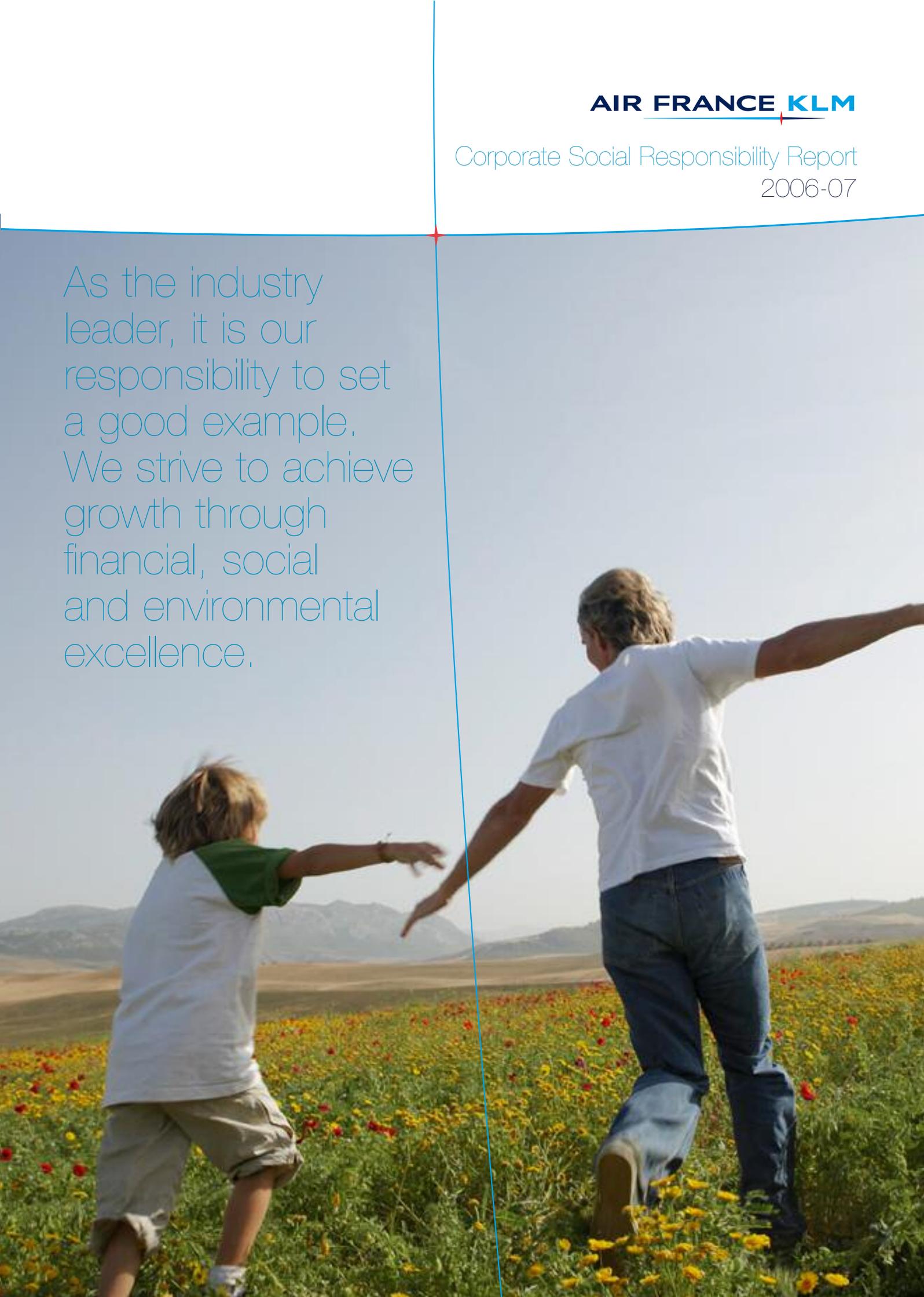


As the industry leader, it is our responsibility to set a good example. We strive to achieve growth through financial, social and environmental excellence.



Report scope and methodology

This report addresses a wide range of target groups, either directly involved in Air France-KLM group activities, such as customers, employees, shareholders and people living around the airports, or people indirectly concerned, such as politicians, public authorities, non-governmental organizations (NGOs) and business relations.

For the specialist reader, pages 48-49 provide the information requested by the European Prospectus (CE 809/2004) and the French NRE (New Economic Regulation-31/05/2001).

These social and environmental indicators were defined in instructions drawn up in 2005 by the Air France-KLM Financial Information Procedures Committee. In 2006, OSYRIS, the new sustainable development reporting application, was deployed with assistance from the Enablon company of France. OSYRIS consolidates data from units at Air France and KLM and their subsidiaries. The next stage for the Group is to obtain certification for the data.

The report contains links to online appendices with more detailed report information.

The information in this report relates to the 2006-07 financial year which started on 1 April, 2006 ended on 31 March, 2007. Where information relates to a different time period, this is explicitly stated. The report covers the activities of the Air France-KLM group, including those of Air France S.A. and KLM N.V. according to the following criteria:

- Relevance of activities to the economic welfare social values and environmental quality of the Group
- The level of materiality of the impacts on economic, social and environmental values
- Financial control criteria

Global Compact Communication on Progress

Air France-KLM established a Corporate Social Responsibility Statement (<http://sustainability.airfrance.com> and www.klm.com/sustainability) which covers the ten principles of the United Nations Global Compact.

Global Compact Principles	See pages	Additional information
Human Rights (1&2)	23, 43	Air France has issued different Charters: Ethical and Social Rights, for the Prevention of
Labour Standards (3, 4, 5 & 6)	30-33, 48	Harassment at work, health and safety in the workplace for suppliers, etc. (see http://sustainability.airfrance.com). KLM has included these principles in the preamble of the Collective Labor Agreement and the KLM Management Board has issued a health & safety policy statement.
Environment (7, 8 & 9)	14-17, 34-39, 49	See http://sustainability.airfrance.com and www.klm.com/sustainability
Anti-corruption (10)	18-19, 42-43	Financial ethics code available on www.airfranceklm-finance.com

List of abbreviations

AEA	Association of European Airlines	GROCC	Global Round Table on Climate Change
ASK	Available seat kilometre	IATA	International Air Transport Association
ATC	Air Traffic Control	ICAO	International Civil Aviation Organisation
CO₂	Carbon dioxide	IPCC	Intergovernmental Panel on Climate Change
CSR	Corporate Social Responsibility	NO_x	Nitrogen oxide
ETS	Emission Trading Scheme	RFPK	Revenue freight ton kilometre
FTE	Full-time equivalent	Paris-CDG	Paris-Charles de Gaulle airport
GRI	Global Reporting Initiative	RPK	Revenue passenger kilometre

This document is published by Air France — Secretary Generalship — Quality, Environment & Sustainable Development and by KLM Royal Dutch Airlines — Corporate Center — Airport & Environmental Strategy

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For more information please visit <http://sustainability.airfrance.com> and www.klm.com/sustainability

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Some GRI indicators are not referred to in this report but can be found in the Group's reference document or on Air France's and KLM's websites. Other indicators are not presented here, either because there are no practices to report concerning this point, or because not consolidated, or insufficiently suited to the specific issues of the aviation industry.

Foreword

Confronting the challenge of climate change

Since their successful 2004 combination, our two airlines have together led the world air transport industry. As the global market leader by turnover and second-ranking group by passenger traffic, Air France-KLM is the premier network linking Europe to the rest of the world, and Europe's leading airline Group to all the principal long-haul destinations.

Success on such a scale brings duties, since responsibility is inseparable from leadership. A leader in any domain must deserve its benchmark status.

This is why in July 2006, following our signing of the UN Global Compact, we adopted a Corporate Social Responsibility Statement for the Group. This sets out our commitments – which are transformed into action plans – to ensure that our corporate development bears all the hallmarks of high performance, not to say excellence, not only in the economic sphere but equally importantly in the social and environmental spheres. We have done this to better satisfy our customers' requirements in an ever more fierce competitive environment; to enhance staff job satisfaction and contribute to their career mobility, safety and diversity; to promote employment and economic activity wherever we operate; to ensure the best possible coexistence with residents; to ensure that our suppliers also comply with the demands of social and environmental responsibility and human rights; and to guarantee a return on investment for shareholders which allows us to finance the future.

We are extremely proud that again in 2006, we were honoured with inclusion in the main sustainability indices, namely the Dow Jones Sustainability, FTSE4Good and ASPI indices. Such recognition is an incentive to go even further on the road to sustainability.

This third edition of the Air France-KLM Corporate Social Responsibility Report illustrates the progress made as a Group, combining two airlines which retain their separate identities and operate in different regulatory environments, but nevertheless share a set of common values and move forward in an increasingly coordinated and dynamic fashion. It is also receptive to dialogue, for the very first time opening its pages to non-Group contributions from the heads of institutions, voluntary bodies, elected officials, experts and others.

Inside you will find detailed information on our initiatives across a broad range of corporate social responsibility fields, and, of

course, we welcome your comments on these. Additional information can also be found on the websites referred to in the report.

We want to speak directly to you about the way the Group is tackling the complex problem of climate change, which nobody, including the air transport industry, can shrug off.

We are tackling this challenge not only in response to the increased (and legitimate) concerns of our stakeholders, which include customers, interest groups, political decision-makers, investors and the general public, but also because we want to guarantee the long-term future of our industry.

Air France-KLM has decided to take a realistic, determined, and responsible approach to tackling climate change. The current year sees a large-scale extension of the Group's initiatives in this area. We have clarified our strategy, extended our commitments and striven to focus all our resources on an active policy.

The facts are well known. It is undeniable that air transport contributes to greenhouse gas emissions, which are a factor in global warming. We have nevertheless already achieved some remarkable results through our considerable efforts to cut jetfuel consumption and the related CO₂ emissions, with a 10% reduction in emissions per passenger-km in the past five years. This reduction, however, only offsets half our traffic growth. Meanwhile, the search for a kerosene substitute, which the entire airline industry is energetically backing, seems unlikely to deliver tangible results in the near future.

Should we therefore make every effort to restrict the use of air transport, as advocated in some quarters? On the contrary, we believe that air transport more than ever has a utility and a role to play because it cannot be dissociated from the conquest of what is known as the freedom to come and go as we choose; because it is irreplaceable on the long-distance journeys that are a characteristic feature of a global economy; and because it will remain an essential driving force for human and economic progress not only in the industrialized and emerging countries, but also, and perhaps to an even greater extent, in the poorest countries. Seeking to restrict the use of air transport through arbitrary measures and contemplating a return to its earlier status as something only the wealthy had access to, would be both an economic nonsense and a setback for personal freedom and social growth.



For our part, we consider that it is perfectly legitimate for the airline industry to shoulder its responsibilities. This is why Air France-KLM has developed a clear, ambitious policy which we have named our Climate Action Plan:

1. We strongly assert our support for the Kyoto Protocol and the inclusion of air transport in the European Union's emission trading scheme, which must be run on a realistic, pragmatic basis.
2. We shall continue to modernize our aircraft fleet and support aviation research designed to ensure that our aircraft generate less CO₂ through greater energy efficiency. We shall continuously strive to reduce noise levels.
3. We intend to provide interested customers with data concerning the CO₂ emissions generated by their journeys, based on real operating data and not on theoretical models, and suggest ways in which they might offset these emissions.
4. We materially support NGOs so that they can pursue large-scale environmental protection programmes, such as efforts to stop deforestation or promote reforestation.
5. We are looking into the possibility of embarking on a voluntary programme to promote renewable energy sources.
6. We have already begun to mobilize the entire Group behind specific, ambitious environmental protection plans, most notably to reduce emissions generated by our ground operations.

We feel that it is indispensable to prepare for the future rather than submit to it. It is because we are aware of the scale of the progress we have achieved so far that we are able to measure the efforts awaiting us so that we can contribute our share of the response to the challenges confronting the planet, on a par with our responsibilities and resources.

A handwritten signature in black ink, appearing to read 'Jean-Cyril Spinetta'.

Jean-Cyril Spinetta
Chairman and Chief Executive
Officer of Air France and
Air France-KLM

A handwritten signature in black ink, appearing to read 'Peter Hartman'.

Peter Hartman
President and
Chief Executive
Officer of KLM

1. Group profile

1.1. Trends in the air transport industry

With 2.13 billion passengers carried, accounting for a 5.6% increase in traffic, 2006 should mark the return to near financial break-even for the global airline industry.

Buoyed by an upbeat economic climate, limited capacity growth and constantly improving efficiency, and despite the 23% increase in the fuel bill to a record 112 billion dollars, our industry posted a net loss of 0.5 billion dollars in 2006, and is expected to make a profit of 3.8 billion dollars in 2007, according to the latest IATA estimates.

Passenger numbers are forecast to rise by 500 million by 2010, a promising outlook for the air transport industry.

The industry's recovery should not, however, mask the disparities in performance between different parts of the world.

With only modest increases in capacity, the three European majors, Air France-KLM, British Airways and Lufthansa, have enjoyed the benefit of strong traffic growth for the past twelve months and more, especially in the "Business" segment. Having thus benefited from significant increases in yield and because they are better hedged than their US and Asian counterparts against fuel price increases, they have all published improved results.

After posting almost 35 billion dollars in net losses over the past five years, the US airline industry should, according to both IATA and ATA (the US Air Transport Association), generate net profits in 2007.

In its long-haul business, the Group has to cope with the traditional competition from European airlines, with the international redeployment of United States airlines, as well as the emergence of fast-growing newcomers such as the Gulf airlines and those based in Asia's emerging countries. In Europe, Air France-KLM also has to confront competition from low-cost airlines and TGV high speed trains on its short- and medium-haul routes and medium-distance journeys and from road and maritime transport in the cargo sector.

Against a backdrop of global market liberalization, the air transport sector is increasingly competitive and in addition is required to find answers to new challenges such as climate change and environmental protection, high energy prices, passenger safety and security, and increasingly complex consumer rights legislation.

TABLE 1: TOP TEN AIRLINES BY TURNOVER (USD billion)

Rank	Airline	Turnover 2006 ^{1&2}
1	Air France-KLM	30.81
2	Lufthansa Swiss	26.51
3	American Airlines inc.	22.37
4	Fedex Express Corporation	22.07
5	Japan Airline Corporation	19.35
6	United Airlines	18.85
7	Delta Air Lines inc.	17.13
8	British Airways	16.73
9	Continental	13.13
10	ANA group	12.67

Source: IATA World Air Transport Statistics and financial reports from the industry, 2006

¹ For financial year ending 31/12/2006 except for Air France-KLM, ANA group and British Airways at 31/03/2007

² Exchange rate: 1 USD = €1,33547

TABLE 2: TOP TEN AIRLINES BY PASSENGER TRAFFIC in million revenue passenger km (RPK)

Rank	Airline	RPK 2006
1	American Airlines	224,330
2	Air France-KLM	195,227
3	United Airlines	188,684
4	Delta Airlines	158,952
5	Lufthansa Swiss	136,748
6	Continental Airlines	122,712
7	Northwest Airlines	116,845
8	British Airways	114,896
9	Southwest Airlines Co	108,935
10	Japan Airlines International	89,314

Source: IATA World Air Transport Statistics, 2006

TABLE 3: TOP TEN AIRLINES BY CARGO TRAFFIC in million revenue freight tonne km (RFTK)

Rank	Airline	RFTK 2006
1	Federal Express	15,145
2	Air France-KLM	10,571
3	United Parcel Service	9,341
4	Lufthansa Swiss	9,130
5	Korean Airlines Co. Ltd.	8,764
6	Singapore Airlines	7,991
7	Cathay Pacific	6,914
8	China Airlines	6,099
9	Cargolux	5,237
10	EVA Air	5,160

Source: IATA World Air Transport Statistics, 2006

1.2. Air France-KLM: one Group, two airlines, three businesses

The global leader in air transport

Created in May 2004, the Air France-KLM group comprises a holding company and two airlines, Air France and KLM, which have kept their own identities. The Group is the world's largest airline group by revenue (23.07 billion euros) and ranks second by passenger traffic (by passenger-km) and freight traffic (by tonne-km - see graphs 1 to 3). The Group also ranks second in the global aircraft Maintenance Repair Overhaul (MRO) market.

Air France-KLM aims to achieve long-term profitable growth building on a balanced network operating from Paris-Charles de Gaulle and Amsterdam-Schiphol, two of Europe's largest hubs.

A hub is an airport at which (an) airline(s) has (have) organized connections between arriving and departing flights at intervals, so as to broaden the choice for passengers to travel and cargo to be shipped. The hub concept is central to Air France-KLM's strategy, and is a highly cost-effective and environmentally efficient system. A hub may be compared to "car-pooling": small flows of European feeder traffic meet at a single hub, where they connect with flights to intercontinental destinations operated by bigger aircraft offering higher load factors, leading to a lower overall environmental impact.

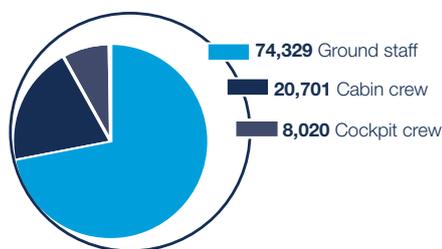
Three businesses

The Group's three core businesses are passenger transport, cargo transport and aircraft maintenance. In the financial year 2006-07 Group turnover rose 7.6% (+1.6 billion euros) compared to 2005-06.

The Group employed more than 103,050 full-time job equivalents worldwide in 2006-07, a 0.6% increase in comparison with 2005-06.

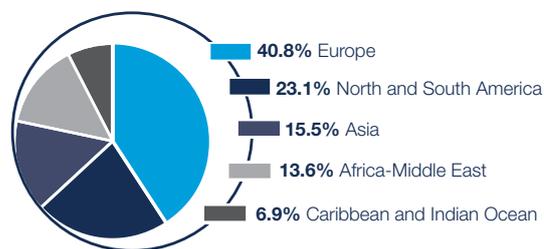
Of these, 90% are based in France and the Netherlands, mainly around the Paris-CDG, Orly and Amsterdam-Schiphol hubs.

GRAPH 1: WEIGHTED AVERAGE EMPLOYEES PER JOB TYPE, 2006-07



Passenger

GRAPH 2: SCHEDULED PASSENGER REVENUE BY DESTINATION, 2006-07

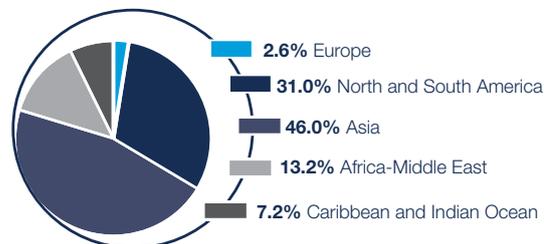


Passenger transport is both the biggest and most visible of Air France-KLM's business operations, with a consolidated turnover of 16.9 billion euros in 2006-07.

By combining their networks and hubs, the two airlines are now able to provide passengers with an even wider choice of destinations and flight schedules, along with seamless service. The Group has developed an innovative fare structure named "fare combinability", whereby passengers can combine an outbound flight operated by Air France with an inbound flight operated by KLM and vice versa. Passengers thus benefit from the most convenient schedule at both hubs and the most attractive fares.

Cargo

GRAPH 3: SCHEDULED CARGO REVENUE BY DESTINATION, 2006-07



With a consolidated turnover of 2.9 billion euros, Air France-KLM is a world leader in air freight.

Cargo activity is growing at 5% a year over the long term.

The Joint Cargo Team, the first fully combined commercial activity at Air France-KLM, was set up in October 2005, allowing the Group to offer customer companies a single point of contact for its integrated and highly competitive services, with flights out of both its hubs. This is intended to strengthen its international positioning and to comply with its customers' needs.

Maintenance

Air France Industries and KLM Engineering & Maintenance provide the entire spectrum of aircraft MRO services for numerous aircraft types. Maintenance of the Air France and KLM fleets accounts for two-thirds of the Group's maintenance activity.

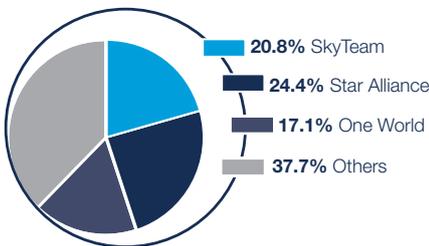
Some 150 third-party airline companies, representing over 950 aircraft, are customers of the Group, which is aiming to be a significant, reputed player in the maintenance market.

Key Group assets

The Air France-KLM group has a global network and operates in all big markets. (see map in 1.4, p. 8-9).

The company is organized around two of Europe's largest hubs, linking short/medium-haul services to long-haul intercontinental routes. Air France and KLM are active members of the highly-integrated SkyTeam global alliance, which consists of ten European, American and Asian airlines. SkyTeam has a market share of 20.8% (in terms of passenger-km) and is therefore the world's second-largest alliance, as shown in graph 4.

GRAPH 4: MARKET SHARE OF SKYTEAM IN GLOBAL ALLIANCES



Source: RPK 2006

In the Air France-KLM global network, 74% of long-haul flights and 65% of medium-haul flights are to "unique" destinations (see page 8), operated by only one of the two airlines. The airports of Paris-CDG and Amsterdam-Schiphol rank among the most connective hubs in Europe, with a large number of short, reliable connecting flight opportunities each day.

Growth Strategy

Air France-KLM is pursuing a strategy of customer-focused profitable growth, based on ongoing cost focus and the synergy between the two airlines. A prerequisite for profitable growth is operating on a level playing field. These factors are further explained below.

The complementarity of Air France and KLM in their three businesses (passenger, cargo and maintenance) is a source of significant synergies. Cost synergies identified during the three years after the merger have been estimated at more than 500 million euros (see graph 5). The synergies are set to gain momentum and will have a positive impact estimated at 1 billion euros on the Group's forecast consolidated operating profit by 2010-11.

Cost-saving plans are underpinned by the development of new technologies and an efficient fleet management policy combining flexibility and modernization. Rationalizing the fleet and enhancing its flexibility are keys to profitable Group growth. The Group has mitigated the impact of higher fuel costs mostly by hedging, and will continue to do so, although the financial benefits of this approach are diminishing as time goes by. The capacity to invest in new aircraft has proved essential for ensuring sustainable growth, offering passengers higher comfort levels, achieving substantial fuel consumption savings, reducing noise and limiting greenhouse gas emissions.

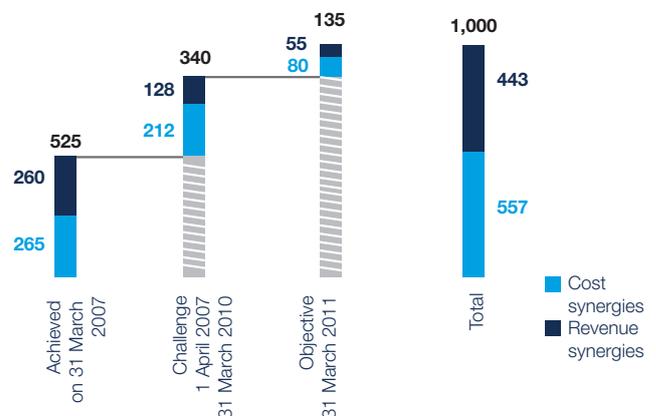
At Air France, for example, the "Compétitivité Major 2007" plan enabled the airline to achieve cost savings of more than 900 million euros in 2006-07 in the areas of distribution costs, medium-haul product and improved productivity.

At KLM, the "2003 Structural Cost Program" delivered savings up to 650 million euros in 2006-07.

