4.7%)	64	(8.9%)	67	(9.4%)	**716**
Total passenger	**7,724**	**(67.9%)**	**307**	**(2.7%)**	**774**	**(6.8%)**	**1,625**	**(14.3%)**	**938**	**(8.3%)**	11,368
Cargo	824	(47.6%)	33	(1.9%)	114	(6.6%)	195	(11.3%)	564	(32.6%)	1,730
Other cargo revenues	95	(70.3%)	4	(3.0%)	5	(3.7%)	14	(10.4%)	17	(12.6%)	135
Total cargo	**919**	**(49.2%)**	**37**	**(2.0%)**	**119**	**(6.4%)**	**209**	**(11.2%)**	**581**	**(31.2%)**	1,865
Maintenance	561	(99.1%)	-	-	-	-	-	-	5	(0.9%)	566
Others	629	(96.2%)	16	(2.4%)	9	(1.4%)	-	-	-	-	654
Total	**9,833**	**(68.1%)**	**360**	**(2.5%)**	**902**	**(6.2%)**	**1,834**	**(12.7%)**	**1 524**	**(10.5%)**	14,453
Nine months ended December 31, 2003 (pro forma)											
Scheduled passenger	6,733	(67.8%)	315	(3.2%)	698	(7.0%)	1 403	(14.1%)	782	(7.9%)	**9,931**
Other passenger revenues	529	(81.0%)	19	(2.9%)	29	(4.4%)	46	(7.0%)	31	(4.7%)	**654**
Total passenger	**7,262**	**(68.5%)**	**334**	**(3.2%)**	**727**	**(6.9%)**	**1,449**	**(13.7%)**	**813**	**(7.7%)**	**10,585**
Cargo	772	(49.8%)	32	(2.1%)	111	(7.1%)	177	(11.4%)	461	(29.7%)	**1,553**
Other cargo revenues	77	(54.6%)	8	(5.7%)	8	(5.7%)	26	(18.4%)	22	(15.6%)	**141**
Total cargo	**849**	**(50.1%)**	**40**	**(2.4%)**	**119**	**(7.0%)**	**203**	**(12.0%)**	**483**	**(28.5%)**	**1,694**
Maintenance	539	(99.1%)	-	-	-	-	-	-	5	(0.9%)	**544**
Others	561	(98.2%)	10	(1.7%)	1	(0.2%)	-	-	-	-	**572**
Total	**9,211**	**(68.8%)**	**384**	**(2.9%)**	**847**	**(6.3%)**	**1,652**	**(12.3%)**	**1,301**	**(9.7%)**	**13,395**
Nine months ended December 31, 2003											
Scheduled passenger	5,025	(70.1%)	281	(3.9%)	446	(6.2%)	931	(13.0%)	490	(6.8%)	**7,173**
Other passenger revenues	473	(80.8%)	19	(3.2%)	26	(4.4%)	41	(7.0%)	27	(4.6%)	**586**
Total passenger	**5,498**	**(70.8%)**	**300**	**(3.9%)**	**472**	**(6.1%)**	**972**	**(12.5%)**	**517**	**(6.7%)**	**7,759**
Cargo	507	(53.1%)	30	(3.1%)	69	(7.2%)	102	(10.7%)	248	(25.9%)	**956**
Other cargo revenues	65	(56.5%)	8	(7.0%)	6	(5.2%)	23	(20.0%)	13	(11.3%)	**115**
Total cargo	**572**	**(53.4%)**	**38**	**(3.5%)**	**75**	**(7.0%)**	**125**	**(11.7%)**	**261**	**(24.4%)**	**1,071**
Maintenance	375	(98.7%)	-	-	-	-	-	-	5	(1.3%)	**380**
Others	104	(90.4%)	10	(8.7%)	1	(0.9%)	-	-	- -		115
Total	**6,549**	**(70.2%)**	**348**	**(3.7%)**	**548**	**(5.9%)**	**1,097**	**(11.8%)**	**783**	**(8.4%)**	**9,325**

Changes in sales revenues varied by geographic region; thus, the change on a pro forma basis included a 0.8 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 0.7 and 0.4 point respectively.

3.3 Analysis of operating revenues by geographical area of destination

in € millions

	Europe North Africa		Caribean French Guiana Indian Ocean		Africa Middle East		Americas Polynesia		Asia New Caledonia		Total
Nine months ended December 31, 2004 (unaudited)											
Scheduled passenger	4,585,	(43.1%)	814	(7.6%)	1,434	(13.5%)	2,270	(21.3%)	1,549,	(14.5%)	**10,652**
Cargo	146	(8.4%)	135	(7.8%)	210	(12.1%)	487,	(28.2%)	752	(43.5%)	**1730**
Total	**4,731**	**(38.1%)**	**949**	**(7.7%)**	**1,644**	**(13.3%)**	**2,757**	**(22.3%)**	**2,301**	**(18.6%)**	**12,382**
Nine months ended December 31, 2003 (proforma)											
Scheduled passenger	4,387	(47.6%)	911	(10.8%)	1,301	(11.1%)	2,093	(20.1%)	1,239	(10.4%)	**9,931**
Other passenger revenues	153	(14.2%)	128	(12.1%)	189	(12.0%)	431	(27.1%)	652	(34.6%)	**1553**
Total	**4,540**	**(39.6%)**	**1,039**	**(9.0%)**	**1,490**	**(13.0%)**	**2,524**	**(22.0%)**	**1,891**	**(16.5%)**	**11,484**
Nine months ended December 31, 2003											
Scheduled passenger	3,420	(47.6%)	772	(10.8%)	794	(11.1%)	1,443	(20.1%)	744	(10.4%)	**7,173**
Other passenger revenues	135	(14.2%)	116	(12.1%)	115	(12.0%)	259	(27.1%)	331	(34.6%)	**956**
Total	**3,555**	**(43.8%)**	**888**	**(10.9%)**	**909**	**(11.2%)**	**1,702**	**(20.9%)**	**1,075**	**(13.2%)**	**8,129**

Changes in revenues by network also showed variations. Asia's share of revenues rose 2.1 points, Africa-Middle East and America gained 0.3, while the share of the markets in the West Indies-Caribbean-Indian Ocean, Europe fell by 1.3 and 1.5 point respectively.

