AIR FRANCE KLM

Transition to IFRS
FY 2004-05

June 29, 2005

Preliminary remarks

- The information presented in this document has been prepared according to the IFRS standards published to date
- The transition process to IFRS and the application of the principles approved to date have been reviewed by the Group's audit committee, Board of Directors and auditors
- The final audit process for the financial statements as at March 31, 2005, which has not yet been finalized, could lead to some adjustments

Air France-KLM:
a successful transition nearing completion

Air France-KLM anticipated the implementation of IFRS by:

- Implementing certain IAS provisions in recent fiscal years where these were compatible with French accounting standards
  - Valuation of pension commitments (IAS 19) as of 1998-99
  - Adoption of the component-based approach for tangible assets as at March 31, 2003 (IAS 16 – SIC 23)

- A three-phase conversion project implemented from April 2003
  - Identification of the principal differences in accounting treatments between the new standards and those currently applied by the Group
  - Choice of options accompanied by an IFRS training program for staff
  - Drawing up of the opening balance sheet as at April 1, 2004 and restatement of transactions for fiscal 2004-05

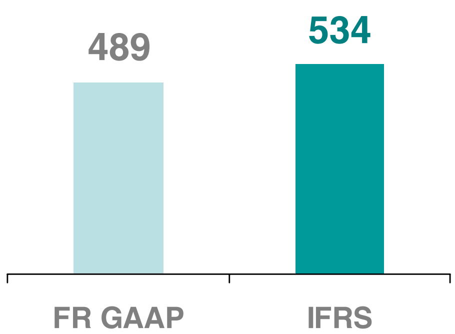
IFRS transition: Key issues for Air France-KLM

- Over and above the legal obligation…
  - Application of IFRS for the consolidated financial statements of all publicly traded European companies as of January 1, 2005
- …IFRS offers a new set of standards for measuring the Group's economic performance…
  - Accurately reflect the economic performance of the Group through the selection of options and presentation formats
- …and an opportunity to improve both the quality of our information and financial communication

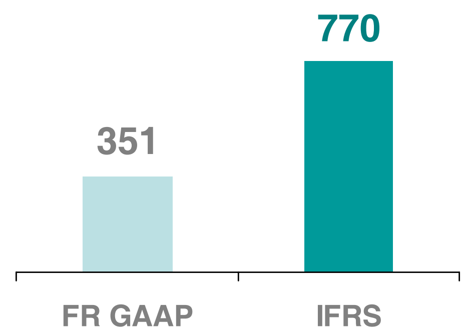
Main impacts of the IFRS transition at March 31, 2005

