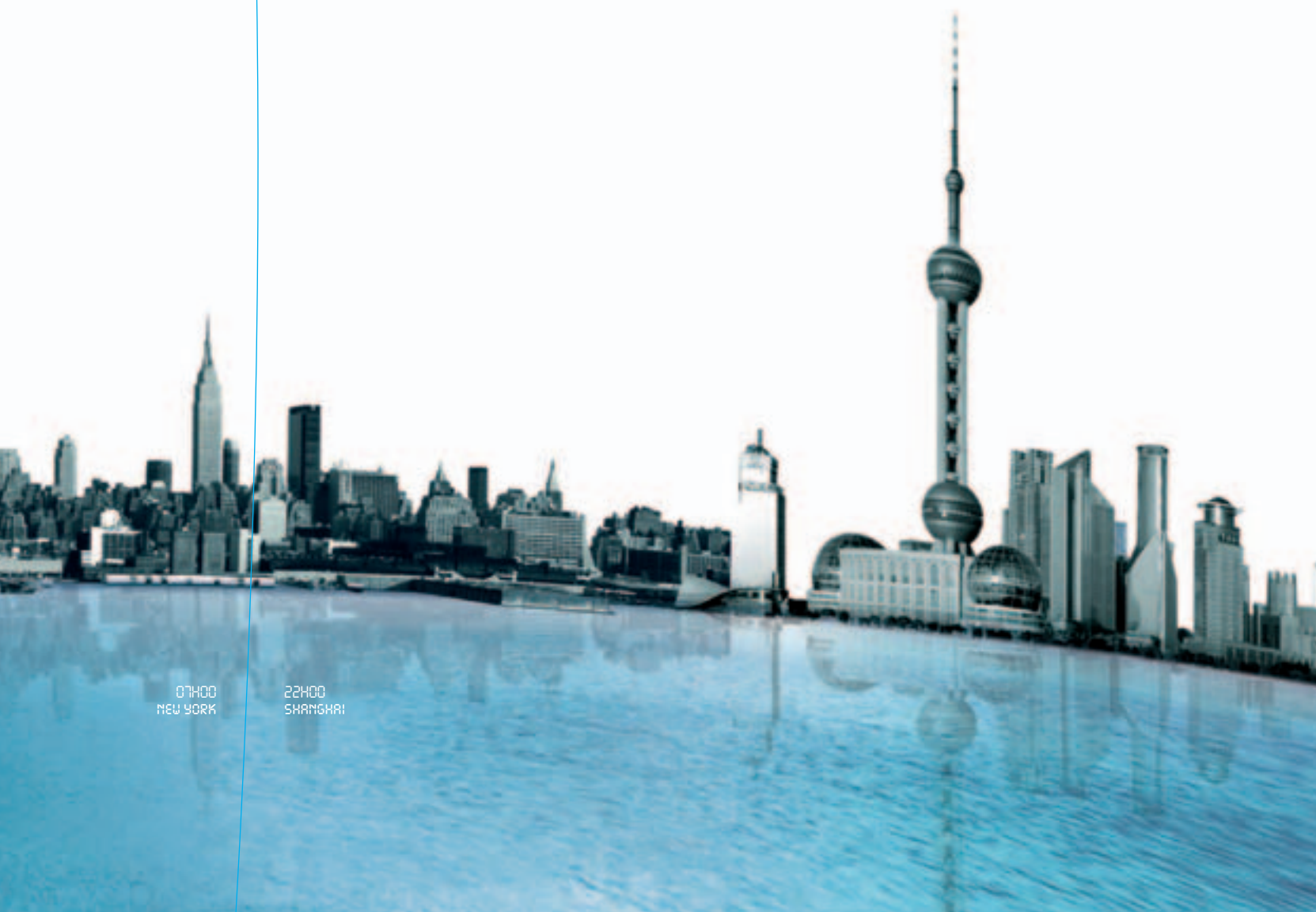


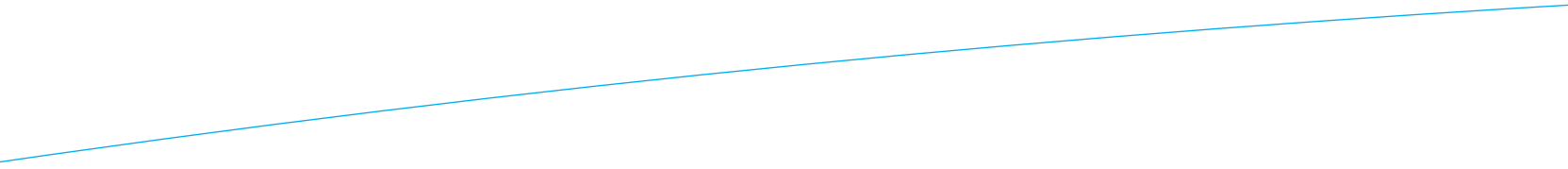
**AIR FRANCE KLM**

Annual Report 2007-08



07H00  
NEW YORK

22H00  
SHANGHAI



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Additional information on the Air France-KLM Group can be found in the 2007-08 Reference Document on the [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com) website, or on request.

## The 2007-08 financial year reinforced the Group's leadership position in Europe

### ① Joint-venture on the Atlantic

On October 17, following the example of KLM and Northwest, Air France and Delta Air Lines announce the signature of a joint-venture agreement effective as of 2008. The two companies will share revenues and costs on transatlantic routes between the hubs and on connecting flights. Next objective: the creation of a four-way joint-venture with KLM and Northwest in 2009.

### ② Air France-KLM enters the CAC 40

Air France-KLM, the leading European air transport company, entered the Paris Stock Market benchmark CAC 40 index, on Monday June 18, 2007. Inclusion in the index of the premier listed companies in France is a recognition of the Group's success and the importance of air transport for the global economy.

### ③ SkyTeam goes from strength to strength

A busy year for the SkyTeam alliance, which welcomes three new associate airline members, Air Europa, Copa Airlines and Kenya Airways followed, on November 15, by China Southern, which becomes the eleventh full member airline. Finally, Leo van Wijk assumes responsibility for the alliance, with a mission to further improve its functioning and to extend its membership base to new carriers.

### ④ E-services come of age

Air France and KLM say goodbye to paper tickets: these are replaced with e-tickets that are easier to use and give the passenger greater flexibility. Self-service check-in kiosks, baggage drop-off points, check-in by internet or using a cell phone: the range of e-services keeps on growing, the company seeing such innovation as an integral part of its strategy to ensure excellent standards of customer service.



#### ⑤ The boom in the Indian Continent

Air France establishes a material presence on strategic destinations such as Chennai and Bangalore in Southern India and gains share of a rapidly-changing Indian market. The company operates 24 frequencies under its own colors to Delhi and Mumbai and four to Hyderabad under code share with KLM. In order to become the European leader, it offers a product specifically adapted to local customers. The Phoenix India training program increases the cultural awareness of cabin crews and ground staff, enabling them to better understand the needs of the 150,000 passengers across the entire service chain, both on the ground and in the air.

#### ⑥ The S3 satellite at Paris-Charles de Gaulle now operational

Inaugurated by the French President on June 26, this new infrastructure strengthens Air France-KLM's existing facilities and completes a first stage in the development of the hub of the future.

#### ⑦ A world first for AFI

Air France Industries is the first aeronautics maintenance company in the world to obtain Single Global Certification, an exceptional commercial advantage that the company does not fail to highlight, alongside KLM Engineering & Maintenance, at the latest Paris Air Show. The opportunity to sign a number of GE90 engine and B777 support contracts as well as to renew all those for Airbus support.

#### ⑧ transavia.com France takes on the low cost carriers

A new airline takes to the holiday skies: transavia.com France. This subsidiary of Air France and transavia.com Netherlands positions itself as the low-cost carrier of choice, in focusing on service quality across a network of leisure destinations (North Africa, the Mediterranean basin). Customers appreciate the quality of this offer, which surpasses that of the other low cost carriers and new routes are introduced during the winter.

#### ⑨ Air France replaces its Boeing 747-400s with Boeing B777-300ERs

Air France decides to replace its Boeing 747-400 fleet with Boeing B777-300ERs in order to reduce its jet fuel consumption and CO<sub>2</sub> and NO<sub>x</sub> emissions.

#### ⑩ A joint-venture in China

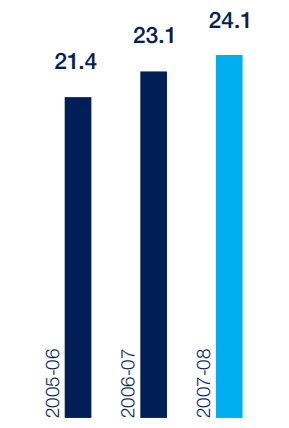
Air France-KLM and China Southern open exclusive discussions with a view to creating a cargo joint-venture in China. On June 2, 2008, a new phase begins with the signature of a framework agreement enabling the launch of a Sino-European cargo joint-venture.

#### ⑪ Establishment of a Group Executive Committee

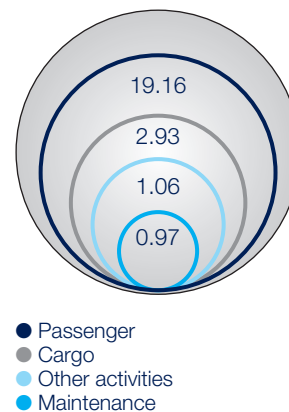
The integration of the two companies continues with the establishment of a Group Executive Committee comprised of eleven members representing the Group's main functions. It replaces the Strategic Management Committee created in May 2004, the year of the merger between Air France and KLM.



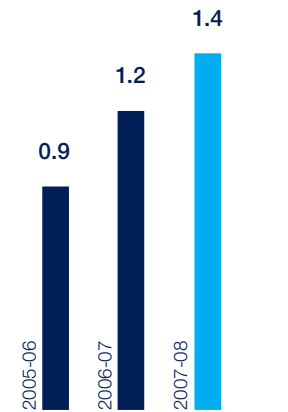
Results in line with objectives,  
benefiting from synergies and our cost  
saving measures



**Revenues**  
(in € billion)  
Revenues increased by  
€1.04 billion (+4.5%), driven  
by growth across all the  
businesses.



**Breakdown of revenues  
by activity**  
(in € billion)

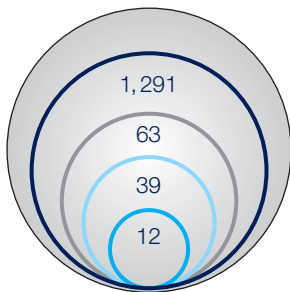


**Operating income**  
(in € billion)  
Operating income increased  
by 13.3% to €1.41 billion,  
despite the crisis in the  
financial sector and the  
sharp rise in the oil price.