The Group has made the customer central to its strategy, not only by providing access to a larger number of destinations and schedules but also by developing an innovative range of products including electronic products known as e-services, attractive combinable fares and the joint frequent flyer programme, Flying Blue, created when the frequent flyer programmes of Air France and KLM were merged.

An essential pre-condition for profitable growth is the existence of a level playing field between all airlines, including equal access to markets and infrastructure and fair cost levels, particularly for hubs. Another essential condition is efficient economic regulation by governments and airport authorities, which by their very nature occupy a monopoly position.

GRAPH 5: REVENUE AND COST SYNERGIES (in million euros)
Objective of 1 billion euros of synergies confirmed



Source: Air France-KLM annual results 2006-07



1 More information about SkyTeam on www.skyteam.com

1.3. Revenue distribution by stakeholder group

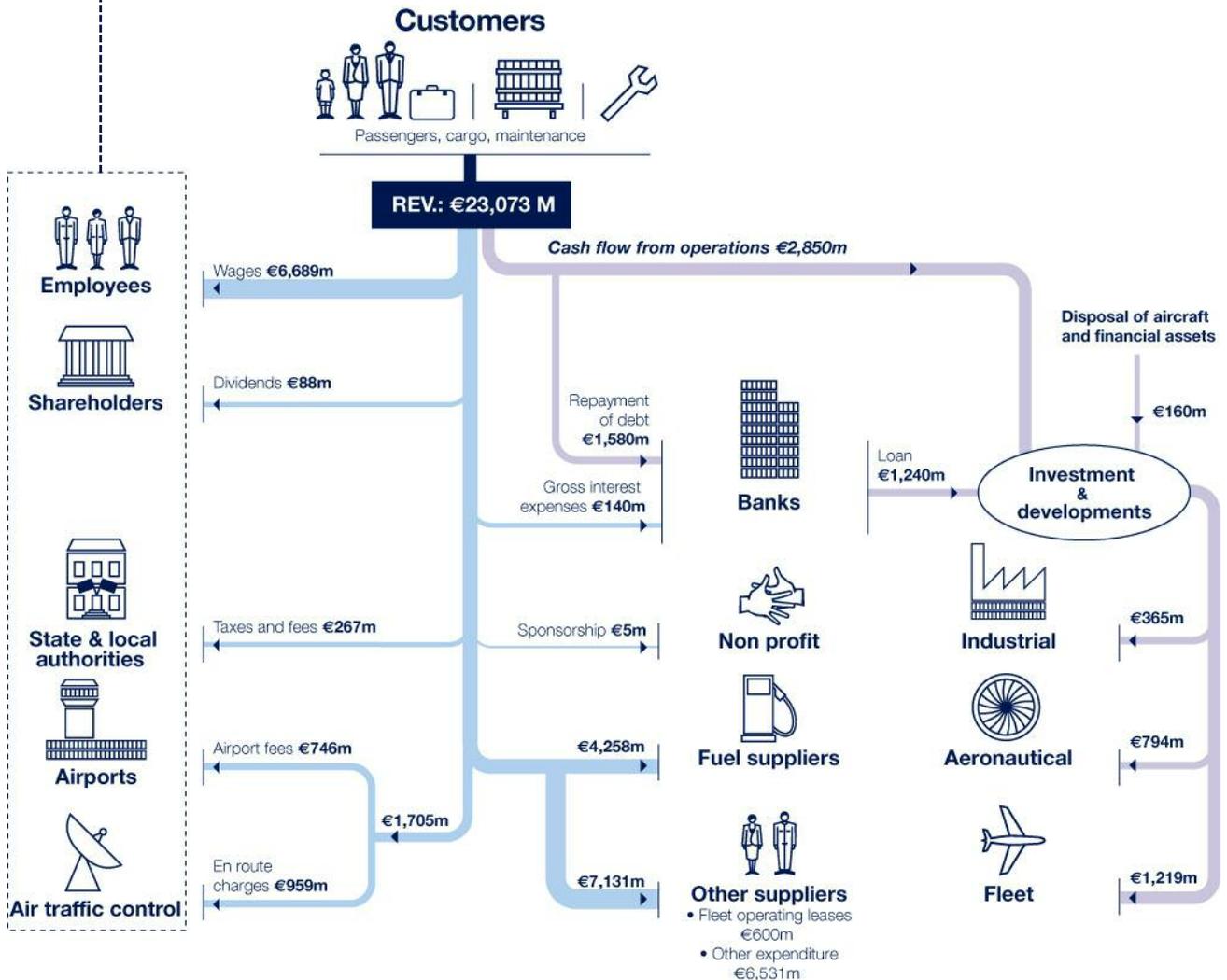
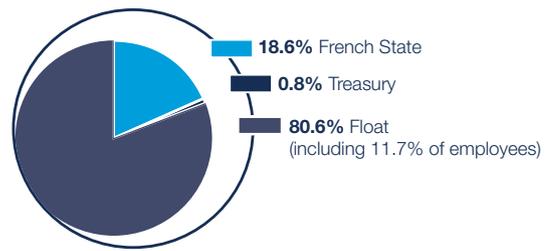
The creation of value for Air France-KLM stakeholders is central to their sustainable development strategy. The Group's economic results benefit not only shareholders but also other stakeholders such as employees, suppliers, public authorities and local communities. The chart below provides a snapshot of the Group's revenue distribution to its various stakeholders. In addition to the ticket price, customers pay a number of taxes that airlines collect on behalf of the State. These taxes, which amount to about 1.5 billion euros for the Group, are notably used to finance the Civil Aviation Administration and airport security and safety (firefighters, etc.) in France and the Netherlands.

TABLE 4: REVENUE DISTRIBUTION (€ million)

	2004-05	2005-06	2006-07
Employees	5,922	6,357	6,589
Shareholders	24	41	88
State and local authorities	234	386*	267
Airports	692	741	746
Air traffic control	768	869	959

* This amount included the capital gain generated by the Amadeus GTD transaction.

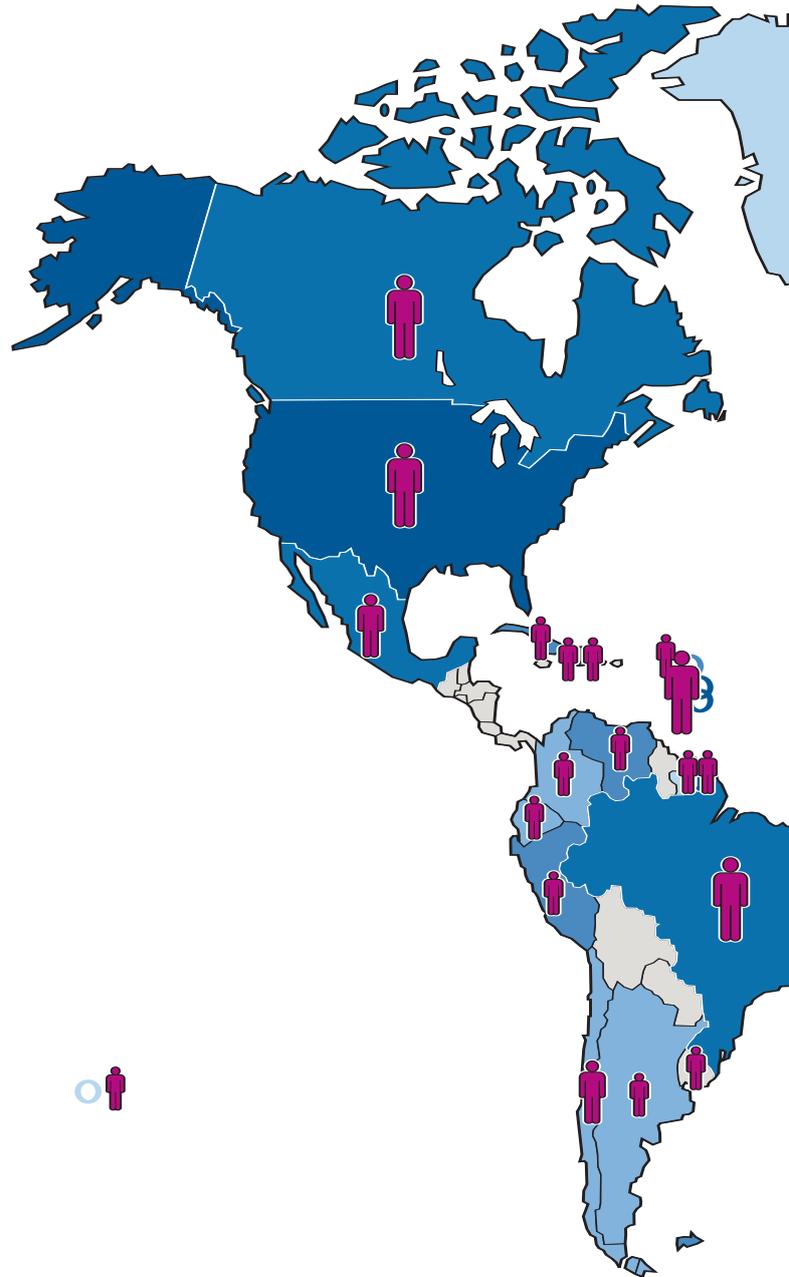
GRAPH 6: BREAKDOWN OF AIR FRANCE-KLM GROUP SHAREHOLDERS, 31 March 2007



1.4. Air France-KLM activities and staff by country

In 2006-07 Air France-KLM carried 73.5 million passengers to 253 different destinations in 113 countries with 569 aircraft in operation, providing employment to more than 103,050 full-time equivalents (FTE) worldwide, of which 89% are located in France and in the Netherlands. This map shows the Group staff worldwide and the traffic per country. The traffic figures based on capacity are expressed in available seat-kilometres (ASK, i.e. the total number of seats available for transportation multiplied by the number of kilometres flown), operated by either Air France or KLM aircraft from all airports in France or in the Netherlands.

The number of employees is given in FTE for 2006-07 and includes all Group activities.



Passengers

Short/medium-haul network (Europe and North Africa)

- 51.312 million passengers transported in 2006-07 (+ 4.9% compared to 2005-06)
- Traffic: 40,219 million revenue passenger km (RPK) (+6.3% / 2005-06) ; represents 20% of total passenger traffic
- Load factor: 70.9% (+0.7 point, compared to 2005-06)
- Capacity increased by 5.2% in 2006-07
- 41% of total scheduled passenger revenues
- 405 aircraft on 31 March 2007 (149 at Air France, 47 at KLM and 209 at subsidiaries,)
- Covering 130 destinations in 36 countries, of which 58 unique Air France, 26 unique KLM and 46 common to both

Long-haul network

- 22.172 million passengers transported in 2006-07 (+5.0% compared to 2005-06)
- Traffic: 159,291 million revenue passenger km (RPK) (+5.2% / 2005-06) ; represents 80% of total passenger traffic
- Load factor: 84.6% (+0.8 point, compared to 2005-06)
- Capacity increased by 4.2% in 2006-07
- 59% of total scheduled passenger revenues
- 148 aircraft on 31 March 2007 (94 Air France, 54 KLM)
- Covering 118 destinations in 77 countries, of which 53 unique Air France, 34 unique KLM and 31 common to both

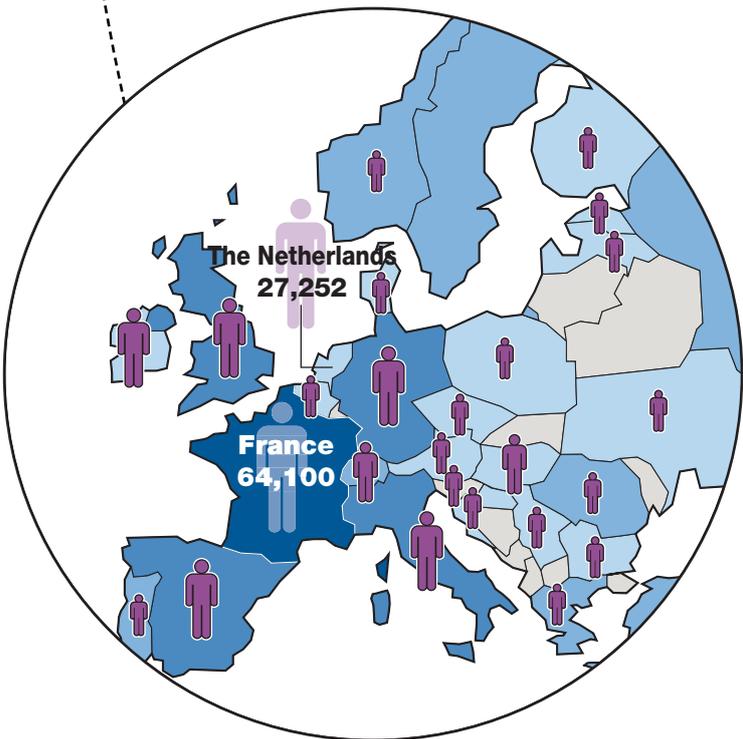
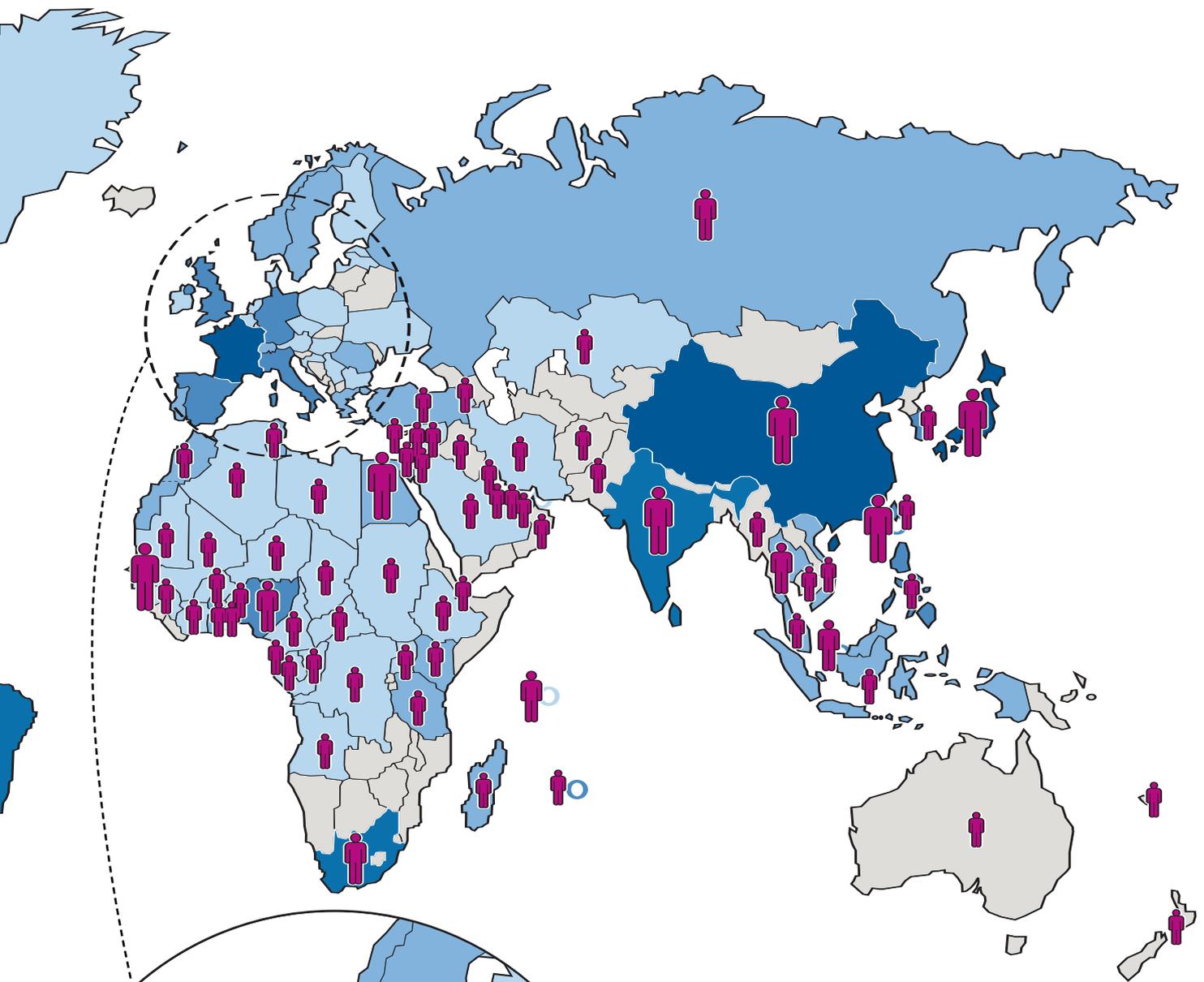
Cargo

Medium-haul network (Europe)

- No cargo aircraft, all freight is transported in the holds of passenger aircraft or by truck for pre-forward or re-forward of long-haul flights
- 86 million revenue freight tonne km by aircraft (RFTK)
- 3% of total cargo revenues

Long-haul network

- 16 cargo aircraft (B747-200/400) and the holds of 148 passenger aircraft, in the proportion of 50/50 approximately
- 10,986 million revenue freight tonne km (RFTK)
- 97% of total cargo revenues



Available Seat Kilometre¹ (ASK)

Less than 1,000	Between 5,000 and 10,000
Between 1,000 and 2,000	More than 10,000
Between 2,000 and 5,000	Destinations not operated by Air France-KLM aircraft ²

Breakdown of employees by country (in FTE, 2006-07)³

> Netherlands: 27,252 (staff in FTE, 2006-07)

> France: 64,100 (staff in FTE at 31 December 2006)

Less than 100	Between 100 and 200	Between 200 and 2,000
---------------	---------------------	-----------------------

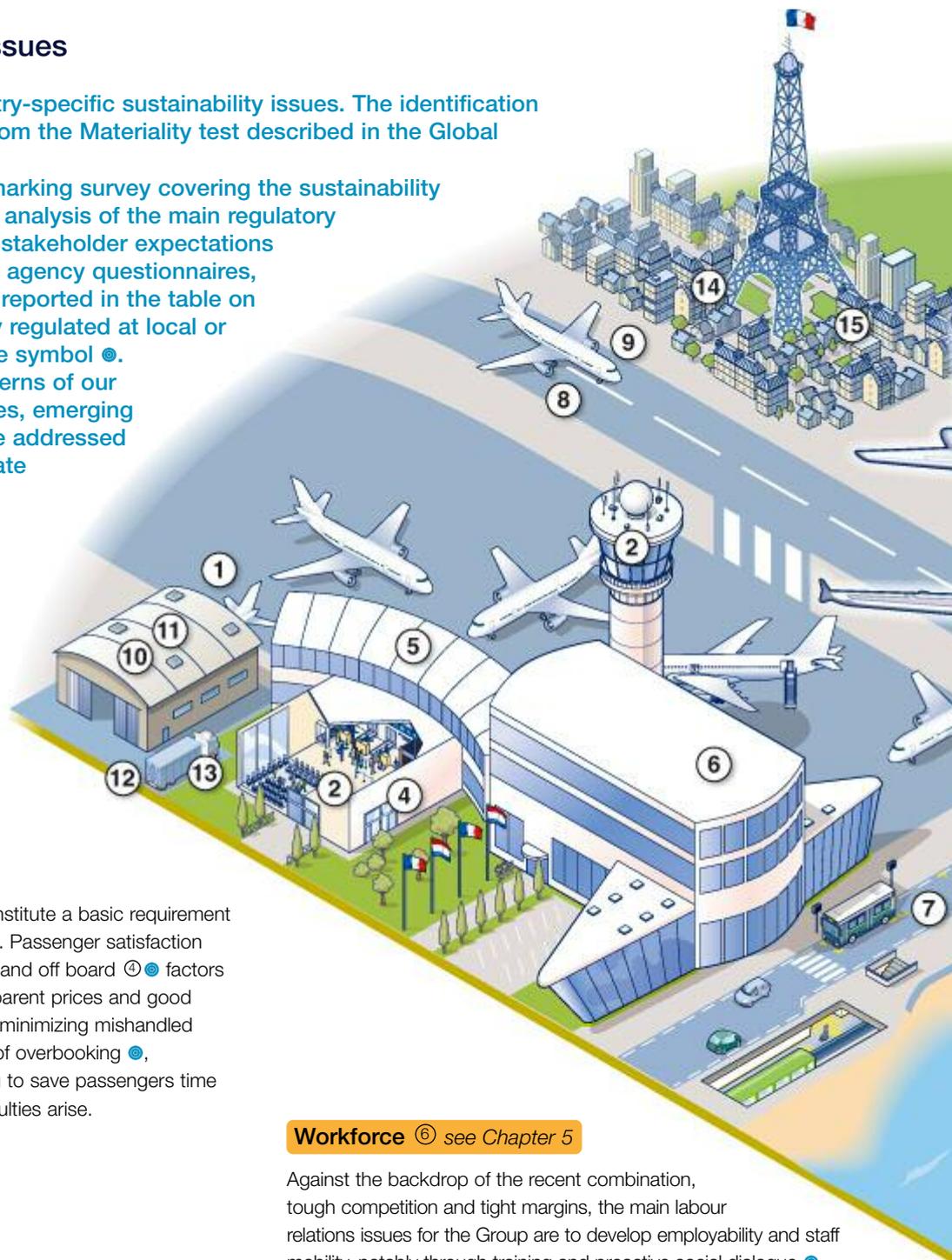
¹ Seat available x distance flown
² Most operated by code share partner airlines
³ Including subsidiaries and local staff

2. Key challenges for sustainable development

2.1. Key sustainability issues

The graphic lists the key industry-specific sustainability issues. The identification process draws its inspiration from the Materiality test described in the Global Reporting guidelines.

It has been based on a benchmarking survey covering the sustainability reports of six major airlines, an analysis of the main regulatory trends, and an identification of stakeholder expectations reflected in non-financial rating agency questionnaires, plus stakeholder consultations reported in the table on page 21. Issues that are strictly regulated at local or global level are marked with the symbol . The other issues relate to concerns of our stakeholders and, in some cases, emerging regulations. All these issues are addressed in further detail in the appropriate chapters of this report.



Customers see Chapter 4

Flight safety   and security   constitute a basic requirement for customers and are strictly regulated. Passenger satisfaction also depends on several onboard   and off board   factors from booking to arrival, including transparent prices and good quality of service, network, punctuality, minimizing mishandled baggage, and adequate management of overbooking , addressing special needs , innovating to save passengers time and handling complaints  when difficulties arise.

Workforce see Chapter 5

Against the backdrop of the recent combination, tough competition and tight margins, the main labour relations issues for the Group are to develop employability and staff mobility, notably through training and proactive social dialogue . Other major issues of the Group are to promote non-discrimination , diversity and equal opportunities  and safeguard health and safety in the workplace .

Society see Chapter 7

Airline activities impact society at airport, regional and global level. At airport and regional level, the Group has a direct economic footprint through its contractors, suppliers and spin-off jobs generated by airline activities ⑬. Both airlines stimulate the economy in the regions around the airports, through local recruitment, supporting local companies and participating in various partnerships with young residents. On the other hand, the environmental impacts of airline activities call for in-depth dialogue ⑭ with residents and local authorities ⑮. The Group can use its resources, transportation capacity and international presence to support human development and NGO programmes ⑯.

Environment see Chapter 6

The main direct environmental impact is emissions and noise produced by aircraft engines and, to a lesser degree, emissions, water discharge and waste generated by ground operations. The main global impact is the contribution to climate change, notably due to CO₂ emissions ⑰. At airport level, the main aircraft impact is noise hindrance ⑱ and NO_x emissions ⑲, which affect air quality. Ground vehicles and energy consumption also contribute to CO₂ and NO_x emissions. Finally, maintenance and other ground operations also consume water and generate emissions, water discharge and waste ⑳, and may cause soil and groundwater pollution ㉑. The main indirect impact includes airport land use, the environmental footprint of suppliers ㉒, and aircraft end of life.