in €m

- Positive impact on current operating income and net income

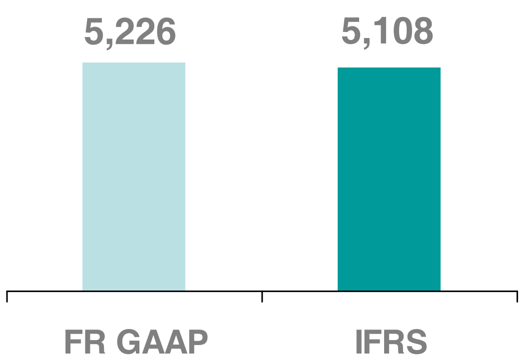


Current operating income 2004-05

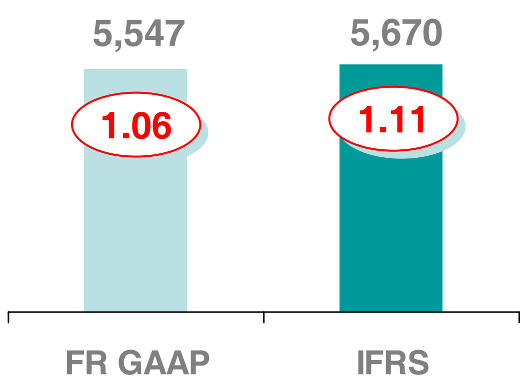


Net income 2004-05

- No material impact on shareholders' equity and net debt



Consolidated shareholders' equity
at March 31, 2005

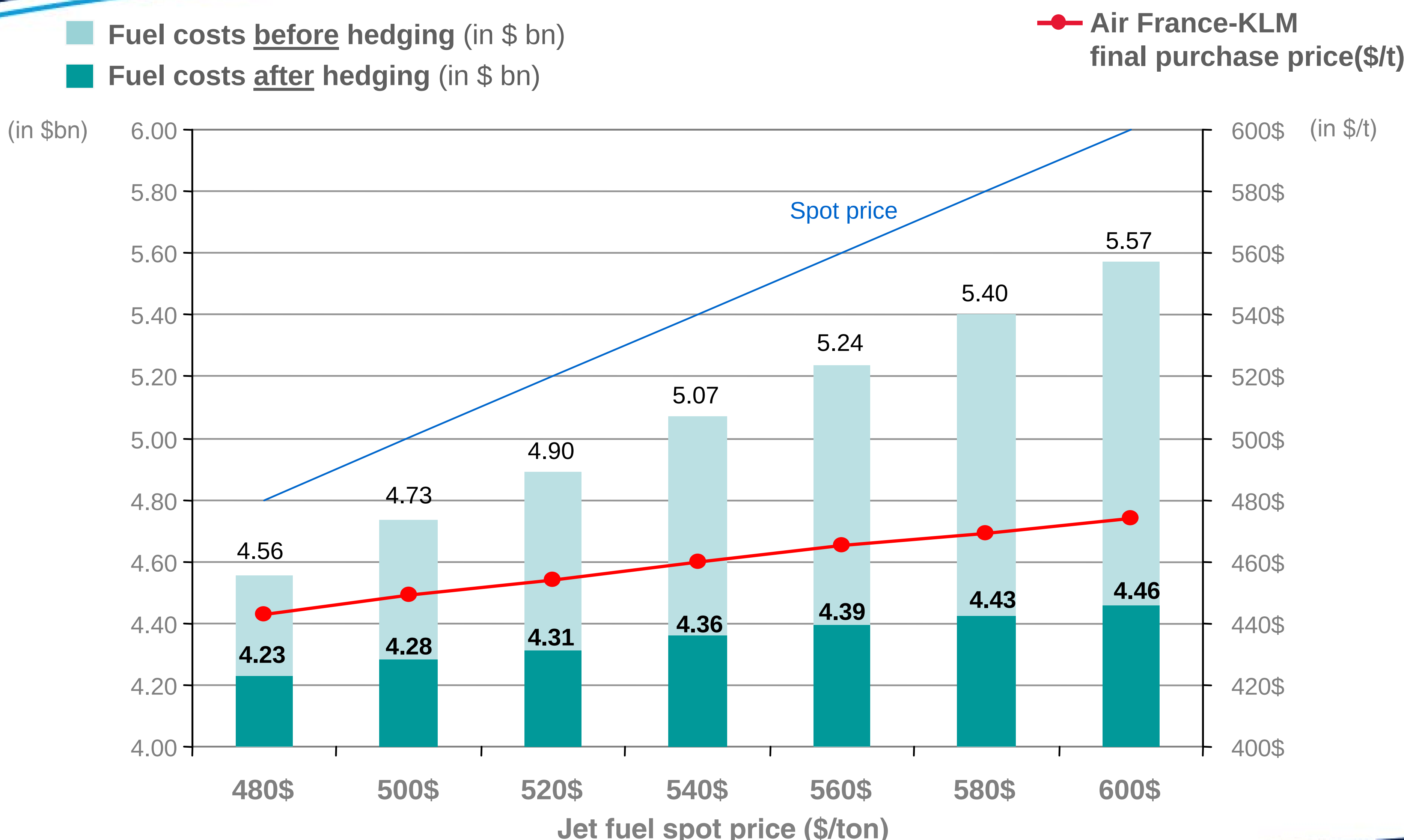


Net debt and gearing
at March 31, 2005

Objectives for 2005-06 unchanged

- Achieve similar level of operating income for 2005-06 to 2004-05 under IFRS
- Continue to reduce gearing

Fuel price sensitivity



AIR FRANCE KLM

First application of IFRS: main options selected by Air France-KLM

- No retrospective restatement of acquisitions prior to April 1, 2004
  - The business combination with KLM represents the only recent major operation
- Valuation of the Air France fleet at fair market value at the transition date
  - Harmonization of the Air France and KLM balance sheets:
    - KLM fleet valued at market value at the time of its acquisition
    - Significant movement in the €/$ exchange rate between the date of the acquisition of the aircraft and the adoption of IFRS
    - Will allow the economic performance of both airlines to be measured on a comparable basis going forward

First application of IFRS: main options selected by Air France-KLM

- Unrecognized actuarial gains/losses booked in the opening balance sheet
  - Unrecognized actuarial gains/losses relative to pension obligations booked as equity (no significant impact)

- Application of IFRS 2 for share-based payments granted under schemes as of November 7, 2002
  - Recognition in the P&L of any benefit linked to the Employee Share Offering and the salary-share swap agreement

- No early application at April 1, 2004 of IAS 39 and IAS 32 for financial instruments
  - Application of these standards as of April 1, 2005

Review of the main accounting differences and impacts

Main impacts of the IFRS transition

	Impact on opening balance sheet as of April 1, 2004		Impact on 2004-05 P&L	
	significant	non significant	significant	non significant
IFRS 1				
‣ Fair market value of tangible assets at the transition date	✖		✖	
‣ Booking of actuarial gains/losses		✖		✖
IFRS 3				
‣ Business combinations (goodwill)	✖		✖	
IAS 12				
‣ Deferred tax	✖		✖	
IAS 27 & 28				
‣ Investments in associates	✖			✖
IAS 17				
‣ Operating and financing leases		✖		✖
IFRS 2				
‣ Share-based payments			✖	
IAS 32 & 39				
‣ Financial instruments (as of April 1, 2005)	n/a	n/a	n/a	n/a

IFRS 1 – first-time adoption of IFRS
Valuation of certain intangible/tangible assets at fair value

- Current principle
  - Tangible fixed assets booked at their historical cost

- IAS/IFRS principle
  - Possibility of valuing tangible fixed assets at the IFRS transition date at their fair market value and using this valuation as the deemed cost on that date
  - Option selected by the Group for the valuation of the Air France fleet in the opening balance sheet

- Impacts
  - Negative impact of 478 million euros on equity at April 1, 2004
  - Positive impact of 100 million euros on operating income and 66 million euros on net income for 2004-05

IFRS 1 – First application of IFRS
Actuarial gains/losses on employee benefit plans

- Current principle
  - Air France-KLM already applies IAS 19 to account for its pension obligations under French GAAP
  - Actuarial gains/losses are amortized in the income statement over the average residual period of the beneficiary's term of employment

- IAS/IFRS principle
  - Air France-KLM has selected the option available of booking the balance of unrecognized actuarial gains/losses in shareholders' equity in the opening balance sheet
  - The actuarial gains/losses generated after April 1, 2004 will be amortized according to the "corridor" mechanism

- Impacts
  - Negative impact of 20 million euros on equity at April 1, 2004
  - Positive impact of 2 million euros on net income 2004-05

IFRS 3 – Business combinations (1/4)

