AIR FRANCE KLM

# 2004-05
# Reference document

# Contents



As the public exchange offer closed on May 3rd, 2004,
the Group consolidated data for the first half of fiscal 2004-2005 are presented on the basis
of a 12-month consolidation of the Air France group (April-March) and 11 months for the KLM group (May-March).
Fiscal year 2003-04 is restated on a pro forma basis

AMF

This reference document was filed with the French Autorité des marchés financiers on June 29th, 2005,
as required by Articles 211.1 to 211.42 of the general regulations of the AMF. It may be used to support
a financial operation if it is completed by an offering circular approved by the Autorité des marchés financiers

# Chairman's message



Dear Shareholders,

In creating Air France-KLM just over a year ago, we were pioneers, almost like the first aviators. In some ways, we reinvented the industry. By staying focused on customer and shareholder satisfaction, we have opened up new opportunities for our two airlines by creating the European and Worldwide leader in air transport.

We have successfully implemented this project, already producing a strong increase in results this year. A buoyant level of activity in our three businesses, combined with an effective cost-control policy, has enabled us to withstand the soaring price of oil. Finally, thanks to the enthusiastic and effective mobilization of the teams in both companies, to whom I pay tribute, not only have synergies been implemented faster than expected, but they have also been revised upwards.

This first successful year of the merger has been recognized through various awards, notably from the American magazine, *Air Transport World*, which voted Air France-KLM 'Airline of the Year'.

The reasons behind our success are simple: the co-operation between our two companies is based on respect, commitment and trust.

We view our cultural differences as advantages from which we can benefit. At the same time, there are many things that draw us together, fostering an environment of pragmatic co-ordination, which has made it possible to launch a number of joint projects, particularly in passenger and cargo but also in maintenance and information systems. For our customers, this merger has not only produced an enlarged network, greater frequency of flights, and access to two efficient hubs, but has also created a combined loyalty program, *Flying Blue*, a symbol of our joint approach.

But just because our results were good this year, it doesn't mean we can stop here! To meet our objective of profitable growth in the longer-term, there are numerous challenges ahead.

The first and foremost is cost-control. It is by pursuing the cost-control programs developed within both airlines that we will succeed in creating an attractive offer, thereby strengthening Air France-KLM's leadership in an increasingly competitive environment. Achieving the anticipated synergies and identifying further ones will also be important factors in keeping our costs down.



In a sector exposed to rapid and deep-seated change, the second challenge is to maintain the capacity to grow without sacrificing the flexibility that has enabled us to adapt to the many unforeseen events that have occurred since 2001. Building on our two hubs, Roissy – Charles-de-Gaulle and Schiphol, we will continue to develop our capacities in a focused and measured way, by optimizing the complementary nature of the networks and combining point-to-point traffic and connecting flights.

Our third challenge is to strengthen our financial structure while continuing to generate sufficient cash flow to pursue the rationalization and modernization of our fleet, which in turn will improve our profitability and enable us to meet the demands of sustainable development.

These challenges are not new, and we have proven ourselves equal to the task in the past. Since its listing in 1999, your company has evolved considerably. Back then, we ranked only third in Europe with revenues of 10 billion euros, we were not members of a major alliance, and we were state-owned. Now, fully privatized, we are the leader in SkyTeam - the alliance we have created with our key partners - and above all, we have succeeded in carrying out the first merger in our sector between two national airlines with different cultures.

In my view, our share price does not yet reflect this transformation. The airline sector is often perceived as non value-creating, but I would contend that few sectors could have withstood the crises that have beset it since the terrorist attacks of September 11 and their consequences. Our industry has demonstrated its economic and social relevance and its ability to weather difficult times. The industry will have to face up to a difficult environment again this year. However, by pursuing the strategic course that the Air France-KLM group has adopted, we are confident that we will be able to achieve our target of an operating result of a comparable level to that of 2004-05.

Together with Leo van Wijk, Chairman of KLM, we share the ambition of reinforcing our position as the World's leading airline group, for the benefit of our employees, customers and shareholders, whose support over this past year has been crucial.

Thank you for your continued support and the confidence you have demonstrated in the Group,

**Jean-Cyril Spinetta**

# General presentation

# 2004-05 Highlights





## April 2004
On April 5th, Air France launches its exchange offer for KLM common stock. The shareholders of KLM, at the Shareholders' Meeting of April 19th, adopt the bylaw amendments allowing the formation of the Air France-KLM group. On April 20th, the Air France Shareholders' Meeting approve the capital increase intended to remunerate the KLM shareholders.

## May
The exchange offer for the KLM shares is highly successful, with 96.3% of the shares of KLM common stock tendered in the offer. On May 5th, the Group is listed for trading in Paris, Amsterdam and New York. On May 6th, the privatization of Air France is completed with the transfer of the majority of the stock to the private sector by dilution of the French State's stake.

On May 23rd, the portion of the vault in the embarkation room in terminal 2E at Roissy - Charles-de-Gaulle collapses. All flights and personnel are reassigned to other terminals at the hub, resulting in no cancellation.

## June
The Group identifies the top three priorities for the coming years: implement the first measures to generate synergies, continue a strict cost-control policy, and to develop the SkyTeam alliance.

## July
The price of a barrel of oil (Brent IPE) rises above USD 40 in London, the highest level since 1990.

## September
The Shareholders' Meeting finalizes the legal structure of the Group with the creation of the Air France-KLM holding company, which holds two air carrier subsidiaries: Air France and KLM. KLM and its American partners Northwest Airlines and Continental join the SkyTeam alliance.

## October
KLM celebrates its 85th anniversary around the theme *Celebrating the spirit*.

KLM 85 celebrating the spirit

## December

On December 9th, the French government reduces its equity interest from 44% to 23%, after the sale of 47.7 million shares.

On December 26, a tsunami ravages the coasts of southern and southeast Asia, claiming thousands of lives. The Air France and KLM teams are deployed to assist the survivors and participate financially in the global aid effort.

## January 2005

Air France-KLM is elected «Airline of the Year» by the American magazine *Air Transport World*.

Air France Cargo and KLM Cargo announce the creation of the European Cargo House, an integrated management team in the cargo segment.

## February

An offering reserved for Air France employees and a wage for share exchange are launched following the French State's sale of its stake in Air France-KLM.

## Mars

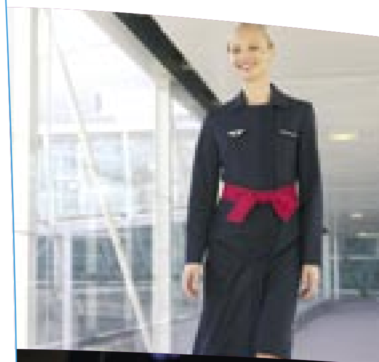
Air France-KLM introduces *Flying Blue*, its single frequent flyer program, which replaces the *Fréquence Plus* program from Air France and KLM's *Flying Dutchman* program.

## April

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

## May

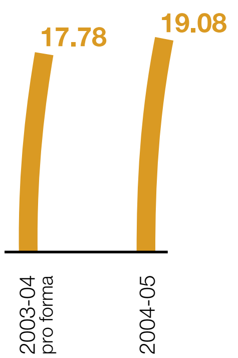
At the end of the first successful year of the merger, the Group publishes substantially improved results.



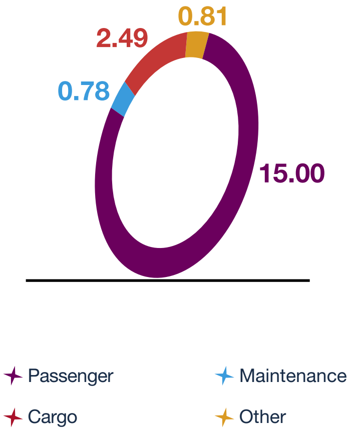

# Key figures



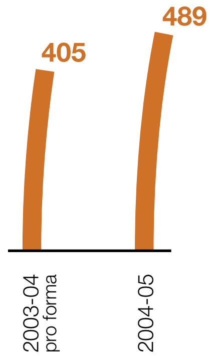
### Revenues
(in euro billion)



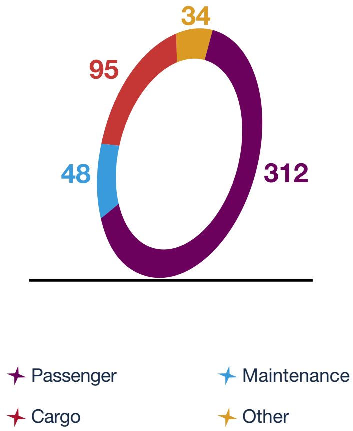

### Breakdown of revenues
(in euro billion)




### Operating income
(before aircraft disposals)
(in euro million)




### Breakdown of operating income
(before aircraft disposals)
(in euro million)




The Group's revenues increased 7.3% thanks to a sustained level of activity across all businesses.

Passenger and cargo activities recorded growth of 6.8% and 9.4% respectively.

Operating income before aircraft disposals was up 20.7% despite fuel costs rising 33.3% to 2.6 billion euros.

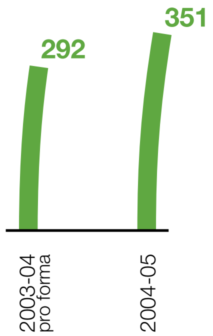
All businesses made positive contributions to operating income, with a particularly strong performance on cargo (+61.0%).

## A successful first year of the merger

The first year of the merger between Air France and KLM has been a resounding success. The teams have worked together enthusiastically and the success of their combined efforts can be seen in the 115 million euros of synergies achieved, someway above the initial estimate of 65 million euros. They have helped reinforce the cost-cutting programs at the two companies, enabling the Group to generate strong growth in earnings despite the massive hike in oil prices.

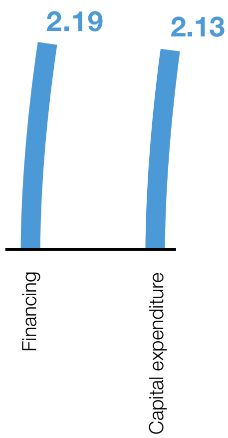


### Net income, Group share
(in euro million)



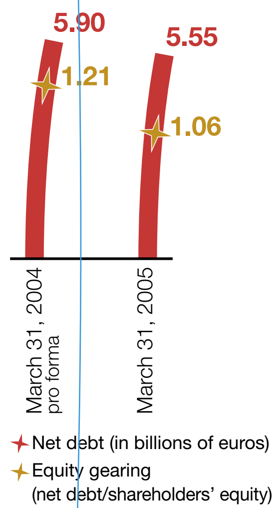

Earnings per share came out at 1.36 euros at March 31st, 2005 compared with 1.13 euros the previous year, while the dividend is up to 15 euro cents (5 euro cents at March 31st, 2004).

### Capital expenditure financing
(in euro billion)




Capital expenditure on aircraft totaled 1.8 billion euros and ground investments 0.3 billion. They were financed by 1.9 billion in cash flow from operations and 0.3 billion in aircraft disposals.

### Financial structure
(in euro billion)




The balance sheet structure has been considerably strengthened with equity gearing down to 1.06.

## Consolidated figures

| *in EUR million* | **2005** (1) (2) | **2004 pro forma**(1) | **Change** |
|---|---|---|---|
| Revenues | 19,078 | 17,782 | +7.3% |
| EBITDAR | 2,873 | 2,716 | +5.8% |
| Operating income before aircraft disposals | 489 | 405 | +20.7% |
| Pre-tax consolidated net income | 455 | 341 | +33.4% |
| **Net income, Group share** | **351** | **292** | **+20.2%** |
| Earnings per share (in euro) | 1.36 | 1.13 | +20.4% |

*(1) Consolidation of Air France over 12 months (April -March) and KLM over 11 months (May-March).*
*(2) Consolidation of Servair over 15 months (January 2004-March 2005).*

## Board of Directors as at March 31st 2005

The Board's membership changed during fiscal year 2004–05 to take into consideration the merger between Air France and KLM, which resulted in the privatization of the Air France group, agreements signed by the two airlines relating to corporate governance, the transmission of holdings between the company and its subsidiary and, finally, the sale of 25.5% of the capital by the French State.
The Board, which had 21 members at March 31st 2004, increased to 26 members on June 24th 2004, then reduced to 20 members at September 15th 2004.

Finally, the sale of the French State's interest in December 2004 resulted in a decrease in the number of its representatives on the Board.

Since January 20th 2005, there have been 16 members on the Board of Directors:
- 11 members elected by the Shareholders' Meeting;
- 2 representatives of the employee shareholders elected by the Shareholders' Meeting;
- 3 representatives of the French state appointed by ministerial order.

### Directors appointed by the annual shareholders' meeting

| | First appointed | Expiration date of current term of office | Number of shares of the company's stock | Other directorships |
|---|---|---|---|---|
| **Jean-Cyril Spinetta**<br>Chairman of the Board<br>Born October 4th 1943 | **23/09/1997** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 65,240<br>(excluding FCPE units) | Chairman and Chief Executive Officer of Air France, Director of Alitalia and Saint-Gobain, permanent representative of Air France on the Board of Directors of Le Monde Entreprises. |
| **Leo M. van Wijk**<br>Vice-Chairman of the Board of Directors<br>Chairman of the Management Board of KLM<br>Born October 18th 1946 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 500 | Director of Northwest Airlines, member of the Supervisory Board of Martinair, Aegon N.V., Randstad Holding N.V., and member of the Advisory Committee of ABN AMRO holding and Kennemer Gasthuis. |
| **Patricia Barbizet**<br>Chief Executive Officer of Artémis<br>Born April 17th 1955 | **03/01/2003** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 2,000 | Chairman of the Supervisory Board of Pinault-Printemps-Redoute and member of the Supervisory Board of Financière Pinault, Gucci, Yves Saint-Laurent and Yves Saint-Laurent Parfums. Director of FNAC, Christie's International plc. and TF1. Permanent Artémis representative on the Board of Directors of Bouygues, Sebdo Le Point, and L'Agefi. |
| **Giancarlo Cimoli**<br>Chairman and Deputy Director of Alitalia<br>Born December 12th 1939 | **19/07/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 10 | Director of Enia S.p.A. and EnerTAD S.p.A. |

| | First appointed | Expiration date of current term of office | Number of shares of the company's stock | Other directorships |
|---|---|---|---|---|
| **Jean-François Dehecq**<br>Chairman and Chief Executive Officer of Sanofi-Aventis<br>Born January $1^{st}$ 1940 | **25/01/1995** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 523 | Chairman and Director of Sanofi-Synthelabo Daiichi Pharmaceuticals Co., Director Sanofi-Synthelabo Inc and Fujisawa-Sanofi-Synthelabo. |
| **Willem F. Duisenberg**<br>Born July $9^{th}$ 1935 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 100 | Member of the Supervisory Board of Rabobank. |
| **Jean-Marc Espalioux**<br>Chairman of the Management Board of Accor<br>Born March $18^{th}$ 1952 | **14/09/2001** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 601 | Director of Veolia Environnement and Accor UK. Member of the Supervisory Board of Club Méditerranée and permanent Accor representative on the Supervisory Board of Groupe Lucien Barrière SAS. |
| **Pierre-Henri Gourgeon**<br>Deputy Chief Executive Officer of Air France-KLM<br>Born April $28^{th}$ 1946 | **20/01/2005** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2011 | 44,769 (excluding FCPE units) | Chief Operating Officer of Air France and permanent representative of Air France-KLM on the Board of Directors of Air France, Chairman of Amadeus GTD, Director of Autoroutes du Sud de la France and Stéria. |
| **Cornelis J. A. van Lede**<br>Born November $21^{st}$ 1942 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 1,000 | Director of Reed Elsevier and Sara Lee Corp. Chairman of the Supervisory Board of Heineken, member of the Supervisory Board of Akzo Nobel, Philips Electronics and Air Liquide, President of INSEAD. |
| **Floris A. Maljers**<br>Born August $12^{th}$ 1936 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 500 | Chairman of the Supervisory Board of the Rotterdam School of Management. Member of the Preferred Stock Committee of DSM and member of the Executive Committee of Rand Europe. |
| **Pierre Richard**<br>Chief Executive Officer and Chairman of the Management Board of Dexia<br>Born March $9^{th}$ 1941 | **20/10/1997** | Shareholders' Meeting called to approve the financial statements for the year ending March $31^{st}$ 2010 | 401 | Chairman of the Supervisory Board of Dexia Crédit Local, Vice-Chairman of the Board of Directors of Dexia Banque Belgium and Dexia Banque Internationale in Luxembourg. Director of Dexia Banque, FSA Holding, Crédit du Nord, Le Monde and Generali France. Member of the Board of Directors as expert advisor of the European Investment Bank. Vice-Chairman of the French Association of Banks and member of the Executive Committee of the French Banking Federation. |

## Directors representing the French State

| | First appointed | Expiration date of current term of office | Number of shares of the company's stock | Other directorships |
|---|---|---|---|---|
| **Pierre-Mathieu Duhamel**<br>Director of Budget, French Ministry of the Economy, Finance and Industry<br>Born November 17th 1956 | **15/01/2003** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | – | Director of France Telecom, EDF and SNCF. Official member of the CEA. |
| **Jean-Louis Girodolle**<br>Deputy Director with the Department of the Treasury State Holdings Agency<br>Born August 2nd 1968 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | – | Director of Renault, RATP, Autoroutes du Sud de la France, and Aéroports de Paris. |
| **Claude Gressier**<br>President of the Department of Economic Affairs, Counsel General for Public Works<br>Born July 2nd 1943 | **24/06/2004** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | – | None |

The directors representing the French State are not required to hold shares of the company's stock.

## Directors representing employee shareholders

| | First appointed | Expiration date of current term of office | Number of shares of the company's stock | Other directorships |
|---|---|---|---|---|
| **Christian Magne**<br>Representative of the ground staff and cabin crews<br>Born August 20th 1952 | **14/09/2001** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 172 (excluding FCPE units) | – |
| **Christian Paris**<br>Representative of flight deck crew<br>Born February 8th 1954 | **14/09/2001** | Shareholders' Meeting called to approve the financial statements for the year ending March 31st 2010 | 28,000 (excluding FCPE units) | – |

**Secretary for the Board of Directors**
Jean-Marc Bardy
Legal Counsel



## Board Organization and Operation

Directors are appointed for a six-year term of office. The minimum number of directors' shares is 10 shares for directors other than those who represent the French State and employee shareholders.

At its meeting on June 24th 2004, the Board of Directors voted not to separate the functions of the Chairman and Chief Executive Officer. The Chairman is appointed by the Board of Directors; he has full powers to manage the company, with the exception of the limitations described below. The only limitations placed on the powers of the Chairman and Chief Executive Officer are those set forth in the internal rules of the Board of Directors, which stipulate that the Chairman and Chief Executive Officer must obtain prior approval from the Board to conduct the following operations when the amount exceeds 150 million euros:

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

At its meeting of June 24th 2004, the Board of directors decided to appoint a Deputy Chief Executive Officer to assist the Chairman and Chief Executive Officer, and defined his powers. The Deputy Chief Executive Officer has extensive powers in economic, financial, commercial and employment matters. He must, however, submit contracts of over 50 million euros for the signature of the Chairman and Chief Executive Officer.

In addition to the laws and articles of association, the operations of the Board are governed by internal regulations adopted by the Board on June 17th 2004.

These regulations define the roles of the four specialized Board committees: the Audit Committee, the Strategy Committee, the Compensation Committee and the Appointments Committee. The Board of Directors has also adopted an ethics code that sets forth the obligations of directors in terms of securities transactions, as well as a financial ethics code that defines the principles with which the principal executives of the company responsible for financial information and disclosure must comply.

Between three and five days before the meetings of the Board, a file containing the agenda and any points that require special analysis and prior consideration, summary memoranda and/or full documentation is sent to Board members.

During fiscal year 2004–05, the Board of Directors met ten times. The meetings lasted an average of three hours and the principal items on the agenda were presented orally or by video, followed by discussion. The attendance rate for directors was 80.7% (86% in 2003–04).

The meetings of the Board were devoted to the review and/or approval of the interim and final corporate and consolidated financial statements, the budget, investments in the long-haul fleet, the oil hedging policy, significant operations including changes to the structures of the Group, the capital increase reserved for KLM shareholders, the appointment and remuneration of corporate officers and regulated agreements.

In its current form, the Board of Directors has initiated a self-assessment of its operations, since March 31st, 2005

# Committees

## The Audit Committee

This committee comprises 5 directors: Jean-François Dehecq, Chairman of the committee, Jean-Louis Girodolle, Floris Maljers, Pierre Richard and Christian Magne. The committee meetings are also attended by the Vice President Finance of Air France-KLM, the KLM Chief Financial Officer, the internal audit directors of each of the two subsidiaries and the Statutory Auditors.

The committee has been tasked to review the consolidated financial statements, the main financial risks, the results of internal audits, the work programme, and the conclusions and recommendations of the Statutory Auditors. The committee approves the amount of the auditors' fees and gives prior approval for some services provided by the Statutory Auditors. It must also ensure the quality of procedures to ensure compliance with stock market regulations.

In addition, the Audit Committee reviews the interim and annual consolidated accounts before they are submitted to the Board of Directors and, specifically, it must review:

- the consolidation perimeter
- the relevance and permanence of the accounting methods used to prepare the financial statements;
- the principal estimates made by management;
- the comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits;
- with the company's management a periodic review of the principal financial risks and the off balanced sheet commitments;
- the programme and the results of the internal audits conducted by the subsidiaries.

In fiscal year 2004–05, the Audit Committee met to review the annual financial statements (May 12th 2004), the half-yearly statements (November 15th 2004), and the quarterly statements (February 14th 2005). The Audit Committee also met on September 21st 2004 to review the 20-F document filed with the US Securities and Exchange Commission and the process to convert the annual financial statements of the company into US GAAP because the company is listed on the New York Stock Exchange. This meeting also dealt with the application of the Sarbanes-Oxley Act to the company. Finally, on February 14th 2005, the committee considered the progress on the internal control action plan, and the internal audit work programme. The attendance rate for members was 81.7% (87.5% in 2003–04).

The Audit Committee has the resources necessary to perform its mission; it may also be assisted by persons outside the company.

## The Strategy Committee

The Strategy Committee comprises 7 directors: Jean-Cyril Spinetta, Chairman of the committee, Leo van Wijk, Patricia Barbizet, Pierre Duhamel, Claude Gressier, Christian Paris, and Christian Magne.

The meetings are also attended by the Deputy Chief Executive Officer, the Vice President Finance, and the Secretary of the Board of Directors.

The committee has been tasked to review the strategies for the Group's business, changes in the structure of its fleet or subsidiaries, the acquisition or disposal of aeronautical and non-aeronautical assets, and the policy for air transport subcontracting and alliances.

The committee devoted its November 8th 2004 meeting to preparing the Board's work on the operations for modifying Air France's stake in Amadeus France and Amadeus GTD, and concerning oil hedging policies. It reviewed the changes in the Air France long-haul fleet plan during its meeting on February 7th 2005. The attendance rate for members was 100% (87.5% in 2003–04).


## The Remuneration Committee

The Remuneration Committee comprises 3 directors: Jean-Marc Espalioux, Chairman of the Committee, Cornelis Van Lede and Pierre Richard. It is primarily responsible for submitting proposals for the level of and changes to the remuneration of the Chairman and Chief Executive Officer.
It may also be called upon to give an opinion on the compensation of senior executives, as well as on the policy for stock option plans for new or existing shares.

The committee met on June 15th 2004 and November 23rd 2004 to give the Board an opinion on the variable portion of the compensation for the Chairman and Chief Executive Officer for fiscal year 2003–04 and to prepare for the Board's discussions on the compensation of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer for fiscal year 2004–05. The attendance rate for members was 100% (100% in 2003–04).

## The Appointments Committee

In the context of privatization, the company adopted rules for the appointment of directors and corporate officers and, pursuant to the agreements signed with KLM, the company wanted to create an Appointments Committee, the internal rules of which were approved by the Board of Directors on March 4th 2004. The committee has three members: Jean-Marc Espalioux, Chairman of the committee, Patricia Barbizet, Jean-François Dehecq, and one substitute member. The Appointments Committee proposes candidates to serve as members of the Board of Directors, which approves these recommendations and submits them for election to the Shareholders' Meeting of the company. The Committee met in April 2004 to make recommendations to the Board for the election of new Board members by the Shareholders' Meeting on June 24th 2004. The attendance rate for members was 100%.

The Appointments Committee also names the members of the Strategic Management Committee after consulting the Chairman and Chief Executive Officer of Air France for the members who represent Air France and consulting the KLM Supervisory Board for the members representing KLM.

# Compensation

## Compensation for Directors

The Shareholders' Meeting of June 24th 2004 allocated directors' fees to the member of the Board for fiscal year 2004-05. The directors' remuneration modalities are the following: 12,000 euros as the fixed portion and 12,000 euros as the variable portion; for the Committee Chairman: 10,000 euros for the Audit committee and 7,000 euros for the other committees, for the Committee member: 6,000 euros for the Audit committee and 4,000 euros for the other committees. A global amount of 553,028 euros has been paid.

| Directors | Directors' fees paid by the company |
|---|---|
| Jean-Cyril Spinetta | 31,000 euros |
| Leo M. van Wijk | 22,060 euros |
| Patricia Barbizet | 28,727 euros |
| Giancarlo Cimoli | 9,091 euros |
| Jean-François Dehecq | 35,818 euros |
| Pierre-Mathieu Duhamel | 29,500 euros (1) |
| Willem F. Duisenberg | 15,878 euros |
| Jean-Marc Espalioux | 30,364 euros |
| Jean-Louis Girodolle | 19,560 euros (1) |

(1) Amount transferred directly to the Treasury

| Directors | Directors' fees paid by the company |
|---|---|
| Pierre-Henri Gourgeon | 4,849 euros |
| Claude Gressier | 16,969 euros (1) |
| Cornelis J.A. van Lede | 17,878 euros |
| Christian Magne | 32,500 euros |
| Floris A. Maljers | 21,469 euros |
| Christian Paris | 26,909 euros |
| Pierre Richard | 29,636 euros |
| Directors who have left their duties during the fiscal year | 180,820 euros |

## Remuneration for Corporate Officers

The Remuneration Committee recommended to the Board of Directors, which adopted the recommendation on November 23rd 2004, that it set the elements of the compensation for the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer for their duties in Air France-KLM and in Air France as follows:

- Chairman and Chief Executive Officer: basic remuneration of 750,000 euros p.a. over two years, with a bonus on objectives that can represent 60% of the basic remuneration.
  - 2004-05: 550,000 euros and a target bonus of 60%
  - 2005-06: 750,000 euros and a target bonus of 60%
- Deputy Chief Executive Officer: basic remuneration of 550,000 euros p.a. over two years, with a bonus on objectives that can represent 60% of the basic compensation.
  - 2004-05: 370,000 euros and a target bonus of 50%
  - 2005-06: 550,000 euros and a target bonus of 60%

The criteria for awarding the bonus are as follows:

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

The Chairman and Chief Executive Officer and the Deputy Chief Executive Officer also have a pension plan, which was set up in 2003 for 39 executives of Air France and guarantees an annual pension benefit of between 35% and 40% of their annual average remuneration during the last three years of employment based on time with the company.

They do not receive a severance package if they leave the company.



The remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of Air France-KLM is invoiced to Air France under a regulated agreement approved by the Board of Directors on November 23rd 2004, for the responsibilities they perform in this subsidiary.

The remuneration of the Chairman of the KLM Management Board is decided by the KLM Supervisory Board. He also benefits from a pension plan managed in accordance with Dutch law. The company contributed 228,278 euros to this plan for fiscal year 2004–05. In addition, Mr van Wijk may benefit from a severance package equal to his final salary plus an amount equal to the average of his bonuses for the last three years if his contract is not renewed when it expires in January 2007.

| **2004-05** | **Position** | **Gross remuneration** | **Variable remuneration(1)** | **Achievement of objective** |
|---|---|---|---|---|
| Jean-Cyril Spinetta | Chairman and Chief Executive Officer of Air France-KLM and Air France | 550,000 euros | 160,000 euros | 100% |
| Leo van Wijk | Director Chairman of the KLM Management Board | 653,709 euros | 429,731 euros | Partially |
| Pierre-Henri Gourgeon | Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France | 363,675 euros | 142,300 euros | 100% |

*(1) Variable remuneration received for the previous year.*

Mr Spinetta and Mr Gourgeon have decided to part to the tranche offer to the group Air France employees and to exchange salary for shares.

**Stock options for new or existing shares granted to the corporate officers of the company**
The company has not established a stock option scheme for its corporate officers.

For all information on the stock option schemes established by the subsidiaries for their own executives, officers or employees which entitle the holders to shares of Air France-KLM, see «Additional Information – Information on the share capital – Stock option schemes».

**Loans and guarantees granted to corporate officers of the company**
None.

## Strategic Management Committee (SMC)

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

The members of the SMC are paid by the companies to which they are attached.

(For more information on the role and responsibilities of the SMC and the Chairman of the SMC: see the section on «Additional information».)

**As of March 31st 2005, the members of the Strategic Management Committee were**

**Jean-Cyril Spinetta**
Chairman and Chief Executive Officer of Air France-KLM and Air France and Chairman of the SMC
Joined the company in 1997
Born October 4th 1943, Mr Spinetta attended the Ecole Nationale d'Administration.

**Leo van Wijk**
Chairman of the KLM Management Board
Joined the company in 1971
Born October 18th 1946, Mr van Wijk holds a master's degree in economics.

**Philippe Calavia**
Vice President Finance of Air France-KLM and Chief Financial Officer of Air France
Joined the company in 1998
Born October 1st 1948, Mr Calavia attended the Ecole Nationale d'Administration.

**Pierre-Henri Gourgeon**
Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France
Joined the company in 1993
Born April 28th 1946, Mr Gourgeon attended the Ecole Polytechnique.

**Peter Hartman**
Chief Operating Officer of KLM
Joined the company in 1973
Born April 3rd 1949, Mr Hartman is a graduate in mechanical engineering of the Polytechnical Institute of Amsterdam and a graduate in management from the University of Rotterdam.

**Bruno Matheu**
Senior Vice President – Marketing and Network Management for Air France
Joined the company in 1992
Born August 2nd 1963, Mr Matheu is a graduate of the Ecole Centrale de Paris.

**Michael Wisbrun**
Executive Vice-President for Cargo for KLM
Joined the company in 1978
Born March 14th 1952, Mr Wisbrun holds a master degree in engineering of the University of Delft.

**Cees van Woudenberg**
Chief Human Resources Officer, KLM
Joined the company in 1989
Born June 27th 1948, Mr van Woudenberg is a law graduate of the University of Leiden.

From left to right:

Peter Hartman, Philippe Calavia, Jean-Cyril Spinetta,
Leo van Wijk, Cees van Woudenberg, Bruno Matheu,
Pierre-Henri Gourgeon, and Michael Wisbrun

# Stock market



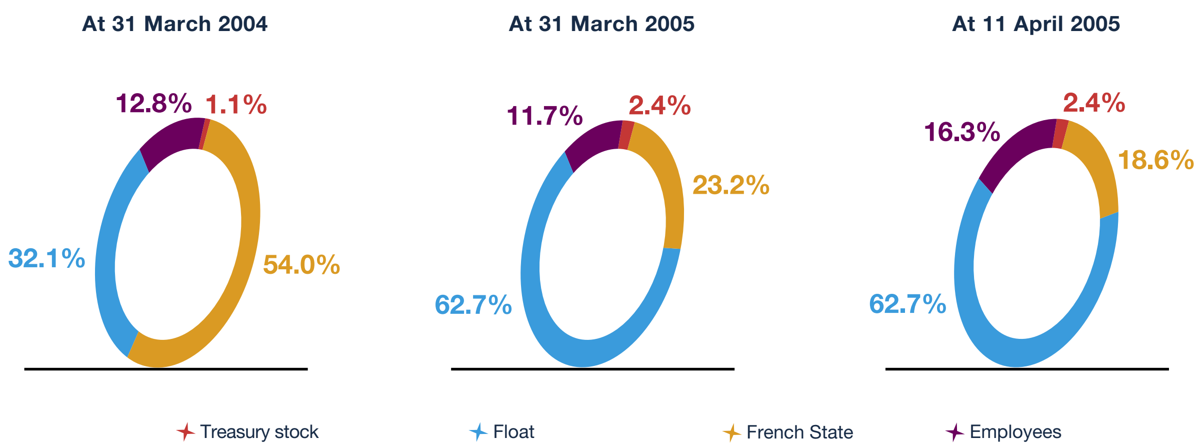
## Change in capital

The capital of Air France-KLM is represented by 269,383,518 shares with a par value of 8.50 euros.

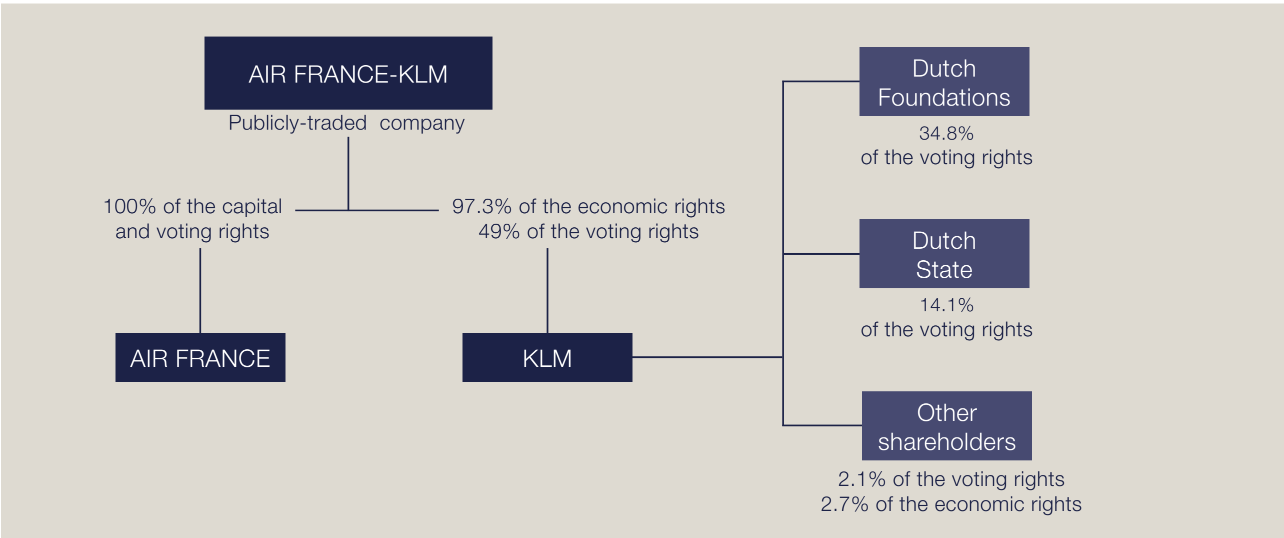
In May 2004, the French State's interest was reduced to 44.1% further to the new equity issue reserved for KLM's shareholders, who contributed their shares to the offer.

In December 2004, the French State sold 47.7 million shares on the stock market, reducing its stake in Air France-KLM to 23.2%.

In February 2005, the French State sold 8.4 million shares to the employees of the Air France group in the offering reserved for employees, and 12.6 million shares in the wage for share exchange. These shares were delivered in March and April 2005.




## Group shareholding structure at March 31st, 2005






## Ownership and declaration rules

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

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

## Capital structure

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

Identifiable bearer shares ("TPI") were analyzed on the basis of thresholds that allowed the identification of 94.0% of the bearer shareholders (intermediaries holding a minimum of 141,000 shares and shareholders holding a minimum of 100 shares).

By adding in registered shareholders, the owners of 97.3% of the capital were identified.

On the basis of the identifiable bearer shares, about 69% of the Air France-KLM group is held by French shareholders and 21% by European shareholders. On a corrected data base, the percentage of European shareholders drops to 14.7% in favor of American shareholders, who increase to 13.1% of the capital.

On the basis of the thresholds defined above, the float breaks down as follows:

| | Number of shares | As % of capital |
|---|---|---|
| Individual shareholders | 27,938,595 | 10.4% |
| French institutional shareholders | 58,083,677 | 21.6% |
| Non-resident shareholders: | 75,889,407 | 28.2% |
| Including: | | |
| Great Britain | 21,424,506 | 8.0% |
| United States | (1) 18,376,622 | 6.8% |
| Netherlands | 13,879,235 | 5.2% |
| Belgium | 9,466,276 | 3.5% |
| Luxembourg | 7,146,610 | 2.7% |
| Switzerland | 2,145,145 | 0.8% |
| Germany | 1,239,055 | 0.5% |
| Other | 1,670,754 | 2.2% |

*(1) including 9,019,294 ADS.*

## The Air France-KLM share

Air France-KLM has been listed for trading on the Premier Marché of Euronext Paris since February 22, 1999. Since May 5, 2004, Air France-KLM has been listed on Euronext Amsterdam and on the New York Stock Exchange in the form of ADRs. Because it is listed for trading in the United States, Air France-KLM publishes Form 20-F, which is available on the Securities and Exchange Commission website (www.sec.gov).

A reconciliation document presenting the French and US standards is made available to shareholders on the site of Air France-KLM (www.airfranceklm-finance.com) or on request by calling 33 1 41 56 88 85.

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

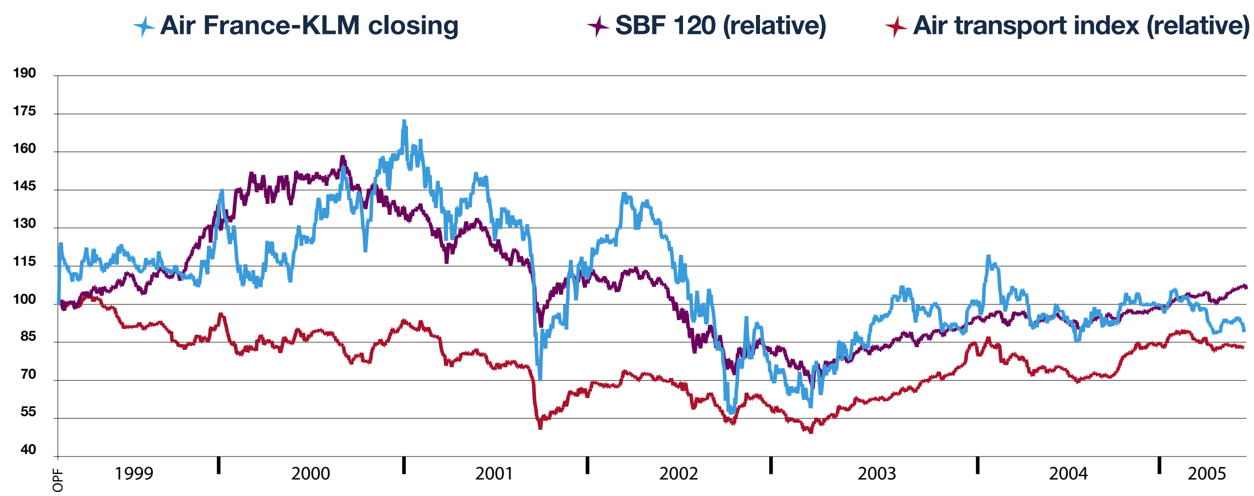
**Euronext Amsterdam**
- ISIN Share Code: FR0000031122
- Reuters Code: AIRF.AS

**New York Stock Exchange**
- Symbol: AKH et AKHWS

**Included in the following indices**
- Indices: NextCAC20, Euronext 100, DJ Eurostoxx, AMX
- Sector Indices: FTSE Cyclical services, FTSE Transport, FTSE Airlines & Airports
- Sustainable Development Indices: DJSI Stoxx 600, ASPI Eurozone, FTSE4Good
- Other: IAS (French Employee Shareholding Index)

### Securities Services
- In France, securities service and coupon payment is provided by Société Générale. Société Générale: 32, rue du Champ de Tir-BP 81236, 44312 Nantes Cedex 3.
- In the Netherlands, securities service and coupon payment is provided by ABN AMRO. ABN AMRO Corporate Finance: Gustav Mahlerlaan 10, 1082 PP Amsterdam.
- In the United States, securities service and coupon payment is provided by Citigroup. Citigroup: 388 Greenwich Street, New York NY 10013.

### Air France-KLM share price
(Base 100 From February 19, 1999 to June 27, 2005)





## Stock price and trading volumes

| | Trading days | Average Price (€) | Highest and lowest price(€) High | Low | Volume | Amount (in € million) |
|---|---|---|---|---|---|---|
| **2003** | | | | | | |
| November | 20 | 13.37 | 14.17 | 12.14 | 10,866,525 | 143.9 |
| December | 21 | 12.60 | 13.06 | 12.04 | 8,861,787 | 112.6 |
| **2004** | | | | | | |
| January | 21 | 13.75 | 14.55 | 12.18 | 17,890,336 | 247.9 |
| February | 20 | 15.44 | 17.77 | 13.21 | 25,665,172 | 403.0 |
| March | 23 | 14.99 | 16.77 | 13.51 | 22,743,430 | 341.6 |
| April | 20 | 14.72 | 15.33 | 14.10 | 14,672,225 | 216.0 |
| May | 21 | 13.24 | 15.10 | 12.21 | 31,247,325 | 418.5 |
| June | 22 | 13.29 | 14.07 | 12.80 | 18,496,378 | 246.4 |
| July | 22 | 13.32 | 14.24 | 12.70 | 11,733,971 | 157.0 |
| August | 22 | 12.40 | 13.33 | 11.28 | 25,231,998 | 312.1 |
| September | 22 | 13.25 | 13.98 | 12.54 | 28,118,867 | 372.7 |
| October | 21 | 12.98 | 13.87 | 12.52 | 19,852,525 | 258.6 |
| November | 22 | 14.20 | 14.85 | 13.50 | 24,276,968 | 344.5 |
| December | 23 | 14.17 | 15.00 | 13.86 | 29,098,085 | 413.4 |
| **2005** | | | | | | |
| January | 21 | 13.89 | 14.27 | 13.36 | 28,041,883 | 389.0 |
| February | 20 | 14.52 | 15.14 | 13.98 | 33,033,615 | 481.6 |
| March | 21 | 14.13 | 14.66 | 13.53 | 28,962,252 | 409.0 |
| April | 21 | 13.17 | 14.02 | 11.98 | 35,195,326 | 464.0 |

*Source: Euronext*

## Equity warrants

Since May 2004, equity warrants ("BASA") have been listed for trading on Euronext Paris and Euronext Amsterdam (ISIN BASA Code: FR0010068965) and on the New York Stock Exchange (symbole: AKHW).

## Bonds

Since April 22, 2005, bonds convertible and/or exchangeable to new or existing shares (OCEANE) of Air France-KLM have been listed for trading on the Eurolist market of Euronext Paris. (ISIN Code: FR0010185975).

## Air France-KLM included in the FTSE4Good index

The FTSE4Good index includes more than 800 companies throughout the world, and measures their actions and initiatives in the areas of social responsibility and the environment. Inclusion in the FTSE4Good should encourage socially responsible investment in the Group. This selection was announced at the end of the evaluation conducted by the British organization EIRIS (Ethical Investment Research Service).

## Dividends paid

| Fiscal year | Earnings per share[1] (in euros) | Dividend (in euro cents) | Amount after tax credit (in euro cents) |
|---|---|---|---|
| 2001-02 | 0.70 | 10 | 15 |
| 2002-03 | 0.55 | 6 | 9 |
| 2003-04 | 0.43 | 5 | 7.5 |
| 2004-05 | 1.36 | 15 | No tax credit |

*(1) by the average number of shares over the period.*

In accordance with the provisions of the 2004 French Finance Law, which ended the system for avoir fiscal tax credits and the précompte deduction of tax at source, the dividend paid out for fiscal 2004-05 will not be associated with such a tax credit. However, for individuals who are subject to income tax in France, 50% of their amount will be incorporated into the income tax base, entitling beneficiaries to a tax credit for all dividends received of up to 115 euros for single, divorced or widowed taxpayers and 203 euros for couples taxed jointly. Furthermore, the amount distributed will be subject to an exceptional deduction of 25% as an exceptional payment to the French Treasury, which will be charged against or reimbursed to corporate income tax at a rate of one-third per annum over the next three years.

## Air France recognized for the development of employee shareholding

Air France won the second prize for employee shareholding in the SBF120 class. This prize, awarded by the Federation of Employee Shareholders, Synerfil and the daily paper *La Tribune*, primarily recognizes the quality of the savings plan, the information provided to employees, and the participation of employee shareholders in the operations of the company.


# Being a shareholder

## Air France-KLM is developing transparent, regular and interactive information for its shareholders

### Regular information

Air France-KLM publishes monthly traffic figures for its passenger and cargo activities and quarterly results, which are presented to the press and financial analysts in a conference call or a meeting in Paris or London. To present its financial results and the elements of its strategy directly, the Group's management regularly travels to meet with institutional investors at roadshows in Europe, the United States, and Asia.


These quarterly results include financial notices published in the financial and general press in France and the Netherlands. An eight-page letter to individual shareholders written in French, English and Dutch is available on the website. It is sent by mail or e-mail to the members of the Shareholders' Club.

In addition, for our employee shareholders, we provide educational information that places the financial challenges and the group's strategy within its macro-economic environment. We offer these shareholders an introduction to the way the stock market works, forums on themes related to employee shareholding, a quarterly newsletter, a toll-free number, and a website.

Air France-KLM has launched a new financial website:
**www.airfranceklm-finance.com**
Designed primarily for investors, analysts and shareholders, the site offers the Group's latest press releases (earnings, traffic, etc.), the shareholders' letter, the annual report and all the financial documents published by Air France-KLM. **www.airfranceklm-finance.com** is available in French, English and Dutch.

## Shareholders' Calendar

**Tentative schedule for Air France-KLM publications for fiscal 2005-06**

- Traffic figures: Around the fifth business day of every month
- First quarter results: September 2, 2005
- First half results: November 23, 2005

## Shareholders’ Club

Air France-KLM has created a Club for shareholders who hold at least 50 shares of Air France-KLM. It has about 8,800 individual shareholder members who receive *Connecting*, the quarterly letter for shareholders, as well as the documents for the Shareholders’ Meeting, whatever the method of shareholding.

As members of the Club, shareholders can participate in various site visits. Offers from the Air France Museum are also regularly available at preferential prices.

During the next fiscal year, the Club will adapt its communication tools for individual Dutch shareholders who have joined the Air France-KLM group.

## Individual shareholders advisory committee

To adapt its financial communication to individual shareholders’ expectations, Air France-KLM has established an advisory committee representing individual shareholders (“CCRAI”).

This committee, with 15 French members, meets an average of four times a year and works on different projects, including the website, the Shareholders’ Meeting, and the various financial publications of Air France-KLM (annual report, letter to the shareholders, etc.) The advisory committee has a page and a mailbox on the website.

The CCRAI of Air France-KLM was restructured for fiscal 2004-05. It will be opened to new Dutch representatives during the next fiscal year.

## Meetings with shareholders

Information meetings for individual shareholders are held regularly. During fiscal 2005-06, meetings will be organized in Lille, Versailles, Nice, Nantes and Paris. Members of the Shareholders’ Club who live in the regions visited will be invited directly by letter.

Shareholders can obtain any additional information by calling a toll-free number 0800 320 310 or 33 1 41 56 88 85 from abroad.

## Shareholder survey - 96% have a positive image of Air France-KLM

In February 2005, Air France-KLM conducted a survey with members of its Club to find out their reasons for becoming shareholders in the Group and their expectations for financial information.

Over 800 people completed this survey and 96% of the respondents confirmed that they have a positive image of Air France-KLM. More than 84% of the shareholders surveyed indicated that they have held their shares since the initial public offering in 1999, and 36% have purchased more Air France-KLM shares since then.
To learn about the Group, shareholders may consult the print press, the quarterly letter *Connecting* and the annual report.

The top reason these shareholders invest in the Group is the image of the company, followed by the prospects for growth, the value of the share, an interest in the air transport sector, investment in a French company, and being an Air France-KLM customer



## Registered shareholders

For shareholders who want to record their shares as registered shares, Air France-KLM has appointed Société Générale. By opting for this form of shareholding, shareholders are not charged for custodial and management fees.

Société Générale offers registered shareholders of Air France-KLM interactive services so that they can view their assets, be informed of transactions made on their securities account, and place market orders. These services are accessible by phone, via the Nomilia voice server at +33 825 820 000 or on the Internet.

## Participate in the Shareholders' Meeting

Every Air France-KLM shareholder, whatever the number of shares, can participate and vote in the Shareholders' Meeting. Each share is entitled to one vote.

Registered shareholders receive all the information to participate, vote or be represented at the Meeting, directly from Société Générale, the agent of Air France-KLM.

Members of the Shareholders' Club receive the documents sent to registered shareholders, with the exception of the vote card. These documents as well as the vote card are available and can be downloaded on **www.airfranceklm-finance.com**

Bearer shareholders must contact their account manager to ensure their shares are not transferable for the five days before the date of the Meeting. They then receive their admission cards or on request a form to vote or to give proxy by mail.

Admission cards for the Meeting are sent to any shareholder on request directly, or via his or her account manager, no later than six days before the date of the meeting by registered mail with return receipt from the Société Générale.

Shareholders who cannot attend the Shareholders' Meeting can:
- give their proxy to the Chairman; they just have to send in the form to vote by mail or by proxy;
- be represented by their spouse or another shareholder;
- vote by mail. Forms to vote by mail can be obtained from Société Générale. These forms will be counted only if they reach Société Générale at least three days before the Meeting.

**Contact: Société Générale**
**Département Titres et Bourse**
**32, rue du Champ-de-Tir – BP 81236**
**44312 Nantes Cedex 3**

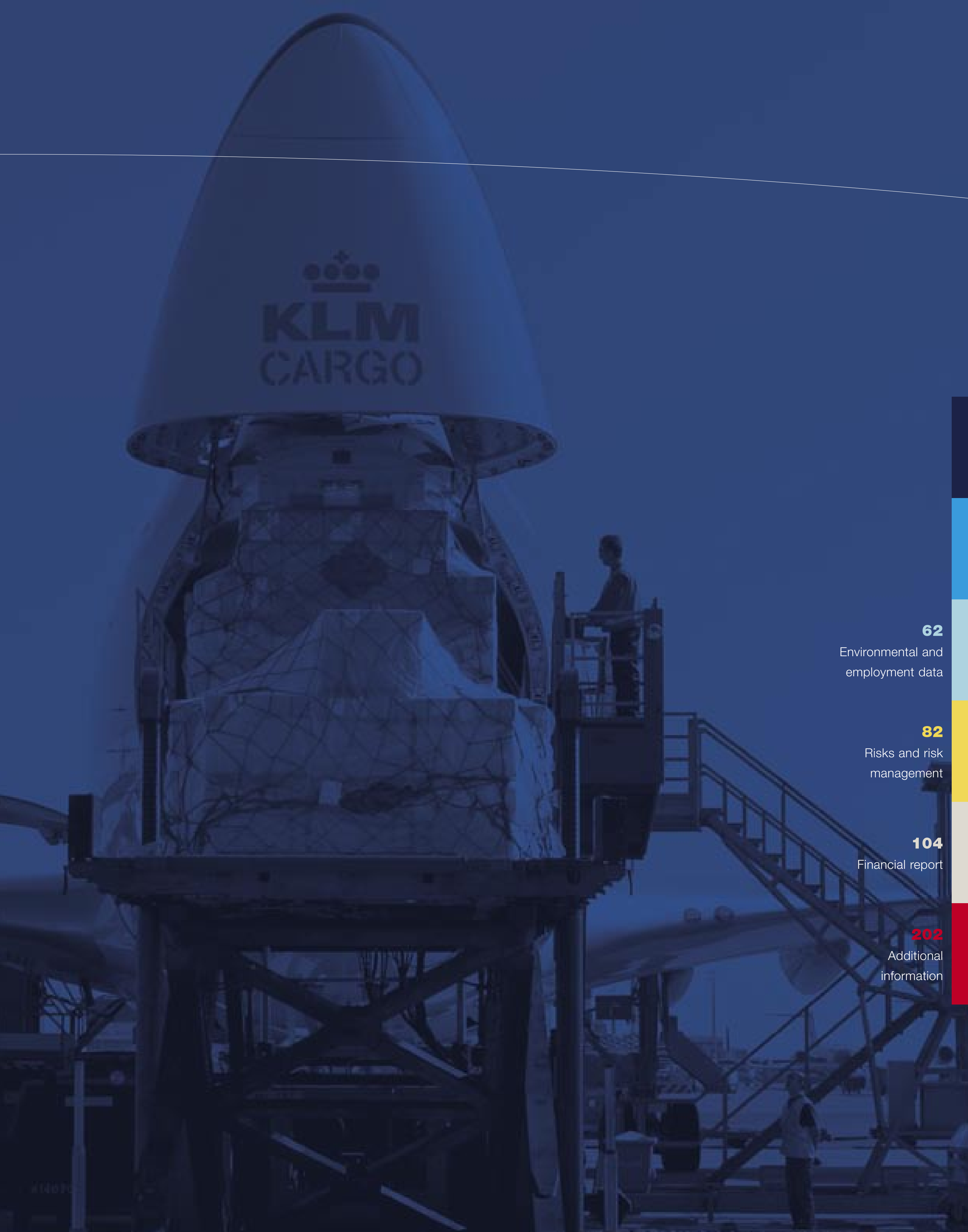
## Contact us

**by telephone**
From France, call 0800 320 310 (toll-free number) – Monday through Friday, from 10:30 a.m. to 12:30 p.m. and from 2:30 to 5:30 p.m.
From abroad or the French Overseas Territories and Departments, call +33 1 41 56 88 85.