4. External expenses

in € millions

Nine months ended December 31,	2004 Unaudited	2003 Pro-forma	2003	Variation
Aircraft fuel	2 034	1 483	974	37,2%
Chartering costs	410	368	301	11,4%
Aircraft operating lease costs	477	468	350	1,9%
Landing fees and en route charges	1 107	1 033	687	7,2%
Catering	304	288	229	5,6%
Handling charges and other operating costs	808	809	571	-0,1%
Aircraft maintenance costs	473	470	280	0,6%
Commercial and distribution costs	1 082	1 092	798	-0,9%
Other external expenses	1 423	1 366	882	4,2%
Total	**8 118**	**7 377**	**5 072**	**10,0%**
Excluding aircraft fuel	6 084	5 894	4 098	3,2%

External charges were up 10 % at December 31, 2004, increasing from 7.38 billion euros to 8.12 billion euros. This change, higher than the growth in the group's available seats (+ 8.3 % 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 3.2%.

Aircraft charters rose 11.4 % to 410 million euros at December 31, 2004, up from 368 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.

5. Salaries and number of employees

5.1 Salaries and related costs

In € millions

Nine months ended December 31,	2004 Unaudited	2003 Pro-forma	2003	Evolution
By cost category				
Wages and salaries	3,331	3,255	2,264	2,3%
Pension and contributions	322	297	191	8,4%
Social security contributions	807	770	649	4,8%
Amount capitalized	(82)	(93)	(56)	-11,8%
Total	**4,378**	**4,229**	**3,048**	**3,5%**

Personnel costs totaled 4.38 billion euros versus 4.23 billion euros at December 31, 2003, an increase of 3.5% in personnel on a constant consolidation basis, and down 1.1% to 102 252 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

Nine months ended December 31,	2004 Unaudited	2003 Pro forma	2003 Published	Variation
Total	**102,252**	**103,367**	**71,900**	**-1.1%**
Flight desk crew	7,797	7,796	5,017	0.0%
Cabin crew	19,872	19,907	13,235	-0.2%
Groundstaff	74,583	75,664	53,648	-1.4%
Management	12,969	12,704	9,149	2.1%
Supervisors	29,240	29,053	,20,720	0.6%
Other staff	32,374	33,907	23,779	-4.5%
Pilots and cabin crew	26,011	25,942	17,290	0.3%
Instructors	978	1,073	650	-8.9%
Management	680	688	312	-1.2%

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

6. Depreciation and amortization

Nine months ended December 31,	2004 Unaudited	2003 Pro forma	2003 Published	Variation
Net charge to depreciation/amortization	***1,207***	***1,187***	***887***	***1.7%***
Intangible fixed assets	36	37	27	-2.7%
Flight equipment	991	983	751	0.8%
Other property, plant and equipment	180	167	109	7.8%
Net charge to operating provisions	***58***	***42***	***39***	***-***
Fixed assets	-	-	-	-
Inventories	2	2	2	-
Trade receivable	3	8	8	-
Liabilities and charges	53	32	29	-
Total	**1,265**	**1,229**	**926**	**2.9%**

7. Net financial charges

In € millions

Nine months ended December 31,	2004 Unaudited	2003 (1)	Evolution
Financial expenses	***(227)***	***(105)***	***116.2%***
- Loan interest	(79)	(77)	2.6%
- Lease interest	(40)	(40)	0.0%
- Capitalized interest	22	15	46.7%
- Other financial expenses	(130)	(3)	4233.3%
Financial income	***81***	***29***	***179.3%***
- Interest on securities	3	2	50.0%
- Net gains on securities	25	18	38.9%
- Other financial income	53	9	488.9%
Net charges	**(146)**	**(76)**	**92.1%**
Foreign exchange losses, net	*6*	*32*	-
Net (charge) release to provisions	*(16)*	*14*	-
Total	**(156)**	**(30)**	**-**

(1) With a constant group structure

The interest rate used in the calculation of capitalized interest for the half year ended December 31, 2004 was 4.56 % .

Foreign exchange gains for the period include an unrealized net gain of EUR 8 million (against a net gain of EUR 34 million for the period ended December 31, 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 7 million for the period ended December 31, 2004 (compared with EUR 3 million for the period ended December 31, 2003).

8. Disposals of subsidiaries and affiliates

The gains of disposals of subsidiaries and affiliates are mainly due to the transfer of Amadeus France and its subsidiary Amadeus France Service to Amadeus GTD.

9. Income tax

In € millions

Nine months ended December 31,	2004	2003[1]
Current tax charge	(10)	(5)
Deferred tax credit (charge)	(126)	(38)
Total tax credit (charge)	**(136)**	**(43)**

[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.