- IAS/IFRS principle
  - The Group has chosen to exercise the option available to it under IFRS 1 of not applying IFRS 3 retrospectively to business combinations undertaken prior to April 1, 2004
  - IFRS 3 applied to the business combination with KLM

- Impacts
  - The main differences in the treatment of the KLM acquisition relate to the recognition under IFRS of certain intangible assets (brands, client contracts, slots) not recognized in case of negative goodwill under French GAAP

IFRS 3 – Business combinations (2/4)
Goodwill

Gross negative goodwill (French GAAP)	(915)
Of which, KLM pension fund surplus	622

Acquisition price adjustment	(5)
Intangible assets (brands, client contracts, slots)	395
Other adjustments	(90)
Deferred tax linked to adjustments	(120)
% acquired (97.3%)	175

Gross negative goodwill (IFRS)	(1,090)
Of which, KLM pension fund surplus	622

The increase in negative goodwill relative to French GAAP
is mainly linked to intangible assets identified under IFRS

IFRS 3 – Business combinations (3/4)
Goodwill

- The recognition of the KLM pension fund surplus is a subject of debate within the accounting profession

- This issue has been referred to the IFRIC, which has yet to give an opinion on the treatment of this item

- As a precautionary measure, Air France-KLM has decided to “freeze” the the write-back of the portion of the negative goodwill relating to this surplus (622 million euros)

Negative goodwill in IFRS	€1 090 m
of which pension fund surplus	€622 m
Retained negative goodwill (excl. surplus)	€468 m

IFRS 3 – Business combinations (4/4)
Goodwill

- Current principle
  - Goodwill (regional companies) amortized over 10 years and purchased goodwill (UTA) amortized over 20 years
  - Negative goodwill relating to KLM amortized over 5 years (€73 m in 2004-05)

- IAS/IFRS principle
  - Goodwill is no longer amortized, but subject to an annual impairment test
  - Negative goodwill must be recognized immediately in the P&L at the date on which it is identified

- Impact
  - Recurrent positive impact of 36 million euros on net income of which 18 million euros at the operating level (UTA)
  - One-off positive impact of negative goodwill write-back of of 395 million euros on net income (€468 m - €73 m)

IAS 12 – Deferred tax

- Perpetual subordinated loans
  - Contrary to French GAAP, the discounting of long-term deferred tax is not authorized under IFRS
- Impact
  - Deferred tax booked in respect of perpetual subordinated loans leading to a negative impact of 80 million euros on equity at April 1, 2004
- Retained earnings of equity affiliates
  - IAS 12 requires the setting up of a provision for deferred tax on the retained earnings of companies accounted for under the equity method Impact
  - The Group has set up a provision for deferred tax in relation to Amadeus GTD of -45 million euros, of which -4 million euros deducted from reserves and -41 million euros from the 2004-05 P&L

IAS 27 – Accounting of holdings in subsidiaries

- Current principle
  - Under French GAAP, control is established when a company is over 50% owned
- IAS/IFRS principle
  - Where effective control can be demonstrated in situations where a company is less than 50% owned, that company must be fully consolidated
  - The Group has changed its consolidation method for AFPL (aircraft leasing company), which was previously consolidated under the equity method and is now fully consolidated
- Impacts
  - Consolidation of 5 aircraft in the opening balance sheet (2 in the closing balance sheet) as well as the corresponding debt
  - Impact of 16 million euros on debt and -58 million euros on equity at April 1, 2004
  - Positive impact of 25 million euros on the income statement

IAS 28 – Holdings in associates

- Current principle
  - Companies over 20% owned are included in the scope of consolidation, except where the parent company does not exercise significant influence over them

- IAS/IFRS principle
  - This option to exclude certain associates does not exist in IFRS
  - The Group has included two companies in its consolidation scope using the equity method: Opodo and Toga (Terminal 1 of JFK airport)

- Impact
  - Negative impact of 24 million euros on equity at April 1, 2004
  - Positive impact of 11 million euros on the income statement

IAS 17 – Leasing agreements

- Current principle
  - Air France-KLM applies standards similar to IFRS for the qualification of leasing agreements
    - Financing leases: assets and the corresponding debt booked on the balance sheet
    - Operating leases: operating expenses charged through the P&L
- IAS/IFRS principle
  - Certain operating leasing agreements may be reclassified as financing leases
  - Air France-KLM has drawn up an exhaustive inventory of existing contracts, resulting in the reclassification of 13 aircraft under financing leases

- Impacts
  - Impact of 79 million euros on debt at April 1, 2004
  - Non significant impact the income statement

IFRS 2 – Share-based payments

- Current principle
  - The benefits granted in connection with stock option or share-based savings schemes are not booked as expenses
    (with the exception of the company contribution)

- IAS/IFRS principle
  - All benefits granted to staff must be valued at their fair market value
    - Share offer reserved for employees (February 2005)
      - Recording of an expense equal to the difference between the share price on the offer's closing date and the price offered to employees (-20%) as well as the value of any free shares at the offer's closing date
    - Shares-for-Salary scheme (April 2005)

- Impacts
  - Employee share offering: one-off negative impact of 69 million euros on employee costs for 2004-05

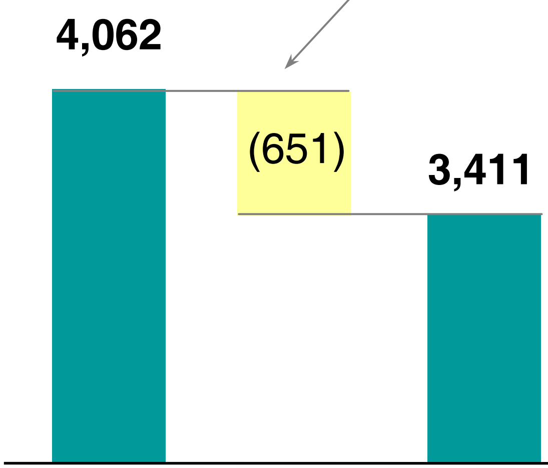
Reconciliation of shareholders' equity at March 31, 2005 under IFRS