**by mail**
Air France-KLM
Shareholder Relations
DB-AC
45, rue de Paris
95 747 ROISSY - CDG Cedex

**on the Internet**
A suggestion form is available on the website www.airfranceklm-finance.com, under Contacts.

# Activity report


KLM
CARGO

## Interview with Jean-Cyril Spinetta and Leo van Wijk

**Your group is the European leader in air transport. Can you talk to us about the sector, which seems to have been beset by many crises?**

**Jean-Cyril Spinetta**

Before answering your question, I would like to emphasize the important role played by the air transport sector within our economy. Air transport exists because it fulfills both an economic and a social demand.

Air transport is a necessity for business, and it serves the economy. In France, more than one out of every two passengers travels for business reasons, thereby developing solid international ties with different markets. According to a recent report, the air passenger market has grown at an average rate of 5% over the last ten years, while cargo has risen by 6 to 7%. This dynamic growth contributes to GDP growth and job creation: in France, 400,000 jobs are related directly and indirectly to the air transport sector.

Air transport also meets the social requirement for mobility, while contributing to opening up and developing the country. Regrettably, these social and economic benefits are not always emphasized in the debates about the development of air transport; too often, it is the negative aspects which receive the most attention.

Air transport also actively contributes to the international profile of France. Although it represents only one percent of the world's population and 4% of global GDP, France accounts for 100 million passengers annually or 6% of the World total. It is also worth remembering that tourism is the World's largest industry, and that France is its leader. Foreign tourists visiting France, who are highly dependent on the airline industry, spent on average 85 million euros a day in 2003.

**Leo van Wijk**

Air transport also plays an important role in the Dutch economy. The position of the Netherlands in air transport is much more significant than one might expect of a nation of 16 million people. The Dutch Ministry of Transport recently identified over 120,000 direct and indirect jobs generated by Schiphol Airport. In addition, the easy air accessibility of the Netherlands has greatly contributed to the competitiveness of our economy over the last few decades, facilitating the establishment on our soil of leading companies in many sectors. For our country, air transport is a source of national pride, and KLM contributes to that pride.

**What are the cornerstones of your strategy?**

**Jean-Cyril Spinetta**

The strength of the Air France–KLM group is that it is founded on two of Europe's largest hubs – Paris and Amsterdam – which both have strong growth potential.

Moreover, taking Europe and its requirements in terms of relations with the World's other major economic regions in the future, it becomes apparent that there is still enormous scope for development, particularly in connecting traffic.

Paris and Amsterdam are two of the three or four European airports best positioned to take advantage of strong demand in decades to come. That is why our strategy is firmly based around the development of these two hubs, which each have the possibility of further expansion while competing platforms are nearing saturation.




**Leo van Wijk**
In addition, our hub system will help us to take advantage of the opportunities created by the expansion of the European Union to the East. Most of the countries that have joined the EU are relatively small, and have already indicated that they will not be developing major airport infrastructures. As a result, they will have to rely on existing hubs such as Paris or Amsterdam.

Moreover, European countries having, historically, restricted access to their markets, have created the conditions for the strong development of point-to-point traffic. Today, the Group is well positioned to combine point-to-point and connecting traffic.

**Is this multi-hub system, which connects the platforms of Roissy – Charles-de-Gaulle and Schiphol 15 times a day, profitable?**

**Jean-Cyril Spinetta**
Yes! Not only does the multi-hub system enhance our control over the costs at each company by streamlining our networks - which we could not have done without each other - but it also generates excellent revenues, thereby improving our profitability.

Some people make the distinction between point-to-point traffic, which supposedly generates higher revenues, and connecting traffic, which is regarded as having lower revenue levels. However, the figures show this is not the case. Last year, we carried 9% more passengers, even though our offer rose by only 7%. Our load factor, at 79%, was higher than that of any of our main competitors. This benefited our unit revenues, which were up 1.6%. So, as you can see, our multi-hub system is definitely profitable.

**Leo van Wijk**
Connecting traffic also has a bright future. In 2004, on the Europe-North America routes, 56% of passengers were connecting passengers. This figure was as high as 63% for Europe-Asia connections. Moreover, according to various studies, by 2013 the industry is expected to carry approximately 215 million passengers on intercontinental flights, including 115 million connecting passengers. This data justifies and supports our strategy.

Moreover any increase in point-to-point traffic tends to have a greater impact on the smaller hubs. Having two of Europe's largest hubs within our Group is, therefore, a clear advantage.

We must build on our assets: the two hubs must remain attractive on the strength of the multiple destinations and the frequency of the flights they offer. Developing one of the hubs to the detriment of the other would create imbalances that would heavily penalize the entire group. One of the main challenges for our alliance involves balancing growth between KLM and Air France.

**Air France-KLM seems to have ambitious capacity growth targets of around 5% per annum. Isn't this risky when there is a great deal of talk about excess capacity?**

**Leo van Wijk**
I think it is important to emphasize that the Group has responded to market demand. For the year just ended, the rise in traffic exceeded that of our offer. Moreover, our load factor is the highest in Europe. This is reinforced by the statistics from the AEA showing that traffic has increased faster than the offer. Currently, we are not witnessing any excess capacity in Europe.

**Jean-Cyril Spinetta**
Given the outlook for World growth, we expect to grow our offer by 5% per annum in the next few years, slightly below projected demand. More specifically, we intend to focus on expanding long-haul traffic, mainly to high growth markets like Asia and Latin America.

At the same time, we will maintain our flexibility in order to be able to confront the risks inherent in our sector. The flexibility of our offer is the result of our balanced network, which provides a natural hedge against geopolitical and economic risks. Neither Air France or KLM have ever developed «niche» networks, and as a result we are not dependent on any single zone. This balance is a safety factor in our strategy of profitable growth.

**Is Air France-KLM synonymous with benefits for your customers?**

**Jean-Cyril Spinetta**
Of course there are many advantages to being an Air France-KLM customer. First, the co-ordination of our hubs at Roissy – Charles-de-Gaulle and Schiphol has enhanced our network by increasing the range of destinations and connecting flights. Our passengers now benefit from an expanded schedule to over 234 destinations, one of the largest networks in the world. The multi-hub system has therefore made us stronger in a number of markets.

Second, we have been innovative by allowing passengers to combine fares. Passengers can select which of the two airlines offers the best schedule, and swap airline for the outbound and inbound flights, while maintaining the benefits of a round-trip fare. So, the competitiveness of our offer has increased, and our passengers seem to appreciate the flexibility. It is no longer up to the customer to fit around the airline's schedule, but up to the airline to adapt its schedules to the customer's requirements!

**Leo van Wijk**
We have just launched *Flying Blue*, our joint customer loyalty program which offers significantly enhanced benefits compared with the old *Fréquence Plus* and *Flying Dutchman* programs. Now, ten million passengers are able to enjoy the tangible benefits our alliance. We are also developing our e-services in order to facilitate booking and check-in with both Air France and KLM.

**You generated 115 million euros in synergies last year, surpassing your initial target. You have forecast 280 million euros for 2005-06 and more than double that figure – 580 million euros – by 2008-09. How do you explain the speed with which you have implemented these synergies?**

**Leo van Wijk**
With regard to synergies, we have only just started. The synergies between Air France and KLM will continue to be a major source of cost-savings in the coming years.

Until now, most of the synergies have been in revenues, although some cost synergies have been generated. We have mainly focused on optimizing our respective networks, selecting to concentrate our flights to certain destinations on the one of our two hubs which made the most economic sense. Take Caracas for instance: the final destination for traffic out of Amsterdam was primarily Southern Europe. Therefore, Paris was the more logical hub, particularly since this wasn't a profitable flight for us. On the other hand, the final destination of most passengers from Manila was Northern Europe, making Amsterdam the best solution. This issue also arose when we opened the route to the new Japanese airport at Nagoya. Should we both fly there separately, running the risk of excess capacity? In the event, we decided to offer this destination from Paris only.



Gradually, there will be a rebalancing towards cost synergies and, in five years' time, the breakdown should be some 60% for revenue synergies and 40% for cost synergies.

In the course of working together, we have also discovered new sources of potential synergies that will be implemented over the coming years.

**Jean-Cyril Spinetta**

If synergies are being realized faster than projected, this is because the work of both teams is being undertaken with the full co-operation of all involved and without hesitation on either side.

We are delighted by this. One of the factors often underestimated in merger situations is the importance of employee support for the process. Many mergers have failed because insufficient attention was paid to employee motivation during the integration process. In a service industry such as ours, this could have a particularly devastating effect, and we could easily destroy many of our opportunities.

In this context, it was crucial to us that our teams work together. Joint counters were installed, notably in our two hubs at Schiphol and Roissy – Charles-de-Gaulle; projects are underway in cargo, maintenance and information systems. *Flying Blue*, our combined customer loyalty program is a great example.

We are supporting this co-operation, going beyond cultural differences. Not only are we not in a hurry to make them disappear, we positively want to turn them to our advantage. We are learning from each other and as a result, becoming stronger, more competitive and more efficient. An exchange for some dozen young French and Dutch managers from both Air France and KLM took place from April to June. I found their enthusiasm impressive.

What gives us the most confidence in our decision to merge our two companies is that, over time our approach has become increasingly recognized by our employees as being "the right thing to do".

**In September, KLM and its American partners Northwest Airlines and Continental joined the SkyTeam alliance. What role do you see this alliance playing in your strategy?**

**Jean-Cyril Spinetta**

Alliances are playing an important role in a process of consolidation in the sector that appears inevitable and necessary. I believe that the future of the alliance system, particularly between European and American companies, will undoubtedly see stronger ties among the various players. The example of Northwest Airlines and KLM is a case in point: in Europe, it is clear that the Air France-KLM model offers an effective response to the complex issues facing the industry. One of our competitors has already been inspired by it!

**Leo van Wijk**

Today, SkyTeam is the world's second-largest alliance in terms of passengers, and the number one in cargo following the inclusion of KLM and its American partners. We are also the leading alliance on the North Atlantic route, which offers some interesting prospects.

We are getting ready to welcome Aeroflot and China Southern, which have signed letters of intent and are expected to join the alliance by the end of 2005. This will significantly enhance our presence in the Russian and Chinese markets, enabling the implementation of code-sharing on domestic and regional lines.

Within SkyTeam, we have also created the status of associate member for companies that were previously linked to Air France and KLM.

**Controlling costs has been a priority at Air France and KLM for several years now. How do you intend to reduce your costs in a context of rising fuel and tax charges?**

**Jean-Cyril Spinetta**
There are ambitious programs at both Air France and KLM aimed at permanently reducing costs to enable us to withstand the brutal rises in fuel, tax and royalty charges.

For fuel, we have developed an effective hedging policy.

As far as taxes and royalties are concerned, we must make those who set these charges understand that increasing them further will be extremely damaging for the European operators. These taxes seem to be rising inordinately at a time when the airline industry as a whole is going through a period of economic turbulence.

Nevertheless, I remain optimistic, even if there is still a long way to go. Take the air navigation royalties that we pay in respect of Air France, which fell in 2004 and will continue to be reduced in 2005. This illustrates a growing awareness of the need to reduce many of these taxes.

**Leo van Wijk**
It is wrong to believe that there are no alternatives than to travel through Paris, Amsterdam, London or Frankfurt. If European airports continue to ignore the issue of airport transit costs, we could see airlines make a shift towards less expensive airports, even outside Europe.

Another issue is security-related costs. We pay them of course, but at the same time we are vigilant to ensure that the measures taken are effective and realistic. If we believe they do not meet these two criteria, we will seek to remedy them, in co-operation with other air carriers within the AEA or IATA.

**Jean-Cyril Spinetta**
But at the end of the day, these issues must not distract us from our prime objective which is to improve our competitiveness and to reduce those costs over which we have direct control.

If we are unable to offer our customers fares of a level they are prepared to pay, we will be literally swept away. Therefore, the main priority is to reduce costs and to improve competitiveness. We are in a genuine race to avoid being overtaken by other companies.

**Against this backdrop of synergies and cost-reduction, would you consider modifying your current organization based on one group, two air carriers, three businesses?**

**Leo van Wijk**
We will undertake organizational changes only if there is a genuine need. We will not integrate activities just for the sake of it, particularly since integration can generate heavy costs and create major risks.


Our strategy is to move forward one step at a time. We know already that certain businesses can generate further synergies without full integration. Maintenance is a clear example: specializing the teams in Paris or Amsterdam on a certain type of engine creates a number of synergies, without the need to integrate them within a single entity. In the passenger business, customers are highly attached to the brand image of each of our companies, and it would be perilous to think about integrating the two companies.

On the other hand, in cargo, which operates on the basis of «business to business» relationships, brand is less important. This is why we launched the European Cargo House, which combines the commercial offerings of Air France and KLM under a single management.

So to sum up, we don't believe that we will suddenly create more synergies by changing our organization.

**Jean-Cyril Spinetta**
In the organization that we have built, the ongoing cross-fertilization between methods, practices, and results is highly motivating for the teams of Air France and KLM. The risk for a company is to become blinkered by its certainties. Being exposed to other ways of operating should lead everyone to rethink his or her own way of working as part of a continuous process of improvement. I believe the two teams are learning a great deal from each other.

**Before the merger, what were your hopes and expectations for the future group? Have they been realized?**

**Jean-Cyril Spinetta**
We have just completed the first successful year of the merger. We have exceeded expectations in an environment of increasingly shared objectives.

Our priority was to create confidence in this project both within the companies and on the part of our customers, shareholders and all our partners. I believe that we are succeeding in this goal, and that we are beginning to convince them that our approach is the right one.

**Leo van Wijk**
There were many skeptics who doubted that two national air carriers, with different cultures, could work together. Our model is based on clear rules and mutual respect. Our first results as a combined group will reinforce our shared pride at Air France and KLM in being the Worldwide leader.

**How do you see the group in five years?**

**Jean-Cyril Spinetta**
We are currently the market leader, and our goal is to be in this position in five years' time. This is not just a question of size. We will need to demonstrate our ability to improve our results on a regular basis. Our merger must enable us to build the solid foundations which will help us to face up to the unforeseen events which frequently affect our industry.

By building on respect, trust and commitment, we have opened a new window to the future.

## The air transport sector, an essential asset for economic growth

Air transport is an essential element in global economic development. More than 1.6 billion passengers used air carriers worldwide, both for business and recreational travel and this figure could exceed 2.3 billion in 2010. The air transport sector has created 28 million jobs worldwide and could create 31 million by 2010. In Europe, every million passengers carried sustains around 4,000 direct, indirect and induced jobs (source: IATA – February 2003).

In France, air transport is one of the most dynamic branches of the French economy, responding to the travel needs of businesses and consumers. Excluding economic crises, this sector has recorded annual growth of 5–6% for 20 years, which is twice global growth and three times French growth. With a penetration rate of 25%, air transport in France still has room for growth in comparison with the United States (39%) or Great Britain (33%) (source: BIPE November 2004).

Air transport makes a substantial contribution to foreign trade in services, with a positive balance of 1.7 billion euros for air transport in 2003. In addition, the sector directly employs more than 115,000 workers with more highly-qualified jobs for air carriers than for other transportation means. (source: Transports November-December 2004)

## Higher oil prices, the new challenge for the sector

After unprecedented crises—the attacks of September 11, 2001, the consequences of the war in Iraq in 2002, and the SARS epidemic in 2003—the sector has been facing an explosion in oil prices since the spring of 2004.

While the recovery in traffic first seen in the second half of 2003 continued in 2004, with growth of about 11% (source: IATA), the sector has had to face soaring oil prices, again generating losses 5 billion for air transport even though the professional association was projecting a profit of about USD 3 billion for the same year. The bill for jet fuel reached USD 62 billion, counteracting all the cost-cutting efforts of the companies and the impact of the economic recovery. Including the losses for 2004 estimated by the IATA, the total losses over the period from 2001 to 2004 are expected to reach about USD 36 billion, the equivalent of the total value created from 1978 to 2000.

An analysis of the sector shows that this year again, the air carriers in the three major air traffic zones are not in the same position. The Asian companies, after a year penalized by the SARS epidemic, have returned to strong growth.

In the United States, most airlines are in very difficult positions and have not generated profits since 2001. Confronted with structural problems, including significant wage increases in 2000–01 and competition from low-cost companies which have conquered about 22% of the North American domestic market, they must face higher oil prices without the ability to implement hedging policies, as their financial position is too weakened: between 2000 and 2002, the weight of the debt of the leading American companies doubled from USD 27 to 56 billion. Despite federal assistance of several billion dollars, and drastic cost-cutting plans and wage concessions, the airlines accumulated USD 7 billion in losses in 2004 and recorded new record losses in the first quarter of 2005 (source: IATA).

In Europe, the companies that are members of the Association of European Airlines (AEA) benefitted from the recovery in traffic after a spring 2003 marked by the Asian health crisis. During 2004, traffic grew 9.0% with a 7.3% increase in capacity. Slightly more than 307 million passengers (+4.8% over 2003) traveled to and from the 49 countries included within the European perimeter of the AEA.



As in 2003, the rebound differed depending on the airline. Alitalia and Swiss are still in the red and are conducting a total restructuring or have merged with other airlines. The principal airlines (Air France-KLM, British Airways, Lufthansa and Iberia) continued to record positive results thanks to a moderate salary policy and savings plans conducted since 2001. This economic resistance has allowed them to win about 3 points in market share in 4 years to 70% and to meet the competition from the low-cost companies (source: AEA RB3 pro forma).

The European low-cost sector is characterized by a large number of companies (about 35 companies in 2004), including two that dominate the market by representing nearly 50% of the offer in this segment, while half of these companies represent no more than 1% of the offer.

The growth of this segment, particularly for Ryanair and easyJet, was not achieved through a massive transfer of the traffic from the scheduled airlines, which have maintained a relatively stable share of the European market (including the domestic markets), but was driven by the creation of a new market and by winning a large percentage of the natural growth in traffic in the segment of very price-sensitive passengers.

## Air transport, one of the most competitive sectors

The air transport sector is a highly competitive sector. In the point-to-point long-haul segment, Air France and KLM compete with the national carriers serving these destinations. For the long-haul transfer traffic, their competition intensifies at the various transfer platforms which offer similar services, even if the effectiveness of their hubs gives them a competitive advantage.

On the European network, the scheduled airlines also face competition from the low-cost carriers and, on some routes, from high-speed trains (London and Brussels).

The low-cost companies are present in only the five largest domestic markets, but very unevenly. In the winter of 2004, 30% of the low-cost flights were on domestic routes (16% in Great Britain, 8% in Germany, and 1% in France) and 70% on intra-European links, primarily from Great Britain to Germany, France and Italy.

In the French domestic market, air transport faces specific competition from the high-speed train. In 2003, the high-speed train carried 3.5 times more passengers than the air carriers on domestic links, with a market share of 76%, with 74.1 million passengers, versus a market share of 19% for Air France with 18.2 million passengers, and a 5% share for the low-cost carriers with 4.8 million passengers. This very strong presence of the TGV in France has limited low-cost interest in the French domestic market. Only easyJet operates to two destinations from Paris where the train's market shares is less than 20% (Toulouse and Nice), after closing its Marseilles service, where the TGV holds a 60% share, in March 2005. (source: SNCF, Air France and others).

Air France has been able to meet this rail competition thanks to its CDG hub, which connects the French provinces to the rest of the world, to the “La Navette” shuttle service which, with 100 flights per day, connects Paris to the major French cities, and to its customer loyalty program.

## Air France-KLM, a profitable growth strategy

In a difficult environment, the Group has made a commitment to a profitable growth strategy based on the fundamental assets of the two airlines, and their complementary strengths, which generate substantial synergies. This policy is supported by strict cost control, which is particularly necessary in a sector where margins are low and when oil prices represent a real economic challenge, as the fuel surcharges levied only partially cover the additional oil bill.

The work prior to the merger valued the synergies at 385–495 million in the fifth year of the merger. The faster coordination of the operations and teams of the two companies accelerated the development of these synergies and they were revised upwards in September 2004. Initially estimated at 65–75 million for fiscal year 2004–05, the synergies were re-estimated at 90 million in September 2004. At year-end, the amount realized was 115 million euros. For fiscal 2005-06, the total amount should be about 280 million euros, compared with the maximum 135 million planned. At the end of the fifth year, synergies should total 580 million euros, divided between cost synergies (40%) and revenue synergies (60%).

Each business has contributed to the generation of synergies. Passenger activity has generated about 73 million euros in synergies, primarily as a result of adjustments in the long and medium-haul networks and the implementation of combinable fares. Cargo generated 12 million euros in synergies through an exchange of capacities and a streamlined network. Maintenance synergies total approximately 15 million and are related to savings on purchasing, growth in revenues, and the return of maintenance operations that were previously outsourced. The other synergies totaling about 15 million are the result of a number of actions.

Both companies have initiated policies designed to control costs. Since 1998, Air France has implemented three-year savings plans and KLM initiated a restructuring plan in 2003.

After the 2003 Performance plan, which ended at March 31st 2004 with savings of 300 million euros, at the beginning of this year, Air France group launched its new three-year plan «Major Competitiveness 2007», the goal of which is to save 600 million euros in costs in the third year, representing a 6% improvement in unit costs.
These plans are extremely important in dealing with the increase in various charges since 2001, particularly security expenses and aviation taxes and, latterly, high oil prices.

At March 31st, 2005, the Group achieved its goal of 200 million euros realizing 215 million economies. The principal components driving this achievement were the reorganization of the medium-haul product, which saved 47 million euros in line with the business plan, and the optimization of purchasing and external costs for about 97 million euros.

The target for fiscal year 2005–06 is a total of 590 million in savings. The new savings will come primarily from the continued restructuring of the medium-haul product (45 million expected) and the reorganization of the medium-haul network (50 million euros), as well as the changeover to the zero commission paid to travel agencies, with cost savings of about 240 million euros, a portion of which will be passed on to passengers in the form of fare reductions.


Finally, measures will also be taken to boost productivity including, for example, the development of automatic check-in, improved productivity related to the gradual implementation of the «Nouvel Espace de Voyage» on long-haul flights, optimizing the ratio of number of seats per cabin crew member.

KLM continued the restructuring plan it initiated in 2003–04 with the target of a total of 650 million euros in savings. The plan includes the elimination of 4,500 jobs, changes in procedures, improved productivity (in particular, by replacement of the long-haul fleet), savings on purchases and the changeover to the zero commission paid to travel agencies, the latter representing cost savings of 20 million euros in 2005-06. A fter saving. 200 million in the previous year, the Group achieved total savings of 520 million at March 31st 2005 compared with the 570 million budgeted.

In addition, the Group continued its oil hedging policy, which enabled it to achieve hedging gains of 372 million euros or 14% of the oil bill at March 31, 2005. For the next two years, the Group has already hedged 81% and 45% of its consumption on the basis of a jet fuel price of 565 dollars and 562 dollars per ton.

# Passenger activity



## Good performances based on the complementarity of the networks

The Air France-KLM group recorded total passenger revenues of 15.00 billion euros at March 31st 2005, an increase of 6.8% over the previous year, despite a negative currency impact of 1.4%. Operating income for this activity grew 13.9% from 274 million at March 31st 2004 to 312 million at March 31st 2005.

### A high load factor at 78.7%, up 1.5 point

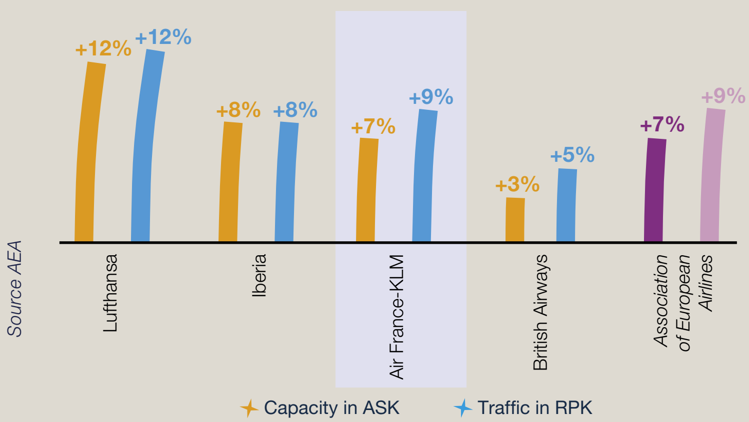
The Air France-KLM group, relying on the complementary assets of its long-haul networks and its commercial presence in Europe strengthened by two powerful hubs, performed extremely well throughout 2004–05. Traffic was up 8.9% with capacities up 6.9%. The load factor was 78.7% (+1.5 point). The group carried 64.1 million passengers, up from 60.6 million in 2003–04 and reported a turnover of 15 billion euros (up to 6.8%) despite a negative currency effect of 1.4%.

With a network of 234 destinations (2005 summer season) operated from two of the four main European hubs, connected by 15 daily flights, and by expansion of the links to the French and Dutch provinces, the Air France-KLM group became the leading European air carrier with a market share of 27.7% (source: AEA) and the first in the world for international passengers (source: IATA December 2003). To facilitate access to the expanded network, the group launched innovative rates, allowing its customers to optimize their travel by flying with either company on the outgoing leg and using the other company for the return, while paying round-trip prices.

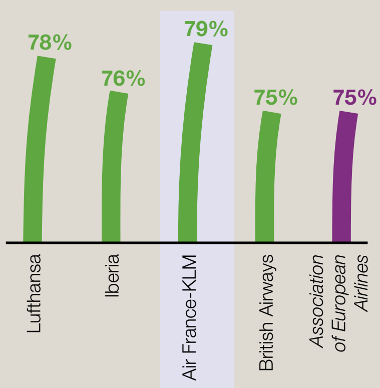
| 2004–05(1) | Capacity (ASK) | | Traffic (RPK) | | Load factor | | Scheduled passenger revenues |
|---|---|---|---|---|---|---|---|
| | Million | Change | Million | Change | % | Change | Change |
| Long-haul | 163,216 | +7.6% | 134,331 | +10.0% | 82.3% | +1.8% | +9.2% |
| Medium-haul | 51,390 | +4.7% | 34,667 | +5.1% | 67.5% | +0.3% | +4.3% |
| **Group Total** | **214,606** | **+6.9%** | **168,998** | **+8.9%** | **78.7%** | **+1.5%** | **+7.1%** |

*(1) Consolidation of Air France over 12 months and KLM over 11 months*

**Air France-KLM, a growth in capacity in line with the market**




**Air France-KLM, the highest load factor**





## A performing long-haul network all year long

Traffic on the long-haul network was very strong, with an increase of 9.7% in passengers carried (18.8 million). With an increase of 7.6% in capacities, traffic rose 10%, generating a 1.8 point gain in load factor to 82.3%. Revenues totaled 8.04 billion euros (+9.5% despite negative currency effects). Long-haul represented 57.1% of scheduled passenger revenues, up 1.1 point over fiscal year 2003–04.

The long-haul network covers 112 destinations in 89 countries, including 27 destinations operated by KLM alone and 43 destinations operated by Air France alone. One-third of the destinations are operated by the two carriers, but these destinations have a high traffic volume that justifies the presence of both companies. The network represents 76.0% of capacities (75.5% in 2003–04) and nearly 80% of the traffic (approximately 79% in 2003–04).

The **North and South American** networks cover 20 destinations in North America and 11 destinations in 8 countries of Latin America (2005 summer season). It represented 29% of total capacities and 32% of total traffic in 2004–05. The weight of this network remained stable from the previous year. Streamlining began in the summer of 2004, with the shutdown of KLM flights to Caracas in favor of Air France; Air France added flights to Caracas which now has a daily service from Paris. Today, the Air France-KLM is the leading European airline in South America.

Through the SkyTeam alliance, which expanded in September 2004 to KLM and its American partners Continental and Northwest Airlines, more than 150 destinations are offered in North and South America.

**Turnover**

15.0

billion euros

**Operating income**

312

million euros

## *Flying Blue*, a unique loyalty program

In June, the frequent flyer programs *Fréquence Plus* from Air France and *Flying Dutchman* from KLM merged to create *Flying Blue*. The result of 18 months of coordinated work by 300 Air France and KLM employees, allows its ten million members to acquire and make better use of their Miles on more than 18,000 daily flights, to 900 destinations with 130 air or commercial partners.

This program is intended to become the European leader in terms of customer satisfaction and number of members. It is segmented into four levels (Ivory, Silver, Gold and Platinum) to ensure better recognition and rewards for the most frequent flyers.

The traffic on this network rose 8.5% over the previous year, with very strong activity in both North and South America. As capacities rose only 5.0%, the load factor was up 2.8 points to 85.5%. 7.3 million passengers (+9.0% over 2003–04) traveled on these lines and revenues totaled 2.94 billion euros (20.9% of total scheduled passenger revenues). Revenues rose 8.5% despite a negative currency impact linked to the weak dollar during the year.

The **Asian** network covers 20 destinations in 11 countries (2005 summer season). Since December 1st 2004, the Group, in collaboration with Qantas, has offered a full service to Australia from Singapore. After the health crisis, the Asian network grew substantially, with an increase of 21.1% in capacity, generally tracked by traffic (+23.1%). The load factor also rose 1.3 point to 81.5%. The weight of this network grew, both in terms of capacity (+2.4 points) and traffic (+2.4 points). from the previous year, which was marked by the health crisis in the first quarter. The network represents approximately 20% of total capacity and 21% of total traffic.

The number of passengers jumped 23.1% to 4 million (3.3 million at March 31st 2004) and revenues rose 22.0% to 2.06 billion. The share of this network in total schedule passenger revenues increased from 12.8% to 14.6%.

The **Africa-Middle East** network covers 46 destinations in 31 countries (2005 summer season) and represented approximately 13% of total capacity and 14% of traffic, as it did in 2003–04. The Dedicate network, launched in 2004 to facilitate industry travel to construction projects and oil production sites and activity zones in remote regions, is very successful on its four destinations.

Both Africa and the Middle East performed very well. Traffic rose 8.5% with capacity up 7.0%. The load factor was 77.9% (+1 point). With 4.3 million passengers compared with 3.9 million in 2003–04, revenues totaled 1.92 billion euros (+9.6%) and represented 13.6% of total scheduled passenger revenues, a level equivalent to that of last year.

With 15 destinations in 7 countries and 4 French Overseas territories, the **Caribbean and Indian Ocean** network represented about 13% of capacity and 14% of the traffic. Air France represents about 80% of this sector. The first nine months of fiscal year 2004–05 were marked by heavy competition that impacted on both traffic and revenues. The change in the competitive situation in the final quarter allowed this network to recover. Traffic fell 1.7% over the year with a decline of 2.9% in capacities, generating a gain of one point in the load factor which was 80.9%. A total of 3.15 million passengers used these lines (-2,6%) and revenues totaled 1.12 billion euros, down 7.5%. The share of this network in total scheduled passenger revenues fell from 9.2% at March 31st 2004 to 8.0% at March 31st 2005.

## Reorganization of the system to remunerate travel agencies

KLM and Air France ended commission payments to travel agencies in their domestic markets on January 1st and April 1st, 2005 respectively. Travel agencies are no longer paid by air carriers and they invoice service fees directly to their customers. This new system offers passengers greater transparency about the elements of the ticket price, with the travel agency's fee adapted to the purchase method (Internet, telephone, agency, etc.).

Following this change, Air France and KLM adjusted their fares and now invoice service fees at their own points of sale. In France, Air France also followed the practice of showing separately the prices of the ticket and service fees. The policies of Air France and KLM in this area reflect market changes, as 0% commission is gradually becoming standard in North America and Europe.



## The European medium-haul network: the progressive implementation of a simplified offer

The international medium-haul network includes Europe (including France and North Africa). It covers 122 destinations in 30 countries (2005 summer season). It is served by both Air France and KLM, but also by their regional subsidiaries, Régional, Brit Air and CityJet for Air France, KLM Cityhopper and KLM Cityhopper UK for KLM.

Activity on this network improved from last year. Traffic was up 5.1% with capacity up 4.7%, generating a stable load factor of 67.5% (+0.3 point). 45.3 million passengers traveled with the group (+4.1%) and generated revenues of 6.04 billion euros (+4.3%), including 35% on the French domestic market. This network represented 42.9% of total scheduled passenger revenues, down from 44.1% one year earlier.

Strong competition and structural changes in customer demand in the European market led Air France to consider a revision of the product on its European lines by introducing greater ground flexibility and efficiency while simplifying and standardizing the flight product with a simple and segmented price policy, while optimizing aircraft space. The gradual implementation of this change began in April 2004.

At the same time, KLM expanded its capacity to France from Amsterdam, Rotterdam and Eindhoven. The two carriers also began to streamline their medium-haul network. Air France stopped its flights to Bristol and Glasgow in favor of KLM, while KLM stopped its service to Casablanca and Turin to the benefit of Air France.

## A well-balanced network sustained by efficient hubs

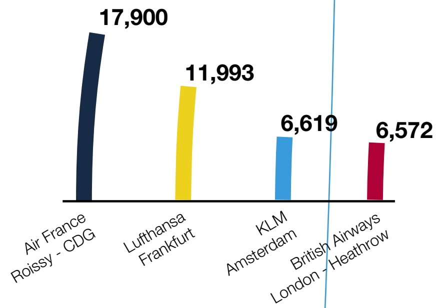
The breakdown of revenues by destination shows that the Air France-KLM group benefits from a balanced network. The group is not dependent on any specific market, as each of its markets has a different sensitivity to economic and political risks.

Today, the hubs are the core of competition in Europe: 75% of long-haul flights are concentrated on 10 European platforms and 54% at only four airports: London Heathrow, Paris CDG, Frankfurt and Amsterdam. Moreover, 60% of the passengers on long-haul flights are connecting.

In addition, this network is organized around two of the best hubs in Europe, which allow the group to combine point-to-point traffic and transfer traffic.

Growth of about 5% per year on the intercontinental market over the next ten years will bring expansion of the point-to-point traffic and transfer traffic, thus reinforcing the role of the major intercontinental hubs. (source: BCG). With its hubs in Roissy-Charles-de-Gaulle and Schiphol in Amsterdam, Air France-KLM is well positioned to benefit from this growth.

**Number of weekly connecting flights**
(in less than 2 hours between medium and long–haul)




By offering a large number of weekly connections in less than two hours both at CDG and at Amsterdam, the group attracts high-contribution connecting traffic. During the year, the two connecting platforms performed extremely well. The CDG hub recorded a 6% increase in passengers, while passengers at Schiphol rose 10%. Turnover from connecting passengers rose faster than turnover for the platform at rates of 13% and 11% for Paris and Amsterdam respectively.

**Scheduled passenger revenue by destination and by sales area**

| 2004–05 | By destination | | | By sales area | | |
|---|---|---|---|---|---|---|
| | (million euros) | % of total | Change | (million euros) | % of total | Change |
| Europe (including France) | 6,044 | 42.9% | +4.3% | 9,711 | 68.8% | +6.9% |
| North and Latin America | 2,939 | 20.9% | +8.5% | 1,994 | 14.2% | +11.7% |
| Asia | 2,058 | 14.6% | +22.0% | 1,095 | 7.8% | +8.6% |
| Africa-Middle East | 1,920 | 13.6% | +9.6% | 937 | 6.7% | +4.7% |
| Caribbean and Indian Ocean | 1,124 | 8.0% | -7.5% | 348 | 2.5% | -10.8% |
| **Total** | **14,085** | **100.0%** | **+7.1%** | **14,085** | **100.0%** | **+7.1%** |

## A growing unit revenue

As a result of higher fuel prices, the group implemented fuel surcharges. In May, the two companies introduced a surcharge of 3 euros per flight coupon for Air France and 4 euros per coupon for KLM. In August, an additional surcharge was levied, based on destination, varying between 2 and 12 euros per coupon at Air France and of 3 euros per coupon at KLM. A third surcharge was introduced in October of 2004 in the amount of 11 euros per long-haul coupon at Air France and 7 euros per long-haul coupon at KLM.

Unit revenue per available seat-kilometer rose 1.6% excluding currency effect, and unit revenue per passenger-kilometer was down slightly, excluding the currency effect (-0.3%). The unit cost of the passenger activity measured per available seat kilometer was down 2.3% on a constant currency and fuel basis.

| | Fiscal year at | | |
|---|---|---|---|
| Consolidated Financial Data | March 31st 2004 | March 31st 2004 | Change |
| Scheduled passenger revenue (in € million) | 14,085 | 13,156 | +7.1% |
| Unit revenue per ASK (in € cents) | 6.56 | 6.55 | +0.1% |
| Unit revenue per RPK (in € cents) | 8.33 | 8.48 | -1.7% |
| Unit revenue per ASK (in € cents) | 6.34 | 6.34 | +0.0% |

## An elegant new Air France uniform

Air France selected couturier Christian Lacroix to design the company's new uniform. On April 5, the 36,000 plus men and women of Air France donned the new uniform in the company's agencies, airports and on board all Air France flights. The new uniform elegantly reflects the spirit of Air France and demonstrates the company's ambition to serve all its passengers.



# Cargo activity

## A performing year in a contrasted environment

The Group's cargo activity was dynamic in fiscal 2004-05, recording revenues of 2.49 billion euros, an increase of 9.4%. The very strong performance for the year can be seen in the 61% surge in operating income to 95 million euros at March 31st 2005 compared with 59 million at March 31st 2004.

Traffic grew by 8.8% with an offer up 9.4%, resulting in a slight decline in the load factor to 68.2% (-0.4 point). The Group carried 1.33 million tons of cargo, half of which was carried in its fleet of 15 cargo planes and 17 combo cargo-passenger planes, and half in the holds of passenger planes.

The year was marked by two phenomena: higher oil prices, which had a heavier impact on the cargo activity and led to an increase in fuel surcharges, and the currency imbalance that intensified, particularly between Asia and Europe, due to the appreciation of the euro and the end of quotas in the textile industry. On the other hand, the imbalance between Europe and the United States seen last year improved.

The **North and Latin American** network represented 35% of traffic and 34% of capacities. It recorded an increase of 8.7% in traffic, with capacity up 4.7%. The cargo load factor rose 2.6 points to 69.7%. 500,000 tons of freight were carried, an increase of 9.2%. Revenues rose 13.4% to 652 million euros. The network represented 28.3% of freight transport revenues (27.6% at March 31st 2004).

The **Asian** network, although dynamic, recorded a decline of 4.1 points in the load factor to 73.8%. Traffic, which rose 10.1%, did not follow the 16.2% increase in capacity. 600,000 tons were carried by the Group (+9.8%) and generated revenues of 999 million euros, an increase of 13.7%. This network represented 43.5% of freight revenues (42.2% at March 31st 2004) and 50% of traffic and 46% of capacities.

The **African and Middle East** network, which represented 9% of traffic and 10% of capacity, performed very well after a year in 2003–04 marked by international tensions. Traffic rose 7.3% with a 4.2% increase in capacity. The load factor climbed 1.8 points to 61.8%. The number of tons transported grew 7.5% to 165,000 tons. Revenues were up 9.4% to 279 million euros and represented 12.1% of cargo transport revenues, the same level as the previous year.

**Turnover**

2.49

billion euros

**Operating income**

95

million euros

The **Caribbean and Indian Ocean** network remained stable with an increase of 2.1% in capacity and growth of 1.2% in traffic. The load factor was 53.5% (-0.5 point). Revenues totaled 178 million at March 31st, 2005 (+5.3%) for 73,000 tons, an increase of 2.2%. This network represented 5.6% of capacity and 7.3% of the traffic.

As cargo transport in **Europe** is primarily operated by truck, the activity of the European network of the Air France-KLM group is relatively limited and represents only 10% of the cargo activity. Capacities rose 3.2% with traffic up 2.2%. The cargo load factor was stable at 21.7% (-0.2 point). Revenues were 192 million euros, a decline of 6.8%. 76,000 tons were shipped (-3.1%).

| 2004-05[1] | Capacity (ATK) | | Trafic (RTK) | | Load factor | | Cargo revenues |
|---|---|---|---|---|---|---|---|
| | Million | Change | Million | Change | % | Change | Change |
| Cargo activity | 14,774 | +9.4% | 10,078 | +8.8% | 68.2% | -0.4% | +10.4 % |

### Cargo revenue by destination and by sales area

| 2004-05 | By destination | | | By sales area | | |
|---|---|---|---|---|---|---|
| | (million euros) | % of total | Change | (million euros) | % of total | Change |
| North and Latin America | 652 | 28.3% | +13.4% | 266 | 11.6% | +12.7% |
| Asia | 999 | 43.5% | +13.7% | 755 | 32.8% | +20.9% |
| Africa-Middle East | 279 | 12.1% | +9.4% | 157 | 6.8% | +9.7% |
| Caribbean and Indian Ocean | 178 | 7.7% | +5.3% | 41 | 1.8% | -4.7% |
| Europe | 192 | 8.4% | -6.8% | 1,081 | 47.0% | +4.1% |
| TOTAL | 2,300 | 100.0% | +10.4% | 2,300 | 100.0% | +10.4% |

## 75% of customers satisfied with the Air France-KLM merger

According to a survey conducted with Air France Cargo and KLM Cargo customers, 75% of them had a positive perception of the merger of the two airlines. The positive benefits included the expansion of the network and the fleet, the improvement in the price structure and the quality of service. Customers also indicated that they would watch to make sure that too large a structure does not damage either their relationship with the two entities or the quality of the service provided.




## Good performance of the unit revenue

Unit revenue per available ton-kilometer rose 3.8% on a constant currency basis. The unit cost per available ton-kilometer fell 4.7% on a constant currency and oil price basis.

| | Fiscal year at | | |
|---|---|---|---|
| Consolidated Financial Data[1] | March 31st 2005 | March 31st 2004 | Change |
| Revenues from cargo transport (in € million) | 2,300 | 2,084 | +10.4% |
| Unit revenue per ATK (in € cents) | 15.58 | 15.42 | +1.0% |
| Unit revenue per RTK (in € cents) | 22.83 | 22.48 | +1.6% |
| Unit cost per ATK (in € cents) | 14.75 | 14.81 | -0.4% |

*(1) Consolidation of Air France over 12 months and KLM over 11 months.*

## A joint Air France Cargo and KLM Cargo offer

In the framework of the merger of Air France and KLM, the two airlines synchronized their networks around the two hubs of Roissy-CDG and Schiphol and have proceeded to share holds. Since 2000, Air France Cargo has been developing an offer adapted to the various expectations of air cargo customers. This offer, which is now common to KLM Cargo and the members of the SkyTeam Cargo alliance, consists of four families of products:

- **Dimension** offers standard airport-to-airport transport that does not require special handling. This generic product primarily concerns groupings and all shipments in general.
- **Cohesion** is a custom product for regular import and export shipments and just-in-time shipments integrated within a logistics chain. This product is formalized by a reciprocal contractual commitment between a loader, transit agent, and Air France Cargo or KLM Cargo.
- **Variation** offers a solution for the transport of one-off merchandise, from live animals to oversized packages, from hazardous products to high added-value products.
- **Equation** offers express shipment and guarantees priority handling, within shorter time frames, for shipments that are loaded without prior reservation on the first available departing flight.

## Creation of the European Cargo House

From the end of 2005, Air France Cargo and KLM Cargo will provide customers with a single offer in the cargo segment. The European Cargo House will manage the freight network of the two airlines, and marketing and sales on behalf of Air France and KLM. Each company will, however, continue to be responsible for its own operations.

The size of Air France-KLM, the expertise of both airlines, and the responsiveness of their respective teams should be strong assets for improving productivity, maintaining the level of unit revenues, enhancing service quality, and developing very strong sales positions in a highly competitive environment.

# Maintenance activity

## First synergies between Air France Industries and KLM Engineering & Maintenance

The maintenance activity generated 777 million euros in third-party revenues, representing an increase of 4.0% despite the negative exchange rate fluctuations seen over the year (2.6%). Operating income came out at 48 million, down -10.9% from 55 million at March 31st, 2004.
The business combination between Air France and KLM has enabled the Group to strengthen its position as the world leader in multi-product aircraft maintenance by combining the complementary features of the maintenance activities of Air France, known under the Air France Industries (AFI) brand, and those of KLM's Engineering & Maintenance division. In addition to the maintenance of the Group's two fleets, the two companies are responsible for maintaining the fleets of around 100 clients.

Driven by the development of centers of technical excellence, the technical support and follow-up activities have been split between the two companies. This has made it possible to rationalize investments, with each one benefiting from the improvements achieved. In this way, the GE 90 engines used on the Boeing B 777 and the CF6-80E1 engines used on the Airbus A 330 are now managed by joint Air France and KLM teams. The fact that their skills and know-how dovetail so well with one another has also made it possible to limit the outsourcing of certain activities to third parties.

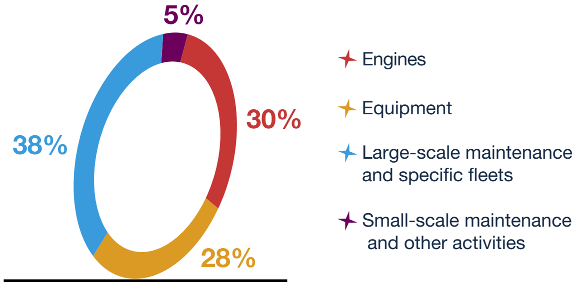
The two companies have also set up a joint sales management structure, giving one dedicated contact for each customer. Lastly, a number of projects have been rolled out in order to optimize the inventories and equipment required to meet the various needs. In line with this joint work, there are also plans for staff exchanges in the event of peaks in the activity for one of the companies.

## Range of services designed for the customer

The range of services includes:
- Large-scale maintenance visits and specific fleets
- Daily small-scale maintenance for fleets worldwide
- Engine servicing
- Equipment servicing and logistics

Aircraft maintenance activities can only be carried out by companies that have been accredited by the national authority governing the operator. In Europe, the rules are set by the European Aviation Safety Agency (EASA). In 2004, Air France Industries further extended its range of accreditations, obtaining the EASA 21, which authorizes it to design and fit aircraft equipment in the same way as a manufacturer. KLM Engineering & Maintenance is also ISO 14001 and EMAS certified.

**Breakdown of third-party revenues by core business**




## Spairliners: a dedicated business unit for A 380 maintenance

In order to provide support for equipment on the future Airbus A 380, Air France Industries and Lufthansa Technik have joined forces to create Spairliners GmbH. This 50:50 joint venture between the two companies will make it possible to offer a comprehensive range of equipment support for all A 380 operators following the introduction of this new aircraft. This support will include maintenance, repairs, spare parts inventory management and all the associated logistics services. Spairliners will have its own stock of A 380 equipment in order to guarantee the availability of equipment while optimizing costs. Not only small-scale fleets but also segments of the Airbus A 380 fleets of major airlines will be able to benefit from significant economies of scale thanks to the integrated equipment support service and permanent access to stocks of spare parts offered by Spairliners. The company will be headquartered in Hamburg, with its operational centre based in Paris.



## New generation sites

The activity is spread out over six main sites: four Air France Industries sites and two KLM sites. The two companies' maintenance services are also present at 200 airports for Air France and 50 for KLM.

Air France Industries is based in 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 and medium-scale maintenance and Le Bourget for special fleets. Air France Industries is the world leader for large-scale maintenance on the Airbus A 319, A 320 and A 321, for equipment support on the Airbus A 320, A 330, A 340 and Boeing B 777, and for the maintenance of CFM56-5 engines for the Airbus A 320 and A 340. During the year, Air France inaugurated the 41,000 square-meter EOLE factory (Entretiens et Opérations Logistiques Équipement - equipment maintenance and logistics operations) in Villeneuve-le-Roi as well as its new Blagnac industrial centre with 35,700 square meters dedicated to large-scale maintenance for small-range aircraft, replacing the Montaudran factory.

KLM's maintenance activity is run out of two main sites at Schiphol Airport in Amsterdam and Norwich in the UK. In 2004, KLM inaugurated a new engine shop in Schiphol.

**Third-party revenues**

777

million euros

**Operating income**

48

million euros

## New maintenance sites to meet market demand

With the EOLE factory at Orly and the new engine shop at Schiphol, Air France Industries and KLM Engineering & Maintenance are adapting their industrial sites to the requirements of the maintenance market in order to face the competition more effectively.

Set on a 12.7 hectare site, the new EOLE industrial equipment unit is dedicated to operational equipment support and repairs, with five key areas of expertise: avionics, pneumatics, hydraulics, repairs and surface processing as well as cabin equipment. A European centre of excellence, this 84 million euro investment has made it possible to cut equipment processing times by 50% and optimize inventories and logistics circuits, setting a new standard for the industry.

At Schiphol, the new engine shop used for engine maintenance complies with the latest standards for working conditions, ergonomics, health and safety and environmental protection. This new engine shop will strengthen KLM E&M's position on the engine maintenance market by making it possible to handle 350 visits a year compared with 200 previously. To safeguard this investment, KLM E&M has sealed a partnership with General Electric, which supplies the three most used engines at both Air France and KLM, guaranteeing it the maintenance of around 20 engines per year.

# Other activities



Other activities primarily include KLM's charter business through its subsidiary Transavia.com and the group's catering activity through its subsidiaries Servair and KLM Catering Services.

These activities posted revenues of 805 million euros, an increase of 12.7%, and operating income before aircraft disposals of 34 million euros, compared with 17 million at March 31st 2004.

## Transavia.com

Transavia.com had a very good year in 2004-05 with the number of passengers up 6% to 4 million with a fleet of 26 planes. Revenues were 419 million euros (up +5.8%) and the company recorded operating income of 31 million euros.

In 2004, KLM merged the operations of its charter company Transavia with its Basiq Air subsidiary to form Transavia.com, «the digital travel shop that stands out for its customer care».

The new company operates charter flights for businesses or tour operators departing from Amsterdam and Rotterdam as well as «low-cost» flights to more than 70 destinations in Europe and the Mediterranean basin. The new company intends to become a leading operator in the low-cost travel market in the Netherlands, selling most of its seats via its website. During the year, Transavia.com launched seven new scheduled destinations departing from Rotterdam.

Transavia.com also leases its aircraft capacities to other air carriers, offering them crew or technical support if needed. In this sector, a number of initiatives have been introduced by the tour operators and Transavia.com to raise load factors and reduce costs.

## Amadeus

Amadeus is the world leader in technologies and the distribution of services to the travel and tourism industry. It is 23.4%-owned by Air France, its principal shareholder. Amadeus has developed its activity in three segments: travel distribution to travel agencies and airline sales offices, e-commerce, and information technology services.

Amadeus has more than 6,000 employees throughout the world. The Group has been listed for trading on the Madrid, Barcelona, Paris and Frankfurt stock exchanges since 1999. At December 31st 2004, Amadeus recorded revenues of 2.1 billion euros, up 6.6%. Operating income rose 6.9% to 343 million euros.

Air France, along with Iberia and Lufthansa, the principal shareholders of Amadeus, have accepted the tender offer from the investment funds BC Partners and Cinven for all Class A shares of Amadeus stock at a price of 7.35 euros per share.