2.2. Business drivers and prioritization of sustainability issues

Main business challenges

- **Competition.** Airlines are at the end of the value chain in a partially deregulated market. Their profitability is highly dependent on the efficiency of the aviation industry as a whole and determined by the combined efforts of aircraft manufacturers, airports and air traffic management systems. For years, the major airlines have been facing rapid changes in the competitive environment, caused by the emergence of low-cost carriers, the liberalization of international skies, and industry-wide concentration. The high level of competition also contributes to the industry's very narrow margins compared to other industries and thus a reduced capacity to absorb new extra costs.

- **Oil price.** Today, kerosene payments represent approximately 20% of Air France-KLM turnover. In the past few years, the Group has had to absorb sharp price increases in this area. Current and future pressures on the oil market may accelerate this trend.

- **Risks of congestion.** Over the last decade air traffic has seen fast growth and this is expected to continue. To cope with this increased demand, improvements in air traffic management and investment in airport infrastructure will be needed. Inadequate infrastructure causes delays, non-reliability for passengers, and extra costs for airlines. Delays in Europe cost around 5.7 billion euros per year for the industry. According to Eurocontrol, optimized traffic management can reduce kerosene consumption by 6-12%.

- **Distorted competition.** While competition is increasingly global between airlines and hubs, most regulatory constraints and tax schemes remain national or regional. Given the increasingly competitive market, any new regulation at national or regional level brings a risk of distorted competition with potentially large negative effects, and of air traffic being diverted to "low tax" hubs. This situation calls for a high level of dialogue between the industry and policy makers. The International Civil Aviation Organization (ICAO), the European Union and national authorities have a major role to play in achieving a level playing field for all transport modes.

- **Climate change.** While aviation industry CO₂ emissions comprise between 2% and 3% of total man-made emissions, the current concern for climate change expressed by scientists, politicians, the media and the general public increasingly tends to focus on air transport, given its rapid growth and the lack of technological breakthroughs to dramatically limit its footprint in the short-term. This emerging concern may ultimately challenge the public acceptability of air transport. It has already translated into calls for caps on air traffic growth and for demand management. This is a major challenge for the industry.

Main business drivers for CSR

- **Regulation and licence to operate**

The airline industry is highly regulated. Many local environmental impacts are regulated at airport level, while aspects such as flight safety, security and aircraft environmental certification are regulated at international level. The Group is anticipating future regulation to preserve licence to operate and new rigid constraints; taxes are major drivers of sustainability improvements. The main issues the Group faces are the emerging European carbon restrictions, the debates on carbon-related taxes, and the management of noise thresholds.

- **Investor expectations**

For years now, the financial community has been divided between mainstream investors focused on traditional business parameters and a small minority of socially responsible investors focused on the broad spectrum of CSR. In the past two years this landscape has significantly changed, showing an increasingly shared focus on our ability to handle a structural rise in oil prices and the emergence of CO₂ emission constraints.

- **Employee expectations**

Against fast Group growth and consolidation, staff pride and trust play an increasing role in our ability to adapt the organization and recruit and motivate the most skilled people.

- **Customer expectations and brand value**

As far as major airlines are concerned, some brand valuation experts¹ consider that brand value only plays a significant role in customer choice when price, route, schedule and frequent flyer points are at parity, thus limiting the value of reputation and CSR practices for customers (see graph 7). On the other hand, reputation and quality of service play an increasingly strategic role.

As a result, CSR impacts customer choices not only indirectly through brand reputation, but also directly. In 2006-07 some key account and customers surveys reported expectations related to a flight's CO₂ emission footprint (more information in Chapter 6).

GRAPH 7: EXAMPLE OF CUSTOMER SURVEY FINDINGS: WHY DO PASSENGERS CHOOSE AIR FRANCE OR KLM?



Prioritizing sustainability issues

Due to the above-mentioned business challenges and drivers, the prioritization of sustainability issues (based on importance and urgency) has changed significantly:

- Climate change ranks clearly first, since it is an increasing concern with massive implications. A whole section of this report is therefore dedicated to this challenge (see pages 14-17), describing the risks, opportunities and the dilemmas faced by the Group, as well as its Climate Action Plan. This picture is supplemented by an analysis of our performance on pages 34-39.
- Most other environmental issues, are highly regulated and as such have formed part of the Group's day-to-day business practices for many years. However, the increasing interest of investors and civil society in environmental management systems increasingly call for the beyond-compliance initiatives described on pages 36-39.
- Similarly, management of flight safety and customer issues is a basic requirement that will continue to evolve, strengthening the need for regular innovations and advances in this field. These are described on pages 24-29.
- In the field of human resources, the Air France-KLM combination raised the strategic role of training and internal mobility, which is further described on pages 30-31.
- Finally, the challenges to the licence to operate reinforce the case for increasing the positive economic and social impacts of Air France-KLM activities, as described on pages 40-41.



*Expectations of VBDO**
Ernst van Weperen, Project Manager

The expectations of investors regarding non-financial reporting are steadily increasing. Content-wise, we would like to understand which principles and standards are supported by the Group and how their implementation connects to business objectives and top management appraisal criteria. We would also like to get a sense of the dilemmas faced by the Group: for instance, how US authority requirements regarding passenger data impact on the Group ability to protect customers' right to privacy?

From a business perspective, the current big issue is fossil-fuels dependency: in this field, we expect airlines to improve fleet efficiency as much as possible and invest in research on new fuels, not only to cut emissions but also to adapt their cost structure to high oil prices.

Process-wise, we expect companies to comply with the GRI guidelines, describe the materiality process, explain how they respond to emerging material issues, and set precise targets and indicators to allow stakeholders to gauge the level of ambition and the progress made. Finally, we look for assurance of both the data and the process or precise explanations if the report is not assured.

** VBDO is the Dutch chapter of Eurosif, the European coalition of socially responsible investors.*



1 See the position of Interbrand, for example: www.interbrand.com

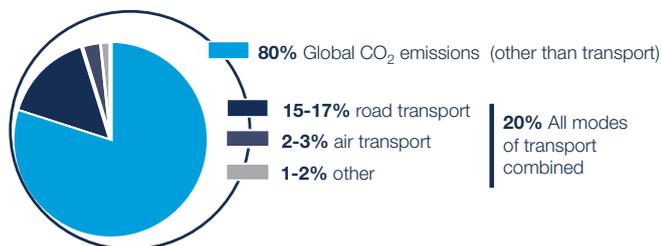
2.3. Focus on climate change

As climate change is the Group's primary priority as described in chapter 2.2., this section explains Air France-KLM's approach to climate change, a key challenge for sustainable development for the airline industry. Chapter 6 provides detailed technical information on the Group's environmental performance.

The airline industry's carbon footprint

CO₂ emitted by the airline industry comprises less than 3%¹ of global man-made CO₂ emissions (see graph 8); the airline industry has improved its fuel efficiency by 20% over the last decade² thanks to major improvements in technologies (engines and aircraft) and operating procedures. Despite these advances, climate change is still a major issue for the industry. In fact, due to growth of air traffic (3.1% per year³) and the limited scope for achieving further reductions in carbon emissions, compared to other sectors, the share of emissions generated by aviation is very likely to rise.

GRAPH 8: SHARE OF AIR TRANSPORT IN GLOBAL MAN-MADE CO₂ EMISSIONS



Sources: IPCC



Aviation non-carbon impact on climate change

Aircraft generate CO₂, NO_x and soot emissions, as well as condensed water contrails. The impact of CO₂ emissions on climate change is identical whether emitted by aircraft or other types of sources, at high altitude or at ground level. Scientifically, it is reasonably well understood. However other effects from aviation, notably high-altitude NO_x emissions and the cirrus clouds caused by contrails need more scientific research. The latest scientific research suggests that these additional non-carbon effects may be significant. However the scientific community considers that, given the high level of uncertainty, it is too early to take these into account in regulations – a conclusion that applies to all industries.

Increasing expectations of airlines

The airline industry is under increasing pressure to take responsibility for its contribution to climate change for a number of reasons:

- Socially responsible investors now expect carbon emission reduction objectives and mitigation strategies and not just emissions data, as was the case until recently.
- On the clients' side, key accounts have started asking for CO₂ emissions data and requesting CO₂ offset options for trips made by their employees. The demand for information also extends to the cargo business: recently some northern European manufacturing companies began making requests in this area. Some UK-based retailers have also begun announcing the embedded carbon footprint of the products they sell.
- In answer to customer demand, some NGOs, travel agencies and airlines have recently introduced CO₂ emission calculators and offset schemes.
- The European Commission is proposing to integrate air transport in the European Emission Trading Scheme (see box below), resulting in CO₂ emission reduction targets and additional financial costs for companies that do not meet these targets. In addition, some European governments are also considering jetfuel, taxation.



Aviation and the European Emission Trading Scheme

The European Emission Trading Scheme (ETS) ¹, sets a cap on the amount of CO₂ a company is allowed to emit. Each company receives a CO₂ emission allowance based on past industry emissions. Companies exceeding reduction targets are allowed to sell CO₂ emission allowances to companies unable to achieve them. Emissions credits can also be acquired by financing 'clean' development projects. A first allocation phase in 2005-2007 covers carbon-intensive industries (but excludes air transport), representing 45% of EU CO₂ emissions. The second phase will cover the period 2008-2012. The European Commission has proposed to include airlines in the European ETS, covering CO₂ emissions from intra-EU flights from 2011, extending the scope to all international flights arriving at or departing from EU airports from 2012. The Commission suggests taking the industry emission levels of 2004-06 as a basis for calculating allowances. Each carrier will be administered by a single Member State.

¹ Source: IPCC

² Source: IATA

³ Source: Giblin Report



¹ To read the ETS Directive 2003/87/EC: <http://eur-lex.europa.eu>

Reducing the carbon footprint

In this context, the aviation industry faces a dilemma in responding to expectations:

- Fleet renewal, which is the main short-term means of reducing emissions, generates a mere 1-1.7% improvement in fuel efficiency per year¹. Those airlines in sufficiently good financial health to renew their fleets are already investing enormous sums, driven also by oil-price considerations. The ambitious objectives of the Advisory Council for Aeronautics Research in Europe (ACARE) programme of the European Union to improve energy efficiency by 50% by 2020 also raises hopes of lower emissions.
- Unlike other transport industries, there are no short- or medium-term alternatives to kerosene-powered aircraft engines or to oil-based jet fuel (see expert opinion).
- 76% of Air France-KLM CO₂ emissions are produced on long-haul flights of 3,000km or more for which no alternative transportation mode exists. There is no other way to travel long distances.
- Capping intercontinental air traffic growth (the aim pursued by the promoters of a fuel tax), is not considered as an economically and socially viable option by either the ICAO or most of economists.

As a result of this, some stakeholders expect the air transport industry to invest in research aimed at finding long-term alternatives to reduce its own emissions and to investigate solutions to offset their carbon footprint in the short term.



Expert opinion on alternative fuels
Edouard Freund,
Executive Vice-President,
French Institute of Oil (IFP)

Although cutting consumption seems to be the main concern right now, a number of proposals for alternative fuels have been mooted. But there is one major obstacle right at the outset: kerosene manufacturing methods derive from a recipe that has a significant number of specifications which we can hardly depart from, for obvious safety reasons, such as problems to do with its behaviour in the freezing cold of high altitudes, the generation of fumes leading to the clogging up of fuel injectors, etc. What's more, new formulations must be tested on jet engines using large quantities because there is no such thing as a small representative test engine. Another difficulty lies in the standardization and acceptance of new formulations at international level.

In the meantime, therefore, we need to produce more kerosene using the same quantity of oil but using other refining processes. And in the mid-term, we need to produce synthetic kerosene using other raw materials, especially biomass.

So, while alternative fuel solutions are possible from a technological viewpoint, there is still a long way to go, especially at commercial level.

TABLE 5: AIR FRANCE-KLM POSITIONS ON THE ETS DIRECTIVES (2003/87/EC AND 2004/101/EC)

Points of agreement with the EU Directive	Points of concern with the EU Directive
<ul style="list-style-type: none"> • Geographical coverage : intra EU flights as from 2011 • CO₂ only • Possibility of buying emissions permits from other sectors • Access to clean development mechanism (CDM) credits over long term • Distribution of permits by benchmark (fleet efficiency) 	<ul style="list-style-type: none"> • Enlargement of geographical coverage to intercontinental flights (flying from and to European cities) as from 2012, unless formal agreement is reached with non-EU countries, to avoid unfair competition among airlines • The Directive proposes the same 2004/2005/2006 reference period until at least 2022 while for other industries this period is set till 2012 only. • Auctioning of quotas, which adds costs without environmental benefits

¹ Source: *Economic incentives to mitigate GHG from air transport in Europe, CE (2002)*



“Climate Change, Europe and the Aviation Sector”

Christine De Veyrac, Member of European Parliament, Committee on Transport and Tourism

Climate change is a reality we have to face and whose effects we have to counter. To do that, we have to act without delay. This is the path that the European Union has taken in recent years, with the roll-out of policies such as the emission trading system. Given this, the question is how should aviation contribute to the fight against the effects of climate change? Because its estimated contribution to global warming is around 3%, air transport only generates a small proportion of greenhouse gases compared to other transport modes.

However, confronted with the threat of the climate change phenomenon for the future and equilibrium of our planet, I feel it is essential that every sector should shoulder the responsibility for its share of its carbon dioxide emissions, regardless of the proportion. What's more, although the impact of air transport on climate change has so far been relatively limited, its contribution can only grow in the years ahead, when you look at the way the sector is growing.

Obviously, I do not believe it is desirable to hamper the development of air transport. But air transport growth must not be allowed to wipe out the efforts we are making to achieve the objectives set under the Kyoto Protocol. The most obvious solution is to replace the most polluting aircraft by cleaner ones, but that can only be done gradually.

It is therefore necessary to implement a number of complementary measures with immediate effect. The industry is doing this through its R&D efforts designed to reduce aircraft mass and improve their aerodynamic performance. The European Union is also proposing a certain number of measures.

For example, based on the observation that an aircraft flies approximately 200km more than is necessary on each flight, the European Commission has proposed an operational solution, namely the progressive improvement of air traffic control. The reorganization of air traffic will be carried out as part of a project dubbed SESAR, which should deliver environmental gains of 10% per flight due to large, scale savings on jetfuel.

The European Union has also implemented other programmes, such as “Green Flights”, a global environmental initiative to explore technical solutions for continuous aircraft descent. The programme aims at generating substantial reductions in emissions and noise levels alike.

The European Union has also proposed to include air transport in the carbon dioxide emission trading system. This should result in a significant reduction in the overall emissions of the European Union, which is targeting a 20% cut by 2020.

However, although all these policies are effectively combating the climate change effects of the air transport industry, European Union regulations are not enough: we must now get citizens to shoulder their responsibilities and involve the rest of the world in the challenge.

Exploring offsetting options

In the short run, due to lack of immediately available technological solutions, the sector can only use part of the revenue generated by air traffic growth to finance CO₂ emission reductions in other industries, where more powerful and short-term reductions are possible. This is the rationale underlying an open system of emissions trading (see box on ETS, page 14).

The airline industry can also support research on alternative fuels and carbon sinks, and consider voluntary carbon offset measures. These offset can only be partial, however, given the sector's narrow profit margins.

For Air France-KLM, for example, the cost of full offsetting in 2006 would represent more than 50% of the investments in fleet renewal¹.

It is also worth pointing out that any regulatory constraints limited to regional application can create genuine competitive distortions and divert traffic to other hubs (see table 5 page 15) which are not subject to the same regulation.

¹ Considering that the Group (including subsidiaries) produces 26 millions tonnes of CO₂ per year, full compensation would cost 780 million euros each year. (In this hypothesis, 1 tonne = 30 euros.)

The Group's commitment

Considering that the airline industry should assume its share of responsibility and actively respond to growing stakeholder demands regarding climate change the Group adopted a "Climate Action Plan". The plan consists of the following:

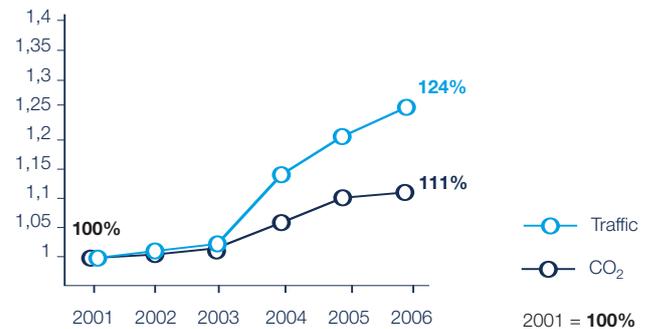
- 1. Keep promoting the European Emission Trading Scheme** as the most environmentally-efficient plan that will enable airlines to contribute to an overall reduction of CO₂ emissions worldwide (see table 5).
- 2. Continue fleet renewal programmes and promote aeronautical research** (aircraft, fuel, air traffic control...)
- 3. Address customer expectations** by helping them to **calculate the carbon footprint** of their trip and offset it. Air France-KLM will introduce an emission calculator and a carbon compensation offer in 2007 (see page 36). Unlike most existing carbon calculators, it will be based on real emissions for each flight, taking all operating parameters into account.
- 4. Support environmental programmes developed by NGOs.**
- 5. Promote renewable energies** (wind power, solar energy).
- 6. Involve the whole Group** in the ambitious environmental action plans.



1 www.earthinstitute.columbia.edu/grocc

In addition, Air France is part of the Global Roundtable on Climate Change (GROCC) ¹, which brings together over 90 companies and organizations from around the world which have signed a joint statement and adopted a global framework to counter climate change. KLM, for its part, initiated a Climate Change Working Group for the Dutch Airline Industry. Air France-KLM is a member of the European Corporate Leaders Group on Climate Change (CLG), developed by the Business and Environment Programme of the University of Cambridge. Together with other CLG partners, Air France-KLM stressed, in a letter to European Commission President Barroso in November 2006, that a strong and clear policy framework is required to reduce carbon emissions without creating any distortion of competition. Furthermore, in the context of Leaders for Nature (80 Dutch company leaders), KLM challenged the Dutch government to develop a joint long-term environmental strategy.

GRAPH 9: CO₂ AND TRAFFIC - AIR FRANCE-KLM





3. Sustainability management

3.1. Policies

Overarching policies

Since the combination, each company has kept its own set of policies, especially for Human Resources issues, while developing new common policies in some other areas. The first step was made by creating an overarching Air France-KLM CSR Statement that summarizes the joint commitments and sets out the Group's ambitions ¹. Both Air France and KLM have also individually committed to the principles of the United Nations Global Compact ¹.

Company level policies

At company level, different approaches have been developed depending on the nature of the issues at stake.

To manage operational environmental risks, both companies developed guidelines based on the ISO 14001 standard that are integrated into operating procedures.

In line with the agreement between Air France and KLM and due to the difference in local social regulations, the two companies keep distinct Human Resources policies while actively supporting joint projects. The lists of the main Air France collective agreements on CSR are available on its website ².

On responsible purchasing, Air France included contractual clauses on the protection of manpower and working conditions in 2001 and developed a specific sustainability charter in 2004 based on UN Global Compact Principles. Suppliers are invited to sign this or answer a questionnaire to explain their position. In addition, a specific charter, signed by all buyers, addresses passive corruption. KLM relies on its procurement policy, which states that suppliers must indicate adherence to a number of ethical principles, including those of the UN Global Compact.

Regarding compliance with competition law, the Group finalized a Competition Law Compliance Manual in early 2007. This will be distributed to all managers in commercial functions or functions frequently in contact with external parties by autumn 2007. Appropriate training sessions in this area have been organized and will be developed in the future.

On other aspects of CSR, the references are the Group CSR statement and the Global Compact, as well as the applicable national laws and regulations. At KLM, these principles will be complied with following implementation of a KLM Code of Conduct later this year, which deals with the above-mentioned topics as well as corruption and stakeholder dialogue.

3.2. Implementation

The two airlines have their own management systems to deal notably with occupational safety and environmental issues. Air France has set up a Quality, Safety and Environmental management system backed by a dedicated department and a network of approximately 500 coordinators worldwide. Effectiveness is checked using internal audits and ISO 9001 and ISO 14001 certification for the sites and processes. The implementation of the KLM environmental management system is externally certified ISO 14001 and EMAS for its entire operation. For Health and Safety issues, KLM relies on internal verifications. A specific Occupational Safety & Environment Board has been set up for monitoring purposes. The related departments are set out in a chart (page 20).

On labour issues, Air France agreements include specific action plans for Human Resources departments which are co-monitored with unions. The ISO 9001-certified Selection and Recruitment department ensures the fair, non-discriminatory handling of applications, a process which is subject to verification by an annual audit programme (two external and three internal in 2006). This procedure which has just been strengthened by a special 'ethical' audit on equal treatment reflects the department's determination for Air France to be a benchmark company in the fight against discriminatory recruitment. At KLM, the Human Resources department is in charge of implementing social policies. The KLM Works Council and trade unions are informed and give advice where appropriate during the process. Auditing is carried out in a number of areas such as the salary system, pensions, working conditions on an ad hoc basis when necessary and Sarbanes-Oxley to achieve an effective qualitative process.



1 & 2 Corporate Social Responsibility Statement (1) & collective agreements (2) on <http://sustainability.airfrance.com>



1 Initiative launched by the United Nations in July 2000: www.globalcompact.org

In addition, Air France's new strategic plan, Vision 2010, further embeds CSR in its business objectives. While staff collective bonuses were already connected to quality indicators, the new plan makes the broad scope of CSR one of the four strategic pillars. KLM is currently embedding CSR ambitions in a target system for employees, which is an integral part of KLM's New Horizon policy.

3.3. Corporate governance

Air France-KLM is governed by French company law and is listed on NYSE-Euronext in Paris, Amsterdam, and New York. The table below describes the Group's stance on applicable corporate governance standards (namely the Sarbanes-Oxley Act and the Bouton and Vienot reports). From May 2004 to June 2007, a Strategic Management Committee was in place to make decisions on the Group's strategy. In the second half of 2007, a new Group Executive Committee is intended to replace the SMC (17 for more information on Group corporate governance).

Air France-KLM has created Financial Code of Ethics which applies to the top senior executives involved in communication of financial data. It is supplemented by a code of ethics that sets rules applicable to Board members, senior executives and other key staff involved in stock operations.

In line with the requirements of the Sarbanes-Oxley Act financial whistleblowing mechanisms have been set up. While they share the same aims, they are based on different methods to answer to the French and Dutch regulatory requirements on personal data privacy.

The Air France system complies with the French Data Protection Authority's (CNIL) guidelines 1. The whistleblowing procedure was instituted by Air France to handle complaints related to questions of accounting and financial matters and also to corruption practices. The KLM system, in turn, complies with the Dutch Data Protection Authority requirements (Dutch DPA) 2.