Reconciliation of shareholders' equity at March 31, 2005 under IFRS

In €m

IFRS adjustments on the opening net position of Air France

Net impact of revaluation of Air France fleet	**(478)**
Market value of fleet	(740)
Deferred tax	262
Other adjustments	**(173)**
Deferred taxation TSDI	(80)
Actuarial differences	(20)
AFPL (cancellation of intra group operations)	(58)
Other	(15)

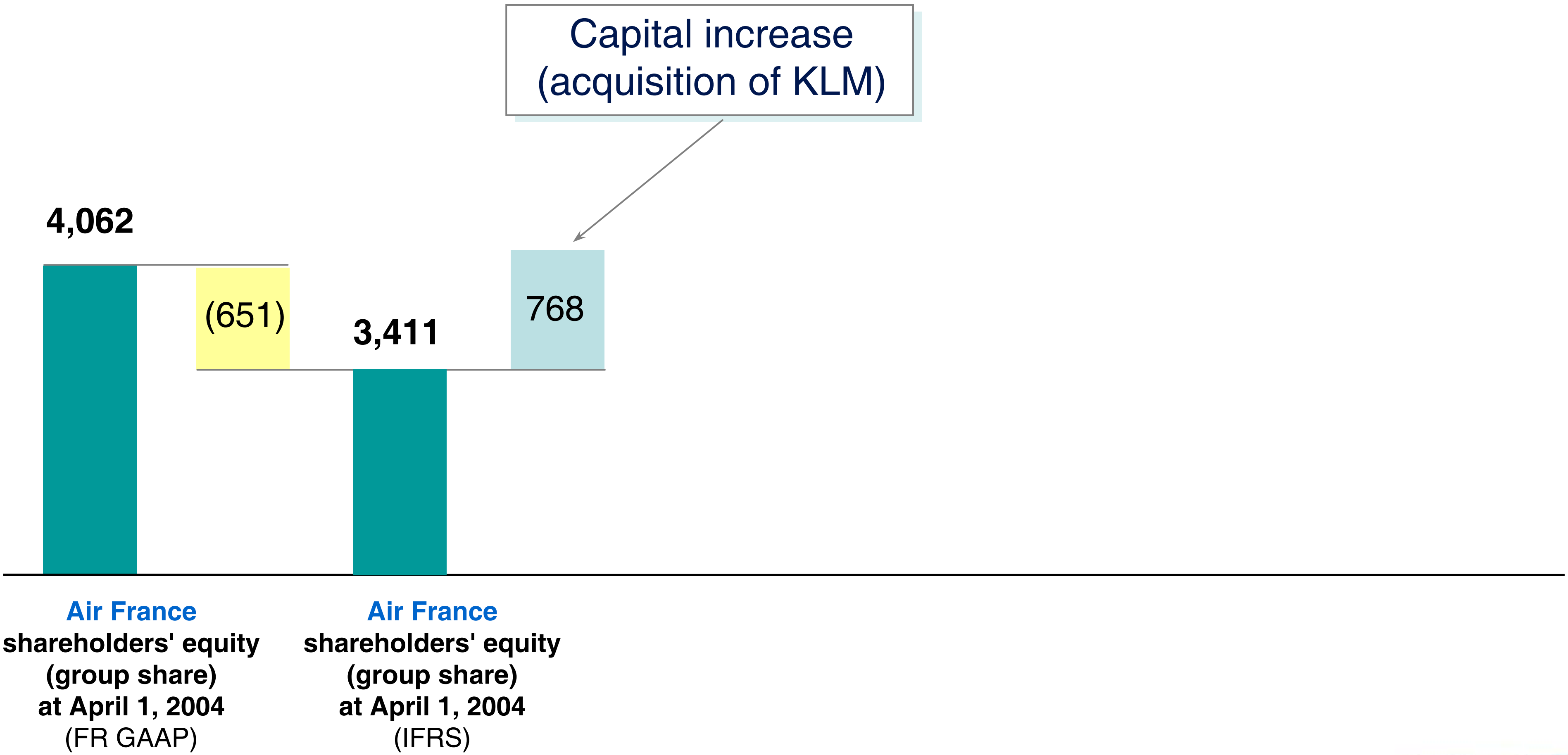


Air France shareholders' equity (group share) at April 1, 2004 (FR GAAP)