The tender offer will be executed through a new company, WAM, in which the principal shareholders will hold a stake. This operation took place from May 25th to June 27th 2005, after being approved by the European Commission, the American antitrust authorities and CNMV, the Spanish market authority.


## Catering

The catering business organized around Servair, a subsidiary of the Air France group, and KLM Catering Services, a KLM subsidiary, also performed well last year. With 386 million revenues, this activity recorded operating income of 11 million euros. The consolidation of Servair over 15 months had an impact of 44.4 million on revenues and – 0.6 million on operating income.

Servair and KLM Catering Services provide Air France, KLM and third party airlines, with a broad range of services adapted to their needs 7 days a week: food production, flight meals for the various classes and the crew, aircraft fueling, cabin cleaning and supplies. The two companies are leaders in their domestic markets, and prepare over 164,000 meals daily.

Created in 1971 by Air France, Servair has 7,724 employees. The Servair network, composed of Servair, its partners (Alpha, Flying Food Group, Servair Air Chef and Eurest Servair) and its technical crews, ranks third in the world and has more than 80 locations throughout the world. This strategy of alliances enables it to build a global network that respects local requirements and the personality of each company.

KLM Catering Services employs 1,350 persons. KCS has provided its services for more than 70 years on two sites at Schiphol airport. It has earned various certifications for the quality of its service.

**Turnover**

805

million euros

**Operating income**

34

million euros
(excluding aircraft sales)

## A global alliance to meet the market's needs

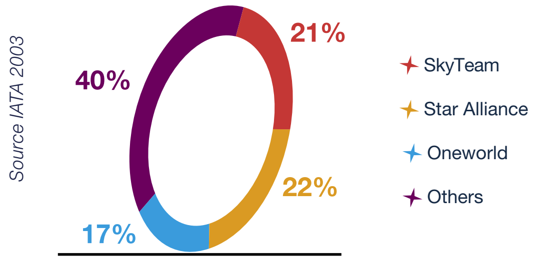
In a market that is becoming increasingly globalized, it is necessary to have a global and powerful offer. Only an alliance gathering European, American and Asian partners is able to answer the market's needs, for the passenger as well as for the cargo businesses.

Five years after it was formed, SkyTeam is the second largest global alliance with a market share of 21%. Its strategy is geared to making it the preferred alliance of its customers. The nine member airlines are developing their service in both the passenger and cargo segments, particularly by offering a constantly improving network, sharing their lounges, and combining their activities in airports. One of the challenges of the alliance in the next year will be the implementation of an electronic ticket common to all member companies.

SkyTeam offers global coverage to its customers by serving a network of 658 destinations in 137 countries with a choice of over 14,000 daily flights, thanks to its system of hubs distributed throughout the world:

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

**Positioning of SkyTeam among the alliances**




### Inclusion of KLM, Northwest Airlines and Continental

The major event for the alliance in fiscal 2004-05 was the integration of KLM and its American partners, Northwest Airlines and Continental. These three new members increased the size of the alliance by 60%, bringing to SkyTeam 141 new destinations, an additional 5,500 daily flights, 100 new lounges and 9 hubs.

The agreements for reciprocal membership in lounges and cross partnerships in frequent flyer programs were established when these new partners joined SkyTeam.

This newly strengthened alliance is one consequence of the merger of Air France and KLM in May 2004. Since 1989, KLM had been affiliated with Northwest Airlines and had formed a joint venture on the North Atlantic. Continental joined this alliance in 1999. In addition, in August 2002, Delta Airlines had signed an alliance with Continental and Northwest Airlines for cooperation in the American domestic market.

## SkyTeam Cargo, the leading global alliance

The membership of KLM Cargo in SkyTeam Cargo reinforces its position as the leading alliance in the air cargo segment. The alliance currently includes Aeromexico Cargo, Air France Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, KLM Cargo and Korean Air Cargo.

These seven companies serve 500 destinations in 114 countries. They share a global network and a combined offer. SkyTeam Cargo also offers harmonized handling procedures through single points of sale where some or all of the members are housed under the same roof. These features ensure perfect logistical coordination, from cargo acceptance to delivery, over the entire network. Air France Cargo, KLM Cargo, Delta Air Logistics and Korean Air Cargo have a centralized reservation center in the United States, in the form of a joint venture.

For the next fiscal year, the alliance is committed, in particular, to improving its cargo product offering through a common quality program.

## Antitrust immunity for better commercial coordination

The SkyTeam alliance enjoys antitrust immunity on the North Atlantic for Air France, Delta Airlines and its European partners Alitalia, CSA Czech Airlines as well as for KLM and Northwest Airlines. This antitrust immunity allows better coordination of the sales teams, the pricing policies and the capacity management.
Air France, KLM, Delta and Northwest Airlines have initiated processes to benefit from a global antitrust immunity.
On the Pacific, Delta Airlines and Korean Air also enjoy antitrust immunity. On November 13th 2004, Air France and Continental Airlines obtained a code sharing agreement from the American authorities.

## Extension of the alliance

In 2004, Aeroflot and China Southern signed a pre-agreement to join SkyTeam, for full integration at the end of 2005 or early in 2006. Their membership in the alliance will significantly strengthen the penetration of the Air France-KLM group in the Russian and Chinese markets, primarily allowing the implementation of code sharing on domestic or regional lines. With Aeroflot and China Southern, SkyTeam should become the leading global alliance in terms of passengers.

During the next year, SkyTeam will implement a program of stronger cooperation with small or mid-size airlines. These "associate" companies will be sponsored by one of the members, will contribute to the alliance budget, but will not participate in governance. To be an associate member, these airlines will have to meet additional requirements for their information systems and merge their frequent flyer program with the program of one of the member companies. Air Europa, Tarom, Kenya Airways, and Copa Airlines have adopted this associate status in June 2005.

## A simple operating method

SkyTeam is directed by a Governing Board and a Steering Committee. Consensus (except in a limited number of very specific cases) is the rule for decision-making. Each member participates equitably in preliminary debates and final decision-making.

The Governing Board is composed of the Chairmen, CEOs and Alliance Directors from all member companies. It meets twice a year and defines the general strategic positions. It sets the amount of resources and promotes the alliance externally. The Governing Board appoints the Chairman and Vice-Chairman of the Steering Committee for a two-year term of office.

The Steering Committee, composed of the Alliance Directors, meets four times a year. It implements the strategic decisions adopted by the Governing Board and ensures the proper internal operation of SkyTeam.

9

**airlines**

(Aeromexico, Air France, Alitalia, Continental, CSA Czech Airlines, Delta Airlines, KLM, Korean Air, Northwest Airlines)

14,320

**daily flights**

343

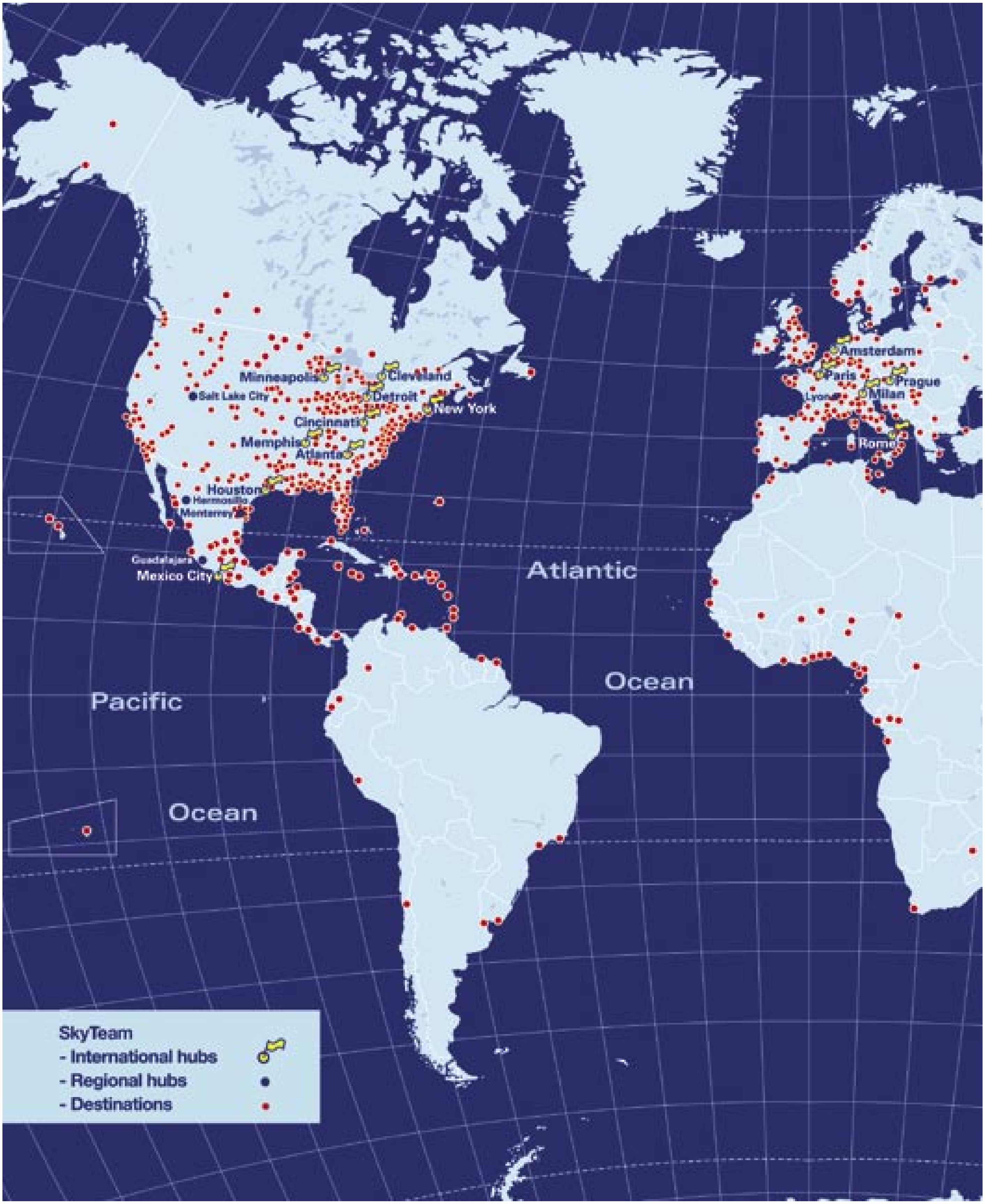
**million passengers**

658

**destinations**

137

**countries**


Minneapolis
Cleveland
Salt Lake City
Detroit
New York
Cincinnati
Memphis
Atlanta
Houston
Hermosillo
Monterrey
Guadalajara
Mexico City
Amsterdam
Paris
Prague
Lyon
Milan
Rome
Atlantic
Ocean
Pacific
Ocean
SkyTeam
- International hubs
- Regional hubs
- Destinations

Prague
Seoul
Tokyo
Pusan
Jeju
Pacific
Ocean
Guam
Indian
Ocean
SKYTEAM
SkyTeam Network
July 2005

# Air France-KLM group fleet



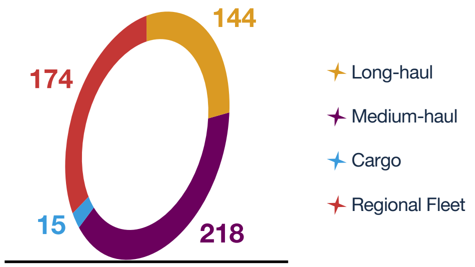
At March 31st 2005, the Air France-KLM group fleet consisted of 568 aircraft, including 551 planes in operation. There were orders for 48 planes and options on 32 aircraft. 212 planes were fully owned (37% of the fleet), 136 were under financial leases (24% of the fleet), and 220 under operating leases (39% of the fleet). In addition to the main fleet, there are four aircraft operated by Air Ivoire, 3 are under financial lease and 1 under operating lease.

Air France and KLM made the same choice of long-haul planes, selecting the Boeing B 747-400 ERF cargo, the Boeing B 777-200 and Airbus A 330-200. While continuing to manage separate fleets, these joint choices have accelerated the dialogue between the two companies to define common technical specifications for future aircraft in terms of flight decks, engines and avionics. Only the cabins will be specific to each company.

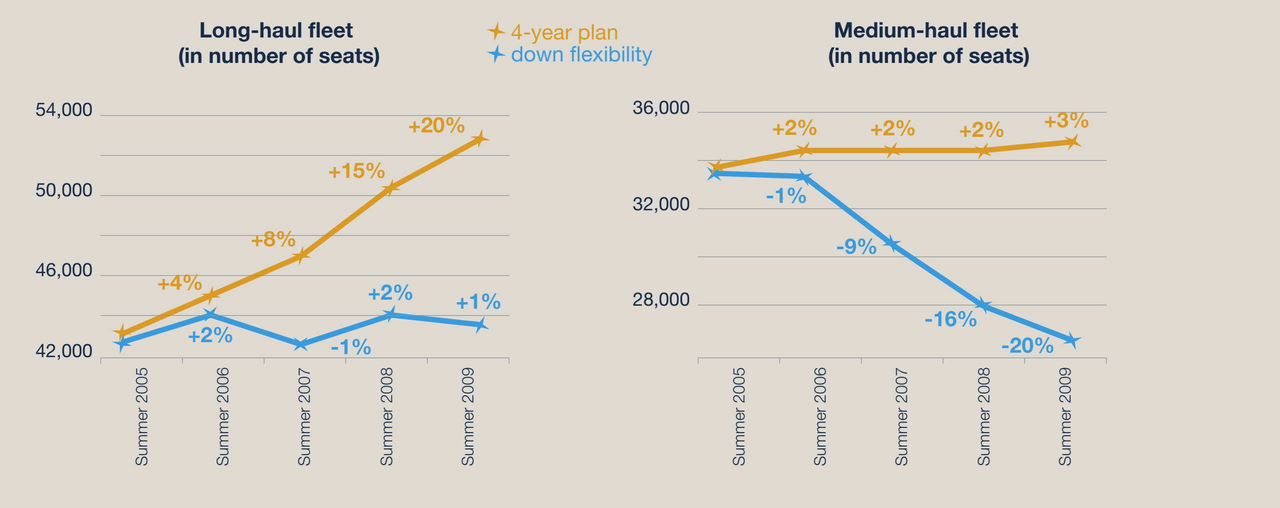
There are many advantages to joint specifications: they will harmonize industrial strategies by preventing duplication of skills and reducing inventories of maintenance parts, improve training resources for flight deck crews and, in addition, ensure more attractive commercial terms.

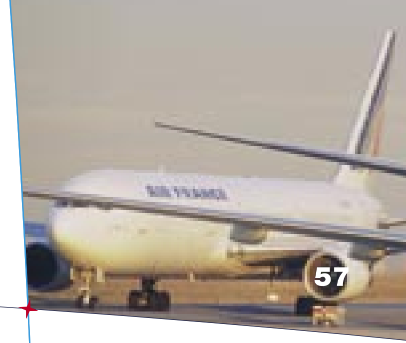
The regional fleet was inventoried, resulting in optimized capacities by leasing KLM regional planes to City Jet (2 BAE 146) and to Brit Air (2 Fokker 100). Future needs have been reviewed to implement a coordinated action plan with aircraft companies, engine and other manufacturers.

**Composition of the Air France-KLM group fleet**




## Fleet management flexibility







## A flexible fleet plan: a key asset

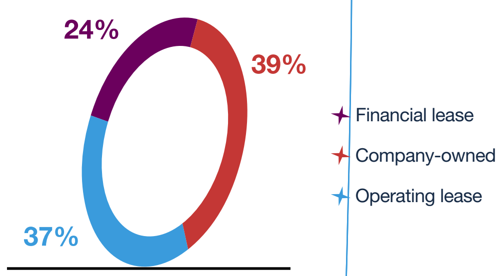
Flexibility in managing the fleet is an important management tool in a sector subject to considerable and rapid change. It also allows adjustment to the fleet to adapt most closely to the demands of the program. This flexibility is achieved either through contract clauses that allow for the possibility, within the limits of contractual notice periods, to adjust the schedule of deliveries and/or modify the model delivered within a family of aircraft, or through operating lease agreements, which are renewable periodically and allow rapid adjustments in the size or type of aircraft.

Thus, over the next four years, the fleet plan measured in number of seats may vary upwards or downwards based on needs compared with the situation in summer 2005. For the long-haul fleet, the number of seats in summer 2009 may have increased by 20% to match growth or by only 1% if there is a slowdown in traffic. For the medium-haul fleet, the flexibility will be between +3% and –20% of seats in summer 2009 depending on economic conditions.

In addition, the two companies are accelerating the reorganization of their fleets under the combined effects of very high oil prices and a weak dollar. Air France decided to replace the Boeing B 747-200 and 300 in its Caribbean and Indian Ocean network with Boeing B 777-300ER and the cargo Boeing B 747-200 aircraft with Boeing B 747-400ERF and Boeing B 777F. KLM decided to replace its Boeing B 767 300ER with Airbus A 330 and Boeing B 777-200. Air France will complete these replacements in the summer 2010 and KLM in summer 2009. On the basis of oil at USD 40 per barrel, the decrease in the unit operating cost varies between 6% and 23% depending on the type of aircraft.

By renewing its fleet, Air France-KLM also reduces the impact of its activity on the environment. For example, the Boeing B 777-300 are using 50% less fuel than the Boeing B 747-300 they are replacing, the gas emissions and thus the impact on the greenhouse effect are reduced. Besides, the Boeing B 777-300 generate six times less sound energy than the Boeing B 747–200.

**Financing of the Air France-KLM group fleet**
(at March 31st, 2005)




## Air France-KLM “*Deal of the year*” in the USA

Professional magazine *Airfinance Journal* elected Air France-KLM as the ‘airline of the year’ in the ‘Deals of the year award” . The trophy, awarded by finance people in the air transport industry. This award confirms the positive perception of the merger by the American financial community.

Air France had already received a prize in 2004 awarding the securitization of a plane portfolio in its fleet.

# The Air France group fleet

At March 31st 2005, the Air France group fleet comprised 387 planes, including 254 in the Air France fleet, 133 in the regional fleet plus 4 at Air Ivoire. 43% of the group's fleet is owned, 15% are under financial leases, and 42% are operated under operating leases.

## The Air France fleet

Air France operates a fleet of 254 aircraft, with 249 in operation, including 147 medium-haul aircraft, 90 long-haul and 12 cargo. The aircraft in the fleet have an average age of 8.6 years, with 6.6 for the long-haul fleet, 9.4 for the medium-haul fleet and 13.9 for the cargo fleet.

Over the year, 23 aircraft were added to the fleet and 14 were withdrawn.

In the medium-haul fleet, 4 Airbus A 318, 4 Airbus A 319, 2 Airbus A 320 and 1 Airbus A 321 were added. One Airbus A 320 and 9 Boeing B 737 (3 Boeing B 737-300 and 6 Boeing B 737-500) were withdrawn. In the long-haul fleet, 4 Boeing B 747-200 were withdrawn (2 passenger planes and 2 cargo planes) and 12 aircraft were added, including 1 Boeing B 747-400 passenger plane, 1 Boeing B 747-400 cargo, 9 Boeing B 777-300 and 1 Airbus A 330-200. This plane was previously stored and carried by an ad hoc company, which was consolidated as the result of a change in accounting standards. It was placed on line in April 2005.

Investments in flight equipment over the year came to 1.39 billion euros (including advances on orders and capital maintenance operations). At March 31st 2005, there were firm orders for 31 aircraft and options on 21.

## The regional fleet

The regional division has a fleet of 133 planes with 100 seats or fewer, with 121 in operation and 10 aircraft leased from third-party companies. This fleet is primarily organized around four families: the Embraer family at Régional, the Bombardier family with Brit Air, the Fokker family at both Régional and Brit Air (capacity of 79 and 100 seats), and City Jet has a fleet of BAE.

The average age of aircraft in the operating fleet is 7.4 years for Brit Air, 18.4 years for City Jet and 8.5 years for Régional.

The changes in the fleet over the period are as follows: for Brit Air, 1 CRJ700 added; for City Jet, 2 BAE 146-300 from the group were added to its fleet ; for Régional, 2 Fokker 70, 1 Fokker 100 (placed in operation on April 1st 2005) and 1 ERJ 145 were added; in addition, 1 EMB 120 was withdrawn from the fleet.

Investments in flight equipment came to 61.1 million euros for the year. There were firm orders for 8 aircraft at March 31st 2005, without options.

## Other fleets

The new company Air Ivoire, a subsidiary of Air France, serves Africa from Abidjan with 3 Fokker 28. During the year, it added one Airbus A 321 to serve the Abidjan-Paris route. Following the events in the Ivory Coast, this line was suspended and the plane was subleased in March 2005.




## The KLM group fleet

As of March 31st 2005, the KLM group fleet included 181 aircraft, all of which are operational. There are orders for 8 aircraft and options on 11. 24% of the planes are owned in full, 43% under financial leases, and 33% under operating leases.

### The KLM fleet

The KLM fleet has 128 aircraft in operation, with 71 medium-haul planes, 57 long-haul planes, which includes 17 Boeing B 747 passenger/freight combos and 3 cargo Boeing B 747-400 FR planes. The average age of aircraft in the fleet is 9.6 years; 9.5 years for the long-haul fleet and 7 for the medium-haul fleet.

Six planes were added to the fleet and one was withdrawn during the year. In the medium-haul fleet, 1 Boeing B 737-400 was removed and 1 Boeing B 737-800 and 1 Boeing B 737-900 were added. In the long-haul fleet, 4 Boeing B 777-200 were added.

Investments in flight equipment over the year came to 261 million euros (including advances on orders and capital maintenance operations). At March 31st 2005, there were firm orders for 9 aircraft and options on 11.

### The regional fleet

KLM's regional fleet consists of 53 aircraft divided between two families: Fokker and BAE. The average age of aircraft in the operating fleet is 12.6 years.

Over the year, 2 Fokker 50 and 100 were added and 5 BAE 146-100/300 were withdrawn.

During the year, no investment was made for the regional fleet. There is no option on aircraft intended for the regional fleet.

## Air France fleet at 31 March 2005

| | Company-owned | | Finance lease | | Operating leases | | Total | | In operation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| Airbus A 340-300 | 8 | 8 | 6 | 6 | 8 | 8 | 22 | 22 | 22 | 22 |
| Airbus A 330-200 | 4 | 3 | 1 | 1 | 9 | 9 | 14 | 13 | 13 | 12 |
| Boeing B 777-200/300 | 16 | 14 | 4 | 2 | 14 | 9 | 34 | 25 | 34 | 25 |
| Boeing B 747-400 | 8 | 9 | 1 | 1 | 7 | 5 | 16 | 15 | 16 | 15 |
| Boeing B 747-200/300 | 7 | 7 | - | - | - | 2 | 7 | 9 | 5 | 9 |
| Boeing B 767-300 | 1 | 1 | - | - | - | - | 1 | 1 | - | - |
| Boeing B 747-200 Cargo | 5 | 5 | 1 | 1 | 2 | 4 | 8 | 10 | 8 | 10 |
| Boeing B 747-400 Cargo | 1 | 1 | - | - | 3 | 2 | 4 | 3 | 4 | 3 |
| **Long-haul fleet** | **50** | 48 | **13** | 11 | **43** | 39 | **106** | 98 | **102** | 96 |
| Airbus A 318-200 | 9 | 5 | - | - | - | - | 9 | 5 | 9 | 5 |
| Airbus A 319-100 | 18 | 17 | 4 | 4 | 21 | 18 | 43 | 39 | 43 | 39 |
| Airbus A 320-100/200 | 49 | 44 | 3 | 5 | 15 | 17 | 67 | 66 | 67 | 65 |
| Airbus A 321-100/200 | 11 | 8 | - | 2 | 2 | 2 | 13 | 12 | 13 | 12 |
| Boeing B 737-300/500 | 4 | 6 | 3 | 3 | 9 | 16 | 16 | 25 | 15 | 23 |
| **Medium-haul fleet** | **91** | 80 | **10** | 14 | **47** | 53 | **148** | 147 | **147** | 144 |
| **Total** | **141** | 128 | **23** | 25 | **90** | 92 | **254** | 245 | **249** | 240 |

## Air France regional fleet at 31 March 2005

| | Company-owned | | Finance lease | | Operating leases | | Total | | In operation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| **Brit Air** | | | | | | | | | | |
| Canadair Jet 100 | 2 | 2 | 11 | 11 | 6 | 6 | 19 | 19 | 19 | 19 |
| Canadair Jet 700 | 2 | 1 | 9 | 9 | - | - | 11 | 10 | 11 | 10 |
| F100-100 | 1 | 1 | - | - | 9 | 9 | 10 | 10 | 10 | 10 |
| **Total Brit Air** | **5** | 4 | **20** | 20 | **15** | 15 | **40** | 39 | **40** | 39 |
| **Régional** | | | | | | | | | | |
| Embraer RJ 145 | 2 | 1 | 8 | 9 | 18 | 17 | 28 | 27 | 28 | 27 |
| Embraer RJ 135 | 2 | 3 | 3 | 2 | 4 | 4 | 9 | 9 | 9 | 9 |
| Embraer 120 | 7 | 3 | 3 | 3 | 3 | 8 | 13 | 14 | 10 | 12 |
| Fokker 100 | 1 | - | - | - | 6 | - | 7 | - | 6 | - |
| Fokker 70 | - | - | - | - | 5 | 9 | 5 | 9 | 5 | 9 |
| Beech 1900 | 6 | 6 | 1 | 1 | 1 | 1 | 8 | 8 | - | - |
| SAAB 2000 | - | - | - | - | 6 | 6 | 6 | 6 | 6 | 6 |
| **Total Régional** | **18** | **13** | **15** | **15** | **43** | **45** | **76** | **73** | **64** | **63** |
| **City Jet** | | | | | | | | | | |
| BAE 146-200 | 5 | 1 | - | - | 12 | 14 | 17 | 15 | 17 | 15 |
| **Total City Jet** | **5** | **1** | **-** | **-** | **12** | **14** | **17** | **15** | **17** | **15** |
| **Total** | **28** | 18 | **35** | 35 | **70** | 74 | **133** | 127 | **121** | 117 |



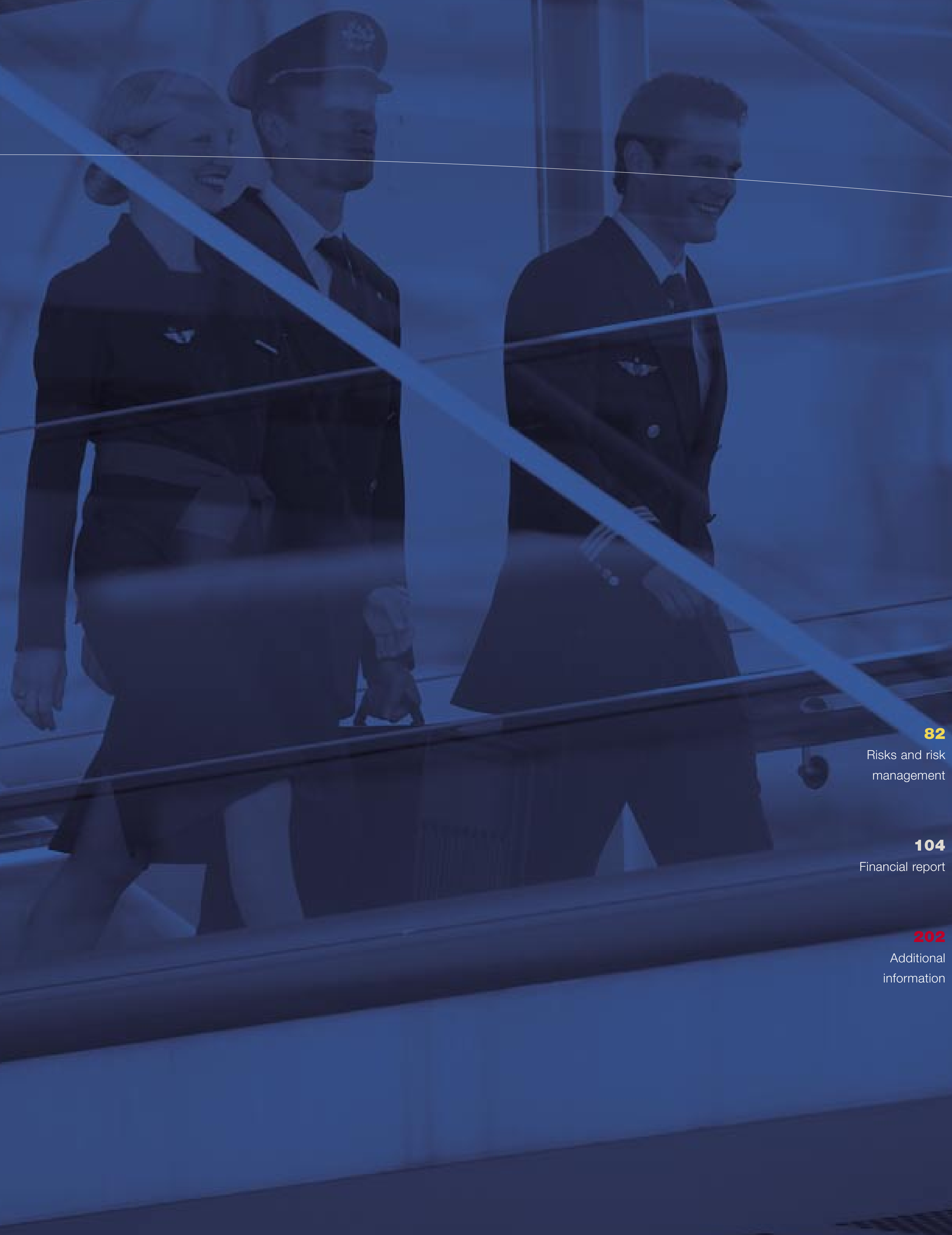
## KLM fleet at 31 March 2005

| | Company-owned | | Finance lease | | Operating leases | | Total | | In operation | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| Boeing B 777-200 | - | - | 4 | 3 | 6 | 3 | 10 | 6 | 10 | 6 |
| Boeing B 747-400 | 6 | 6 | 16 | 16 | - | - | 22 | 22 | 22 | 22 |
| Boeing B 767-300 | - | - | - | - | 12 | 12 | 12 | 12 | 12 | 12 |
| MD11 | - | - | 8 | 8 | 2 | 2 | 10 | 10 | 10 | 10 |
| Boeing B 747-400 Cargo | - | - | 3 | 3 | - | - | 3 | 3 | 3 | 3 |
| **Long-haul fleet** | **6** | 6 | **31** | 30 | **20** | 17 | **57** | 53 | **57** | 53 |
| Boeing B 737-300 | 6 | 6 | 1 | 1 | 7 | 7 | 14 | 14 | 14 | 14 |
| Boeing B 737-400 | 6 | 5 | - | 2 | 7 | 7 | 13 | 14 | 13 | 14 |
| Boeing B 737-700 | - | - | 4 | 4 | 5 | 5 | 9 | 9 | 9 | 8 |
| Boeing B 737-800 | 6 | 6 | 20 | 19 | 4 | 4 | 30 | 29 | 30 | 29 |
| Boeing B 737-900 | - | - | 2 | 1 | 3 | 3 | 5 | 4 | 5 | 5 |
| **Medium-haul fleet** | **18** | 17 | **27** | 27 | **26** | 26 | **71** | 70 | **71** | 70 |
| **Total** | **24** | 23 | **58** | 57 | **46** | 43 | **128** | 123 | **128** | 123 |

## KLM regional fleet at 31 March 2005

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

# Environmental and employment data



## Employees of the Air France-KLM group

The weighted average number of employees of the Air France-KLM group was 102,077 people for fiscal 2004-05.

| | Air France-KLM group | | |
|---|---|---|---|
| | March 31st 2004 proforma | March 31st 2005 | Change |
| Ground Staff | 75,349 | 74,462 | -1.2% |
| Cabin Crew | 19,574 | 19,829 | +1.3% |
| Cockpit Crew | 7,799 | 7,786 | -0.2% |
| **Total** | **102,722** | **102,077** | **-0.6%** |

Because of the differences between Dutch and French social legislation, and under the terms of the merger, each company will pursue its own separate human resources management policy while facilitating cooperation through a limited number of initiatives, under a common Air France-KLM umbrella:

- **Bridging cultures**, through intercultural training sessions to help managers work together and make the combination effective.

- **Group-wide social dialogue structures** with the works council representative bodies. An ad-hoc “Holding Forum” took place in 2004 to frame exchanges until the special negotiating body completes the creation of the European Works Council in 2006. The members of the Forum are representatives of the current employee representation bodies at KLM and Air France. The Forum has already met twice to discuss general issues and the Strategic Plan. Besides these group structures, Air France and KLM will each retain their own employee participation structures.

- **Internal Perception Monitor.** This initiative aims to monitor employee assessment of the merger. A total of 2,090 Air France-KLM people answered the questionnaire during the last quarter of 2004. They perceive the merger as positive for both the airlines and their customers but express their need to enhance their skills to work together with different corporate cultures and languages. In addition, the group asked the universities of Tilburg and Lyon to study over a three-year period how the two independent airlines join forces and implement synergies.

- **Manager Exchange program.** This initiatives allows talented young managers, through exchange, to gain experience during two years in one or two different positions in all core activities at both airlines.

## Air France Human Resources and Employment Policy

Air France is fully integrating human resources into the major projects to change the company (Horizon and Diapason in France Sales, Passenger Target and Aircraft Target in Ground Operations, G1XL 2004 in Cargo, Latitude in IT systems, etc.) in order to identify and assist the changes in the businesses and skills. A «managerial approach» project was launched during the year with the goal of defining and implementing programs to develop the skills and management expertise needed to direct future changes.

In 2004, Air France continued to pursue the policy to control staffing and stabilize the work force. The total Air France workforce fell from 59,458 to 59,296 full-time equivalent between March 2004 and March 2005: 37,100 ground staff (including 36,587 permanent employees), 12,406 cabin crew, and 4,089 flight deck crew. Local personnel represented 5,701 people.



This control was primarily reflected in the priority given to internal resources, specific hiring follow-up, and a special emphasis on the policy of professional and geographic mobility. For 2004, there were 1,176 new employees hired in France: 637 ground staff, 152 flight deck crew, and 387 new cabin crew. These figures were down from 2003 in all three groups. At the same time, the year 2004 also saw a sharp increase in retirements for ground staff to 737, up from 317 in 2003.

The first priority for the aviation sector is safety. Technical and regulatory training (45% of the training programs) guarantee that employees maintain the expertise required to perform their jobs under the best safety conditions, for themselves and for Air France customers.

The training policy is also one of the principal means to ensure ongoing improvement in the organization and the work and the quality of customer service. Expenses for the 2004-05 training program totaled over 200 million euros, which is 9.5% of payroll. The training plan deals with all steps in professional life and assists transfers. This year was also marked by the application of the provisions of the law on continuing professional training (professional development period and contract, individual right to training). The implementation of this law will not generate an increase in the training investment.

## Continuation of the contract policy and modernization of corporate dialogue

For several years, Air France has been pursuing a contract policy with labor organizations. This policy is reflected, in particular, in multi-year agreements: the «Accord Pour Progresser Ensemble 2002-05» agreement for ground personnel, the 2003-08 collective agreement for cabin crews, and the 2003-2005 collective agreement for flight deck crews.

In fiscal 2004–05, amendments to the two cabin and flight deck crew agreements were signed. Two agreements were with ground staff. Finally, the 2004-07 protocol for all employees (ground and flight) concerning the exercise of union rights was signed on March 8th 2004, and an amendment to the incentives agreement was signed on September 30th 2004.

In 2004, the company continued the work to develop corporate conventions to replace the status of Air France in May 2006 (a joint convention and 3 specific conventions for each personnel category—ground, cabin and flight deck). This work is conducted within the framework of a goals and method agreement signed in January 2003 and all the themes of this transposition are being discussed during a number of meetings with the ground and flight crew union organizations.

In fiscal 2004–05, a new division for the works' committees was set up. It is based on the organization of the company, rather than on geographic location. There are now 8 Works Committees corresponding to the major divisions of the company: France Sales, International Sales, Ground Operations, Air operations, Industrial, Air France Cargo, Information Systems, Headquarters and support. This new organization is designed to allow the Works Committees to play their full role in assisting in the modernization of the company, and ensure consistency within each division. The union elections of March 10th 2005 were held in the context of these new perimeters.

## Compensation and sharing the value created

This year, in accordance with the memorandum of understanding on salary measures of April 9th 2004 (Ground and Cabin crews), the general measures represented an average increase of 2.1%, plus individual measures (promotion, seniority).

Pursuant to the incentive agreement of September 26th 2002 and its amendments, the results for the year ended March 31st 2005 made it possible to pay 7.3 million euros in incentive-payments distributed among all Air France employees.

| *In EUR million* | Incentive-payments[1] | Company's contribution [2] |
|---|---|---|
| Fiscal 2000-01 | 36.2 | 6.3 |
| Fiscal 2001-02 | 29.4 | 4.6 |
| Fiscal 2002-03 | - | - |
| Fiscal 2003-04 | 4.6 | 1.9 |
| Fiscal 2004-05 | 7.3 | - |

*(1) For the year indicated.*
*(2) The company's contribution for a year is expensed in the following year.*

In addition, as the State sold a portion of its stake in Air France-KLM, as planned, current and former employees of Air France and its subsidiaries were able to purchase shares of Air France-KLM under preferential terms in February 2005. This acquisition was executed within two mechanisms:

- the Offering Reserved for Employees (Offre Réservée aux Salariés-ORS) of 8,414,273 shares, allowing the employees to take advantage of various advantages offered by the State and the company;
- the Wage for Shares Exchange (Echange Salaire contre Actions-ESA) for 12,612,671 shares, giving employees the possibility of accepting salary cut over six years in order to receive a fixed number of shares in return.

## Health and safety in the workplace

Expand safety and protect the health of its employees are major requirements for the company. In 2004, the safety expenditures made at Air France totaled €18.2 million in France.

The number of work accidents with work stoppage was 3,029 in 2004 for Air France. The work accident frequency rate (number of work accidents/number of employees * 100) dropped from 5.91 in 2002 to 5.45 at the end of 2004, but this masks certain disparities by employee category: Ground staff 3.56%; Cabin crews: 12.12%; Flight deck crews: 2.15%.

At Air France, the absentee rate in 2004 was as follows: 4.2% for ground staff (3.4% excluding maternity), 10.5% for cabin crews (6.6% excluding maternity leave), and 2.5% for flight deck crews (2.3% excluding maternity).



## Social cohesiveness and respect for diversity

For several years, Air France has conducted an employment policy based on integration through employment and a respect for diversity. This policy is applied particularly in the following five areas: equality for men and women, employment of handicapped workers, seniors, employment of young people and territorial employment.

Professional equality for men and women is the subject of a specific agreement adopted in 2002. This policy is organized on the basis of four major commitments: to develop the ratio (the percentage of women has risen from 31% in 1991 to 41% in 2004, from 26% to 36% for ground staff, from 63% to 65% for cabin crews, and from 1% to 5% for flight deck crews), to improve the balance between professional life and family life, to promote equality of opportunity in career development, and to perfect measurement indicators.

Under a specific agreement, Air France made a commitment in 1991 to initiate a program to hire people with a disability. As a result of this voluntary policy, which includes hiring plans (31 new hires in 2004) and training and information programs, Air France exceeded the legal obligation in 2004 with an employment rate of 6.2% (up from 2.9% in 1991), corresponding to 1,553 disabled employees.

Anticipating the rise in the number of employees over the age of 50, in 2002, the company signed the Accord Pour Progresser Ensemble (APPE), an agreement designed to encourage the development of professional opportunities to ensure the successful second phases of careers. The training tools, career assessments and professional interviews were increased in 2004. The end-of-career part-time mechanism (80% part-time paid at 88%) was selected by nearly 80 employees.

## Social responsibility

Air France is working to establish a dialogue with its various social partners, is communicating about the wealth created by its business, and is mobilizing to assist the regions where it operates, particularly in jobs and economic development.

Air France continues to play a dominant role in local employment in the Roissy and Orly areas, where it is the largest employer. The company employs more than 48,000 people in Ile-de-France, through its commitment to various partnerships intended to facilitate information, training and employment for the young residents of the surrounding communities.

For a number of years, Air France has paid particular attention to the employment of young workers. About 400 trainees are welcomed every year, 90% of whom receive permanent employment in the company. Internships represent one-third of new employees with permanent contracts and are covered by a charter negotiated with the social partners and has been systematically renewed since 1997.

Air France was involved in the initiative to create several organizations, which it actively continues to support: the Jérémy association of nine companies at Roissy – Charles-de-Gaulle promotes the hiring of young job seekers from the area by combining formal and on-the-job training; Afmaé, which creates a pool of expertise and qualification programs in aviation through the Apprentice Training Center (CFA) and, finally, the AirEmploi association, which provides information and assistance in the training required to enter the airline industry. The company also participates in several local organizations to develop jobs, such as the GIP Emploi Roissy-CDG.

In its second year of existence, the «Pays de Roissy-CDG» association, the mission of which is to help the area take advantage of the wealth generated by the air industry, now has nearly 200 members - both socio-economic players and local residents. Its achievements include the signature of a tripartite agreement signed by the association, financing participates and a housing operator.

In Africa, Air France has initiated a project to transfer skills in Bamako with the African Institute of Aviation Businesses (IAMA). The first cornerstone was laid in March 2005.

In line with its commitment to the principles of the UN Global Compact, which it signed in April 2003, Air France promotes a policy of social responsibility with its subcontractors and suppliers. Since September 2004, the company has implemented a Sustainable Development Charter which is attached to its bid tenders. This procedure is being tested for one year and will allow Air France to determine for the future the relevant criteria and procedures for its suppliers which are consistent with its goal to improve their environmental and social standards. In addition, the first experiments were conducted to move certain purchases to local suppliers.

Air France has been involved for a long time in assisting disadvantaged groups, particularly children. The Air France Foundation, created in 1992 to assist children who are sick, disabled, or living in poverty or danger, financed 34 new projects in France, Angola, Peru and Romania in 2004. Last year, the Foundation created the network of «Friends of the Foundation» with 1,500 employee members, a structure intended to enhance the humanitarian commitment of our employees.

Air France has also supported for many years «Aviation without borders», a group that provides transport logistics for medication and sick children and which has partnered since 1999 with the French National Health Institute (Inserm) to provide humanitarian assistance to children suffering from serious illness by providing free travel for consultation and treatment in specialized centers, often a long way from their homes.

## KLM Human Resources policy in 2004-05

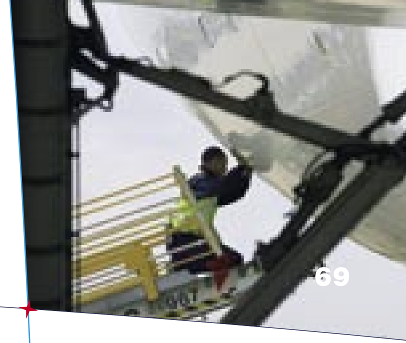
As one of the largest employers in the Netherlands, KLM employed, at December 31st 2004, a workforce of 28,105. A little over 25,000 worked in The Netherlands and around 2,700 abroad. The population in The Netherlands comprises 10,151 women and 15,226 men with a part-time percentage of 35%. In KLM's subsidiaries worked about 6,500 people on a long-term contract.

Fiscal 2004-05 was a transitional year. The 'structural measures' program of 2003-04 is still being implemented. The program led to the loss of 4,500 jobs. Some of the staff left of their own accord, some positions were not filled when they became vacant, fixed-term contracts were not renewed, agency staff was not hired and a limited number of positions became redundant. For the last group, KLM set up the 'Work to Work' Center to help staff during a period of one year to find alternative employment. As of January 1st 2005, the Center had mediated on behalf of 548 employees. More than two third of them have been relocated either internally or externally.

A further 150 people are currently taking part in the 'Work to Work' process.

While this process was still ongoing, operations began to grow slowly in mid 2004 due notably to the merger with Air France. More people were needed for ground services and in the cabin and cockpit, in departments were there had been no redundancies. Surplus staff could therefore not always fill the vacancies. KLM therefore took the necessary decisions and adopted a transparent communication.

KLM's human resources strategy has two main dimensions. One is to improve employee satisfaction by accommodating for more individualism i.e. personal development, job opportunities, paying attention to people's well being and health. The second is to create competitive labor cost levels by increasing productivity and managing people-related costs.





According to this strategy, the efforts in this direction are translated into five main areas of thrusts:

**Flexibility**
- Broaden the set of tasks that people can perform
- Build more flexibility into contracts
- Allow for more flexible working-hours, especially in rosters

**Mobility**
- Stimulate mobility, both within the company and out of the company
- Encourage personal development and learning (KLM Academy and e-learning)

**Simplification**
- Standardize HR procedures
- Facilitate self-service (e-HR)

**Health**
- Increase mobility where jobs are physically extremely strenuous
- Increase attention for preventive measures (e.g. exercise, healthy food)

**Diversity**
- Improve flexibility to cater for the elderly and handicapped
- Stimulate a culture that will result in more women in senior management positions
- Encourage the participation of ethnic minorities.

Initiatives will be aligned with KLM's core values: Reliable, Dynamic, Committed and Team spirit.

These issues are also important subjects in the current CLA negotiations.

## Social dialogue

Within the framework of its savings and cost-cutting program 'structural measures', KLM and the unions agreed on June 14th, 2004 on a new collective agreement for a period from April to December 2004. Under the terms of this new agreement, a bonus of 1% of the annual salary was paid to KLM ground staff in August 2004. Because the budget objectives for the first half of 2004-05 were achieved, a further bonus equal to 0.75% of annual salary is paid in November 2004.

In 2004 the Dutch government has taken initiatives in many policy fields that have made welfare benefits more austere, and changed the implementation of welfare schemes through privatization. These measures have led to rebalance the need for cost control and employee satisfaction. This is an important pillar in the collective bargaining round in 2005.

## Health and security at work

The average rate of absenteeism decreased slightly in 2004 to 6.0% (6.1% in 2003). The number of new incapacity benefit claimants fell further in the past fiscal year. The downward trend is expected to continue in 2005. The active stance taken by managers and the individuals will be continued.

KLM has recently decided to integrate occupational safety and environment into the safety and quality assurance policy at the highest level in the KLM organization. In the field of occupational safety the risk of accidents is being reduced by embedding compliance with health and safety rules more firmly in the organization. The system requires the environment to encourage safe behaviour by not accepting unsafe working conditions. That role and responsibility are clearly placed with the management. The right structure, procedures and climate are already in place. Industrial accidents and other incidents are reported, analysed and action is taken where necessary. In 2004 there were no fatal injuries involving KLM employees or contractors.

In compliance with European guidelines KLM keeps detailed records of cosmic radiation and informs all crew about their individual exposure on a monthly base. In 2004, approximately 9,500 records, were below two third of the Dutch (and European) maximum allowed annual dose.

KLM sponsored an endowed chair in working conditions at the Free University of Amsterdam for several years. Through occupational health services, employees and employers in the Netherlands and abroad benefit from the education about work and health provided by the University and the research conducted. A research project conducted at KLM in 2004 led to a treatment for lumbar problems that considerably reduces time off work.

## Social responsibility

As a company that is alive to Dutch and international social considerations, KLM also provides educational and development opportunities for young people and children in developing countries. In 2004, KLM spend nearly €350,000 on social and charity expenses.

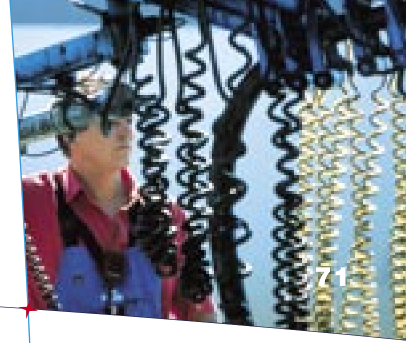
Since 1999 KLM has participated in aid programs for less fortunate children through its AirCares program. Every quarter, KLM allows a selected project to use its communication channels to reach a large international audience. Through the KLM media, including the in-flight video and in-flight magazine, passengers are asked to donate cash or frequent flyer miles to the charity selected.

The four projects selected in 2004 were:
- Close the Gap International, an organization that collects and refurbishes used computers from businesses and uses them in educational projects in Africa.
- Right to Play, an organization set up by former Olympic skating champion Johan Olav Koss to provide children in refugee camps with sport and games training.
- UNICEF, the UN Children's Fund, which collected donations for the child victims of the earthquake in Bam, Iran.
- Coco, an initiative of former Olympic champion Steve Cram to open a care home for orphans with Aids.

Just days after the tsunami hit Southeast Asia at the end of December, KLM AirCares decided to provide help in two phases. Immediately after the disaster, support was provided for emergency aid. KLM Cargo carried goods free of charge or at cost for the Dutch Interchurch Aid organization. In addition, staff working for this organization was allowed to take surplus baggage free of charge. In April 2005 an orphanage will be adopted in Medan, Indonesia, for handicapped victims of the tsunami. AirCares is working on this with Wings of Support (the voluntary charity organization set up by KLM's staff), Pilots Without Borders (an organization of pilots from various airlines who use their professional knowledge to provide logistics assistance) and the Liliane Fund/ Sharing Success.

Many charities also raised funds and recruited donors during the Open House in October 2004.

Over the past five years, KLM AirCares has raised nearly €500,000 and more than 32 million airmiles.




# Social report

## Reporting coverage

For Air France, most of the numeric data concerning the workforce in France are drawn from the Social Report, which uses the calendar year as its basis and therefore refers to the twelve months ending 31st December 2004. Data concerning Air France subsidiaries are gathered by consolidating data from the nine most important companies employing a total of around 10,000 staff. These data do not take into account 23 small companies which together employ almost 1,950 staff. Air France subsidiaries do not constitute an entity, either from the point of view of group organization (principle of independent management of subsidiaries), or from that of their activity.

KLM's standard reporting coverage is over fiscal year April – March. Shown figures in this report are recalculated to January – December. The information shown is drawn from financial systems, the salary system/ Social Dashboard in KLM.

## Headcount

Total Air France-KLM group headcount with permanent employment contracts amounts to 108,051 staff including 73,405 for Air France group and 34,646 for KLM group as at 31st December 2004:

| Employees number on 31st Dec. 2004 | Air France-KLM group | Air France in France(2) | Air France outside France | Air France Subsidiaries | KLM in the Netherlands(1) | KLM outside the Netherlands | KLM Subsidiaries |
|---|---|---|---|---|---|---|---|
| Ground Staff | 76,942 | 39,206 | 6,181 | 8,665 | 15,649 | 2,728 | 4,513 |
| Cabin Crew | 22,820 | 13,483 | 99 | 671 | 7,458 | - | 1,109 |
| Cockpit Crew | 8,289 | 4,187 | 0 | 913 | 2,270 | - | 919 |
| **Total** | **108,051** | **56,876** | **6,280** | **10,249** | **25,377** | **2,728** | **6,541** |

*(1) Incl. KLM Cityhopper cockpit- and ground staff*
*(2) Including 388 expatriates*

In 2004, the policy of limiting and stabilizing staffing levels for Air France-KLM group was continued.

| Number of recruitments in 2004[1] | Air France-KLM group total (worldwide) |
|---|---|
| Ground Staff | 2,170 |
| Cabin Crew | 1,083 |
| Cockpit Crew | 258 |
| **Total** | **3,511** |

*(1) long term contracts, excluding KLM subsidiaries*

In 2004, the leavings in France and the Netherlands are distributed as followed:

| Air France-KLM group in 2004 | Number of leavings in France and in The Netherlands[1] | | | |
|---|---|---|---|---|
| | **Retirements** | **Redundancies (incl. economic)** | **Resignations** | **Deaths** |
| Ground Staff | 865 | 270 | 404 | 78 |
| Cabin Crew | 200 | 6 | 208 | 15 |
| Cockpit Crew | 139 | 58 | 5 | 5 |
| **Total** | **1,204** | **334** | **617** | **98** |

*(1) long term contracts*

Air France-KLM group appeal to temporary staff, employing a total of 2,651 full time equivalents per month on average (1,777 for Air France and 874 for KLM).