TABLE 6: CORPORATE GOVERNANCE

Corporate governance standards		2006-07 Financial Year (April-March)				
INVOLVED IN DECISION-MAKING PROCESS	Board of Directors	Number of meetings and average attendance rate*	8 meetings; 87.25%			
		Existence of internal rules and compliance and ethics codes	Yes			
		Existence of strategy, audit, remuneration and appointments committees	strategy committee	audit committee	remuneration committee	appointments committee
		<i>Number of meetings</i>	1	5	1	0
		<i>Attendance rate</i>	100%	66%	100%	-
		Annual evaluation of Board functioning	Yes, carried out in 2006 and in 2007			
	Statutory Auditors	The statutory auditors may not provide advisory services with the exception of ancillary audit services or tax advisory**	Yes			
		No executive director participation in the audit committee	Yes			
		Opportunities for statutory auditors and directors to meet without the presence of senior management	Yes			
	Shareholders	One share is equal to one voting right	Yes			
Attendance rate (quorum) at the last annual Shareholders' Meeting		38.51%				
Proportion of votes cast at the Shareholders' Meeting of 12 July, 2006 by shareholders present at the meeting, represented or voting by mail		93.74%				
FINANCIAL INFORMATION	Financial information procedures committees	Yes				
	Publication of the criteria for and the total remuneration of corporate officers	Yes				
	Publication of the allocation terms for and the amount of directors' fees	Yes				
	Publication of the number of stock options granted to corporate officers of Air France, KLM and their subsidiaries	Yes				

* The attendance rate for directors was 87.25% in 2006-07 (74.2% in 2005-06), one directorship having remained vacant for a period of three months following the resignation of one Director and six months following the resignation of a second Director.

** Within the limits imposed by US Securities and Exchange Commission (SEC) independence rules and the professional code of ethics of French statutory auditors.



1 <http://www.cnil.fr>
2 <http://www.dutchdpa.nl/>

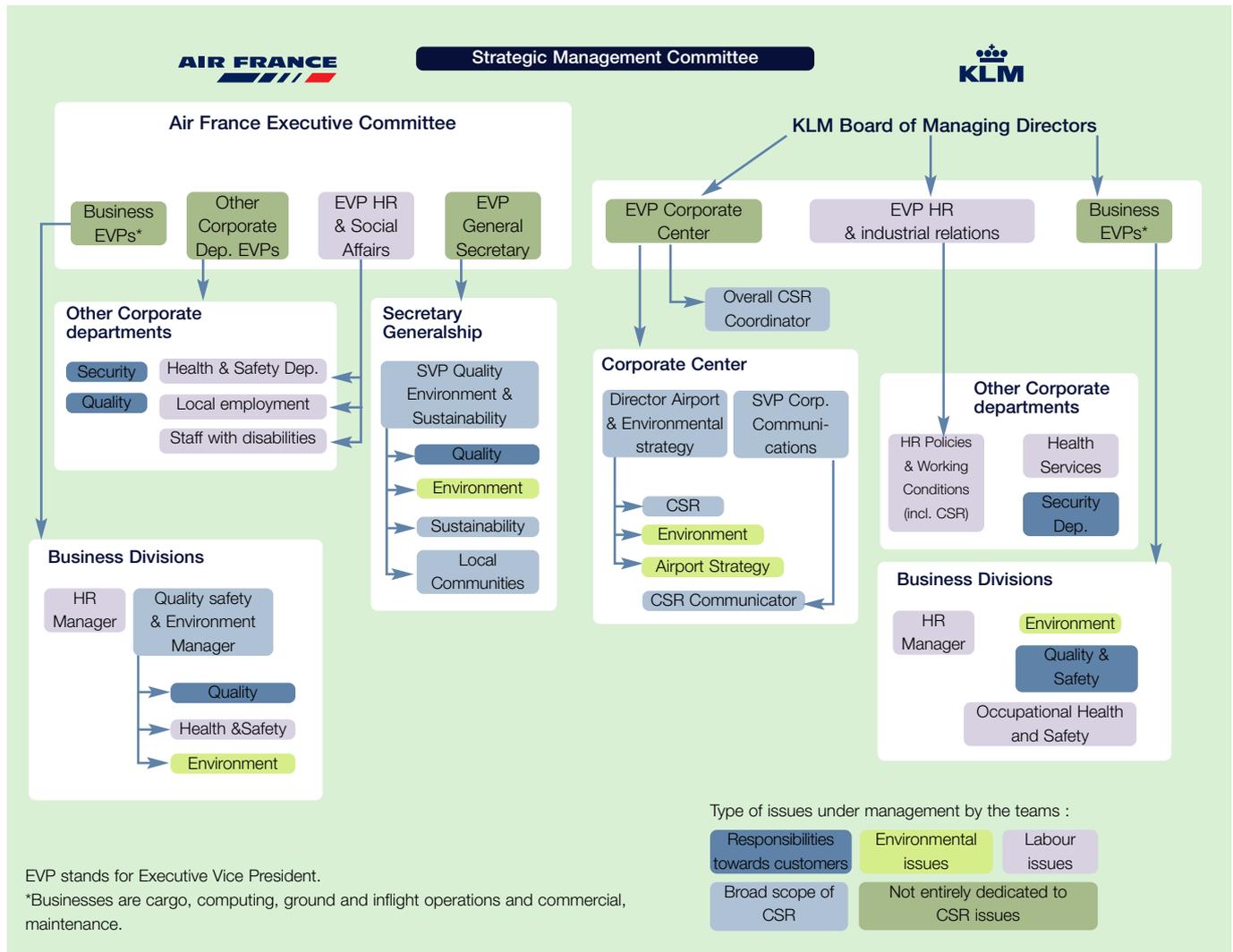


1 Reference Document 2006-07 or www.airfranceklm-finance.com

3.4. CSR organization

The chart and information below lists the departments and Directors involved in CSR management within each company, for the period April 2006-March 2007.

AIR FRANCE AND KLM IN 2006-07



Senior executive involvement Strategic decisions related to sustainability are taken at Executive Committee or Board of Directors level at each airline and by the Strategic Management Committee at Group level. In Spring 2007, the Climate Action Plan was presented at the March meeting of the Board of Directors.

Corporate departments in charge In each company, CSR issues are the responsibility of an Executive Vice President, to whom a dedicated senior manager running various departments reports. These departments develop public positions, policies and procedures, answer non-financial rating agency questions and produce the annual Sustainability Report. They liaise with senior executives on an ad hoc basis, as well as through bi-annual "QSE Direction Reviews" at Air France, and via the Occupational Safety & Environment Board, which meets quarterly at KLM. KLM has set up a CSR Council coordinated by an Overall CSR Coordinator and including senior executives who meet quarterly.

In 2006-07 KLM participated in the establishment of the Dutch Chapter of the United Nations Global Compact.

Responsibilities at business division level To implement CSR policies and action plans, each business division and major unit has its dedicated team and a manager who liaise with Corporate units.

- At Air France, Quality, Safety and Environment managers meet every two months, in addition to an annual meeting of all managers, dedicated to occupational health and safety.
- KLM has an Environmental Coordination Team that meets every two months for the most exposed business divisions, and an environmental steering group who meets quarterly. In addition, the Safety & Quality Platform (SQP) meets every month and every quarter the SQP is combined with the Occupational Safety & Environmental Platform (OSEP) into the SQ & OSE Platform.

3.5. Dialogue with stakeholders

Both Air France and KLM have a long tradition of engaging in dialogue with key stakeholders, and notably with their employees, customers and residents around their respective hubs. For each 'primary' stakeholder group, the table below offers a snapshot of the main information and consultation channels implemented by the Group and the two airlines, as well as the major responses and outcomes. One thing that has become abundantly clear in 2006-07 is the growing concern about climate change. This topic is therefore addressed in more detail on pages 14-17 and 34-39.

TABLE 7: EXAMPLES OF STAKEHOLDER INFORMATION ACCESS, CONSULTATION PROCESSES AND OUTCOMES

Stakeholder groups	Information access	Consultation channels	Findings, responses and outcomes
Shareholders & investors	<ul style="list-style-type: none"> Dedicated Financial website. Shareholder Club, including quarterly newsletter, hotline and e-magazine for financial information. 	<ul style="list-style-type: none"> Quarterly presentation to analysts, annual shareholder meeting, Advisory Committee for Individual Shareholders (16 members, Dutch & French). Two employee-shareholder representatives on the Group Board of Directors. 	<ul style="list-style-type: none"> Recommendations to improve communication tools for individual shareholders. Increased interest from investors in our climate strategy
Customers, key accounts and travel agencies	<ul style="list-style-type: none"> Dedicated frequent flyer newsletter. Dedicated business traveller website. General Air France and KLM websites. In-flight magazines. 	<ul style="list-style-type: none"> Customer satisfaction surveys: 20,000 participants in the frequent flyer programme surveyed several times a year; 500,000 questionnaires distributed onboard; specific CSR survey; Flying Blue online panel. Dialogue Disability groups (European Disability Forum, <i>Union Européenne des Aveugles</i>, <i>Association des paralysés de France</i>, <i>Fédération Handisport</i>, <i>Chronically Ill & Handicapped Council of the Netherlands</i>) Dialogue with the Dutch consumer association <i>Consumentenbond</i> on issues such as price transparency and climate change. Dialogue with the French Association of Air transport Users and the CNCA (Conseil National des Clients de l'Aérien). 	<ul style="list-style-type: none"> Product innovations in response to the frequent flyer questionnaire, reported in the newsletter (see page 24), such as upgrades of KLM cabin interiors and catering. Key accounts asked for a carbon calculator and a carbon offset programme: both will be launched in 2007 by Air France and KLM (see page 36).
Employees	<ul style="list-style-type: none"> Group HR intranet, and internal magazines for each airline (for Air France & KLM in general but also for each specific department). KLM internal newsletter three times a week. 	<ul style="list-style-type: none"> Works Council at European (Group), French (AF) and Dutch (KLM) levels, supplemented by a Health & Safety Committee for Air France operations in France. Quarterly Air France-KLM merger perception surveys (1,500 employees and 600 managers). Direct line to KLM's Board of Directors available to all employees once a month Specific financial whistle-blowing system at Air France and KLM. 	<ul style="list-style-type: none"> New labour agreements. Implementation of working group on social indicators within European Works Council. The pace of the combination between Air France and KLM is considered "right" by more than two-thirds of staff at each airline, and too slow by about one-quarter.
Local communities and authorities	<ul style="list-style-type: none"> Visits to airport facilities for municipalities and schools organized by KLM. 	<ul style="list-style-type: none"> At Schiphol airport, KLM is part of multi-stakeholder advisory groups (among others, CROS and Alders-meeting). Air France is involved in the same type of group at each of the ten main French airports. Regular meetings with airport and air traffic control authorities at each hub. Survey carried out around Paris-CDG among 2,000 residents. 	<ul style="list-style-type: none"> At Schiphol, noise reduction tests will be performed by KLM at the request of CROS-pilot municipalities and with input from residents and air traffic control. Participation in noise mitigation tests at Marseille airport by Air France with tests on Continuous Descent Approach (CDA) implementation by pilots. Launch of "pollution pick procedure" at Paris-CDG and Orly. See page 41 for the outcomes of the CDG survey.
Industry players	<ul style="list-style-type: none"> Air France-KLM: European Corporate Leaders on climate change AEA and IATA meetings: Air France chairman of AEA IEC (Infrastructure and Environmental Committee) and chairman of IATA ENCOM (Environmental Committee); participation in ICAO Committee on Aviation Environmental Protection (CAEP) in the IATA delegation. Air France-KLM lobbying actions at European Commission, European Parliament and national levels (see page 22). Air France: IPCC participant. Dutch Airline Industry Climate Change Working Group. KLM: Leaders for Nature (participation to an association) 	<ul style="list-style-type: none"> Implementation of new carbon mitigation measures at Amsterdam-Schiphol on the basis of Climate Change Working Group participation. 	

3.6. Public affairs at European level

Because it values constructive dialogue with regulators and other stakeholders to promote the interests of an efficient and competitive air transport system for Europe and to contribute to the further development of public policy, Air France-KLM has established a coordinated Public Affairs team in Brussels, with four representatives from Air France and two from KLM. All lobbyists have signed up to the European Parliament's lobbyists charter. In addition the Group supports the Communication on Transparency. 

The Office liaises in particular with all relevant EU institutions, European policy makers and aviation bodies such as IATA, the AEA and FNAM (*Fédération Nationale de l'aviation marchande*). It also contributes to numerous thinktanks, including Eur Ifri (*Institut Français des Relations Internationales*), CEEP (European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest) and Confrontations Europe; they are also involved in industry and other bodies (see table 8).

Lobbyists spend most of their time providing information to policy makers in the fields of social affairs, environment, security and transport. The most significant issues and the related public positions they support within the various bodies are listed in table 9.

The Group also performs dedicated lobby activities in Paris, The Hague and Washington, supporting positions generally aligned with those of industry associations.

GRAPH 10: DISTRIBUTION OF TIME BY SUBJECT COVERED

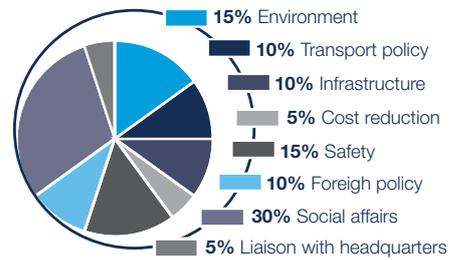


TABLE 8: EXAMPLES OF ASSOCIATIONS INVOLVED BY TYPE OF SUBJECT

Topics	Lobbying organizations involved
ETS (Emission Trading Scheme)	<ul style="list-style-type: none"> • Associations of airlines (IATA, AEA, FNAM) • Airports (Airport Council International) • NGOs (Transport & Environment, etc.)
Single European Sky	<ul style="list-style-type: none"> • Manufacturers (ADS, Airbus, Boeing) • Associations of airlines (IATA, AEA, FNAM) • Consumer associations • NGOs (Transport & Environment, etc.) • Airports
Airport Capacity & Charges	<ul style="list-style-type: none"> • Associations of airlines (IATA, AEA, FNAM, European Low Fare Airlines Association, etc.) • Airports (ACI, etc.) • Consumer associations
7th Framework Programme for Research and Development (FP7)	<ul style="list-style-type: none"> • Associations of airlines (IATA, AEA, FNAM, ELFAA) • Manufacturers (Airbus, Boeing, AECMA) • Air navigation (ANSP, Thales, ATA, etc.)

TABLE 9: MAIN PUBLIC POLICY POSITIONS

Issue	Air France-KLM Position
Integration of civil aviation into the European Emission Trading Scheme (ETS) <i>see box p. 15</i>	The Group supports the European ETS, assuming that its scope will cover carbon emissions only for intra EU flights from 2011 and that the scheme will allow members to buy emissions permits from other sectors and have access to the Clean Development Mechanism. The Group believes that the total carbon emissions allowance should be based on fleet efficiency and take historical progress into account. The Group supports the development of a global framework applicable to all airlines. In the meantime the Group favors the extension of the European ETS to all flights (to and from Europe), provided issues of distortion of competition and deviation of traffic are properly addressed.
CO ₂ emissions taxation (intra-EU flights and international flights)	The Group believes that taxation is not a viable long-term solution as it will have no positive environmental effect. Moreover, if taxation is applied regionally, for instance only in Europe, it will almost certainly divert traffic towards foreign hubs, and in some cases even cause aircraft to refuel in countries without fuel taxes, ultimately leading to an even greater global environmental impact. It could also prove counter-productive by limiting airlines' ability to finance investment from cash flow and hence to renew their fleet using latest-generation, leaner-burn aircraft.
Single European Sky	The Group supports the creation of a Single European Sky as we are in need of a more efficient air traffic control system which will reduce costs, reduce delays, create shorter flight paths and decrease fuel and global emissions
Caps on air traffic growth	The Group considers that air transport is and always will be an indispensable driver of human and economic development, for both industrialized and developing countries. The Group therefore considers that restricting it by arbitrary measures would be economically unsound and would restrict individual freedoms. Due to growth in air traffic demand, the need for new infrastructure must be predicted and provided for on the ground.
EU White Book and Infrastructure cost	Air France-KLM will support the European Commission in implementing the revised White Book on transport called "Keep Europe moving – Sustainable mobility for our Continent". More political attention seems to be given to air transport than in the previous White Book. The Group stresses that air transport is the only mode of transportation bearing its infrastructure costs, that there should be a level playing field for different transport modes (road or rail) and between the different airlines. All agents in the "value chain" should also be forced to operate competitively.
Air rail co-modality	The Group considers that air and rail are complementary and supports the use of rail as a means of extending access to airports. The Group also considers that airlines and railway companies should face the same type of regulation (safety, tax, passenger security and the environment.)



1 Communication from the Commission: "Towards a reinforced culture of consultation and dialogue" on <http://eur-lex.europa.eu>

3.7. External assessment of Group CSR Management

Presence in sustainability indices

Air France-KLM is favourably rated by most non-financial rating agencies. In 2006 the Group was included in the Dow Jones Sustainability Index World as the Industry Leader in terms of sustainable development with the best overall score among airlines listed in the World Index, and is the only air transport group to be included in the 2006 version of the DJSI STOXX. Air France-KLM is also listed in the FTSE4Good, ASPI Eurozone indices and Global 100 listing.

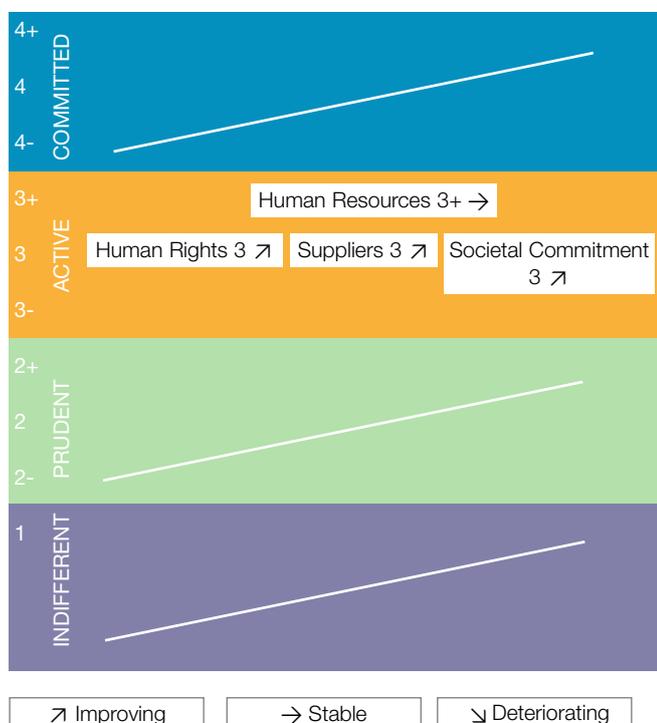


Vigeo assessment of Air France

The Vigeo Group, a European rating agency, assesses the environmental, social and corporate governance performance of companies and organizations. It aims to measure the strategy and policies' efficiency and implementation, and to identify the associated risk factors. In 2005 Air France commissioned Vigeo to measure the Air France group's level of corporate social responsibility in four areas of social responsibility, namely human rights, human resources, supplier relations and societal commitment in France.

To verify Air France's performance outside France, an additional survey was carried out in 2006 to evaluate human rights and human resources with respect to Air France personnel outside France.

TABLE 10: VIGEO RATING



Vigeo Opinion

The panorama of the Air France Group evaluation/scoring at Corporate level testifies to the reality of its commitment to a corporate social responsibility strategy. The findings demonstrate efforts to minimize risks for its stakeholders and for itself. It is, however, in the area of Human Resources that Air France's commitment is most marked, with the fundamental options for HR policy being built into the Group's strategic decisions. Among the strong points, we noted the way reorganizations were carried out in the framework of the combination with KLM, and the collective bargaining which is a major component of Air France's social policy. However, in no area has Air France reached level 4. This situation is mainly due to the Group Human Resources and Human Rights reporting system, which presents a number of gaps, some of them in essential areas such as safety (and in particular that of employees on local employment contracts) or respect for Human Rights in subsidiaries. In the two other areas, the situation is mainly due to the constantly developing but still embryonic development of Group policy to take social and environmental factors into account in its relations with suppliers, notably in high-risk countries.

The trend observed improvement in three of the four areas at Group level, testifying to Air France's commitment to improvement. In the past three years Air France has embarked on a number of initiatives to improve its corporate social responsibility performance. If we limit the analysis to personnel on French employment contracts, excluding subsidiaries, the Human Resources and Human Rights evaluation rises to 4, with a positive trend.

4. Customers

The Group has leadership positions in each of its three businesses: passenger, cargo and maintenance. Air France and KLM are consequently focused on satisfying the specific expectations of its customers in each of these businesses.

4.1. Passengers

Passengers are the Group's main customers and represented 79,6% of the total turnover in 2006-07. The Group's customer relationship management is focused on all points of contact with customers, from ticket purchasing to arrival at destination. This includes check-in, in-flight services and baggage handling. At each step, the full range of human and technical resources is deployed to increase customer satisfaction.

Flying Blue, the airlines' joint frequent flyer program, is a key asset for enhancing customer satisfaction. It was created in June 2005, and is now Europe's biggest frequent flyer programme, with over 13 million members. Flying Blue's success reflects the ability of both airlines to offer the best to its customers, thus nurturing the Group's development.

Communicating with customers

Continuously listening

The Group has several means of ensuring that customer comments and experience are taken into account. An overview of these applications is given in the graph below. The main desires

expressed by customers are to save time, enjoy greater autonomy and simplify the journey. New technologies and the latest innovations allow the Group to partially satisfy these desires at every stage of the journey, whereby staff remain the essential link of the privileged relation we maintain with our customers.

Moreover, the listening process is an integral part of the product's definition and it has led to the development of specific products, such as *City Jet for Air France* or *Dedicate*, services featuring scheduled routes and direct flights for professionals or KLM's Club China and Club Africa, which add value to customers by creating useful business networks.

Air France-KLM recognizes that more and more customers have questions about environmental issues such as emissions or selective sorting of waste. For more information on these and other environmental issues, see chapter 6, Environment.

Informing customers

Air France-KLM uses several channels to provide information to customers. Air France's and KLM's individual websites offer direct access to all information available about both companies.

The same information is also available by phone or e-mail 24 hours a day.

GRAPH 11: MONITORING QUALITY AND CUSTOMER SATISFACTION



If flights are delayed, customers are informed by phone, e-mail or SMS. At Air France, for instance, the mobile internet and SMS service delivers up-to-date personalized information to passengers 24 hours a day anywhere in the world, through which passengers can check the exact arrival time of their flight. KLM is currently implementing a similar SMS Flight Status Notification system.

Meeting our commitments

Service quality

Air France-KLM is committed to providing the best, most reliable service to customers and to keeping customers fully informed during the fulfillment of the contractual obligation. Both airlines provide passengers with the legal conditions of carriage applying when customers purchase a ticket. ¹

Air France-KLM has set out its commitment in the European Airline Passenger Service Commitment ²: as members of the Association of European Airlines (AEA), Air France and KLM comply with the 14 customer service commitments covering the entire transport chain, from customer reservation to arrival at destination. Air France and its subsidiary Brit Air are also the world's only airlines to obtain certification from SGS-Qualicert for its Passenger Service Commitments, a list of 38 commitments for Air France and 31 for Brit Air, defined in conjunction with consumer associations and which go far beyond the 14 AEA obligations. ³

In November 2006 the service policies for Air France and KLM Ground Services were redesigned to focus on common customer relationship fundamentals which are communicated to front line staff through "The 7 Service Standards".

Punctuality

Punctuality remains a strong point for Air France-KLM, enhancing customer satisfaction. 2006 was a pretty tough year for European airlines, in which many saw their on-time performance deteriorate. Although security measures hit fluidity at already-saturated security screening positions, the Group managed to perform well in 2006. KLM improved significantly on short/medium-haul flights and remained stable on long-haul flights, and better than other comparable airlines. Air France specifically encountered reduced capacities at Paris-CDG and runway closures for repairs at Orly, which severely impacted its on-time performance. Despite these additional constraints, it maintained its performance levels. The outlook for on-time performance in 2007 is better due to infrastructure improvements at Paris-CDG airport, with the opening of the new S3 terminal. In the first quarter of 2007, both Air France and KLM topped the AEA punctuality rankings for departures and arrivals. Air France publishes more-detailed flight punctuality data, together with additional details about flight regularity and mishandled baggage, through a monthly press release on its website.