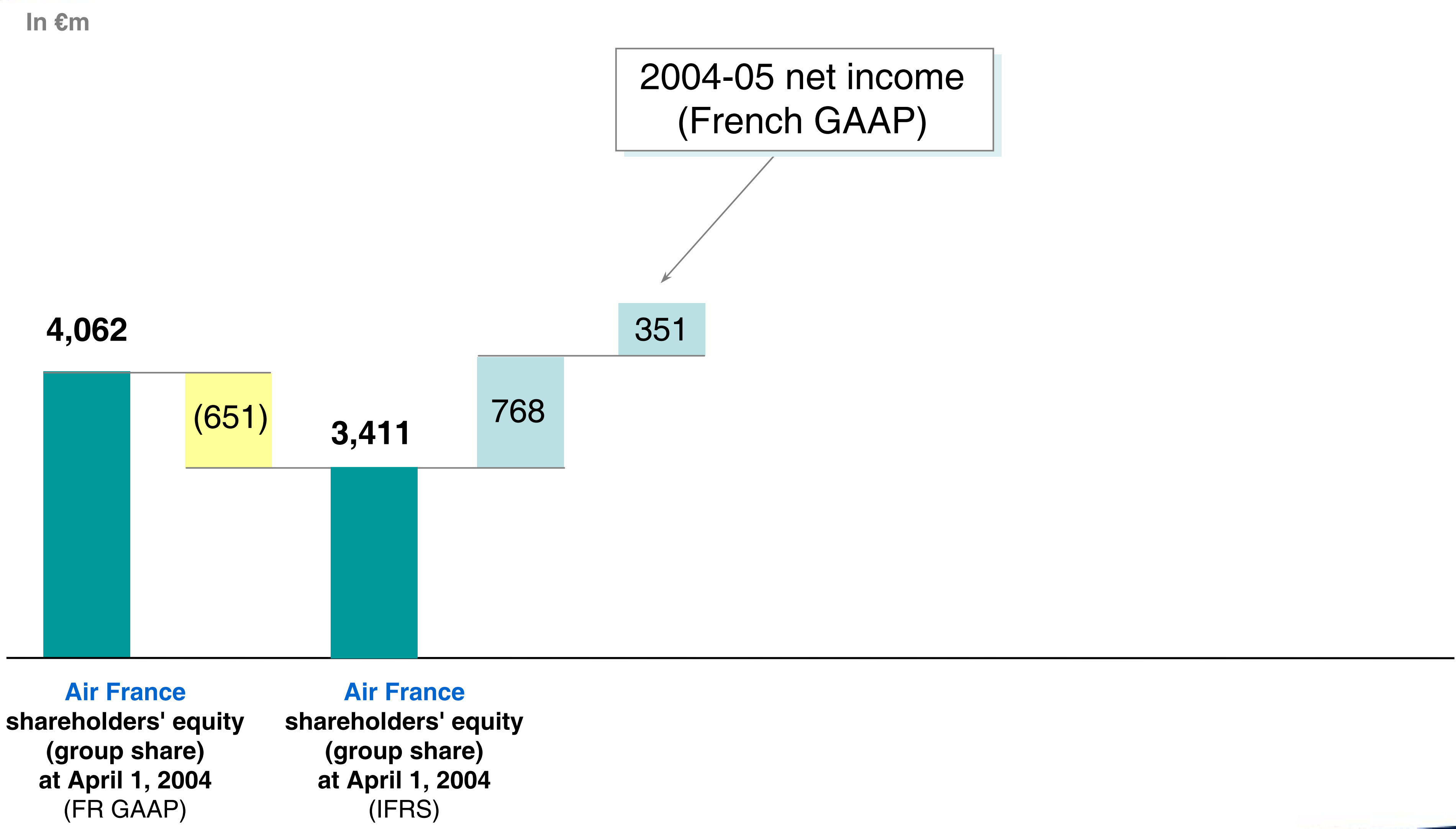
Air France shareholders' equity (group share) at April 1, 2004 (IFRS)