## Working time organization

At Air France, working hours are as follows:
- Ground staff: 35h per week
- Cabin crew: 75h of flight per month
- Pilots: 75h of flight per month.

At KLM, the three CLA's (Ground Staff, Pilots and Cabin Crew) are all based on a workweek of 40 working hours in 5 days.

The Air France-KLM group has also implemented specific measures to help employees reconcile personal events or projects and their career development: parental leave, part-time working and so on. An analysis of the distribution of part-time among the different populations reveals significant differences.

At Air France group, part-time employees total 12,015: 10,307 work in France (18% of total workforce), 938 are local personnel (15%) and 770 at the subsidiaries (8%). Among those within Air France, part-time staff account for 15% of ground staff (included progressive pre-retirements), 30% of cabin crew and 13% of pilots.

At KLM in the Netherlands, part-time employees total 8,882 (35%), distributed as follows: 4,216 (28%) of ground staff, 4,112 (52%) of cabin crew and 554 (23%) of pilots.



## Men - Women equality

For several years, the Air France-KLM group has pursued a social policy based on integration through respect for diversity. The proportion of female employees in the Group has been rising for several years. Women accounted for 44% of the total in 2004 (42% at Air France group and 51% at KLM in the Netherlands).

At Air France-KLM, there are no significant differences between the salaries paid to men and women in equivalent jobs, in equivalent seniority and in equivalent working time organization.

## Disabled staff

At Air France, the employment rate of handicapped workers was 6.2% and at KLM, the percentage of handicapped workers was 5.4% on 31st December 2004.

Environmental issues have been high on Air France's and KLM's agendas for long. The Group is committed to continuously improve its environmental performances in order to conciliate the growing demand for air transport with the need to protect our planet's future.

## Environmental Management

### Organization

Each airline has its own organization managing Environment.

Air France set up an Environment and Sustainable Development Department which is responsible for the Environmental policy of the company. It is its responsibility to enforce this policy for air operations and to cross-functionally oversee ground operations carried-out in the other Departments of the company.

Those Departments are responsible for applying the company's environmental policy via a dedicated action plan ensuring regulatory compliance of their activities and for limiting their environmental impact.

KLM establishes it's environmental policy at the Management board level and this policy is put into practice via annual environmental programs. At the highest level, a member of the Board of Managing Directors is responsible for environmental issues. Every organizational unit has an environmental liaison officer to coordinate environmental issues and advise the line management. The Environmental Services Department acts as Corporate Environmental Center to assist the Board of Managing Directors and the organizational units. It also monitors internal and external developments relating to the environment.

Line management ensure that sufficient information and training opportunities on environment are available, which is annually checked on KLM side as part of its ISO 14001 certification. An effort is on-going at Air France to harmonize this local training throughout the company.

### Environnemental evaluation or certification programs

KLM is ISO 14001 and EMAS certificated.

Air France is committed to an environmental management obeying the ISO 14001 rules, consistently with its QSE (Quality-Safety- Environment) program.

Orly (engineering and maintenance department) and Le Bourget sites of Air France Industries are already ISO 14001 certificated. The sites in Toulouse-Blagnac (in 2005), Villeneuve-le-Roi (in 2005), Roissy (2006), Orly (surface treatment of the engine activity in 2006) will soon be certificated. Air France Industries retains its objective to have 70% of its sites ISO 14001 certificated by 2006.

A preliminary audit of stations in metropolitan France is currently under way at Air France Operations. This internal assessment programme will enable to take overall stock of the situation and to launch an appropriate action plan in the framework of regulatory compliance.

Similarly, Air France Cargo has embarked on a review of its various sites during the present fiscal year designed to draw up environmental assessments for summer 2005.

Air France Industries' CRMA subsidiary has been ISO 14001 certificated since 1999. Servair (catering) has deployed a system of preliminary environmental diagnostics at its sites. Its ACNA cleaning subsidiary has also embarked on an ISO 14001 program.



### Measures designed to guarantee an activity's compliance with legal and regulatory requirements

Air transport is subject to a wide range of national and EU regulations.
Air France is duty-bound to exhaustively monitor the legal and regulatory texts impacting its activity. At present, each individual company sector monitors regulatory developments on a limited basis with respect to issues directly concerning it. To ensure greater consistency within the company and guarantee exhaustive coverage of the regulatory corpus, it has been decided to set up a centralized (but locally accessible) monitoring tool, to be carried out by the Huglo Lepage consultancy, which specializes in environmental law.

As part of its ISO 14001 system, KLM has extensive procedures to identify amendments to legislation or regulations that might be relevant for KLM's operation. If KLM implements process changes the competent authority are notified to check if the environmental licenses need revision

### Environmental Risk Management

Air France set up a Risk Management and Environmental Protection unit within the QSE (Quality-Safety-Environment) Department. It has a cross-functional remit and it is underpinned by a network of coordinators.

Activities of the Industrial Department that generate risks that could have a significant environmental impact are monitored via a three-year action plan designed in particular to stay abreast or ahead of regulatory developments. Risks are initially identified through audits or inventory programs. A mapping is established describing the risks' parameters: gravity, frequency of occurrence and detectability.

KLM has two systems to manage risks. First, ISO 14001 pro-actively identifies risks and required action because of the execution of audits, management reviews and the regular update of all environmental registers.

Further, KLM applies a company wide risk management system. Every quarter, risks are inventoried KLM wide, the likelihood and impact assessed and the proposed action is discussed at Board level.

### Amount of environmental risk prevention provisions and guarantees

None.

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

The Air France-KLM group is liable for the “noise” tax at Amsterdam and France’s ten main airports.

From April 2004 to March 2005, Air France paid out 8.5 million euros in noise tax, of which 7.9 million euros for its activities in the Paris region.

Air France takes part in the Environmental Advisory Committee/ Advisory Committee for Resident assistance, responsible for ensuring that the funds collected under the noise tax are put to the most effective use so that residents in designated noise areas are properly sound-proofed as rapidly as possible. The company supports the program which is designed to optimise protection around airport zones, while doing its utmost to restrict the inflow of additional residents in zones where noise pollution from airports is deemed penalizing.

This year, Air France also deposited 72,000 euros for its infractions to the Environmental Protection Volume policy which regulate the trajectory deviations in the vicinity of French airports and for its infractions to night departures policy. During 2004-05, Air France was not convicted to pay any indemnity by any decision of justice linked to environment matters.

The main action carried out to repair pollution related to ground activities regards the clean-up of the Air France Industries Montaudran site, which has been vacated after more than five decades of maintenance activity. In conjunction with the Toulouse DRIRE (Regional Industry, Research and Environmental Agency) Air France carried out preliminary studies and is financing soil rehabilitation work. Most of 2004 was devoted to carrying out studies on pollution identified on the northern part of the maintenance site and the possible related risks.

The overall clean-up program, describing the technical solutions to deal with the problems flagged, was presented to the DRIRE in April.

In parallel, the ground water is being continually monitored in the southern area of the site. The measured content of the main pollutants is, to date, below the regulatory thresholds.

KLM publishes annually an overview of the environmental costs on internet (www.klm.com/sustainability). The main costs items are extra fuel consumption due to noise procedures, waste disposal and costs of KLM’s environmental staff.

## Soil use conditions and measures to limit environmental damage

Air France’s property department has newly adopted the precautionary principle. From this year onwards, before any new construction on a site, sub-soil samples will be taken to check for the possible presence of underground pollutants. This principle guarantees that future buildings and their occupants will be safe from possible health risks that could otherwise have emerged over time.

In a related development, Air France, although a tenant on most of its premises, has decided to apply the latest regulatory recommendations applying to owners on their asbestos. An appropriate technical document for asbestos has been issued for each of the 356 buildings it occupies and expertises are in process. They will finish by the end of 2005.

KLM has remedied all relevant soil or ground water contaminations outside buildings. Where the remediation has been partial, containment measures have been implemented and are functioning properly. KLM has no obligation to perform soil investigations under the floors of buildings. In the Netherlands, the levels of allowable contamination and remediation for soil or groundwater are determined on the basis of possible risks for humans, ecology or environment. Different use of terrain has different remediation obligations and levels. If remediation is deemed necessary by the authorities they will usually allow this to be combined with building activities.

## Main environmental indicators

### Ground operations (99% of continental France premises and 95% of Netherlands premises)

| Air France-KLM group consumption and waste indicators | GRI Article | FY 2004 | FY 2003 | Change like-for-like |
|---|---|---|---|---|
| Total water consumption ($m^3$) | EN5 | 1,057,786 | 1,168,613 | -9.5% |
| Total electricity consumption (MWh) | EN3 | 367,386 | 354,399 | +3.7% |
| Energy consumption (MWh) | | 406 004[1] | 388,902 | -3.8% |
| Superheated water | EN4 | 156,371 | | |
| Iced water | EN4 | 3,020 | | |
| DFO | EN3 | 10,204 | | |
| Gas | EN3 | 236,409 | | |
| $CO_2$ emissions from heating plants linked to energy consumption (tons) | EN8 | 31,681 | 33,130 | -5.8% |
| Total quantity (tons) of ordinary industrial waste | EN11 | 48,960 | 49,144 | -0.4% |
| Total quantity (tons) of hazardous waste | EN11 | 4,452 | 4,371 | +1.9% |
| Volatile organic compounds contained in products used (1000 tons) | EN8 | 262 | 276 | -5.1% |
| Raw materials consumption (1000 tons) | EN1 | 0 | 0 | |
| Persistent organics compounds emissions | | 0 | 0 | |
| Toxic metals emissions | | Not available | Not available | |

*(1) Includes Servair's energy consumption (31,910 MWh) that was not provided last year.*

From April 2004 to March 2005, the Air France-KLM group continued to reduce its environmental impact on all its operating sites (maintenance and operational sites) by integrating environmental impact management to its industrial processes.

Air France has been committed for long to promoting selective sorting at source (to date, 90% of its sites have implemented this), limiting the volume of waste it generates, and building environmental impact management into its industrial processes.

KLM concluded in 2005 a second Multiyear Energy Agreement on the energy efficiency of its buildings with the Ministry of Economic Affairs and local authorities. Since 1989, KLM has actively sought energy saving and has raised its energy efficiency by 45%. During 2004-05, KLM achieved a 31% separation rate for its industrial waste.

## Waste water (for Air France only)

### Flow and organics from 1st January 2004 to 31st December 2004

| FLOW | SS | COD | DBO5 | Total Nitrogen | Phosphorus |
|---|---|---|---|---|---|
| 116,723 $m^3$ | 18,493 mg | 43,606 mg | 2,744,094 mg | 93,732 mg | 372,083 mg |
| **Phenols Index** | **Fluorures** | **Nitrites** | **Cyanides** | | **Organic Compounds of Cl** |
| 32,322 mg | 60,733 mg | 19,821 mg | 826 mg | | 2 mg |

### Metals from 1st January 2004 to 31st December 2004

| Cr VI | Cr III | Cr Total | Cd | Ni | Cu |
|---|---|---|---|---|---|
| 3,734 mg | 860 mg | 5 811 mg | 2,332 mg | 24,179 mg | 25,507 mg |
| **Zn** | **Sn** | **Pb** | **Fe** | **Al** | **Fe+Al** |
| 49,731 mg | 19,173 mg | 7,863 mg | 12,730 mg | 178,376 mg | 233,505 mg |

## Emissions

| Air France-KLM group indicators | | 2004-05(1) | 2003-04 | Change like-for-like |
|---|---|---|---|---|
| Fuel consumption (000 tons)(2) | | 7,645 | 7,315 | 4.5% |
| Total emissions (000 tons)(2) | $CO_2$ | 24,147 | 23,080 | 4.5% |
| | NOx | 120.26 | 112.05 | 7.3% |
| | CO | 12.96 | 12.40 | 4.5% |
| | HC | 3.40 | 3.82 | -11.1% |
| Of which low altitude emissions (< 3000 ft) (000 tons)(3) | $CO_2$ | 1,592 | 1,560 | +2.1% |
| | NOx | 6.7 | 6.4 | +4.1% |
| | CO | 5.8 | 5.9 | -2.2% |
| | HC | 1.1 | 1.1 | -0.5% |

*(1) Figures on a calendar year basis for Air France, and on a IATA year basis for KLM*
*(2) Doesn't include Air France subsidiaries. Includes KLM subsidiary Cityhopper*
*(3) Includes Air France subsidiaries turbojets and KLM subsidiary Cityhopper*

The Air France-KLM group has restricted the rate of increase in its carbon dioxide ($CO_2$), emissions (a greenhouse gas) to only a portion of the rate of growth in its passenger traffic. This has meant a reduction of 22% per kilometre and per passenger since 1991 for Air France. This result is the outcome of initiatives in three areas:

- Fleet renewal, which has led to a reduction in specific carbon dioxide emissions of around 2% per year;
- Networks optimisation, with the organization of Paris-CDG as a hub, thereby improving seat-load factors;
- Operational measures such as the reduction of loads.

Other measures, such as the shortening of approach and climbing paths following a reorganization of Paris air space in 2002 helped as well.




### Noise energy

| Air France-KLM group indicators | FY 2004 | FY 2003 | Change like-for-like |
|---|---|---|---|
| Global | | | |
| Global noise energy indicator (1012 kJ)[1] | 1.81 | 1.87 | -2.9% |

*(1) Dataset includes Air France subsidiaries and chartered flights and Cityhopper for KLM. This dataset was computed on a calendar year basis for Air France and on a IATA year basis for KLM.*

Since 1997, Air France has pursued a policy of reducing the number of flights at Roissy-CDG between midnight and 5am. In 2004-05, Air France maintained its efforts to minimize non-scheduled departures during this period.

The Air France-KLM group aims for continued growth without increasing the overall noise energy generated. Until now this ambitious objective has been achieved as a result of substantial investment in fleet renewal.

This year again, the traffic rose by 2.4% whereas the global noise energy decreased by 2.9%.

# First Air France-KLM sustainability report

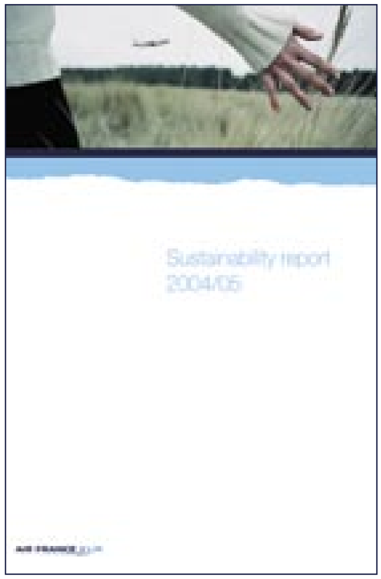


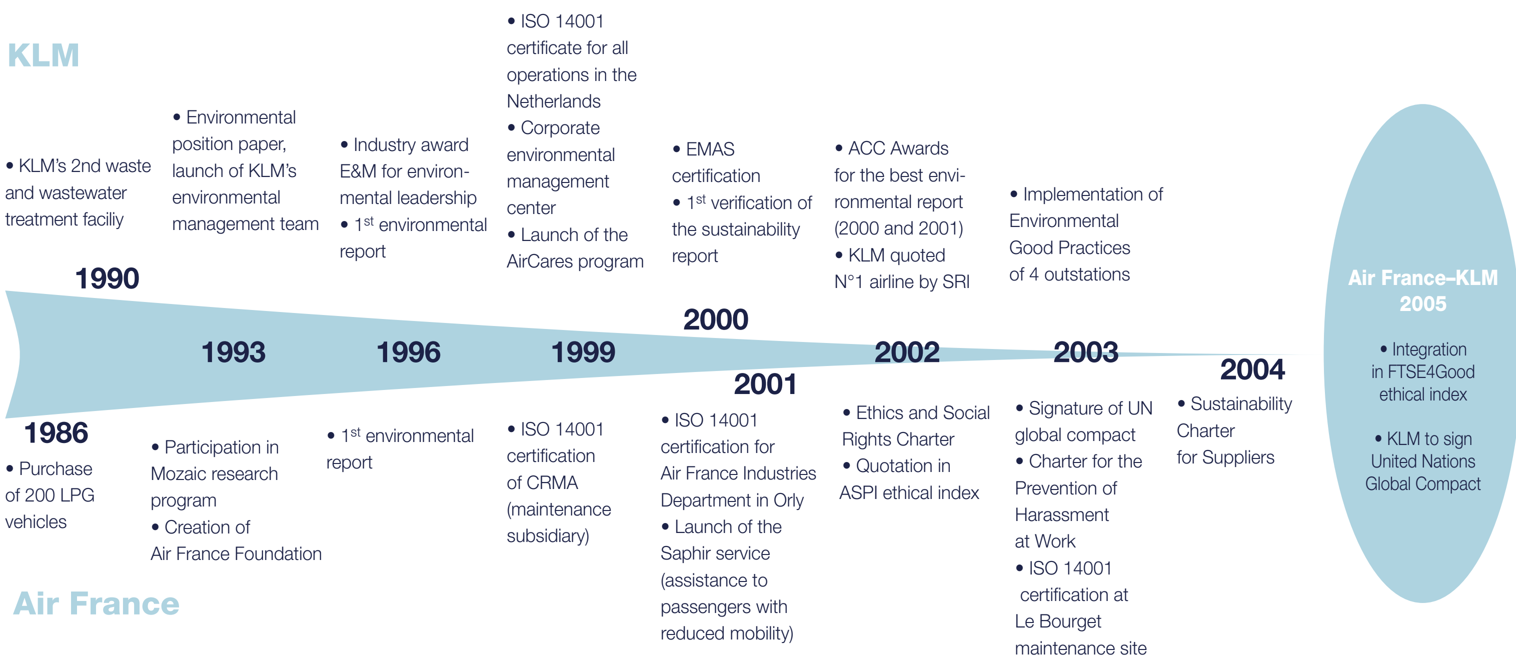
## A commitment anchored at the core of both companies

The air transport business has an impact on the economy, society, and the quality of the environment. Air France and KLM's awareness of all these problems is reflected in a steady commitment to sustainable development.

Air France and KLM share the same vision for their economic, employment, social and environmental responsibilities: the two companies must achieve their commercial objectives while respecting the interests of future generations. The actions of the two companies and the results achieved, which have been published by both Air France and KLM in environmental and sustainability reports since 1996, attest to this commitment.

The publication for fiscal year 2004-05 of the first joint sustainability report again highlights the place of sustainable development at the very core of the Air France-KLM strategy.





## Clear and transparent reporting

Improving the information provided on the Group's economic performance and the social and environmental values of the company is the main objective of this first sustainability report. The report, which was prepared in accordance with the recommendations of the Global Reporting Initiative (GRI), is the result of coordinated efforts of the Air France and KLM teams.

This report is also intended to stimulate constructive dialogue with all participants: customers, employees, shareholders, local authorities and residents, public authorities, suppliers and every reader. The report presents the major challenges of the air industry along with the key economic, social and environmental indicators used by Air France-KLM to measure its sustainable development performance.

The report details the four areas of responsibility for Air France-KLM: corporate, economic, social (employment and to society), and environmental.

At the corporate level, its responsibility includes the commitments made to ensure the safety and security of flights to all its partners, customers and employees. At the economic level, the report presents the wealth created globally and locally by air transport in general, and by the activity of Air France-KLM in particular. The employment and social section details the principal elements of the human resources policies of Air France and KLM, and the actions developed for the neighboring communities of both hubs: Roissy–Charles-de-Gaulle and Schiphol.

In its discussion of the environment, the Group describes the actions conducted to meet the major challenges posed by global warming, and noise, air quality and ground pollution.

In addition to describing the many programs and initiatives launched after the merger of the two companies, this first joint report from Air France and KLM provides an update of the progress made on the three elements of sustainable development and on the improvements expected.

To obtain a copy of the Air France-KLM sustainability report, contact:

- Air France – 45, rue de Paris – 95747 Roissy-CDG cedex
- KLM – Postbus 7700 - 1117 ZL Luchthaven Schiphol

The report is also available on the following websites:
www.airfranceklm-finance.com
www.airfrance.com
www.klm.com/sustainability

# Risks and risk management

## 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 on the Group's financial results. Furthermore, during such periods, the group may have to accept the delivery of new aircraft or may be unable to sell off unused aircraft on acceptable financial terms.

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

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

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

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

## Risks linked to the Group's activity

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

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

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

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

For further information on the Dutch State's option with regard to KLM's share capital, refer to "Additional Information - Agreements concluded in connection with the combination between Air France and KLM".

## Risks linked to assurances given to KLM and the Dutch State

In connection with their combination, Air France and KLM have given certain assurances to the Dutch State in order to maintain the quality of the KLM network at Schiphol, involving certain obligations for both Air France and KLM. In addition, Air France has given KLM certain other assurances with a view to safeguarding some of the founding principles of their combination.

For further information on the assurances given to KLM and the Dutch State by Air France-KLM, refer to "Additional Information - Agreements concluded in connection with the combination between Air France and KLM".

## 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 1st, 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, the Netherlands 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 the Navette Air France, a shuttle service between Paris and the main French cities. Air France and KLM's flights to London are in direct competition with the Eurostar train service. An 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 and KLM are also facing competition from low-cost airlines. The percentage of lines on which Air France and KLM are in competition with these airlines has risen sharply over the last ten years. This competition is expected to continue or even intensify. On another level, the use of the Internet has made it possible for customers to compare prices on a given line. This competition could have a negative impact on the Group's business and economic situation.

## Risks linked to changes in commercial alliances

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

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

## Risks linked to financing

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

## Risks linked to personnel costs, the negotiation of collective agreements and labor relations conflicts

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

## Risks linked to the use of third-party services

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

For the European Commission to authorize Air France's combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to making landing and takeoff slots available to rival airlines at certain airports. The implementation of these commitments is not expected to have a significant negative impact on the activities of Air France and KLM, 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 combination. If this ruling were to be repealed in full or part, the Commission would have to re-examine the combination between Air France and KLM in line with the conditions set under the first ruling.

### 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 the federal authorities to maintain State guarantees for US airlines for cover against 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 give 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, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Failing this, the slots will be lost by this carrier and transferred into a "pool". The regulation does not provide for any exemptions for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and do not use their flight slots at the required 80% level during the period in question.

Like many other European airlines, Air France and KLM had to scale down their capacity following the outbreak of hostilities in Iraq, and as a result, no longer used certain flight slots at their airport platforms on a temporary basis. Following the terrorist attacks on September 11, 2001, airlines were faced with a similar risk of losing flight slots. In light of these factors, the European Commission decided to amend Regulation 95/93 with a view to temporarily suspending the rule governing the loss of unused flight slots (Regulation 894/2002 of May 27, 2002). The same measures were taken in response to the conflict in Iraq and the SARS epidemic (Regulation 1554/2003 of July 22, 2003).

## Environmental risks

The air transport industry is governed by numerous environmental regulations and legislation, focusing on various issues such as noise exposure, gas emissions, the use of dangerous substances and the handling of waste products and contaminated sites. Over the last few years, the French, Dutch, European and US authorities have adopted various regulations, especially regarding noise pollution and the age of aircraft, introducing 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 its subsidiaries with regard to their equipment and facilities, which could have a negative effect on the Group's activity, financial position or results.

## Risks linked to the application of new accounting standards

Air France-KLM draws up its consolidated financial statements in accordance with generally accepted accounting standards in France (French GAAP), whereas KLM's financial statements are based on the generally accepted standards in the Netherlands (Dutch GAAP). Air France-KLM and KLM are preparing for the reconciliation of some of their financial information in line with US GAAP. The Group's consolidated financial statements for fiscal 2004-05 have been drawn up based on French GAAP, such as the Group's pro forma 2003-04 consolidated financial statements.

Under European regulations, all companies listed in Europe are required to apply the International Financial Reporting Standards (IFRS) to their financial statements as of January 1st, 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 shares-for-salary scheme, depreciation of assets, profit-sharing schemes for staff, intangible fixed assets and credit derivatives, debt instruments and equity securities and their accounting classification. The valuation methods used by analysts to measure and assess the performance of Air France-KLM and its listed securities could be affected by this transition.

## Market risk management

The cash and cash equivalents of Air France and KLM are tracked daily and are the subject of monthly reports to the financial divisions of the two Groups. These reports include, among other items, interest rate and currency positions, the portfolio of hedging transactions, a summary of investments and financing by currency, and a statement of limits by counterparty.

Regular meetings are organized between the two treasury departments in order to exchange information concerning the hedges in place, the hedging instruments used, and the strategies planned.

Meetings are also held with the executive management teams of each subsidiary to report on interest rate and currency positions.

Hedging decisions are made during these meetings (amounts to be hedged, hedging instruments, etc.), then implemented by the treasury departments of each subsidiary in compliance with the procedures governing the delegation of powers. Each quarter, a harmonized Group report is presented to a risk committee attended by the Chief Financial Officers of the two subsidiaries, and is also brought to the attention of the SMC.

The use of rate and currency hedges is intended to reduce the exposure of Air France–KLM and, therefore, to protect budgeted margins. The instruments used are forward contracts, swaps and options. In-house procedures governing risk management prohibit the use of instruments that can be classified as trading. Generally, trading and speculation are strictly prohibited.

### Currency risk

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

With regard to the US dollar, since expenditures (such as fuel costs, operating lease costs for part of the fleet and a portion of maintenance costs) exceed 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. The Group estimates that its net exposure to the dollar (i.e. the difference between income and expenditures in dollars) will represent approximately USD 2.2 billion for the current year. For the yen, Swiss franc and pound sterling, the level of revenues is higher than expenditures. As a result, any significant decline in these currencies against the euro could have a negative effect on the Group's activity and financial results.

In order to reduce their currency exposure, Air France and KLM have both adopted policies to hedge the exchange risk.

For the US dollar, both companies have a systematic hedging policy designed to cover approximately 30% of their net exposure over a sliding 12 months. This percentage may be increased based on market conditions and forecasts. For other currencies, depending on market conditions, hedging levels may be between 30% and 70% of expected revenues for the following year and, in certain cases, the next two or three years.

As far as investments are concerned, the Group has a high level of exposure to an increase in the dollar against the euro. Indeed, all of the Group's aircraft and spare parts are purchased in dollars. In this area, the procedure for hedging the currency risk provides for a minimum systematic hedging of 30% at the beginning of the year. During the year, the Group continued to take advantage of the still low level of the dollar to continue its program of hedging its aircraft investments. On March 31, 2005, the Group purchased USD 2.5 billion in order to partially hedge its investments over the next five years.

The exchange risk on the Group's financial debt is relatively limited at present. At March 31$^{st}$, 2005, 89% of the Group's net debt, after taking into account derivative instruments, was issued or converted into euros, thereby sharply reducing the risk of currency fluctuations on the debt.

| Currency (in million) | Operating exposure | | | |
|---|---|---|---|---|
| | US Dollar (USD) | Pound sterling (GBP) | Yen (JPY) | Swiss Franc (CHF) |
| Net position before management | (2,227) | 561 | 62,000 | 324 |
| Currency hedge | 1,207 | (173) | (15,000) | (89) |
| Net position after management | (1,020) | 388 | 47,000 | 235 |

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

## Interest rate risk

At both Air France and KLM, most financial debt is based on floating-rate instruments in line with market practices. However, the companies are working to reduce their exposure to the interest rate risk. For this purpose, capitalizing on the historically low level of fixed rates over the last two years, Air France and KLM have developed strategies to swap part of their variable-rate debt for fixed rates.

As of March 31st, 2005, the net exposure to interest rates, after taking into account floating-rate cash investments, was 1.14 billion euros in net financial debt at variable interest rates. Any change of 1% in the variable interest rate over 12 months has an impact of 18.47 million euros taking into account the net short-term position (less than one year) to be replaced.

## Equity risk

When Air France and KLM use financial investments to manage their respective cash resources, in the form of purchases of SICAV/OPCVM or equivalent investments, they systematically give priority to short-term money market instruments in order to limit the risks. As a result, they are not exposed to a significant equity risk for cash management.

Furthermore, at March 31st, 2005, Air France-KLM directly or indirectly held a portfolio of shares issued by publicly traded companies for a net total of 125 million euros. A global decline of 1% would represent a risk of 12.5 million euros.

## Fuel price risks

Aircraft fuel represents the second-largest operating expense for the Air France–KLM group after personnel costs: the Group purchased approximately 10.4 million cubic meters of fuel for 2.65 billion euros in 2004-05 and 11 million cubic meters for 1.99 billion euros in 2003-04.

In order to ensure that the Air France-KLM group has a consistent risk management strategy for fuel prices, the two subsidiaries have initiated an action plan to develop a common reporting system, compare their methods, and progressively define a common fuel hedging strategy.

In order to limit the impacts of any fluctuations in fuel prices, the Group has set up an oil price hedging policy structured around Brent IPE, Gasoil IPE, and jet fuel. This policy is implemented at Air France by the fuel purchasing department and is decided at regular meetings chaired by the Chief Executive Officer, and attended by the Chief Financial Officer, the Vice-President for Purchasing and the Director of the Fuel Department. The dollar risk linked to the oil risk is managed by the Treasury Department.

On the basis of a policy of systematic operations, the minimum hedging level is 60% to 90% over the first 12 sliding months, 40 to 60% over the following twelve months, 10 to 30% over the next twelve months, and 0 to 20% over the fourth year. The hedging instruments used are exclusively swaps and options. The choice of counterparties is validated by the finance department. A weekly report is submitted to executive management. All the transactions contracted are compatible with the new IFRS accounting norms.

KLM also uses derivatives to hedge against prices for fuel purchases in order to reduce its exposure to the risk of oil price fluctuations. To do this, KLM uses swaps and knock-out options based on a representative basket of jet fuels (Rotterdam, Singapore, US Gulf Coast). Thus, KLM hedged 67% of its fuel consumption for fiscal 2004-05. These hedging transactions generated a positive result of 49 million euros over the year.

Despite the measures taken by Air France and KLM to reduce their exposure to the risk of fluctuations in oil prices (and therefore fuel prices) and the possibility of passing on financial “surcharges” to passengers during high-price periods, rising oil prices could have a negative effect on the Group’s business and financial results.

## Liquidity risks

For the Air France-KLM group, the balance of the cash flows tied to capital expenditure activities is largely covered by the cash flows from operating activities. This coverage of net investments by cash flows from operating activities has reduced the Group’s net debt ratio from 1.21 at March 31st, 2004 to 1.06 at March 31st, 2005.

At March 31st, 2005, Air France had a syndicated loan for 1 billion euros; this syndicated loan was fully available at March 31st, 2005. It was renewed early in April 2005 for an amount of 1.2 billion euros from an expanded pool of 19 banks. This loan carries an obligation to meet two financial ratios reflecting the capacity to assure the interest payments or the amount of non-pledged assets.

These ratios are calculated every six months and were largely respected as at March 31st 2005. Air France also conducted various financing operations for aircraft (mortgage on planes, sale with reservation of ownership, French tax financial lease). The company also issued Convertible or Exchangeable Bonds for New or Existing Shares (OCÉANE) in April 2005 in the amount of 450 million euros. These bonds bear interest at an annual rate of 2.75% and are redeemable at par, which is 20.50 euros per bond. They give the right to the allotment of existing or new Air France-KLM shares, at a parity of one share for one bond.

In addition, Air France should generate a cash gain of 800 million euros before taxes in the context of the public offer for Amadeus GTD in which the company holds 23.6%.

To finance its aircraft, KLM is able to access the export financing system, which enables the company to benefit from the guarantee of leading export credit agencies for its loans to finance Boeing aircraft in the US and Airbus aircraft in Europe. Despite a general reluctance from the financial markets to support air carriers in general, KLM and Air France continue to benefit from financing at attractive interest rates. The average apparent cost of the Group's debt after swaps was slightly above 4% at March 31, 2005.

Overall, the Group believes that (i) the conditions for access to financial markets for its main subsidiaries Air France and KLM, (ii) cash levels of 2.6 billion euros at March 31, 2005 and (iii) the full availability of the cash line of 1.2 billion euros available to Air France at the end of April 2005 reflect prudent liquidity risk management by the Air France-KLM group.

In the coming years, the Group will give responsibility for financing policy to each of the two subsidiaries. This strategy will enable each of the subsidiaries to fully capitalize on the relationships they have built up with their partner banks. Moreover, this segmentation ensures that KLM can continue to make use of export credit financing facilities. For this reason, the Group plans to set up ad hoc committees to exchange information on each company's financing strategy and the type of operations used.

### Investment risks

The cash resources of Air France and KLM are primarily invested in liquid, short-term instruments, such as OPCVMs, money market and dynamic money market funds, cash notes or certificates of deposit rated A1/P1.

A portion of KLM's liquid assets is invested in currencies on AAA-rated, longer-term bonds, in order to reduce the currency risk on the debt.

# Insurance and risk coverage

## Insurance policies taken out at Group level and the Group's insurance strategy

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

## Insurance policies taken out by Air France

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

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

The policy covers the civil liability of Air France for up to 1.5 billion dollars. The company 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 the protection of its activities, employees and assets, Air France has taken out a number of policies to insure its industrial sites, equipment pool and 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 in order to comply with the regulations in force in the countries in which it has a representative office.

After the World Trade Centre tragedy, airline premia increased significantly, notably to cover terrorist and related risks, generating an additional cost of 1.95 dollar per passenger transported. The renewal of insurance policies since December 2002 enabled a reduction in these premia by incorporating part of this additional cost into the global premium.

## Insurance policies taken out by KLM

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

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

It covers KLM's liability for up to 1.5 billion dollars. KLM has also taken out a policy for 500 million dollars in excess of this amount.

Lastly, in line with its risk management and financing policy to improve protection for its activities, employees and assets, KLM has set up a range of policies to insure its industrial sites, equipment pool and 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.

## Exceptional events and disputes

In connection with the normal performance of their activities, Air France-KLM and its subsidiaries are involved in disputes, for which they are not necessarily required to book provisions in their accounts.

(See Note 30.3 of the Group's consolidated financial statements.)

# Report of the Chairman of the board of directors on internal control



## 1. Conditions for the preparation and organization of the work of the board of directors

See "Corporate governance"

## 2. Rules and principles for the governance and organization of the two companies of the Air France-KLM group

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

## 3. Internal control procedures

### Definition and goal of internal control

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

According to this standard, internal control represents a system defined and implemented by the Group's Executive Management, managers and employees that is designed to provide a reasonable level of assurance that the following objectives are achieved:
- The performance and optimization of operations
- The reliability of the accounting and financial information
- Compliance with the laws and regulations in force

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

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

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

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

## Internal control project

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

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

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

A coordinating committee ensures consistent approaches and schedules for the two projects.

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

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

## General internal control structure

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

This organization takes into consideration the structure of each of the two companies of the Group, which is characterized by the existence of three principal businesses: passengers, cargo and maintenance; the subsidiaries represent a minority percentage of the business and revenue of the two companies; this structure is reflected by a number of transverse and sometimes complex processes, because of the interdependence of each of the businesses

• **The Board of Directors** is the corporate body that directs and controls the management of the Group; for this purpose, the Board works with the Strategic Management Committee (SMC) to ensure the successful operation of the Air France-KLM group, relying on advice from the specialist committees described in Chapter 1 above, entitled «Conditions for the preparation and organization of the work of the Board of Directors».

• **The Strategic Management Committee** is tasked with defining joint strategic decisions on commercial, financial, technical and operational issues for the two companies; the organization and operations of this Committee are described in "Information on the agreements concluded in connection with the combination between Air France and KLM".

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

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

• **Internal audit**
The management of a group such as Air France is based on the principle of a broad delegation of responsibilities. This principle of delegation necessarily implies stronger internal control functions in order to provide Executive Management with the assurance that this autonomy is being used correctly by each entity.

Air France and KLM each have internal audit departments that existed prior to the creation of the Air France-KLM group.

Given the governance rules of the Group, each company will retain its internal audit; the coordination of the internal audit at Group level, currently under preparation, will be effective at the beginning of fiscal 2005-06.

Operations in the field will be organized within a work program that will be validated prior to implementation.

Corrective action plans are then established and follow-up is conducted.

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

The schedule of missions for fiscal 2005-06 was presented to the Audit Committee in February 2005.

In April 2005, an internal audit department was created within the holding company.

• **The legal departments** of each of the two companies perform a consulting mission for their management and decentralized organizations in legal matters, transport law, corporate law and insurance law.
They systematically draw up an inventory of the disputes in process in order to assess the corresponding provisions booked as liabilities.
In April 2005, a legal department was created within the holding company.

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

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

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

## 4. Standards

### Organization of responsibilities

The organizational structure of each company has been defined to ensure compliance with the principles of secure and efficient operations, factoring in regulatory requirements governing air transport, notably with regard to air transportation, ground operations, industry and aircraft maintenance as well as catering and safety.

The managers of the entities and subsidiaries concerned are required to apply these principles and organization at their level, and ensure updating of organizational charts, job definitions and the procedures defined by business process.

They must ensure that their organizational structure is coherent and adequate, that it is taken into account in the information systems that are vital to the companies' operations and that it is appropriately integrated within the organization.

## Charters and manuals

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

Chapter 9 of this charter on «Equality» restates the general provisions of the employee rules for equality, which include provisions governing the ethical behavior of the employees with respect to the company and in relations with third parties.

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

## Internal audit charter

The internal audit charter, at both Air France and KLM, defines the mission, objectives and responsibilities of the department and guarantees the conditions under which the department functions.

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.

## Procurement quality manual

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

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

## Quality system

Air France and KLM's quality systems are based on the following principal internal and external standards:

**External standards**
- Regulations: national regulations (based on European regulations) and applicable general laws;
- Management and environment: the ISO 9000 and 14000 standards.

**Internal standards**
These represent the application of the external standards, tailored to the processes of each company.

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

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

# 5. Summary information on internal control procedures

## Management procedures and processes

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

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

- The passenger business, which includes all operations contributing to the transport of passengers, including the network, marketing, sales and production departments that provide the services required for air and ground operations;

- The cargo business that conducts cargo marketing and operations;

- The industrial business that is responsible for maintenance and industrial operations for the aircraft, equipment, and engines.

Only KLM operates a «low cost/charter» business; this includes the leisure and charter activities of KLM performed by Transavia, its wholly owned subsidiary.

Each company also includes the central support departments of Human Resources, Finance in the broad sense, Administrative Services and Information Systems.

Strategic decisions in the commercial, financial, technical and operational areas are coordinated by the Strategic Management Committee, which is the major governance body described in Chapter 2; in April 2005, this governance body was completed by departments at the holding company level, providing financial, legal/administrative services for the Board of Directors, internal control/audit, and relations with the European agencies and coordination of the SkyTeam alliance.

Air France and KLM each control nearly 70 subsidiaries and sub-subsidiaries; 10 of the Air France subsidiaries and 3 of the KLM subsidiaries represent more than 90% of the revenues for all subsidiaries.

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

- The broad strategic goals of the Air France-KLM group are defined and prioritized in the context of a «Group Strategic Framework» (GSF) that brings together the executives of Air France and KLM at a seminar held in September/October.

- The Medium-Term Target (MTT), which represents the expression of this vision, with a three-year horizon for each of the two companies in terms of growth, investments and the associated human resources; comprehensive economic figures are presented and discussed in December at the Strategic Management Committee, with a definition of action plans for revenues and costs.

- The budgets for the IATA year, which use the first year of the Medium-Term Target (MTT) and are established by cost centers and consolidated at the level of each company, and then at the level of the Air France-KLM group.

## Financial procedures and processes and year-end

**Finance processes**

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

- The coverage of risks is continually monitored in both companies.

Cash is tracked daily and reporting is periodically presented to an ad hoc committee that includes the CFOs of both companies; this committee defines and updates interest rate and currency hedging; the Strategic Management Committee is informed periodically.

To limit the impacts of variations in oil prices, the Group applies a price hedging policy; there is coordination between the two companies and joint objectives are set for the two companies; periodic reporting is made to the Strategic Management Committee.

The quality of the counterparties is checked.

**Accounting processes and production of accounts**

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

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

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

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

The consolidated and individual statements are submitted to Management, then reviewed by the auditors before they are closed.

They are then presented to the Audit Committee, which meets quarterly to close the accounts.

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

As is the case for the financial statements prepared according to French standards, the statements prepared using US standards are presented to the Audit Committee and are then submitted to the auditors for certification.

Under European Regulation 1606/2002 adopted on July 19, 2002, publicly traded European companies are required to use international accounting standards to prepare their consolidated financial statements for financial years beginning on or after January 1, 2005. For the Air France-KLM group, the new standards will therefore be applied as of April 1, 2005.

The adoption of these standards makes it mandatory to publish a year of comparative figures, setting the date for the changeover from the current standards to the IAS/IFRS system as of April 1, 2004, the date on which a restated balance sheet must be prepared.

To prepare for this changeover, the Group has divided its conversion project into three phases:

- The first stage of the project, the "diagnosis", was designed to identify the principal differences in accounting treatments between the new standards and those currently applied within the Group. This stage was completed in line with the schedule initially set;
- In the second phase, a training program for IFRS was conducted for all the employees concerned;
- The third and final phase consisted of preparing the opening balance sheet at April 1, 2004 and restating transactions for fiscal 2004-05.

This gradual conversion was facilitated by the fact that the Air France-KLM group adopted certain IFRS provisions ahead of schedule over the last few years when they were compatible with French standards.

In particular, this was the case for the adoption of the component method for property plant, and equipment (IAS 16), and for the valuation of pension commitments (IAS 19).

Although the Group does not yet have a complete, finalized and audited set of accounts, as of this date, given the State of progress of this project, the Group does not anticipate any difficulties in the adoption of these new accounting standards.

**Revenue reporting process**

This process is performed in each of the companies and transmits weekly revenues to management; Air France has also implemented a «progressive revenues» process that gives the estimated amount of passenger revenues, with only a two-day time lag.

In addition, departments for passenger and cargo activities in each company analyze the results by market and by line (unit revenues, per passenger-kilometer, available seat- kilometer, ton-kilometer, etc.).

**Management reporting process**

The management control departments coordinate the reporting process and establish at the beginning of month m+1 a management estimate on the basis of the information available. Then, once the accounting results are known, they produce a monthly document that summarizes key operational and financial data, and analyzes the result. In addition, they also regularly analyze with the principal departments and subsidiaries of the companies the economic performances for the past month, and evaluate the results for the coming months until the end of the current fiscal year.

A monthly reporting is presented to the Strategic Management Commitee.

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

## Operational procedures and processes

**Quality system management**

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

In each management unit at the two companies, a quality review reports on the operation of the quality management systems and measures the performances of the principal processes directed by management.

In addition to the regulatory agreements that enable each 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 (60 entities certified at Air France at March 31, 2005);
- IOSA certification for KLM anticipated in 2005; the audit was conducted in March 2005;
- ISO 14001 certification for the validation of the environmental systems.

**Quality assurance**

Control over operational processes is based primarily on three means of supervision:

***Internal monitoring:*** conducted by the quality assurance services, which includes:

- 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 systematic feedback on experiences,
- Proactive prevention processes.

***External monitoring:*** conducted by the civil aviation authorities (IVW-DL, DGAC, FAA, etc.) and organizations specializing in certification, with audits of the operating principles and internal monitoring system. Air France and KLM are also regularly audited by their customers or their partners.

***Monitoring of partners*** - both subcontractors and suppliers. In particular, the chartered, franchised or shared-code companies are subject, without exception, to a preliminary and then bi-annual audit.

The effective implementation of preventive/corrective actions resulting from this global monitoring system is supervised 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 its impacts.

## Support procedures and processes

### Information systems

The control processes cover the information and telecommunications systems and are based on formalized procedures which have earned ISO 9001 certification at Air France, and are based at KLM on a special modeling of the information system processes (Management Enterprise Architecture/MEA Babylon).

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 production sites with a common local contingency strategy, secure architecture and a security system covering external access points;
- The confidentiality of information and the security of IT infrastructures by setting up an access system that is secure, monitored and effective.

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

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

The work conducted within the internal control projects and the project to progressively implement a coordinated and optimized organization have resulted in the initiation of action plans to strengthen internal control with regard to certain risks, such as continuity of the operations.

### Procurement

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

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

The Heads of purchasing at Air France and KLM manage the network of buyers for each company through regular meetings and a presentation of purchasing indicators for the companies.

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

## 6. Current projects

The actions conducted in 2004 and continued in 2005 are designed to create a dynamic that will effectively mobilize the staff to achieve the two objectives of compliance with the law and improved management for the company.

The internal control project, which is designed to meet the requirements of the Sarbanes-Oxley Act, is based on the following structural components:
- Definition of the enterprise business model based on the financial statements, the scope (principal entities and subsidiaries) and, in particular, the processes and sub-processes used to establish the accounts and financial statements;
- Documentation of the processes, the key controls, monitoring and verification tests;
- Performance of corrective actions at each stage in the project.

At the end of March 2005, an initial general evaluation of the internal control of each company was conducted on the basis of a complete questionnaire structured according to the 5 components of the COSO control standards.

Action plans were defined to complete this mechanism.

The work was preceded by an initial diagnosis of the internal control of the Air France company through the development of risk mapping produced by an interview with the principal managers within the company. A summary of the work was presented to the Executive Committee on October 19, 2004. A review and update were conducted early in 2005 by all the managers involved.

With regard to risk management, KLM implemented a risk management system in 2002, which tracks the principal risks, and allows it to take appropriate measures if necessary; this process is performed by each business, with quarterly reporting to the Management Board. The KLM Supervisory Board is advised of significant risks.

A program has been initiated to converge these approaches within the Air France-KLM group and ensure that the Strategic Management Committee is informed of significant risks.

The work conducted within each company has already achieved good risk control, particularly for regulated activities.

For Air France, vectors for improvement have been identified and action plans initiated, which include:
- broad distribution of information about internal control;
- regular circulation of ethical rules and codes;
- updating of delegations of powers;
- strengthening of certain plans to ensure continuity of the business;
- improvement in managing authorizations.

The existing processes and the work in progress both at Air France and at KLM reflect the Group's desire to strengthen internal control, particularly for financial results; the current implementation of an internal control division within Air France-KLM is designed to ensure the convergence and consistency of the actions required to achieve optimized control of risks and the Group's compliance with regulatory requirements.

# Statutory Auditors' report



Statutory Auditors' report, prepared in accordance with article L. 225-235 of the Commercial Code, on the report prepared by the President of the Board of Air France–KLM S.A. 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–KLM S.A. and in accordance with article L. 225-235 of the Commercial Code, we report to you on the report prepared by the President of your company in accordance with article L. 225-37 of the Commercial Code for the year ended March 31, 2005.

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 of Directors' report, prepared in accordance with article L. 225-37 of the Commercial Code.

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 of Directors' report, prepared in accordance with article L. 225-37 of the Commercial Code.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, June 21, 2005

KPMG Audit
Department of KPMG S.A.

Jean-Paul Vellutini
Partner

Jean-Luc Decornoy
Partner

Deloitte & Associés

Pascal Pincemin
Partner

# Financial report

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Additional information

## 1. Results for the year ended March 31st 2005

Air France, which became Air France–KLM, launched a public exchange offer for the shares of KLM in May 2004. At the end of this offer and taking into account the additional purchases made during the year, the stake in KLM was 97.3% at March 31st 2005.

The scope of consolidation of the Air France-KLM group includes KLM and its consolidated subsidiaries, which have been fully consolidated since May 2004 (11 months of activity).

To enable the comparison of data, unaudited pro forma consolidated financial statements were prepared for the year ended March 31st 2004, based on a consolidation identical to that used at March 31st 2005.

The comments hereafter are the result of the comparison of data of March 31st, 2005 with pro forma consolidated financial statements for the year ended March 31st 2004.

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** unaudited pro forma | **Variation** | **2004** Air France published |
|---|---|---|---|---|
| Operating revenues | 19,078 | 17,782 | + 7.3% | 12,337 |
| Gross operating income before operating leases | 2,873 | 2,716 | +5.8% | 1,776 |
| Operating income before aircraft disposals | 489 | 405 | + 20.7% | 132 |
| Aircraft and financial disposals | 8 | 9 | NA | 7 |
| Income (loss) before income tax and minority interests | 455 | 341 | + 33.4% | 100 |
| Net income group share | 351 | 292 | + 20.2% | 93 |
| Net earnings per share (in €) | 1.36 | 1.13 | +20.4% | 0.43 |

### 1.1 Operating revenues

Consolidated revenues for the period totaled 19.1 billion euros, up 7.3% from the previous year on a pro forma basis.

All sectors recorded growth, particularly the passenger and cargo segments which grew 6.8% and 9.4% respectively.

## 1.2 Operating income and charges

Operating income and charges rose 7.0% from 17.4 billion euros to 18.6 billion. This change, although lower than the growth in revenues, primarily reflects fuel costs which jumped significantly because of higher oil prices.

Group unit costs per equivalent available seat-kilometer were stable (+0.1%) and declined 2.8% with constant currency and oil prices.

They break down as follows:

**External expenses** rose from 9.8 billion euros to 10.8 billion euros – an increase of 3.1% excluding the impact of higher oil prices as described above.

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 unaudited pro forma | Change % |
|---|---|---|---|
| Aircraft fuel | 2,653 | 1,990 | 33.3% |
| Chartering costs | 558 | 502 | 11.2% |
| Aircraft operating leases | 630 | 608 | 3.6% |
| Landing fees and en route charges | 1,460 | 1,373 | 6.3% |
| Catering | 402 | 376 | 6.9% |
| Handling charges | 1,067 | 1,078 | (1.0)% |
| Aircraft maintenance costs | 621 | 616 | 0.8% |
| Commercial and distribution costs | 1,399 | 1,439 | (2.8)% |
| Other external expenses | 1,897 | 1,797 | 5.6% |
| **Total** | **10,687** | **9,779** | **9.3%** |

**• Aircraft fuel**

Fuel costs increased 33.3% to 2.65 billion euros from 1.99 billion at March 31st 2004. Options and hedges represented a gain of 375 million euros.

This rise was due to a 5.2% increase in volumes, a 44.6% increase in oil prices, a favorable currency effect of 6.5%, and hedging gains of 12.4%.

**• Chartering costs**

Chartering costs rose 11.2% to 558 million euros compared with 502 million euros at the previous March 31, driven by an increased use of code sharing with certain partners (such as Korean Air, Japan Airlines, Vietnam Airlines) and the introduction of the new «Dedicate» product from Air France, which required chartering of special A 321 aircraft.

**• Aircraft operating leases**

Aircraft operating leases amounted to 630 million euros, a 3.6% increase from 608 million euros in the previous period.

• **Landing fees and en route charges**

Landing fees and en route charges rose 6.3% to 1.46 billion euros from 1.37 billion at March 31st 2004. This change reflects the increase in traffic and route fees in the Africa region and landing fees in Africa and France.

• **Catering**

With the increase in passenger numbers, catering costs rose 6.9% to 402 million euros (376 million at March 31st 2004).

• **Handling charges**

Handling charges declined 1% to 1.07 billion euros.

• **Aircraft maintenance costs**

These costs totaled 621 million euros, virtually unchanged from March 31st, 2004.

• **Commercial and distribution costs**

At 1.40 billion euros, commercial and distribution costs were down 2.8% (1.44 billion euros at March 31st 2004).

• **Other external expenses**

Other external expenses totaled 1.90 billion euros at March 31st 2005 compared with 1.80 billion at March 31st 2004.

**Personnel costs** came to 5.9 billion euros compared with 5.7 billion euros at March 31st 2004, representing an increase of 4.2%, while the work force declined 0.6% to 102,077 employees. This increase is mainly the result of changes in the French social security system, whereby the working week was reduced to 35 hours; a charge of 16 million euros corresponding to the employer's contribution was made in the offering reserved for employees by the French state following the sale of a portion of the state's interest.

**Taxes other than income tax** totaled 226 million euros versus 210 million euros in the previous year.

**Gross operating result before aircraft operating leases** came to 2.87 billion euros, up from 2.72 billion euros at March 31st 2004, an increase of 5.8%.

**Gross operating result** totaled 2.24 billion euros at March 31st 2005, up 6.4% from 2.11 billion euros at March 31st 2004.