## Consolidated figures

Year to March 31 (in € million)

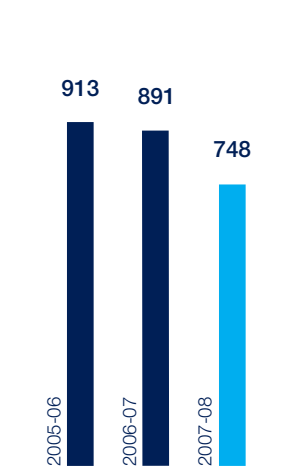
	2008	2007	2006
Revenues	24,114	23,073	21,448
Operating income	1,405	1,240	936
Income before tax	1,149	1,118	1,200
Net income, Group share	748	891	913
Earnings per share (in €)	2.63	3.35	3.47
Diluted earnings per share (in €)	2.47	3.05	3.25



- Passenger
- Maintenance
- Cargo
- Other activities

### Breakdown of operating income by activity

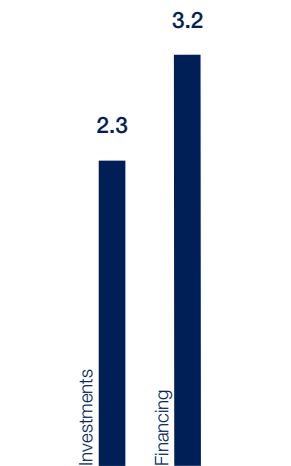
(in € million)



### Net income, Group share

(in € million)

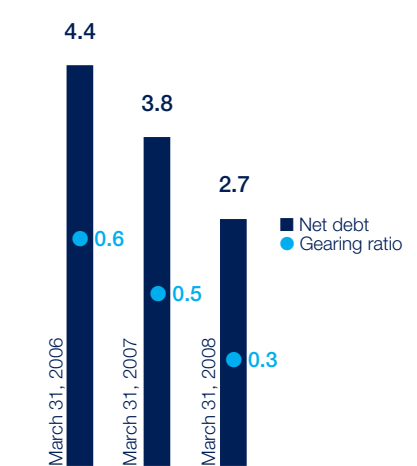
Earnings per share amounted to €2.63 at March 31, 2008. The dividend was increased by 21% to €0.58 per share.



### Financing of investments

(in € billion)

Investments amounted to €2.34 billion and were financed from operating cash flow of €2.59 billion. At March 31, 2008, free cash flow stood at €820 million, a €188 million improvement on the previous year.



### Financial structure

(in € billion)

The balance sheet was again strengthened, with net debt falling by €1.1 billion to €2.69 billion and stockholders' equity to €10.61 billion. The Group's gearing ratio has been halved within the space of two years.





13:00

## PARIS

With the opening of new terminals, Air France-KLM plans to make Paris-Charles de Gaulle the European reference hub.



# Interview

“In 2007-08 we achieved our objectives, despite the rise in the oil price and a deterioration in the economic environment in early 2008. I am confident of our ability to strengthen our business during a period which will prove difficult for many companies in our sector.” Jean-Cyril Spinetta, Chairman and Chief Executive Officer.

# Interview



# “We must continue to build an even stronger and competitive industry leader”

## **What is your view of the 2007-08 financial year?**

We achieved our objectives we had set out with and created value. It was, therefore, an excellent financial year with record operating income of €1.41 billion. Profitability improved further, with the adjusted operating margin gaining nearly one point to 6.7% and return on capital employed reaching 7.1%, again in line with our objective. Net income of €748 million was down on last year, but this was after the €530 million provision booked to reflect the current status of the US and European Union competition authorities' investigations of the cargo sector. This was partially offset by capital gains on our shareholding in WAM. Excluding these exceptional items, net income would have increased by 10.8%. This led us to increase the dividend per share by 21% to 58 euro cents.

This performance is all the more remarkable when set against an environment which began to deteriorate during the second half, with the credit crisis originating in the United States and the very sharp rise in the oil price.

## **Global economic growth and the oil price are key elements for your sector. What impact are they likely to have?**

Forecasts for global economic growth have been downgraded but remain positive, calling for growth of

some 3% over the next few years, driven by emerging countries. This should normally underpin an increase of around 6% in long-haul traffic demand. Unfortunately, the rise in fares needed to offset the higher fuel cost will put a temporary dampener on demand. We expect all of this to lead to a redrawing of the air transport landscape, with the leading players, which of course include Air France-KLM, becoming stronger.

## **How do you see the restructuring in the air transport landscape?**

With oil at \$135 a barrel and without hedging, fuel represents on average around 40% of costs for our industry, compared with just 5% only a decade ago. Cost-cutting is no longer sufficient to offset this sharp increase, so we need to increase fares and, as I mentioned earlier, this will weigh on demand. Over the next two years, I expect demand to be stable or even slightly down. Add to this the fact that some airlines operate old, fuel-hungry fleets and don't have fuel hedging to reduce the impact of this increase. In these circumstances, restructuring looks inevitable. It will involve capacity reductions already announced by many carriers, the acceleration of mergers - particularly in the United States - and, unfortunately, the disappearance of a number of players.

**You mentioned, in this context, that major players such as Air France-KLM will emerge stronger. Why do you believe that Air France-KLM could further reinforce its leadership position?**

Air France-KLM has a number of structural advantages: we have the largest route network between Europe and the rest of the world. With us, travelers can find virtually all the solutions for their travel needs. Furthermore, we offer numerous long-haul destinations on which our European competitors are not present. Finally, this network is organized around two powerful, well-coordinated hubs. These hubs are even more important in an environment of capacity reductions involving, amongst other things, the closure of direct flights on some routes. Many small and medium-sized airlines will no longer be able to maintain unprofitable routes, meaning their passengers will have to travel via a hub. And the more efficient your hub, the more attractive it will be for these passengers.

Our second competitive advantage can be summed up in one word: balance. Our business model is balanced in terms of markets, traffic and customers. Geographically, because we are not overly-dependent on any specific market, we enjoy a natural hedge against economic or geopolitical risk. Moreover, our traffic is also equally balanced between point-to-point and connecting traffic. Finally, in terms of our customer base, it is almost evenly split between business and leisure travelers.

Within the current oil price environment, the choice of aircraft is of the utmost importance. Thanks to the investment we have pursued for the past ten years which remains ongoing, we have a young, modern fleet, organized, in long-haul, around Boeing B777-200 and 300 aircraft. One figure alone sums up the importance of this choice: a Boeing B747-400 uses 30% more jet fuel than a Boeing B777-300. By 2012, we shall have phased

out all our Boeing B747-400s while the delivery of the Airbus A380 will further improve the fuel efficiency of our fleet. Our sound financial position, another of our key strengths, enables us to fund our future development in renewing the fleet.

**Looking at the situation of many US airlines, do your partnerships with Delta Air Lines and Northwest represent a competitive advantage?**

Yes, they give us a significant advantage. In 2009, thanks to the joint venture we are going to implement, we will create a major virtual carrier on the North Atlantic, which is still the leading air transport market globally. What Air France and Delta are already doing on one hand and KLM and Northwest on the other, which is sharing costs and revenues, we plan to do between the four companies. The revenue of this venture will represent about \$12 billion and we expect an improvement in the profitability of these routes of about 3 percentage points. Only Air France-KLM has this type of co-operation with US airlines who, moreover, are themselves about to merge. Finally, with our US partners, we are establishing a strong presence at London's Heathrow airport, the leading market between the United States and Europe.

**Do you also have competitive cost advantages over your competitors?**

The answer again is yes. We have two advantages: one is the potential for synergies thanks to the merger between Air France and KLM. The other is our fuel hedging strategy. At March 31, 2008, we had generated €685 million of synergies. Our target is €1 billion by 2011. Last October, we reached a new stage in the integration of our two companies with the setting up of the Group Executive Committee, whose eleven members are each responsible for one of the Group's key strategic functions. The decision-making process and the execution of such

decisions are now faster and more effective. We have high hopes for this new organization going forward and we are working on accelerating the generation of additional synergies.

The Group also benefits from the best fuel hedging position among the European carriers. Launched more than a decade ago with a strategy over four rolling years, our hedging reduces the impact of the increase in the oil price. For the 2008-09 financial year, we are 85% hedged at an oil price of \$88\*/bbl and 61% for the following year at a price of \$78\*/bbl. However, efficient as it is, this hedging does not prevent our fuel costs from rising. Indeed, compared with last year, our fuel bill will rise by €1.5 billion, with fuel surcharges offsetting only a part of this increase. We have, consequently, launched a plan for an additional €150 million of cost savings, on top of those targeted under the initial *Challenge 10* plan. The 2008-09 financial year should see total savings of €580 million.

**You have an objective of operating income of €1 billion for the current financial year based on an oil price at \$120. Are you maintaining this objective despite the recent increases in the oil price?**

We remain confident we can achieve this objective. Forward bookings for the next three months are good, particularly in premium class, while unit revenue per passenger continues to improve. Our cost-cutting measures are paying off. Finally, our pro-active hedging strategy reduces the impact of the recent increases.

**Where do you see your main challenges for the future?**

Were jet fuel to stabilize at a high level, our hedging strategy would become ineffective in the medium term, in other words by 2012-13. We would then have to pay the market price for oil. If we want to continue to create value, which is to generate a return on capital employed at least

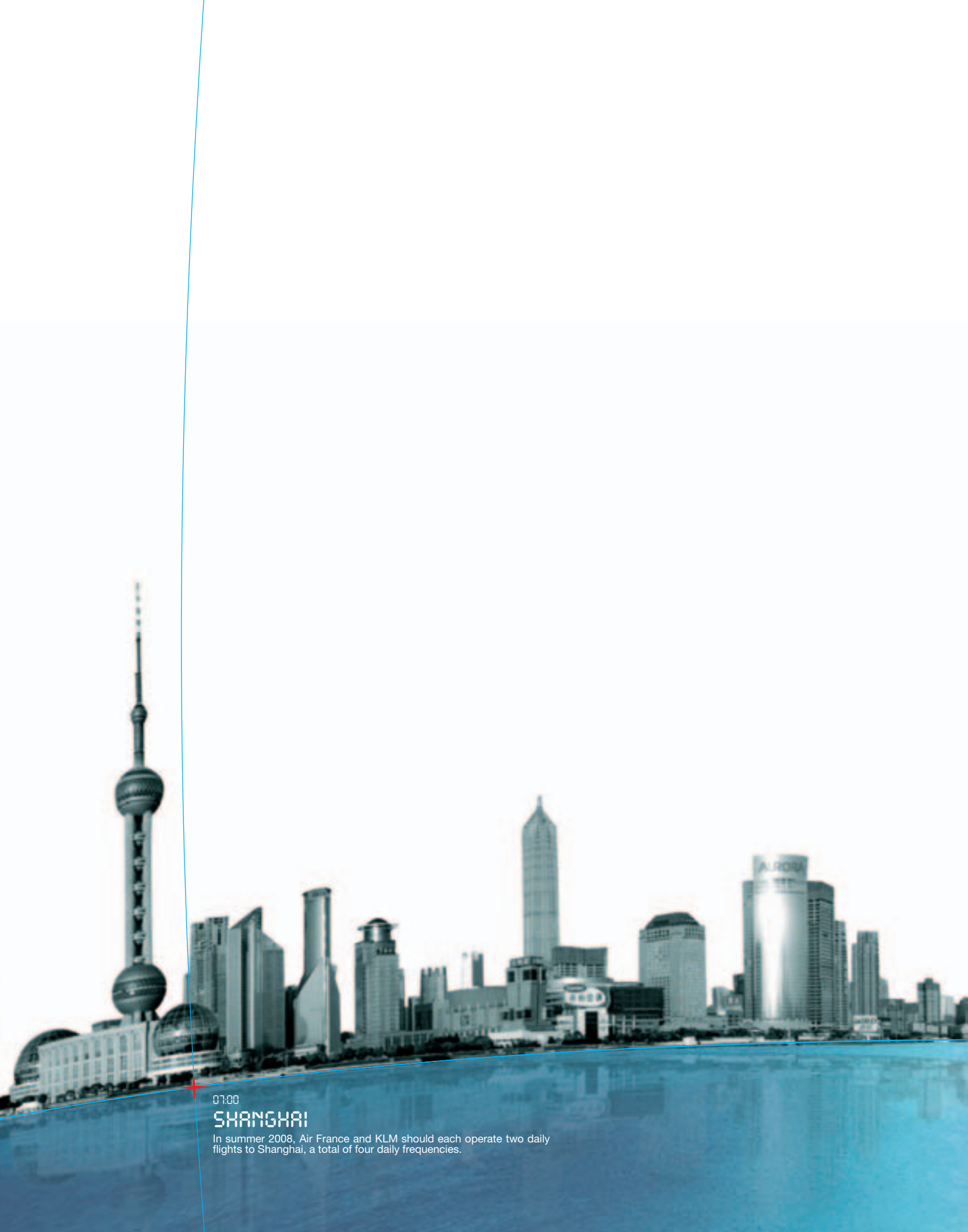


equal to the cost of capital, we will have to step up our efforts on productivity. The environment is another challenge. We aim to be the reference for the industry in this respect, but our industry must not be penalized by the introduction of environmental taxes. They provide little incentive for behavioral change and could be discriminatory if not applied equally in all countries. Finally, the next decade will see the emergence of new competitors from emerging markets.