Reconciliation of shareholders' equity at March 31, 2005 under IFRS

In €m



Reconciliation of shareholders' equity at March 31, 2005 under IFRS

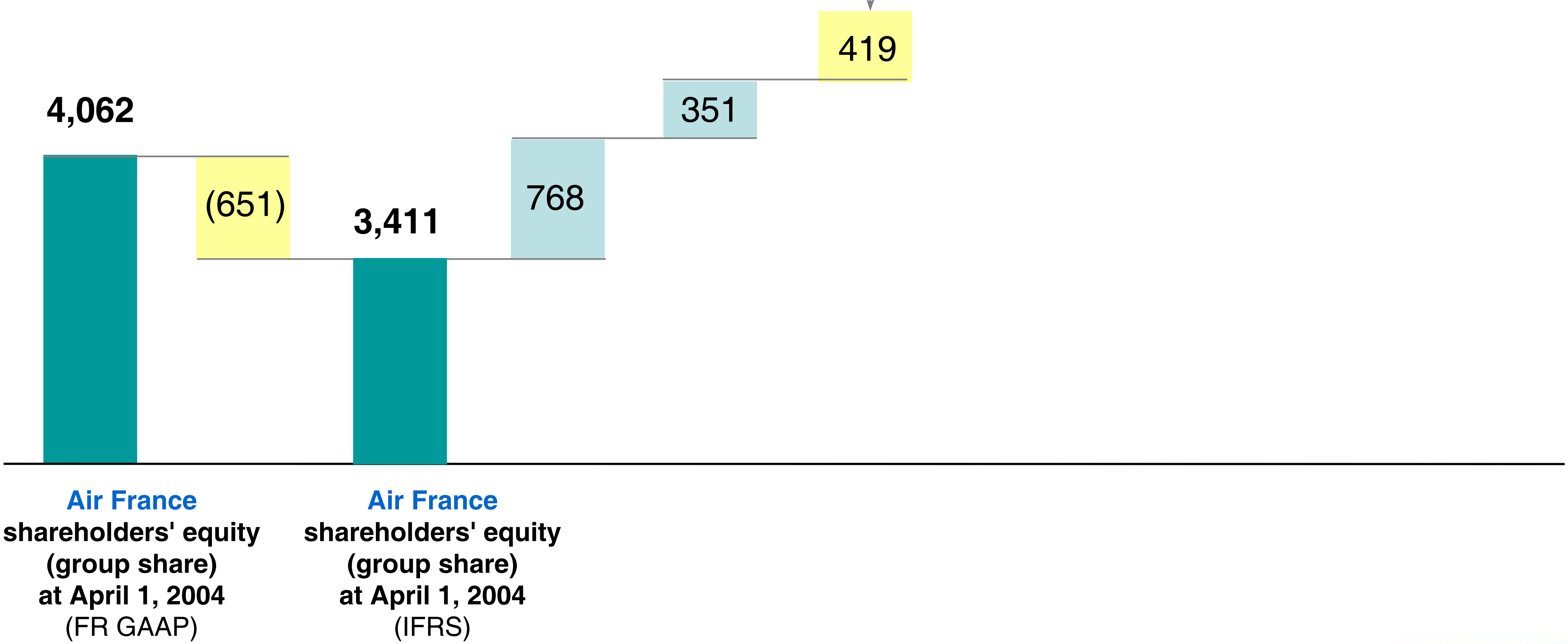


Reconciliation of shareholders' equity at March 31, 2005 under IFRS

In €m

IFRS adjustments on 2004-05 net income

Employee Share Offering	(69)
Market value of AF fleet	65
Consolidation of AFPL	25
KLM negative goodwill	395
Other	2