8.4 Information on the corporate governance of Air France-KLM

Information on administrative, executive and supervisory bodies of Air France-KLM is included in the *document de référence* mentioned above. This information remains accurate at the date of this prospectus, subject to the following additional information.

A decree dated January 19, 2005, decreased the number of representatives of the French state on Air France-KLM Board of Directors from 8 to 3.

Those 3 representatives of the French state are Mr. Jean-Louis Girodolle, Mr. Pierre-Mathieu Duhamel and Mr. Claude Gressier.

In addition, during its meeting held on January 20, 2005, the Board of Directors co-opted as director Mr. Pierre-Henri Gourgeon, Chief Operating Officer of Air France-KLM.

After the operations described above, the Board of directors of Air France-KLM is composed of 16 members.

As regards the compensation of directors and officers, in particular the compensations of the Chairman and Chief Executive Officer and of the Chief Operational Officer of Air France-KLM, on November 23, 2004, the Board of Directors decided to use the following formula proposed by the compensation committee:

- Chairman and Chief Executive Officer
  An annual base salary increased to €750,000 over two years and an objective-based bonus of up to 60% of the base salary as follows:
  - for the financial year 2004-2005 : €550,000 and an objective-based bonus of up to 60% ; and

  - for the financial year 2005-2006 : €750,000 and an objective-based bonus of up to 60%.

- Chief Operational Officer
  An annual base salary increased to €550,000 over two years and an objective-based bonus of up to 60% of the base salary as follows:
  - for the financial year 2004-2005 : €370,000 and an objective-based bonus of up to 50% ; and
  - for the financial year 2005-2006 : €550,000 and an objective-based bonus of up to 60%.

Half of the bonus is linked to the achievement of new strategic objectives (market share increases, preservation of financial equilibrium) and the other half is linked to the achivement of objectives relating to Air France-KLM's results as set forth in the budget.

8.5 Information on the recent developments and future prospects for Air France-KLM

Information on the recent developments and future prospects of Air France-KLM is included in the *document de référence* mentioned above.

This information remains accurate at the date of this prospectus subject to the following additional information.

8.5.1 Press release dated January 7, 2005, regarding December 2004 traffic

8.5.1.1 Passenger operations

The Air France-KLM Group posted a good performance in December with load factor improving by 1.0 point to 77.7%. Activity remained buoyant with a 6.9% increase in traffic on 5.6% higher capacity. The Group carried close to 5.2 million passengers (up 4.0%).

On the Americas network, the load factor gained 1.3 points to 83.4% with capacity and traffic increasing by 4.0% and 5.6% respectively.

Asia continued to post sustained growth in traffic (up 14.3%) although lower than the increase in capacity (up 16.5%). The load factor stood at 80.3% (down 1.5 points).

Activity remained strong on the Africa & Middle-East network. Traffic was up 8.7% on 7.8% higher capacity leading to a 0.7-point improvement in load factor to 79.3%.

The Caribbean & Indian Ocean sector recorded a 3.8-point rise in load factor (82.9%), as traffic increased by 3.2% on 1.6% lower capacity.

The medium-haul network posted a positive performance with a 0.7-point gain in load factor (64.3%), as traffic increased by 3.4% for a 2.4% rise in capacity.

The performance per airline was as follows:

- Air France traffic increased by 3.6% for a 2.8% growth in capacity. The load factor improved by 0.6 points to 76.8%.
- KLM traffic was up 13.4% on 11.0% higher capacity. The load factor gained 1.7 points to 79.4%.

8.5.1.2 Cargo operations

In December, the Group recorded strong growth in cargo activity with a 13.6% increase in traffic for a 9.9% rise in capacity. The load factor improved by 2.3 points reaching 71.9%.

- Air France cargo traffic increased by 12.3% for a 6.1% rise in capacity. Load factor reached 67.2%, up 3.7 points.
- KLM cargo traffic was up 15.3% on 16.1% higher capacity. Load factor stood at 78.7%, down 0.5 points.

8.5.1.3 Statistics

Passenger operations (millions)

	December			Cumulative (1)		
Total Group	**2004**	**2003**	**%**	**2004**	**2003**	**%**
Passengers carried (000)	5,160	4,961	4.0 %	48,868	45,864	6.2 %
Revenue pax-kilometers (RPK)	13,936	13,032	6,9 %	126,835	115,665	9.7 %
Available seat-kilometers (ASK)	17,940	16,992	5.6 %	160,756	148,883	8.0 %
Passenger load factor (%)	77.7 %	76.7 %	1.0	78.9 %	77.7 %	1.2
Europe (including France)						
Passengers carried (000)	3,595	3,498	2.8 %	34,659	33,189	4.4 %
Revenue pax-kilometers (RPK)	2,691	2,602	3.4 %	26,621	25,298	5.2 %
Available seat-kilometers (ASK)	4,182	4,086	2.4 %	38,965	36,785	5.9 %
Passenger load factor (%)	64.3 %	63.7 %	0.7	68.3 %	68.8 %	-0.5
America (North and South)						
Passengers carried (000)	573	547	4.6 %	5,599	5,110	9.6 %
Revenue pax-kilometers (RPK)	4,255	4,030	5.6 %	40,951	37,605	8.9 %
Available seat-kilometers (ASK)	5,103	4,907	4.0 %	47,575	44,977	5.8 %
Passenger load factor (%)	83.4 %	82.1 %	1.3	86.1 %	83.6 %	2.5
Asia/Pacific						
Passengers carried (000)	332	290	14.3 %	2,968	2,329	27.4 %
Revenue pax-kilometers (RPK)	2,909	2,545	14.3 %	26,182	20,539	27.5 %
Available seat-kilometers (ASK)	3,662	3,110	16.5 %	32,177	25,763	24.9 %
Passenger load factor (%)	80.3 %	81.8 %	-1.5	81.4 %	79.7 %	1.6
Africa & Middle East						
Passengers carried (000)	376	346	8.7 %	3,196	2,866	11.5 %