The objective of Air France-KLM's management is to prepare the Group to face such challenges with confidence. We can count on the loyalty of our customers, our employees and our shareholders. This represents a considerable strength when it comes to dealing successfully with these new challenges.

*\* based on futures prices at June 20, 2008.*





07:00

## SHANGHAI

In summer 2008, Air France and KLM should each operate two daily flights to Shanghai, a total of four daily frequencies.

# Strategy

Air France-KLM aims to strengthen its European leadership position by leveraging the power of its network and alliances, a modern fleet, attractive product offerings and significant reserves of synergies, supported by a cost saving program.



## Air transportation faces three major challenges: the oil price, competition and the environment

As of its inception, air transportation has been evolving and the sector will see profound change over the next decade. In an increasingly liberalized universe, only a few large companies which benefit from sound networks, powerful hubs and modern fleets will be able to contend with competition, the rise in the oil price and increasingly demanding environmental standards and thus remain master of their own strategies.

### **Increased competition**

In Europe, three large groups have emerged over the past few years: Air France-KLM, Lufthansa and British Airways. While Lufthansa has growth ambitions in long-haul, supported by partnerships to attract traffic to its Frankfurt and Munich hubs, British Airways continues to refocus its business on high contribution flows out of London. The opening of Heathrow to competition on the North Atlantic will, furthermore, increase competition in its principal market. The US airlines are prioritizing international growth, notably on the North Atlantic, which is more profitable than their domestic business. The Gulf airlines are becoming serious competitors on flows for which their geographic positioning is attractive. In the future, powerful Chinese and Indian players could emerge.

In medium-haul, low cost carriers currently account for nearly 40% of capacity. In order to achieve their growth objectives, they are evolving towards a hybrid business model to attract, specifically, business traffic and intensifying their direct competition with the network companies. In the French network, in addition to the growth in low cost capacity, Air France has to contend with the extension of the TGV high speed rail service. Within this context, the Group is preparing for full market liberalization by developing its European positioning, fine-tuning its capacity and controlling its costs.

### A high oil price over the long term

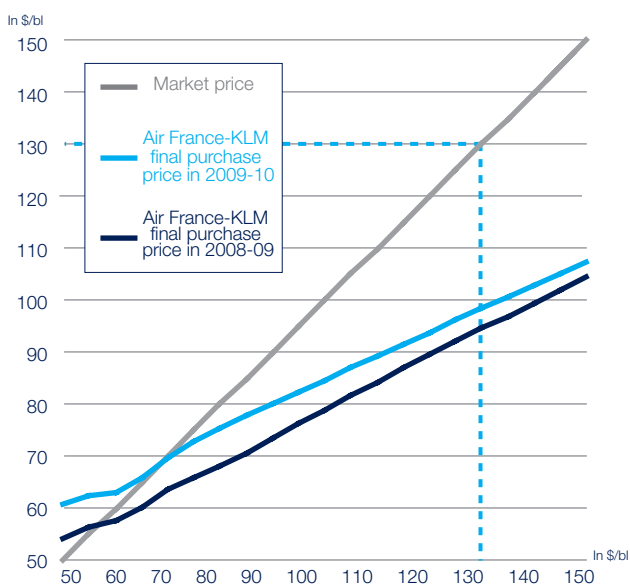
For the first time in the history of air transportation, jet fuel has become the largest cost item for airlines. Whereas it had amounted to an annual cost of around \$40 billion in the early 2000s, equivalent to around 10% of operating expenses, IATA estimates show it reaching more than \$230 billion in 2008, based on an oil price of \$130 per barrel, and representing some 40% of operating expenses. Thanks to its hedging strategy and investment in more efficient aircraft, the Air France-KLM Group is better positioned than other players in terms of limiting the impact of higher oil prices.

### Environmental responsibility

Air transportation, which has always been subject to significant constraints (safety, regulatory compliance, infrastructure, taxation), must now meet increasingly demanding environmental standards and help to combat global warming. The Air France-KLM Group works to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan. Air France and KLM have deployed separate but harmonized environmental management systems, based on the 14001 standard. Thus, the two environmental divisions work together on a range of issues and carry out common environmental reporting through the Group's Corporate Social Responsibility Report.

<b>France</b>	French Environmental Summit ( <i>Grenelle</i> ) Anti-growth lobby
<b>Europe</b>	ETS: inclusion of air transportation in 2012 Flight curfews Ecotaxes
<b>International</b>	Kyoto protocol Work of the IPCC ICAO recommendations

### An effective fuel hedging strategy



The Air France-KLM Group benefits from the fuel hedging strategy in place for nearly a decade, which reduces the negative impact of price rises and ensures the cost remains constant over the financial year.

## The Group is pursuing a strategy of profitable growth, leveraging the complementarity between its two companies

The Air France-KLM Group is leveraging the complementarity of the two companies in their three main businesses: passenger, cargo and maintenance. It is exploiting to the full the significant synergies in terms of both revenues and costs. The Group's growth strategy goes hand in hand with strict cost control, reflected in three-year cost saving plans.

### **A powerful network**

The Air France-KLM Group has the largest route network between Europe and the rest of the world. Of the 181 long-haul destinations operated by AEA (Association of European Airlines) member airlines in summer 2008, Air France offers 114, or 63% of the total, compared with 39% for British Airways and 47% for Lufthansa and Swiss. The Group also offers 42 unique destinations which are served by neither British Airways nor Lufthansa.

### **Two coordinated hubs at fast-developing airports**

The Group's network is coordinated around the two intercontinental hubs of Paris-Charles de Gaulle and Amsterdam-Schiphol, which are two of the four largest transfer platforms in Europe.

These hubs, which combine transfer traffic flows with those of point-to-point traffic, are based at airports with significant development potential.

Starting June 2007 and through to 2012, Air France will benefit from the gradual opening of new airport infrastructure which will provide top-flight facilities for passengers and make Paris-Charles de Gaulle, like Amsterdam-Schiphol, a reference within Europe.

### **A balanced customer base**

The Air France-KLM Group benefits from a balanced customer base, underpinning the resilience of its business model: 52% are leisure passengers and 48% travel for professional reasons while 56% are transfer passengers and 44% take direct flights. Furthermore, half of revenues come from regular customers whose loyalty the Group secures with its frequent flyer program and through corporate contracts.

### **A global alliance to extend the network**

Air France and KLM play a lead role in the SkyTeam alliance, the number two alliance world-wide in terms of market share. Bringing together eleven European, American and Asian airlines (Aeroflot, Aeromexico, Air France, Alitalia, Continental, CZA, Delta Air Lines, KLM, Korean Airways, Northwest Airlines and, as of 2007, China Southern), SkyTeam gives the Group the means to fully satisfy the expectations of its customers and to extend its offer under competitive conditions in both passenger and cargo transportation.

### **A modern fleet**

The Group makes an ongoing investment in the acquisition of new aircraft and currently operates one of the most rationalized and modern fleets in the sector. This means it can provide an enhanced level of passenger comfort and achieve substantial fuel savings while respecting its sustainable development commitments in reducing noise disturbance for local residents and greenhouse gas emissions.

### **An innovative product offer**

Air France-KLM's customer-focused strategy aims to offer passengers a wide range of destinations and innovative products including, for example, fare combinability, which increases the routing possibilities at attractive fares.

The joint *Flying Blue* frequent flyer program, e-services and improved cabin services are further examples of this innovation at work. These new products and services are developed while respecting the Group's environmental policy.

### **Synergies and cost saving plans**

Given the complementarity between their three main businesses, the companies are generating significant synergies. Originally estimated at €495 million over five years, this figure has been regularly increased with the most recent revision standing at €750 million (+51.5%) over the same period (through to 2008-09). In addition, there will be new synergies to come from, notably, the integration of operational IT in 2010-11 by which time total synergies should have reached €1 billion.

The two companies have also launched a joint three-year cost saving plan which will include the €212 million of synergies still to come. *Challenge 10*, effective as of April 1, 2007, is targeting total savings of €1.4 billion, or a 3% reduction in unit costs excluding fuel by the end of the 2009-10 financial year. In response to the current environment, the Group has launched an additional plan seeking a further €150 million of cost savings in the 2008-09 financial year.

**685**  
million euros  
of synergies since  
the merger of the two  
companies in 2004

## Our two powerful and coordinated hubs are amongst the four largest in Europe

In terms of revenues, the Air France-KLM Group is now the leading global air transport company thanks, notably, to the combined power of the Air France and KLM networks based, respectively, at the Paris-Charles de Gaulle and Amsterdam-Schiphol hubs. These hubs concentrate short and medium-haul flows before transferring them to long-haul flights: connecting passengers account for 50% of the total at Paris-Charles de Gaulle and 72% at Amsterdam-Schiphol.

The Air France and KLM hubs are synchronized around six transfer waves at Paris-Charles de Gaulle and seven at Amsterdam-Schiphol. In concentrating the arrivals and departures of medium and long-haul flights, these transfer waves offer a maximum number of flight connection opportunities in under two hours. With 30,500 weekly transfer opportunities in under two hours (summer 2008), Air France-KLM passengers benefit from the most extensive offer in Europe.

### **The hubway shuttle service linking Paris-Charles de Gaulle and Amsterdam-Schiphol**

A hubway shuttle service of fifteen daily flights links Paris-Charles de Gaulle and Amsterdam-Schiphol, enabling the Air France-KLM network to offer access to 258 destinations.

An experiment is also underway between Paris and Amsterdam giving passengers greater freedom at the airport and enabling automatic boarding for passengers who so wish. Thanks to an individual card regrouping new biometric technologies (integrated digital printing), RFID (Radio Frequency Identification) and thermal printing (the reverse of the boarding card can be reinscribed up to 500 times), customers will soon be able to avoid queuing for embarkation checks and board at will.



#### **Facilitating flight connections at Paris CDG2**

Air France and KLM transfer passengers now have access to self-service transfer kiosks at Paris-Charles de Gaulle and Amsterdam-Schiphol, giving them easy, rapid access to personalized information on the next leg of their journey.

Available in ten languages, this information includes an alternative flight should this be necessary, together with the issuance of a new boarding card. Air France-KLM is the first European company to offer this service.

#### **2007-2012: a new era for the Air France hub at Paris-Charles de Gaulle**

Paris-Charles de Gaulle is the premier European hub. At the heart of the new infrastructure for Air France and KLM passengers: the S3 satellite, the reopening of the boarding pier at Terminal 2E and, in autumn 2008, a new terminal reserved for regional aircraft. The new satellite S4, expected to come into service in 2012, will complete these new facilities. This international long-haul boarding satellite equipped with 17 parking stands will be able to handle up to 7.2 million passengers per year.