**Amortization, depreciation and provisions** remained stable at 1.72 billion euros at March 31st 2005.

**Operating income** rose 83 million euros to total 497 million euros from the previous year's 414 million euros.

The breakdown of revenues and operating income by activity is as follows:

| *In EUR million* | **2005** | | **2004** | | | |
|---|---|---|---|---|---|---|
| | **Operating revenues** | **Operating income** | **Operating revenues** Pro forma | Published | **Operating income** Pro forma | Published |
| Passenger | 15,004 | 312 | 14,044 | 10,260 | 274 | 67 |
| Cargo | 2,492 | 95 | 2,277 | 1,412 | 59 | 15 |
| Maintenance | 777 | 48 | 747 | 508 | 55 | 50 |
| Other | 805 | 42 | 714 | 157 | 26 | 7 |
| **Total** | **19,078** | **497** | **17,782** | **12,337** | **414** | **139** |

**Net financial charges** came to 219 million euros at March 31st 2005, an increase of 32 million euros over March 31st 2004. This change is mainly due to currency effects and financial provisions.

**Pre-tax income** totaled 324 million euros, a substantial improvement of 114 million over 210 million euros at March 31st 2004.

**Share in net income of equity affiliates** was 73 million euros at March 31st 2005, identical to the amount at March 31st 2004.

**Amortization of goodwill** amounted to 58 million euros. This positive net amount was primarily due to the reversal of the negative goodwill amortized over a 5-year period and recognized at the time of the first consolidation of the KLM group.

**Income tax** was 96 million euros, up from 40 million at March 31st 2004, giving an apparent effective tax rate of 29.6% compared with 19.0% the previous fiscal year.

**Net income Group share** rose to 351 million euros at March 31st 2005 compared with 292 million at March 31st 2004.

This result breaks down by quarter as follows: 95 million euros in the first quarter, 201 million in the second quarter, 61 million euros in the third quarter, and (6) million euros in the fourth.

## 2. Parent company financial results

The agreements for the merger of Air France and KLM provided for the formation of a holding company Air France-KLM that holds the two operational companies Air France and KLM.

The group's holding company was formed from Air France's contribution (which then became Air France-KLM) of almost all its assets and liabilities to the operational company Air France, now known as Société Air France.

The contribution operations were approved by the Shareholders' General Meeting of September 15th 2004.

As a holding company, Air France-KLM has no operational activity. The operating result was a loss of 30 million euros, primarily representing the costs to purchase the shares of KLM, the auditors' fees, and the percentage of payroll and related costs reinvoiced by Air France for corporate officers.

The net loss was 33 million euros after interest and income taxes.

For the 2004–05 financial year, the Shareholders' General Meeting will be asked to approve a dividend of 15 euro cents.

Over the last three years, the following dividends were paid out:

- Fiscal year 2001-02 dividend of 10 euro cents (15 cents with tax credit).
- Fiscal year 2002-03 dividend of 6 euro cents (9 cents with tax credit).
- Fiscal year 2003–04 dividend of 5 euro cents (7.5 cents with tax credit).

# Investment and financing



Capital expenditures on tangible and intangible assets and acquisitions of subsidiaries and equity interests totaled 1.63 billion euros, an increase of 27.3% on the previous year (1.28 billion euros).

Investments for acquisitions of subsidiaries and equity interests for fiscal 2004-05 show a positive cash flow in the amount of 506 million euros. They primarily reflect the cash and cash equivalents of the KLM group on the date of acquisition for 575 million euros, and the exercise of options on Air France-KLM shares under the pilots' option program (32 million euros). They also include the additional shares in the Servair group in the amount of 7 million euros. Investments for the year ending March 31, 2004 primarily reflect the purchase of additional Servair stock (for 6 million euros) and the subscription to the new Opodo cash call (for 4 million euros).

Regarding investments in property, plant and equipment, the Air France group took delivery of four Airbus A318, one Airbus A319, five Airbus A320, one Airbus A321 and four Boeing 777. The KLM group took delivery of one Boeing B737-900, one Boeing B737-800 and one Boeing 777. Air France's regional companies took delivery of four Embraer 120, one Embraer 145, one CRJ 700, and four BAE146. KLM's regional companies took delivery of one Fokker 70 and one Fokker 100. Installment payments continued on future acquisitions planned for the fleet in the coming years (Airbus A318, A319, A330 and A380, and for the B737, B777-200/300 and B747-400ER Cargo).

Notable among ground investments were the completion of the new E.O.L.E. industrial unit in the Paris region, the construction of the new flight crew residence at the Roissy complex, and the initial studies on the hangars to house the Airbus A380. Other ground investments and intangible investments were purchases of software applications and computer equipment.

KLM spent 124 million euros on non-aircraft investments. They were primarily related to a new shop for engine maintenance and new buildings specifically designed for maintenance.

Disposals of subsidiaries and equity interests totaled 109 million euros and disposals of tangible and intangible assets amounted to 131 million euros (391 million euros in 2003-04). The Group recorded the sale of the equity interests and aircraft listed in the previous sections «disposals of aircraft» and «disposals of subsidiaries and equity interests». In addition, this item includes a capital repayment of 5 million euros by AFPL. Dividends received in the amount of 27 million euros consisted mainly of the dividends from the Amadeus group (15 million euros) and other unconsolidated subsidiaries.

Overall, cash flows used in investing activities show a net disbursement of 1.36 billion euros, compared with 849 million euros in fiscal 2003-04, an increase of 60%.

This net disbursal of cash used in investing activities was largely covered by cash flows from operating activities, which totaled 1.95 million euros.

The Group's net financial liabilities, which were 2.53 billion euros in March 2004, totaled 5.55 billion euros in March 2005. This increase is due primarily to the consolidation of the KLM group on May 1, 2004. On that date, the net debt of the KLM group was 3.38 billion euros; it was 3.02 billion euros at March 31, 2005, a decline of 11.9% over fiscal year 2004-05.

As a result, the gearing ratio (net debt to equity) rose from 0.62 at March 31, 2004 to 1.06 at March 31, 2005.

Concerning funds raised, Air France-KLM continued its active policy of reimbursing debt maturing in the year ended March 31, 2005 and supporting its investment program.

Debt repayments totaled 645 million euros, primarily covering:
- financial debt in the amount of 285 million euros;
- liabilities for financial leases of 360 million euros, which represent 167 million euros for the Air France group and 193 million euros for the KLM group.

To cover refinancing needs, the Air France-KLM group raised 858 million euros over the year ending March 31, 2005, primarily through financing secured by assets (mortgages and financial leases) with the Group's commercial banking partners.

Overall, Air France-KLM conducted a proactive refinancing policy in a context that continues to be particularly sensitive in terms of the financial markets' receptiveness to the air transport sector. Generally, the financing terms were not affected by this environment and enabled Air France-KLM to keep the interest rate on its debt just slightly above 4%.

The Group's liquidity position has improved: at the end of the year, it had 2.3 billion euros in marketable securities, including 655 million euros from the consolidation of the KLM group, plus the credit line of 1 billion euros, renewed in the amount of 1.2 billion euros in April 2005 and still available and undrawn

# Subsequent events and Outlook



In April 2005, Air France successfully placed 450 million in bonds convertible or exchangeable for Air France-KLM shares (OCEANE) on the capital markets. The 21,951,219 Air France bonds with a unit face value of 20.50 euros give the right to the allotment of new and/or existing shares of Air France-KLM on the basis of one share per bond. This allotment may be made at any time on or after June 1st 2005 and no later than March 25th 2020.

During fiscal year 2004–05, Air France and the other air carriers that are shareholders of Amadeus initiated negotiations with private equity funds in order to launch, through a company in which they will be shareholders, a tender offer for Amadeus at a price of 7.35 euros per share. This LBO will allow Air France to externalize its potential gain, while remaining a shareholder of Amadeus, and to obtain gross cash of about 800 million euros. The documents required to obtain authorization of the offering were filed with the Spanish Financial Markets Commission on April 8th 2005. The offer takes place from May 25, 2005 until June 27, 2005 included.

For the current year, the Air France-KLM group has made the following assumptions:

- an average increase in capacity of 5% on the initial program planned for 2004–05;
- a stable unit revenue per available seat-kilometer excluding currency impact;
- a euro/dollar exchange rate of 1.30;
- an oil bill of 3.37 billion euros on the basis of a final purchase price of USD 553 dollars per ton of jet fuel;
- synergies of 165 million euros from the merger;
- capital investments of 2.4 billion euros, the financing of which will generally be provided by cash flow from operations and the 800 million in cash earned from the Amadeus operation.

Based on these assumptions, and assuming cost control efforts continue, the target of the Air France-KLM group is to record an operating income comparable to that of the previous year.

# Consolidated income statement



| *As of March 31, In EUR million* | Notes | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published | 2003 Air France published |
|---|---|---|---|---|---|
| **Operating revenues** | 4 | **19,078** | **17,782** | **12,337** | **12,687** |
| External expenses | 5 | (10,687) | (9,779) | (6,754) | (7,174) |
| Salaries and related costs | 6 | (5,922) | (5,685) | (4,079) | (3,856) |
| Taxes other than income tax | | (226) | (210) | (186) | (187) |
| **Gross operating result** | | **2,243** | **2,108** | **1,318** | **1,470** |
| Charge to depreciation/amortization | 7 | (1,586) | (1,587) | (1,184) | (1,195) |
| Charge to operating provisions | 7 | (134) | (88) | (46) | (115) |
| Gain on disposal of flight equipment | | 8 | 9 | 7 | 30 |
| Other operating income and charges | 8 | (34) | (28) | 44 | 2 |
| **Operating income** | | **497** | **414** | **139** | **192** |
| Restructuring costs | 9 | (21) | (22) | (22) | (13) |
| Net financial charges | 10 | (219) | (187) | (60) | (85) |
| Gains on disposals of subsidiaries and affiliates | 11 | 67 | 5 | 5 | 4 |
| **Pre-tax income (loss)** | | **324** | **210** | **62** | **98** |
| Share in net income of equity affiliates | 16.1 | 73 | 73 | 53 | 29 |
| Amortization of goodwill | 14 et 22 | 58 | 58 | (15) | (16) |
| **Income (loss) before income tax and minority interests** | | **455** | **341** | **100** | **111** |
| Income tax | 12 | (96) | (40) | (2) | 13 |
| **Income (loss) before minority interests** | | **359** | **301** | **98** | **124** |
| Minority interests | | (8) | (9) | (5) | (4) |
| **Net income (loss)** | | **351** | **292** | **93** | **120** |
| Earnings (loss) per issued share as of March 31 | | 1.30 | 1.08 | 0.42 | 0.55 |
| Earnings (loss) per share | | | | | |
| - basic | 13 | 1.36 | 1.13 | 0.43 | 0.55 |
| - diluted | | 1.36 | 1.13 | 0.43 | 0.55 |

2004 pro forma: consolidation of the Air France group, including KLM and its subsidiaries over 11 months, identical to the method used at March 31, 2005.

# Consolidated balance sheet



## Assets

*As of March 31,*
*In EUR million*

| | Notes | 2005 Air France-KLM | 2004 Air France published | 2003 Air France published |
|---|---|---|---|---|
| Consolidation goodwill | 14 | 83 | 95 | 112 |
| Intangible fixed assets | 14 | 159 | 149 | 171 |
| Flight equipment | 15 | 10,917 | 6,951 | 7,284 |
| Other property and equipment | 15 | 1,837 | 955 | 878 |
| Investments in equity affiliates | 16.1 | 564 | 336 | 316 |
| Other investments | 16 | 548 | 268 | 260 |
| **Total fixed assets** | | **14,108** | **8,754** | **9,021** |
| Inventory | 17 | 389 | 151 | 220 |
| Trade accounts receivable | 18 | 2,272 | 1,651 | 1,432 |
| Income tax receivable | 19 | 97 | 101 | 111 |
| Other accounts receivable | 18 | 2,001 | 494 | 592 |
| Marketable securities | 20 | 2,254 | 1,478 | 1,039 |
| Cash | | 386 | 330 | 193 |
| **Total current assets** | | **7,399** | **4,205** | **3,587** |
| **Total assets** | | **21,507** | **12,959** | **12,608** |

## Liabilities and stockholders' equity

*As of March 31,*
*In EUR million*

| | Notes | **2005** Air France-KLM | **2004** Air France published | **2003** Air France published |
|---|---|---|---|---|
| Common stock | 21.1 | 2,290 | 1,868 | 1,868 |
| Additional paid-in capital | 21.5 | 390 | 261 | 261 |
| Retained earnings (accumulated deficit) | 21.6 | 2,490 | 1,942 | 1,862 |
| Cumulative translation adjustment | | (9) | (9) | 3 |
| **Stockholders' equity** | | **5,161** | **4,062** | **3,994** |
| Minority interests | | 65 | 23 | 33 |
| **Stockholders' equity and minority interests** | | **5,226** | **4,085** | **4,027** |
| Provisions for liabilities and charges | 22 | 2,265 | 1,039 | 1,095 |
| Financial debt | 23 | 8,268 | 4,380 | 4,147 |
| Trade payables | | 1,905 | 1,226 | 1,375 |
| Income tax liability | 24 | 81 | 21 | 5 |
| Advance ticket sales and loyalty program | 25 | 1,656 | 1,008 | 901 |
| Other payables | 26 | 2,106 | 1,200 | 1,058 |
| **Total liabilities** | | **16,281** | **8,874** | **8,581** |
| **Total liabilities and stockholders' equity** | | **21,507** | **12,959** | **12,608** |

# Consolidated statements of changes in stockholders' equity

*In EUR million*

| Before allocation of income | Number of shares comprising common stock | Common stock | Add'l paid-in capital | Retained earnings | Treasury stock | Cumulative Translation adjustement | Total stockholders' equity | Minority interests | Total 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) |
| Treasury stock | | | | | (25) | | (25) | | (25) |
| Impact of changes in accounting policies | | | | (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 | | | | (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** |
| Issuance of common stock | 49,602,631 | 422 | 346 | | | | 768 | | 768 |
| Contribution of assets | | | (206) | 206 | | | - | | - |
| Exchange offer costs | | | (11) | | | | (11) | | (11) |
| Dividends paid | | | | (17) | | | (17) | (1) | (18) |
| Treasury stock | | | | 9 | (1) | | 8 | | 8 |
| Translation differences | | | | | | | - | | - |
| Current year net income | | | | 351 | | | 351 | 8 | 359 |
| Changes in scope of consolidation | | | | | | | - | 35 | 35 |
| **March 31, 2005** | **269,383,518** | **2,290** | **390** | **2,509** | **(19)** | **(9)** | **5,161** | **65** | **5,226** |
| Dividend proposed | | | | 40 | | | 40 | | |

# Consolidated statement of cash flows



*As of March 31,*
*In EUR million*

| | Notes | **2005** Air France-KLM | **2004** Air France published | **2003** Air France published |
|---|---|---|---|---|
| Gross operating result | | 2,243 | 1,318 | 1,470 |
| Other income (expenses) received (paid) | | (102) | (23) | (50) |
| Foreign exchange gains (losses) | | 2 | 3 | (9) |
| **Operating cash flows** | | **2,143** | **1,298** | **1,411** |
| Changes in working capital | | 181 | 54 | (150) |
| Restructuring expenditure | | (49) | (18) | (12) |
| Interest paid | | (352) | (163) | (189) |
| Interest received | | 56 | 36 | 58 |
| Income tax paid (received) | | (24) | (6) | (3) |
| **Cash flows from operating activities** | | **1,955** | **1,201** | **1,115** |
| Acquisitions of subsidiaries and affiliates | 31.2 | 506 | (10) | (46) |
| Purchase of tangible and intangible fixed assets | | (2,131) | (1,269) | (1,410) |
| Disposals of subsidiaries and affiliates | | 109 | 24 | 8 |
| Proceeds on disposal of tangible and intangible assets | | 131 | 391 | 357 |
| Dividends received | | 27 | 15 | 17 |
| **Cash flows from investing activities** | | **(1,358)** | **(849)** | **(1,074)** |
| Issuance of common stock | | - | - | 5 |
| New debts | | 858 | 901 | 834 |
| Repayments of debts | | (285) | (345) | (745) |
| Repayments of capital lease obligations | | (360) | (152) | (508) |
| Net decrease (increase) in loans | | (79) | (29) | (29) |
| Net decrease (increase) in short-term investments | | 116 | 35 | 62 |
| Dividends paid | | (24) | (24) | (34) |
| **Cash flows from financing activities** | | **226** | **386** | **(415)** |
| **Translation differences** | | **(4)** | **(5)** | **(1)** |
| **Increase (decrease) in cash and cash equivalents** | | **819** | **733** | **(375)** |
| Opening cash and cash equivalents | 31.1 | 1,405 | 672 | 1,047 |
| Closing cash and cash equivalents | 31.1 | 2,224 | 1,405 | 672 |

## 1. Business description

The term "Air France-KLM" used hereafter refers to the public limited company (société anonyme) incorporated under French law, without its consolidated subsidiaries. The term "the Group" refers to Air France-KLM and its consolidated subsidiaries.

The Group is headquartered in France and is one of the world's leading airlines. The Group'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 and air transport on demand.

## 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, 2005.

### 2.1 Change in accounting methods

No change in accounting method was made during the fiscal year.

It should be noted that, as of March 31, 2004, the Group has applied the National Accounting Board recommendation of April 1, 2003, which excludes seniority bonuses from the scope of the rules governing pensions, and attaches them to text No. 2000-06 on liabilities. The impact of this first application was reflected in shareholders' equity for an amount, net of tax, of 4 million euros.

Note that the Group has also adopted the component-based approach for recording large-scale maintenance operations on airframes and engines at April 1, 2002.

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 incurred as expensed.

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 Group (Air France-KLM 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. 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 (including tax effect) and an increase in net income for the period of 13 million euros (including tax effect).

### 2.2 Change in estimate

The combination of the Frequent Flyers loyalty Programs (cf. §2.8.) and the valuation of new air miles' redemption assumptions starting in June 2005 led the Group to adjust the estimate of the corresponding debt. These changes in estimates had a positive impact of 10 million euros after tax on earnings for the financial year ended March 31, 2005.

## 2.3 Consolidation principles

Companies under the Group's exclusive control are fully consolidated.
Companies jointly controlled by a limited number of parties including the Group are proportionally consolidated.
Companies over which the Group 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 Group holds 20% or more of voting rights.
Entities that meet the above defined criteria, but that the Group does not intend to hold in the long term, are not consolidated. Are also excluded from the consolidation scope entities in bankruptcy and those located in countries which do not allow the funds transferring toward the mother entity. These interests are valued at their historical cost, depreciated if necessary.

Affiliates over which the Group 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 Group.

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 Group in such affiliates.

The fiscal year of certain subsidiaries and affiliates, which are listed in note 34, ends on December 31. These subsidiaries and equity affiliates are consolidated by the Group with a time difference of 3 months, with the exception of Amadeus GTD for which an interim statement is established. There have been no significant transactions for such subsidiaries for the period from January 1, 2005 to March 31, 2005.

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-KLM (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 Group'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 Group 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 that 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. These revenues include a fuel surcharge paid by passengers to offset the increase in fuel prices.

Upon issue, 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 the industrial maintenance and major maintenance business, the revenues on flat-rate flight time excluding engines contracts is booked on the basis of the number of flight hours declared by the customer. For contracts in industrial activity other than those described above, the Group records the revenues based on the costs incurred method. Since April 1, 2004, the flat-rate contracts for engine flight time have been recorded as costs are incurred instead of on the basis of flight hours; the impact of the change is not significant.

## 2.8 Frequent flyer program

As at March 31, 2005, both Air France and KLM offer their own frequent flyer loyalty programs (respectively *Fréquence Plus* and *Flying Dutchman*) which enable members to accumulate air miles when travelling on Air France flights, KLM flights and certain airline partners. These air miles entitle members to a variety of benefits such as free Air France or KLM flights.
Due to the combination of the two companies, a new joint program *Flying Blue* will be launched in June 2005, which will accumulate air miles from both current programs.
The probability of converting air miles into Award tickets is estimated according to a statistical method resulting in a so-called "redemption" rate that is prudently assessed.
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 Group also sells mileage credits in its frequent flyer programs to participating partners such as credit card companies,

hotels and car rental agencies. The Group 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 Group's activity involves three major sectors: passenger activities, cargo services and aircraft maintenance.

The Group has defined five 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 Group's fixed assets mainly consist of flight equipment located in France and in the Netherlands.

## 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 Group's ordinary activities, whether such income and expenses are recurring or non-recurring. 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 and negative 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 notexceed 20 years.

Negative goodwill is recognized in the income statement over the period of time that the Group deems reasonable conside-ring the expected synergies and the costs incurred in achieving them.

## 2.13 Other intangible fixed assets

Business 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 Group records impairment charges on goodwill and other intangible assets when events and circumstances indicate that the assets are impaired and the discounted 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 Group 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 and depreciated over the useful life of the related asset. 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).

**A) 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 (18 years). 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.

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 Group revises the depreciation period accordingly.

**B) 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 |
| Flight simulators | 10 to 20 years |
| Equipment and tooling | 5 to 15 years |

**C) Impairment of flight equipment**

When events and circumstances indicate that these assets need to be impaired, the Group assesses the existence of impairment losses at the entire aircraft fleet level under full ownership or capital leases and capitalized spare parts in comparison with the higher of their recoverable value or the discounted cash flows expected from their use.

## 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 Group. This value is determined based on the Group'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-KLM 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 Group'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.

The company recognizes a portion of its actuarial gains or losses as income or expense if the net cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains or losses recognized directly is the excess determined above, divided by the expected average remaining working lives of the employees participating in the plan.

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

The Group 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 Group 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 Other provisions for risks and charges

The Group accounts for provisions for risks and charges when the occurrence of a risk is estimated to be likely and its amount can be reliably estimated. The Group evaluates provisions based on facts and events known at the closing date, from its past experience and to the best of its knowledge.

## 2.23 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.

## 2.24 Deferred tax

The Group 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 Group has no control over the distribution of reserves.

## 2.25 Cash flow

Cash and cash equivalents include cash, short-term deposits and bank overdrafts initially established for less than three months, and without risk of significant change in valuation.

## 2.26 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

## 3.1 Scope of consolidation

As of March 31, 2005, the Group comprised 159 companies, of which 135 are fully consolidated, 3 proportionally consolidated and 21 were recorded as equity affiliates. The list of companies within the scope of consolidation is shown in note 34.
As the Exchange Offer closed in May 2004, the Group's results include KLM's results over a period of eleven months (May 2004 to March 2005). At this date, the Group holds 97.3 % of the common shares of KLM stock.

Servair group was consolidated with one quarter difference until March 31, 2004. To make up for this difference, the Servair group was consolidated over 15 months (January 2004 -March 2005) in the period ended March 31, 2005. In addition, the Group 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 March 31, 2005.

During this period, Servair group sets up 2 subsidiaries: Lyon Air Traiteur and Martinique Catering. Carbag merged with Acna, a subsidiary of Servair.

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 Amadeus France Services have been consolidated within the Group until 30 December 2004.

In addition, the financial companies Nogues and GIE Schiphol were consolidated as of April 1, 2004.

Proteus Developpement and Proteus Finance merged with Air France Finance.

## 3.2 Comparability

For the purposes of comparison, a pro forma consolidated statement of income at March 31, 2004 has been prepared using methods and consolidation scope identical to those used at March 31, 2005. 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 "negative goodwill" of 915 million euros. This has been determined on the basis of an acquisition price of798 million euros and a share of the shareholders' equity acquired of 1,713 million euros. Shareholders' equity specifically includes the adjustment to market value of the KLM group's fleet for a total of 924 million euros and the recognition in the item "Other debtors" of the surplus value of the funds earmarked to cover employee retirement commitments for a total of 976 million euros.
As some valuations are still in process, this negative goodwill 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 from the international accounting interpretation committee to whom the issue was sent, the Group considers that according to accounting standards, this surplus may be recognized.
However the Group has, as a precautionary measure, chosen not to amortize the portion of negative goodwill relative to the excess fund value, after the first quarter of the fiscal year ended as of March 31st, 2005.
The estimated amount of this portion came to 622 million euros at March 31, 2005. The impact of this amount on income, had it been amortized in the second, the third and the fourth quarters, would have generated an increase of approximately 93 million in net income (see note 22.2).
The amortization period retained is five 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 73 million euros at March 31, 2005.

Negative goodwill is recognized in the item "Provisions for liabilities and charges" on the liabilities side of the balance sheet.

# 4. Information by activity and geographical area

## 4.1 Information by sector of activity

| *As of March 31, In EUR million* | 2005 Air France-KLM | | | 2004 Pro forma unaudited | | 2004 Air France published | | |
|---|---|---|---|---|---|---|---|---|
| | **Operating revenues** | **Operating income** | **Property and equipment** | **Operating revenues** | **Operating income** | **Operating revenues** | **Operating income** | **Property and equipment** |
| Passenger | 15,004 | 312 | 9,262 | 14,044 | 274 | 10,260 | 67 | 6,688 |
| Cargo | 2,492 | 95 | 972 | 2,277 | 59 | 1,412 | 15 | 371 |
| Maintenance | 777 | 48 | 1,300 | 747 | 55 | 508 | 50 | 759 |
| Others | 805 | 42 | 1,220 | 714 | 26 | 157 | 7 | 88 |
| **Total** | **19,078** | **497** | **12,754** | **17,782** | **414** | **12,337** | **139** | **7,906** |

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 SkyTeam alliance partnership arrangements, revenues from block-seat sales, information systems revenues and excess baggage receipts.

**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 by maintenance services to other airlines companies and other clients throughout the world.

**Other:** Other operating revenues currently consist of catering and handling revenues provided by the Group to other companies and to the on request air transport mainly made by Transavia.

Consolidated sales revenues, for the period ended March 31, 2005, totaled 19.1 billion euros, an increase of 7.3% over revenues for the previous pro forma period. This increase was generated by all activity sectors, particularly passengers and cargo.

Operating income rose from 83 to 497 million euros against 414 million euros at March 31, 2004 with pro forma data. All activities made a positive contribution to this result; passenger activity grew from 274 million euros to 312 million euros.

## 4.2 Analysis of operating revenues by geographical area of sale

*In EUR million*

| | Europe North Africa | | Caribbean French Guiana Indian Ocean | | Africa Middle East | | Americas Polynesia | | Asia New Caledonia | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2005** | | | | | | | | | | | |
| Scheduled passenger | 9,711 | (68.8%) | 348 | (2.5%) | 937 | (6.7%) | 1,994 | (14.2%) | 1,095 | (7.8%) | **14,085** |
| Other passenger revenues | 672 | (73.1%) | 57 | (6.2%) | 36 | (3.9%) | 54 | (5.9%) | 100 | (10.9%) | **919** |
| **Total passenger** | **10,383** | (69.2%) | **405** | (2.7%) | **973** | (6.5%) | **2,048** | (13.6%) | **1,195** | (8.0%) | **15,004** |
| Scheduled cargo | 1,081 | (47.0%) | 41 | (1.8%) | 157 | (6.8%) | 266 | (11.6%) | 755 | (32.8%) | **2,300** |
| Other cargo revenues | 132 | (68.7%) | 4 | (2.1%) | 7 | (3.6%) | 22 | (11.5%) | 27 | (14.1%) | **192** |
| **Total cargo** | **1,213** | (48.6%) | **45** | (1.8%) | **164** | (6.6%) | **288** | (11.6%) | **782** | (31.4%) | **2,492** |
| Maintenance | 769 | (99.0%) | - | - | - | - | - | - | 8 | (1.0%) | **777** |
| Others | 773 | (96.0%) | 21 | (2.6%) | 11 | (1.4%) | - | - | - | - | **805** |
| **Total** | **13,138** | (68.9%) | **471** | (2.5%) | **1,148** | (6.0%) | **2,336** | (12.2%) | **1,985** | (10.4%) | **19,078** |
| **Year ended March 31, 2004 (Pro forma unaudited)** | | | | | | | | | | | |
| Scheduled passenger | 9,078 | (68.9%) | 390 | (3.0%) | 895 | (6.8%) | 1,785 | (13.6%) | 1,008 | (7.7%) | **13,156** |
| Other passenger revenues | 697 | (78.4%) | 29 | (3.3%) | 47 | (5.3%) | 69 | (7.8%) | 46 | (5.2%) | **888** |
| **Total passenger** | **9,775** | (69.6%) | **419** | (3.0%) | **942** | (6.7%) | **1,854** | (13.2%) | **1,054** | (7.5%) | **14,044** |
| Scheduled cargo | 1,038 | (49.8%) | 43 | (2.1%) | 143 | (6.9%) | 236 | (11.3%) | 624 | (29.9%) | **2,084** |
| Other cargo revenues | 135 | (69.9%) | 5 | (2.6%) | 7 | (3.6%) | 21 | (10.9%) | 25 | (13.0%) | **193** |
| **Total cargo** | **1,173** | (51.5%) | **48** | (2.1%) | **150** | (6.6%) | **257** | (11.3%) | **649** | (28.5%) | **2,277** |
| Maintenance | 740 | (99.1%) | - | - | - | - | - | - | 7 | (0.9%) | **747** |
| Others | 698 | (97.8%) | 11 | (1.5%) | 5 | (0.7%) | - | - | - | - | **714** |
| **Total** | **12,386** | (69.6%) | **478** | (2.7%) | **1,097** | (6.2%) | **2,111** | (11.9%) | **1,710** | (9.6%) | **17,782** |
| **Year ended March 31, 2004 (Published)** | | | | | | | | | | | |
| Scheduled passenger | 6,734 | (71.1%) | 348 | (3.7%) | 577 | (6.1%) | 1,169 | (12.4%) | 637 | (6.7%) | **9,465** |
| Other passenger revenues | 633 | (79.7%) | 28 | (3.5%) | 40 | (5.0%) | 56 | (7.0%) | 38 | (4.8%) | **795** |
| **Total passenger** | **7,367** | (71.8%) | **376** | (3.7%) | **617** | (6.0%) | **1,225** | (11.9%) | **675** | (6.6%) | **10,260** |
| Scheduled cargo | 676 | (53.5%) | 40 | (3.2%) | 86 | (6.8%) | 134 | (10.6%) | 328 | (25.9%) | **1,264** |
| Other cargo revenues | 115 | (77.7%) | 5 | (3.4%) | 4 | (2.7%) | 15 | (10.1%) | 9 | (6.1%) | **148** |
| **Total cargo** | **791** | (55.9%) | **45** | (3.2%) | **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** | **8,802** | (71.3%) | **432** | (3.5%) | **710** | (5.8%) | **1,374** | (11.1%) | **1,019** | (8.3%) | **12,337** |

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 0.3 point from the Americas, while the Europe, the Africa-Middle East region and the West Indies-Caribbean-Indian Ocean markets fell by 0.7, 0.2 and 0.2 point respectively.

## 4.3 Analysis of traffic revenues by geographical area of destination

*In EUR million*

| | Europe North Africa | | Caribbean French Guiana Indian Ocean | | Africa Middle East | | Americas Polynesia | | Asia New Caledonia | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2005** | | | | | | | | | | | |
| Scheduled passenger | 6,044 | (42.9%) | 1,124 | (8.0%) | 1,920 | (13.6%) | 2,939 | (20.9%) | 2,058 | (14.6%) | **14,085** |
| Scheduled cargo | 192 | (8.4%) | 178 | (7.7%) | 279 | (12.1%) | 652 | (28.3%) | 999 | (43.5%) | **2,300** |
| **Total** | **6,236** | (38.1%) | **1,302** | (7.9%) | **2,199** | (13.4%) | **3,591** | (21.9%) | **3,057** | (18.7%) | **16,385** |
| **Year ended March 31, 2004 (Pro forma unaudited)** | | | | | | | | | | | |
| Scheduled passenger | 5,794 | (44.1%) | 1,215 | (9.2%) | 1,752 | (13.3%) | 2,708 | (20.6%) | 1,687 | (12.8%) | **13,156** |
| Scheduled cargo | 206 | (9.9%) | 169 | (8.1%) | 255 | (12.2%) | 575 | (27.6%) | 879 | (42.2%) | **2,084** |
| **Total** | **6,000** | (39.4%) | **1,384** | (9.1%) | **2,007** | (13.2%) | **3,283** | (21.5%) | **2,566** | (16.8%) | **15,240** |
| **Year ended March 31, 2004 (Published)** | | | | | | | | | | | |
| Scheduled passenger | 4,525 | (47.8%) | 1,023 | (10.8%) | 1,058 | (11.2%) | 1,850 | (19.5%) | 1,009 | (10.7%) | **9,465** |
| Scheduled cargo | 181 | (14.3%) | 153 | (12.1%) | 154 | (12.2%) | 342 | (27.1%) | 434 | (34.3%) | **1,264** |
| **Total** | **4,706** | (43.9%) | **1,176** | (11.0%) | **1,212** | (11.3%) | **2,192** | (20.4%) | **1,443** | (13.4%) | **10,729** |

Changes in revenues by network on a pro forma basis also showed variations. Asia's share of revenues rose 1.9 points, Africa-Middle East gained 0.2 and America gained 0.4, while the share of the markets in the West Indies-Caribbean-Indian Ocean, Europe fell by 1.2 and 1.3 point respectively.

## 5. External expenses

| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published | Variation |
|---|---|---|---|---|
| Aircraft fuel | 2,653 | 1,990 | 1,302 | 33.3% |
| Chartering costs | 558 | 502 | 414 | 11.2% |
| Aircraft operating lease costs | 630 | 608 | 458 | 3.6% |
| Landing fees and en route charges | 1,460 | 1,373 | 913 | 6.3% |
| Catering | 402 | 376 | 296 | 6.9% |
| Handling charges and other operating costs | 1,067 | 1,078 | 756 | -1.0% |
| Aircraft maintenance costs | 621 | 616 | 381 | 0.8% |
| Commercial and distribution costs | 1,399 | 1,439 | 1,051 | -2.8% |
| Other external expenses | 1,897 | 1,797 | 1,183 | 5.6% |
| **Total** | **10,687** | **9,779** | **6,754** | **9.3%** |
| Excluding Aircraft fuel | 8,034 | 7,789 | 5,452 | 3.1% |

External expenses were up 9.3 % at March 31, 2005, increasing from 9.8 billion euros to 10.7 billion euros. This change, close to the growth in the Group's available seats (+ 7,3 % in EASK), is due primarily to fuel costs which rose significantly because of the surge in oil prices. Excluding fuel, the growth in external expenses was limited to 3.1%.

Chartering costs rose 11.2 % to 558 million euros at March 31, 2005, up from 502 million euros in the previous year, 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.

"Other external expenses" primarily correspond to leasing and insurance expenses.

# 6. Salaries and number of employees

## 6.1 Salaries and related costs

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published | Variation |
|---|---|---|---|---|
| **By cost category** | | | | |
| Wages and salaries | 4,402 | 4,258 | 2,955 | 3.4% |
| Pension contributions | 429 | 411 | 248 | 4.4% |
| Other social contributions | 1,091 | 1,016 | 876 | 7.4% |
| **Total** | **5,922** | **5,685** | **4,079** | **4.2%** |

Personnel costs increased to 5.9 billion euros compared with 5.7 billion euros at March 31, 2004 based on pro forma data, representing an increase of 4.2%, with personnel on a constant structural basis down by 0.6% at 102,077 employees (pro forma data). 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.

## 6.2 Average number of employees

*As of March 31,*

| | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published | Variation |
|---|---|---|---|---|
| **Total** | **102,077** | **102,722** | **71,654** | **-0.6%** |
| Flight deck crew | 7,786 | 7,799 | 5,041 | -0.2% |
| Cabin crew | 19,829 | 19,574 | 13,044 | 1.3% |
| Groundstaff | 74,462 | 75,349 | 53,569 | -1.2% |
| Management | 12,996 | 12,676 | 9,159 | 2.5% |
| Supervisors | 29,364 | 29,369 | 21,126 | 0.0% |
| Other staff | 32,102 | 33,304 | 23,284 | -3.6% |
| Pilots and cabin crew | 25,995 | 25,640 | 17,140 | 1.4% |
| Instructors | 956 | 1,037 | 620 | -7.8% |
| Management | 664 | 696 | 325 | -4.6% |

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 total compensation of the 3 main executives of the Group was 2.5 million euros for the period ended as at March 31, 2005 (excluding compensation for attendance at Board Meetings). It was 1.8 million euros for previous pro forma period.

No compensation for attendance at Board Meetings was disbursed to the Board Members as at March 31, 2005.

## 7. Depreciation and amortization

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Pro forma unaudited | **2004** Air France published | **Variation** |
|---|---|---|---|---|
| Net charge to depreciation/amortization | 1,586 | 1,587 | 1,184 | -0.1% |
| - Intangible fixed assets | 48 | 50 | 37 | -4.0% |
| - Flight equipment | 1,300 | 1,302 | 996 | -0.2% |
| - Other property, plant and equipment | 238 | 235 | 151 | 1.3% |
| Net charge to operating provisions | 134 | 88 | 46 | N.S |
| - Fixed assets | 3 | 3 | 3 | N.S |
| - Inventories | - | - | - | N.S |
| - Trade receivable | 6 | 16 | 12 | N.S |
| - Liabilities and charges | 125 | 69 | 31 | N.S |
| **Total** | **1,720** | **1,675** | **1,230** | **2.7%** |

## 8. Other income and charges, net

Other incomes and charges correspond mainly to results of joint operation of passenger and cargo lines for – 61 million euros for 2004-05 (- 67 million euros for pro forma previous year) and to compensation on slot swaps for 7 million euros for 2004-05 (50 million euros for the previous year).

## 9. Restructuring costs

As for fiscal year 2004-05, KLM decided to outsource a part of its Traffic registration, Interline registration and sales control activities to third parties in the course of 2005. KLM also decided to outsource their maintenance activities with respect to the regional Fokker fleet to third parties. Furthermore, a part of the operations of KLM subsidiary KLM Cityhopper needs to be relocated to the Netherlands. For these reasons, KLM accounted for a restructuring provision of 11 million euros.

As of March 31, 2003, KLM recorded a restructuring provision of 75 million euros to cover redundancy costs associated with the execution of KLM's cost cutting program. As of May 4, 2004 the provision related to this program amounted 56 million euros, of which 39 million euros was utilized in the period May 4, 2004 through March 31, 2005 to cover redundancy costs incurred under KLM's social Plan. As of March 31, 2005 the remaining provision amounts to 17 million euros.

Restructuring charges also include Servair restructuring project based on 3 main objectives in order to improve its performance: at the work shop level, it is intended to optimize the organisation and to improve production management; at the "functional" level, gains are expected in terms of task rationalisation and externalisation of a few functions; and finally, savings should be achieved on purchases following the intensified coordination of the various operators. The provision totaled 8 million euros at March 31, 2005.

As for fiscal year 2003-04, the restructuring costs primarily correspond to the second early-retirement plan (Plan de Préretraite Progressive, PRP) implemented at Air France. This agreement 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 (five years) 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. Charges for the fiscal year 2004/05 are up to 5 million euros. As of 31 March 2005, the provision as for this plan amounts 8 million euros.

As for fiscal year 2002-03, restructuring charges (13 million euros) related mainly to the closing of commercial flying employees site based in Noumea further to the discontinuation of Air France routes/flights between New Caledonia and Japan. The costs bared amounted 7 million euros as for fiscal year ended 31 March 2004. This costs were fully funded as of 31 March 2003. As of 31 March 2004, a provision of 1 million euros remained as regards the closing of Noumea site and there is no more related provision as of 31 March 2005.

## 10. Net financial charges

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published | Variation |
|---|---|---|---|---|
| Financial expenses | (308) | (281) | (139) | 9.6% |
| - Loan interest | (136) | (140) | (98) | -2.9% |
| - Lease interest | (193) | (160) | (52) | 20.6% |
| - Capitalized interest | 26 | 28 | 20 | -7.1% |
| - Other financial expenses | (5) | (9) | (9) | -44.4% |
| Financial income | 106 | 53 | 38 | 100.0% |
| - Interest on securities | 3 | 3 | 3 | 0.0% |
| - Net gains on securities | 33 | 24 | 24 | 37.5% |
| - Other financial income | 70 | 26 | 11 | 169.2% |
| **Net charges** | **(202)** | **(228)** | **(101)** | **-11.4%** |
| Foreign exchange losses, net | 3 | 45 | 35 | N.S |
| Net (charge) release to provisions | (20) | (4) | 6 | N.S |
| **Total** | **(219)** | **(187)** | **(60)** | **17.1%** |

The interest rate used in the calculation of capitalized interest for the year ended March 31, 2005 was 3.80% (4.10% for the year ended March 31, 2004).

Foreign exchange losses for the period include an unrealized net gain of 1 million euros (against a net gain of 31 million euros for the year ended March 31, 2004).

The item "Other financial income" includes a financial gain of 37.9 million euros arising from the financing contract for two 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. These final agreements were reached on July 21, 2004 and on March 31, 2005.

"Other financial income" includes dividends received from non consolidated companies in the amount of 8 million euros for the year ended March 31, 2005 (compared with 3 million euros for the year ended March 31, 2004).

## 11. Disposals of subsidiaries and affiliates

The gains of disposals of subsidiaries and affiliates (67 million euros) are mainly due to the transfer of Amadeus France and its subsidiary Amadeus France Service to Amadeus GTD at December 30, 2004.

During the period ended March 31, 2004, disposals of subsidiaries and affiliates (5 million euros) essentially involved the sale of "Société immobilière 3F" shares held by Air France.

## 12. Income tax

Air France–KLM, previously named Air France, elected to file a consolidated tax return for Group tax consolidation as of April 1, 2002. The scope of consolidation mainly includes Air France–KLM, Air France, Air France Finance, French regional airline companies. The scope includes the French subsidiaries of Servair group as from January 1st , 2005.

### 12.1 Analysis of the income tax charge

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Pro forma unaudited | **2004** Air France published |
|---|---|---|---|
| Current tax charge | (8) | 10 | 10 |
| Deferred tax credit (charge) | (88) | (50) | (12) |
| **Total tax credit (charge)** | **(96)** | **(40)** | **(2)** |

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:

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| **Net income (loss)** | **351** | **93** |
| Minority interests | 8 | 5 |
| Amortization of goodwill | (58) | 15 |
| Share in net income of equity affiliates | (73) | (53) |
| Income tax | 96 | 2 |
| **Taxable income - current rate** | **324** | **62** |
| Current rate of tax | 34.93% | 35.43% |
| **Theorical tax** | **(113)** | **(22)** |
| Permanent differences | - | (24) |
| Income taxed at non-current tax rates | 11 | 5 |
| Impact of unrecognized tax asset reductions | 7 | 15 |
| Unrecognized tax assets | (6) | (4) |
| Differences in France / foreign tax rates | 7 | - |
| Settlement of tax dispute | 2 | 33 |
| Other | (4) | (5) |
| **Consolidated tax charge** | **(96)** | **(2)** |
| **Effective tax rate** | **29.63%** | **3.23%** |

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 activation of the deferred tax deficit granted a posteriori by the French Tax Office.

## 12.3 Deferred tax recorded on balance sheet

| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Tax losses | 375 | 383 |
| Long-term capital losses | 2 | 15 |
| Pension provisions and other employee benefits | 228 | 214 |
| Deferred charges | (66) | (64) |
| Maintenance overhaul provisions | (239) | (263) |
| Provisions for restitution for aircraft under operating leases | 87 | 97 |
| Capital gains on intra-group disposals | 30 | 32 |
| Tax-driven provisions | (370) | (367) |
| Difference between the tax bases and consolidated values of fixed assets | 41 | 35 |
| Other | 2 | 14 |
| **Net deferred tax assets (note 19)** | **90** | **96** |
| Tax losses | (90) | - |
| Long-term capital losses | - | - |
| Pension provisions | 310 | - |
| Deferred charges | - | - |
| Maintenance overhaul provisions | 37 | - |
| Provision for restitution for aircraft under operating leases | - | - |
| Capital gains on intra-group disposals | - | - |
| Tax-driven provisions | - | - |
| Difference between the tax bases and consolidated values of fixed assets | (136) | - |
| Other | (48) | - |
| **Net deferred tax liabilities (note 24)** | **73** | **-** |

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:

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| **Net timing differences - assets** | **15** | **7** |
| **Carryforward tax losses for utilization** | **-** | **-** |
| From Y+1 to Y+3 | | |
| From Y+4 to Y+5 | | |
| 6 years and beyond | | |
| **Losses for carryforward indefinitely** | **373** | **244** |
| **Total at standard rate** | **388** | **251** |
| **Reduced rate tax credits** | **106** | **114** |

These unrecognized deferred tax assets represent future tax gains, and as of March 31, 2005, are mainly due to subsidiaries tax loss carry forwards prior to the Group's tax integration, as well as tax loss carry forwards of KLM group's British subsidiaries.

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

*As of March 31,*
*In number of shares*

| | 2005 | 2004 |
|---|---|---|
| Weighted average of: | | |
| - Ordinary shares issued | 264,898,897 | 219,780,887 |
| - treasury stock held regarding stock option plan | (4,440,889) | (1,249,464) |
| - treasury stock held to regulate stock market price | (1,752,865) | (1,621,935) |
| Number of shares used in the calculation of basic earnings per share | 258,705,143 | 216,909,488 |
| Number of shares used in the calculation of diluted earnings per share | 258,705,143 | 216,909,488 |

Because the price of Equity Warrants for new and/or existing shares (BASA) amounts to 20 euros, they are not be taken into account for the calculation of diluted earnings per share.

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

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Pro forma unaudited | 2004 Air France published |
|---|---|---|---|
| Income used to calculate basic net eanings per share | 351 | 292 | 93 |
| Income used to calculate diluted net eanings per share | 351 | 292 | 93 |
| Basic earnings (loss) per share | 1.36 | 1.13 | 0.43 |
| Diluted earnings (loss) per share | 1.36 | 1.13 | 0.43 |

## 14. Consolidated goodwill and intangible fixed assets

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | | | 2004 Air France published | | |
|---|---|---|---|---|---|---|
| | **Gross value** | **Amortization & depreciation** | **Net book value** | **Gross value** | **Amortization & depreciation** | **Net book value** |
| Consolidation goodwill | 218 | 135 | 83 | 214 | 119 | 95 |
| Purchased goodwill | 364 | 264 | 100 | 363 | 246 | 117 |
| Other intangible fixed assets | 181 | 122 | 59 | 157 | 125 | 32 |
| **Total** | **763** | **521** | **242** | **734** | **490** | **244** |

Consolidated goodwill essentially concerns the Air France group 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.

The movement in the net book value of intangible fixed assets are as follows:

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| **Opening balance** | **244** | **283** |
| Additions | 27 | 17 |
| Charge to amortization of goodwill | (15) | (15) |
| Charge to amortization of other intangible fixed assets | (48) | (37) |
| Disposals | - | (3) |
| Impact of changes in scope of consolidation | 34 | - |
| Exchange fluctuations | - | - |
| Transfers | - | (1) |
| **Closing balance** | **242** | **244** |

## 15. Property and equipment

*In EUR million*

| | Flight equipment | | | | Other property and equipment | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Owned aircraft | Leased aircraft | Other | Total | Land and buildings | Equipment and fittings | Other | Total | **Total** |
| **Gross value as of March 31, 2003** | **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) |
| Changes in scope of consolidation | - | - | - | - | - | 2 | - | 2 | 2 |
| Exchange fluctuations | - | - | - | - | - | - | - | - | - |
| Transfers | 358 | (177) | (167) | 14 | 26 | (18) | (10) | (2) | 12 |
| **Gross value as of March 31, 2004** | **7,688** | **2,060** | **1,791** | **11,539** | **1,165** | **594** | **757** | **2,516** | **14,055** |
| **Accumulated depreciation as of March 31, 2003** | **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 as of March 31, 2004** | **3,463** | **689** | **436** | **4,588** | **640** | **436** | **485** | **1,561** | **6,149** |
| **Net book value as of Mach 31, 2004** | **4,225** | **1,371** | **1,355** | **6,951** | **525** | **158** | **272** | **955** | **7,906** |
| **Gross value as of March 31, 2004** | **7,688** | **2,060** | **1,791** | **11,539** | **1,165** | **594** | **757** | **2,516** | **14,055** |
| Additions | 439 | 168 | 1,176 | 1,783 | 100 | 80 | 169 | 349 | 2,132 |
| Disposals | (454) | (68) | (358) | (880) | (65) | (66) | (41) | (172) | (1,052) |
| Changes in scope of consolidation | 1,026 | 2,022 | 540 | 3,588 | 551 | 150 | 95 | 796 | 4,384 |
| Exchange fluctuations | - | - | - | - | - | (3) | (1) | (4) | (4) |
| Transfers | 327 | 172 | (500) | (1) | 85 | 7 | (95) | (3) | (4) |
| **Gross value as of March 31, 2005** | **9,026** | **4,354** | **2,649** | **16,029** | **1,836** | **762** | **884** | **3,482** | **19,511** |
| **Accumulated depreciation as of March 31, 2004** | **3,463** | **689** | **436** | **4,588** | **640** | **436** | **485** | **1,561** | **6,149** |
| Charge to depreciation | 546 | 399 | 372 | 1,317 | 103 | 69 | 66 | 238 | 1,555 |
| Releases on disposal | (406) | (59) | (327) | (792) | (38) | (55) | (33) | (126) | (918) |
| Changes in scope of consolidation | - | - | - | - | (2) | - | (22) | (24) | (24) |
| Exchange fluctuations | - | - | - | - | - | - | - | - | - |
| Transfers | 147 | (197) | 49 | (1) | - | (1) | (3) | (4) | (5) |
| **Accumulated depreciation as of March 31, 2005** | **3,750** | **832** | **530** | **5,112** | **703** | **449** | **493** | **1,645** | **6,757** |
| **Net book value as of March 31, 2005** | **5,276** | **3,522** | **2,119** | **10,917** | **1,133** | **313** | **391** | **1,837** | **12,754** |

The net book value of aircraft acquired subject to a reservation of ownership clause totaled 380 million euros as of March 31, 2005 (358 million euros as of March 31, 2004).
The net book value of other property and equipment financed under capital lease amounts to 152 million euros as of March 31, 2005 (172 million euros as of March 31, 2004). Over the course of the 2003-04 financial year, Air France refinanced its head office.

## 16. Investments

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| **Investments in equity affiliates** | **564** | **336** |
| Investments in non-consolidated companies | 138 | 128 |
| Loans and receivables relating to investments[1] | 143 | 142 |
| Other financial assets | 380 | 89 |
| **Other investments, gross** | **661** | **359** |
| Provisions for impairment | (113) | (91) |
| **Other investments, net** | **548** | **268** |
| *Of which less than one year* | *309* | *11* |

*(1) including 1,600,000 Air France-KLM shares loaned to a third party for a net book value of 23 million euros at March 31, 2005 (see note 20).*

Investments in non-consolidated companies consist of securities which the Group considers of strategic interest and which it intends to hold long-term, together with equity interests in companies over which the Group does not exercise any significant influence.
The item "Other financial assets" is constituted by the fair value of the KLM group hedges in existence at the acquisition date and not unwound at March 31, 2005, for an amount of 279 million euros, as well as guarantee and loan collateral (1% housing, Central Works Council Comité, personnel, etc.)

### 16.1 Equity affiliates

The Group's share in the net equity and net income of equity affiliates is as follows:

| *In EUR million* | Amadeus GTD | Alpha plc | Martinair | Others | Total |
|---|---|---|---|---|---|
| **As of March 31, 2003** | **230** | **44** | **-** | **42** | **316** |
| Translation adjustments | - | (6) | - | (3) | (9) |
| Distributions | (7) | (2) | - | (9) | (18) |
| Change in structure | - | - | - | (2) | (2) |
| Share in net income of equity affiliates | 45 | 2 | - | 6 | 53 |
| Transfers | - | - | - | (4) | (4) |
| **As of March 31, 2004** | **268** | **38** | **-** | **30** | **336** |
| Translation adjustments | - | (1) | - | 1 | - |
| Distributions | (8) | (2) | - | (6) | (16) |
| Change in structure | - | - | 146 | 27 | 173 |
| Share in net income of equity affiliates | 50 | 0 | 9 | 14 | 73 |
| Transfers | - | 2 | - | (4) | (2) |
| **As of March 31, 2005** | **310** | **37** | **155** | **62** | **564** |

As of March 31, 2005, the ownership structure of the Amadeus Group was as follows: Air France (23.4%), Iberia (18.3%), Lufthansa (5%) and the public (53.3%).