Revenue pax-kilometers (RPK)	2,003	1,842	8.7 %	16,528	15,111	9.4 %
Available seat-kilometers (ASK)	2,525	2,342	7.8 %	21,179	19,702	7.5 %
Passenger load factor (%)	79.3 %	78.7 %	0.7	78.0 %	76.7 %	1.3

Caribbean-Indian Ocean						
Passengers carried (000)	284	279	1.7 %	2,267	2,369	(4.3 %)
Revenue pax-kilometers (RPK)	2,077	2,013	3.2 %	16,554	17,112	(3.3 %)
Available seat-kilometers (ASK)	2,507	2,547	(1.6) %	20,860	21,657	(3.7 %)
Passenger load factor (%)	82.9 %	79.0 %	3.8	79.4 %	79.0 %	0.3

Cargo operations (millions)

	December			**Cumulative (1) (2)**		
Total Group	**2004**	**2003**	**%**	**2004**	**2003**	**%**
Revenue tonne-km (RKT)	916	806	13.6 %	7,578	6,858	10.5 %
Available tonne-km (ATK)	1,275	1,159	9.9 %	11,001	10,019	9.8 %
Cargo load factor (%)	71.9 %	69.5 %	2.3	68.9 %	68.4 %	0.4
Europe (including France)						
Revenue tonne-km (RKT)	9	9	(2.4 %)	72	68	6.2 %
Available tonne-km (ATK)	35	36	(1.0 %)	333	318	4.7 %
Cargo load factor (%)	24.3 %	24.7 %	-0.4	21.7 %	21.4 %	0.3
America (North and South)						
Revenue tonne-km (RKT)	325	281	15.8 %	2,619	2,394	9.4 %
Available tonne-km (ATK)	429	405	6.0 %	3,782	3,611	4.7 %
Cargo load factor (%)	75.7 %	69.3 %	6.5	69.3 %	66.3 %	3.0
Asia/Pacific						
Revenue tonne-km (RKT)	440	383	14.8 %	3,787	3,360	12.7 %
Available tonne-km (ATK)	585	493	18.6 %	5,037	4,293	17.3 %
Cargo load factor (%)	75.1 %	77.6 %	-2.5	75.2 %	78.2 %	-3.1
Africa & Middle East						
Revenue tonne-km (RKT)	82	77	6.4 %	679	625	8.7 %
Available tonne-km (ATK)	126	121	3.9 %	1,092	1,038	5.2 %

Cargo load factor (%)	65.5 %	64.0 %	1.5	62.2 %	60.2 %	2.0

Caribbean-Indian Ocean						
Revenue tonne-km (RKT)	61	57	7.2 %	421	412	2.1 %
Available tonne-km (ATK)	99	104	(4.9) %	757	759	(0.3) %
Cargo load factor (%)	61.2 %	54.3 %	6.9	55.5 %	54.3 %	1.3

(1) Consolidation of Air France over 9 months (April-December) and KLM over 8 months (May-December).
(2) The harmonization of cargo capacity norms between Air France and KLM has now been finalized, leading to a small adjustment in the reported ATK figures of KLM for the first six months. Both the current and previous years have been adjusted and are fully comparable.

8.5.2 Press release dated February 7, 2005, regarding January 2005 traffic

8.5.2.1 Passenger operations

The Air France-KLM Group achieved a strong performance in January with load factor improving by 3.3 points to 78.0%. Activity remained strong with traffic increasing by 10.3% on 5.6% higher capacity.

The Group carried over 5 million passengers (up 8.2%).

All networks posted improving load factors.

On the Americas network, the load factor gained 5.3 points to 83.6% with capacity and traffic increasing by 2.6% and 9.6% respectively.

Activity remained strong in Asia. Traffic was up 17.6% on 15.6% capacity leading to a 1.4-point improvement in load factor to 81.9%.

On the Africa & Middle-East network, traffic was up 7.0% for a 6.4% rise in capacity. Load factor stood at 78.4% (up 0.5 points).

The Caribbean & Indian Ocean sector recorded a 5.3-point gain in load factor (87.1%), as traffic increased by 7.3% on a 0.7% growth in capacity.

The medium-haul network also posted a good performance with a 2.9-point improvement in load factor (61.6%), as traffic increased by 8.8% for a 3.7% rise in capacity.

Both airlines recorded their highest load factor for January:

- Air France load factor reached 76.7%, up 4.0 points, as traffic increased by 9.5% on 3.8% higher capacity.
- KLM load factor stood at 80.4%, up 1.9 points, as traffic increased by 11.8% on 9.1% higher capacity.

8.5.3.2 Cargo operations

Cargo activity remained buoyant in January. Traffic increase by 15.5% for a 16.2% rise in capacity. Cargo load factor stood at 63.8% (down 0.4 points).

- Air France cargo traffic was up 13.5% in line with capacity (up 14.0%). Load factor stood at 58.7%, down 0.3 points.