**258**  
destinations out of the  
Paris-Charles de Gaulle  
and Amsterdam-  
Schiphol hubs



#### **The Air France hub a focus for innovation**

In order to respond to new passenger expectations and behavior, Air France is optimizing the combination of all its human and technological resources and is designing tailor-made services. Thus, e-services provide greater autonomy and save time, freeing airport ground staff to attend to customers, particularly those with special needs such as those with disabilities or children traveling alone.

#### **New initiatives to strengthen the attractiveness of Schiphol**

Faced with competition from rapidly-developing German and Belgian airports, KLM is strengthening its position in its domestic market. The company has adapted its fares and offers contracts to business customers. It is also working on facilitating passenger transportation. As of the 2008 first half, passengers outbound from Amsterdam will benefit from additional services such as journey time reckoners or *park, sleep and fly* type products, packaging a flight with car parking and airport hotel accommodation. There is also a very promising initiative underway with the Dutch railways (NS) offering small and medium-sized companies as well as other corporate customers a free NS Business Card with a 20% reduction on all rail fares. All these services will be offered over the [www.klm.nl](http://www.klm.nl) website.





## What are the benefits of the hub?

### Environmental benefits

In combining small flows of medium-haul traffic on a long-haul flight, the hub works very much like car pooling: a passenger from Marseilles and another from Stockholm thus travel together between Paris and New York. Fewer flights are needed to carry the same number of passengers to their destinations, reducing CO<sub>2</sub> emissions.

### Customer benefits

- The hub gives access to all world regions, whatever the point of origin.
- Each flight combines connecting and point-to-point traffic, increasing the volume of traffic and the frequencies for each destination.
- The hub favors the opening of new direct long-haul routes fed, in part, by the pooling of small traffic flows. Air France has thus been able to introduce a direct flight to Santiago de Chile, whereas this destination had previously involved a stopover in Buenos Aires, enabling the Air France-KLM passenger to gain three hours on the total journey time.
- The hub increases frequencies and the choice of flight times.

### Financial benefits

- The power of the Air France-KLM double hub attracts high-contribution passengers seeking to optimize their journey times.
- Routes where the traffic is highest, fed by flights coming from smaller outstations, can be operated in larger-capacity aircraft which are also cheaper.

### Air France-KLM, the most connecting opportunities in Europe

<b>Air France-KLM</b>	<b>30,566</b>
Lufthansa-Swiss	22,664
British Airways	7,156

Number of medium-haul/long-haul connecting opportunities in under two hours  
(Source: OAG, summer 2008)

## A modern, rationalized fleet combining comfort and energy efficiency

At March 31, 2008, the Air France-KLM Group fleet comprised 622 aircraft, of which 607 were operational (591 and 569 at March 31, 2007). The main fleet consisted of 408 aircraft, of which 159 long-haul, 16 cargo and 233 medium-haul aircraft including 33 aircraft in the transavia.com fleet. The regional fleet comprised 214 aircraft.

### **A pro-active fleet policy**

The Air France-KLM Group seeks to meet the needs of its markets while respecting technological consistency and reducing its impact on the environment. Its fleet plan aims to meet the requirement for fleet renewal and expansion while remaining compatible with the Group's financial capacity. The fleet plan must also preserve the asset value of the fleet over the medium and long term and while retaining an adequate level of flexibility.

The analysis of requirements, whether in terms of renewal or expansion, is based on the age curve of the aircraft, the availability of replacement aircraft and the outlook in each market. This pro-active management of the fleet with, particularly, a common approach to suppliers and a transfer of aircraft between Group subsidiaries, generated synergies of around €2 million during the financial year, bringing the total since the merger of the two companies to nearly €10 million.

### **Flexibility as an optimization tool**

In a sector which is subject to considerable and rapid change, flexibility enables capacity to be fine-tuned to demand. Hence a third of the fleet is under operating lease, enabling the restitution or prolonged operation of an aircraft depending on requirements. The Group also includes clauses in its contracts enabling the adjustment of delivery schedules and possible changes in model within a family of aircraft.

### **New more efficient aircraft with enhanced environmental performance**

Air France and KLM continue to invest in their fleets. In May 2007, Air France decided to renew its Boeing B747-400s and another section of the medium-haul fleet. Eighteen Boeing B747-400s, of which thirteen passenger and five cargo aircraft, will be replaced by eighteen B777s between 2007 and 2013. This investment will increase the fuel efficiency of the long-haul fleet whose consumption per passenger over 100 kilometers will be reduced from 3.88 currently to 3.44 liters in 2012. The replacement of the B747-400s will reduce the CO<sub>2</sub> emissions of this sub-fleet by between 23% and 28% on 2006 levels by 2012. In the medium-haul fleet, the 30 longest-serving Airbus A320s will be replaced by 30 A320 and A321 new-generation aircraft, reducing fuel consumption and carbon



emissions. This partial renewal will enable the company to await the new more efficient generation of medium-haul aircraft planned for beyond 2015. In 2005-06, KLM decided to replace its Boeing B767-300ERs with Airbus A330s and Boeing B777-200s. This renewal will be completed in summer 2009.

#### **A first joint aircraft order**

In its regional fleet, the Group has placed its first joint order for 20 Embraer E170 and E190 regional jets, together with 18 options, for its Régional and KLM Cityhopper subsidiaries. This should generate significant synergies in the purchasing of aircraft, engines and spare parts as well as in fleet management, operational maintenance and flight crew training.

#### **Air France and KLM operate the largest Boeing B777 fleet globally, an aircraft consistent with the Group's profitable growth strategy**

The Group currently operates 77 Boeing B777s. On April 30, 2008, Air France took delivery of a Boeing B777-300ER, its 50<sup>th</sup> Boeing 777. This aircraft can carry up to 325 passengers on international routes and 472 passengers on the Caribbean-Indian Ocean network. At 57 tons, its carrying capacity is unequalled by any other twin-engine long-haul aircraft.

**607**  
aircraft  
in operation

## SkyTeam, the number two global alliance with a market share of 19%

### **The SkyTeam alliance: a global network of high-quality partners**

First created in 2000 by Aeromexico, Air France, Delta and Korean Air, the alliance expanded around these four founders with the addition of seven new members (Aeroflot, Alitalia, China Southern, Continental Airlines, CSA Czech Airlines, KLM and Northwest Airlines). In September 2007, it welcomed three new associate airline members, Air Europa, Copa Airlines and Kenya Airways, contributing 47 new destinations and nearly 500 additional daily flights. Local partnerships with, for example, JAL in Japan and Qantas in Australia also enhance the SkyTeam offer. The alliance carried 428 million passengers in 2007.

### **An extension of the product range**

The SkyTeam network serves the fastest-growing markets where 80% of global air traffic is concentrated. SkyTeam customers benefit from harmonized services and the most efficient hubs in the United States (Atlanta, Detroit), Asia (Incheon) and Europe (Paris-Charles de Gaulle and Amsterdam-Schiphol). SkyTeam offers them more flight connection opportunities and direct flights to destinations in Europe and the United States than any other alliance.

They also benefit from a wide choice of exclusive fares and tailor-made products such as the SkyTeam America Pass, the SkyTeam Asia Pass and the SkyTeam Round the World, making travel easier. Four hundred lounges can be accessed by all passengers traveling in first or business class or who are *Elite Plus* members.

### **Potential for growth**

SkyTeam plans to continue its development in 2008 and is seeking new partnerships in markets with strong growth potential, such as Brazil and India. The alliance will take advantage of the *Open Skies* agreement between the European Union and the United States to gradually extend its offer and strengthen its position at London-Heathrow: since March 30, 2008, SkyTeam has offered nine new daily direct flights on seven new routes between the United States and the British capital.



SkyTeam was voted 2007 Best Airline Alliance for the second year running by readers of US magazine, *Business Traveler*, for the quality of its services and its extensive network.

841  
destinations

162  
countries

16,400  
daily flights

#### **China Southern joins SkyTeam**

In November 2007, China Southern became the first Chinese airline to join a global alliance. Without taking into account its two subsidiaries, China Northern and Xinjiang Airlines, China Southern is the leading Chinese carrier in terms of fleet size (305 aircraft), passenger numbers (50 million per year), revenues (€5 billion annually) and destinations served, particularly in the domestic network coordinated around its four hubs: Guangzhou, Beijing, Ouroumtsi (in the far west) and Shenyang (in the north-east). This partnership provides the other SkyTeam members with significant transfer potential inside China and, in return, enables China Southern to develop internationally. In time, the relationship between Air France and China Southern could be extended beyond the respective hubs of the two airlines to increased cooperation in related areas such as catering and maintenance. Furthermore, the two companies are in the process of establishing a cargo joint-venture.



22:00

## NEW YORK

The *Open Skies* agreement between Europe and the United States enables Air France and KLM to serve North America out of Heathrow.



# Activities

Passenger, cargo and maintenance: Air France-KLM's leadership in these three businesses is based on customer service quality, continuous innovation and the complementarity of the two brands.



Passenger activity



# The group is strengthening its leadership position in an increasingly liberalized market

The Air France-KLM Group is the European leader in its main business, passenger transportation, which accounts for 80% of the company's revenues and 92% of operating income. The Group's passenger strategy is based on a combination of strengths which give it a decisive advantage over the principal competitors: a continuous improvement in service quality for passengers and a high degree of responsiveness enabling the Group to capitalize on development opportunities.

## **A network organized around five hubs**

With a fleet of 543 passenger aircraft in operation, the Group operates 2,500 daily flights to 258 destinations in 105 countries. This network is organized around five hubs. Paris-Charles de Gaulle and Amsterdam-Schiphol are the international transfer platforms, Paris-Orly covers the French domestic market while Lyons, a medium-haul hub, is principally reserved for European trans-regional flights. Finally, in April 2008, the Group established two strong positions in London: to the United States out of Heathrow Airport and to Europe out of London City Airport.

## **Continuous innovation to the benefit of the customer**

In order to encourage innovation, the Group has deployed tools to ensure a steady flow of new ideas. Continuous innovation and customer relationships are key to the Group's strategy for strengthening its leadership position in an increasingly liberalized market. Air France-KLM is thus pursuing the development of e-services in order to ensure a streamlined travel experience from the moment a booking is made.

**19.16**  
billion euros  
of revenues

## The Group offers its passengers an extensive network and innovative services

During the financial year 74.8 million passengers chose to travel on the Group's network, benefiting from a wide choice of destinations, exclusive facilities and a range of services recognized for their quality.

### **A powerful offer based on a network coordinated around two major European hubs**

Paris-Charles de Gaulle and Amsterdam-Schiphol, the two powerful, coordinated hubs, offer the Group's customers a wide choice of destinations and flight times as well as a large number of frequencies per destination. Passengers can choose between eleven daily flights to New York, five to Tokyo and four to Johannesburg and Montreal.

This organization is particularly attractive to both high contribution passengers looking for a direct flight and connecting passengers who also have the opportunity to optimize their trip in using the two hubs.

This unique offer has attracted new customers who have generated 220 million of additional revenues since 2004. The Air France-KLM offer is extended still further by SkyTeam and local partnerships.