Baggage Performance

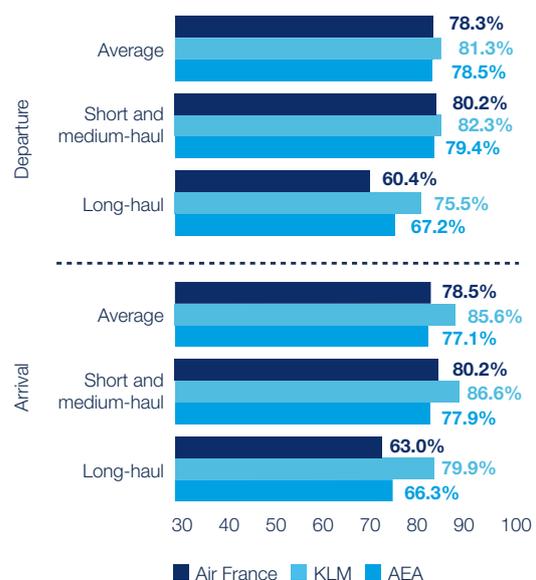
Baggage handling is another key issue contributing to customer satisfaction. To limit the number of mishandled baggage incidents and manage them efficiently when they occur, the Group uses a world tracer system that locates an item within 24 hours. The Air France-KLM group is intensively working on new baggage tags using radio frequency identification technology (RFID), which is more reliable than barcodes. Several trials were carried out in late 2006 to assess the cost-effectiveness of this new system. Air France has been designated, as a "pilot airline" by IATA for this new technology, which can be used to display baggage delivery times or regular updates on the location of transfer luggage for connecting passengers. Several measures, such as mobile data communication and RFID, were implemented by KLM to further improve accountability and innovation in the baggage process, extending the grip on operational drivers. These measures proved successful as the irregularity rate improved significantly compared to previous years.

GRAPH 12: BAGGAGE HANDLING - 2006* (items missing per 1,000 passengers boarded)



* Considered as comparable are airlines with a hub concept and a large number of connecting passengers

GRAPH 13: AIR FRANCE-KLM PUNCTUALITY, 2006 * – FLIGHTS ON TIME OR WITH LESS THAN 15 MINUTES DELAY



* 2006 figures used so as to benchmark with AEA data



1 <http://www.airfrance.com/legalconditions> and <http://www.klm.com>

2 AEA service commitments: <http://www.klm.com>

3 SGS-Qualicert certification: Press kit (24 May 2005) on <http://www.airfrance.com/corporate>

Complaints handling/problem solving

Both airlines are proactive in handling customer relations and have management systems in place specifically designed to handle customer claims. All customer complaints are accordingly analyzed to determine areas that require improvement. Both the Air France and KLM Customer Care Departments have set targets for handling passenger complaints in a timely manner. The Group is also currently developing a proactive compensation scheme to better forestall potential claims.

The Group has also implemented preventive and curative measures to mitigate the impacts of delays and cancellations. At Air France, the ROC (Recall Operational Center) service contacts passengers whose flights are delayed or cancelled to arrange alternative travel in advance. These mechanisms existed before the European Union's new regulations on air passenger rights came into force, so that the Group did not have to set up any new systems to comply with them. KLM, for its part, was the first airline to introduce Self Service Transfer Kiosks on its European and Intercontinental routes in December 2006. These kiosks allow passengers who have missed their connecting flight to rapidly print a new boarding pass without having to join a queue at the transfer desk, meeting the growing need among customers to maintain maximum personal control over their travel arrangements.

Building a sustainable relationship

A favored relationship

Adding value is our way of building a sustainable relationship. Air France and KLM staff are committed to giving the best to their customers. Ground staff are available to assist passengers who need help to make their journey easier. For instance, at Paris-CDG, Air France employs ground staff who speak specific foreign languages, including Hindi and Mandarin Chinese to provide assistance to foreign passengers.

Both airlines provide specific training for their cockpit and cabin crew to help them serve customers while taking cultural differences into account. They employ Asian cabin crew in addition to regular cabin crew to cater more specifically to Asian passengers on flights to and from Asia.

KLM implemented its 2BCaptain programme in 2006. This involves future flight captains acquiring the resources they need to become full-blown managers of flights and ambassadors for the company.

The added autonomy that customers achieve through the provision of e-services is rooted in a strong passenger relationship which is core to our business. At Air France, therefore, a new Customer Relationship Management application is being implemented, based on customized knowledge of frequent flyers, including customer status and history, previous problems encountered, or specific needs. This CRM tool will help to identify customers at any point and to improve quality of service.

Facilitating the trip

The common online booking system at Air France-KLM offers customers easy access to route schedules and fares. Both Air France and KLM strive to publish all-inclusive fares in all countries and to be transparent for customers. Both companies offer a "best fare" research tool to their customers, for example. To satisfy demands for autonomy, simplicity and transparency expressed by passengers, the Group aims to use the very latest technologies, enabling customers to save time while delivering added flexibility and convenience.

With e-tickets, available on 98% of flight destinations, the travel itinerary is held in a database so that customers no longer need worry about losing their tickets.

Passengers who do not have access to the internet can use the self-service kiosks to check-in at the airport. E-services free up staff so that they can devote more time to customer care and assistance.

Finally, Air France and KLM have implemented an online check-in system at many outstations, enabling customers to check-in and choose their seat from 30 hours (24 hours from Air France) to 30 minutes before latest check-in time. Air France and KLM strive to implement this system at all destinations.

Providing access for all

Air France-KLM maintains a policy of access for all, providing special services for passengers who need assistance, including more than 430,000 unaccompanied minors each year and 410,000 passengers with reduced mobility.

For unaccompanied minors Air France-KLM provides a full service, with support throughout the trip. This service is free for children aged 4-12 and is fee-based for young people up to 18 years of age.



Air France's SAPHIR programme ¹ is a free, personalized service offering tailored travel conditions to passengers with reduced mobility, from booking to arrival. From France, including overseas departments and from 15 European countries, the United States and Canada, disabled customers can benefit from a favored contact and a SAPHIR card and avoid having to provide information about their special needs every time they travel.

KLM Cares ² is a similar comprehensive service with a dedicated toll-free telephone number and e-mail address. The KLM Cares website offers a checklist to make sure everything is arranged before the flight. KLM issues Frequent Traveller Medical Cards (FREMEC), so that passenger with reduced mobility can make flight reservations without having to give all their medical details each time. KLM also determines its policy and services with regard to passengers with reduced mobility on the basis of input from the Chronically Ill and Handicapped Council of the Netherlands, with whom KLM has a covenant.

The implementation of Regulation 1107/2006 of the European Parliament and Council extends the rights of passengers with reduced mobility: European airlines must be able to accept these passengers on all their flights. Air France-KLM was already compliant with this regulation before date of issue, as the entire Air France and KLM fleet, except in the case of technical constraints due to the size of certain subsidiary airline aircraft, were already accessible to passengers with reduced mobility due to adjustable armrests and accessible toilets.

Raising customer awareness about sustainability

Air France-KLM keeps its customers regularly informed about sustainability issues by means of its regular publications such as the Flying Blue newsletter and in-flight magazines, inflight videos and websites.



Raising customer awareness of sustainability: some examples

Air France and the French Ministry of Ecology decided to launch a public biodiversity awareness campaign to increase compliance with the Convention on International Trade in Endangered Species of wild fauna and flora (CITES). To do this, Air France and the Ministry produced a video which was screened on all long-haul flights during summer 2006.

In 2006 also, KLM sponsored the Amsterdam Global Conference on Sustainability and Transparency. For children, the airline chose an AirCares project dubbed "Nature for Kids", which was specifically designed to make children in developing countries aware of their environment.



Bruno Gaurier, Head of International and European Relations, Association of the French paralyzed (APF)

The new European Regulation concerning the rights of disabled persons and persons with reduced mobility when travelling by air, adopted in July 2006, requires that no passenger may be refused access to a flight due to their disability unless there are objective safety reasons duly established according to a set of strict guidelines. Above and beyond the regulatory requirement, airlines have to provide a quality service to all their customers, whatever their needs. That implies that passengers with reduced mobility need to notify the airline as far upstream as possible (i.e. when purchasing their ticket) about their degree of autonomy and their particular needs.

To improve services for passengers with reduced mobility, airlines must train their employees to respond in a wide range of situations when dealing with people with disabilities. Air France staff are particularly well-trained in this respect.

The main area where progress is needed is ground services. Airport managers are responsible for passengers until they board. So it is essential that they structure their communication with airlines so that passengers do not have to explain their particular requirements every step of the way and suffer the consequences of this lack of communication throughout their journey. This is a formidable challenge for companies which now have to work together to deliver fast, quality service. They are all showing a strong determination to do better, and that is in their interests: quality of service delivered by one is already a quality of service guaranteed for the other. If resources and training keep pace, we should see tangible improvements.



¹ SAPHIR press kit (23 April 2007) on <http://www.airfrance.com/corporate>

² KLM Cares on <http://www.klm.com>

4.2. Cargo

With the creation of Air France Cargo-KLM Cargo, the Group is better equipped than ever to increase customer satisfaction. Air France Cargo-KLM Cargo pursues a quality policy to ensure security throughout the logistics chain and continuously improve quality of service and performance. Both airlines' cargo operations are ISO 9001 certified, and both are members of Cargo 2000, an industry initiative to meet customer demands for supply chain transparency. Air France Cargo-KLM Cargo also specializes in transporting freight that needs special handling, conditioning or packaging. One of these special services is the transportation of live animals. To operate this special transport service under the best possible conditions, Air France Cargo and KLM Cargo use dedicated facilities: at Paris-CDG, an animal station accredited by veterinary services, and an ISO 9002 certified centre at Amsterdam-Schiphol Airport which is the world's largest and most modern facility, specially designed for animals in transit. Both Air France Cargo and KLM Cargo hold a licence to transport animals under Directive 01/2005 EC. To constantly improve animal welfare and safety during transportation, both airlines are in permanent contact with international organizations such as the World Organisation for Animal Health (OIE) and IATA.

4.3. Maintenance

Thanks to the complementary approaches of Air France Industries and KLM Engineering & Maintenance, customers benefit from comprehensive service driven by a quality-oriented approach. Both Air France and KLM maintenance sites are ISO14001 certified and all Air France Industries maintenance sites are ISO 9001 certified. These approaches to progress are integrated into a common management system based upon continuously improving performance (see more detailed information on environment in chapter 6). Project management, based on the Six Sigma programme, is an important vehicle for synergies between the two maintenance organizations. This quality method seeks to deliver products and services best suited to customer expectations, to develop hands-on management and to continuously improve processes. Customization and integration, backed up by efficient line maintenance, global 24/7 aircraft on ground support and longer on-wing engine times, help to keep maintenance costs per flight hour at historically low levels. The Air France-KLM group believes in flexibility and continuous sharing within teams to meet its objectives. Working with many airlines generates knowledge and understanding of the industry requirements. Customer feedback, retrieved by regular customer satisfaction surveys, enables the Group to customize its services, monitor its performance and set the right priorities.

4.4. Safety and security: a priority

A key demand common to all types of customers is for safety and security, which is hence an absolute key priority for the Group. The Group has established an ambitious policy for flight safety, security, passenger health, and crisis management, which is addressed below.

Flight safety

Flight safety does not rest only on adequate equipment and procedures. It relies first and foremost on the professionalism, commitment and attention of all employees involved in ground and flight operations. Both airlines are fully certified by their respective authorities based on applicable European regulations. In addition, both airlines are registered IATA Operational Safety Audit (IOSA) carriers. Certification involves an audit of each airline every two years covering some 900 standards.

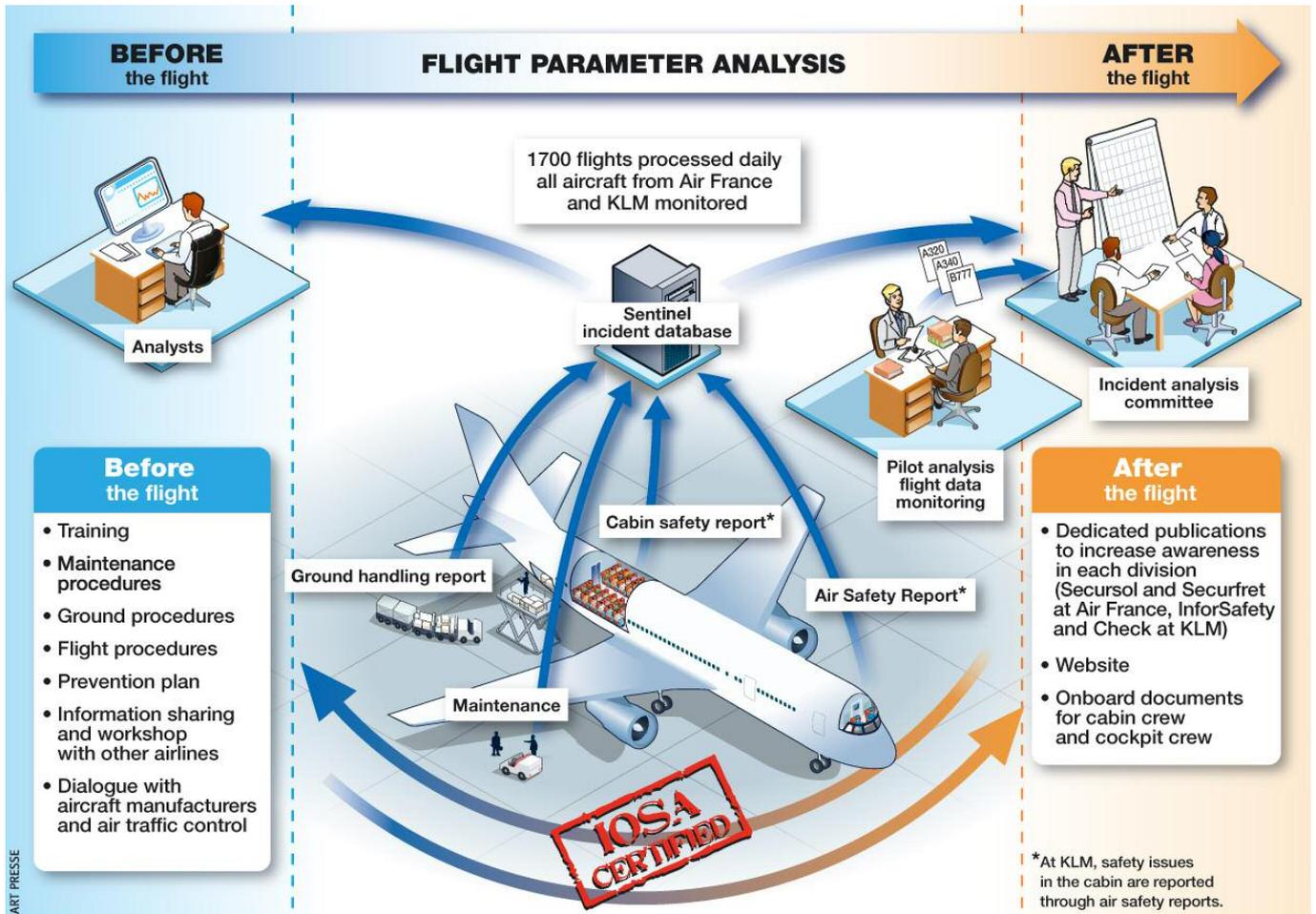
Top management involvement, safety risk monitoring, and permanent analysis of feedback from operations are deeply rooted in both airlines' processes (see figure page 29). Top management encourages staff to report any event that could impact operational safety through a blame-free policy, leading to more in-depth analysis of root causes and more accurate prevention initiatives.

Security

Civil aviation has to contend with the potential threat of criminal or terrorist acts in a context of political instability and integrity. Air France-KLM implements wide-ranging security programmes that include mandatory and voluntary measures to protect customers, staff and property based on risk assessments. The Group's security measures include regular aircraft checks and searches, random checks on staff, 100% baggage screening and reconciliation, cargo screening, the presence of specially-trained security agents on certain flights, and reinforced cockpit doors. These necessary actions lead to extra costs and lengthen operating times because of stricter searches. Air France and KLM take similar measures to ensure passenger security and each airline has implemented special initiatives. For example, in cooperation with Amsterdam-Schiphol Airport, KLM has introduced improved biometrics and distributed a Quick Training Reference card about flight security to the employees concerned.



FLIGHT SAFETY MANAGEMENT AT AIR FRANCE-KLM



Passenger health

Air France-KLM have established a common policy on medical care for passengers before and during their flight. Air France-KLM passengers can use the airlines' medical facilities for vaccinations, medical problems or advice on travel-related health issues. Aboard its aircraft, the Group makes medical equipment a key priority and recurrently trains cabin crew to respond appropriately in medical emergencies. All Air France and KLM aircraft are now equipped with Automated External Defibrillators (AEDs).

Air France is the world's first airline to be awarded ISO 22000 certification for inflight food safety. This is the outcome of wide-ranging efforts in the supply chain, which include implementing a hygiene audit policy for subcontractors and specific training for cabin crews. The ISO 22000 certification currently covers all flights out of Paris operated by Air France aircraft. 

On long-haul flights operated by Air France or KLM, videos are shown and/or information is provided in inflight magazines to show appropriate gymnastic movements to stimulate the blood circulation and prevent deep-vein thrombosis (DVT).

Air France and KLM keep their passengers informed on the risks of infectious diseases such as avian flu, and work closely with the French and Dutch authorities on these issues. Furthermore, Air France-KLM has a worldwide network of medical doctors to advise on these matters. These doctors are also available for individual advice on travel-related health issues of passengers.

Crisis management

Both airlines have fine-tuned their crisis management procedures and carry out full-scale exercises several times a year. When needed, the corporate crisis centre can deploy local support centres and call in company volunteers for assistance.

At Air France, about 3,000 volunteer staff can be contacted in an emergency. More than two-thirds of these have received training in assisting victims and their families.

At KLM, the ASSIST programme relies on more than 1,800 volunteers who are ready to meet the immediate needs of victims or passenger family members.

 1 Servair certification. Press release (19 July 2006) on <http://www.airfrance.com/corporate>

5. Workforce

Under the terms of the Air France-KLM combination, and because of the differences between Dutch and French social legislation, each airline has its own human resources management policy while facilitating cooperation through common initiatives. In this respect, the airlines favour coordination over integration and work to share best practices.

5.1. Responsible human resources management policy

Responsible in its combination

The combination between Air France and KLM presented a major challenge to Human Resources departments. It is built on common values and within the framework of the “One Group, Two airlines, Three businesses” model.

Because the success of the combination greatly depends on staff motivation and commitment, Air France and KLM run a quarterly survey known as the Internal Perception Monitor (IPM), whose purpose is to gain insight into how Air France and KLM employees perceive the combination of the two airlines and how this perception evolves over time. The IPM established two types of survey, one for all employees through a sample of about 750 employees from each company, and the other for staff directly involved in Air France-KLM synergy projects, such as synergy committees and common projects. The December 2006 IPM showed that the overall perception scores are very high. At Air France, the survey highlighted a significant increase in motivation and pride in the combination. KLM employees remain highly motivated about the combination and consider that it has a positive effect on both airlines.

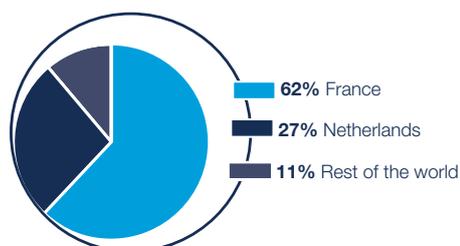
Focus on outstation employees

Since May 2004, the focus has been on Air France-KLM's local staff working in more than 110 countries.

Thanks to complementary networks, 80 airports out of 253 are served by both airlines, presenting major opportunities for synergies in co-location of Air France and KLM staff at outstations. The Group remains committed to assisting local staff affected by the combination. Some 95% of the eligible co-locations in the world are now up and running, with 100% operational in Europe and Latin America. To get a sense of how outstation employees feel about the combination, Air France and KLM use global surveys. For the first time in 2007, the annual Cinergy Survey for the 6,700 Air France staff and the Sirene Survey for 3,000 KLM employees were launched simultaneously.

The findings will be available later in 2007. For 2006, the survey among Air France staff made for very positive reading, in particular for the questions on the combination, in second place after the “You and Your Job” section. The KLM staff response rate increased significantly and KLM staff scored high in all categories.

GRAPH 14: AIR FRANCE-KLM GROUP BREAKDOWN OF EMPLOYEES IN FULL TIME EQUIVALENT, 2006-07



Bringing employees together

To strengthen synergies and bridge cultures, dedicated training seminars have been developed to help people to get to know each other and develop shared approaches. Key initiatives include French, English and Dutch language training: several hundred employees from each company have attended workshops in their counterparts' language on a voluntary basis, whereas at Air France the annual general and business English campaign has doubled in volume over the last two years. Five programmes are also in place to progressively develop a joint management culture. Since 2005, for example, 70 two-day "Optimizing Our Teamwork" seminars have been held in Europe, the Americas, Africa, the Middle East and in Australia and Asia, bringing together 1,000 staff members from both airlines, of which 380 were brought together in 2006-07. The aim is to improve team interaction, communication and joint performance. Short- or long-term manager exchange programmes also foster mutual understanding and efficiency.

To promote social dialogue at Group level, a European Works Council (EWC) was established in February 2006. This advisory forum brings together Air France and KLM employee representatives to discuss transnational issues that concern the entire Group within Europe. Appointed for a four-year term with meetings twice a year, the 37 EWC members include 10 members from France, 6 members from the Netherlands, and 21 representatives from 16 other European countries. Twice a year, all members benefit from training courses on intercultural dialogue and how other European works councils operate.

A year after its creation, the EWC has decided to establish a working group to define common social indicators. The EWC also publishes a weekly newsletter, "Weekly Quick News", providing information on EWC activities and European labour relations news.

Responsible in the way it adapts to structural change

At both airlines, human resources departments are constantly seeking to make it easier to adapt resources in terms of manpower planning and professional and geographical mobility. Due to integration of technological and demographic trends, skill requirements change. As responsible employers, Air France and KLM have pioneered forward-looking studies of future employee requirements in order to nurture human resources, as well as to train employees to take up new challenges and adapt their skills to the Group's needs. Ground staff redeployment highlights Air France and KLM's forward looking approach: with the roll-out of e-services, customers have gained in autonomy, while ground staff have more time to spend on helping customers and strengthen customer relationships. (More information in Chapter 4, Customers).

Each company develops its own systems to foster internal mobility and training. At Air France, a new three-year

agreement on workforce management planning was signed by five trade unions in July 2006. It sets the general framework for important changes and corresponds to Air France's ongoing policy based on foresight, transparency about declining or developing jobs and professional mobility. It defines several applications to foster internal mobility, such as training, financial subsidies for geographical mobility, and more precise information on career opportunities through a newly enriched Professional Observatory.

The KLM Employability Services department offers services and instruments which contribute to staff mobility. It fosters internal, and if necessary external, employability by continuously increasing its knowledge and expertise in the field of personal development and reintegration.