- KLM cargo traffic increased by 17.8% for a 19.3% rise in capacity. Load factor stood at 70.6%, down 0.9 points.

8.5.3.3 Statistics

Passenger operations (millions)

Total Group	January			Cumulative (1)		
	2005	**2004**	**%**	**2004-05**	**2003-2004**	**%**
Passengers carried (000)	5,085	4,702	8,2 %	53,773	50,566	6.3 %
Revenue pax-kilometers (RPK)	14,369	13,023	10,3 %	141,202	128,688	9.7 %
Available seat-kilometers (ASK)	18,429	17,451	5,6 %	179,178	166,327	7.7 %
Passenger load factor (%)	78.0 %	74.6 %	3.3	78.8 %	77.4 %	1.4
Europe (including France)						
Passengers carried (000)	3,456	3,220	7.3 %	38,115	36,408	4.7 %
Revenue pax-kilometers (RPK)	2,596	2,385	8.8 %	29,217	27,683	5.5 %
Available seat-kilometers (ASK)	4,215	4,063	3.7 %	43,180	40,848	5.7 %
Passenger load factor (%)	61.6 %	58.7 %	2.9	67.7 %	67.8 %	-0.1
America (North and South)						
Passengers carried (000)	574	525	9.5 %	6,173	5,635	9.5 %
Revenue pax-kilometers (RPK)	4,290	3,914	9.6 %	45,237	41,519	9.0 %
Available seat-kilometers (ASK)	5,133	5,001	2.6 %	52,703	49,971	5.5 %
Passenger load factor (%)	83.6 %	78.3 %	5.3	85.8 %	83.1 %	2.7
Asia/Pacific						
Passengers carried (000)	359	306	17.3 %	3,327	2,635	26.3 %
Revenue pax-kilometers (RPK)	3,144	2,673	17.6 %	29,327	23,212	26.3 %
Available seat-kilometers (ASK)	3,837	3,318	15.6 %	36,013	29,082	23.8 %
Passenger load factor (%)	81.9 %	80.5 %	1.4	81.4 %	79.8 %	1.6
Africa & Middle East						
Passengers carried (000)	384	357	7.4 %	3,579	3,224	11.0 %
Revenue pax-kilometers (RPK)	2,050	1,916	7.0 %	18,578	17,027	9.1 %
Available seat-kilometers (ASK)	2,614	2,457	6.4 %	23,793	22,159	7.4 %
Passenger load factor (%)	78.4 %	78.0 %	0.5	78.1 %	76.8 %	1.2

Caribbean-Indian Ocean						
Passengers carried (000)	312	294	6.1 %	2,579	2,663	(3.2 %)
Revenue pax-kilometers (RPK)	2,290	2,134	7.3 %	18,843	19,247	(2.1 %)
Available seat-kilometers (ASK)	2,630	2,611	0.7 %	23,490	24,267	(3.2 %)
Passenger load factor (%)	87.1 %	81.8 %	5.3	80.2 %	79.3 %	0.9

Cargo operations (millions)

	January			Cumulative (1)		
Total Group	**2005**	**2004**	**%**	**2004-05**	**2003-04**	**%**
Revenue tonne-km (RKT)	814	705	15.5 %	8,392	7,563	11.0 %
Available tonne-km (ATK)	1,277	1,099	16.2 %	12,278	11,118	10.4 %
Cargo load factor (%)	63.8 %	64.2 %	-0.4	68.4 %	68.0 %	0.3

Europe (including France)						
Revenue tonne-km (RKT)	7	8	(9.9 %)	79	76	4.6 %
Available tonne-km (ATK)	35	36	(3.5 %)	368	354	3.9 %
Cargo load factor (%)	19.9 %	21.3 %	-1.4	21.5 %	21.4 %	0.1

America (North and South)						
Revenue tonne-km (RKT)	277	253	9.5 %	2,896	2,647	9.4 %
Available tonne-km (ATK)	407	388	4.8 %	4,189	3,999	4.7 %
Cargo load factor (%)	68.1 %	65.2 %	2.9	69.1 %	66.2 %	3.0

Asia/Pacific						
Revenue tonne-km (RKT)	412	334	23.1 %	4,198	3,694	13.7 %
Available tonne-km (ATK)	604	460	31.4 %	5,641	4,753	18.7 %
Cargo load factor (%)	68.1 %	72.7 %	-4.6	74.4 %	77.7 %	-3.3

Africa & Middle East						
Revenue tonne-km (RKT)	77	71	9.4 %	757	695	8.8 %
Available tonne-km (ATK)	134	128	4.1 %	1,225	1,166	5.1 %
Cargo load factor (%)	57.9 %	55.1 %	2.8	61.8 %	59.6 %	2.1

Caribbean-Indian Ocean						
Revenue tonne-km (RKT)	41	39	5.3 %	462	451	2.3 %
Available tonne-km (ATK)	97	86	12.9 %	854	845	1.1 %

Cargo load factor (%)	42.3 %	45.4 %	-3.1	54.0 %	53.4 %	0.7

(1) Consolidation of Air France over 10 months (April-January) and KLM over 9 months (May-January).

8.5.3 Press release dated March 7, 2005, regarding February 2005 traffic

FEBRUARY 2005 TRAFFIC
Good performance in passenger activity:

- **Load factor up 1.4 points to 76.6%**
- **Traffic up 3.8% and around 7.3% on a comparable basis**

8.5.3.1 Passenger operations

Activity remained strong in February. The Air France-KLM Group posted a good performance despite the disruptions due to bad weather conditions. Load factor gained 1.4 points to 76.6% as traffic increased by 3.8% on 1.9% higher capacity. These improvements do not fully reflect the underlying growth in activity as February 2005 comprises 28 days compared with 29 days last year. On the basis of a comparable number of days, the growth would have improved by some 3.5 points.