### **New long-haul routes departing from Europe**

Following the *Open Skies* agreement, the Group has established operations at Heathrow, the largest European long-haul market to the United States: high contribution traffic flows between New York and London are three times greater than the flows between New York and Paris, the leading Continental European market. As of April 2008, in order to establish a meaningful network out of Heathrow, Air France and KLM made slots available to Delta Air Lines and Northwest, enabling nine daily flights to be operated under code share to seven US cities, of which the two largest are New York and Los Angeles. The latter is now served by a direct Air France flight, making Air France the first European carrier to operate a long-haul flight between two destinations situated outside its national territory.





In October 2007, Air France and Delta concluded a joint-venture agreement based on the model established by KLM and Northwest who have been cooperating for more than a decade on the North Atlantic. With this type of agreement, the companies share revenues and costs and jointly develop the network. The scope of the joint-venture between Air France and Delta includes the flights linking the hubs of the two airlines as well as the connecting flights and those departing from London-Heathrow. In 2009, these two joint ventures will be merged in a single four-way joint-venture. The scope will be extended to all the transatlantic flights between the United States, Canada, Mexico, Europe and the Mediterranean basin, representing revenues of around \$12 billion.

Air France also continues to develop its operations in London. One year ago, CityJet for Air France introduced services linking London City, an airport located close to London's new business districts, with ten new European cities.

75  
million  
passengers

124  
long-haul  
destinations in  
69 countries

134  
medium-haul  
destinations in  
36 countries

## The digital airport is streamlining the travel experience

E-services are all the automatized and IT-based services which ensure a more seamless and enjoyable travel experience from booking right through to boarding. New technologies developed across the entire e-services chain enable staff to refocus on a new customer service relationship.

### **The simplicity of e-services**

All the tickets sold by the Group are electronic. On the websites of the two airlines, passengers can purchase a ticket, consult the times of all the Group's flights and also manage their reservation with their electronic ticket. Since April 2006, Air France and KLM customers can also check in over the internet for virtually all the destinations

**550**  
self-service check-in  
kiosks located  
at 63 airports  
world-wide

offered by the two airlines. At any time from 24 hours to 30 minutes before the check-in limit for the flight, passengers can print their boarding cards at home or in the office and choose a seat, whether traveling with or without hold baggage, then go straight to the boarding lounge at the airport.

### **Check-in in less than 30 seconds**

Every day nearly 550 self-service check-in kiosks located in 63 airports save the Group's 20,000 customers precious time at check-in. Since October 2007, at Paris-Charles de Gaulle and Amsterdam-Schiphol, Air France and KLM transfer passenger have had access to self-service transfer kiosks giving them, on arrival, easy and rapid access to information about their connecting flight. As of the 2008 first half, customers have been able to withdraw refreshment and meal vouchers from these kiosks should the transfer periods prove longer than expected.

New technologies not only enable the offer of personalized information in real time but also the suggestion of alternative solutions in the event the planned flight is delayed.

In order to offer their customers an easier, streamlined travel experience, Air France and KLM have both offered cell phone check-in since June 2007 for Air France and



KLM short and medium-haul flights departing from virtually all the European outstations. In order to take advantage of this service, the customer must have an internet-enabled call phone and go to <http://mobile.airfrance.com> or [www.klm.com](http://www.klm.com). This new e-service should be extended to the entire network and offer new functionalities by the end of 2008.

#### **Information around the clock, anywhere in the world**

Passengers can access Air France and KLM services at any time using a cell phone with mobile internet access. These services (latest flight news, Air France and KLM flight schedules, telephone numbers for the two airlines, and *Flying Blue* miles balances) can also be downloaded to a PDA (Personal Digital Assistant).

#### **At home with the Air France *keep in touch* widget**

As of 2008, visitors to the Air France British website, [www.airfrance.co.uk](http://www.airfrance.co.uk) can install an Air France *keep in touch* widget on their computers to stay informed, on a real time basis, of fare promotions on flights departing from their region.

#### **Awards for Air France customer services**

This year, Air France won the *Prix du jury* for its around the clock 36 54 customer call service in the French Vocal Trophies. This prize was awarded by an independent jury and recognizes the effectiveness and originality of the service ergonomics.

#### **China in the e-services era**

Since July 2007, China has belonged to the e-ticket era thanks to an agreement with Travel Sky. On their respective Chinese websites, Air France and KLM are launching the *Best Price Guarantee* program, with each airline guaranteeing that fares on its website are cheaper than those offered through a different sales channel.

## The onboard experience: passenger comfort, service quality and top-flight entertainment

Passenger comfort and state-of-the-art entertainment are priorities for Air France-KLM in that they are key to building brand loyalty.

### **Making the most of the journey time**

Since September 2007, KLM has offered additional inflight entertainment on board its Boeing B777 and Airbus A330 aircraft. All passengers benefit from new programs such as language courses, audio books, a business program and an extended musical offer through its acclaimed jukebox function.

KLM is also the first airline to offer its passengers information on all aspects of the flight, such as the aerodynamics of the aircraft, the inflight procedures and even any upcoming turbulence. These new services are also available to *World Business Class* customers in Boeing B747s.

Since November 2007, movies have taken center stage on Air France long-haul flights, with a choice of 85 video-on-demand films, of which ten are currently showing in ground-based movie houses. Some of these films are available in nine languages (German, English, Chinese, Korean, Spanish, French, Italian, Portuguese and Japanese).

Amongst the new features, passengers can discover well-known television series, video clips, and a choice of

200 CDs leaving them free to compose their own musical program, together with practical information on Air France services.

In total, there are 400 hours of programs. In another first, via Geovision, Air France passengers on flights between Paris and Singapore, Delhi, Mumbai and Bangalore can discover the landscape below thanks to a series of satellite photographs selected by Air France's partner, the European Space Agency.

**85**  
video-on-demand  
movies:  
the largest inflight cinema





#### **A responsible commercial policy**

The Group explores all possible ways of reducing its environmental footprint and implements pro-active initiatives to this end: *Flying Blue*, the Air France-KLM Group's frequent flyer program, is gradually replacing plastic cards with cards based on natural starch from plants. Its members are encouraged to receive their account statements by email and 37% have accepted, enabling a saving of 200 tons of paper.

Baggage tags will gradually be replaced with biodegradable versions enabling, by the end of the process, a saving of some ten tons of PVC. Furthermore, Air France-KLM also offers its customers a CO<sub>2</sub> emission offsetting program: in partnership with the WWF for KLM and Goodplanet for Air France, voluntary contributions together with the Group's various initiatives all contribute towards supporting projects focused on the development of renewable energies.

#### **Effective customer loyalty tools**

Launched in June 2005, *Flying Blue*, the frequent flyer program common to the Group's two airlines, is growing steadily, its membership having increased from 10 million in 2005 to 13 million this year. Air France and KLM passengers can also benefit from the Group's combined network. *Flying Blue* also enables members to collect miles that can be redeemed on 16,400 flights operated by SkyTeam alliance members as well as with 130 air or commercial partners.

*Flying Blue* members benefit from facilities offered by e-services: they can consult their account, request the crediting of miles or access promotional offers on the commercial websites of the two airlines.

**100,000**  
new members join  
the *Flying Blue* frequent flyer  
program every month

Cargo activity



# The Group is reinforcing its position as the European and global leader in air freight

Air France-KLM Cargo is the European and global leader in air freight (excluding integrators) with an operational fleet of 13 exclusively cargo aircraft. Contributing 12% of total revenues, the cargo business is the Group's second activity.

## **Higher costs and increased competition**

The economic slowdown in the United States, the increase in the oil price and dollar weakness all held back the cargo activity despite continued strong demand (+4%) driven by the development of the Chinese market.

Competition with shipping has increased with the efficiency of large tonnage ships supported by that of port facilities enabling sea freight to broaden its offer and lower prices. New players have emerged both in Asia and the Middle East, again adding to competition.

2007 was a record year with orders placed for 151 cargo aircraft, the global cargo fleet entering a renewal cycle accelerated by the increase in the jet fuel price. Despite likely overcapacity, annual air freight growth should average close to 4.8% through to 2011.

In this challenging environment, Air France-KLM Cargo maintained its market share in terms of traffic (29.5% compared with 29.6% in 2006) amongst AEA (Association

of European Airlines) airlines and globally (7% as in 2006), thanks to its integrated organization, its network, an attractive offer and measures to adapt the business. During the financial year the Group carried more than 1.5 million tons of cargo, of which 50% in the holds of passenger aircraft and 50% in 13 dedicated cargo aircraft to 350 destinations in 175 countries.

**1.5**  
million  
tons carried

## The integrated organization offers customers rapid handling and appropriate solutions

In response to their customers' needs, Air France Cargo and KLM Cargo decided, as of October 2005, to create an integrated organization, the Joint Cargo Team, to cover sales, distribution, marketing, network management and communication as well as the strategy and development teams. The integrated functions regroup more than 2,300 of the 5,750 employees who work for the cargo business. Thanks to this organization, the Group's customers benefit from one contact point, one contract and a unique network with the choice of two operational systems via Paris-Charles de Gaulle or Amsterdam-Schiphol, or a combination of the two hubs.

This integration has generated significant synergies totaling 70 million (25 million during the 2007-08 financial year).

### **An offer tailored to the specific needs of each customer**

Air France-KLM Cargo has a product range organized around four product families which offer rapid and effective solutions to the specific needs of industrial companies and the markets. This product range is also offered by the members of the SkyTeam Cargo alliance.

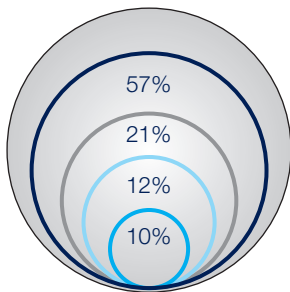
**Equation** is the Group's express shipment solution and guarantees immediate boarding, without prior reservation, on the first available flight.

**Cohesion** is a customized logistics solution, based on a three-way contractual agreement between the shipper, the cargo agent and the airline. It gives customers the opportunity to establish a closer relationship with Air France-KLM Cargo and has seen steady growth since its launch.

**Variation** offers solutions for the transportation of atypical merchandise, in which Air France-KLM Cargo specializes, ranging from hazardous or high added-value products to live animals, over-sized parcels and the French mail service.

**Dimension** covers the general cargo category and offers standard airport-to-airport shipping of cargo that does not require special handling and mostly concerns consolidated shipments. Its share of revenues is gradually declining in favor of other higher-added-value products.





- Dimension
- Variation
- Cohesion
- Equation

**Breakdown of revenues  
by product**

**SkyTeam Cargo**

Launched in September 2000, SkyTeam Cargo is the largest air freight alliance, regrouping eight European, American and Asian airlines: Aeromexico Cargo, Air France Cargo, Alitalia Cargo, CSA Cargo, Delta Air Logistics, KLM Cargo, Korean Cargo and Northwest Cargo. The alliance covers the main strategic trade routes with 728 destinations. The alliance also prioritizes one sole contact point together with the *one roof concept*, with most of the freight transiting the cities served by the alliance being handled in warehouses or by ground handlers that are common to all the SkyTeam Cargo members.

**2.93**  
billion euros  
of revenues

## Faced with changes in the market, the Group is adapting its offer and leveraging its strengths

Recognizing the excess capacity, the increase in the oil price and increased competition from Chinese airlines on the Europe-Asia axis, the Group took rapid measures to adapt its business.

### **Accelerated fleet renewal**

Since 2006, in order to fine-tune its capacity and improve its energy and environmental performance, Air France-KLM Cargo has been replacing its Boeing B747-200s with Boeing B747 Cargo 400 aircraft.