Alpha PLC is held 27% by Servair, 31% by institutional investors and 42% by the public.

Martinair is held by KLM (50%) and P&O Nedlloyd (50%).

## 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 within the Group.

**• Amadeus GTD (consolidated accounts)**

The simplified consolidated accounts include Amadeus Global Travel Distribution SA., 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 airline industry which includes inventory management and passenger departure control.

**Income statement**

| *As of December 31, In EUR million* | **2004** | **2003** |
|---|---|---|
| Operating revenues | 2,057 | 1,929 |
| Operating income | 343 | 321 |
| Including net charges to depreciation, amortization and provisions | (206) | (212) |
| **Net income** | **208** | **160** |

**Balance sheet**

| *Year ended December 31 In EUR million* | **2004** | **2003** |
|---|---|---|
| Fixed assets | 1,037 | 998 |
| Current assets | 638 | 539 |
| **Total assets** | **1,675** | **1,537** |
| Stockholders' equity | 942 | 759 |
| Financial debt | 210 | 280 |
| Other liabilities | 523 | 498 |
| **Total liabilities and stockholders' equity** | **1,675** | **1,537** |

**• 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 retailing and catering services for airlines and airports. The Group operates from over 150 retailing and catering outlets in 74 airports in 13 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 operate stores at 26 airports in United Kingdom and Ireland, 2 airports in Turkey, 2 airports in North America and 3 airports in the Indian Sub-Continent.

| **Income statement**<br>*As of January 31,*<br>*In EUR million* | **2005** | **2004** |
|---|---|---|
| Operating revenues | 746 | 662 |
| Operating income | 23 | 33 |
| Including net charges to depreciation, amortization and provisions | (15) | (15) |
| **Net income** | **6** | **14** |

| **Balance sheet**<br>*Year ended January 31*<br>*In EUR million* | **2005** | **2004** |
|---|---|---|
| Fixed assets | 114 | 107 |
| Current assets | 122 | 89 |
| **Total assets** | **236** | **196** |
| Stockholders' equity | 83 | 83 |
| Financial debt | 45 | 11 |
| Other liabilities | 108 | 102 |
| **Total liabilities and stockholders' equity** | **236** | **196** |

**• Martinair (consolidated accounts)**

Simplified consolidated financial statements presented hereunder include the Martinair entity, located in the Netherlands, and its subsidiaries. Martinair's core business is the air transport of passengers and freight from Amsterdam.

| **Income statement**<br>*As of December 31,*<br>*In EUR million* | **2004** | **2003** |
|---|---|---|
| Operating revenues | 959 | 894 |
| Operating income | 23 | 21 |
| Including net charges to depreciation, amortization and provisions | (101) | (80) |
| **Net income** | **13** | **9** |

| **Balance sheet**<br>*As of December 31*<br>*In EUR million* | **2004** | **2003** |
|---|---|---|
| Fixed assets | 499 | 621 |
| Current assets | 183 | 161 |
| **Total assets** | **682** | **782** |
| Stockholders' equity | 318 | 303 |
| Financial debt | 104 | 150 |
| Other liabilities | 260 | 329 |
| **Total liabilities and stockholders' equity** | **682** | **782** |

## 16.3 Group transactions with equity affiliates

The major transactions by the Group with equity affiliates were as follows:

| *As of March 31,*<br>*In EUR million* | **2005**<br>Air France-KLM | | **2004**<br>Air France published |
|---|---|---|---|
| In the accounts of Air France group | **Amadeus GTD** | **Martinair** | **Amadeus GTD** |
| **Income statement** | | | |
| Operating revenues | 100 | 60 | 115 |
| External expenses | 226 | 70 | 189 |
| **Balance sheet** | | | |
| Other accounts receivable | 10 | - | 25 |
| Other payables | 33 | 3 | 34 |

- **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 Group 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 Group's subsidiary Amadeus France, a distributor on the French market. Furthermore, the Group receives commissions from Amadeus for issues made with its own agencies. These fees and commissions totaled 100 million euros for the year ended March 31, 2005 (115 million euros for the year ended March 31, 2004).

Furthermore, the Group pays Amadeus GTD SA booking fees in connection with use of the Amadeus reservation system. These fees totaled 226 million euros for the year ended March 31, 2005 (compared to 189 million euros in the year 2003-04).

- **Operations between the Group and Martinair:**

The Group and Martinair have mutual aeronautical maintenance operations. The Group also delivers Martinair with jet fuel.

## 16.4 Investments in non-consolidated companies

The breakdown of net book value of investments in non consolidated companies (73 million euros) is as follows:

| *As of March 31, 2005 In EUR million* | Net book value | % holding | Equity | Net income (loss) | Year end |
|---|---|---|---|---|---|
| Opodo | 16 | 8.3% | (15) | (64) | December 03 |
| Alitalia | 16 | 2.0% | 1,264 | (520) | December 03 |
| Austrian Airlines | 9 | 1.5% | 631 | 40 | December 04 |
| Voyages Fram | 9 | 8.7% | 142 | (15) | December 03 |
| Others | 23 | - | - | - | - |

These movements are mainly due to KLM's scope entry for 15 million euros and the depreciation of Alitalia's and Opodo's shares.

| *As of March 31, 2004 In EUR million* | Net book value | % holding | Equity | Net income (loss) | Year end |
|---|---|---|---|---|---|
| Opodo | 26 | 22.9% | 31 | (88) | December 02 |
| Alitalia | 23 | 2.0% | 1,768 | 93 | December 02 |
| Austrian Airlines | 9 | 1.5% | 604 | 46 | December 03 |
| Voyages Fram | 9 | 8.7% | 159 | 4 | December 02 |
| Others | 14 | - | - | - | - |

## 17. Inventory

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Aeronautical spare parts | 305 | 136 |
| Other supplies | 127 | 60 |
| Production work in progress | 60 | 3 |
| **Gross value** | **492** | **199** |
| Valuation allowance | (103) | (48) |
| **Net book value** | **389** | **151** |

## 18. Trade and other accounts receivable

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Passenger operations | 977 | 693 |
| Cargo operations | 330 | 200 |
| Maintenance operations | 382 | 401 |
| Airlines | 439 | 308 |
| Other trade receivables | 246 | 143 |
| Valuation allowance | (102) | (94) |
| **Trade accounts receivable(1)** | **2,272** | **1,651** |
| Suppliers with debit balances | 153 | 120 |
| State | 87 | 56 |
| Group and associates | 14 | 5 |
| Other | 419 | 169 |
| Prepayments and accrued income(3) | 1,333 | 149 |
| Valuation allowance | (5) | (5) |
| **Other accounts receivable(2)** | **2,001** | **494** |
| *(1) Due > 1 year* | - | - |
| *(2) Due > 1 year* | 1 | - |

*(3) including KLM pensions gross surplus: 1,178 million euros (see note 22.2)*

«Other receivables» at March 31, 2005 include 220 million euros in receivables from the group's employees under the Offer Reserved for Employees and the Salary-Share Swap (SSS) (see notes 26 and 33).

## 19. Income tax receivable

The breakdown of tax asset is as follows:

| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Current tax | 7 | 5 |
| Deferred tax (note 12.3) | 90 | 96 |
| **Total** | **97** | **101** |
| Portion > 1 year | 90 | 96 |

## 20. Marketable securities

The market value of marketable securities is disclosed in note 27.5 below.

| | Net value | |
|---|---|---|
| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Air France published |
| ***Original maturity more than three months and/or subject to exchange rate risk*** | | |
| Treasury shares (note 21.3) | 27 | 19 |
| Negotiable debt securities | 29 | 2 |
| Options | 10 | - |
| Mutual funds (Sicav) | 2 | - |
| Bank deposits | 85 | 93 |
| **Sub-total** | **153** | **114** |
| ***Original maturity less than three months with no exchange rate risk*** | | |
| Negociable debt securities | 31 | 30 |
| Mutual funds (Sicav) | 1,416 | 1,332 |
| Bank deposits | 654 | 2 |
| **Sub-total cash equivalents** | **2,101** | **1,364** |
| **Total** | **2,254** | **1,478** |

The Combined Shareholders' Meeting on September 28, 1999 adopted a plan for purchasing the company's own shares to provide flight deck crews with up to 3,525,000 shares. Under this program, Air France holds 1,916,596 shares of Air France-KLM stock classified as marketable securities, and 1,600,000 Air France–KLM shares loaned to a third party (see note 16).

In addition, KLM holds 1,659,269 shares of Air France-KLM stock classified as marketable securities following the public exchange offer closed in May 2004.

## 21. Stockholders' equity

The change over the year is primarily due to the capital increase of 768 million euros, income over the period of 351 million euros, dividends of 17 million euros paid out, and the recognition of 8 million euros for the purchase price of treasury shares for the period. Group share of equity totaled 5,161 million euros as of March 31, 2005.

### 21.1 Common stock

The public exchange offer for KLM shares to Air France-KLM shares took place in May 2004. A total of 49,602,631 new shares were issued, representing a capital increase of 422 million euros, with paid-in capital of 346 million euros against which were charged the costs incurred in the public exchange offer of 11 million euros after tax. At March 31, 2005, the share capital of Air France-KLM was divided into 269,383,518 shares. Each share is entitled to one vote.

| *As of March 31, number of shares* | **2005** | **2004** |
|---|---|---|
| Opening | 219,780,887 | 219,780,887 |
| Stocks issued following the exchange offer | 49,602,631 | - |
| Closing | 269,383,518 | 219,780,887 |

## 21.2 Breakdown of stock and voting rights

| As of March 31, | % stock 2005 | % stock 2004 | % of voting rights 2005 | % of voting rights 2004 |
|---|---|---|---|---|
| French State | 23.2 | 54.0 | 23.8 | 54.6 |
| Employees and former employees (1) | 11.7 | 12.8 | 11.7 | 12.9 |
| Treasury shares | 2.4 | 1.1 | - | - |
| Other | 62.7 | 32.1 | 64.5 | 32.5 |
| **Total** | **100** | **100** | **100** | **100** |

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

As of March 31, 2005 and 2004, the percentage of shares and voting rights owned by members of the Group's executive committee was less than 0.5% of the outstanding shares.

## 21.3 Treasury stock

At March 31, 2005, the group held 5,183,732 shares of its own stock under stock option programs (including 1,600,000 loaned to a financial institution). These shares are booked as "Other marketable securities". Moreover, the Group held 1,299,538 shares of its own stock (0.5% of the capital) without a specific allocation to date, which are classified as a reduction of equity in the amount of 19 million euros.

## 21.4 Other securities giving access to common stock

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

## 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-KLM.

## 21.6 Retained earnings

*As of March 31,*
*In EUR million*

| | 2005<br>Air France-KLM | 2004<br>Air France published |
|---|---|---|
| Distributable reserves | 1,129 | 366 |
| Accumulated deficit | - | - |
| Other reserves | 1,029 | 1,501 |
| Treasury stock | (19) | (18) |
| Net income (loss) | 351 | 93 |
| **Total** | **2,490** | **1,942** |

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. Distributable reserves as of March 31, 2005 correspond to these of Air France–KLM (March 31, 2004: Air France), company that holds the shares of Air France and KLM.

French company law requires that Air France–KLM 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-KLM. This restriction on the payment of dividends also applies to each of French subsidiaries on an individual statutory basis. At March 31, 2005, Air France-KLM's legal reserve is 45.7 million euros, or 2% 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

*As of March 31,*
*In EUR million*

| | 2005<br>Air France-KLM | 2004<br>Air France published |
|---|---|---|
| Provisions for pensions and for termination payments on retirement | 823 | 636 |
| Provisions for restitution for aircraft under operating leases | 354 | 275 |
| Restructuring provisions | 71 | 13 |
| Provisions for third party litigations | 26 | 23 |
| Other provisions for liabilities and charges | 149 | 92 |
| Negative goodwill(1) | 842 | - |
| **Total** | **2,265** | **1,039** |
| *Of which short-term* | *173* | *261* |

*(1) Details of this item are given in paragraph 3.2 – Comparability.*

The movement in the book value of the provisions for liabilities and charges are as follows:

*As of March 31,*
*In EUR million*

| | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| **Opening balance** | **1,039** | **1,095** |
| *Charges* | | |
| - Operating | 302 | 248 |
| - Gain on disposal of flight equipment | 6 | - |
| - Financial | 1 | - |
| - Restructuring | 17 | 10 |
| *Releases for consumption* | | |
| - Operating | (116) | (228) |
| - Other operating income and charges | (49) | |
| - Financial | - | (8) |
| - Restructuring | (45) | (8) |
| - Tax | - | (17) |
| *Releases of provisions no longer required* | | |
| - Operating | (61) | (10) |
| - Financial | - | (20) |
| - Tax | - | (16) |
| *Negative goodwill amortization* | (73) | - |
| Impact of changes in accounting policies | - | (7) |
| Difference of change | 7 | - |
| Transfers | - | - |
| Change in group structure(1) | 1,237 | - |
| **Closing balance** | **2,265** | **1,039** |

*(1) including negative goodwill: 915 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 Air France 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 Air France was insufficiently funded, a top-up plan was introduced. This plan, administered by CRAF is jointly funded by Air France 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.

Air France is under no additional obligation with regard to entitlements for the period after January 1, 1993.

In addition, a supplemental pension plan was set up during the fiscal year ending March 31, 2005 for 39 executives of Air France, which represents a charge of 14 million euros.

The following table reconciles the valuation of the pension commitments under the CRAF and the executive plan with the provisions recorded in the consolidated financial statements:

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Defined benefit obligation | 981 | 911 |
| Fair value of plan assets | (620) | (613) |
| **Projected benefit obligation in excess of plan assets** | **361** | **298** |
| Unrecognized net actuarial gains (losses) | (26) | 21 |
| **Provisions for pensions** | **335** | **319** |
| *Of which short-term* | *7* | *18* |

The charge for CRAF obligations and the executive plan is 27 million euros for the year ending March 31, 2005 (compared with 14 million euros for the year ending March 31, 2004).

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Interest cost on projected benefit obligations | (44) | (44) |
| Amortization of actuarial gains (losses) | - | - |
| Amortization of prior services cost | (14) | - |
| Expected return on plan assets | 31 | 30 |
| **Net charge** | **(27)** | **(14)** |

The effective return on the CRAF plan assets is 9.7% for the year ended March 31, 2004 (13.2% for the prior year).

Amounts paid by Air France to the CRAF totaled 11 million euros for the year ended March 31, 2005 and 8 million euros for the prior year.

The assumptions used in the valuation of pension commitments are as follows:

| *As of March 31,* | **2005** | **2004** |
|---|---|---|
| Gross discount rate | 4.50% | 5.00% |
| Rate of increase of CRAF points | 1.40% | 1.20% |

## 22.2 Foreign pension schemes and termination benefit schemes in France and abroad

### A – KLM group

#### 1- Summary of the situation

The commitments of the KLM group totaled 8.5 billion euros at March 31, 2005, which are covered by funds constituted in accordance with Dutch regulations and the company's collective agreement.
With regard to the level of coverage of the commitments, particularly for the pilots program, significant «safeguard» constraints force the company to be always in a position of «over-coverage».

The value of the assets constituted to cover the commitments was 9.7 billion euros at March 31, 2005.
This surplus of funds over pension commitments, which was 1.2 billion euros at March 31, 2005, amounted to 1.4 billion euros on the date KLM was acquired by the Group, i.e. May 1, 2004.

#### 2- Accounting doctrine

The Group's pension commitments are valued and accounted for in compliance with international accounting standard IAS 19. This is the standard that will be mandatory for all European publicly traded groups on changeover to IFRS.
With respect to recording the value of the surplus funds on the balance sheet, IAS 19, which is not very specific on this issue, is subject to interpretation.

IFRIC, the technical body of the IASB (International Accounting Standard Board) responsible for interpretation of the standards, has been asked about this situation, particularly for certain Dutch companies.
To date, IFRIC has not yet issued its conclusions; the Group is therefore still waiting for a definitive position.

## 3- Accounting position of the Group for closing

After studying the standard, the Group believes that a surplus may be recognized and it booked this in its accounts.
The amount recorded on the balance sheet was also limited pursuant to the provisions of the standard, which provides for a cap rule when certain criteria are met.
The amount of unrecognized assets on the acquisition date is 0.4 billion euros.
However, pending clarification and as a measure of prudence, the Group has decided to defer all the effects induced by this recognition on the balance sheet (write-back of the negative goodwill attributable to it, change in the cap related to the change in the value of the funds for the year).

The accounting consequences, depending on whether IFRIC confirms or rejects the recognition of the value of the surplus funds on the balance sheet, are described below.

### 3.1- Recognition of the surplus value of the funds on the balance sheet

The fraction of negative goodwill related to this surplus value was 622 million euros after tax impact at March 31, 2005.
Confirmation of the recognition of the surplus on the balance sheet would have resulted in an additional reversal of negative goodwill, increasing net income by 93 million euros.

The actuarial assumptions used for closing have changed since the KLM acquisition date (primarily the discount rate).
These changes affect two principal elements—the amount of the cap and the value of the commitments. For the value of the commitments, the variation known as «actuarial gains and losses» is amortized over the expected residual average working life of the personnel affected by these regimes.
The accounting treatment that results from these provisions would have resulted in an increase of about 138 million euros in operating income and an increase in net income of 94 million euros after the tax impact.

The total of these operations would be reflected by an increase in net income of 187 million euros.

### 3.2- Non-recognition of the surplus value of the funds on the balance sheet

The fraction of negative goodwill related to this surplus value disappears as a contra to the cancellation of the value of the assets recorded.
The impact on the result would lead to cancellation of the reversal of the negative goodwill taken over the first quarter (the freeze on the operation occurred as of closing the half-year accounts), which is a reduction of 25 million euros in net income.

In addition, the annual pension charge accounted for in the income statement, which reflects the normative charge pursuant to IAS 19, would be increased in order to match the amount paid during the year by KLM to the surplus fund management institutions.

The resulting additional operating charge would be about 50 million euros, generating a reduction in net income of approximately 33 million euros.

The total of these operations would be reflected in a decline of 58 million euros in net income.

## 4- Accounting position for the future

The Group believes that IFRIC's opinion will not be known before sometime in the fourth quarter of 2005, which for the Group means at the close of the third quarter of fiscal 2005-06.
When the opinion is issued, the accounting treatment will be applied retrospectively.
The Group will re-estimate the acquisition balance sheet, which will result, if applicable, in the determination of new negative goodwill and an adjustment in the result for the 2004-05 period; the accounts for the 2005-06 period are not in any event due to bear these adjustments.

The following table shows the amount recorded in the balance sheet:

*As of March 31,*
*In EUR million*

| | 2005<br>Air France-KLM |
|---|---|
| Fair value of plan assets | 9,757 |
| Defined benefit obligation | (8,496) |
| **Plan assets in excess than projected benefit obligations** | **1,261** |
| Unrecognized net actuarial gains (losses) | (229) |
| Unrecognized prior services cost | |
| Unrecognized surplus | 452 |
| **Net obligation in the balance sheet** | **1,038** |

Furthermore, KLM group has three provisions for a total of 129 million euros as at March 31, 2005:
- 99 million euros for health insurance payable in respect of retired employees. 68 % of this provision relates to domestic staff and the remainder to former employees in United States and Canada. The provision is calculated in accordance with IAS 19 employee Benefits based on a discount ranging from 4.5% to 6.25% and an annual increase rate of benefits ranging from 2% to 5%;
- 16 million euros for retirement indemnities for employees based in Italy and Japan;
- 14 million euros for the existing early retirement entitlements.

Retirement charges include the following components:

*As of March 31,*
*In EUR million*

| | 2005<br>Air France-KLM |
|---|---|
| Current service cost | (246) |
| Interest cost | (362) |
| Amortization of actuarial gains (losses) | (57) |
| Amortization of prior services cost | - |
| Expected return on plan assets | 473 |
| **Net retirement charge** | **(192)** |

The assumptions used in the valuation of retirement benefit are as follows:

| *As of March 31,* | 2005 | |
|---|---|---|
| | **Netherlands** | **Abroad** |
| Gross discount rate | 4.5% | 1.7 to 5.3% |
| Gross rate of increase in salaries | 3.4 to 7.3% | 2 to 4.5% |

## B – Air France group

In addition to defined benefit pension schemes for employees in France, the Group grants various defined pension benefits to its employees abroad and termination benefit schemes.

The major foreign employee benefit liabilities of the Group 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 two specific schemes:
- a retirement lump-sum scheme for all employees;
- an additional retirement indemnity scheme.

The French law 2003-775 of August 21, 2003 amending the pensions system fixed the age of retirement at the age of 65. This modification consequently implies that lump-sum schemes disbursed for retirement prior to that age would be subject to social security taxes, unless a sector agreement including counterparts in terms of employment grants this involuntary retirement.

Further the privatization of Air France on May 5, 2004, the current statutory regulations needed to be adapted and aligned with those applicable under common law. Air France had a period of two years in which to implement this alignment, during which the statutory regulations would be still applied:

- All members of staff are entitled to a statutory retirement indemnity calculated on the basis of seniority, which may be allocated at or after the age of 55 for cabin crew members and 60 for other employees. This indemnity is not subject to social security taxes.
- Cabin crew members are also entitled to a special retirement indemnity subject to social security taxes, and available under certain conditions at or after the age of 50.

Starting May 6, 2006, redundancy and involuntary retirement conditions of the "National Aeronautical Transport Sector Agreement" shall apply to the ground staff of Air France.

Based on an agreement signed on April 13, 2005, new conditions of redundancy and involuntary retirement prior to the age of 65 have been defined in the sector agreement for ground staff of Air France. According to these, the retirement indemnity is not subject to social security taxes (for both the employee and the employer) when the retirement is involuntary.

Furthermore, the new law stipulates that pilots must retire at 60 and cabin crew at 55.

The new law, in Article L.421.9 of the civil aviation code, does not change the retirement age but may if the reclassification of ground staff fails, change the type of redundancy previously classified as a case of force majeure.

This type of redundancy is usually exempt from the Delalande tax.

Were this not the case, the impact of this additional commitment would be booked as an actuarial variance of approximately 39 million euros and would be spread over the average residual period of the employee's term of employment, representing 3 million euros a year.

For all schemes identified as material, an actuarial valuation as of March 31, 2005 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: 4.5% for French entities and ranging from 1.75% to 18% for foreign entities;
- long term expected rates of return on pension plan assets ranging from 4% to 12%.

The following table shows the amounts recorded in the balance sheet:

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Defined benefit obligation | 857 | 772 |
| Fair value of plan assets | (404) | (410) |
| **Projected benefit obligations in excess of plan assets** | **453** | **362** |
| Unrecognized net actuarial gains (losses) | (88) | (40) |
| Unrecognized prior services cost | (25) | (24) |
| Assets in the balance sheet | 19 | 19 |
| **Provisions in the balance sheet** | **359** | **317** |

Retirement charges include the following components:

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Current service cost | (39) | (37) |
| Interest cost | (41) | (37) |
| Amortization of actuarial gains (losses) | (2) | (1) |
| Amortization of prior services cost | (1) | (2) |
| Expected return on plan assets | 28 | 27 |
| **Net retirement charge** | **(55)** | **(50)** |

The assumptions used in the valuation of retirement benefit obligations are as follows:

| *As of March 31,* | 2005 | | 2004 | |
|---|---|---|---|---|
| | France | Abroad | France | Abroad |
| Gross discount rate | 4.50% | 1.75 to 18% | 5.00% | 2 to 9% |
| Gross rate of increase in salaries | 1.5 to 5.1% | 3 to 18.5% | 1.5 to 4.5% | 2 to 12% |

## 22.3 Restructuring provisions

| *As of March 31,*<br>*In EUR million* | 2005<br>Air France-KLM | 2004<br>Air France published |
|---|---|---|
| Opening balance | 13 | 11 |
| Change in scope of consolidation | 82 | - |
| Charge | 17 | 10 |
| Release | (45) | (8) |
| Exchange difference | 4 | - |
| **Closing balance** | **71** | **13** |

The change in «restructuring provisions» primarily reflects the consolidation of the KLM group. Restructuring provisions for the KLM group at March 31, 2005 amounted to 53 million euros.

## 23. Financial debt

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Perpetual subordinated loan stock | 571 | 116 |
| Bonds | - | 18 |
| Capital-lease obligations | 4,482 | 1,453 |
| Other long-term loans | 2,873 | 2,461 |
| Accrued interest not yet due | 79 | 43 |
| Bond redemption premiums | - | - |
| **Long-term debt(1)** | **8,005** | **4,091** |
| Borrowings with short-term original maturities | | |
| Commercial paper | - | - |
| Short-term bank finance facilities and similar facilities | 263 | 289 |
| **Short-term debts** | **263** | **289** |
| **Total financial debt** | **8,268** | **4,380** |
| *(1) Less than one year* | *1,056* | *429* |

### 23.1 Perpetual subordinated loan securities (TDI)

Part of the long-term debt of KLM are two subordinated loans (Japanese Yen and Swiss Franc) amounting to 495 million euros. These two issues are subject to the payment of a coupon considered to be fixed-rate, after the exercise of swaps for the issue denominated in yen. In certain circumstances, KLM has the right to redeem the subordinated perpetual loans, with or without payment of a premium. These loans are subordinated to all other existing and future KLM debts. The subordinations are equal in rank. The loan in Swiss Franc was incepted in 2 tranches (1985 and 1986); the weighted average rate of this perpetual loan was 4.45 % for the period ended March 31, 2005. The loan in Japanese Yen was incepted in 1999.

Air France issued two of TDI perpetual subordinated loan securities, one in June 1989 and a second in May 1992, in the amounts of 381 million euros and 395 million euros 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 issue, 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 issue 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 Air France 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 issue 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 Air France 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. As of March 31, 2005, the TDI 89 was fully amortized and the TDI 92 represented a debt of 76 million euros.

In France, the tax regime for perpetual subordinated loan stock was approved by the Tax Authorities and interest is henceforth deductible for the portion effectively received.

## 23.2 Bonds

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Bonds denominated in EUR | | |
| Other bonds | - | 18 |
| **Total bonds denominated in EUR** | **-** | **18** |
| Accrued interest payable | - | - |
| Bond redemption premiums | - | - |
| **Total bonds** | **-** | **18** |

## 23.3 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 Baa1/A- rating by Moody's and Fitch respectively.
During the fiscal year ended 31 March 2004, 13 aircraft were delivered for an amount of 337 million euros, 3 last aircraft have been delivered during this fiscal year for 98 million euros.

## 23.4 Analysis by maturity date

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| **Matures in** | | |
| Y + 1 | 1,056 | 429 |
| Y + 2 | 1,087 | 523 |
| Y + 3 | 983 | 600 |
| Y + 4 | 849 | 312 |
| Y + 5 | 573 | 435 |
| > 5 years | 3,457 | 1,792 |
| **Total** | **8,005** | **4,091** |

## 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:

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Euro | 6,997 | 3,720 |
| US Dollar | 619 | 366 |
| Swiss Franc | 280 | - |
| Yen | 29 | - |
| Pound Sterling | 76 | - |
| Other currencies | 4 | 5 |
| **Total** | **8,005** | **4,091** |

## 23.6 Credit lines

On August 8, 2001, Air France signed the opening of a revolving, syndicated multi-currency credit line in the amount of 1 billion euros for a period of five years, unused as of March 31, 2005. This credit line was renewed in April 2005 in the amount of 1.2 billion euros for a new period of five years with two one-year period. In addition, the Group benefits from a medium-term credit line in the amount of 52 million euros (28 million euros drawn as of March 31, 2005), with repayment deadlines between April 2005 and October 2006.

## 24. Income tax liability

Income tax liability breaks down as follows:

| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Current tax | 8 | 21 |
| Deferred tax | 73 | - |
| **Total** | **81** | **21** |
| *Of which > 1 year* | *73* | - |

## 25. Advance ticket sales

| *As of March 31, In EUR million* | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Tickets | 1,328 | 781 |
| Frequent Flyer Program | 118 | 80 |
| Other | 210 | 147 |
| **Total** | **1,656** | **1,008** |

## 26. Other payables

Other payables consist, for the most part, of salaries and other amounts owed to employees including corresponding social contributions, and internal gains on disposals with equity affiliates (Amadeus G.T.D and Air France Partnairs Leasing) stated in "Other".
During 1997 and 1998, the Group 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 Group) to Amadeus G.T.D., an equity affiliate. On December 30, 2004, the Group sold its entire stake in Amadeus France to Amadeus GTD. The gains on disposal of these investments have been eliminated to the extent of the Group's continuing investment in Amadeus G.T.D. These amount will continue to be deferred until such time as the Group's investment in Amadeus G.T.D. is reduced by sale or other means.

As of March 31, 2005, the item «Other liabilities» also includes the other operating liabilities of the KLM group in the amount of 355 million euros, including 77 million euros for layover services and aircraft fees, and 51 million euros for maintenance.
Finally, «other liabilities» as March 31, 2005 includes 207 million euros in liabilities to the French State under the Offer Reserved for Employees and the Salary-Share swap (SSS; see notes 18 and 33).

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Employee-related liabilities | 742 | 491 |
| Tax liabilities | 234 | 193 |
| Other | 1,130 | 516 |
| **Total** | **2,106** | **1,200** |
| *Of which > 1 year* | - | - |

# 27. Financial instruments

## 27.1 Exposure to interest rate risk

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

| *As of March 31, In EUR million* | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Fixed to variable-rate swaps | 762 | 172 |
| Variable to fixed-rate swaps | 1,894 | 1,105 |
| Interest rate collars | 7 | - |

These instruments have different objectives:

- **Hedging price risk relating to fixed-rate financial debt:**
By contracting a fixed-rate debt, the Group 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 financial debt , the Group entered into a number of fixed to variable-rate swaps.

- **Hedging of cash-flow risk relating to variable-rate financial debt:**
The Group 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:

### Financial assets and liabilities at fixed rates

*As of March 31,*
*In EUR million*

| | Bases | | Average rate of interest | |
|---|---|---|---|---|
| | 2005 Air France-KLM | 2004 Air France published | 2005 Air France-KLM | 2004 Air France published |
| **Fixed-rate financial assets** | **36** | **13** | **4.54%** | **9.30%** |
| Perpetual subordinated loan securities | 571 | 97 | 5.32% | 10.04% |
| Bonds | - | - | - | 6.54% |
| Other long-term financial debt | 3,822 | 1,800 | 6.05% | 5.18% |
| Short-term bank finance facilities and similar facilities | - | - | - | - |
| **Fixed-rate financial liabilities** | **4,393** | **1,897** | **5.96%** | **5.46%** |

### Variable-rate assets and liabilities

*As of March 31,*
*In EUR million*

| | Bases | | Average rate of interest | |
|---|---|---|---|---|
| | 2005 Air France-KLM | 2004 Air France published | 2005 Air France-KLM | 2004 Air France published |
| **Variable-rate financial assets** | **805** | **163** | **2.26%** | **2.25%** |
| Perpetual subordinated loan securities | - | 19 | 2.70% | 2.70% |
| Bonds | - | 18 | 1.62% | 1.16% |
| Other long-term financial debt | 3,533 | 2,114 | 2.85% | 3.12% |
| Short-term bank finance facilities and similar facilities | 263 | 289 | 2.06% | 2.04% |
| **Variable-rate financial liabilities** | **3,796** | **2,440** | **2.78%** | **2.93%** |

## 27.2 Exchange rate risk

**Current operations:**
Although the Group's reporting currency is the euro, part of its cash flow is denominated in other currencies, such as the US dollar, the yen, the pound sterling and the Swiss franc.
Commercial activities also generate and incur income and expenses in foreign currency. The Group's policy is to hedge against exchange risks relating to forecast cash surpluses or shortfalls in various currencies (US dollar, yen, 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 Group hedges on the basis of projected fluctuations in the US dollar via forward sales and purchases and/or option-based strategies.

**Financial debt:**

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:

| *As of March 31, In EUR million* | | Nominal amounts **2005** Air France-KLM | Nominal amounts **2004** Air France published |
|---|---|---|---|
| **Operating hedges:** | | | |
| Forward sales | | | |
| | - Yen | 76 | 124 |
| | - Sterling pound | 183 | 57 |
| | - Swiss Franc | 36 | - |
| | - Norwegian Krone | 77 | - |
| | - Swedish Krona | 62 | - |
| | - Singapore Dollar | 14 | - |
| | - Polish New Zloty | 9 | - |
| Maturity | - min | April 2005 | April 2004 |
| | - max | March 2006 | April 2006 |
| Forward purchases | | | |
| | - US Dollar | 290 | 182 |
| Maturity | - min | April 2005 | April 2004 |
| | - max | March 2006 | March 2005 |
| Exchange rate options | | | |
| | - US Dollar | 647 | 227 |
| | - Sterling pound | 66 | 45 |
| | - Yen | 58 | - |
| | - Swiss Franc | 22 | - |
| Maturity | - min | April 2005 | April 2004 |
| | - max | May 2006 | March 2005 |
| **Flight equipment acquisition hedging:** | | | |
| | - forward purchases | 1,973 | 1,091 |
| | - put options | 216 | - |
| Maturity | - min | April 2005 | April 2004 |
| | - max | February 2010 | May 2008 |
| **Hedging of long-term debt and capital leases:** | | | |
| | - currency swaps | 234 | - |
| | - cross currency interest rate swap (CIRS) | 1,014 | - |
| Maturity | - min | April 2005 | - |
| | - max | August 2019 | - |

## 27.3 Commodity risk-fuel prices

In the normal course of its business, the Group conducts transactions on the petroleum products markets in order to effectively manage the risks related to its purchases of aircraft fuel.

The Group's commitments on the crude and refined oil markets are shown below (nominal amounts):

*As of March 31,*
*In EUR million*

| | | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|---|
| Petroleum swaps | | 1,712 | 25 |
| Petroleum options | | 2,574 | 842 |
| Maturity | - min | April 2005 | April 2004 |
| | - max | March 2009 | June 2007 |

## 27.4 Counterparty risk management

Transactions which potentially generate counterparty risk for the Group are as follows:
- temporary financial investments;
- derivatives;
- trade receivables.

- Financial investments are diversified investments in blue-chip securities negotiated with leading banks.
- Group transactions in derivatives have the sole aim of reducing overall exposure to exchange rate and interest rate risks to which the Group 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, 2005, the Group did not identified any specific counterparty risks.

## 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, 2005 and 2004 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 Group 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.

- **Borrowings and other long-term loans and debt:**

The exchange and interest rate swaps are specifically hedged against long-term debt and capital leases. The market value of financial debt and loans has been determined after having taken the hedged swaps into account. Variable-rate loans and financial debt are recorded at net book value. The market value of fixed-rate loans and financial debt 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, 2005 and 2004 calculated using the year-end market rate.

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

| *As of March 31, In EUR million* | **2005** Air France-KLM | | **2004** Air France published | |
|---|---|---|---|---|
| | **Net book value** | **Estimated market value** | **Net book value** | **Estimated market value** |
| **Balance sheet** | | | | |
| Investment securities | 73 | 70 | 81 | 76 |
| Loans | | | | |
| - fixed-rate | 3 | 3 | 4 | 4 |
| - variable-rate | 3 | 3 | 36 | 36 |
| Marketable securities | 2,254 | 2,254 | 1,478 | 1,478 |
| Bonds | | | | |
| - fixed-rate | - | - | - | - |
| - variable-rate | - | - | 18 | 18 |
| Perpetual subordinated loan securities | 571 | 550 | 116 | 155 |
| Other loans and long-term debt and capital leases | | | | |
| - fixed-rate | 3,822 | 4,048 | 1,800 | 1,822 |
| - variable-rate | 3,533 | 3,533 | 2,114 | 2,114 |
| Other short-term loans and long-term debt and capital leases | 263 | 263 | 289 | 289 |
| **Off-balance sheet (1)** | | | | |
| Treasury management instruments | | | | |
| - exchange rate options | - | (6) | - | 5 |
| - forward currency contracts | - | (178) | - | 21 |
| - currency swaps | - | (36) | - | - |
| - interest rate swap | - | (57) | - | - |
| commodity instruments | | | | |
| - petroleum swaps | - | 1,183 | - | 154 |

*(1) For off-balance sheet financial instruments, the figures quoted as market values represent unrealized gains and losses as of March 31, 2005 and 2004.*

# 28. Leases

## 28.1 Capital leases

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| **Aircraft** | | |
| Minimum lease payments by maturity | | |
| Y + 1 | 609 | 161 |
| Y + 2 | 881 | 134 |
| Y + 3 | 882 | 281 |
| Y + 4 | 525 | 172 |
| Y + 5 | 411 | 100 |
| > 5 years | 1,729 | 591 |
| **Total** | **5,037** | **1,439** |
| Of which interest | 727 | 185 |
| **Aircraft capital leases debt** | **4,310** | **1,254** |
| **Buildings** | | |
| Minimum lease payments by maturity | | |
| Y + 1 | 21 | 20 |
| Y + 2 | 21 | 21 |
| Y + 3 | 19 | 22 |
| Y + 4 | 18 | 21 |
| Y + 5 | 18 | 19 |
| > 5 years | 102 | 127 |
| **Total** | **199** | **230** |
| Of which interest | 29 | 34 |
| **Building capital leases debt** | **170** | **196** |
| **Equipment capital leases debt** | **2** | **3** |
| **Total capital leases debt** | **4,482** | **1,453** |

Amounts non discounted

In fiscal 2004-05, the group exercised a purchase option on a financial lease contract, then sold a building in Ivry.

## 28.2 Operating leases

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| **Aircraft** | | |
| Minimum lease payments by maturity | | |
| Y + 1 | 648 | 502 |
| Y + 2 | 548 | 467 |
| Y + 3 | 449 | 388 |
| Y + 4 | 354 | 319 |
| Y + 5 | 263 | 241 |
| > 5 years | 589 | 370 |
| **Total** | **2,851** | **2,287** |
| Amounts non discounted | | |

For practical reasons, it is not Group 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:

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Y + 1 | 1,157 | 779 |
| Y + 2 | 608 | 839 |
| Y + 3 | 422 | 332 |
| Y + 4 | 537 | 375 |
| Y + 5 | 121 | 590 |
| > 5 years | 117 | 261 |
| **Total** | **2,962** | **3,176** |

These commitments relate to the amounts in US dollar which are converted into euros at the year-end exchange rate.

Air France had 31 aircraft on order at March 31, 2005, including 20 Airbus and 11 Boeing, nine planes less than at the end of March 2004. This change reflects the continued rolling out of delivery schedules for new aircraft and the new orders booked.

KLM and its subsidiaries had 9 aircraft on order at March 31, 2005, including 6 Airbus and 3 Boeing.

A breakdown by fleet type is given in the following paragraphs:

**Long-haul fleet**

**Air France group**

Nine Boeing 777-300ER, a 310 seater three-class aircraft, were added to Air France's fleet between May 2004 and the end of March 2005. Four of the nine Boeing 777-300ER were part of the order made for 10 planes in November 2000 (two owned outright by the Company and two held under financial leases); the other five are held under operating leases. This fleet, which will be increased to 10 aircraft in summer 2005 following an additional delivery in April 2005, is intended to be run on long-haul lines with high levels of business travelers.

Air France has also confirmed its interest in this model by converting four options into firm orders with a view to the development of a dedicated 'leisure' fleet for flights on the Caribbean-Indian Ocean network as of fiscal 2006-2007.

The order book for 777-300ER at the end of March 2005 was therefore still 10 units, i.e. the 10 aircraft from the initial order less the four deliveries over the year plus the four options exercised.

The other orders for long-haul aircraft have not seen any major changes over the year. The commitments for firm flight equipment orders include two A330-200, which will be delivered in April 2005. However, they do not include the last A330-200, which is still in storage further to the operation carried out in fall 2002 to defer the delivery. This plane is owned by NOGUES, a financing company that is now consolidated within the Air France group. This aircraft will enter into service in April 2005, marking the completion of moves to set up a fleet of 16 A330-300.

The order for ten A380-800 has not changed, with the first three deliveries still scheduled for spring 2007.

Lastly, a final order has been made for one 747-400ERF, which is due to be delivered in June 2005, supplementing the current fleet of four aircraft.

**KLM group**

KLM finalized Phase I of its Fleet Renewal Program with the delivery of the remaining four B777-200ER aircraft in April 2004, October 2004, December 2004 and January 2005. Three of these aircraft are operating leases and one is a financial lease.

For Phase II of the Fleet Renewal Program, the replacement of twelve B767-300, KLM purchased six Airbus A330-200 aircraft. The first A330-200 aircraft is scheduled for delivery in August 2005. Additionally, KLM has ordered two B777-200ER aircraft from Boeing, to be delivered early 2006. A combination of two B777-200ER and A330-200 aircraft will be leased in May 2006 (first B777) and early 2007 (others) from ILFC. The first B767-300 was scheduled for redelivery to the lessor in April 2005.

**Medium-haul fleet**

**Air France group**

The process to rationalize the A320 fleet has continued, with eight planes brought into service –four A318, two A320, one A321 and one A319 – over the year.

The four A318 delivered represent the sixth to ninth planes of an order for 15 units signed in December 1999, with this module intended to replace the 737-500 in time on the starter segment for the medium-haul fleet (110-120 seats).

The other four A320 aircraft, which were brought into service between April and July 2004, were initially concerned by the decision to defer the delivery in fall 2002 with a view to adjusting the fleet in line with the slowdown on air transport. The upturn in traffic seen in 2003 and confirmed in 2004 allowed the Group to end this operation for these planes.

**KLM group**

In May 2004, KLM replaced one B737-300 on operating lease by a B737-900 in a financial lease. One owned B737-400 was written-off following the Barcelona incident on 28 November 2004. No further orders were placed with manufacturers and lessors.

Transavia purchased a B737-800 and leased a B737-700 in April 2004. One order was placed with Boeing for an additional B737-700.

**Regional company fleet**

**Air France group**

The regional companies took delivery of one CRJ 700 and one Embraer 145.

**KLM group**

KLM Cityhopper has recently added one used Fokker-70 and one used Fokker-100 to its fleet. Both are owned aircraft. Furthermore, four Fokker-50 aircraft were sold and leased back in November 2004.

**The commitments of the Group concern the following aircraft:**

| | As of | To be delivered in | Y + 1 | Y + 2 | Y + 3 | Y + 4 | Y + 5 | > 5 years |
|---|---|---|---|---|---|---|---|---|
| **A 318** | **March 31, 2005** | **Firm orders** | 3 | 3 | - | - | - | - |
| | | ***Options*** | - | 5 | 2 | - | - | - |
| | March 31, 2004 | Firm orders | 4 | 3 | 3 | - | - | - |
| | | *Options* | - | - | 5 | 2 | - | 3 |
| **A 319** | **March 31, 2005** | **Firm orders** | 2 | - | - | - | - | - |
| | | ***Options*** | - | - | - | - | - | - |
| | March 31, 2004 | Firm orders | 1 | 2 | - | - | - | - |
| | | *Options* | - | - | - | - | - | - |
| **A 320** | **March 31, 2005** | **Firm orders** | - | - | - | - | - | - |
| | | ***Options*** | - | 2 | 1 | - | - | - |
| | March 31, 2004 | Firm orders | 2 | - | - | - | - | - |
| | | *Options* | - | 1 | 2 | 1 | - | - |
| **A 321** | **March 31, 2005** | **Firm orders** | - | - | - | - | - | - |
| | | ***Options*** | - | - | - | - | - | - |
| | March 31, 2004 | Firm orders | 1 | - | - | - | - | - |
| | | *Options* | - | - | - | - | - | - |
| **A 330** | **March 31, 2005** | **Firm orders** | 6 | 2 | - | - | - | - |
| | | ***Options*** | - | - | 1 | - | - | - |
| | March 31, 2004 | Firm orders | - | 3 | - | - | - | - |
| | | *Options* | - | 1 | 2 | 2 | - | 1 |
| **A 380** | **March 31, 2005** | **Firm orders** | - | - | 3 | 5 | 1 | 1 |
| | | ***Options*** | - | - | - | 1 | 1 | 2 |
| | March 31, 2004 | Firm orders | - | - | - | 3 | 5 | 2 |
| | | *Options* | - | - | - | - | 2 | 2 |
| **B 737** | **March 31, 2005** | **Firm orders** | 1 | - | - | - | - | - |
| | | ***Options*** | - | 2 | 4 | 4 | 1 | - |
| | March 31, 2004 | Firm orders | - | - | - | - | - | - |
| | | *Options* | - | - | - | - | - | - |
| **B 747** | **March 31, 2005** | **Firm orders** | 1 | - | - | - | - | - |
| | | ***Options*** | - | - | - | - | - | - |
| | March 31, 2004 | Firm orders | - | 1 | - | - | - | - |
| | | *Options* | - | - | - | - | - | - |
| **B 777** | **March 31, 2005** | **Firm orders** | 5 | 5 | 2 | - | - | - |
| | | ***Options*** | - | - | 2 | 4 | - | - |
| | March 31, 2004 | Firm orders | 3 | 5 | 2 | - | - | - |
| | | *Options* | - | - | 2 | 4 | 3 | 1 |
| **Embraer 145** | **March 31, 2005** | **Firm orders** | 5 | 2 | - | - | - | - |
| | | ***Options*** | - | - | - | - | - | - |
| | March 31, 2004 | Firm orders | 1 | 5 | 2 | - | - | - |
| | | *Options* | - | - | - | - | - | - |
| **CRJ 700** | **March 31, 2005** | **Firm orders** | 1 | - | - | - | - | - |
| | | ***Options*** | - | - | - | - | - | - |
| | March 31, 2004 | Firm orders | 1 | 1 | - | - | - | - |
| | | *Options* | - | - | - | - | - | - |

# 30. Other commitments

## 30.1 Commitments provided

*As of March 31,*
*In EUR million*

| | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Call on investment securities | 23 | 13 |
| Put on investment securities | (2) | (2) |
| **Total** | **21** | **11** |
| Warranties, sureties and guarantees | 105 | 16 |
| Morgaged or secured assets | 1,749 | 1,650 |
| Other purchase | 167 | 215 |

## 30.2 Commitments received

*As of March 31,*
*In EUR million*

| | **2005** Air France-KLM | **2004** Air France published |
|---|---|---|
| Warranties, sureties and guarantees | 145 | 106 |
| Other | 3 | 9 |

Warranties, sureties and guarantees are comprised primarily of letter of credit received from financial institutions.

### 30.3 Litigation and court action

Air France–KLM and its subsidiaries are involved in various disputes, for which they have not necessarily been required to book provisions in their accounts.

More specifically, a class action has been filed against Air France, KLM and several US airlines, by five travel agencies based in the United States and their professional association (Association of Retail Travel Agents) for collusion. The damages claimed against the airlines represented a total of 17.5 billion dollars, and this amount could have been tripled under US collusion legislation. An initial ruling was handed down on October 30, 2003 in favor of the airlines. In a ruling announced on December 9, 2004, the Court of Richmond (Virginia) confirmed the decision taken on October 30, 2003. Subject to a possible appeal, the airlines, including Air France, have been definitively cleared in this case. No provisions had been booked in connection with this dispute.

Furthermore, a similar suit is currently being reviewed by the federal courts in Ohio. Around 150 travel agents, which were initially plaintiffs in the case mentioned above, but later withdrew, have filed a case on the same grounds (collusion) against Air France, KLM and other European and US airlines. The amount of damages alleged by these 150 agents has not yet been determined.

Neither Air France nor KLM have booked any provisions in connection with these proceedings.

In December 2004, IAP Intermodal, a US company, filed charges against several airlines including Air France with a federal court in Texas, accusing them of using flight-time scheduling software that infringe on three patents that this company claims to hold.

On the basis of legal advice given by a specialized firm in the United States, Air France believes that these claims have no grounds, and as such, does not plan to book any provisions.

Lastly, in 2000 and 2001, several Servair employees opened proceedings against their employer claiming that their mealtimes at the place of work should be paid 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. The Paris court of appeals ruled in favor of Servair on November 8, 2001. Other suits focusing on the same issue have been filed by another 471 Servair employees and are currently being reviewed. In a ruling handed down on October 29, 2004, the court dismissed a case filed by around thirty employees. A verdict on similar claims filed by 393 members of staff is expected for June 7, 2005.

No provisions have been booked for any of these cases, which Servair believes to be unfounded.

None of the other disputes that are currently underway, for which Air France and KLM 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.

## 31. Cash flow statement

### 31.1 Cash and cash equivalents

*As of March 31,*
*In EUR million*

| | 2005 Air France-KLM | 2004 Air France published |
|---|---|---|
| Cash at bank | 386 | 330 |
| Cash equivalents (note 20) | 2,101 | 1,364 |
| Short-term bank finance and similar facilities (note 23) | (263) | (289) |
| **Cash and cash equivalents** | **2,224** | **1,405** |

### 31.2 Acquisition of subsidiaries and affiliates

The acquisition of subsidiaries and stakes mainly correspond to KLM cash at the acquisition date for an amount of 575 million euros and the acquisition of self-controlling shares for an amount of 32 million euros.

Additional stakes were purchased in Servair and Air Chef for respective amounts of 3 and 4 million euros.

## 32. Other key events over the year

After the French state's disposal of part of its interest in Air France-KLM on December 9, 2004, the employees of Air France and its subsidiaries have had the opportunity to purchase shares on special terms.

A total of 21.6 million Air France-KLM shares (excluding bonus shares), representing 8% of the capital of Air France-KLM, were offered to employees in February 2005 through two schemes: an offer reserved for employees (ORE) and a salary-share swap (SSS).

The offer reserved for employees enabled employees to purchase 9 million shares and, depending on the formula chosen, take advantage of various benefits offered by the French government and the company:

- 20% discount;
- bonus shares;
- employer's contribution of up to 40%;
- easy payment facilities.

The employer's contribution paid by Air France in the Offer Reserved for Employees impacted personnel costs in the amount of 16 million euros at March 31, 2005.

On February 1, 2005, Air France-KLM offered Air France employees working under a permanent French employment contract the possibility of agreeing to reductions in their wages over a period of 6 years in exchange for the remittal of Air France-KLM shares by the French State, up to a maximum of 13,186,853 shares. At the close of the offer on February 21, 2005, 12.6 million shares of Air France-KLM stock had been subscribed by the employees of Air France. Therefore, this operation, which will be effective as of May 2005, had no impact on the group's financial statements for the year ended March 31, 2005.
In addition, the group must reimburse the French State for the cost of implementing the salary-share swap (the shares subscribed under the salary-share swap are remitted to Air France employees by the French State). The debt booked for this purpose in the accounts of Air France-KLM at March 31, 2005 totaled 107 million euros.

## 33. Subsequent events review

In April 2005, Air France issued a 15-year Convertible Bond with an option to convert to new or existing Air France-KLM stock ("OCEANEs") for a total of 450 million euros.

The sums borrowed through this convertible bond issue will be used to finance capital investments for the Air France group, especially fleet modernization, at a lower financing cost compared with traditional borrowing facilities over a similar period and without mortgaging planes as would normally be the case when financing aircraft.

During fiscal year 2004-05, Air France and the other air carriers that were Amadeus shareholders initiated negotiations with investment funds (known as private equity funds) to launch, through a company they will hold, a tender offer for GTD at a price of 7.35 euros per share. This «Leveraged Buy Out (LBO)» will allow Air France to realize its potential gain, while remaining a shareholder of Amadeus GTD, and to realize gross cash of 800 million euros. The documents required to obtain approval of the offer were filed with the Spanish market authorities on April 8, 2005. The tender offer opened on May 26 and will continue until June 27.