The Americas network continued to perform well with a 4.2-point increase in load factor (80.2%) and a 5.8% growth in traffic on 0.3% higher capacity.

Activity remained strong in Asia. Traffic increased by 7.3% for a 8.4% rise in capacity. Load factor stood at 80.8% (down 0.8 points).

On the Africa & Middle-East network, traffic and capacity increased by 1.7% and 2.4% respectively. The load factor stood at 76.7%, down 0.5 points.

The Caribbean & Indian Ocean sector recorded a 0.8-point gain in load factor (83.3%) as traffic declined by 0.4% on 1.4% lower capacity.

On the medium-haul network, load factor improved by 1.4 points to 64.2% with traffic increasing by 2.3% on virtually stable capacity (up 0.1%).

The performance per airline was as follows:

- Air France load factor reached 74.6%, up 2.3 points, as traffic increased by 3.3% on 0.2% higher capacity.
- KLM traffic grew virtually in line with capacity (up 4.7% and 5.0% respectively). Load factor stood at the high level of 80.1% (down 0.3 points).

8.5.3.2 Cargo operations

Cargo activity was satisfactory in February. Except in Asia where activity was negatively impacted by Chinese New Year (in January last year), the Americas and the Africa & Middle-East networks continued to perform well.

Overall, the Group posted a slight increase in traffic (up 0.3%) for a 3.7% rise in capacity. As was the case for passenger operations, the increase in cargo traffic and capacity would have been improved by some 3.5 points on the basis of a comparable number of days. Cargo load factor stood at 68.2% (down 2.3 points).

- Air France cargo traffic and capacity were up 4.1% and 6.8% respectively. Load factor stood at 62.5%, down 1.6 points.

- KLM cargo traffic decreased by 3.8% on 0.5% lower capacity. Load factor stood at 76.5%, down 2.6 points.

8.5.3.3 Statistics

Passenger operations (millions)

Total Group	February			Cumulative [1]		
	2005	2004	%	2004-05	2003-04	%
Passengers carried (000)	4,739	4,634	2.3 %	58,512	55,200	6.0 %
Revenue pax-kilometers (RPK)	12,839	12,365	3.8 %	154,041	141,053	9.2 %
Available seat-kilometers (ASK)	16,765	16,457	1.9 %	195,940	182,784	7.2 %
Passenger load factor (%)	76.6 %	75.1 %	1.4	78.6 %	77.2 %	1.4
Europe (including France)						
Passengers carried (000)	3,305	3,257	1.5 %	41,420	39,666	4.4 %
Revenue pax-kilometers (RPK)	2,481	2,426	2.3 %	31,698	30,109	5.3 %
Available seat-kilometers (ASK)	3,862	3,858	0.1 %	47,042	44,706	5.2 %
Passenger load factor (%)	64.2 %	62.9 %	1.4	67.4 %	67.3 %	0.0
America (North and South)						
Passengers carried (000)	501	472	6.2 %	6,674	6,107	9.3 %
Revenue pax-kilometers (RPK)	3,744	3,539	5.8 %	48,981	45,058	8.7 %
Available seat-kilometers (ASK)	4,670	4,657	0.3 %	57,373	54,628	5.0 %
Passenger load factor (%)	80.2 %	76.0 %	4.2	85.4 %	82.5 %	2.9
Asia/Pacific						
Passengers carried (000)	323	298	8.5 %	3,650	2,933	24.4 %
Revenue pax-kilometers (RPK)	2,811	2,619	7.3 %	32,138	25,831	24.4 %
Available seat-kilometers (ASK)	3,477	3,208	8.4 %	39,488	32,290	22.3 %
Passenger load factor (%)	80.8 %	81.6 %	-0.8	81.4 %	80.0 %	1.4
Africa & Middle East						
Passengers carried (000)	339	334	1.5 %	3,918	3,558	10.1 %
Revenue pax-kilometers (RPK)	1,826	1,795	1.7 %	20,403	18,822	8.4 %
Available seat-kilometers (ASK)	2,382	2,327	2.4 %	26,174	24,486	6.9 %
Passenger load factor (%)	76.7 %	77.1 %	-0.5	78.0 %	76.9 %	1.1

Caribbean-Indian Ocean						
Passengers carried (000)	271	273	(0.9 %)	2,850	2,936	(2.9 %)
Revenue pax-kilometers (RPK)	1,978	1,987	(0.4 %)	20,821	21,233	(1.9 %)
Available seat-kilometers (ASK)	2,373	2,407	(1.4 %)	25,863	26,675	(3.0 %)
Passenger load factor (%)	83.3 %	82.5 %	0.8	80.5 %	79.6 %	0.9

Activité cargo (en millions)

	Février			Cumul [1]		
Total Group	**2005**	**2004**	**%**	**2004-05**	**2003-04**	**%**
Revenue tonne-km (RKT)	795	793	0.3 %	9,187	8,356	10.0 %
Available tonne-km (ATK)	1,166	1,125	3.7 %	13,444	12,243	9.8 %
Cargo load factor (%)	68.2 %	70.5 %	-2.3	68.3 %	68.3 %	0.1