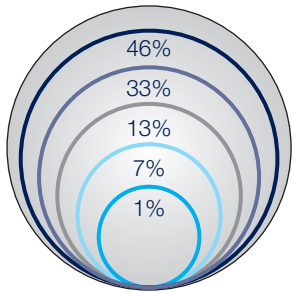
Similarly, in May 2007, it decided to replace the Boeing B747-400s with Boeing 777-200Fs in order to reduce unit costs. Foreseeing the growth in air freight between Asia and Europe and in Asia itself, Air France-KLM stepped up its cooperation with China Southern with the signature, in July 2007, of a letter of intent aimed at the creation of a joint cargo company which could go ahead during the 2008-09 financial year.

### **The environment: a key concern for the cargo activity**

For Air France-KLM Cargo, limiting the impact of its activity on the environment is a key consideration. The renewal of the fleet, effective in 2012, will enable an ongoing reduction in its environmental footprint. The Group also offers its customers the opportunity to offset the CO<sub>2</sub> emissions generated by their air freight requirements.

In developing e-freight (electronic freight), Air France-KLM is reducing paper consumption.

**13**  
aircraft in operation:  
one of the largest cargo  
fleets in the world



- Europe
- Asia
- Americas
- Africa and Middle East
- Caribbean and Indian Ocean

**Breakdown of revenues by sales region**



**The Boeing B777F: a technological and environmental advance**

In October 2008, Air France Cargo will take delivery of the first Boeing B777F in an order of five aircraft, an aircraft type for which it is the launch airline. This aircraft will give the company a decisive advantage over its competitors. With a potential revenue payload capability of 104 metric tons, the Boeing B777F has a capacity close to that of the Boeing B747-400. It also enables a fuel saving of around 20% compared with the Boeing B747-400. In 2013, the Air France cargo fleet will be exclusively comprised of 12 Boeing B777Fs.

**Air France-KLM Cargo: electronic shipping of freight**

On November 5, 2007, Air France-KLM Cargo carried out the first electronic cargo shipments in the countries participating in a pilot project: Hong Kong, Singapore, Canada, the Netherlands and the United Kingdom. This major advance for air freight improves the monitoring and consistency of the entire logistics chain. After ten months of planning involving the International Air Transport Association (IATA), customs, governmental authorities, handling agents and airlines as well as the freight forwarders participating in the Netherlands (DHL, Schenker, Panalpina and TMI Group subsidiary Road Air) electronic cargo has now become a reality. Air France-KLM Cargo's overall objective is to increase the percentage of electronic cargo to 50% of shipments on the major trade routes over the next five years.



Maintenance activity



# The Group is developing a common operational model for a reference network

Aeronautics maintenance is the Air France-KLM Group's third business. Revenues generated with third-party customers contribute around 4% of total revenues for the Group and around a third of revenues for Air France-KLM's maintenance activity.

**2.9**  
billion euros  
of total revenues

**969**  
million euros of  
third-party revenues

## **Continued growth in the aeronautics maintenance market**

The aeronautics maintenance market, estimated at \$45 billion in 2007, is expected to grow by around 3%\* per year over the next decade. However, the growth will be characterized by some marked regional differences. Currently, three zones represent more than 80% of the market (North America with 36%, Europe with 27% and South-East Asia with 18%) whose growth rate is close to the market average, whereas the growth rate in China, India and the Middle East should be significantly higher at between 8% and 15%.

Furthermore, the proportion of outsourced maintenance is growing and is expected to increase from 52% in 2007 to more than 70% within ten years. Competition is, however, increasing, with OEMs offering their customers integrated maintenance solutions and independent players benefiting from the consolidation in this sector.

\*Source: Aerostrategy – 2008

# Maintenance activity



## **A significant dollar effect**

In an increasingly competitive market, the maintenance activities located in Europe are impacted by the devaluation in the dollar relative to the euro. In effect, contracts are principally negotiated in dollars, whereas the costs of European maintenance activities are mostly in euros.

## **Two specialized centers for the Group**

The Group's MRO (Maintenance, Repair & Overhaul) activities are mostly regrouped within two profit centers: Air France Industries (AFI) and KLM Engineering & Maintenance (KLM E&M).

AFI and KLM E&M maintain the fleets of their respective brands as well as those of over 150 customers, handling more than 900 aircraft. The Group's total MRO revenues amounted to €2.9 billion. In order to ensure maintenance located as close as possible to the operational fleet, AFI has runway-located facilities, known as HMCs or hub maintenance centers, so that inspections can take place as soon as aircraft arrive at the terminal. Procedures have been optimized, enabling information to be received prior to the aircraft's arrival and maintenance and materials planned. These new facilities improve line maintenance and contribute to the respect of the Group's maintenance program. Similarly, subsidiary KLM UK Engineering has

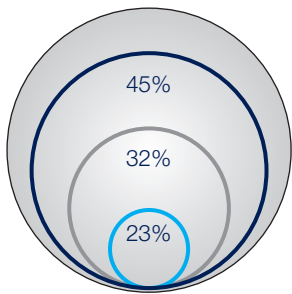
opened a new in-line maintenance center at London City Airport, enabling it to provide this service for the CityJet fleet and to new third-party customers.

## **Major changes in the heavy maintenance business**

As a highly labor-intensive business, the heavy airframe maintenance activity is evolving with the arrival of new technologies and the improved reliability of materials and to contend with competition from low cost countries. The Group is adapting its industrial facilities and calls on airframe maintenance capacity in low-cost countries in order to be able to market a competitive service in this segment, while retaining strategic expertise in the heavy maintenance of the fleets it operates as well as its cabin modification capacity close to operations.

## **A multi-product offer tailored to customer expectations**

The engineering of the Group's fleet is handled by AFI and KLM E&M, ensuring that this activity's legacy of skills and expertise is perpetuated and enabling it to offer customized monitoring of customer maintenance programs. From line maintenance to component support, engine overhaul and cabin modification, the AFI and KLM E&M multi-product offer covers the entire maintenance chain.



- Aircraft maintenance
- Component overhaul
- Engine overhaul

**Breakdown of revenues in the maintenance activity**

**CRMA: celebrates its fifty-year anniversary**

Subsidiary CRMA, which celebrated its fifty-year anniversary this year, is complementing the growth in the engine overhaul business by developing capacity in GE90 component repair and in its combustion chamber specialization.

**155**

airports world-wide, at which the Group's maintenance activity is present

**900**

aircraft handled



# Maintenance activity

## **Component support: recognized expertise**

AFI and KLM E&M are developing expertise that is acclaimed by the market and its maintenance facilities enjoy a reputation for state-of-the-art competence. Geographical presence and customer proximity remain key to the component support business. The deployment of the Group's logistics network has seen the opening of a number of logistics centers in three main regions (South-East Asia, China and the United States), where its subsidiary AMG ensures localized logistics and the development of component repair capabilities. Integrated services, the strategic availability of parts inventories and the scale effects on flagship products are also significant drivers of competitiveness. The continuing trust and satisfaction of customers was reflected, in 2007-08, in the renewal of a number of major support contracts, such as for Royal Jordanian's Airbus A340s and A321s or BRA Transportes's Boeing B737 aircraft. Partnerships with a number of OEMs strengthen the commercial positioning of the Group while providing economies of scale. Thus, the number of Boeing B777s supported by the CSP (Component Support Program) partnership between AFI and Boeing continued to grow over the financial year to 124 aircraft. A similar partnership has been developed between KLM E&M and Boeing for the new-generation Boeing B737s. Subsidiary EPCOR, specialized in APU (Auxiliary Power Unit) overhaul supplements the multi-product offer on the Boeing B737 NG and B777 aircraft and the Airbus A330 and A340.

## **Engine support: scale effects**

The development of the engine support business is benefiting from the scale effect provided by the Group's fleet and from strategic partnerships with engine OEMs. AFI is increasing its engine overhaul capacity on the GE90 and is preparing for the arrival of the GP7000 destined for the Airbus A380. For its part, KLM E&M is developing its position in CF6-80 E1 overhaul (the engine for the Group's A330s) and continues to ensure the maintenance checks on General Electric's CFM56-7 engine. Third-party revenues continue to grow with customers such as Pegasus Airlines choosing AFI KLM E&M for the maintenance of their CFM56-7B engines.

## **The drive for innovation and high quality standards**

AFI and KLM E&M combine technological innovation with the drive for productivity. The aircraft painting system developed by KLM E&M in 2007, for example, reduces the amount of product used by 15% and thus the weight of the aircraft, contributing to the reduction in fuel consumption. In the spirit of sharing best practice, Air France has adopted the hangar-based engine wash system known as *Water Wash* developed by KLM E&M. Innovation doesn't just mean developing new technologies but also the continuous improvement of existing systems and processes. The two companies are committed to a continuous drive for progress combining in-house momentum with customer satisfaction and improved business performance.

Thus, within the framework of its Quality Innovation Program (QIP), AFI encourages all its employees to submit innovative ideas known as QIPs and see them through to their implementation.

In 2006, of the 5,700 QIPs put forward, 84 enabled cost savings of some €4 million. In 2007-08 more than 7,100 ideas were submitted.



#### **Investment in training**

Business growth depends on the professionalism and expertise of teams who are abreast of the latest technologies. A program of regular training ensures that their knowledge is current and meets the needs of a number of specialist competences. It contributes to securing the loyalty of high-quality manpower. An ambitious apprenticeship program developed over the past ten years at AFI reached a new record in this financial year in welcoming more than 400 apprentices.

#### **Towards a common operational model**

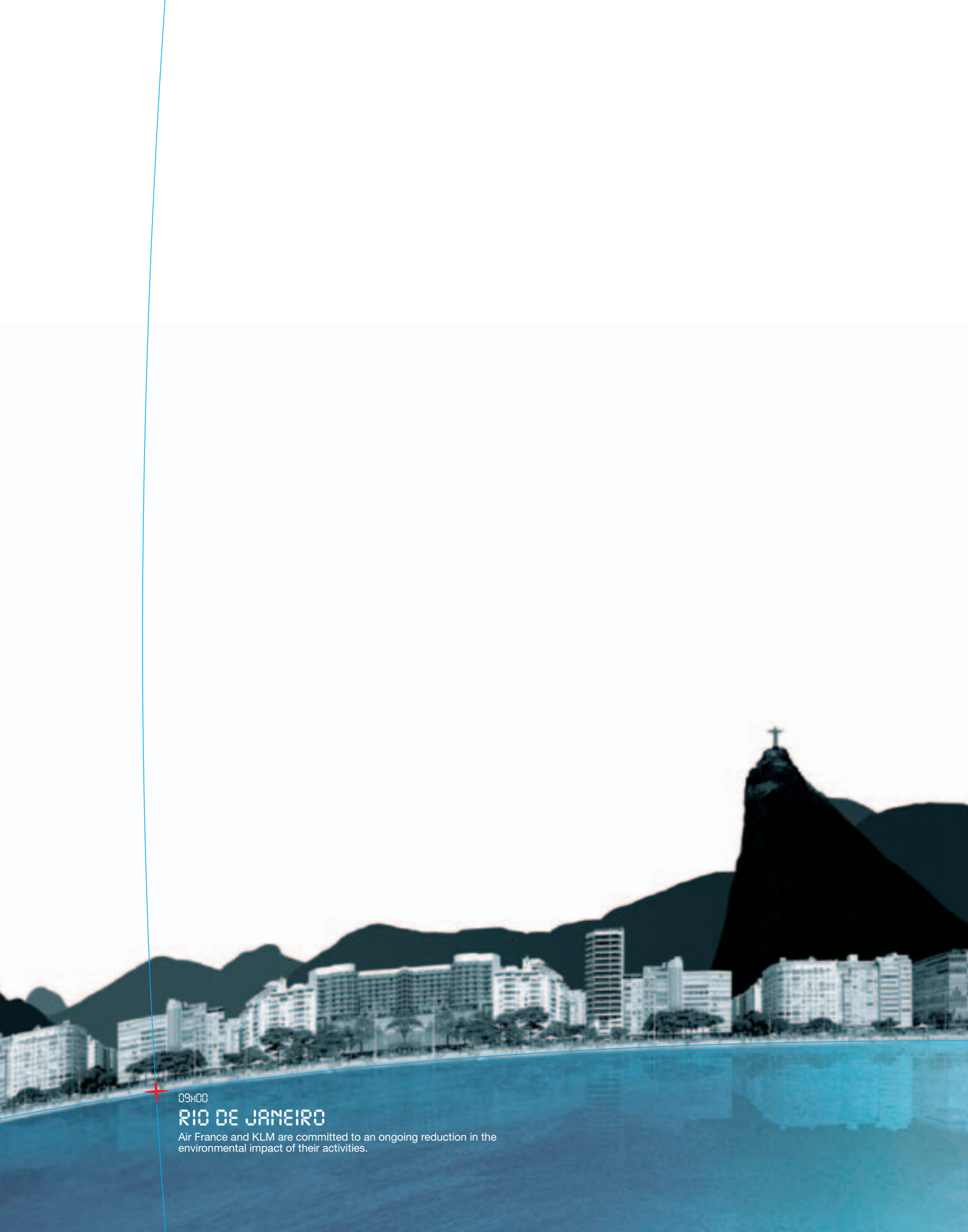
The two companies are establishing the foundations of a harmonized maintenance network. The phasing in of shared engineering responsibilities for the Group's aircraft through the establishment of the CEAs (Central Engineering Agency) was completed in 2007 and the sharing of technical and financial responsibility for PLA (Product Leadership Agency) product management of engines and components is continuing. Having created joint sales teams in 2007, the Group is now aligning the commercial and strategic processes which should soon result in a joint sales and marketing organization and the regrouping of all the industrial development, marketing, communication and sales activities on the basis of a common strategy. Similar process harmonization initiatives are also underway in other areas such as procurement and logistics.