KLM and outsourcing

KLM and Sodexho signed a five-year contract for a transfer of undertaking whereby Sodexho Altys provides Facility Management services to KLM in the Netherlands. Services to be provided by Sodexho include distributing uniforms to ground and cabin and cockpit crew, transporting people and goods, mail and courier services, preventive and remedial maintenance, building repairs and cleaning. The agreement contains guarantees for the 300 KLM Facility Services employees now transferred to Sodexho for the preservation of the terms of employment, and offers professional prospects for employees. Until Summer 2008, Sodexho aims to provide each employee with a personal development or training plan to ensure that employees are able to keep on working on their personal development.



Air France and the new TGV Est route

In June 2007, the opening of a new high-speed train line (TGV) from Paris to Strasbourg in Eastern France, will have direct consequences for Air France activities at Strasbourg airport. Air France has been preparing for this since 2004 and considers that it will generate a loss of around 70 jobs. This entailed a double challenge: how to prepare for the lay-offs in Strasbourg and Mulhouse, and how to keep enough people until TGV Est services are fully in place. Because voluntary departures and retirements will not on their own be sufficient, Air France has been promoting voluntary mobility and training for different jobs in the eastern region of France since 2004.

5.2. One Group, two responsible human resources policies applying the same global values

Because of different national legal frameworks, Air France and KLM pursue different human resources policies with common goals and values, summed up in their Corporate Social Responsibility Statement.

Health and safety in the workplace

All employees have the right to working conditions that respect their health, safety and dignity. Accordingly, actions to continuously improve workplace safety, health protection and working conditions represent an absolute and ongoing priority for the Group.

Preventing occupational incidents is a major concern for KLM's management. At KLM, the Occupational Safety & Environment (OS&E) Board is responsible for evaluating serious incidents and accidents, and for monitoring accident reports and any necessary corrective measures. Since it was set up in 2005, the OS&E Board has benchmarked the airline industry and comparable industries with regard to incident rates and has reviewed their incident reporting mechanism. The OS&E Board has also carried out research on the different kinds of incidents with a view to increasing preventive measures. KLM does its utmost to prevent occupational accidents and ensure safe working conditions. Clear safety rules and regulations are in place and the businesses strive to minimize the risk of unsafe situations by removing possible causes. For example, KLM has implemented procedures for handling hazardous substances. KLM Cargo's Safety First campaign was introduced to raise awareness with a public display showing exactly how many days have passed without an accident to encourage people to feel responsible for their collective safety.

A shadow was cast over KLM in 2006 following a fatal accident at KLM's Engineering & Maintenance department. An investigation was carried out by the authorities in close cooperation with KLM. Procedures were tightened to rule out similar accidents in the future.

At Air France, an ambitious plan to improve workplace safety was launched late 2005. This aims at a global 30% reduction target of accidents in three years time (see graph 15).

The results are published every month in an internal newspaper distributed to all employees, and are analysed by the Executive Committee. They are presented once a year to Air France's Board of Directors for analysis. Safety results are taken into account when setting managers' goals, as well as when calculating bonuses for certain senior executives. Several applications have been implemented, including "PRATIS", a reporting and prevention system, as well as a management guide on safety in the workplace, developed for all management levels. In 2006, the target was not reached but Air France still maintains its overall target of a 30% reduction in three years time. Most actions implemented to meet this ambitious goal will have a long-run effect, even if

they do not deliver immediate results. Air France also devotes unprecedented financial resources to renewing and improving ramp equipment: more than 61 million euros will be spent during 2006-09 to improve ergonomics and integrate new technologies.

GRAPH 15: INDUSTRIAL INJURY FREQUENCY COEFFICIENT AT AIR FRANCE



Focus on industrial injury frequency coefficients

A carrier's industrial injury frequency coefficient always shows large-scale discrepancies between the different staff categories, especially between ground staff (3.5 in 2006 for Air France) and cockpit and cabin crew (9.7 in 2006 for Air France).

Comparisons between airlines from different countries are also extremely difficult to draw. Because of the different social legislations, Air France and KLM use different calculation methods, which leads to non-comparable accident frequency rates. Although legislation is in place to ensure that occupational accidents are reported to government officials, there is no financial incentive to notify accidents in the workplace in the Netherlands. KLM pays the wages for all absent employees (whether on sick leave for something like the flu, or due to an occupational accident) during the first two years of their absence. After two years, social security pays part of the salary, whether the accident took place in the workplace or not. Conversely, in France, all causes of sick leave and accidents occurring in the workplace entail specific notification and remuneration, because it is mandatory by law.

There is also a difference in definition between Air France and KLM. For instance, Barotitis Media, also known as airplane ear, is the cause of nearly 40% of Air France's industrial accidents among flight crews whereas it is not considered as an industrial injury for KLM.

Promoting diversity and equal opportunity

Running international airlines necessitates many different skills and backgrounds. Diversity in profiles and origins contributes to the Group's overall effectiveness and creativity. Air France-KLM has signed a joint CSR Statement which notably addresses diversity. The Group aims for a workforce representing the national working population as regards nationality, gender, disability and age, and seeks to promote equal opportunity for all.

Equal opportunity is a major commitment at Air France-KLM and both airlines are acknowledged leaders in this field. In October 2006, Air France received the Professional Equality Award during the International Diversity Conference as a reward for its success in the sphere of gender equality. In 2006, KLM was voted "favorite employer" in the Netherlands by students from ethnic minorities following a survey conducted by Intermediair and Ebbinge.

KLM is currently mainly focused on providing possibilities for female employees to work in upper management positions. It participates in a cross-mentoring programme to give female employees with the potential for a higher executive position adequate support so that they can pursue these ambitions. In this program an executive manager from one company coaches a woman with ambitions from another company. This is a learning process in which the counselor supports the mentee by clarifying the career aspirations or obstructions on the career path.

Integration of employees with disabilities

Air France's policy on workers with disabilities, launched 15 years ago, has been reaffirmed by the renewed agreement on the social and vocational integration of staff with disabilities for the 2006-08 period. For the sixth time and despite an amendment to the law which brings in new, stricter rules for calculating the 6% employment rate required by law, Air France continues to work towards greater integration of staff with disabilities. 26 people with disabilities were recruited in 2006. Specific efforts have been made to raise awareness among employees on the contribution of staff with disabilities to company activities. Some 60,000 brochures featuring staff testimonials and appropriate behaviour when in contact with a range of disabilities have been distributed to Air France employees. Nine employees are working full-time to integrate employees with disabilities into the Air France workplace. In 2006, some 2.2 million euros were devoted to this integration policy, including adapting workstations and offering training courses. In a related development, Air France Conventions are translated into Braille.

KLM guarantees disabled employees whose disability means they have 35% or less of their former earning capacity that it will continue to provide them employment, at KLM or elsewhere. The guarantee is implemented as a pilot project to be evaluated in 2010.

Focusing specific attention on young employees and seniors

Air France's internship policy is marked by ten years of contractual commitments, reasserted in the Fourth Internship Charter for 2005-08. Since 1996, more than 10,000 interns have been trained, among which 2,500 interns (50% of them women). With a retention rate of 90%, internships represent a third of recruitment on long-term contracts.

Air France-KLM pays special attention to the participation of seniors through dedicated projects. A virtual expertise centre will be created by KLM in 2007 to share best practice, presentation and management information. KLM also encourages part-time pensions and offers "life path" possibilities, enabling employees to save time for a good work-life balance. KLM has implemented specific programmes dedicated to young staff and interns aimed at integration in the company, such as KLM Corporate Management Traineeship.



Integrating staff with disabilities: "Add together our differences, multiply our successes".

To mark its attachment to the integration of people with disabilities, Air France has organized a new internal awareness-raising campaign with the first exhibition of photos using a touch-sensitive technique. The exhibition is called "Add together our differences, multiply our successes". The touch-sensitive "gravography" technique, as it is known, was invented by Patrick Bédard, an artist from Lyon. Following a partnership with the artist, Air France was invited to Berlin for the opening of the "European Year of Equal Opportunities for All". The exhibition will tour for several months and be shown at around 20 Company establishments outside Paris and in the French Overseas *départements*.

6. Environment

6.1. Global overview of environmental issues and business drivers

On these two pages the different environmental impact of Air France-KLM is explained, as well as their actions to reduce this impact, in 2006-07.

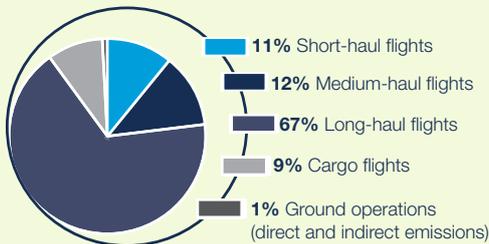
CO₂ EMISSIONS

Of the greenhouse gases listed in the Kyoto Protocol, CO₂ is the one most produced by the air transport industry. Resulting from fuel combustion, CO₂ emissions are directly proportional: 1 kg of fuel consumed produces 3.15 kg of CO₂.

Actions:

- **Fleet renewal**
 - > Reduce specific fuel consumption by an estimated 2% per year
- **Replace vehicles and other ground equipment**
 - > March 2007: share of electric vehicles in Air France fleet = 34%
 - > 2020 objective: 60% (10 million euros in investment)
- **Operational measures (see graph).**
 - > IATA estimated that new operational measures can lead up to 3% reduction of CO₂ emissions.

BREAKDOWN OF AIR FRANCE-KLM CO₂ EMISSIONS (including subsidiaries)



Research objectives for new aircraft (European programme ACARE): 50% CO₂ reduction (per passenger/100 km) by 2020

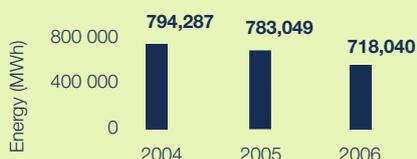
ENERGY CONSUMPTION BY GROUND OPERATIONS

Energy consumption includes electricity, heating and air conditioning. Air France-KLM is continually improving ground operations energy efficiency. KLM has improved its overall energy efficiency by 20% since 1998 due to a number of measures.

Actions:

- Reduce energy consumption in buildings (KLM targets 5% reduction in 2007-08)
- Run awareness campaigns in offices. Those measures have led to a 6% improvement in KLM's energy performance 2007-08.
- Water underground storage, allowing cooling and heating for buildings

AIR FRANCE – KLM ENERGY CONSUMPTION



NOISE EMISSIONS

Air France and KLM support the ICAO "balanced approach". The objective is to reduce noise nuisances through four elements of possible improvement:

- Reduction of noise at source (Manufacturers)
- Improvement of operational noise abatement procedures (Airlines and ATC)
- Local operating restrictions (Airports/Authorities)
- Land use management around airports (Authorities)

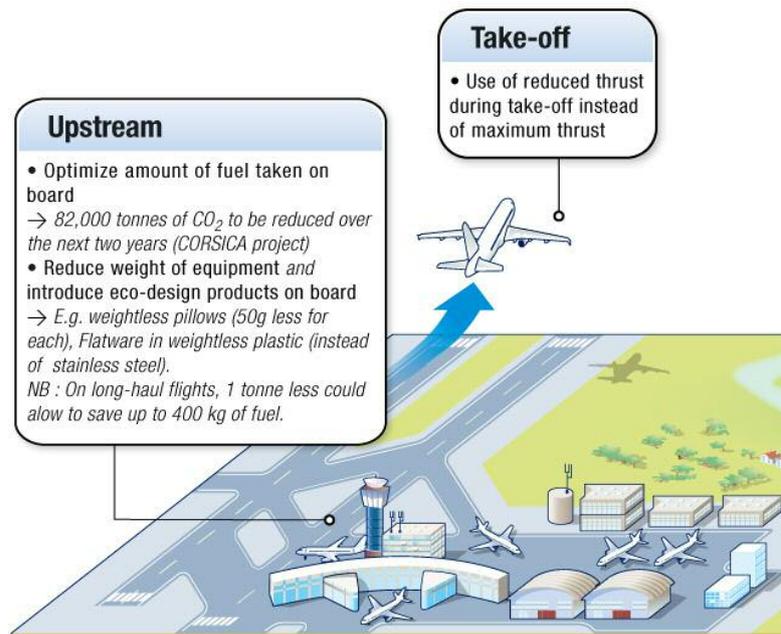
At Paris-CDG, the impact of noise is measured by a noise energy indicator that takes the time of day (day/evening/night) into account. Gradually reducing the use of the noisiest aircraft and banning non-scheduled night flights allow the Group to stay under the limit for this indicator.

At Schiphol, noise is the number one constraint in environmental capacity and managed by day-to-day schedules and adjustments in use of runways where needed.

Other actions:

- Aircraft fleet renewal: e.g. the new B777-300 has an additional margin over the 14.6 dB compared to the standard
- Reducing night activity at Paris-CDG (between midnight and 5am): 725 night flights were withdrawn between 2003 and 2006 (out of a total of 818 unused for all airlines)
- Other operational measures (see graph)

Research objectives for new aircraft (European programme ACARE): 50% Noise reduction by 2020



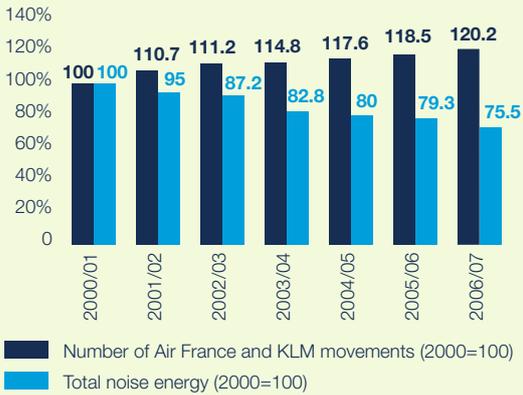
WASTE AND WATER DISCHARGE

In 2006 Air France and KLM's activities generated 9% less industrial waste in companies than last year. Air France and KLM maintenance activities generate 80% of the Group's special industrial waste. Approximately 45% of this is recycled or reused.

Actions:

- Improve selective sorting and recycle systematically when technically and economically feasible
- Air France Cargo mapped wastewater at the main Air France freight terminal at Paris-CDG to manage it and reduce quantities. (70,000 euros invested in 2006)
- KLM Ground Services reduced its amount of waste water by 60% in 2006-07 through the collection and internal treatment of de-icing effluent at Schiphol

AIR FRANCE-KLM NOISE LEVELS AND NUMBER OF AIRCRAFT MOVEMENTS



NO_x EMISSIONS

NO_x emission is generated by fuel combustion at high pressure and temperature, mainly during take off and cruise. Engine NO_x emission standards, defined by the ICAO Committee on Aviation Environmental Protection (CAEP), have become increasingly stringent. The latest level authorized, applicable to new engines being certified after 2008, is 12% lower than the existing level.

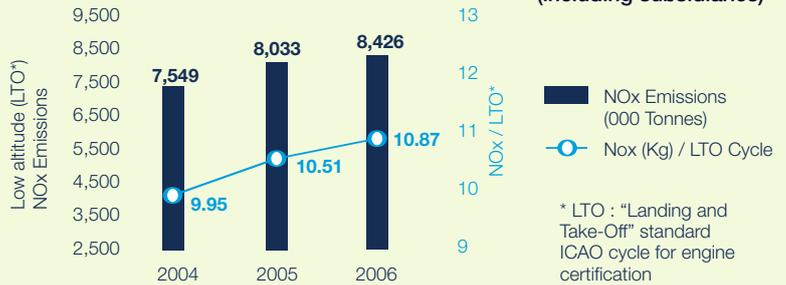
The NO_x/CO₂ dilemma:

In recent years, the industry has made great efforts to reduce fuel consumption (and consequently CO₂ emissions) by optimizing engine technology. However, the associated high temperature and pressure conditions in the engine, as a consequence of those technological improvements, result in increased NO_x emissions.

Actions:

- Replace ground vehicles and equipment
- Set up of a "Pollution Peak" procedure for air and ground activities
- Operational measures (see graph)

LOCAL NO_x EMISSIONS FOR AIR FRANCE-KLM FLEET (including subsidiaries)



Research objectives for new aircraft (European programme ACARE): 80% NO_x reduction by 2020

Cruise

- Optimize flight altitude
- Optimize routes through close coordination with Air Traffic Control

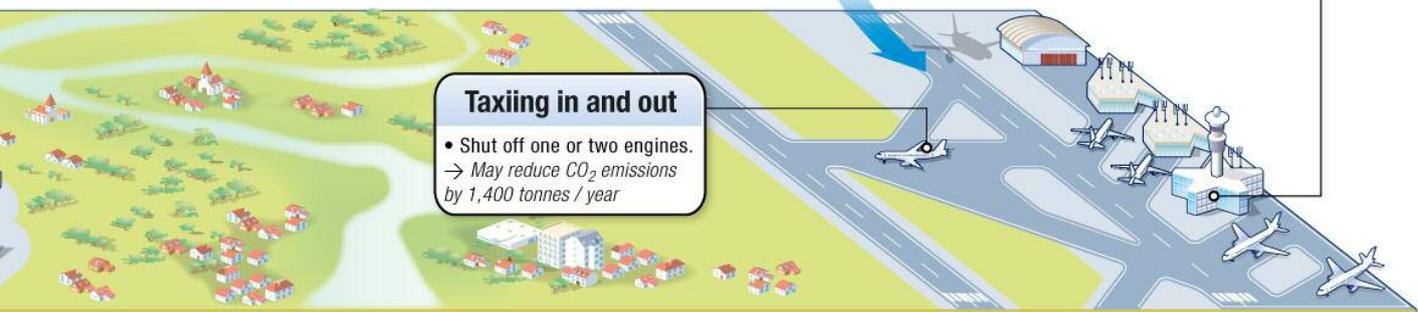
→ May reduce CO₂ emissions up to 12%

Approach

- Noise abatement procedures, including continuous descent approach, avoiding a descent approach by levels
- Up to 3 to 4dB less, depending on the type of aircraft
- Other operational noise abatement procedures such as idle reverse power, reduced flaps, or flying around populated areas

Parking

- Limitation of the use of Auxiliary Power Units (APU). Use depends on:
- > the availability of electric power at the airport
- > the need for cabin air conditioning or heating



AIR FRANCE-KLM WASTE GENERATION



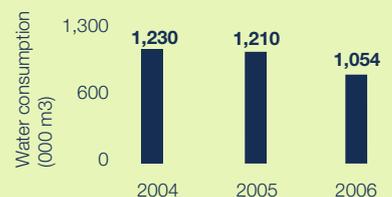
WATER CONSUMPTION

Air France-KLM's water consumption mainly originates in its maintenance activities. In the last three years, the Group has reduced its consumption by 13%.

Actions:

- Install water meter readings for the industrial washing machines used in the Air France catering activity
- Re-use rinsing water and optimize industrial rinsing processes (e.g. in the KLM Engine Waterwash system)

AIR FRANCE - KLM WATER CONSUMPTION



6.2. Aircraft fleet efficiency

Air France-KLM is committed to reducing its environmental impact (as depicted in the graphic on the previous page). With regard to the fleet the Group continuously invests in the latest-generation aircraft, which are more fuel efficient (see graph 16), quieter, and generate fewer emissions. The Group also strives to continuously improve flight operation procedures.

Renewal for calendar year 2006-07

The Air France-KLM average fleet age ranks well in comparison with other airline fleets worldwide. The average age of the Air France-KLM fleet was 8.9 years on 31 March, 2007 (excluding regional subsidiaries), compared to the world average of 11.4 years (source: IATA 2005). The following table shows the characteristics of the Air France and KLM fleets at 31 March, 2007. More specific information can be found on the website. ¹

GRAPH 16: FUEL CONSUMPTION - AIR FRANCE-KLM (EXCLUDING LOCAL SUBSIDIARIES), litres per passenger/100 km

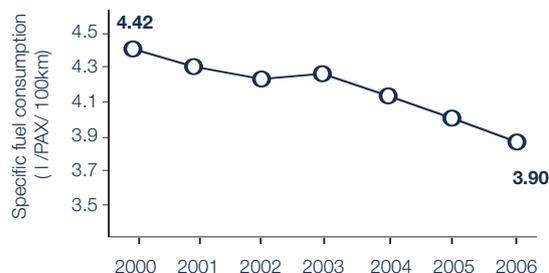


TABLE 11: AIR FRANCE-KLM FLEET, at 31 March 2007

	Air France			KLM		
	Average age (years)	Type of aircraft	Number of aircraft (total = 383)	Average age (years)	Type of aircraft	Number of aircraft (total = 186)
Short & Medium-haul	9.8	B737 – A320 family	149	12.1	B737 family	47
Long-haul	6.7	A330 / A340, B747, B777	94	8.7	B747, B777, MD11, A330	54
Cargo	12.8	B747	13	3.7	B 747	3
Subsidiaries	11.3	Fokker, Embraer, Bombardier	127	11.3	Fokker and B737 family	82

In recent years, Air France–KLM has invested in new, long-haul aircraft, reflected by the average age of 7.4 years, and is committed to continuing this policy.



CO₂ calculator

An application to calculate CO₂ emissions has been available on the KLM website since 2003 (www.klm.com) and will be updated in 2007 with the newest data and cargo will be added.

In summer 2007, Air France will post its own CO₂ calculator online. Both calculators will use real data from its airline operations recorded flight-by-flight, unlike most CO₂ calculators, which use theoretical models. The calculation method, which also provides explanations about the share of fuel burned to carry cargo in the holds of passenger planes and the share burned to carry passengers, is given on the Air France sustainable development website at <http://developpement-durable.airfrance.com>.



¹ Full table with fleet characteristics (number of flights/average block time, covered distance, age, seats...)

TABLE 12: FLEET RENEWAL FOR AIR FRANCE-KLM IN 2006-07

	Medium-haul		Long-haul		Cargo	
	New aircraft	Retired aircraft	New aircraft	Retired aircraft	New aircraft	Retired aircraft
Air France	10 (6 A318, 2 A319, 1 A320, 1 A321)	11 (8 B735, 2 A320, 1 A319)	7 (6 B777-300, 1 B747-400)	3 (2 B747 et 1 A340)	none	none
KLM	2 (B737-800)	none	8 (3 B777-200ER, 5 A330-300ER)	7 (B767-200ER)	none	none

Air France-KLM subsidiaries are also investing in fleet renewal. In 2006-07, the Air France regional fleet saw 2 new aircraft and 6 retired, BritAir, 1 retired, whilst Cityjet invested in 4 aircraft. KLM Cityhopper invested in 2 new Fokker 100s and 3 retired, Transavia.com added one B737 to its already young fleet (27 B737s less than five years old).

Consequences for the environment

This fleet renewal policy allows Air France-KLM to continuously reduce its environmental impact. The following boxes provide, as an example, a comparison of environmental impact, not only in terms of CO₂ emissions but also significant noise level reductions.

EXAMPLE OF FLEET RENEWAL AND REDUCTION OF THE ENVIRONMENTAL IMPACT

In 2006, Air France invested in the new-generation of B777. Compared with the B747-300 that it is replacing on the Caribbean-Indian network, the **B777-300 is 28% more fuel efficient per passenger-km** and also quieter as shown by the following footprint in Paris - Orly Airport.

B747-300



B777-300



Operational procedures

To continuously reduce the environmental impact of its fleet, Air France-KLM is working in all aircraft operational areas to rationalize its network, optimize maintenance and improve flight operational procedures.

- The **dual-hub** is central to the Air France-KLM strategy. By increasing the **load factor** on long haul flights, through efficient operation of the largest possible network and by cutting the number of flights needed to transport all passengers and cargo, the hub system reduces the environmental impact of air activities.
- In the context of their environmental policies, Air France-KLM have implemented environment-friendly **maintenance procedures**.

As an example, Air France-KLM is using the principle of engine wash, which restores optimal engine performance and reduces fuel consumption. KLM has also developed a specific engine water wash recovery system, leading to 0.5-1% fuel efficiency.