# 34. Scope of consolidation at March 31, 2005



| | Address | Siren | Stock | % Interest | % control | Method | Year end |
|---|---|---|---|---|---|---|---|
| **AIR France SA Group** | | | | | | | |
| AIR FRANCE SA | 45, rue de Paris 95747 Roissy - CDG Cedex | 420,495,178 | 1,901,231,625 € | 100 | 100 | Fully consolidated | Mar-31 |
| AIR FRANCE SERVICES LTD | Room 229 - Terminal 2 Office Block London Heathrow Airport - Hounslow MDDX TW6 1RR - Great Britain | Foreign | 7,000,000 GBP | 100 | 100 | Fully consolidated | Dec-31 |
| AMADEUS GLOBAL TRAVEL DISTRIBUTION | Salvador de Madariaga 1 28046 Madrid - Spain | Foreign | 23,044,000 € | 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 |
| NOGUES | 5 Harbourmaster Place, Dublin 1, Ireland | Foreign | 1 USD | 0 | 100 | Fully consolidated | 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 |
| **REENTON DEVELOPMENT LTD sub group** | | | | | | | |
| 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 AVIONICS CO. LTD | N°8, 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 SERVICES LTD | Yaoqiang International Airport, Jinan 250107, Shandong - China | Foreign | 3,380,000 CNY | 8 | 20 | Equity method | Dec-31 |
| **UILEAG HOLDING COMPANY sub group** | | | | | | | |
| UILEAG HOLDING COMPANY LIMITED | 5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland | Foreign | 1 € | 100 | 100 | Fully consolidated | Mar-31 |
| O'FIONNAGAIN HOLDING COMPANY LIMITED | 5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland | Foreign | 1 € | 100 | 100 | Fully consolidated | Mar-31 |
| 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, Ireland | 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, Ireland | Foreign | 1 € | 100 | 100 | Fully consolidated | Mar-31 |
| TAKEOFF 9 LIMITED | 5 Harbourmaster Place, International Financial Services Center, Dublin 1, Ireland | 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, Ireland | 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 |

# Scope of consolidation at March 31, 2005 (continued)



| | Address | Siren | Stock | % Interest | % Control | Method | Year end |
|---|---|---|---|---|---|---|---|
| **AIR FRANCE FINANCE sub group** | | | | | | | |
| 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 West Indies | Foreign | 26,209,180 USD | 45 | 45 | Equity method | Dec-31 |
| ALL AFRICA AIRWAYS | Les Cascades, Edith Cavell Street Port-Louis - Mauritius | Foreign | 6,697,487 USD | 51 | 51 | Fully consolidated | Dec-31 |
| 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 |
| GIE JEAN BART | 260 Bd Saint Germain 75007 Paris | 430,337,766 | - | 10 | 10 | Fully consolidated | Dec-31 |
| GIE SCHIPHOL | 260 Bd Saint Germain 75007 Paris | 452,912,488 | 20,000 € | 0 | 100 | Fully consolidated | Dec-31 |
| GIE SURCOUF | 260 Bd Saint Germain 75007 Paris | 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 |
| LYON MAINTENANCE | Aéroport Lyon Saint Exupery BP 386 69125 Lyon | 421,812,595 | 80,000 € | 100 | 100 | Fully consolidated | Mar-31 |
| REGIONAL COMPAGNIE AERIENNE EUROPEENNE | Aéroport de Nantes Atlantique 44340 Bouguenais | 335,351,920 | 50,000,000 € | 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 |
| TEAMTRACKERS SA | 57 rue Ledru Rollin 94 200 Ivry sur Seine | 449,171,222 | 1,000,000 € | 49 | 49 | Proportionally consolidated | Dec-31 |
| TEAMTRACKERS SRO | Olivova 4/2096 - 11000 Praha 1 Czech republic | Foreign | 17,500,000 CZK | 49 | 49 | Proportionally consolidated | Dec-31 |
| **SERVAIR sub group** | | | | | | | |
| SERVAIR | 4 place de Londres Roissypole 95726 Roissy - CDG Cedex | 722,000,395 | 52,386,208 € | 98 | 98 | Fully consolidated | Mar-31 |
| ACNA | Bat. 3416 Modules 100 et 200 BP 10605 95724 Roissy - CDG Cedex | 382,587,558 | 250,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| ACSAIR | Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy - CDG Cedex | 437,568,702 | 1,500,000 € | 50 | 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 € | 98 | 100 | Fully consolidated | Mar-31 |
| AEROSUR | Le Ronsard - Paris Nord 2 22 avenue des Nations - BP 50379 Villepinte - 95942 Roissy - CDG Cedex | 432,219,940 | 40,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| AFRIQUE CATERING | 4 place de Londres Roissypole BP 10701 95726 Roissy - CDG Cedex | 403,236,714 | 450,000 € | 50 | 51 | Fully consolidated | Dec-31 |
| AIR CHEF | Via Venezia Guilia 5/a Milano Italy | Foreign | 2,000,000 € | 49 | 50 | Equity method | Dec-31 |
| ALPHA AIRPORTS GROUP PLC | Europa House - 804 Bath road Cranford Middlesex TW5 9US Great Britain | Foreign | 17,068,000 GBP | 26 | 27 | Equity method | Jan-31 |
| BRUNEAU PEGORIER | 15 rue de la Grande Borne 77 990 Le Mesnil Amelot | 572,129,377 | 1,365,500 € | 93 | 95 | Fully consolidated | Mar-31 |
| CENTRE DE PRODUCTION ALIMENTAIRE | 16 rue de la Grande Borne 77990 Le Mesnil Amelot | 380,885,129 | 1,500,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| CULIN'AIR PARIS | 8 rue des acacias 77230 Villeneuve sous Dammartin | 430,048,959 | 914,760 € | 55 | 56 | Fully consolidated | Dec-31 |

# Scope of consolidation at March 31, 2005 (continued)

| | Address | Siren | Stock | % Interest | % Control | Method | Year end |
|---|---|---|---|---|---|---|---|
| DAKAR CATERING | PO Box 8431<br>Aéroport de Dakar Yoff<br>Dakar - Senegal | Foreign | 250,000,000 CFA | 49 | 51 | Fully consolidated | Dec-31 |
| EUROPEAN CATERING SERVICES | The Corporation Trust Company<br>1209 Orange Street<br>Wilmington DE 19801 USA | Foreign | 4,860,000 USD | 98 | 100 | Fully consolidated | Dec-31 |
| FLYING FOOD CATERING | 1209 Orange Street - City of Wilmington<br>400 - State of Delaware<br>USA | Foreign | 920,000 USD | 48 | 49 | Equity method | Dec-31 |
| FLYING FOOD MIAMI | 1650 N.W - 70 th Avenue<br>Miami, Florida 33299 USA | Foreign | 6,462,131 USD | 48 | 49 | Equity method | Dec-31 |
| FLYING FOOD SAN FRANCISCO | 810 Malcom Road Burlingame<br>California 94010 USA | Foreign | 6,926,328 USD | 43 | 44 | Equity method | Dec-31 |
| FLYING FOOD SERVICES | 1209 Orange Street - City of Wilmington<br>400 - State of Delaware USA | Foreign | 450,000 USD | 48 | 49 | Equity method | Dec-31 |
| JET CHEF | Zone d'aviation d'affaires<br>93350 Aéroport du Bourget | 382,587,541 | 380,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| LOGAIR | 4 place de Londres Roissypole<br>95726 Roissy - CDG Cedex | 443,014,527 | 40,000 € | 49 | 50 | Proportionally consolidated | Dec-31 |
| LOME CATERING SA | Aéroport de Lomé<br>BP 3688 Togo | Foreign | 100,000,000 CFA | 17 | 35 | Equity method | Dec-31 |
| LYON AIR TRAITEUR | 4 place de Londres Roissypole<br>BP 10701<br>95726 Roissy - CDG Cedex | 451,329,916 | 455,000 € | 100 | 100 | Fully consolidated | Mar-31 |
| MACAU CATERING SERVICES | Catering Building<br>Macau International Airport<br>Pac On Taipa - Macao | Foreign | 16,000,000 MOP | 17 | 34 | Equity method | Dec-31 |
| MALI CATERING | Aéroport de Bamako Sénou<br>BP E3803 - Bamako<br>Mali | Foreign | 350,000,000 CFA | 70 | 99 | Fully consolidated | Dec-31 |
| MARTINIQUE CATERING | 4 place de Londres Roissypole<br>BP 10701<br>95726 Roissy - CDG Cedex | 451,329,932 | 505,000 € | 100 | 100 | Fully consolidated | Mar-31 |
| ORLY AIR TRAITEUR | 1 rue du Pont des Pierres<br>91320 Wissous | 384,030,680 | 5,700,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| PASSERELLE | Route du Midi<br>Bat. 3441 - BP 10605<br>95724 Roissy - CDG Cedex | 433,032,828 | 7,500 € | 98 | 100 | Fully consolidated | Mar-31 |
| PRESTAIR | 1 rue du Pont de Pierre<br>BP 61 - Wissous<br>91422 Morangis Cedex | 429,723,737 | 7,500 € | 98 | 100 | Fully consolidated | Mar-31 |
| PMAIR | Bat. 3416 - Route du Midi<br>93290 Tremblay | 437,927,882 | 8,000 € | 50 | 51 | Fully consolidated | Dec-31 |
| SEREP | PO Box 8431<br>Aéroport de Dakar Yoff<br>Dakar - Senegal | Foreign | 30,600,000 CFA | 38 | 39 | Equity method | Dec-31 |
| SERVAIR EUREST | Avenida 11 de Septiembre Poligono<br>Mas Blau 08820 El Prat de Llobregat<br>Barcelona - Spain | Foreign | 710,797 € | 34 | 35 | Equity method | Dec-31 |
| SERVAIR SATS | PO Box 3 Singapore<br>Changi Airport<br>918141 Singapore | Foreign | 1,040,000 SGD | 50 | 51 | Fully consolidated | Dec-31 |
| SERVANTAGE | 12 chemin des glirettes<br>95000 Le Thillay | 424,657,179 | 37,500 € | 98 | 100 | Fully consolidated | Mar-31 |
| SESAL | Aéroport Léon Mba<br>PO Box 20303<br>Libreville - Gabon | Foreign | 250,000,000 CFA | 39 | 40 | Equity method | Dec-31 |
| SOCIETE IMMOBILIERE AEROPORTUAIRE | 4 place de Londres Roissypole<br>BP 10701<br>95726 Roissy - CDG Cedex | 722,003,795 | 1,905,000 € | 98 | 100 | Fully consolidated | Mar-31 |
| SKYCHEF | International Airport<br>PO Box 450 Victoria - Point Larue<br>Mahé - Seychelles | Foreign | 312,500 SCR | 54 | 55 | Fully consolidated | Mar-31 |
| SKYLOGISTIC | BP 121<br>69125 Lyon St Exupéry Aéroport | 423,049,089 | 547,500 € | 98 | 100 | Fully consolidated | Mar-31 |
| SOGRI | Aéroport de Cayenne Rochambeau<br>97351 Matoury | 320,750,763 | 225,000 € | 95 | 97 | Fully consolidated | Mar-31 |
| SORI | Zone de fret Nord<br>Aéroport Pôle Caraïbes<br>97139 Abymes | 322,055,187 | 50,000 € | 49 | 50 | Fully consolidated | Dec-31 |
| SPECIAL MEALS CATERING | 16 rue de la Grande Borne<br>77990 Le Mesnil Amelot | 429,627,474 | 7,622 € | 98 | 100 | Fully consolidated | Mar-31 |

| | Address | Siren | Stock | % Interest | % Control | Method | Year end |
|---|---|---|---|---|---|---|---|
| **KLM N.V. Group** | | | | | | | |
| KLM N.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 125,347,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| AIRGO B.V. | Amsterdamseweg 55, AMS /DJ 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| AIRPORT MEDICAL SERVICES B.V. | Stationsplein 236, 1117 CJ Schiphol Netherlands | Foreign | 16,000 € | 78 | 80 | Fully consolidated | Mar-31 |
| AMA HOLDING B.V. | Hangar 10, 1117 AA Schiphol Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| AIRCRAFT MAINTENANCE AMSTERDAM B.V. | Hangar 10, 1117 AA Schiphol Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| AMSTERDAM SCHIPHOL PIJPLEIDING BEHEER B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 10,861 € | 58 | 60 | Fully consolidated | Mar-31 |
| AMSTERDAM SCHIPHOL PIJPLEIDING C.V. | Oude Vijfhuizerweg 6, 1118 LV Luchthaven Schiphol - Netherlands | Foreign | 98,935 € | 70 | 84 | Fully consolidated | Mar-31 |
| AQUILA INVEST B.V. | Amsterdamseweg 55, AMS / DJ, 1182 GP Amstelveen - Netherlands | Foreign | 22,689 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE CROWN B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER II B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER IX B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER X B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER XI B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER XII B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER XIII B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| BLUE YONDER XIV B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| CELL K16 INSURANCE COMPANY | Heritage Group Limited, Polygon Hall Le Marchant Street - St Peter Port Guernsey GY1 4HY Channel Islands | Foreign | 2,147 USD | 97 | 0 | Fully consolidated | Mar-31 |
| CSC INDIA | 301-303 Rangoli, Opp. Air Cargo Complex Andheri (East), Mumbai India | Foreign | 9,883,175 BHT | 97 | 84 | Fully consolidated | Mar-31 |
| CYGNIFIC B.V. | Koningin Wilhelminaplein 29TRN 3 12 Fl. 1062 HJ Amsterdam - Netherlands | Foreign | 500,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| CYGNIFIC (UK) LIMITED | New Reservation Building, Amsterdam way, Norwich, NR6 6EP Great Britain | Foreign | 2 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| HEESWIJK HOLDING B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 19,173,575 € | 97 | 84 | Fully consolidated | Mar-31 |
| KES AIRPORT EQUIPMENT FUELLING B.V. | Pakhuisstraat 1, 1118 DJ Luchthaven Schiphol - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| KES AIRPORT EQUIPMENT LEASING B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLEUR INVEST B.V. | Amsterdamseweg 55, AMS / DJ, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM AIR CHARTER B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 113,445 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM ARBO SERVICES B.V. | Stationsplein 236, 1117 CJ Schiphol Netherlands | Foreign | 689,494 € | 97 | 84 | Fully consolidated | Mar-31 |

| | Address | Siren | Stock | % Interest | % Control | Method | Year end |
|---|---|---|---|---|---|---|---|
| KLM CATERING SERVICES SCHIPHOL B.V. | Havenmeesterweg 1, 1118 CB Luchthaven Schiphol - Netherlands | Foreign | 13,613,406 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM CITYHOPPER B.V. | Stationsplein 102, Convair Geb., 1117 BV Luchthaven Schiphol Netherlands | Foreign | 90,756 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM CITYHOPPER UK LTD | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6CPU Great Britain | Foreign | 1 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| KLM EQUIPMENT SERVICES B.V. | Pakhuisstraat 1, Gebouw 565, 1118 DJ Luchthaven Schiphol Netherlands | Foreign | 1,361,341 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM FINANCIAL SERVICES B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 123,101,974 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM FLIGHT CREW SERVICES GMBH | Siemensstrasse 9, 63263 Neu - Isenburg - Germany | Foreign | 25,565 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM GROUND SERVICES LIMITED | Station Management, Terminal 4, Heathrow Airport London, Hounslow, Middlesex, TW6 3XQ Great Britain | Foreign | 500,000 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| KLM INTERNATIONAL CHARTER B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 17,713,220 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM INTERNATIONAL FINANCE COMPANY B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 46,294 € | 97 | 84 | Intégration Globale | Mar-31 |
| KLM LUCHTVAARTSCHOOL B.V. | Burgemeester J.G. Legroweg 43, 9761 TA Eelde - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM OLIEMAATSCHAPPIJ B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 510,503 € | 97 | 84 | Fully consolidated | Mar-31 |
| KLM UK ENGINEERING LIMITED | Liberator Road, Norwich Airport Norwich, Norfolk, NR6 6 ER Great Britain | Foreign | 100 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| KROONDUIF B.V. | Amsterdamseweg 55, AMS /DK 1182 GP Amstelveen - Netherlands | Foreign | 113,445 € | 97 | 84 | Fully consolidated | Mar-31 |
| MICOPA B.V. | Manitobadreef 6 - E, 3565 CH Utrecht - Netherlands | Foreign | 50,000 € | 97 | 84 | Fully consolidated | Mar-31 |
| OCCABOT BEHEER B.V. | Amsterdamseweg 55, afd. AMS /DJ 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| ORION-STAETE B.V. | Amsterdamseweg 55, TAV. AMS /BB, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| PYRHELIO-STAETE B.V. | Amsterdamseweg 55, TAV. AMS /BB, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| QUASAR-STAETE B.V. | Amsterdamseweg 55, TAV. AMS /BB, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| RIGEL-STAETE B.V. | Amsterdamseweg 55, TAV. AMS /BB, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| ROAD FEEDER MANAGEMENT B.V. | Amsterdamseweg 55, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| SPICA-STAETE B.V. | Amsterdamseweg 55, TAV. AMS /BB, 1182 GP Amstelveen - Netherlands | Foreign | 18,151 € | 97 | 84 | Fully consolidated | Mar-31 |
| TRANSAVIA AIRLINES C.V. | Westelijke Randweg 3, 1118CR Luchthaven Schiphol - Netherlands | Foreign | 0 € | 49 | 50 | Fully consolidated | Mar-31 |
| WEBLOK B.V. | Amsterdamseweg 55, AMS/BY, 1182 GP Amstelveen - Netherlands | Foreign | 2,817,518 € | 97 | 84 | Fully consolidated | Mar-31 |
| MARTINAIR HOLLAND N.V. | Havenmeesterweg 201, 1118 CD Luchthaven Schiphol - Netherlands | Foreign | 32,247,866 € | 49 | 50 | Equity method | Dec-31 |
| KENYA AIRWAYS LIMITED | Kenya Airways Headquarters and Base, Airport North Road,Embakasi, Nairobi, PO Box 19002, 00501 Nairobi - Kenya | Foreign | 1,198,971 429 KES | 25 | 26 | Equity method | Mar-31 |
| INTERNATIONAL AEROSPACE MANAGEMENT COMPANY S.C.R.L. | Via Mestrina 123, 30172 Venice Italy | Foreign | 51,650 € | 19 | 20 | Equity method | Mar-31 |
| EUROPEAN PNEUMATIC COMPONENT OVERHAUL AND REPAIR (EPCOR) B.V. | Bellsingel 41, 1119 NT Schiphol-Rijk Netherlands | Foreign | 3,778,583 € | 48 | 49 | Equity method | Mar-31 |

# Scope of consolidation at March 31, 2005 (continued)



| | Adress | Siren | Stock | % interest | % Control | Method | Year end |
|---|---|---|---|---|---|---|---|
| **INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V. sub group** | | | | | | | |
| INTERNATIONALE FINANCIERING EN MANAGEMENT MAATSCHAPPIJ B.V. | Keesomstraat 38, 1171 AN Badhoevedorp Netherlands | Foreign | 45,378 € | 97 | 84 | Fully consolidated | Mar-31 |
| PHK FREIGHT SERVICES B.V. | Amsterdamseweg 55, AMS /DJ, 1182 GP Amstelveen Netherlands | Foreign | 22,689 € | 97 | 84 | Fully consolidated | Mar-31 |
| TRAVEL INDUSTRY SYSTEMS B.V. | Amsterdamseweg 55, AMS /BIJ, 1182 GP Amstelveen Netherlands | Foreign | 226,890 € | 97 | 84 | Fully consolidated | Mar-31 |
| **INTERNATIONAL AIRLINE SERVICES LIMITED sub group** | | | | | | | |
| INTERNATIONAL AIRLINE SERVICES LIMITED | Bridge House, 4 Borough High Street, London SE1 9QQ Great Britain | Foreign | 200 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| INTERNATIONAL AIRLINE SERVICES EUROPE LIMITED | Bridge House, 4 Borough High Street, London SE1 9QQ Great Britain | Foreign | 100 GBP | 97 | 84 | Fully consolidated | 31 mars |
| IAS ASIA INCORPORATED | 25th Floor, RCBC Plaza, Ayala Avenue corner with Sen. Gil Puyat Avenue Makati City 1200, Metro Manilla Philippines | Foreign | 250,000 PHP | 97 | 84 | Fully consolidated | Mar-31 |
| IASA INCORPORATED | 25th Floor, RCBC Plaza, Ayala Avenue corner with Sen. Gil Puyat Avenue Makati City 1200, Metro Manilla Philippines | Foreign | 10,947,500 PHP | 97 | 84 | Fully consolidated | Mar-31 |
| INTERNATIONAL MARINE AIRLINE SERVICES LIMITED | Bridge House, 4 Borough High Street, London SE1 9QQ Great Britain | Foreign | 1 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| INTERNATIONAL MARINE AIRLINE SERVICES LIMITED LIABILITY COMPANY | Fullbright & Jaworski LLP, 1301 Mc Kinney, Suite 5100, Houston Texas 77010 - USA | Foreign | 10,000 USD | 97 | 84 | Fully consolidated | Mar-31 |
| INTERNATIONAL AIRLINE SERVICES OFFSHORE LIMITED | Bridge House, 4 Borough High Street, London SE1 9QQ Great Britain | Foreign | 1 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| **KLM UK HOLDINGS LIMITED sub group** | | | | | | | |
| KLM UK HOLDINGS LIMITED | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6 PU Great Britain | Foreign | 112,007,902 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| ROSC LIMITED | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6 PU Great Britain | Foreign | 100 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| KLM UK LIMITED | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6 PU Great Britain | Foreign | 46,900,000 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| AIR UK LEASING LIMITED | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6 PU Great Britain | Foreign | 50,000 GBP | 97 | 84 | Fully consolidated | Mar-31 |
| AIR UK (Jersey) LIMITED SERVICES LIMITED | North Suite, Skyway House, Parsonage Road, Takely, Bishop's Stortford, Herts CM22 6 PU Great Britain | Foreign | 6,871 GBP | 97 | 84 | Fully consolidated | Mar-31 |

# 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 – KLM S.A. (ex Air France S.A.) for the year ended March 31, 2005.
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 consolidated 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, 2005 and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.
Without qualifying the opinion expressed above, we would draw your attention to Notes 2.2, 3.2 and 22.2 to the consolidated financial statements:

- Note 2.2 discloses the change in method for estimating the debt related to the "frequent flyer" loyalty programs "Fréquence Plus" of Air France S.A. and "Flying Dutchman" of KLM N.V.: the combination of these two loyalty programs and the valuation of new use practices of "miles" starting in June 2005 lead Air France – KLM to adjust its estimate of the related debt;
- Note 3.2 discloses the main assumptions used in KLM's purchase price allocation and the fair value determination of its assets and liabilities at the acquisition date. Such note highlights that the group is awaiting for some further clarification from the international regulator in connection with the recognition of pension asset surplus. In the meantime, the group decided not to amortize from the second quarter of the year ended March 31, 2005 the portion of the negative goodwill resulting from the recognition of KLM's pension asset surplus. The effects of the final decision of the international regulator on the recognition or not of the pension asset surplus are disclosed in note 22.2.

## 2. Justification of our assessments

Pursuant to Article L.225-235 of the French Commercial Code governing the justification of our assessments, we hereby report on the following:
As detailed in Note 2.26 of the footnotes to the consolidated financial statements, Air France – KLM 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, 2005, we consider that among the accounts subject to significant accounting estimates and a justification of our assessments are goodwill and negative 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 negative goodwill related to KLM N.V.'s acquisition, assessed the data and assumptions used for the fair value

determination of KLM's assets and liabilities (KLM is consolidated since May 1st, 2004 in Air France-KLM consolidated financial statements) as well as the information disclosed in footnotes 3.2 and 22.2 in relation to the financial effects of the international regulator's final decision which might impact the recognition or non recognition of KLM's pension asset surplus. We have also assessed and reviewed data and assumptions used for the determination of the negative goodwill amortization period;

- 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.

The Auditors

Paris La Défense and Neuilly-sur-Seine, June 21, 2005

KPMG Audit
Department of KPMG S.A.

Deloitte & Associés

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 consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. 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*

# Adoption of International Financial Reporting Standards (IFRS)



Under European Regulation 1606/2002 adopted on July 19th 2002, publicly-traded European companies are required to use international accounting standards to prepare their consolidated financial statements for financial years beginning on or after January 1st, 2005. For the Air France-KLM group, the new standards will therefore be applied as of April 1st, 2005.

The adoption of these standards makes it mandatory to publish a year of comparative figures, setting the date for the changeover from the current standards to the IAS/IFRS system as of April 1st, 2004 – the date on which a restated balance sheet must be prepared.

### The Group has completed two of the three phases of its conversion project:

- The first stage of the project, the "diagnosis", was designed to identify the principal differences in accounting treatments between the new standards and those currently applied within the Group.

- The second phase consisted of a training programme on IFRS for staff in all of the Group's companies.

- The third and final phase consists of preparing the opening balance sheet at April 1st 2004 and restating transactions for fiscal 2004-05.

This conversion is made possible by the fact that the Air France-KLM group adopted certain IFRS provisions ahead of schedule over the last few years when they were compliant with French standards. In particular, this was the case for the adoption of the component method for property plant, and equipment (IAS 16), and for the valuation of pension commitments (IAS 19).

### The principal differences in accounting treatment identified by the Group concerning the following standards and items:

**IFRS 1 - First application of international financial information standards**

- When the opening balance sheet is established, a company has the option offered by IFRS 1 to value a tangible asset on the date of transition to IFRS at its fair market value and to use this fair value as the cost deemed on that date.
  The Group is studying the feasibility of using market value for the valuation of the fleet of the Air France group on the opening balance sheet, given the recent acquisition of the KLM group for which market value was used in the procedure to value the acquisition balance sheet.
  Valuations by independent experts are currently in progress.
- Likewise, the Group has the option offered by this same standard to recognize on the IFRS opening balance sheet, as the valuation of pension commitments, the balance of the actuarial differences currently amortized over the average period of employment of the personnel in question.
  An exhaustive calculation is in progress.

**IAS 12 - Deferred taxes**

Discounting of long-term deferred taxes is prohibited, unlike by French standards.
Likewise, the international standard requires the posting of deferred taxes on undistributed reserves for companies consolidated using the equity method.
The Group believes that certain companies may be affected by the implementation of this standard. Identification and calculation are in progress.

**IAS 28 - Investments in associates**

Under French accounting standards, significant influence over a company is assumed when the percentage held in a company reaches 20%.
However, when such significant influence is not exercised, the company may be excluded from the scope of consolidation even when this threshold is reached.
This possibility for exclusion does not exist under IFRS.

The Group is currently reviewing the entire portfolio of companies in the group to identify if, in rare cases, an impact on the valuation of the opening balance sheet might appear when the standard is applied.

**IAS 27 - Consolidation and separate financial statements**

Under French accounting standards, exclusive control is established when a company is held at more than 50%.

However, when exclusive control can be demonstrated despite a percentage lower than 50%, the company must be fully consolidated.

The Group is currently reviewing the entire portfolio of companies in the Group in order to identify if, in rare cases, this change may have an impact on the consolidation method.
Although the difference in consolidation method does not generate any impact on the opening balance sheet, there may be an indirect impact, particularly with respect to the elimination of inter-company transactions; this is currently being analyzed.

**IFRS 2 - Share-based payment**

In accordance with the option proposed by IFRS 1, Air France has decided not to apply the IFRS 2 standard to stock option and stock purchase plans granted before November 7th, 2002.
The impact of the application of this standard is currently being assessed.

**IFRS 3 - Business combinations**

The Group has decided to use the option offered by IFRS 1 which allows the Group, the first time it is used, not to apply IFRS 3 retrospectively to past business combinations (i.e., combinations prior to the date of transition).
As a result, business combinations are accounted for in accordance with the provisions of IFRS 3 as of April 1st, 2004.
The only business combination that has taken place since April 1st, 2004 is the merger with the KLM group, which was completed on May 1st, 2004.
As a result, the work to allocate the acquisition price in IFRS is currently being finalized.
The other adjustments resulting from the differences between the French standards and the IFRS are currently being valued and primarily deal with the booking of intangible items on the balance sheet; these are not recognized under French standards when the goodwill is negative.

**Other standards**

For standards IAS 32 and 39, in accordance with the option offered, the group has decided to apply them as of April 1st, 2005.
An analysis of the various financial instruments used in the group, classification of the instruments, and calculation of the impacts is currently in progress.

For the other standards, the valuation of which continues, the group believes that possible impacts will not be material.

By resolution of the Extraordinary Shareholders' Meeting of Air France on September 15, 2004, Air France contributed most of its assets to its subsidiary Air France - Compagnie aérienne (ex Air Orient).

On the same day, these two companies were «renamed»: the Air France company became Air France-KLM and Air France - Compagnie Aérienne became the Air France company. The spin-off was retroactive to April 1, 2004. At the end of this operation, the assets retained by Air France-KLM consisted primarily of shares in Air France, KLM, and Alitalia stock as well as the treasury stock held under the buyback program.

The assets and liabilities contributed to Air France by Air France-KLM are presented in the note below. There is no other item in the parent company financial statements that might inform the judgment of an investor.

## Contribution of assets

*In EUR million*

| **Assets** | **Amount** |
|---|---|
| Intangible fixed assets | 25 |
| Tangible assets | 5,614 |
| Financial assets | 1,152 |
| Inventories & work in progress | 102 |
| Operating receivables | 1,866 |
| Other receivables | 142 |
| Marketable securities | 1,413 |
| Cash | 290 |
| Prepaid amount and expenses to be spread over several years | 409 |
| **Total contribution of assets** | **11,013** |
| | |
| **Liabilities** | |
| Provisions for liabilities and charges | 1,244 |
| Financial liabilities | 3,224 |
| Operating liabilities | 3,100 |
| Miscellaneous liabilities | 118 |
| Accruals & outstanding exchange rate difference | 268 |
| **Total contribution of liabilities** | **7,954** |
| **Net** | **3,059** |

# Income statement



| *Year ended March 31, In EUR million* | **2005** Air France-KLM Holding | **2004** Air France published | **2003** Air France published |
|---|---|---|---|
| **Operating income** | | | |
| Revenues | - | 11,345 | 11,731 |
| Capitalized production | - | 28 | 49 |
| Release of provisions and write back of depreciation & amortization | - | 188 | 188 |
| Transfered expenses | - | 94 | 127 |
| Other income | 3 | 7 | 3 |
| **Total operating income** | **3** | **11,662** | **12,098** |
| **Operating expenses** | | | |
| Consumption for te year from third parties | 30 | 6,853 | 7,380 |
| Taxes and related payments | 2 | 155 | 141 |
| Salaries and related costs | - | 3,615 | 3,436 |
| Depreciation allowances and provisions | - | 1,367 | 892 |
| Other expenses | 1 | 161 | 181 |
| **Total operating expenses** | **33** | **12,151** | **12,029** |
| **Operating income** | **(30)** | **(489)** | **69** |
| **Share in joint operations** | **-** | **5** | **12** |
| Financial incomes | 1 | 554 | 578 |
| Financial expenses | 7 | 665 | 685 |
| **Net financial expense** | **(6)** | **(111)** | **(106)** |
| **Pre-tax income/loss** | **(36)** | **(596)** | **(25)** |
| non-recuring income | - | 1,512 | 541 |
| non-recuring expenses | - | 1,353 | 735 |
| **non-recuring income/loss** | | **159** | **(194)** |
| Corporate income tax | (3) | 16 | (2) |
| **Loss for the year** | **(33)** | **(453)** | **(218)** |

# Balance sheet



| **Assets**<br>*Year ended March 31, In EUR million* | **2005**<br>Air France-KLM Holding | **2004**<br>Air France published | **2003**<br>Air France published |
|---|---|---|---|
| Intangible fixed assets | | 25 | 29 |
| Tangible assets | | 5,614 | 5,883 |
| *Aircraft* | | *4,343* | *4,709* |
| Financial assets | 3,883 | 1,193 | 759 |
| **Total fixed assets** | **3,883** | **6,832** | **6,671** |
| Inventories & work in progress | | 102 | 163 |
| Operating receivables | 2 | 1,869 | 1,674 |
| *Customer & associated accounts receivable* | *2* | *1,581* | *1,362* |
| *Other operating receivables* | | *288* | *311* |
| Other receivables | 7 | 142 | 451 |
| Marketable securities | 1 | 1,413 | 989 |
| Cash | | 307 | 164 |
| **Total current assets** | **10** | **3,832** | **3,442** |
| Prepaid amount & expenses to be spread over several years | | 409 | 424 |
| **Total assets** | **3,893** | **11,073** | **10,538** |

| **Liabilities & stockholders' equity**<br>*Year ended March 31, In EUR million* | **2005**<br>Holding Air France-KLM | **2004**<br>Air France published | **2003**<br>Air France published |
|---|---|---|---|
| Common stock | 2,290 | 1,868 | 1,868 |
| Additional paid-in capital | 384 | 261 | 261 |
| Retained earnings | 1,178 | 415 | 649 |
| Current income | -33 | -453 | -218 |
| Regulated reserves | | 1,027 | 1,086 |
| **Stockholder's equity** | **3,819** | **3,118** | **3,647** |
| Provisions for liabilities and charges | | 1,244 | 822 |
| Financial liabilities | | 3,224 | 2848 |
| Operating liabilities | 11 | 3,100 | 2,970 |
| *Liabilities with suppliers ans similar* | *8* | *1,190* | *1,317* |
| *Advance ticket sales* | | *993* | *902* |
| *Other* | *3* | *918* | *751* |
| Miscellaneous liabilities | 63 | 118 | 36 |
| **Total liabilities** | **74** | **6,442** | **5,854** |
| Accruals & outstanding exchange rate difference | | 268 | 215 |
| **Total liabilities & stockholders' equity** | **3,893** | **11,073** | **10,538** |

# Subsidiaries and participations



| *In EUR million* | Capital | Stockholder's equity after earning of the period and without capital | Capital share | Book value of shares | |
|---|---|---|---|---|---|
| | | | | Gross | Net |
| **Companies** | | | | | |
| Detailed informations on participations in excess of 15 million euros | | | | | |
| **1 - Susidiaries owned at 50 % or more** | | | | | |
| Société Air France (ex Air Orient) (Roissy)(1) | 1,901 | 1,290 | 100.0% | 3,060 | 3,060 |
| KLM(1) | 125 | 1,648 | 97.3% | 789 | 789 |
| **2 - Participations owned at less than 50 %** | | | | | |
| Alitalia (Italy) (2) | 1,433 | (184) | 2.0% | 22 | 16 |

*(1) Local accounts March 31, 2005*

*(2) Consolidated accounts Decmber 31, 2003*

| Loans and cash advances | Warranties & endorsements | Fiscal year revenues | Fiscal year net profit or loss | Dividends received during the fiscal year | Revaluation difference or provision |
|---|---|---|---|---|---|
| — | — | 12,102 | 95 | — | — |
| — | — | 6,441 | 91 | 1 | — |
| — | — | 4,306 | (520) | — | — |

# Change in stockholder's equity



*In EUR million*

| Source of funds | Capital | Issue and conversion premiums | Reevaluation gain/loss | Reserves | Retained earnings | Earnings for the year | Regulatory provisions | Net position |
|---|---|---|---|---|---|---|---|---|
| **Situation at March 31, 2004** | **1,868** | **261** | **3** | **412** | | **(453)** | **1,027** | **3,118** |
| General Meeting on September 15, 2004 | | | | , | | | | |
| Third resolution (earnings for 2003-04) | | (207) | | (246) | | 453 | | |
| Third resolution (dividend) | | | | (13) | | | | (13) |
| Third resolution (withholding tax) | | | | (5) | | | | (5) |
| Twelveth resolution (allocation to reserves) | | | | 1,027 | | | (1,027) | |
| Exchange Offer KLM | 422 | 330 | | | | | | 752 |
| Earnings for the period | | | | | | (33) | | (33) |
| **Situation at March 31, 2005** | **2,290** | **384** | **3** | **1,175** | | **(33)** | | **3,819** |

# Five-year financial summary

| Year ended March 31 | 2001 Air France published | 2002 Air France published | 2003 Air France published | 2004 Air France published | 2005 Air France-KLM Holding |
|---|---|---|---|---|---|
| **1. Share capital at year-end** | | | | | |
| Share capital (in euros) | 1,868,137,539 | 1,868,137,539 | 1,868,137,539 | 1,868,137,539 | 2,289,759,903 |
| Number of ordinary shares outstanding | 219,780,887 | 219,780,887 | 219,780,887 | 219,780,887 | 269,383,518 |
| Number of prefered shares | | | | | |
| Maximum number of shares that may be created by | | | | | |
| - Conversion of bonds | 0 | 0 | 0 | 0 | 0 |
| - Exercise of subscription rights | 0 | 0 | 0 | 0 | 30,062,199 |
| **2. Transactions and results for the year** (in thousand euros) | | | | | |
| Net revenues | 11,637,679 | 11,670,871 | 11,730,679 | 11,344,755 | 0 |
| Net income before income tax, employee profit-sharing, depreciation, amortization and provisions | 866,772 | 771,375 | 628,753 | 507,862 | (30,307) |
| Income tax | 0 | 0 | (1,777) | 15,945 | (3,426) |
| Employee profit-sharing for the year | 0 | 0 | 0 | 0 | 0 |
| Net income/(loss) after income tax, employee profitsharing, depreciation, amortization and provisions | 205,169 | 41,917 | (217,624) | (452,558) | (33,359) |
| Distributed net income | 61,013 | 21,690 | 13,014 | 13,347 | 40,407 |
| **3. Per share data** (in euros) | | | | | |
| Net income after income tax and employee profit-sharing, but before depreciation, amortization and provisions | 3.94 | 3.51 | 2.86 | 2.24 | (0.10) |
| Net income/(loss) after income tax, employee profit-sharing depreciation, amortization and provisions | 0.93 | 0.19 | (0.99) | (2.06) | (0.12) |
| Dividend per share | 0.22 | 0.10 | 0.06 | 0.05 | 0.15 |
| **4. Employees** | | | | | |
| Average number of employees during the year | 55,777 | 59,296 | 59,731 | 59,788 | 0 |
| Total payroll costs (in thousand euros) | 2,301,741 | 2,443,904 | 2,528,771 | 2,639,480 | 0 |
| Employee welfare contributions and similar charges (social security, employee organizations, etc…) (in thousand euros) | 810,047 | 869,692 | 907,126 | 975,878 | 0 |

# Statutory Auditors' report on the financial statements



Dear Shareholders,

In accordance with our appointment as Statutory Auditors by your Annual General Meeting, we hereby report to you for the year ended March 31, 2005 on:

- the audit of the accompanying financial statements of Air France-KLM S.A. (ex Air France S.A.),
- the justification of our assessments,
- the specific procedures and disclosures required by law.

The 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 financial statements

We conducted our audit in accordance with professional standards applicable in France. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 financial statements give a true and fair view of the financial position and the assets and liabilities of Air France-KLM S.A. (ex Air France S.A.) as at March 31, 2005 and the results of its operations for the year then ended, in accordance with French accounting regulations.

Without qualifying the opinion expressed above, we would draw your attention to the introduction paragraph of the financial statements footnotes which disclose the change in Air France-KLM's operations during the year ended March 31, 2005: Air France-KLM is now a holding company which contributed, based on the decision of Air France shareholders' extraordinary meeting held on September 15, 2004, the operations of the former called Air France company to its affiliate Air France – Compagnie Aérienne (ex Air Orient) effective April 1st, 2004.

## 2. Justification of our assessments

Pursuant to Article L.225-235 of the French Commercial Code governing the justification of our assessments, we hereby report to you that our assessments primarily related to the appropriateness of the Company's accounting policies as well as to the reasonableness of the Company's significant accounting estimates notably as they relate to investments.

Regarding the asset contribution mentioned above, we verified that such transaction was correctly booked in the financial statements as well as we verified that the related information disclosed in the financial statements footnotes was appropriate.

These assessments are part of our audit approach to the 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 and disclosures

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.

We have no comment to make as to the fair presentation and consistency with the financial statements of the information given in the Board of Directors' management report and the documents addressed to the shareholders in respect of the financial position and the financial statements.

Pursuant to the law, we have verified that the management report contains the appropriate disclosures as to the acquisition of participating and controlling interests and as to the identity of shareholders (percentage of voting rights).

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, June 21, 2005

KPMG Audit
Department of KPMG S.A.

Jean-Paul Vellutini
Partner

Jean-Luc Decornoy
Partner

Deloitte & Associés

Pascal Pincemin
Partner

# Statutory Auditors' report on regulated agreements



To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements.

## 1. Agreements entered into by the Company during the year ended March 31, 2005

In accordance with article L. 225-40 of the Commercial Code, we have been advised of agreements which have been previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of the March 23, 1967 Decree, to evaluate the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

### Service, cash and domiciliation agreement between Air France and the Company

- Director concerned

Mr. Jean-Cyril Spinetta, Director of Air France – KLM and Air France.

- Purpose, terms and conditions of the agreement

Air France – KLM and its affiliate Air France concluded an agreement which term is to define the conditions in which Air France will provide upon request of Air France – KLM technical and administrative support services to its benefit. Such services which comprise accounting, administrative, legal and IT services, will be invoiced at cost.

In addition, Air France – KLM and its affiliate Air France concluded:

- a cash agreement: which consists in a credit line in favour of Air France – KLM;
- a domiciliation agreement: which consists in Air France – KLM headquarters being located in Air France premises.

Such agreements were approved by the Board of Directors on September 15, 2004.

### Agreements related to the disposition of Air France investment in Amadeus GTD

- Director concerned

Mr. Pierre-Henri Gourgeon, Director of Air France – KLM and Amadeus GTD

- Purpose, terms and conditions of the agreement

On January 20, 2005, the board of Directors delegated to the President, the power to conclude the above mentioned transaction, and to conclude all acts and to sign all agreements with the faculty of substitution.

### Agreement related to the compensation of the President and Chief Operating Officer

- Directors concerned

Mr. Jean-Cyril Spinetta, Director of Air France – KLM and Air France.

Mr. Pierre-Henri Gourgeon, Director of Air France – KLM and Air France (as representative of Air France-KLM).

- Purpose, terms and conditions of the agreement

The compensation of the President and Chief Operating Officer of Air France – KLM is invoiced to Air France based on their actual time spent for Air France.

Such agreement was approved by the Board of Directors on November 23, 2004

## 2. Continuing agreements which were entered into in prior years

In addition, in accordance with the March 23, 1967 Decree, we have been advised that the following agreement entered into in prior years continued during the year ended March 31, 2005.

**Reciprocical shareholding agreement between Air France and Alitalia**

- Director concerned by the agreement

Mr G.Cimoli, Air France and Alitalia Director.

- Purpose, terms and conditions of the agreement

A reciprocical shareholding agreement exists between Air France and Alitalia according to which Air France and Alitalia agree to have a 2% reciprocical shareholding. The 2% reciprocical shareholding was effective January 2003.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, June 21, 2005

KPMG Audit
Department of KPMG S.A.

Jean-Paul Vellutini
Partner

Jean-Luc Decornoy
Partner

Deloitte & Associés

Pascal Pincemin
Partner

# Simplified consolidated accounts of Amadeus GTD



Air France holds 23.6% of Amadeus, which is consolidated using the equity method. As the Amadeus financial statements are published in the annual report in the 20-F form filed with the SEC, simplified statements for Amadeus are included in this reference document.

The financial statements of the Amadeus Group are prepared and presented in accordance with international financial reporting standards (IFRS). They can be viewed in their entirety on the Amadeus corporate website:http://amadeus.com

## Consolidated statements of income

| *As of December 31*<br>*in EUR million* | **2004** | **2003** |
|---|---|---|
| Revenue | 2,056,680 | 1,929,009 |
| Cost of sales | 1,620,379 | 1,528,358 |
| Gross profit | 436,301 | 400,651 |
| Selling, general and administrative expenses | 92,887 | 80,021 |
| **Operating income** | **343,414** | **320,630** |
| Other income (expense) | | |
| Interest expense, net | (6,045) | (15,713) |
| Exchange gains (losses) | (4,109) | (1,931) |
| Other income (expenses), net | 397 | 2,980 |
| **Income before income taxes** | **333,657** | **305,966** |
| Income tax | 129,018 | 122,182 |
| **Income after taxes** | **204,639** | **183,784** |
| Equity in income (losses) from associates | (8,279) | (23,645) |
| Minority interests | 11,672 | (25) |
| **Net income** | **208,032** | **160,114** |
| Basic earnings per class “A” share, in EURs | 0.36 | 0.28 |
| Basic earnings per class “B” share, in EURs | - | - |
| Diluted earnings per class “A” share, in EURs | 0.36 | 0.28 |
| Diluted earnings per class “B” share, in EURs | - | - |

## Consolidated balance sheets

*As of December 31,*
*in EUR million*

| Assets | 2004 | 2003 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 104,669 | 42,101 |
| Accounts receivable, net | 245,228 | 182,429 |
| Accounts receivable – affiliates, net | 58,921 | 63,021 |
| Loans receivable and advances – affiliates | 1,190 | 88 |
| Taxes receivable | 41,611 | 42,023 |
| Prepayments and other current assets | 77,456 | 82,810 |
| **Total current assets** | **529,075** | **412,472** |
| **Tangible assets** | | |
| Land and buildings | 130,142 | 129,213 |
| Data processing hardware and software | 465,097 | 425,707 |
| Other tangible assets | 138,616 | 128,503 |
| **Tangible assets, gross** | **733,855** | **683,423** |
| Less accumulated depreciation | (446,321) | (410,944) |
| **Net tangible assets** | **287,534** | **272,479** |
| **Intangible assets** | | |
| Patents, trademarks and licenses | 79,903 | 88,673 |
| Purchased technology | 72,282 | 41,688 |
| Software development projects | 371,859 | 324,957 |
| Purchased contracts | 274,748 | 272,093 |
| Goodwill | 453,383 | 310,961 |
| Other intangible assets | 9,137 | 5,486 |
| **Intangible assets, gross** | **1,261,312** | **1,043,858** |
| Less accumulated amortization | (604,103) | (487,806) |
| **Net intangible assets** | **657,209** | **556,052** |
| Deferred income taxes | 108,779 | 126,115 |
| Loans receivable – affiliates | 1,015 | 1,725 |
| Other long term investments, net | 27,588 | 63,273 |
| Other non-current assets | 63,839 | 104,757 |
| **Total other non-current assets** | **201,221** | **295,870** |
| **Total non-current assets** | **1,145,964** | **1,124,401** |
| **Total** | **1,675,039** | **1,536,873** |

## Consolidated balance sheets

*As of December, 31*
*in EUR million*

| Liabilities and shareholders' equity | 2004 | 2003 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable, net | 316,768 | 247,400 |
| Accounts payable- affiliates, net | 27,032 | 24,731 |
| Dividends payable | 34 | - |
| Debt payable within one year | 8,562 | 80,310 |
| Current obligations under finance leases | 9,996 | 9,643 |
| Income taxes payable | 32,651 | 35,181 |
| Other current liabilities | 127,863 | 100,739 |
| **Total current liabilities** | **522,906** | **498,004** |
| **Long-term liabilities** | | |
| Long term debt | 2,538 | 701 |
| Obligations under finance leases | 96,003 | 104,420 |
| Deferred income taxes payable | 74,528 | 102,228 |
| Other long-term liabilities | 37,303 | 72,778 |
| **Total long-term liabilities** | **210,372** | **280,127** |
| Minority interests | 10,037 | 1,029 |
| **Shareholders' equity** | | |
| Share capital | 23,044 | 27,898 |
| Additional paid - in capital | 360,341 | 379,358 |
| Treasury shares and other similar equity instruments | (109,499) | (126,899) |
| Retained earnings and other reserves | 686,395 | 502,879 |
| Cumulative translation adjustments | (28,557) | (25,523) |
| **Total shareholders' equity** | **931,724** | **757,713** |
| **Total** | **1,675,039** | **1,536,873** |

## Consolidated statement of cash flows

| *As of December 31, In EUR million* | 2004 | 2003 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating income | 343,414 | 320,630 |
| Adjustments for: | | |
| Depreciation and amortization | 205,991 | 211,905 |
| Operating income before changes in working capital net of amounts acquired | 549,405 | 532,535 |
| Accounts receivable | 4,334 | (4,067) |
| Taxes receivable | (5,810) | 2,525 |
| Other current assets | 8,053 | 15,837 |
| Accounts payable | (24,855) | (17,286) |
| Other current liabilities | (10,397) | 1,815 |
| Other long-term liabilities | (5,127) | 2,099 |
| Cash provided from operating activities | 515,603 | 533,458 |
| Taxes paid | (105,621) | (61,825) |
| **Net cash provided from operating activities** | **409,982** | **471,633** |
| **Cash flows from investing activities** | | |
| Additions to tangible assets | (77,011) | (52,803) |
| Additions to intangible assets | (73,830) | (89,033) |
| Investment in subsidiaries and associates, net of cash acquired | (55,884) | (83,957) |
| Interest received | 4,631 | 1,813 |
| Sundry investments and deposits | (4,257) | (8,529) |
| Loans to third parties | (4,367) | (55,652) |
| Loans to affiliates | (585) | (4,941) |
| Cash proceeds collected/(paid) – derivative agreements | 3,889 | 12,225 |
| Disposals of sundry investments | 3,663 | 2,689 |
| Dividends received | 7,828 | 9,076 |
| Proceeds obtained from disposal of fixed assets | 3,598 | 5,112 |
| **Net cash used in investing activities** | **(192,325)** | **(264,000)** |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 32,864 | 300,598 |
| Repayments of borrowings | (106,076) | (427,819) |
| Interest paid | (12,533) | (17,928) |
| Redemption of class “B” shares | (485) | - |
| Acquisition of Treasury shares | (63,086) | (96) |
| Disposals of Treasury shares | 39,215 | 224 |
| Dividends paid | (35,000) | (29,998) |
| Payments of finance lease liabilities | (10,419) | (9,756) |
| **Net cash used in financing activities** | **(155,520)** | **(184,775)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **431** | **941** |
| **Net increase / (decrease) in cash and cash equivalents** | **62,568** | **23,799** |
| Cash and cash equivalents at beginning of period | 42,101 | 18,302 |
| Cash and cash equivalents at end of period | 104,669 | 42,101 |

## Consolidated statements of changes in shareholders' equity

*As of December 31,*
*In EUR million*

| | Share capital | Additional paid-in capital | Treasury shares and other similar equity instruments | Retained earnings and other reserves | Cumulative translation adjustments | Total |
|---|---|---|---|---|---|---|
| **Balance as of December 31, 2002** | **27,898** | **373,195** | **(128,050)** | **367,026** | **(17,729)** | **622,340** |
| Equity instruments | - | (3,543) | - | - | - | (3,543) |
| Available for sale financial assets | - | - | - | 4,092 | - | 4,092 |
| Tax impact | - | - | - | (1,441) | - | (1,441) |
| Hedging instruments | - | - | - | 22,076 | 11,875 | 33,951 |
| Tax impact | - | - | - | (7,735) | (4,156) | (11,891) |
| Other gains (losses) | - | - | - | (10,104) | (15,513) | (25,617) |
| Gains (losses) not recognized in the statement of income | - | (3,543) | - | 6,888 | (7,794) | (4,449) |
| (Acquisitions) / disposals of Treasury shares, net | - | 9,706 | 1,151 | (1,151) | - | 9,706 |
| Dividends | - | - | - | (29,998) | - | (29,998) |
| Net income for the period | - | - | - | 160,114 | - | 160,114 |
| **Balance as of December 31, 2003** | **27,898** | **379,358** | **(126,899)** | **502,879** | **(25,523)** | **757,713** |
| Available for sale financial assets | - | - | - | (2,373) | - | (2,373) |
| Tax impact | - | - | - | 828 | - | 828 |
| Hedging instruments | - | - | - | (4,131) | 2,155 | (1,976) |
| Tax impact | - | - | - | 1,444 | (755) | 689 |
| Other gains (losses) | - | - | - | (632) | (4,434) | (5,066) |
| Gains (losses) not recognized in the statement of income | - | - | - | (4,864) | (3,034) | (7,898) |
| (Acquisitions) / disposals of Treasury shares, net | - | (19,017) | 17,400 | 10,979 | - | 9,362 |
| Dividends | - | - | - | (35,000) | - | (35,000) |
| Redemptions of class "B" shares | (4,854) | - | - | 4,369 | - | (485) |
| Net income for the period | - | - | - | 208,032 | - | 208,032 |
| **Balance as of December 31, 2004** | **23,044** | **360,341** | **(109,499)** | **686,395** | **(28,557)** | **931,724** |

# Additional information


Vertrek
Departures
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## Air France

### 1933
Air France is born out of the combination of five French airlines.

### 1945
Air France is nationalized.

### 1946
The Paris-New York service is inaugurated with a DC4 and a flight time of 23 hours and 45 minutes.

### 1959-1960
The first Caravelle and Boeing 707 aircraft are brought into service, with the latter model reducing the time of the Paris-New York service to 8 hours.