#### **A world first: Single Global Certification**

In June 2007, AFI obtained Single Global Certification, a world first. This certification covers a spectrum of seven aeronautical standards (including the ISO and EN series) world-wide. It was achieved thanks to the deployment of an integrated management system providing the business with the methods and tools to ensure an ongoing improvement in performance.







09x00

## RIO DE JANEIRO

Air France and KLM are committed to an ongoing reduction in the environmental impact of their activities.

# Corporate Governance

The Group is committed to excellence and corporate and social responsibility for its shareholders, employees and other stakeholders.

## The Group's management

With the establishment of the Group Executive Committee, the Air France-KLM Group has strengthened and integrated its governance. Comprised of eleven members representing the Group's key functions, it coordinates the joint strategic decision-making process during fortnightly meetings in Paris and Amsterdam.



# Air France-KLM

## Members

### Jean-Cyril Spinetta ①

Chairman and CEO of Air France-KLM and of Air France

### Leo van Wijk ②

Vice-Chairman of Air France-KLM

### Pierre-Henri Gourgeon ③

Deputy CEO of Air France-KLM and  
Chief Operating Officer of Air France

### Philippe Calavia ④

Senior Executive Vice-President, Finance, of  
Air France-KLM and Air France

### Peter Hartman ⑤

President of the KLM Management Board

### Alain Bassil ⑥

Senior Vice-President, Maintenance, of Air France and  
the Air France-KLM Group

### Christian Boireau ⑦

Senior Vice-President, Commercial France

### Frédéric Gagey ⑧

Senior Executive Vice-President, Finance, KLM and  
Senior Vice-President, Fleet and Purchasing of  
the Air France-KLM Group

### Bruno Matheu ⑨

Senior Executive Vice-President, Marketing, Revenue  
Management and Networks, of Air France and of  
the Air France-KLM Group

### Erik Varwijk ⑩

Senior Vice-President, International Marketing, KLM and  
of the Air France-KLM Group

### Michael Wisbrun ⑪

Executive Vice-President, Air France-KLM Cargo



## The Board of Directors



The Board of Directors determines the orientations of the Group's activities and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the company and settles, in its deliberations, the matters which concern it.

The Board of Directors appoints the Chairman and Chief Executive Officer, who has full powers to manage the company with the exception of the limitations set forth in the internal regulation of the Board of Directors.

### Composition of the Board of Directors

The Air France-KLM Board of Directors may comprise up to 18 members, with a six-year term of office. At March 31, 2008, the Air France-KLM Board of Directors had 15 members: ten directors appointed by the Shareholders' Meeting, two representatives of the employee shareholders appointed by the Shareholders' Meeting and three representatives of the French State appointed by ministerial order.

It has four specialized committees: an audit committee, an appointments committee, a strategy committee and a remuneration committee.

### Directors appointed by the Shareholders' Meeting

#### Jean-Cyril Spinetta ①

Chairman and CEO of Air France-KLM and of Air France

#### Leo van Wijk ②

Vice-Chairman of the Board of Directors of Air France-KLM

#### Patricia Barbizet ③

Chief Executive Officer and Director of Artémis

#### Frits Bolkestein ④

Member of the Supervisory Board of de Nederlandsche Bank

#### Jean-François Dehecq ⑤

Chairman of the Board of Directors of Sanofi-Aventis

#### Jean-Marc Espalioux ⑥

Chairman of Financière Agache Private Equity

#### Pierre-Henri Gourgeon ⑦

Deputy CEO of Air France-KLM and Chief Operating Officer of Air France





**Cornelis van Lede** ⑧

Chairman of the Board of Directors of INSEAD

**Floris Maljers** ⑨

Chairman of the Board of Directors of the Rotterdam School of Management

**Pierre Richard** ⑩

Chairman of the Dexia Board of Directors

**Directors representing the French State**

**Bruno Bézard** ⑪

Director of the French Treasury State Holdings Agency

**Claude Gressier** ⑫

President of the Department of Economic Affairs and Transport, Counsel General for Public Works

**Philippe Josse** ⑬

Director of Budget, French Ministry of Economy, Finance and Industry

**Directors representing employee shareholders**

**Didier Le Chaton** ⑭

Flight captain

Representative of flight deck crew

**Christian Magne** ⑮

Finance executive

Representative of the ground staff and cabin crews



## **Functioning of the Board of Directors**

The minimum number of Board of Directors meetings is set at five per year. Prior to Board meetings, a file is sent to Board members containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and prior consideration. The matters raised in meetings are presented orally or by video, followed by discussion. Board meetings are conducted in French, however each director may speak in French or in English with simultaneous interpretation. Secretarial services for the Board of Directors are provided by the Legal Counsel.

## **Compliance and ethics**

The Board of Directors has adopted a Compliance Charter and a Code of Ethics. The Compliance Charter, adopted by the Board of Directors on March 25, 2004 and amended on November 22, 2005, prohibits both corporate officers and senior executives of the company from trading in the company's shares during the month preceding the annual results announcement and for a period of twenty-one days preceding the quarterly and half-year results. The financial Code of Ethics defines the principles with which the principal executives of the company responsible for the disclosure of financial information must comply.

## **Corporate governance principles**

The Board of Directors functions according to the governance principles in force in France, with the exception of the duration of the terms of office and the independence of Board members.

In order to come into line with the corporate governance principles and adopt the conclusions of the Board evaluation, the Board of Directors decided to submit to the Shareholders' Meeting to be held on July 10, 2008, a resolution to reduce the current six-year term of office for directors to four years and to establish a staggered renewal process.

## **The Board of Directors Committees**

With the exception of the strategy committee none of the Board of Directors committees has corporate officers as members.

## **The audit committee**

The committee comprises six members: Pierre Richard (Chairman of the committee), Jean-François Dehecq, the representative of the French State Holdings Agency, Floris Maljers, Christian Magne and Didier Le Chaton. The principal executives responsible for accounting, legal affairs, finance, internal control and audit of Air France-KLM and the subsidiaries Air France and KLM attend the meetings. The statutory auditors attended all meetings of the audit committee held during the financial year. At the request of the Chairman of the committee, they were able to consult with committee members without the presence of the Group's senior executives.

The audit committee's principal missions are to review the interim and annual consolidated financial statements in order to inform the Board of Directors of their content, to ensure that they are reliable and exhaustive and that the information they contain is of high quality, including the

forecasts provided to shareholders and the market. It evaluates the consistency and effectiveness of the internal control procedures and examines any significant risks. It approves the fees of the statutory auditors and issues prior approval for some services provided by them. The committee must also monitor the quality of procedures to ensure compliance with stock market regulations. The audit committee has the resources necessary to perform its mission and may, notably, be assisted by persons from outside the company. During the 2007-08 financial year the audit committee met four times.

#### **The strategy committee**

The strategy committee comprises seven directors: Jean-Cyril Spinetta (Chairman of the committee), Leo van Wijk, Patricia Barbizet, Philippe Josse, Claude Gressier, Didier Le Chaton and Christian Magne. The meetings are also attended by the Deputy Chief Executive Officer, the Senior Executive Vice President, Finance and the Secretary for the Board of Directors.

The committee's responsibilities include reviewing the strategic orientations of the Group's activities, changes in the structure of the fleet or scope of subsidiaries, the purchase or sale of aircraft-related or other assets and the air sub-contracting and alliance policy.

The strategy committee did not meet during the 2007-08 financial year (one meeting in 2006-07), the strategy of the Group having been presented directly to the Board of Directors.

#### **The remuneration committee**

The remuneration committee comprises three directors: Jean-Marc Espalioux (Chairman of the committee) Cornelis van Lede and Pierre Richard. The remuneration committee is primarily responsible for submitting recommendations for the level of and changes to the remuneration of the principal corporate officers. It may also be asked to give an opinion on the compensation of the Group's senior executives, as well as on the policy for stock option plans for new and existing shares.

#### **The appointments committee**

The committee comprises three members: Jean-Marc Espalioux (Chairman of the committee), Patricia Barbizet and Jean-François Dehecq. The appointments committee is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace principal corporate officers, particularly in the event of unforeseen vacancies.

The appointments committee did not meet during the financial year.