- Air France-KLM has also introduced a range of **operational measures** to limit the environmental impact of their flights. These include optimizing the quantity of fuel taken on board, taxiing-in with one engine shut off and reducing the use of auxiliary power units (APU).
- Another means of reducing environmental impact, although not directly under Group control, is air traffic management. Targets are to shorten flight paths and optimize arrival and departure paths. Eurocontrol has estimated that this reorganization could potentially reduce CO₂ emissions by up to 12%. To achieve this objective and in the context of the Single European Sky, the European Commission launched the SESAR project (Single European Sky ATM Research) in which Air France-KLM is involved.

Fuel dumping

Fuel dumping is an exceptional event, carried out when reduced aircraft weight is necessary for landing after a go-around. The fuel is dumped in agreement with air traffic control in specific areas and at high altitude so that all the fuel evaporates before reaching the ground. In 2006-07, 0.02% of total fuel carried was dumped (around one flight in 11,500 for Air France-KLM).

Aircraft end of life

During these past 10 years, almost 70 aircraft from the KLM fleet and 145 from the Air France fleet were phased out. Most of those aircraft were sold to other companies or returned to lessors for continuing operations. Some aircraft were even donated to museums (see graph 17). In total, 2 KLM and 11 Air France aircraft were dismantled taking environmental considerations into account. After a short period of storage according to approved maintenance practices, those 13 aircraft were dismantled after a full cleaning by Air France or KLM teams: all kinds of fluids, batteries, radioactive elements, on-board equipment and security devices were recovered and recycled when possible. The aircraft hulls were then cut up by specialized companies to recover aluminium and titanium, thereby minimizing the environmental impact.



“Noise and the airline industry”,
Patricia Lemoyne de Forges,
President of ACNUSA
(Autorité de Contrôle des Nuisances
Sonores Aéroportuaires, an independent
authority set up to control airport noise)

Airlines can opt to pursue a proactive policy to cut aircraft noise levels. The first measure they can take is the regular renewal of their aircraft fleet with more modern and hence quieter aircraft which burn far less fuel. Air France has taken this path.

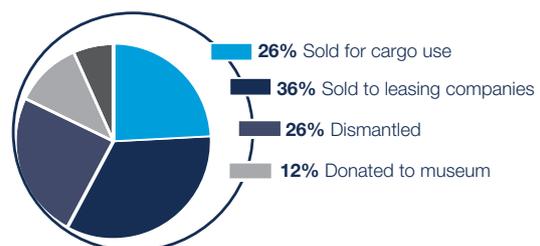
Airlines play a key role in raising pilot awareness about environmental issues. They must provide continuing education with an appropriate emphasis on environmental issues and make sure that the flight documents provided mention the particular constraints of each aerodrome. Companies can also invest in drafting environmental charters and airport codes of good practice.

Some 644 fines were imposed by ACNUSA in 2006, 368 of which concerned slot times, 185 noise levels and 86 trajectory deviations.

Given the number of flights operated by Air France at Paris Charles-de-Gaulle, it is not surprising that Air France de facto collects a proportional number of fines.

However, the Authority is pleased to note Air France's decision to abandon most of its nighttime slots. The new noise standard known as Chapter 4, with which new aircraft coming onto the market this year must comply, is stricter in terms of noise levels than the current standard. All new aircraft models have been designed to be compliant with the new standard.

GRAPH 17: DISTRIBUTION OF USE FOR AIRCRAFT END OF LIFE (Air France, 1997-2007)



For their part, manufacturers are currently implementing research programmes aiming to incorporate into the initial design of an aircraft end-of-life criteria to ease aircraft dismantling (i.e. recycling, choice of materials, ease of disassembly).

6.3. Environmental management of ground operations

Air France-KLM ground activities have an environmental impact due to their energy and water consumption, waste production and water discharge. KLM's ground activities are all located around Amsterdam-Schiphol, while Air France's operational sites are located mainly around Paris-Orly, Paris-CDG and Toulouse.

Management systems

The sites and activities of both Air France and KLM are involved in a continuous process of improvement, including environmental aspects. All KLM activities in the Netherlands are ISO 14001 certified, whereas Air France Industries is certified through its Integrated Management System (IMS), including the ISO 14001 certification. KLM has renewed its EMAS (Eco-Management and Audit Scheme) registration and externally verified its published environmental data. In the past, every

activity had its own reporting application to calculate its environmental performance and indicators. However, 2006 saw the launch of a new reporting system for the Group, dubbed OSYRIS (Operational System for Reporting on Sustainability,) used to consolidate different types of environmental performance across a range of activities.

Use of hazardous products

In 2006, the Group implemented the ATEX (ATmosphères EXplosibles) regulation to manage the risks of explosive environments. In this context, all sites have been mapped, defining the exposed zones with their related risks, and a specific training programme for the group of employees concerned has been launched. These initiatives allow the group to improve health and safety protection and building and site integrity, thus reducing environmental risk.

Ground vehicle renewal

At Air France, the ground equipment park includes 34% of electric ground vehicles. By 2009 this should be 40%, and 60% by 2020. KLM is focusing on reducing local emissions, such as NO_x. In the past year these emissions were reduced by 20% in ground operations, due to the purchase of new vehicles with cleaner engines.



7. Society

Air France-KLM operates on a worldwide scale, which implies that the Group's business activities leave economic, social, environmental and societal footprints in both global and local communities. Air France-KLM is committed to operating in a sustainable manner, primarily through engaging in dialogue with its global and local stakeholders.

7.1. A key contribution to global and local communities

The specific impact of the aviation industry, and specifically of Air France-KLM, on global and local economies, is described below. Some of the Group's societal initiatives are also described, underwriting the value Air France-KLM attaches to dialogue with its stakeholders.

Global economy

In the global economy, strong air transport sustains economic growth. Vigorous economic growth needs an efficient air transport system allowing actors to take full advantage of the internal market and global trade. Currently, the global aviation industry transports more than two billion passengers and 40% of all intercontinental goods exported (by value) per year. Air transport comprises 8% of world gross domestic product and is an important lever for other business sectors, such as tourism. Furthermore, air transport facilitates world trade, improves supply-chain efficiency and promotes international investment both into and out of countries. In Europe, the air transport industry generates more than four million direct, indirect and spin-off jobs.

National and local economies

At country level, having an efficient air transport hub is an important national asset. Access to international markets through an efficient air transport hub is one of the key criteria in business location decisions. The Dutch government estimates that the activities in and around Amsterdam-Schiphol airport account for nearly 2% of national GDP, with this figure expected to rise to 2.8% by 2015. More than 1,800 foreign companies are located in Amsterdam, including 250 European regional headquarters, and over 1,100 firms are located within the Amsterdam airport area. Over 50% of all American and Asian companies' European logistics centres are located in the Netherlands, because of the aviation industry.

Moreover, the hub system significantly contributes to regional development by linking regional airports to the rest of the world. As an example, Paris-CDG hub enables people from Pau or Clermont Ferrand, where important French companies are located (respectively Total and Michelin), to catch flights

to the United States or Asia with minimum connecting flight times, whereas there would be nowhere near sufficient demand to justify direct intercontinental flights from either of those cities.



**Claude Chevauché, Chairman,
Pays de Roissy association**

Pays de Roissy was set up at the initiative of Air France to concentrate the efforts of elected officials, businesses and individuals in the vicinity of Paris-CDG but who were scattered across four *départements*. As the leader in the air transport sector, Air France attracts other businesses, giving us greater scope for action. For example, the association builds bridges between local residents and the various employment possibilities offered by the presence of the hub, both in air transport and in the hotels sector, IT or security. Air France can offer a wide range of jobs and training opportunities and it is a major employer at local level. Furthermore, the Company never misses an opportunity to advertise the existence of our association, which is working to maximize the economic impact of its activities. It could contribute even more to the economic development of the Roissy area if it pursued a more stringent procurement policy.

Air France also supplies information freely and spontaneously. We would, however, like more information about the development of its activities, especially as regards extensions to terminals at Paris-CDG so that we can better prepare our initiatives.

Fostering local employment

Air transport also fosters employment. One million passengers or 100,000 tonnes of freight at a major hub create an average of 4,500 jobs, of which 1,500 direct jobs at the airports. Air France and KLM are committed to focusing their efforts on local recruitment and they are major employers around Paris-Charles de Gaulle and Amsterdam-Schiphol.

To illustrate this, Air France is the first private employer in Île-de-France (Paris-CDG's region) with 50,000 employees. Paris-CDG airport activities generate 280,000 jobs (direct, indirect and induced).

Both airlines have undertaken numerous local initiatives to foster youth employment. KLM, together with Amsterdam-Schiphol Airport, created the Schiphol Summer School, through which unemployed youths are given the opportunity to take educational courses after which they are provided with a job at either KLM or the airport. Furthermore, KLM has concluded an agreement with the Amsterdam Airport Regional Education Centre (ROC) and provides internships and job guarantees to technical students.

Another type of contribution to local development is Air France's participation in a coaching programme since 2006 for small and medium-sized enterprises (SME) operating near the airport, in cooperation with other large companies, in an effort to boost their development. This programme aims at transferring skills to SME leaders, and in turn offers them greater access to a network of experts and better knowledge of their local market. More local Air France and KLM initiatives are described on their websites.

Local dialogue

Air France and KLM are major economic players in their fields and they are actively involved in the regions where they operate, especially around their main home base airports, Paris-CDG and Amsterdam-Schiphol. Both airlines take part in consultation structures made up of local stakeholders and residents to share views on strategic development issues and to ensure mutual understanding on addressing the impact of air transport.

KLM plays an active role in the Schiphol Regional Review Board (CROS), a consultation body made up of provincial and municipal authorities, local residents and the aviation industry. Its main task is to encourage dialogue to optimize airport utilization according to the interests of different stakeholders. In the past year CROS has defined five pilot schemes aimed at reducing noise hindrance, which will be carried out in the coming year. KLM is also an active participant in the Alders-meeting, a forum in which positions of national and municipal authorities, local residents and the aviation industry are exchanged, aiming at reaching an effective agreement about environmental regulations at Schiphol.

In cooperation with Amsterdam-Schiphol Airport and Dutch Air Traffic Control, KLM held presentations about the Dutch aviation industry for members of neighbouring town councils. Top management of all three parties spend ample time in exchanging views with council members, who are also local residents.

Air France takes an active part in the Advisory Committees on the Environment (CCE) of the ten main French airports. These committees, chaired by the Prefect of the *Département*, bring local authorities, representatives of local residents, environmental protection associations and airline professionals together to work on air transport side-effects. In 2006, the most significant action of Paris-CDG's CCE was its input on defining the new protected areas of the airport's noise exposure plan.

To better understand residents in the vicinity of Paris-CDG, Air France ordered a study led by social sciences researchers in 2006.

The study followed a four-step approach:

- an anthropological field study in several towns,
- a sociological survey on the position of local associations,
- an analysis of the local and regional press,
- an opinion poll carried out with a representative sample of 2,000 residents, including sections subject to the negative effects of air transport.



Mr. Arthur Vis, CROS (Schiphol Regional Review Board), representative of some 150,000 inhabitants of municipalities in the vicinity Schiphol Airport.

I am satisfied with the way in which KLM communicates with its neighbours. For instance, the "study day" set up by the Knowledge & Development Center, where inhabitants were informed of the many different aspects involved in making KLM flights possible, was a very interesting activity. I recommend KLM to initiate more similar events for inhabitants to increase information exchange and understanding.

To improve the relationship between KLM and its neighbours, an "inhabitants panel" could be established, which would identify the information needs of inhabitants. Nowadays, KLM provides statistics which may be considered as useless by some inhabitants, whereas it does not communicate on issues of great interest to residents, such as PRNAV, an innovative navigation system used by its pilots to ensure precision flying of routes. The public would welcome more information on the environment, for instance through an annual CSR Report published in Dutch or through press releases and free publicity.

The most striking results are the positive perception of air transport and the excellent image of Air France. Air transport's positive impact is not questioned as 95% of interviewees think that Paris-CDG airport is a good thing for the region. Yet 32% of the people surveyed name the airport as the most disruptive amenity. Air France's image is very good when it comes to aircraft quality and safety, but its economic role is not recognized: initiatives in which Air France is directly involved and positively evaluated are not spontaneously linked to the airline. On the strength of its new-found awareness of these issues, Air France has decided to launch the publication of a periodical which will air its own point of view as well as that of various local stakeholders.

Route extension and closure policy

With regard to public service obligations, some economically vital relationships are not guaranteed by the market in a natural manner. A State, after receiving European Commission approval, can decide to organize public service obligations (PSO) in order

to remedy market weaknesses. These PSOs are submitted to the airlines that serve the airports concerned. If the airlines accept, the PSO is integrated into the general operating conditions. If not, a call for tender is launched, explaining the requirements. Designated companies then obtain exclusive rights to the routes but must respect contract specifications. Air France receives State subsidies for the Orly-Lourdes route, for example, and cannot close such a route without giving advance notice. The conditions usually concern the type of aircraft, seating capacity, frequencies, time-constraints and some specifications on ticket pricing.

During the Air France-KLM merger process, KLM was required by the Dutch government to guarantee, continued operation to a number of worldwide destinations as part of the direct network of KLM from Amsterdam-Schiphol Airport.



Traffic rights

On a global scale, genuine competition exists between airlines regarding licences for new routes.

Bilateral "Open skies" agreements between individual States or, in the case of the United States with the European Union, are a growing trend in the aviation industry. The system of air traffic rights is, however, still largely dominated by bilateral negotiations between States which are in charge of these rights. When airlines note that their growth is constrained by limited traffic rights between their home State and other States, these two States can decide to negotiate extended traffic rights (i.e. capacity, frequencies and destinations). The airlines set out their arguments on customer and cargo demand and their ability to grow to meet it. However, the air services agreement is between States, and the governments of each State lead such negotiations with the aim of reaching a balanced agreement. When an agreement is reached between two States, then the government of each State assigns the new traffic rights to designated airlines.

Tax policy

Air France-KLM largely contributes to its home countries' economies. Almost all the 267 million euros in taxes, (excluding airport and en route fees, which are naturally paid to each airport or air traffic control body), are paid in France and in the Netherlands.

The breakdown of direct and indirect taxes paid by Air France by type of recipient and airport is given on the website ¹.

A very common opinion is that airlines do not pay enough tax, especially because there is no tax on kerosene. This view is erroneous, as the aviation industry annually pays many types of taxes and charges, which cover all its costs for security and infrastructure in particular. Air France and KLM pay for all investments and costs related to airport infrastructure (ground, as well as airspace) for all their routes and destinations. Moreover, the aviation industry is the only transport mode that directly finances soundproofing measures for residents living near airports (40 million euros paid in 2006-07 for soundproofing in France and in the Netherlands). Additional taxes and charges may divert air traffic to other hubs located in countries where infrastructure costs, taxes and charges are significantly lower. Such a diversion would have a very negative impact on the French and Dutch economies.



Suppliers

Procurement and subcontracting policies involve important responsibilities in terms of social and environmental impact. The Group has taken action to converge the purchasing methods of the two airlines, called the Purchasing Core Team (PCT). The joint working platform will harmonize policies, set targets and measure performance. In September 2006 four pilot schemes were initiated combining Air France and KLM purchasing projects covering jetfuel, inflight hardware, outstation catering and a selection of general purchases. The ultimate aim is to carry out joint procurement.

The Group's PCT has drawn up a sustainable development charter which reiterates the principles of the United Nations Global Compact. As an integral part of all calls for tender, facilitated by the use of the procurement infrastructure tool, Procuri, all suppliers are confronted with the question of compliance with the UN Global Compact. In September 2006, Air France launched a dedicated Procurement website ² allowing it to reference all companies wishing to work with Air France. This news has been widely disseminated locally to inform SMEs so that they can more easily submit in Air France's calls for tender.

In January 2007 KLM added a new prerequisite to its transparent online tenders system for suppliers. Suppliers now specifically need to indicate adherence to a number of ethical values, including the principles of the United Nations Global Compact.



¹ Breakdown of taxes on <http://developpement-durable.airfrance.com>

² Air France Procurement website: <http://fournisseurs.airfrance.com>

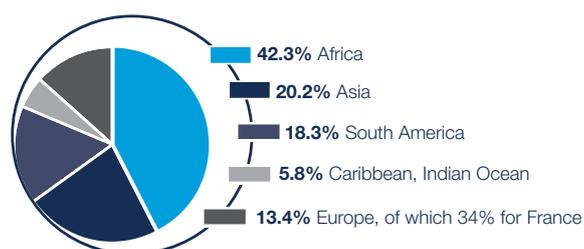
7.2. Humanitarian and development programmes

As international airlines that serve over 200 destinations and share the same desire to help the disadvantaged, Air France and KLM have been involved in humanitarian aid for many years in different ways, including corporate and employee contributions, donations in kind, and passenger awareness-raising campaigns.

TABLE 13: HUMANITARIAN AND DEVELOPMENT PROGRAMMES - AIR FRANCE-KLM

COMMITMENTS	MAIN ACTIONS 2006-07
<p>Air France Corporate Foundation http://fondation.airfrance.com Assists sick and disabled children, street children and children and teenagers in difficulty. A network of 1,600 employees, called Amis de la Fondation, participates in the Foundation's activities through voluntary work. Annual Programme: funded each year by the Foundation, with projects in France and rest of world. Concorde Program: funded by a Christie's auction in Nov. 2003 of items from retired Concorde planes. All proceeds (2.3 million euros) were donated to the fund. Asia Solidarity Programme: funded by Air France employees.</p>	<p>Since its creation in 1992, the Foundation has sponsored 277 projects benefiting 500,000 children.</p> <p>58 projects in 2006 (16 in Africa, 14 in Asia, 12 in France, 8 in South America, 4 in East Europe and 4 in the Caribbean /Indian Ocean) including 17 projects for disabled or sick children, i.e twice as many as in 2005.</p> <p>The Foundation has recently focused on education and training for AIDS orphans, whether affected or not by HIV. The Foundation still supports street children's education as a means of preventing child prostitution.</p>
<p>KLM AirCares www.aircares.nl KLM AirCares organizes innovative and creative promotional and fundraising activities to support four organizations each year, using its powerful communication resources to reach a wide audience. KLM also supports organizations on a long-term basis, including:</p> <ul style="list-style-type: none"> • Close the Gap international, KLM donates all used computers for educational projects in developing countries • Johan Cruyff University, where disabled athletes can combine studies with their sports careers. • Wings of support: a humanitarian organization set up by KLM cockpit and cabin crew. WoS expanded this year with Martinair members. A large number of projects were executed in destinations to which KLM and Martinair fly, with a focus on children's needs. For details see www.wingsofsupport.org 	<p>In 2006-07, AirCares beneficiary organizations were:</p> <ul style="list-style-type: none"> • Doctor 2 Doctor: KLM and Kenya Airways teamed up with pediatric specialists from VU Medical Centre Amsterdam to train pediatricians in Kenya in an effort to improve child healthcare. • Children of the World works for orphaned children in 17 countries, including China, which AirCares has decided to focus on. • The Blue Ark: A new rehabilitation centre for handicapped children was financed and built by KLM staff and passengers. • Nature for Kids screens educational films in schools in an effort to raise awareness about the environment among children in Africa. <p>AirCares also rewarded a KLM employee and a KLM department, actively involved in relief work, with the Best Intentions award, a 2,500 euros prize for their humanitarian project.</p>
<p>Groupe Développement (GD) www.groupeveloppement.com An NGO co-founded by Air France, supporting local NGOs and conducting development programmes in four areas: protection of childhood (26 projects), economic support (16 projects for microcredit and 28 projects on agriculture), health & social welfare (9 projects), tourism & development (4 projects) Air France's sponsorship has a multiplier effect thanks to public co-financing: each 10,000 euros given by Air France to GD ensures that 30,000 to 40,000 euros are allocated to field projects managed by local NGOs.</p>	<p>A new 10-year partnership between Air France and Groupe Développement was signed in June 2006.</p> <ul style="list-style-type: none"> • 83 projects: 36 in Africa, 19 in South America, 15 in Asia, 9 in the Indian Ocean and 4 in Europe. • GD runs ECPAT (End Child Prostitution and Trafficking) to raise passenger awareness of sex tourism issues involving children. A video is shown on Air France's long-haul flights.
<p>Other humanitarian support</p> <ul style="list-style-type: none"> • Aviation sans Frontières (www.asf-fr.org), Pilots without Borders (www.psg.nl), • Logistics support to medical associations and NGOs, partnership with INSERM and ORPHANET (database on rare diseases) in favour of children affected by orphan diseases, and partnership with the Hopitaux de Paris Foundation. • sponsorship of various projects, such as the Diambars Football Institute in Senegal, or the Global Business Coalition to combat pandemics. 	<ul style="list-style-type: none"> • Transportation of children needing urgent medical treatment • Providing logistics and the transport of medical equipment abroad; providing transport to specialized centres or hospitals for consultations or treatment in places often far away from the place of residence of the children. • Fundraising initiatives and contributions to logistics • In-kind & voluntary personal donations
<p>Contributions from passengers Air France-KLM encourages passenger participation in its charitable projects through financial donations or donations of frequent flyer miles.</p>	<p>In-flight videos, in-flight magazines and websites are used to reach a large international audience to request donations.</p>

GRAPH 18: GEOGRAPHICAL BREAKDOWN OF FUNDS DONATED BY AIR FRANCE FOR HUMANITARIAN PROJECTS IN 2006-07 (3.5 million euros)



GRAPH 19: KLM BREAKDOWN OF FUNDS BY NATURE IN 2006-07



 More details on sponsorships on <http://sustainability.airfrance.com>

Air France-KLM Action plan

ENVIRONMENT			
ISSUES	COMMITMENTS	2006-07 ACTIONS	NEXT STEPS (2007 and beyond)
GROUP REPORTING	Report with transparency and rigour on Group sustainable development performance.	<ul style="list-style-type: none"> Configured and deployed the OSYRIS sustainable development reporting system in departments and subsidiaries Set up "social indicators" working group as part of European Works Council 	<ul style="list-style-type: none"> Fine-tune OSYRIS and continue deployment at Group level Further work on harmonizing indicators to draw up Group level NRE-compliant reporting system
CLIMATE CHANGE	Limit Group impact on climate change	<ul style="list-style-type: none"> Adopted the 6-point Climate Plan (see page 17) Took an active part in drawing up forthcoming European Union ETS regulations 	<ul style="list-style-type: none"> Deploy Climate Plan at each airline Further lobbying initiatives to develop a fair method of distributing emission trading permits in the air transport sector
SUPPLY CHAIN	Promote environmental responsibility and strict respect for human rights, opposing all forms of child labour and forced labour	<ul style="list-style-type: none"> Analyzed Air France-KLM procurement methods, adopted common procedures Carried out first sustainability audits at Air France, analyzed methodology Build sustainability criteria into all Air France-KLM procurement processes 	<ul style="list-style-type: none"> Integrate sustainability criteria into all procurement processes Draw up a map of risks by purchasing segment and region
AIR FRANCE-KLM COMBINATION	Build a socially responsible Group	<ul style="list-style-type: none"> Three meetings of the European Works Council Training of the representative bodies in each airline with regard to cultural differences and different methods of functioning Survey among all Air France and KLM staff abroad 	<ul style="list-style-type: none"> Set up a "University" for Group cross-functional needs Continue with training initiatives for team cohesion and staff exchanges Continue Internal Perception Monitoring on the Air France-KLM combination and dedicated international surveys