### 1976
Concorde is commissioned, first on the Paris-Rio, Paris-Caracas and Paris-Washington routes and then Paris-New York the following year, connecting the two cities in 3 hours and 45 minutes.

### 1990
The Company acquires UTA, founded in 1963.

### 1992
Air France and UTA merge, giving Air France a 72% stake in Air Inter after combining its own interest in this company with that of UTA.

### 1996
Air Inter becomes Air France Europe.

### 1997
Air France Europe is merged with Air France.

### 1999
Air France is successfully floated, with the participation of 2.4 million private individuals, international institutional investors and 72% of staff. Air France is listed on the Monthly Settlement Market for the first time on February 22, 1999.

### 2000
SkyTeam and SkyTeam Cargo are launched. Air France is a founding member of these alliances alongside Aeromexico, Delta and Korean. The regional division is created following the acquisition of Régional Airlines, Flandre Air, Porteus, Brit Air and CityJet.

### 2001
The "Open Sky" agreement is concluded between France and the US. Alitalia and CSA join the SkyTeam alliance.

### 2002
SkyTeam is the only alliance in the world to benefit from anti-trust immunity on its transatlantic and transpacific flights.

### 2003
Air France celebrates its 70th anniversary and announces its intention to merge with KLM through a public exchange offer.

## KLM

### 1919
KLM is founded as the Royal Dutch Airline for the Netherlands and its Colonies.

### 1924
KLM runs its first intercontinental flight from Amsterdam to Jakarta.

### 1934
KLM offers its first transatlantic service from Amsterdam to Curaçao using a FokkerF XVIII Snip.

### 1946
KLM inaugurates a regular service between Amsterdam and New York.

### 1958
KLM completes its first flight to Japan flying over the Pole.

### 1989
KLM concludes an alliance with Northwest Airlines.

### 2002
KLM announces the renewal of its fleet, with the arrival of the Boeing B 747-400ER Freighter, the Boeing B 777-200ER and the Airbus A 330-200.

### 2004
KLM celebrates its 85th anniversary.

## Air France-KLM

### 2004
21 April - Launch of the exchange offer for KLM shares.
3 May - Closing of the initial offer.
5 May - Listing on the Amsterdam and New York markets.
21 May - Closing of the additional offer.
15 September - Finalisation of the group organisation with the creation of an Air France-KLM holding.

### 2005
Announcement of the creation of the European Cargo House.
Presentation of the first joint Air France-KLM summer schedule.
Introduction of *Flying Blue*, the first joint frequent-flyer program.

# General information

## Corporate name
Air France-KLM

## Registered office
2, rue Robert Esnault-Pelterie, 75007 Paris

## Mailing address
45, rue de Paris, 95747 Roissy CDG Cedex

## Legal status
French limited liability company (Société Anonyme) with a Board of Directors.

## Legislation
French law.
Air France-KLM is governed by the French Commercial Code and the provisions of the Civil Aviation Code as amended by the law of April 9, 2003 relative to air transport companies and notably Air France. The law of April 9, 2003 amended the Civil Aviation Code, introducing a provision designed to safeguard the nationality of air transport companies whose securities are admitted to trading on a regulated market.

## Incorporation and expiry dates
Incorporated on: April 23, 1947
Due to expire on: July 3, 2045 barring early liquidation or extension.

## Corporate purpose (Article 2 of the bylaws)
The primary purpose of Air France-KLM is to hold a direct or indirect interest in the capital of air transport companies and more generally stakes in any companies in France or elsewhere whose purpose is related to the air transport business.

## Trade register
Paris Trade and Company Register: 552 043 002
APE Code: 621 Z

## Consultation of legal documents
Air France-KLM's legal and corporate documents may be consulted at 45 rue de Paris, 95747 Roissy CDG Cedex, France, or requested by calling the following number: +33 1 41 56 88 85.

## Fiscal year
The fiscal year runs from April 1 to March 31 of the following year (IATA fiscal year) (see Glossary).

## Appropriation of profits
After approving the financial statements and taking due note of profits available for distribution, shareholders in shareholders' meetings vote to decide on the total or partial distribution of such profits (with, in the latter case, the appropriation of the undistributed balance to one or more reserve accounts), or the appropriation of all distributable profits to one or more reserve accounts.

# Information on the share capital



## Share capital at March 31, 2005

At March 31, 2005, the share capital came to a total of 2,289,759,903 euros, split into 269,383,518 fully paid-up shares with a par value of 8.50 euros, held in registered or bearer form as decided by the shareholder.

## Currently valid authorities granted by the Shareholders' Meeting to the Board of Directors

The Extraordinary Shareholders' Meeting of April 20, 2004 authorized the Board of Directors for a period of 26 months from the date of the Meeting to issue shares and/or other securities giving immediate or future rights to the capital of Air France-KLM.

The Board of Directors used 677.1 million euros of the authorization of 1.15 billion euros granted by the Shareholders' Meeting of April 20, 2004 to increase the capital through the issue of shares without preemptive subscription rights in the context of the public exchange offer for the KLM shares, as well as warrants to purchase new or existing shares (BASA).

The equity capital of the Air France-KLM group was increased by 768 million euros at the end of the exchange offer in May 2004 and potentially by approximately 600 million euros at the end of the period for exercising the warrants issued at the same time.

| Nature of the operation | Maximum amount of issues | Balance available |
|---|---|---|
| Capital increase via the issue of shares: | | |
| - with preemption subscription rights | 400 million euros | 400 million euros |
| - without preemptive subscription rights | 1.15 billion euros | 437.9 million euros |
| Issues of debt securities giving rights to capital | 1 billion euros | 1 billion euros |
| Capital increase through capitalization of reserves and/or additional paid-in capital | 400 million euros | 400 million euros |
| Capital increase reserved for the employee savings scheme | 3% of the capital at the time of the issue | |

## Authorization to buy back the company's own shares

The Combined Ordinary and Extraordinary Shareholders' Meeting of September 15, 2004 authorized the Board of Directors, for a period of 18 months, to trade its own shares pursuant to the buyback program approved by the AMF under No. 04-737, subject to the provisions governing stock buybacks published by the French Autorité des Marchés Financiers on October 13, 2004. The maximum purchase price was set at 25 euros and the minimum sale price at 8.50 euros.

Air France-KLM agreed not to acquire more than 5% of its stock. In fiscal 2004-05, Air France-KLM used this authority and the authority granted by the Shareholders' Meeting of July 10, 2003 (buyback program approved by the French COB under No. 03.601) under the liquidity agreement signed with SG Securities for a purchase amount of 2,535,856 shares and sale of 2,422,165 shares.

As of March 31, 2005, the Air France-KLM group held 6,483,270 shares of Air France-KLM, including 3,524,464 shares for stock options granted to Air France flight crews under the salary-share swap plan established in 1999; 1,659,268 shares held by KLM for stock options granted to the KLM management; and 1,299,538 treasury shares.

## Stock subscription or purchase option schemes

At March 31, 2005, no options on the Air France-KLM's shares had been granted to the Air France-KLM's corporate officers. No stock subscription or purchase option schemes have been set up by the Air France-KLM or its subsidiaries, with the exception of those outlined below

**Stock option scheme set up by KLM prior to the combination with Air France in favor of the corporate officers and managing executives of KLM.**

Prior to the combination with the Air France, KLM set up a stock option program governed by Dutch law, entitling beneficiaries to acquire KLM shares. KLM had acquired or created and held the number of shares needed to cover its obligations to beneficiaries if they were to exercise their options.

Within the framework of the combination between Air France and KLM, it was agreed that these options granted by KLM would now entitle holders to Air France-KLM shares (instead of KLM shares as initially planned). The shares held by KLM to cover its stock option schemes were therefore transferred to a foundation whose sole purpose was to hold the said shares, and were converted into Air France-KLM shares. In addition, the holders of stock options from the 1999 and 2000 programs were offered an alternative solution under which their options were valued using the Black-Scholes method and exchanged for a portfolio of Air France-KLM warrants with an equivalent value.

At March 31, 2005, this foundation held 1,659,268 Air France-KLM shares in order to be able to cover any existing stock options that may be exercised.

These options were granted to the corporate officers and managing executives of KLM.

| Year created | 2000 | 2001 | 2002 | 2003 | 2004 | Total |
|---|---|---|---|---|---|---|
| Total number of Air France-KLM shares that can be subscribed | 34,419 | 457,804 of which A: 343,642 B: 114,162 | 460,455 of which A: 341,350 B: 119,105 | 355,379 | 463,884 | 1,771,941 |
| Due to expire on: | October 21, 2005 | October 20, 2006 | October 19, 2007 | June 30, 2008 | June 25, 2009 | |
| Exercise price | | | | | | |
| - A options | — | 20.44 | 12.80 | — | — | |
| - B options | 32.86 | 16.22 | 10.07 | 6.48 | 13.19 | |

## Stock option schemes set up by Air France-KLM for flight deck crew prior to the combination with KLM

The Combined Shareholders' Meeting on September 28, 1999 voted to authorize the allocation of stock options to flight deck crew who accepted the salary-share swap. At the meeting on May 30, 2000, the Board of Directors implemented this plan as shown in the following table.

| | Plan characteristics |
|---|---|
| Date of the Shareholders' meeting authorizing the plan | September 28, 1999 |
| Date of the Board of Directors implementing the plan | May 30, 2000 |
| Number of beneficiaries: | 2,787 flight deck crew members |
| Maximum number of options: | 3,516,596 |
| Maximum number of shares acquired: | 3,516,596 |
| Option exercise price: | 15.75 euros |
| Exercise conditions: | Between May 30, 2005 and May 30, 2007 at a rate of one option for four shares acquired in connection with the salary-share swap |

Under this plan, the 10 largest beneficiaries hold a total of 79,465 options.

At March 31, 2005, Air France had 3,524,464 shares in order to cover the stock option plan for flight deck crew members who accepted the salary-share swap.

## Securities conferring entitlement to shares

At March 31, 2005, certain securities giving rights to capital were outstanding. Following the operation to exchange KLM securities for Air France-KLM securities, 45,093,299 subscription warrants for new or existing shares were created in May 2004. These warrants, with a maturity of three and a half years, may be exercised on or after November 6, 2005 in the ratio of three warrants for two shares at a price of 20 euros per share.

On April 22, 2005, Air France successfully placed 450 million bonds convertible and/or exchangeable to Air France-KLM shares (OCEANE) on the capital markets. The 21,951,219 Air France bonds with a unit face value of 20.50 euros give the right to the allotment of new and/or existing shares of Air France-KLM on the basis of one share per bond. This allotment may be made at any time from June 1, 2005 until March 25, 2020. The bonds will be fully amortized on April 1, 2020 by redemption at par.

The OCEANES have been listed for trading on the Eurolist market of Euronext Paris since April 22, 2005.

## Changes in the share capital over the last five years

| | Variations in capital | | Total capital | Total number of shares |
|---|---|---|---|---|
| | Par value (euros) | Additional paid-in capital (euros) | (euros) | |
| At March 31, 2001 | — | — | 1,868,137,540 | 219,780,887 |
| At March 31, 2002 | — | — | 1,868,137,540 | 219,780,887 |
| At March 31, 2003 | — | — | 1,868,137,540 | 219,780,887 |
| At March 31, 2004 | — | — | 1,868,137,540 | 219,780,887 |
| At March 31, 2005 | 421,622,363 | 346,264,903 | 2,289,759,903 | 269,383,518 |

Following the exchange offer for KLM securities by Air France, 49,602,631 million shares were created on two occasions in May 2004, taking the total number of shares up to 269,383,518 and the share capital to 2,289,759,903 euros.

The public exchange offer proposed to KLM shareholders on April 5, 2004 had the following features:

- Exchange parity: 11 Air France shares and 10 equity warrants for Air France shares (BASA) 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 BASAs will give the holders the right to purchase two new and/or existing shares of Air France stock at an exercise price of 20 euros per Air France-KLM share. The BASAs have a maturity of three and a half years from May 6, 2004 and may be exercised on or after November 6, 2005.
- The ADW will have the same conditions and exercise price for ADS or Air France-KLM shares as the BASAs.

## Current breakdown of capital and voting rights

| At | % of share capital | | | % of voting rights | | |
|---|---|---|---|---|---|---|
| | March 31, 2005 | March 31, 2004 | March 31, 2003 | March 31, 2005 | March 31, 2004 | March 31, 2003 |
| French State | 23.2 | 54.0 | 54.4 | 23.8 | 54.6 | 55.1 |
| Current and former employees | 11.7 | 12.8 | 12.9 | 11.7 | 12.9 | 13.1 |
| Air France-KLM (treasury stock) | 2.4 | 1.1 | 1.3 | - | - | - |
| Public | 62.7 | 32.1 | 31.4 | 64.5 | 32.5 | 31.8 |

Following the transfer of 47,680,883 shares by the French State on December 9, 2004, an offering was proposed to the employees in accordance with the privatization law.

This offering was composed of two blocks:
- a first block of 8,414,273 shares fully subscribed and delivered on March 31, 2005;
- a second salary-share swap block of 12,612,671 shares delivered on April 11, 2005. At the end of the operation, the French State held 18.6% of the capital and the employees held 16.3%.

To the knowledge of Air France-KLM, no shareholder or group of shareholders other than the French State, the Barclays Group, the BNP Paribas Group, the Caisse Nationale des Caisses d'Epargne (CNCE), Alitalia, the Société Générale Group and CIP-Paribas, held directly or indirectly, individually or together, 0.5% or more of the capital and voting rights at March 31, 2005. Air France-KLM has no knowledge of the existence of a shareholders' agreement.

## Legal and statutory investment thresholds

Pursuant to Article L.233-7 of the French Commercial Code, Article 13 of the Air France-KLM bylaws stipulates that any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly at least 0.5% of Air France-KLM's voting rights or any multiple thereof lower than 5%, must notify Air France-KLM by registered mail with delivery receipt within 15 days of the date on which the threshold is exceeded.

Above 5% and without limitation, notice must be given under the same conditions each time a further 1% of voting rights is crossed. These obligations are applicable when thresholds are crossed in either direction.

The aforementioned obligations under the bylaws do not replace the legal obligation to inform Air France-KLM and the French securities regulator (Autorité des Marchés Financiers, AMF) within five trading days if the 5%, 10%, 20%, $33^{1/3}$%, 50% and $66^{2/3}$% share capital and voting right thresholds are exceeded. Furthermore, if the 10% and 20% share capital and voting right thresholds are exceeded, the shareholder must notify Air France-KLM and the AMF of its objectives for the next 12 months within 15 days.

This notification is subject to the conditions and sanctions set forth in Article L.233-14 of the Commercial Code. In addition, in the event of failure to comply with this notification requirement and at the request of one or more shareholders holding at least 5% of the share capital or voting rights, the shares exceeding the reporting thresholds will be stripped of their voting rights at all shareholder meetings held for a period of two years following compliance with notification procedures.

Any shareholder acquiring over 2% of Air France-KLM s voting rights is required to register these securities within 15 days of the date on which the threshold is exceeded. (Extraordinary Shareholders' Meeting of September 25, 1998).

Following the public exchange offer on KLM securities, Air France-KLM was privatized, with the French State's interest diluted, down from 54% to 44.1%. As a result, the statutory changes in the bylaws related to the transfer of the majority of the capital stock to the private sector, which were approved at the Shareholders' Meeting on July 10, 2003, now apply. These changes primarily concern the monitoring and registration of shareholders, formal notices to sell shares and the mandatory sale of shares, and the structure of the Board of Directors, as presented in the corporate governance part.

## Identification of shareholders

### Identification of holders of bearer shares

On September 25, 1998, the Shareholders' Meeting authorized Air France-KLM to make use of the legal provisions concerning the identification of holders of securities conferring immediate or future entitlements to vote at shareholder meetings. This option was exercised in September 2002 and April 2004.

Pursuant to the new Articles L.360-1 to L.360-4 of the Civil Aviation Code, as amended under the French law of April 9, 2003, listed French air transport companies are authorized to incorporate a provision into their bylaws allowing them to monitor and control their shareholders and to require certain shareholders to sell all or part of their interests in the event of a risk relative to their nationality. This is because, over time, changes in the shareholding structure of an air transport company whose shares are traded on a regulated market could jeopardize its operating license as an EU air transport company (retention of this license is conditional on EU interests holding a majority of the shares and maintaining effective control) or the traffic rights held by the company as a French air transport company pursuant to bilateral international agreements concluded between France and other states outside the European Union.

## Statutory provisions concerning shareholders

**Identification and monitoring of shareholders:** Articles 9 and following of the Air France-KLM bylaws set the conditions under which the Board of Directors can or must decide either to reduce the 2% threshold (the current threshold) above which shares must be held in registered form to 10,000 shares, or to require all shares in Air France-KLM to be held in registered form. However, when the 40% share capital or voting right threshold has been passed by non-French shareholders, the Board of Directors must decide to reduce this 2% threshold to 10,000 shares.

When Air France-KLM has published a notice informing shareholders and the public that non-French shareholders own, directly or indirectly, 45% of Air France-KLM's capital or voting rights, the Board of Directors must decide to make it mandatory for all Air France-KLM shares to be held in registered form. Air France-KLM may at any time and at its cost submit a request to the organization responsible for the compensation of securities to provide full details regarding the identification of holders of Air France-KLM securities conferring immediate or future entitlements to vote at its shareholder meetings, in addition to information on the quantity of securities held by each one of them.

Furthermore, independently from the prescriptions applicable under Article L.233-7 of the Commercial Code, any private individual or corporate body, acting alone or in concert, acquiring directly or indirectly a number of shares corresponding to at least 0.5% of Air France-KLM's capital or voting rights or any multiple thereof, must notify Air France-KLM by registered mail with delivery receipt within 15 days of the date on which the threshold is exceeded. Notice must be given under the same conditions each time a further 0.5% of the capital and voting rights is crossed, up to 50%. Any shareholder, whose holding falls below one of the thresholds listed above must also inform the company within the same deadline of 15 days and under the same conditions.

Article 10 of the bylaws defines the information that must be provided to Air France-KLM by shareholders—both private individuals and corporate bodies—subject to the obligation to hold their shares in registered form. This information includes the nationality of the shareholder. Article 11 defines the conditions under which the Board of Directors may exercise its right to approve new shareholders.

**Formal notice to sell and mandatory sale of shares:** Article 15 of the Air France-KLM bylaws stipulates the information that Air France-KLM must publish and distribute to inform the public that over 45% of the share capital or voting rights is held by shareholders who are not of French nationality. Based on this threshold, Air France-KLM will be entitled to launch procedures requiring the sale of shares in order to protect its nationality. Articles 15 and 16 respectively concern formal notices to sell and the mandatory sale of shares held in breach of regulations.

## Relations between Air France-KLM and its subsidiaries

Air France-KLM and its Air France subsidiary signed an agreement on October 5, 2004 that set out to define the conditions under which Air France would provide technical and administrative support services requested by Air France-KLM.

These accounting, administrative, legal and IT services will be invoiced at cost.

On the same date, Air France-KLM and its Air France subsidiary also concluded:
- a cash management agreement (credit line made available to Air France-KLM);
- a domiciliation agreement (site of Air France-KLM's headquarters made available).

Prior to their signature, these three agreements were approved by the Boards of Directors of Air France-KLM and Air France on September 15, 2004.

Similar agreements will be signed between Air France-KLM and KLM.

# Information on the agreements concluded in connection with the combination between Air France and KLM

In connection with the agreements concluded between KLM and Air France for the creation of the Air France-KLM group, various agreements were concluded with KLM's existing shareholders on the date on which the global agreement between Air France and KLM was signed.

## Agreements on the shareholding structure

KLM set up two Dutch foundations, SAK I and SAK II, to handle the administration of KLM shares transferred as part of the combination operations and acquired by Air France-KLM from KLM shareholders over a three-year period.

In return for the shares transferred to SAK I and SAK II, Air France-KLM has received share certificates enabling it to benefit from all the economic rights (including dividend rights) associated with the underlying shares. SAK I and SAK II will however retain the voting rights linked to these shares. These voting rights will be exercised by the two foundations in accordance with the corporate governance principles defined in the agreements for the combination between KLM and Air France, in the best interests of KLM, Air France-KLM and its shareholders.

### Agreements with the Dutch State

In order to allow the combination to go ahead and safeguard KLM's traffic rights, Air France-KLM and KLM concluded the following agreements with the Dutch State.

**Agreement for the acquisition of cumulative preferential A shares held by the Dutch State**

Air France-KLM, KLM and the Dutch State have signed an agreement under which the Dutch State will scale down its interest in KLM in proportion to any reduction by the French State of its stake in the Air France-KLM's share capital. As such, the Dutch State will sell its cumulative preferential A shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM if the transfer takes place during the first three years following the successful completion of the offer. In the second case, the foundation will issue share certificates for Air France-KLM corresponding to the cumulative preferential A shares transferred to the foundation. These share certificates will confer all the economic rights associated with the shares on Air France-KLM, while the corresponding voting rights will be exercised by the foundation until the share certificates have been exchanged by Air France-KLM against the said shares. At the end of the initial three-year period, Air France-KLM will be entitled to exchange the share certificates for the cumulative preferential A shares, and hold the shares directly.

After the French State's sale of 68,707,903 shares of Air France-KLM, the Dutch State sold 5,103,885 KLM cumulative preferred A shares to Air France-KLM. They were transferred to the SAK I foundation, which remitted to Air France-KLM the financial rights attached to these shares.

Notwithstanding the mandatory disposal of these cumulative preferential A shares under the conditions set out above, the Dutch State may transfer as many cumulative preferential A shares as it deems relevant to Air France-KLM at any time.

**Amendments made to the Dutch State's option and the related agreements**

The Dutch State has an option to subscribe for preferential KLM B shares, enabling it to increase its stake to 50.1% of the capital and voting rights of KLM irrespective of the amount of capital issued by KLM when the said option is exercised. This option is based on the Chicago Convention and bilateral air service agreements according to which KLM's operational right to operate air transport services on international lines generally depends on the obligation for a majority or a significant percentage of the capital to be held by Dutch nationals or Europeans or for the effective control of Air France-KLM to be exercised by Dutch or European parties.

Air France-KLM, KLM and the Dutch State signed an agreement on October 16, 2003 to amend certain terms of the existing option for the Dutch State, subject to the suspensive condition of the offer being completed. In accordance with the amended terms of the option, the Dutch State may exercise its option if another country, representing a key market served by KLM provides written notice that it intends to limit or terminate KLM's scheduled airline operations with the said country because it considers that a significant percentage of KLM's capital is no longer held by Dutch shareholders or that the effective control of KLM is no longer exercised by Dutch nationals. The Dutch State's amended option will initially be set for a period of three years, which may be renewed on three occasions by the Dutch State for periods of twelve months each. This period may be renewed if the Dutch State deems that it is necessary owing to a threat to KLM's traffic rights on certain key markets. The State will be required to give written notice to KLM and Air France of its intention to renew this option. This notification should notably include the reasons behind such a renewal and the names of the countries contesting KLM's traffic rights.

This agreement also stipulates that the parties will discuss upstream and in good faith the need to exercise the amended option for the Dutch State and the corresponding schedule, although such discussions will not necessarily represent a prior authorization right for Air France-KLM. After exercising the option, the Dutch State will be required to inform Air France-KLM at least every six months of progress made on discussions with the countries contesting KLM's traffic rights.

The amended option also states that the Dutch State will exercise the voting rights associated with the preferential B shares acquired as a result of this option being exercised, in accordance with the best interests of KLM, Air France-KLM and its shareholders but, under all circumstances, in accordance with the corporate governance guidelines indicated in the global agreement.

If after exercising the amended option, the Dutch State establishes that KLM's key markets are no longer threatened, KLM will be required to buy back the preferential B shares with a view to canceling them, at a price equal to the amount paid at the time of the issue of the preferential B shares, increased to factor in the amount of any dividends accrued but not yet paid. Such a buyback operation will not affect the Dutch State's option, which will remain in force as stipulated.

## Assurances given to KLM and to the Dutch State by Air France-KLM

In connection with their combination, Air France and KLM drew up a set of principles for "assurances" given by Air France-KLM to KLM and by Air France-KLM and KLM to the Dutch state.

### Assurances given to the Dutch State

On October 16, 2003, Air France-KLM and KLM gave the Dutch State the following assurances with a view to maintaining the quality of KLM's network at Schiphol airport, which, according to the Dutch State, is of public interest, while at the same time taking into account the interests of the Air France-KLM group and its shareholders.

**The assurances given to the Dutch State will be applicable until May 5, 2012**

- Air France and KLM will continue to be air transport companies and will maintain their operational activities in France and the Netherlands respectively. Air France and KLM will keep their air transport and operating licenses, and will continue to fulfill all of the conditions required for the maintenance of these licenses;
- Working with the relevant Civil Aviation Authorities, Air France and KLM will both make every effort to keep all the authorizations and respective rights granted by the said authorities that are necessary for running international lines. To this end, if an economic decision to shut a service down was likely to result in the partial loss of these authorizations, all the parties concerned will make every effort to safeguard the authorizations and rights concerned without compromising the underlying economic decision;
- Air France and KLM confirmed that passenger traffic on flights out of Roissy-CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on two main airports: Roissy-CDG and Schiphol;

- Air France and KLM agreed that the cargo activities on the Roissy CDG and Schiphol hubs and the potential for growth in this business are vital to the success of the Air France-KLM group;
- Air France and KLM agreed that the potential for synergies identified with regard to the cargo business will open up development opportunities for the Air France-KLM group at Schiphol and Roissy-CDG.

**The following assurances given to the Dutch State will be applicable until May 5, 2009**

- Subject to any measures for adaptations required in the event of a crisis, the passenger traffic at Roissy-CDG will not be developed in such a way that it is significantly detrimental to the existing portfolio of key destinations operated by KLM out of Schiphol provided that the said destinations maintain their economic interest for the Air France-KLM group; Similarly, the passenger traffic at Schiphol will not be developed in such a way that it is significantly detrimental to the current portfolio of key Air France destinations operated out of Roissy-CDG. The Air France-KLM group will be able to transfer up to five key KLM destinations, which will become destinations operated by Air France out of Roissy-CDG, insofar as the transfer of these lines is accompanied by the symmetrical transfer of five Air France destinations that will then be operated by KLM out of Schiphol.
- Subject to any measures for adaptations required in the event of a crisis, the Air France-KLM group's cargo activity at Roissy-CDG will not be developed in such a way that it is significantly detrimental to KLM's global cargo activity at Schiphol. Similarly, the Air France-KLM group's cargo activity at Schiphol will not be developed in such a way that it is significantly detrimental to Air France's global cargo activity operated out of Roissy-CDG.

In return for these assurances, the Dutch State undertook to take the importance of KLM's activities at Schiphol into consideration when defining its civil aviation policy. Furthermore, the Dutch State has agreed to:

- maintain the existing portfolio of traffic rights granted to KLM, other than those that have not been used by KLM over a cumulative period of twelve months;
- continue to review any future request submitted by KLM for the allocation of new traffic rights on a fair and non-discriminatory basis.

Any action or decision to be taken while the assurances given to KLM are still in force that could result in a change in these assurances will be subject to the prior agreement of the Dutch State.

## Assurances given to KLM

In order to safeguard the long-term interests of each party as well as the interests of the Air France-KLM group and its shareholders, Air France-KLM has given KLM the following assurances:

- Air France and KLM recognize the importance of human resources and the need to develop and maintain centers of excellence within the Air France-KLM group. They agree that promotions will be based on merit and skills with no discrimination. Similarly, any restructuring operations will be carried out in accordance with the principle of non-discrimination;
- Air France and KLM confirm that passenger traffic on flights out of Roissy CDG and Schiphol and the potential for growth in this traffic are vital to the success of the Air France-KLM group, which will operate a multi-hub system in Europe based on two main airports: Roissy CDG and Schiphol;
- By setting up a combined integrated network, Air France and KLM intend to optimize the current portfolio of Air France and KLM destinations in favor of the Air France-KLM group, while seeking to maintain and ensure the long-term development of lines operated by the two companies for flights to or from Roissy-CDG and Schiphol. The balanced nature of this long-term development will be ensured through compliance with the fleet plan already defined by each of the parties for the period from 2003 to 2005, and will be determined based on the following factors:
  - a common economic strategy and, for the development of business plans for the two airlines, a common objective

of global profitability and financial solidity;
- the suitability of business plans for the development of traffic flows;
- a reasonable division of new opportunities between the two networks, in line with natural traffic flows and the economic conditions applicable to each of the two hubs;
- subject to the aforementioned criteria, the development of one hub must not be detrimental to the other hub, its existing portfolio of key destinations and its potential development. A transfer of destinations from one hub to another will not be authorized unless this option is of obvious interest and significance for the combined operational entities or it is offset by the symmetrical transfer of another destination.

- Air France and KLM agreed not to operate flights from the two hubs to any long-haul destination serviced up until this point by only one of the companies from its hub, subject to certain conditions.
- Air France and KLM will continue to use their respective codes: “AF” and “KL”;
- On lines between the Netherlands and France, Air France and KLM will optimize the use of their fleet, services and crews in order to reduce costs by eliminating non-use of aircraft at night and optimizing schedules and capacities. Air France and its subsidiaries will serve the hubs at Roissy-CDG, Clermont-Ferrand and Lyon. KLM and KLM Cityhopper will serve the Schiphol hub, with no less than 50% of flights.
- Air France and KLM agreed that the cargo activity and its potential for growth at Roissy-CDG and Schiphol are vital to the success of their cooperation.
- Air France and KLM agreed to ensure the balanced development of capacity at each hub, including, if economically justified, investments in cargo planes or aircraft conversions in order to maintain the capacity and development of cargo destinations, and investments to develop the capacity of cargo infrastructures for hubs. The Air France-KLM group’s business plan aims to maintain the long-term development of each hub.

The fair nature of this long-term development will be determined on the following basis:
- a common economic strategy and, for the development of business plans for the two companies, a common objective of global profitability and financial solidity
- the suitability of business plans for the development of the air cargo transport market;
- the development of one hub will not be detrimental to the cargo activity at the other hub, subject to all the measures for adaptations required in the event of a crisis.

- Air France and KLM agreed to draw up a “cargo agreement”, which will not impede the potential integration of Martinair into the Air France-KLM group if this is beneficial for the two parties and strengthens the position of Schiphol. Air France will not block the project, subject to a review of the lines operated by the two airlines and a comparison of the benefits, synergies and risks involved (including the securing of acceptable conditions for the operation to be approved by the Dutch and European authorities);
- Air France and KLM agreed that the combination should lead to an increase in the portfolio of products offered by the Air France-KLM group in terms of engineering and maintenance services;
- Air France and KLM agreed that for commercial and heritage reasons, the identity of each party should be preserved;
- Air France and KLM agreed to continue using, for as long as they believe it to be necessary, their brand and logo, of which they recognize the value and heritage, until the Air France-KLM group has acquired an equivalent or higher level of recognition;
- Air France and KLM will make every effort to retain the term “Royal” for KLM.

The assurances given to KLM entered into effect on May 5, 2004 and will continue to apply until May 5, 2009, it being understood that at the end of a three-year period, the assurances given relative to the passenger and cargo networks, hubs and engineering and maintenance activities will be revised jointly by Air France-KLM and KLM in order to take the future Air France-KLM group environment into consideration.

### Implementation of a mechanism to ensure compliance with the assurances given

In connection with the combination with KLM, Air France-KLM and KLM set up a Dutch foundation—Fondation des Assurances KLM —in order to facilitate the formation of binding advices on the interpretation of assurances given to the Dutch state and KLM.

The foundation comprises two boards, which issue binding advices if any decisions taken by the KLM Supervisory Board, KLM Management Board or Air France Board of Directors appear to contravene the assurances given. The foundation will be in place through to May 6, 2012, subject to one of the boards not being affected by a possible contravention of the assurances on this date. In this case, the foundation will be immediately liquidated after having given its opinion on the said contravention. When giving its opinions, the foundation must act in the best interests of KLM, the Air France-KLM group and its shareholders.

The foundation is managed by a board of four independent directors:

- one appointed by Air France;
- one appointed by KLM;
- one appointed by the Dutch State;
- one appointed by the other three directors.

The director appointed by Air France has double voting rights with regard to the appointment of the fourth director. Notices relative to a possible contravention of the assurances given to the Dutch State will be issued by a board made up of the director appointed by Air France, the director appointed by the Dutch State, and the director appointed by the other directors. Notices relative to a possible contravention of the assurances given to KLM will be issued by a second board comprising the director appointed by Air France, the director appointed by KLM, and the director appointed by the other directors.

The submission of a case for the foundation's relevant board may be carried out either by the Dutch state with regard to the assurances given to it, or by several members of the KLM Supervisory Board acting together with regard to the assurances given to KLM. If the relevant board issues a mandatory notice indicating that the decision that was submitted to it contravenes the assurances given, the KLM Supervisory Board, KLM Management Board or Air France-KLM Board of Directors will be required to cancel or amend its decision as soon as possible and cancel the effects of any actions taken in connection with the said decision, in accordance with the notice issued. The two boards will take their decisions based on a majority of votes.

At March 31, 2005, no cases had been submitted to the foundation's boards.

## Strategic Management Committee (SMC)

Under the agreements signed with KLM, a Strategic Management Committee (the "SMC") was formed within Air France-KLM on May 6, 2004 for a period of three years, until May 6, 2007. After that date, the Chairman of the Air France Board may decide either to keep the SMC or to create another equivalent body. The SMC meets every two weeks, alternating between Amsterdam and Paris.

### Members of the SMC

**The SMC has eight members:**

- the Chairman of the Board of Air France (Chairman of the SMC);
- three employees of Air France exercising management positions;
- the Chairman of the KLM Management Board; and;
- three members who are either members of the KLM Management Board or KLM employees exercising management positions.

The members of the SMC are appointed by the Air France-KLM Appointments committee after consultation and on the recommendation of the Chairman of the Board of Directors of Air France for the three members representing Air France and exercising management positions, and after consultation and on the recommendation of the Chairman of the Supervisory Board of KLM for the appointment of the three members who are either members of the KLM Management Board or KLM employees exercising management positions.

## Role and responsibilities of the SMC

The decisions of the SMC express the joint position of Air France and KLM for any significant strategic decisions that affect commercial, financial, technical and operational areas, particularly with respect to the following:

- the strategy of the Air France-KLM group toward its competitors, partners and the public authorities;
- the definition of the strategy for network management, including the development of the hubs, significant changes in the structure of the network, the introduction of routes operated by the two airlines, agreements with other carriers, the division of traffic rights between KLM and Air France if there is a European decision to lift restrictions on nationality;
- the financing, debt strategy and significant investments in terms of the fleet, information systems and any other significant projects;
- significant financial investments and partnership, cooperative and/or alliance agreements with strategic air carrier partners;
- the purchasing policy;
- budgets and medium-term planning to ensure that they are in line with the strategy defined by the SMC;
- the appointment of key personnel within Air France and KLM (selected on the basis of lists prepared by Air France and KLM respectively);
- the addition of new airlines to the Air France-KLM group;
- the human resources policy on issues shared by several companies of the group;
- any decision concerning the Dutch airline Martinair, in which KLM is a shareholder; and;
- any reserved decision or decision subject to prior consultation (such as those described below).

The SMC will make mandatory recommendations on the issues listed above to the Board of Directors of Air France, the Management Board and the Supervisory Board of KLM. Neither the Chairman of the Management Board of KLM, the Chairman of the Board of Directors of Air France nor any chairman, director or key employee of the combined entities or their subsidiaries, depending on the case, may take or implement any decisions that come under the competence of the SMC unless the SMC has previously issued its binding recommendation.

The SMC also acts as mediator in the event of disagreements about the application of the bilateral commercial agreements or the management of the entities held or managed jointly by Air France and KLM.

Operational sub-committees have been put in place under the direction of the Strategic Management Committee to deal with subjects such as the network, pricing and revenue management, sales and distribution, products and brands, loyalty program, engineering and maintenance, information technologies, regulations and marketing agreements.

## Role and responsibilities of the Chairman of the SMC

The Chairman of the SMC chairs SMC meetings and casts the deciding vote if necessary on any decisions that must be submitted to the SMC, with the exception of decisions reserved for other bodies as summarized below.

Until May 6, 2007, the Chairman of the SMC must consult the Chairman of the KLM Management Board before casting his deciding vote, if necessary, on the following decisions:

- coordination of the available capacity of Air France and KLM, the schedule and determination of the days for service on shared destinations;
- coordination in order to avoid unfair practices against one of the two subsidiaries by any partner that has signed an alliance with the other subsidiary; and
- the schedules for passenger transport between France and the Netherlands.

The following decisions must receive a unanimous vote by all members of the SMC:

- any decision that modifies the assurances given to KLM;
- any decision, the purpose of which is:
  - the combination or creation of common activities within the operational activities of Air France and KLM existing on October 16, 2003, such as the integration within a joint structure of the cargo and catering businesses or any general reorganizations of the operational activities following the divestment or the termination of a business by Air France and KLM;
  - a change in the assignment of key management personnel or of an entire operational activity between Air France and KLM;
  - the calendar, development and implementation of any decision dealing with the two issues described above; and;
  - a decision to enter into an intra-group agreement on terms other than normal current terms.

Any decision by the SMC to reject an operation relating to a reserved decision will be binding.

# Legislative and regulatory environment for the air transport industry



Commercial air transport is governed by eight freedoms, national and supranational legislation, and various international conventions that each state undertakes to apply in its air space after ratification.

## Freedoms

Under a bilateral treaty, an air carrier has freedoms that allow it to operate in the air space and the territory of a State other than its State of origin. These eight freedoms are as follows:

**1st freedom** – A carrier that leaves from its State of origin has the right to overfly the air space of a foreign State.

**2nd freedom** – A carrier that leaves from its State of origin has the right to make a technical layover without unloading or loading passengers in a foreign State. This freedom is the «transit right».

**3rd freedom** – A carrier that leaves from its State of origin has the right to unload passengers from its State of origin in a foreign State.

**4th freedom** – A carrier that leaves from a foreign State has the right to load passengers in this foreign State to unload them in its State of origin.

**5th freedom** – A carrier that leaves from its State of origin has the right to unload and load passengers in two successive foreign States.

**6th freedom** – A carrier that leaves from a foreign State has the right to load passengers in that State and unload them in its State of origin, then in another foreign State.

**7th freedom** – A carrier that leaves from a foreign State has the right to load passengers in that State to unload them in another foreign State, without going through its State of origin.

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**8th freedom** – A carrier that leaves from its State of origin has the right to load passengers in a foreign State, to unload them in another city in this same foreign State.

## Allocation of slots

Access to the main international airports is regulated by the allocation of time slots. A slot represents clearance given for a carrier to land at or take off from an airport at a specified time and date. Access to most European airports (London, Paris, Frankfurt, Milan, Madrid, Amsterdam, etc.) and Asian airports (Bangkok, Tokyo, Hong Kong, Singapore, etc.) 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.

For airports within the EU, each Member State, 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, designates an individual or an entity to be responsible for the allocation of slots and the monitoring of their use.

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

Slots are allotted twice a year by the designated airport coordinator, at the same time as the airline flight schedules for the relevant IATA season (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 season;
- The coordinator first allocates slots to airlines that already had slots the previous season (known as "grandfather rights") for past operators;

- Once the slots have been allocated, the coordinator gives all the interested parties certain details about the slots requested: slots subject to grandfather rights and slots allocated, with a breakdown by airline and ranking in chronological order for all carriers, as well as information on which slots are on hold and which may still be available;
- A pool is created that includes, for each coordination period, all the available slots, whether they are newly created, unused, abandoned by a transporter or have become available for any other reason;
- The coordinator allocates half of the pooled slots to newcomers and the other half to long-standing operators in proportion to the slots allocated previously; any remaining slots are also allocated based on the same procedure.

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

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

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

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

## European legislation

Within the European Union, these freedoms are completed by common legislation that creates a homogenous regulatory situation for all European carriers. The existence of this legislation eliminates the need for any bilateral agreement between member States.

### Single European airspace

Since April 1, 1997, all European airlines may freely operate and, in particular, perform cabotage operations within a single European airspace. Furthermore, any resident of an EU Member State may now hold a stake in the shares of any EU-registered airline, without limit, provided that the shareholder is not acting as a front for a beneficial owner who is not a citizen of an EU Member State. This framework does not prevent EU Member States from participating in the ICAO, nor does it conflict with the principles and regulations of the Chicago Convention.

## Passenger rights in the European Union

On February 17, 2005, new European regulations governing the rights of passengers took effect. These regulations apply to all flights—both scheduled and unscheduled—departing from an airport located in a member State of the European Union, and established new common rules for indemnification and assistance, if embarkation is refused or delayed substantially, a flight is cancelled, or class is downgraded.

In the area of overbooking, air carriers are above all encouraged to develop their policy to call for volunteers. If this policy does not prevent refusals for boarding, the passengers affected receive an indemnification calculated on the basis of the final destination mileage zone and the delay in terms of the initial arrival time. This indemnification may vary from €250 to €600.

In addition, when a flight is delayed for at least five hours, passengers may request reimbursement for their ticket (including for the legs of the trip already completed) if no replacement solution is possible or if they believe that their trip has become pointless.

If a flight is cancelled, the regulations introduce new rights for the passenger and new obligations for air carriers. These obligations are based on the carrier's ability to react to inform the passenger. The earlier the carrier informs the passenger, the fewer constraints it has. If these obligations are not met, the passenger may claim an indemnity that varies from €250 to €600, on the basis of the final destination mileage zone and the time period in which he was rescheduled.

Finally, a passenger who is seated in a class lower than the reservation class will now benefit from a partial reimbursement of the trip in question equal to 30%, 50% or 75% based on the destination mileage zone.

## International conventions

Three main treaties establish the legal and regulatory framework governing commercial air transport: the Montreal Convention, the Chicago Convention and the Rome Convention.

### The Montreal Convention (1999)

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);
- a second level, based on a presumption of fault for the air transport company, for which the airline may be exempt if it proves that it or its agents or officials have not been negligent in any way or that the damages are exclusively a result of the acts of a third party.

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

### The Chicago Convention (1944)

The 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.

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

### The Rome Convention (1952)

The Rome Convention covers damages caused to third parties on the ground by foreign aircraft. This convention, signed in 1952, has not been ratified by France or the Netherlands.

# Statutory Auditors' Report on the «Document de Référence» 2004-05



As Statutory Auditors of Air France-KLM and in accordance with articles 211-1 through 211-42 of the AMF rules and regulations, we have performed procedures on the information relating to the financial position and the historical financial statements of the Company contained in the attached "document de référence" in accordance with professional standards applicable in France.
The Chairman of the Company is responsible for the preparation of the "Document de référence". Our responsibility is to report on the fairness of the information presented in the "Document de référence" relating to the financial position and the historical financial statements.
We performed our procedures in accordance with professional standards applicable in France. Those standards require that we assess the fairness of the information presented relating to the financial position and the historical financial statements, and its consistency with the audited financial statements on which we have issued a report. Our procedures also included reading the other information contained in the "Document de référence" 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 material misstatements of facts that we may have found in reading the other information based on our general knowledge of the Company obtained during the course of our engagement.
The document does not include any selected prospective data resulting from an organized process

We have audited, in accordance with professional standards applicable in France, the statutory and consolidated financial statements of Air France-KLM as of and for the years ended March 31, 2005, 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, 2005

The introduction paragraph of the financial statements footnotes discloses the change in Air France-KLM's operations during the year ended March 31, 2005: Air France–KLM is now a holding company which contributed, based on the decision of Air France shareholders' extraordinary meeting held on September 15, 2004, the operations of the former called Air France company to its affiliate Air France – Compagnie Aérienne (ex Air Orient) effective April 1st, 2004.

## 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 records 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 March 31, 2005

Note 2.2 discloses the change in method for estimating the debt related to the “frequent flyer” loyalty programs “Fréquence Plus” of Air France S.A. and “Flying Dutchman” of KLM N.V.: the combination of these two loyalty programs and the valuation of new use practices of “miles” starting in June 2005 lead Air France–KLM to adjust its estimate of the related debt;

Note 3.2 discloses the main assumptions used in KLM’s purchase price allocation and the fair value determination of its assets and liabilities at the acquisition date. Such note highlights that the Group is awaiting for some further clarification from the international regulator in connection with the recognition of pension asset surplus. In the meantime, the Group decided not to amortize from the second quarter of the year ended March 31, 2005 the portion of the negative goodwill resulting from the recognition of KLM’s pension asset surplus. The effects of the final decision of the international regulator on the recognition or not of the pension asset surplus are disclosed in note 22.2.

## Consolidated financial statements as of 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 records 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 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.

Based on the procedures performed, we have no matters to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in the “Document de référence”.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, June 29, 2005

KPMG Audit
Department of KPMG S.A.

Jean-Paul Vellutini
Partner

Jean-Luc Decornoy
Partner

Deloitte & Associés

Pascal Pincemin
Partner

## Information included in the appendices:

**The “document de référence” includes:**

- The Statutory Auditors’ report on the consolidated financial statements and the Parent Company financial statements as of and for the year ended March 31, 2005 including repectively on pages 183 and 194 of the “document de référence” the justifications of the assessement in accordance with article L225-235 paragraphs 1 and 2 of the “Code de Commerce”.
- 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-KLM S.A., describing the internal controls over the financial reporting process.

# Information and control

## Person responsible for the reference document

To the best of my knowledge, the information contained in this reference document is fair and accurate in all material respects, and the document provides investors with sufficient information to evaluate the assets, operations, financial position, results and outlook of the Group and does not include any omissions likely to alter the scope.

Jean-Cyril Spinetta
Chairman and Chief Executive Officer

## Person responsible for financial information

Dominique Barbarin
Tel: +33 (0)1 41 56 88 60
Email: dobarbarin@airfrance.fr

## Auditors

### Incumbent Statutory Auditors

Deloitte Touche Tohmatsu
185, avenue Charles-de-Gaulle - 92200 - Neuilly-sur-Seine
represented by Pascal Pincemin
Renewal for six years submitted for approval at the General Meeting on 15 September 2004.
Start date of first engagement: September 25, 1998

KPMG Audit
Département of KPMG SA
1, cours Valmy - 92923 - Paris La Défense
represented by Jean-Luc Decornoy
Renewal for six years submitted for approval at the General Meeting on 25 September 2002.
Start date of first engagement: September 25, 2002

### Deputy Statutory Auditors

B.E.A.S.
7/9, Villa Houssaye - 92200 - Neuilly-sur-Seine
represented by Alain Pons
Renewal for six years submitted for approval at the General Meeting on 15 September 2004.
Start date of first engagement: 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
Renewal for six years submitted for approval at the General Meeting on 25 September 2002
Start date of first engagement: September 25, 2002

# Fees of Statutory Auditors

*In euro thousands*

KPMG network including KPMG N.V.

| | 2004-05 | | 2003-04 | |
|---|---|---|---|---|
| **Audit** | **Total** | **%** | **Total** | **%** |
| Statutory audit, certification, review of stand-alone and consolidated accounts | 5,138 | 77% | 5,124 | 60% |
| Other accessory services and other audit services | 984 | 15% | 1,498 | 17% |
| **Subtotal** | **6,122** | **92%** | **6,622** | **77%** |
| **Other services** | | | | |
| Legal, tax, corporate | 515 | 8% | 855 | 10% |
| Information technology | | | | |
| Internal audit | | | | |
| Other | | | 1,085 | 13% |
| **Subtotal** | **515** | **8%** | **1,940** | **23%** |
| **Total Air France-KLM** | **6,637** | **100%** | **8,562** | **100%** |

*In euro thousands*

Deloitte Touche Tohmatsu

| | 2004-05 | | 2003-04 | |
|---|---|---|---|---|
| **Audit** | **Total** | **%** | **Total** | **%** |
| Statutory audit, certification, review of stand-alone and consolidated accounts | 2,815 | 79% | 3,503 | 94% |
| Other accessory services and other audit services | 767 | 21% | 223 | 6% |
| **Subtotal** | **3,582** | **100%** | **3,726** | **100%** |
| **Other services** | | | | |
| Legal, tax, corporate | — | — | — | — |
| Information technology | — | — | — | — |
| Internal audit | — | — | — | — |
| Other | — | — | — | — |
| **Subtotal** | **0** | **0%** | **13** | **0%** |
| **Total Air France-KLM** | **3,582** | **100%** | **3,739** | **100%** |

# Glossary – Air transport



**AEA**
Association of European Airlines.  Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members at the European Union institutions, the European Civil Aviation Conference and other organisations and associations.

**Available seat-kilometers (ASK)**
Total number of seats available for the transportation of paying passengers multiplied by the number of kilometers flown.

**Available ton-kilometers (ATK)**
Total number of tons available for the transport of freight multiplied by the number of kilometers covered.

**Cargo occupancy rate or cargo load factor**
Revenue ton-kilometers (RTK) divided by available ton-kilometers (ATK).

**Code sharing**
In accordance with a code sharing agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

**Combo**
Aircraft where the main deck is equipped for both the transportation of passengers and cargo. The freight is stored at the back of the aircraft and is accessed by a specially-fitted cargo door.

**DGAC**
Direction Générale de l'Aviation Civile. Under the authority of the French ministry of transport, the DGAC is in charge of the security of air transport and of air space in France.

**DGTL**
Directoraat-Generaal Transport en Luchtvaart. Under the authority of the Dutch ministry of traffic and public works, the DGTL is in charge of the security of air transport and of air space in the Netherlands.

**EASA**
European Aviation Safety Agency. EASA develops a safety and environmental protection know how in civil aviation in order to assist the European institutions in preparing legislation, and putting measures into effect regarding aircraft security, organisations and associated staff.

**FAA**
Federal Aviation Authority. Administration in charge of civil aviation security in the United States.

**Fare combinability**
System which offers customers on destinations served by both Air France and KLM to choose between an outbound trip with KLM via Amsterdam and an inbound trip with Air France via Paris, or vice-versa, benefiting from the advantages of two half return tickets. With the fare combinability, customers benefit from more frequencies from each of the hubs, on the inbound or outbound trip.

**Hub**
Term used for a connecting platform where departures and arrivals are scheduled to minimize transfer times. Air France-KLM has two of the four major European hubs: Roissy-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the options for connections available to the customers.

**IATA**
International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with commercial and financial support services.

**IATA year**
Fiscal year for many airlines which runs from April 1$^{st}$, to March 31$^{st}$, the following year. This system makes it possible to track changes in the activity more effectively based on the "seasons" defined by the IATA, i.e. a summer season and a winter season.

**Multi-hub**
System linking several hubs, allowing customers to access to the networks developed from each hubs, thus multiplying the offer of destinations.

**Occupancy rate or 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 optimise revenue on flights, by constantly seeking the balance between the cargo load factor and the rates offered.

**Revenue passenger-kilometer (RPK)**
Total number of paying passengers multiplied by the number of kilometers that they have flown.

**Revenue ton-kilometer (RTK)**
Total number of tons of paid cargo multiplied by the number of kilometers that this cargo is flown.

**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**
In the passenger business, corresponds to the revenues for one paying passenger transported over one kilometer. In the cargo business, corresponds to the revenues for one ton transported over one kilometer.

**Winter season**
Defined by IATA as the period running from the first Sunday following the last Saturday in October to the Friday before the last Saturday in March. The winter season corresponds to a schedule of winter flights over 5 months.

# Financial glossary



**ADR** – *American Depositary Receipt*
Air France-KLM is listed on the New York Stock Exchange under ADR. The ADRs are negotiable certificates representing a specific number of shares with a nominal value in dollars.

**ESS** – *Exchange Salary Shares*.

**ISIN** – *International Securities Identification Number*.

# Cross-referencing schedule for the Reference Document

The following schedule will help identify the main information required by the Autorité des Marchés Financiers (French Financial Market Authority) under its regulations and instructions for implementation

## Certification of persons responsible



## General information

### Issuer



### Authorized capital



### Securities market



## Capital and voting rights



## Group activity

## Group risk analysis Pages



## Assets, financial situation and earnings



## Corporate governance



## Internal control



## Recent trends and outlook

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