Europe (including France)						
Revenue tonne-km (RKT)	8	8	(2.9 %)	87	84	3.8 %
Available tonne-km (ATK)	33	35	(4.1 %)	401	389	3.2 %
Cargo load factor (%)	23.8 %	23.5 %	0.3	21.7 %	21.6 %	0.1

America (North and South)						
Revenue tonne-km (RKT)	290	269	7.9 %	3,186	2,916	9.3 %
Available tonne-km (ATK)	394	371	6.1 %	4,583	4,371	4.9 %
Cargo load factor (%)	73.6 %	72.4 %	1.3	69.5 %	66.7 %	2.8

Asia/Pacific						
Revenue tonne-km (RKT)	378	395	(4.4 %)	4,576	4,089	11.9 %
Available tonne-km (ATK)	527	510	3.2 %	6,168	5,263	17.2 %
Cargo load factor (%)	71.7 %	77.4 %	-5.7	74.2 %	77.7 %	-3.5

Africa & Middle East						
Revenue tonne-km (RKT)	76	74	1.7 %	832	770	8.1 %
Available tonne-km (ATK)	121	123	(1.9 %)	1,346	1,289	4.4 %
Cargo load factor (%)	62.6 %	60.4 %	2.2	61.8 %	59.7 %	2.1

Caribbean-Indian Ocean						
Revenue tonne-km (RKT)	44	47	(5.3 %)	506	498	1.6 %
Available tonne-km (ATK)	91	85	7.1 %	946	931	1.6 %
Cargo load factor (%)	48.5 %	54.8 %	-6.3	53.5 %	53.5 %	0.0

(1) Consolidation of Air France over 11 months (April-February) and KLM over 10 months (May-February).

8.5.4 Press release dated April 7, 2005, regarding March 2005 traffic

Strong passenger activity with a 6.2% increase in traffic and a high load factor of 80.1% (up 1.7 points)

8.5.4.1 Passenger operations

Despite the disruptions due to bad weather conditions, the Group posted a good performance with a 1.7-point increase in load factor, now at the high level of 80.1%. Activity remained strong with traffic increasing by 6.2% on 3.9% higher capacity. The Group carried close to 5.6 million passengers (up 2.8%).

All networks posted improving load factors.

The Americas continue to post sustained growth in activity. Traffic increased by 6.2% for a 4.4% rise in capacity, leading to a 1.5-point rise in load factor to 87.3%.

Activity remained buoyant in Asia with traffic and capacity up 11.2% and 10.0% respectively. Load factor stood at 82.6% (up 0.9 points).

On the Africa & Middle-East network, traffic rose 9.1% for an 8.1% increase in capacity. Load factor reached 77.4%, up 0.7 points.

On Caribbean & Indian Ocean routes, the load factor improved by 1.5 points to 84.7%, as traffic remained stable (+0.4%) on 1.4% lower capacity.

The medium-haul network also posted a good performance with a 2.8-point gain in load factor (68.3%), as traffic increased by 3.6% for a slight decrease in capacity (down 0.7%)

The performance per airline was as follows:

- Air France load factor reached 78.7% (up 2.4 points) with traffic increasing by 6.0% for a 2.7% rise in capacity.
- KLM traffic grew in line with capacity (up 6.4% and up 6.1% respectively). Load factor stood at the high level of 82.7% (up 0.3 points).

8.5.4.2 Cargo operations

In March, the Group posted a 2.0% drop in cargo traffic, as activity was affected by weak demand on the Asian markets and by the calendar effect due to Easter (in April last year). Capacity increased by 5.2% and load factor stood at 67.0%, down 4.9 points.

- Air France cargo traffic and capacity were up 3.3% and 7.5% respectively. Load factor stood at 63.1% (down 2.6 points).
- KLM cargo traffic decreased by 7.9% on 2.1% higher capacity. Load factor stood at 72.6% (down 7.9 points).

8.5.4.3 Statistics

Passenger operations (millions)

	March			Cumulative [1]		
Total Group	**2005**	**2004**	**%**	**2004-05**	**2003-04**	**%**
Passengers carried (000)	5,562	5,411	2.8%	64,075	60,611	5.7%
Revenue pax-kilometers (RPK)	14,953	14,086	6.2%	168,998	155,138	8.9%
Available seat-kilometers (ASK)	18,665	17,964	3.9%	214,606	200,748	6.9%
Passenger load factor (%)	80.1%	78.4%	1.7	78.7%	77.3%	1.5
Europe (including France)						
Passengers carried (000)	3,900	3,853	1.2%	45,320	43,518	4.1%
Revenue pax-kilometers (RPK)	2,968	2,866	3.6%	34,667	32,975	5.1%
Available seat-kilometers (ASK)	4,348	4,379	(0.7%)	51,390	49,086	4.7%
Passenger load factor (%)	68.3%	65.4%	2.8	67.5%	67.2%	0.3
America (North and South)						
Passengers carried (000)	620	587	5.6%	7,294	6,693	9.0%
Revenue pax-kilometers (RPK)	4,600	4,333	6.2%	53,584	49,391	8.5%
Available seat-kilometers (ASK)	5,272	5,051	4.4%	62,646	59,678	5.0%
Passenger load factor (%)	87.3%	85.8%	1.5	85.5%	82.8%	2.8
Asia / Pacific						
Passengers carried (000)	359	325	10.6%	4,010	3,258	23.1%
Revenue pax-kilometers (RPK)	3,168	2,850	11.2%	35,306	28,680	23.1%
Available seat-kilometers (ASK)	3,835	3,486	10.0%	43,323	35,776	21.1%
Passenger load factor (%)	82.6%	81.7%	0.9	81.5%	80.2%	1.3
Africa & Middle East						
Passengers carried (000)	387	353	9.6%	4,305	3,911	10.1%
Revenue pax-kilometers (RPK)	2,056	1,884	9.1%	22,459	20,706	8.5%
Available seat-kilometers (ASK)	2,657	2,459	8.1%	28,831	26,945	7.0%
Passenger load factor (%)	77.4%	76.6%	0.7	77.9%	76.8%	1.0
Caribbean-Indian Ocean						
Passengers carried (000)	296	294	0.7%	3,146	3,230	(2.6%)
Revenue pax-kilometers (RPK)	2,162	2,153	0.4%	22,983	23,386	(1.7%)