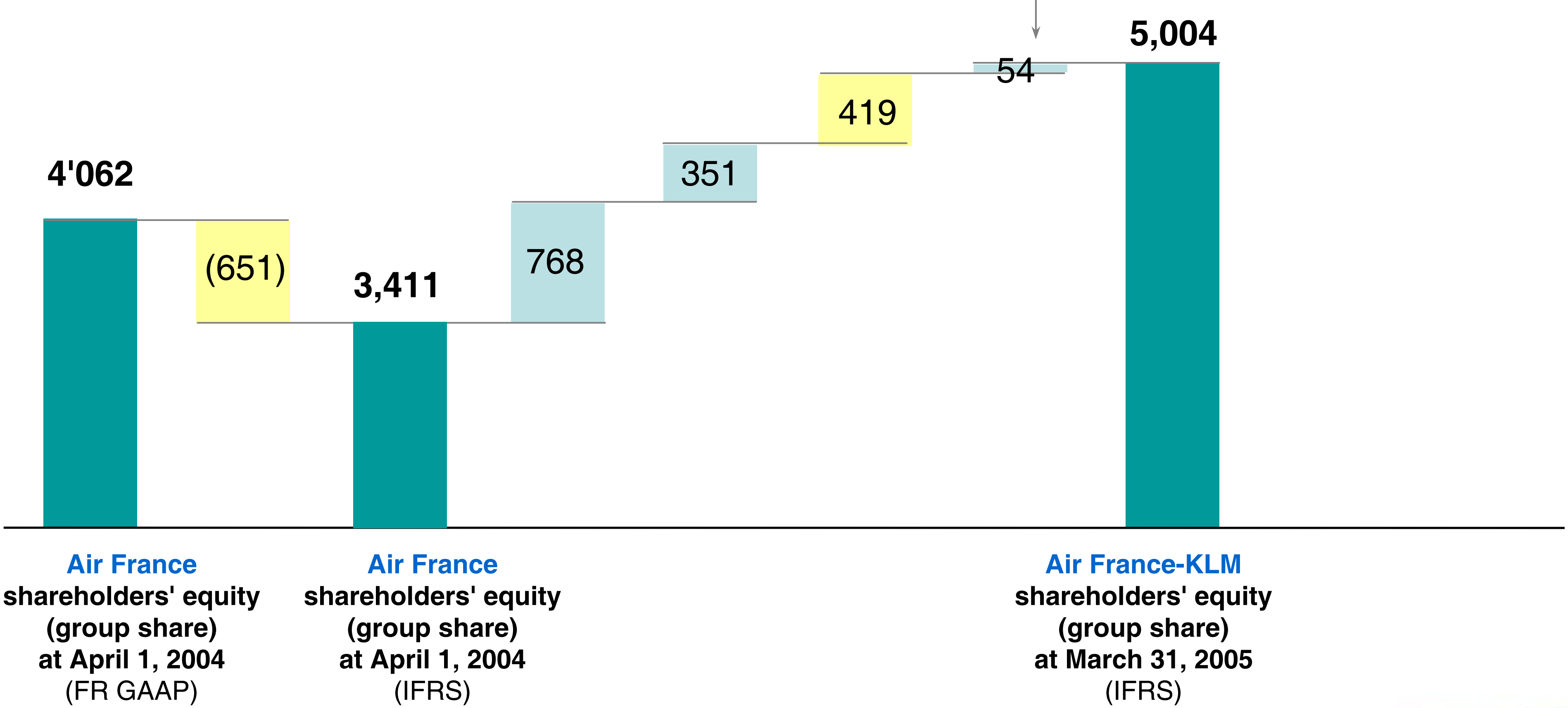


Reconciliation of shareholders' equity at March 31, 2005 under IFRS

In €m

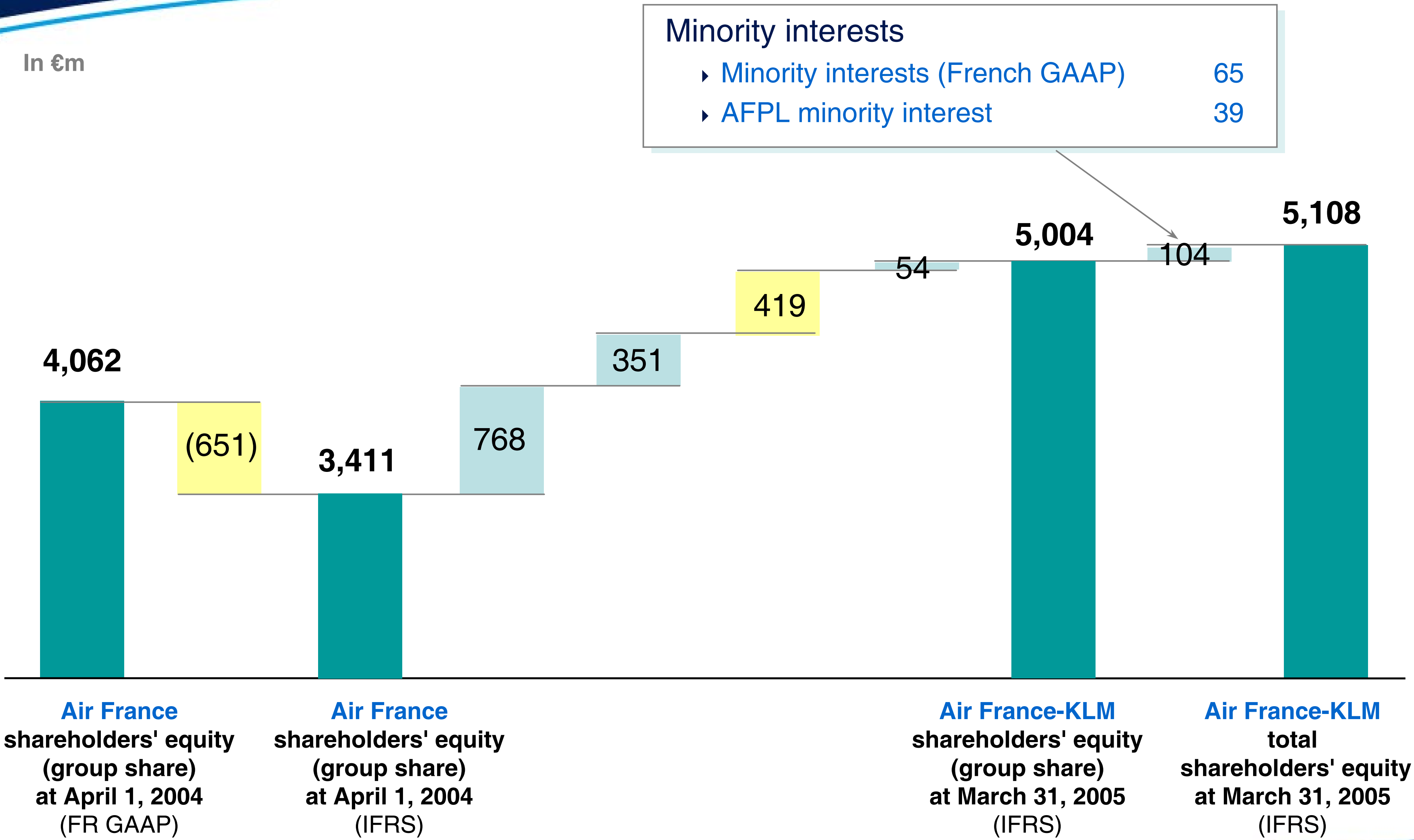
Other adjustments

- Employee share offering 69
- Other (15)



Reconciliation of shareholders' equity at March 31, 2005 under IFRS

In €m



Reconciliation of operating income under IFRS

	income: + / expenses: -	Adjustments recurrent	Adjustments non recurrent
Operating income before aircraft disposals (French GAAP)	**489**		
Other revenues	+9		
Dividends *(reclassification)*	+9	✖	
External expenses	+12		
Consolidation of AFPL *(IAS 27)*	+12	✖	
Salaries and related costs	-69		
Employee share offering *(IFRS 2)*	-69		✖
Taxes other than income tax	-		
Amortization and depreciation	+68		
Fair market value of AF fleet *(IFRS1)*	+100	✖	
Consolidation of AFPL *(IAS 27)*	-4		✖
Purchased goodwill of UTA *(IFRS 3)*	+18	✖	
KLM intangible assets *(IFRS 3 / IAS 38)*	-14	✖	
Others	-32	✖	
Net charge to operating provisions	+4		
Other operating income and charges	+21		
Slots	+18		✖
Capital loss *(reclassification)*	+4		✖
Other	-1		✖
Operating income (IFRS)	**534**		

Reconciliation of income from operating activities under IFRS

In €m

Operating income (French GAAP)	**497**
‣ IFRS adjustments	+37
Operating income (IFRS)	**534**
Other non recurring operating income and charges	49
‣ Aircraft disposals	7
‣ Other asset disposals *(reclassification)*	(4)
‣ Disposals of subsidiaries and affiliates *(reclassification)*	67
‣ Restructuring costs *(reclassification)*	(21)
‣ Impairment *(IFRS 3 / IAS 38)*	-
Income from operating activities (IFRS)	**583**

Standards applicable as of April 1, 2005

IAS 32 & IAS 39 – Financial Instruments

- In accordance with the option available under IFRS, the Group has chosen to apply them as of April 1, 2005
- The opening balance sheet at April 1, 2004 is therefore not affected
- Impact on the opening balance sheet at April 1, 2005
  - Derivatives
  - OCEANE

IFRS 2 – Share-based payments

- Current principle
  - The benefits granted in connection with stock option or share-based savings schemes are not booked as expenses (with the exception of the company contribution)

- IAS/IFRS principle
  - All benefits granted to staff must be valued at their fair market value
    - Shares-for-Salary scheme (April 2005)
      - Charge separated from the saving on salaries and recalculated based on the benefit to the employee

- Impacts
  - Shares-for-Salary scheme: cancellation of the saving on salaries in the income statement
  - Equalization payment: one-off negative impact of 107 million euros on equity as at April 1, 2005

New format for the presentation of financial statements

Presentation of the consolidated financial statements under IFRS

- New format for the income statement based on the recommendations of the French national accounting board *(CNC)*
  - Notion of "extraordinary results" no longer exists
  - Reclassification at the operating level of dividends, profits/losses from the disposal of subsidiaries and shareholdings and restructuring charges
  - New “operating income" level comparable to “operating income before aircraft disposals” under French GAAP
    - This will henceforth be the level of result which the Group will highlight in its financial communications