Air France Action plan

ENVIRONMENT			
ISSUES	COMMITMENTS	2006-07 ACTIONS	NEXT STEPS
ENVIRONMENTAL MANAGEMENT	<ul style="list-style-type: none"> Guarantee regulatory compliance and plan for regulatory change Strengthen environmental management in the QSE (Quality – Safety – Environment) management system 	<ul style="list-style-type: none"> 100% of Air France Industries sites ISO14001 certified Environmental audit plan Integrate environmental criteria in the selection of products loaded on aircraft 	<ul style="list-style-type: none"> Launch Corporate ISO 14001 certification for all key operating processes at French facilities Single certification for Air France Industries according to Integrated Management System Deploy centralized printing system to save 50 tonnes of paper per year
AIRCRAFT CO ₂ EMISSIONS	Deploy Air France-KLM Climate Plan	<ul style="list-style-type: none"> Signed international GROCC agreements in February 2007 Fuel Plan: Optimized routes and flight profiles, loading centering, optimized flight management... Reduced weight of on-board equipment (galleys, trolleys, etc.) 	<ul style="list-style-type: none"> CO₂ emissions calculator, including offset offer Implementation of "Galleys" study targeting a 60,000t/y reduction in CO₂ emissions Participate in the "Green Trajectories" project over the North Atlantic Support CO₂ capture and storage programmes Participate in research programmes such as IAGOS
NOISE EMISSIONS	<ul style="list-style-type: none"> Renew the fleet by introducing the best technologies Reduce noise footprint of air transport operations 	<ul style="list-style-type: none"> 14 older-generation aircraft retired, 17 new generation aircraft deployed (see page 37) CDA (Continuous Descent Approach) tested at Marseille Contribution to financing resident soundproofing programmes 	<ul style="list-style-type: none"> Withdrawal of 18 B747-400s (average age 11 years) by 2012 and replacement with 18 B777s → 9.5% reduction in CO₂/RPK and 11% cut in noise energy Participate in CDA (Continuous Descent) working group in the Paris region
AIR QUALITY	Research and implement methods for reducing low-altitude emissions from aircraft and ground activities	<ul style="list-style-type: none"> "Pollution Peak" procedure implemented at Paris-CDG and Orly Ramp vehicle and equipment emissions monitored 	<ul style="list-style-type: none"> target 60% electric-powered ramp vehicles by 2020 Participate in drafting "APU" regulation designed to limit their use at Paris-CDG
SOCIAL / THE WORKPLACE			
DIVERSITY	Promote social integration through employment and equal opportunity	<ul style="list-style-type: none"> 22 collective agreements signed in 2006 M/F pay differentials analyzed, five meetings with unions and independent experts 26 staff with disabilities recruited; over 30% increase in subcontracting with special sector; in-house awareness raising campaign on employment and integration of staff with disabilities 	<ul style="list-style-type: none"> Implement devices foreseen by the various collective agreements, notably on the professional equality Targets set in the agreement for integration of staff with disabilities: 32 hires in 2007 and 30% of regulated employment rate to the subcontracting towards the adequate sector Expand block release and apprenticeship training policy and develop it among people with disabilities
EMPLOYABILITY	Develop employee skills and promote professional mobility	<ul style="list-style-type: none"> Signed new 3-year HR and skills planning agreement (ATGPE) 2,689,173 man-hours of training (8.7% of wage bill) 	<ul style="list-style-type: none"> Implement mechanisms stipulated in the ATGPE with joint oversight committee and cross-functional mobility committee Develop e-learning
SOCIAL DIALOGUE	Encourage listening and social dialogue	<ul style="list-style-type: none"> Set up oversight committees for collective agreements Joint corporate ground staff, cabin crew and cockpit crew agreements signed in May 2006 Employee representative bodies set up for four years 	<ul style="list-style-type: none"> Finalize new protocol for exercising trade union rights Continue contract-based policy (new cabin crew collective bargaining agreement, agreement on occupational training, etc.)
SAFETY IN THE WORKPLACE	Protect employee health and safety at work	<ul style="list-style-type: none"> Occupational accident frequency ratio reduced to 5.44 in 2006 (5.84 in 2005) Management of Workplace Safety Guide published; memory jogger of workplace safety tools and best practice published 	<ul style="list-style-type: none"> Continue awareness-raising and training actions on safety in the workplace for managers and staff, implement action plans to match the contract objectives in each entity Negotiate an agreement to develop prevention aspects of workplace health and safety.
SOCIETY			
LOCAL DEVELOPMENT	Foster social and economic development around our main facilities	<ul style="list-style-type: none"> Numerous local initiatives, active support for Pays de Roissy non-profit association Participation in PLATO network supporting SMEs around Paris-CDG Approved supplier purchasing website; use promoted among SMEs 	<ul style="list-style-type: none"> Continue involvement in local initiatives Continue programme to raise awareness about local sourcing
DIALOGUE WITH STAKEHOLDERS	Dialogue proactively with all local stakeholders	<ul style="list-style-type: none"> Survey on perceptions and expectations of residents around Paris-CDG (see page 42) Participation in 21 Environmental Commissions at France's ten biggest airports 	<ul style="list-style-type: none"> Distribute a methodology kit for dialogue with stakeholders to everyone involved at Air France Launch a newsletter for Greater Paris (Ile de France) stakeholders
INVESTMENT IN CIVIL SOCIETY	Set priorities for committing spending in civil society	<ul style="list-style-type: none"> Continued arts and other sponsorship initiatives (see p.44 and website) Inventory of local initiatives for humanitarian sponsorship and territorial development at all Air France facilities worldwide. 	<ul style="list-style-type: none"> Define priorities for commitments to civil society in conjunction with sustainable development issues Launch new partnerships in conjunction with the "Climate Plan"
COMMUNICATION/MOBILIZATION	<ul style="list-style-type: none"> Communicate transparently and clearly with all our stakeholders Involve staff in sustainable development programmes 	<ul style="list-style-type: none"> Sustainable development website (July 2006) "White paper": "The arguments for dialogue concerning the development of Paris-CDG" Screening of Al Gore film (250 managers and senior executives) Sustainable development integrated into "Vision 2010" strategic plan 	<ul style="list-style-type: none"> Continue with activities to promote awareness and take-up of sustainable development issues among staff Deploy the challenge of Vision 2010: "Aim for sustainable development and CSR excellence" in all departments



More details on <http://sustainability.airfrance.com>

KLM Action plan

ENVIRONMENT			
ISSUES	COMMITMENTS	2006-07 ACTIONS	NEXT STEPS
ENVIRONMENTAL MANAGEMENT	Compliance with environmental regulations and ISO 14001 Commitment to Good Environmental Practices	<ul style="list-style-type: none"> Revised ISO 14001 standard implemented within revised organization framework and compliance checklists improved Implemented GEP at 21 outstations 	<ul style="list-style-type: none"> Develop a KLM-wide environmental dashboard and improve the integrated audit-reporting tool Implement GEP at all KLM outstations by 2008
CLIMATE CHANGE	Limit environmental impact of aircraft, reducing CO ₂ per passenger-kilometre by three steps: reduce, control, compensation Improve the energy efficiency of ground operations	<ul style="list-style-type: none"> Fleet renewal (see Chapter 6) Establishment of the Dutch Aviation Industry Climate Change Working Group Engine Waterwash developed and in use Reduced weight inflight products, flight planning with optimum cost index, and optimization of the calculation of Zero Fuel Weight 94% measures of the itemized action plan carried out. Energy efficiency improved by 6%. Agreement to new Energy Efficiency Plan-2 with Dutch Ministry of Economic Affairs for the period 2007-2012 	<ul style="list-style-type: none"> Continue fleet renewal and weight reduction measures Fuel efficiency improvement target of 17% in 2020/2021 Placement of winglets on all Boeing 737-800 and 900 aircraft by Spring 2008 Introduction of a customer carbon offsetting program Invest in R&D efforts on CO₂ reduction technologies and fuels Monitor the implemented measures of the action plan and sustain and further improve energy efficiency by 20-25%
LOCAL ENVIRONMENTAL ASPECTS	Control local emissions through operational procedures and monitoring Operate within noise limits and reduce noise hindrance as much as possible Minimize waste	<ul style="list-style-type: none"> Emissions of the LTO-cycle and ground operations monitored Further introduction of new A330-200 Defined five pilot projects to reduce noise hindrance (CROS) Participation in sound-proofing programmes Noise-reducing operational measures implemented Improvement of waste separation Development and use of chromate-free paint 	<ul style="list-style-type: none"> Renew ground support machines Particle-filters for all GPU's at SPL Continue fleet renewal Final development and implementation of covenants on noise hindrance reducing measures and livability Execution of five pilot projects (CROS) Further participation in soundproofing programs Continue with waste prevention and separation at the source
SOCIAL / THE WORKPLACE			
FLEXIBILITY	Build flexibility into the workforce and contracts	<ul style="list-style-type: none"> Option for all employees to have a partially variable income Single salary system project to cover technical and administrative employees 	<ul style="list-style-type: none"> Promote possibility of partially variable income Realise new appraisal system, Realise job evaluation of the various functions and develop compensation system (July 2008)
MOBILITY	Stimulate mobility inside and outside the company. Encourage personal development and training	<ul style="list-style-type: none"> Career scan in the virtual mobility centre Created the KLM Academy to enhance KLM's organizational and management potential 	<ul style="list-style-type: none"> Carry out yearly employability interviews between manager and employee (2007). Further development of KLM Academy New Management Development Policy
HEALTH	Protect employee health and safety	<ul style="list-style-type: none"> Pilot health scan, enabling 1000 employees to see the effects of their lifestyle on their health New collective health insurance program for employees New policy concerning employees' second year of disability, in anticipation of new legislation Researched current working conditions and implemented possible improvements, in anticipation of new legislation 	<ul style="list-style-type: none"> Adapt health scan with evaluation points and implementation as awareness tool for all KLM employees Implement the new policy concerning employees' third year of disability (July 2007) Realise a central catalogue for working conditions as a framework for KLM-divisions (legal deadline Jan. 2010)
DIVERSITY	Encourage diversity in the workforce, through participation of seniors, minorities, the disabled, and women in senior management positions	<ul style="list-style-type: none"> 'Life-course' policy, enabling all KLM-employees to have a long paid leave period during their employment Adapted pension provisions to new legislation for all employees Sustainable Employability project, to enable employability in all phases of employees' lives. Cooperation with the Reading and Writing Foundation to assist staff with reading or writing difficulties 	<ul style="list-style-type: none"> Extend the 'life-course' policy with possibility using the 'life-course'-savings also for part-time leave (Jan 2008) Stimulate use of part-time pension by ground staff (Jan. 2008) Implement two pilot projects for mentally and physically demanding functions and a common method for other departments (Nov. 2007). Realise a saving bank for leavedays, to enable employees e.g. to use these days to work part-time temporarily (2007). Research to define what it takes to be more attractive to disabled candidates
SOCIETY			
LOCAL DEVELOPMENT	Promote training and economic development	<ul style="list-style-type: none"> Schiphol Summer School (see Chapter 7) Investment in four aviation-oriented university chairs Partnership with ROC Amsterdam Airport College 	<ul style="list-style-type: none"> Investigate possibility of setting up an Educative Information Centre Aviation, with the aim of creating a bigger interest among young people for engineering in the aviation industry
KLM AIRCARES	KLM AirCares	<ul style="list-style-type: none"> Partnership was established with Amsterdam VU Hospital to fly medical expertise overseas in the Doctor2Doctor Project. For other projects see Chapter 7 	<ul style="list-style-type: none"> Raising awareness about diabetes among children Three other communication campaigns for foundations, in the field of children's welfare.
DIALOGUE WITH STAKEHOLDERS	Contribute to a sustainable relationship with employers, sector and region in the field of environmental capacity at Schiphol	<ul style="list-style-type: none"> Active participation in regional platform (see chapter 7) and in KDC and SIM for development of innovative airside and landside measures 	<ul style="list-style-type: none"> Implementation of CROS pilot projects on noise abatement Improvement of the relationship with neighbors through the development of a resident feedback panel
COMMUNICATION	Improve communication with all relevant stakeholders	<ul style="list-style-type: none"> Sponsorship of annual congress of Global Reporting Initiatives (GRI) in Amsterdam, Autumn 2006 	<ul style="list-style-type: none"> Development of two websites dedicated to development of Amsterdam-Schiphol Airport and CSR peer-group review of CSR report, Autumn 2007

Social data for the Air France-KLM group

	Air France (1)				KLM (2)				Air France Subsidiaries (3)			KLM Subsidiaries (4)
	2004	2005	2006	05/06	2004	2005	2006	05/06	2004	2005	2006	2006
HEADCOUNT AT 31/12 (permanent contracts and fixed-term contracts)												
Ground staff	45,387	45,688	45,231	-1.0%	19,366	19,550	19,599	0%	8,666	8,445	8,645	3,825
Cabin crew	13,582	13,947	14,184	1.7%	7,895	8,163	8,587	5%	671	723	982	1,234
Cockpit crew*	4,187	4,177	4,198	0.5%	2,269	2,333	2,483	6%	898	940	1,114	1,010
Total	63,156	63,812	63,613	-0.3%	29,530	30,046	30,669	2%	10,235	10,108	10,741	6,069
% OF WOMEN PER CATEGORY AT 31/12												
Ground staff	39%	40%	41%	2.4%	24%	25%	25%	1%	33%	33%	34%	42%
Cabin crew	66%	66%	65%	-1.3%	84%	84%	84%	1%	80%	79%	77%	85%
Cockpit crew	5%	5%	6%	15.3%	4%	4%	4%	2.2%	4%	3%	4%	6%
Percentage of women at 31/12	43%	43%	44%	2.4%	40%	41%	43%	4.5%	34%	34%	34%	45%
ORGANIZATION OF WORKING HOURS												
Percentage of women working part time	33%	33%	33%	6%	63%	68%	68%	0%	N.A.	N.A.	13%	41%
Percentage of men working part time	10%	9%	8%	-5%	8%	14%	14%	2%	N.A.	N.A.	5%	10%
Percentage of part time staff	19%	18%	19%	5%	35%	36%	36%	0%	8%	8%	6%	
Amounts paid to temporary work companies (€M)	18.1	25	37	48%	N.A.	N.A.	N.A.	N.A.	25.6	23	N.A.	
RECRUITMENT BY PERMANENT CONTRACT												
Ground staff	637	994	1,231	24%	420	981	1,179	20%	402	496	496	163
Cabin crew*	387	519	629	21%	349	518	651	26%	8	54	133	0
Cockpit crew*	152	112	134	20%	97	112	196	75%	38	48	70	160
Total	1,176	1,625	1,994	23%	866	1,611	2,026	26%	448	598	699	323
LEAVINGS												
Ground staff	1,017	1,135	1,297	14%	3,276	1,016	1,165	15%	417	494	521	736
Cabin crew	276	317	360	14%	296	232	284	22%	8	48	117	568
Cockpit crew	112	116	94	-19%	88	97	46	-53%	14	13	48	37
Total	1,405	1,568	1,751	12%	3,660	1,345	1,495	11%	439	555	686	1,341
• Retirements	976	1,060	1,221	15%	363	332	326	-2%	60	47	48	19
• Redundancies (incl. economic)	172	157	183	17%	393	532	184	-65%	231	293	303	734
• Resignations	188	250	279	12%	2,861	450	952	112%	142	205	325	585
• Deaths	69	101	68	-33%	43	31	33	6%	6	10	10	3
ABSENTEEISM (5)												
Due to illness	• Ground staff • Cabin crew • Cockpit crew	3.3% 5.8% 2.1%	3.3% 6.8% 2.7%	3.1% 5.4% 2.4%	-6% -21% -12%	6.5% 5.1% 4.3%	5.9% 5.4% 4.2%	5.4% 6.3% 3.9%	-8% 17% -7%	N.A. N.A. N.A.	N.A. N.A. N.A.	N.A. N.A. N.A.
Due to work accidents	• Ground staff • Cabin crew • Cockpit crew	0.5% 0.8% 0.2%	0.5% 0.9% 0.2%	0.5% 0.9% 0.2%	0% 0% -9%	N.A. N.A. N.A.	N.A. N.A. N.A.	N.A. N.A. N.A.		N.A. N.A. N.A.	N.A. N.A. N.A.	N.A. N.A. N.A.
Due to maternity	• Ground staff • Cabin crew • Cockpit crew	0.9% 3.9% 0.3%	0.9% 3.8% 0.4%	1.1% 3.8% 0.3%	26% 0% -17%	0.5% 2.2% 0.2%	0.4% 2.1% 0.1%	0.4% -5% 0%		N.A. N.A. N.A.	N.A. N.A. N.A.	N.A. N.A. N.A.
Number of collective agreements		3	9	22		4	3	3		N.A.	N.A.	N.A.
HEALTH AND SAFETY (6)												
Industrial Injury Frequency Rate (IIFR) (6)	34	34.2	33.43	-2%	11.06	11.16	11.07	-0.01	N.A.	N.A.	N.A.	N.A.
Severity of industrial accidents (6)	0.93	0.88	0.85	-3%	0.09	0.1	0.1	0.14	N.A.	N.A.	N.A.	N.A.
Spending on safety (€M)	18.2	12.2	9	-26%	0.8	4.2	N.A.		3.0	2.2	N.A.	N.A.
Total industrial accidents (6)	3,029	3,113	3,006	-3%	526	528	539	0.02	N.A.	N.A.	N.A.	198
Number of fatal industrial accidents	0	0	0		0	0	1		0	0	0	0
TRAINING												
Percentage of total payroll devoted to training	8.7%	8.7%	8.7%	0%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Ground staff	5.6%	5.4%	5.6%	3%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cabin crew	8.9%	8.9%	8.7%	-3%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cockpit crew	15.5%	16.3%	16.0%	-2%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Total number of hours of training		43	47	10%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Ground staff		33	36	9%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cabin crew		36	37	4%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cockpit crew		166	181	9%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Participation rate (number of agents trained/workforce)		92%	94%	2%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Ground staff	N.A.	90%	91%	1%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cabin crew	N.A.	95%	99%	4%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
Cockpit crew	N.A.	98%	100%	2%	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.
DISABLED STAFF (7)												
Number of disabled workers (6)	1,759	1,878	1,320		1,336	1,211	1,125	-7%	250	236	208	
Employment rate of disabled staff	6.2%	6.6%	2.6%		N.A.	N.A.			N.A.	N.A.	N.A.	
Number of disabled workers recruited during the year	31	25	26	4%	N.A.	N.A.			N.A.	N.A.	2	

Data in italics concerns only Air France in France area and KLM in the Netherlands

N.A. no available

* Some data from 2005 could have been updated, but without any major impact on the result

(1) Air France staff including Continent France Dependencies, expatriates, international staff

(2) KLM staff including the Netherlands, international staff

(3) Air France subsidiaries including: Brit Air, City Jet, CRMA, Fréquence Plus, Groupe Servair, Régional, Sodexi representing 90% of Air France subsidiaries

(4) KLM subsidiaries including: Cygnific, KCS, KES, KHS, KLC UK, KLC BV, KLM ground service, Transavia, KLC UK Engineering Ltd

KLM subsidiaries are new data included for the first time this year

(5) The information relating to absenteeism at Air France and KLM are not comparable, the calculation method is different

(6) The information relating to workplace accidents at Air France and KLM is not comparable. The difference can be explained by the fact that baratomic otitis and lumbagos, representing primary causes of workplace accidents at Air France are not taken into account in KLM's list

(7) For Air France: new disabled staff policy excludes disabled staff who have not worked for at least six months for KLM: the data include "non-salaried staff"

(7)* French law of the 10 July 1987, R/R not given due to changed parameters

Environmental data for the Air France-KLM group

AIR OPERATIONS FOR AIR FRANCE-KLM

	Unit	2004-05	2005-06	2006-07	Pro-forma change	Air France 2006-07 (1)	KLM 2006-07 (2)	
CONSUMPTION								
Consumption of raw materials: fuel	000 tonnes	8,026	8,373	8,537	2%	5,479	3,058	
EMISSIONS								
Greenhouse gas emissions	CO ₂	000 tonnes	25,327	26,422	26,914	2%	17,260	9,654
Emissions of substances contributing to acidification and eutrophication	NO _x	000 tonnes	123.5	131.9	133.5	1.2%	91.2	42.3
	of which low altitude (< 3,000 ft)	000 tonnes	7.5	7.6***	8.4	5%	6.2	2.3
	SO _x	tonnes	4,605	6,421	6,856	1%	4,202	2,654
	of which low altitude (< 3,000 ft)	tonnes	330	441	428	-4%	268	180
In-flight fuel jettison	Occurrences of fuel jettison		20*	21*	23*	10%	23	NA
	Fuel jettisoned	tonnes	1,343	1,046	1,758	68%	1,100	658
Other emissions	HC	000 tonnes	4.2	4.0	3.5	-13%	2.44	1.11
	of which low altitude (< 3,000 ft)	000 tonnes	1.2	1.1	1.2	9%	0.9	0.29
NOISE IMPACT								
Global noise energy indicator **	10 ¹² kJ	1.81	1.79	1.66	-7.3%	1.35	0.31	

* Air France data only

** Data computed on calendar year for Air France

*** Air France subsidiaries excluded

(1): Including Air France subsidiaries: CRMA, Groupe Servair, Regional, Brit Air, Sodexi

(2): Including KLM subsidiaries: Transavia, KLC, KES, KCS

GROUND OPERATIONS FOR AIR FRANCE-KLM

	Unit	2004	2005	2006	Pro-forma change	Air France 2006 (1)	KLM 2006 (2)	
CONSUMPTION								
Water consumption	000 m ³	1,230	1,210	1,054	-13%	794	260	
Energy consumption	Electricity consumption	MWh	371,986	386,839	393,265	1.7%	291,802	101,462
	Energy consumption for heating/cooling	MWh	156,371	146,939	146,158	-0.5%	146,158	0
	Superheated water	MWh	3,020	4,148	9,977	74%	9,977	0
	Iced water	MWh	10,204	7,927	4,741	-40%	4,741	0
	DFO	MWh	252,706	237,196	163,899*	NR	67,289	96,610
	Gas	MWh	0	0	0		0	0
	Consumption of renewable energies	MWh	0	0	0		0	0
EMISSIONS								
Greenhouse gas emissions (by heating/cooling process, by vehicles and ground support equipment)	CO ₂	tonnes	76,235	75,893	75,238	-5.1%	31,649	43,689
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds** (weighted in products used)	tonnes	252	188	187	0.5%	128	59
Emissions of substances contributing to acidification and eutrophication	NO _x ***	tonnes	245	221	178	-20%	NA	178
	SO _x ***	tonnes	1	2	3		NA	3
WASTE								
Waste production	Quantity of ordinary industrial waste	tonnes	48,966	46,715	42,316	-9.4%	25,382	16,934
	Quantity of special industrial waste	tonnes	4,975	5,721	5,465	-4.5%	4,286	1,178
	% of waste recycled	%	37%***	28%***	27%		24%	32%
WASTE WATER								
Effluents contributing to acidification and eutrophication	Nitrates	kg	5,387	3,468	9,119	163%	6,646	2,472
	Phosphates	kg	926	322	489	52%	484	5
Heavy metals	Heavy metals (Cr, Cd, Ni, Cu, Pb)	kg	63	78	51	-35%	48	3,3

* Data updated this year due to non-homogeneous conversion factors between Air France and KLM

** Data calculated on IATA year for Air France

*** KLM data only

(1): Including Air France subsidiaries: CRMA, Groupe Servair, Regional, Sodexi

(2): Including KLM subsidiaries: Transavia, KLC, KES, KCS

AIR FRANCE KLM

As part of the Group's sustainable development approach, this document is printed on environmentally-friendly paper.