Available seat-kilometers (ASK)	2,553	2,589	(1.4%)	28,416	29,264	(2.9%)
Passenger load factor (%)	84.7%	83.2%	1.5	80.9%	79.9%	1.0

Cargo operations (millions)

	March			Cumulative [1]		
Total Group	**2005**	**2004**	**%**	**2004-05**	**2003-04**	**%**
Available tonne-km (ATK)	890	908	(2.0%)	10,078	9,264	8.8%
Revenue tonne-km (RTK)	1,330	1,263	5.2%	14,774	13,506	9.4%
Cargo load factor (%)	67.0%	71.9%	-4.9	68.2%	68.6%	-0.4

Europe (including France)						
Available tonne-km (ATK)	9	10	(12.3%)	96	94	2.2%
Revenue tonne-km (RTK)	39	38	3.1%	440	427	3.2%
Cargo load factor (%)	21.8%	25.6%	-3.8	21.7%	21.9%	-0.2

America (North and South)						
Revenue tonne-km (RTK)	311	301	3.3%	3,498	3,217	8.7%
Available tonne-km (ATK)	437	423	3.3%	5,020	4,793	4.7%
Cargo load factor (%)	71.3%	71.3%	0.0	69.7%	67.1%	2.6

Asia / Pacific						
Revenue tonne-km (RTK)	436	461	(5.5%)	5,012	4,550	10.1%
Available tonne-km (ATK)	622	580	7.2%	6,790	5,843	16.2%
Cargo load factor (%)	70.2%	79.6%	-9.4	73.8%	77.9%	-4.1

Africa & Middle East						
Revenue tonne-km (RTK)	82	82	(0.0%)	914	852	7.3%
Available tonne-km (ATK)	134	131	2.2%	1,480	1,420	4.2%
Cargo load factor (%)	61.2%	62.6%	-1.3	61.8%	60.0%	1.8

Caribbean-Indian Ocean						
Revenue tonne-km (RTK)	53	54	(2.4%)	559	552	1.2%
Available tonne-km (ATK)	98	92	6.8%	1,044	1,023	2.1%
Cargo load factor (%)	53.6%	58.7%	-5.1	53.5%	54.0%	-0.5

[1] *consolidation of Air France over 12 months (April-March) and KLM over 11 months (May-March)*

8.5.5 Synergies

Because of the progress of synergies it is possible to confirm that the amount of 90 million euros that had been announced for the 2004-05 financial year should be reached; for the financial year 2008-09, the amount has been re-estimated up to 580 million euros. On April 12, 2005, Air France and KLM announced that the amount relating to commercial synergies, which will stand at 92 million euros, included in the global amount of 580 million euros mentioned above, will be achieved through gains on foreign stopovers, reduced commercial costs and management coordination.

GLOSSARY

Available seat-kilometers (ASK)

Total number of seats available for the transportation of paying passengers multiplied by the number of kilometers flown.

Available tonne-kilometers (ATK)

Total number of tonnes available for the transport of freight multiplied by the number of kilometers covered.

Cargo load factor

Revenue tonne-kilometers (RTK) divided by available tonne kilometers (ATK).

Code sharing

Under a code sharing agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

Hub

Term used for a correspondence platform where departures and arrivals are scheduled so as to minimize transfer times. The Air France hub at Roissy Charles-de-Gaulle airport is organized into six connecting banks (or time spans) for arrivals and departures each day, offering passengers a host of connections in the shortest possible time.

IATA year (International Air Transport Association)

Financial year for numerous airlines including Air France, which runs from April 1 to March 31 the following year. This system makes it possible to track changes in the activity more effectively based on the “seasons” defined by IATA, *i.e.* a summer season and a winter season.

Passenger load factor

Revenue passenger-kilometers (RPK) divided by available seat kilometers (ASK).

Point-to-point traffic

Traffic between two airports excluding all passengers taking a connecting flight.

Revenue management

Technique designed to optimize revenues on flights, by constantly seeking the best balance between the cargo load factor and the rates offered.

Revenue passenger-kilometer (RPK)

Total number of paying passengers multiplied by the kilometers they have flown.

Revenue tonne-kilometer (RTK)

Total number of tonnes of paid cargo multiplied by the kilometers this cargo is flown.

Segment

Section of a flight between two stopovers.

Summer season

Defined by IATA as the period running from the last Saturday in March to the last Saturday in October. The summer season corresponds to a schedule of summer flights over a period of 7 months.

Unit revenue per RPK

Revenues for one paying passenger transported over one kilometer.

Unit revenue per RTK

Revenues for one tonne transported over one kilometer

Winter season

Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over 5 months.