- Presentation of the balance sheet
  - Presentation of assets and liabilities based on the distinction between current and non-current items
  - De netting of financial assets and liabilities
    - e.g. deposits on finance leased aircraft

- Sector information
  - Sectors unchanged: passenger, cargo, maintenance and others

2004-04* income statement under IFRS

In €m

Revenues	19 078
Other operating revenues	9
External expenses	(10 675)
Salaries and related costs	(5 991)
Taxes other than income tax	(226)
Depreciation and amortization charge	(1 518)
Operating provisions	(130)
Other operating income and expenses	(13)
Operating income	**534**
Other non current operating income and expenses	49
Income from operating activities	**583**
Net interest expense Other financial income and charges	**(217)**
Income before income tax of integrated companies	**366**
Income tax	(152)
Net income from integrated companies	**214**
Share in net income of equity affiliates	70
Release of KLM "negative goodwill"	471
Net income from continuing operations	**755**
Net income from discontinued operations	-
Minority interest	**15**
Group net income	770

- Gains/losses on aircraft and other asset disposals
- Gains/losses on disposals of subsidiaries
- Restructuring charges
- Net charge to provisions for impairment test

* Consolidation of Air France over 12 months (April-March) and of KLM over 11 months (May-March)

Balance sheet as at 31 March 2005

In €m

Assets

Goodwill	99
Intangible fixed assets	548
Flight equipment	10 224
Other property, plant and equipment	1 837
Investments in equity affiliates	559
Other financial assets	719
Deferred income tax assets	362
Marketable securities	131
Other non current debtors	1 849
Non current assets	**16 328**
Current financial assets	337
Inventory and work in progress	382
Trade receivables	2 272
Other account receivables	356
Cash and equivalent	2 498
Actif courant	**5 845**
TOTAL ASSETS	22 173

Liabilities and shareholders' equity

Share capital	2 290
Additional paid-in-capital	384
Retained earnings	2 339
Cumulative translation adjustment	(9)
Stockholders' equity (group share)	**5 004**
Minority Intrerest	104
Total stockholders' equity	**5 108**
Non current provisions for liabilities and charges	1 855
Non current financial debt	7 570
Income tax liability	338
Other non current payables	1 229
Non current liabilities	**10 992**
Current provisions for liabilities and charges	219
Current financial debt	1 335
Current trade payables	3 574
Other current payables	945
Current liabilities	**6 073**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	22 173

Conclusion

Financial year 2004-05

- Positive impact on operating income
- No material impact on shareholders' equity and net debt
- No impact on cash flow

Financial year 2005-06

- Positive impact on equity due to the implementation of IAS 32 and 39 relating to financial instruments
- 2005-06 objectives unchanged
  - Achieve similar level of consolidated income for 2005-06 to 2004-05 under IFRS
  - Continue to reduce the gearing ratio
- September 2, 2005: publication of results for Q1 2005-06 with a pro forma comparison for 2004-05 under IFRS (consolidation of Air France and KLM over 3 months)

Forward-Looking Statements

The information herein contains forward-looking statements about Air France-KLM and its business. These forward-looking statements, which include, but are not limited to, statements concerning the financial condition, results of operations and business of Air France-KLM are based on management's current expectations and estimates. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of Air France-KLM's control and are difficult to predict, that may cause actual results to differ materially from any future results expressed or implied from the forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties including, among others: the expected synergies and cost savings between Air France and KLM may not be achieved; unanticipated expenditures; changing relationships with customers, suppliers and strategic partners; increases in aircraft fuel prices; and other economic, business, competitive and/or regulatory factors affecting the businesses of Air France and KLM generally. Additional information regarding the factors and events that could cause differences between forward-looking statements and actual results in the future is contained in Air France's and KLM's Securities and Exchange Commission filings, including their Annual Reports on Form 20-F for the year ended March 31, 2004. Air France-KLM undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Appendices

Reconciliation of earnings for 2004-05 and shareholders' equity at March 31, 2005

In €m

	Equity as at April 1, 2004	Income 2004-05	Capital increase	Other mvts	Equity as at 31 March 2005
French GAAP	**4 085**	**351**	**768**	**22**	**5 226**
IFRS adjustments					
Release of residual value of KLM negative goodwill (IFRS)		395			395
Release of goodwill amortization		36			36
Pensions - actuarial gains/losses	-20	2			-18
AFPL - cancellation of intra-company transactions	-58	38			-20
Deferred tax onretained earinings of equity affiliates	-4	-41			-45
Deferred tax on perpertual subordinated debts	-80	-7			-87
Consolidation of Opodo	-24	15			-9
Employee Share Offering		-69		69	0
Other restatements	-23	18			-5
Deferred taxes on other restatements	36	-26			9
Sub-total before fair market value of fleet	**-173**	**361**	**0**	**69**	**256**
AF fleet fair market value	-740	100			-640
Deferred taxes	262	-34			228
Net impact of fleet fair market value	**-478**	**66**	**0**	**0**	**-412**
Adjustements fleet & component approach		-23			-23
Recognition of KLM intangible assets		-15			-14
Maintenance contracts		-9			-9
Opodo		-3			-3
Treasury Shares		1		10	11
Deferred taxes		41	-5		36
IFRS adjustements on KLM		**-8**	**-5**	**10**	**-2**
Minority interest (AFPL)	65			-27	39
IFRS	**3 499**	**770**	**763**	**75**	**5 108**

Consolidation of Air France over 12 months (April-March) and of KLM over 11 months (May-March)