## Experience and training of

Board of Directors experience				Directors' principal professional experience		
Director	Age	Date appointed to Board	Experience at 03/31/2008	Sector	Experience in the sector	Current position
<b>Jean-Cyril Spinetta</b>	64 years	09/23/1997	11 years	Public Service Air Transport (Air Inter and Air France)	15 years	Chairman and CEO of Air France-KLM and of Air France
<b>Leo van Wijk</b>	61 years	06/24/2004	4 years	Air Transport (KLM)	37 years	Vice-Chairman of the Air France-KLM Board of Directors
<b>Patricia Barbizet</b>	52 years	01/3/2003	5 years	Industrial (Renault, Pinault Group)	31 years	CEO and Director of Artémis
<b>Bruno Bézard</b>	44 years	03/14/2007	1 year	Public Service	20 years	Director of the French Treasury State Holdings Agency
<b>Frits Bolkestein</b>	74 years	11/22/2005	2 years	Industrial (Shell) and Public (Dutch Parliament and European Commission)	17 years 27 years	Member of the Supervisory Board of de Nederlandsche Bank
<b>Jean-François Dehecq</b>	68 years	01/25/1995	13 years	Industrial (SNPA and Sanofi)	43 years	Chairman of the Board of Directors of Sanofi-Aventis
<b>Jean-Marc Espalioux</b>	56 years	09/14/2001	7 years	Services (CGE, Accor)	21 years	Chairman of Financière Agache Private Equity
<b>Pierre-Henri Gourgeon</b>	61 years	01/20/2005	3 years	Aeronautics and Air Transport	37 years	Deputy Chief Executive Officer of Air France-KLM and Chief Operating Officer of Air France

## members of the Board of Directors

Board of Directors experience				Directors' principal professional experience		
Director	Age	Date appointed to Board	Experience at 03/31/2008	Sector	Experience in the sector	Current position
<b>Claude Gressier</b>	64 years	06/24/2004	4 years	Public Service	40 years	President of the Department of Economic Affairs and Transport, Counsel General for Public Works
<b>Philippe Josse</b>	47 years	05/16/2006	2 years	Public Service	24 years	Director of Budget French Ministry of Economy Finance and Industry
<b>Didier Le Chaton</b>	57 years	01/26/2006	2 years	Air Transport (Air France)	32 years	Flight Captain
<b>Cornelis van Lede</b>	65 years	06/24/2004	4 years	Industrial (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	37 years	Chairman of the Board of Directors of INSEAD
<b>Christian Magne</b>	55 years	09/14/2001	7 years	Air Transport (Air France)	34 years	Finance executive
<b>Floris Maljers</b>	74 years	06/24/2004	4 years	Industrial (Unilever)	36 years	Chairman of the Board of Directors of the Rotterdam School of Management
<b>Pierre Richard</b>	67 years	10/20/1997	10 years	Banking (CDC, Crédit Local de France, Dexia)	25 years	Chairman of the Dexia Board of Directors

## The Group pursues an ambitious environmental strategy

### **Air France-KLM selected for the DJSI sustainable development index**

For the third consecutive year, Air France-KLM is amongst the companies figuring in the two Dow Jones sustainable development indices: the DJSI World at global level and the DJSI STOXX at European level. It is the only air transport company to figure in both these indices. The Group is also a component of the FTSE4Good and ASPI Eurozone indices and figures in the Global 100, a global ranking of the 100 companies most committed to sustainable development, as well as in the Ethibel investment register with the Pioneer label.

### **A strategy for meeting the environmental challenge**

Environmental considerations are at the heart of an ambitious, common strategy across the Group. Air France and KLM have established separate but harmonized environmental management systems based on the ISO 14001 standard. A common environmental reporting process is carried out through the Group's Corporate Social Responsibility Report. Although air transport is only responsible for 3% of global CO<sub>2</sub> emissions, Air France-KLM believes that the sector must work towards reconciling economic development with respect for the environment and has set out all its environmental commitments in its Climate Action Plan. It has confirmed its support for the Kyoto protocol and for the integration of air transportation in the European Union Emissions Trading Scheme.

### **Mobilizing employees**

In order to ensure the success of the Climate Action Plan, all of the Group's employees are mobilized around environmental plans in every operational area. Thus, to limit its impact on air quality around airports as well as in its ground activities, the Group has rationalized its network, improved its flight operation procedures to reduce low-altitude emissions, optimized its maintenance, cut its water and energy consumption and optimized its waste management.



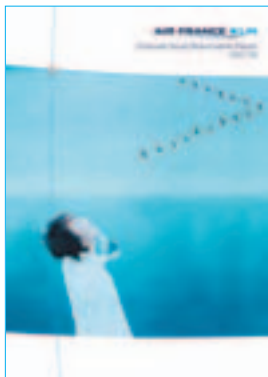
### **Fleet renewal is positive for the environment**

Improved fuel efficiency and a significant reduction in noise and gas emissions were key considerations when the program to renew the fleet was established.

The Group has also announced that it would like to participate, in cooperation with the European and US air navigation authorities and services, in the evaluation of *green routes* between its principal Paris-Charles de Gaulle and Amsterdam-Schiphol bases and the destinations it serves in North America. This would notably involve guaranteeing optimum flight paths in order to minimize, with due regard to safety considerations, the CO<sub>2</sub> emissions on its transatlantic flights.

The Group also plans to promote the use of renewable energies such as solar or wind energy. Finally, Air France-KLM supports NGOs which are conducting environmental protection programs in fields such as combating deforestation.





## **Publication of the Corporate Social Responsibility Report**

Since 2005, Air France-KLM has published an annual Corporate Social Responsibility Report, covering all the activities as well as the Group's commitments in this area. It can be consulted at the [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com) website.

## **Online access to a CO<sub>2</sub> calculator for a carbon-neutral flight**

In order to enable customers – whether businesses or individual passengers – to evaluate the amount of CO<sub>2</sub> emissions generated by their trips, Air France and KLM have made a CO<sub>2</sub> calculator available on the [www.airfrance.com](http://www.airfrance.com) and [www.klm.com](http://www.klm.com) websites. Based on actual operating data recorded on each flight and route, it includes the distance flown, the type of aircraft operated, the actual fuel consumed during the journey, the number of passengers carried and the weight of baggage and goods carried on board. This online service also enables passengers wishing to do so to offset the CO<sub>2</sub> emissions generated by their flights with the Group through an NGO-led initiative.

## **An improvement in flight fuel efficiency**

In addition to fleet renewal, energy efficiency is being improved through the optimization of operational procedures, such as reducing taxiing and waiting time on the ground, optimizing flight paths, adjusting the quantity of fuel loaded and, finally, reducing the weight of aircraft. Significant savings have been achieved by the two airlines thanks to lighter trolleys or glasses or in reducing the amount of paper on board.



#### **Noise energy and air quality: specific initiatives**

Investment in modern aircraft also enables a reduction in noise pollution. The two airlines are also implementing *less noise* operational procedures in the vicinity of airports, such as the continuous descent approach. The Group also takes measures to reduce its impact on air quality in airport zones by investing in cleaner ground support equipment and introducing innovative procedures.

#### **French Environmental Summit (Grenelle): Air France's commitments**

On January 28, 2008, Chairman Jean-Cyril Spinetta and representatives of the other key players from French aviation signed the Environmental Summit Convention. The Air France Group thus committed to pursuing its fleet modernization strategy, the main lever for reducing greenhouse gas emissions and noise pollution and to supporting the inclusion of air transportation in the European Union Emissions Trading Scheme. Air France is cooperating with air navigation authorities and airports in a continuous process of improvement and is furthering its strategy of awareness raising and greater transparency for its customers in offering a carbon emission offsetting program.

## The Group's sustainable development is grounded in its social performance

Within a constantly changing economic and competitive environment, the Group prioritizes the increased qualification and mobility of its employees through a strategy based on the forward-planning of jobs and skills, within the framework of a high-quality social dialogue. The issues of non-discrimination, diversity, equal opportunity and health and safety in the workplace are at the heart of the Group's corporate social responsibility commitment. It is on the basis of these common values that Air France-KLM is building an original *one Group, two companies* business model.

### **Developing employee mobility and skills**

Air France-KLM is pursuing its policy of sustainable employment in France, the Netherlands and elsewhere in the world. In order to achieve this objective and prepare for

technological and organizational change, the Group works to promote the employability and mobility of its employees. In 2007, in addition to modules dedicated to executives, the KLM Academy, KLM's in-house training center, added project management and personal effectiveness modules to its management training program. In addition, at KLM each division offers a range of different vocational training courses to all its employees.

Air France invested around €270 million in its training program. This figure represents over 10% of the payroll and is significantly higher than the company's obligation under French law.

### **Promoting diversity across the business**

Air France-KLM's commitment to promoting diversity and ensuring equal opportunities for all its employees has been formalized in a Social Rights and Ethics Charter. The 2<sup>nd</sup> Air France professional gender equality agreement for the 2006-09 period defines the key performance indicators for the action to be taken, enabling progress to be measured. KLM commits to professional gender equality through the promotion of women into strategic roles. Hence, within ground staff, 21% of management and 5% of senior executive positions are occupied by women. Moreover, in order to achieve a better balance between everyone's professional and private lives, KLM authorizes the



reorganization of working hours for the men and women requesting this. At the end of 2007, 60% of women and 14% of men were working part time, some 33% of the overall workforce.

#### **Pursuing responsible integration**

Since the merger, the Group has pursued its integration and is achieving greater efficiency thanks to an organizational structure which facilitates decision-making. Thus, in activities where this could generate more synergies and added value, such as in sales and marketing, activities are combined.

#### **Mobilizing employees around the Group's sustainable development strategy**

The two companies conduct training programs and initiatives to involve employees in their sustainable development approach. These are aimed at encouraging employee innovation: KLM training includes awareness raising on sustainability issues (sorting of refuse, car pooling, global warming). At Air France, the Quality Innovation Program initially launched at Air France Industries is deployed in all divisions to encourage employees to submit their ideas. In 2007, more than 70,000 suggestions were received, of which a growing number linked to sustainable development.

#### **KLM wins the Reputation Award in the Netherlands**

KLM came first place in the study measuring the reputation of the leading Dutch companies. The *2007 Reputation Award* in the *Annual Reputation Institute Study* was awarded for its vision and leadership as well as for its action on sustainable development. KLM was also voted the third favorite employer by students in the Netherlands, behind ABN AMRO and Shell, in a survey conducted by *Intermediair* magazine.

#### **A positive response from Air France-KLM employees**

The quarterly perception survey on the business combination revealed that 80% of employees have been motivated by the merger between the two companies (1,500 employees and 600 executives polled during the year).

## A significant commitment to humanitarian initiatives focusing on children and young people

Through the Air France Foundation and KLM AirCares, the Group supports numerous projects globally which contribute to providing effective assistance to sick and disabled children as well as populations in distress. The Group has contributed funding amounting to €6 million.

### **The Air France Foundation**

The Air France Foundation, created in 1992, works in partnership with associations and NGOs in the area of education and training for children and young people, providing them with financial and practical support. The Foundation also supports projects submitted by Air France employees who are already involved in associations which assist children. In 2007, €1.4 million was contributed to supporting some 71 projects. The Air France Foundation also directed its efforts towards helping sick and disabled children. This year, the program involved 24 such projects, seven more than in the 2006 program.

For the 2007-13 period, the Foundation has committed to a multi-year program amounting to €8.5 million.

### **KLM AirCares**

Every year since 1999, KLM has selected four different associations for whom it has organized innovative and imaginative events to help with fund raising. The program involves donating KLM resources and its communication network for a three-month period to help these good causes reach as wide an audience as possible in order to raise the support and resources they need. In 2007-08, KLM AirCares gave particular support to combating diabetes in children. It also contributed, through two projects based in Brazil and Moscow, to helping orphans and abandoned children.

Some 450 SOS Children's Villages located in 132 countries are supporting orphaned or abandoned children throughout the world: the aim is to build special villages where such children can find a new, permanent and secure home in order to enable them to grow up equipped for an independent future.

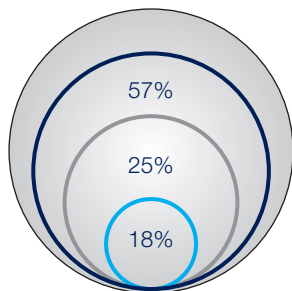


### Humanitarian initiatives involving the Group's employees

The *Friends of the Foundation* network has almost 1,600 volunteers who support the associations helped by the Air France Foundation. Similarly, the humanitarian organization *Wings Support*, created by KLM and Martinair flight personnel, conducts a number of projects in the destinations served. Associations such as *Aviation Sans Frontières* and *Pilots without Borders* also involve numerous Group employees in transporting sick children and medical supplies.

### Supporting these associations

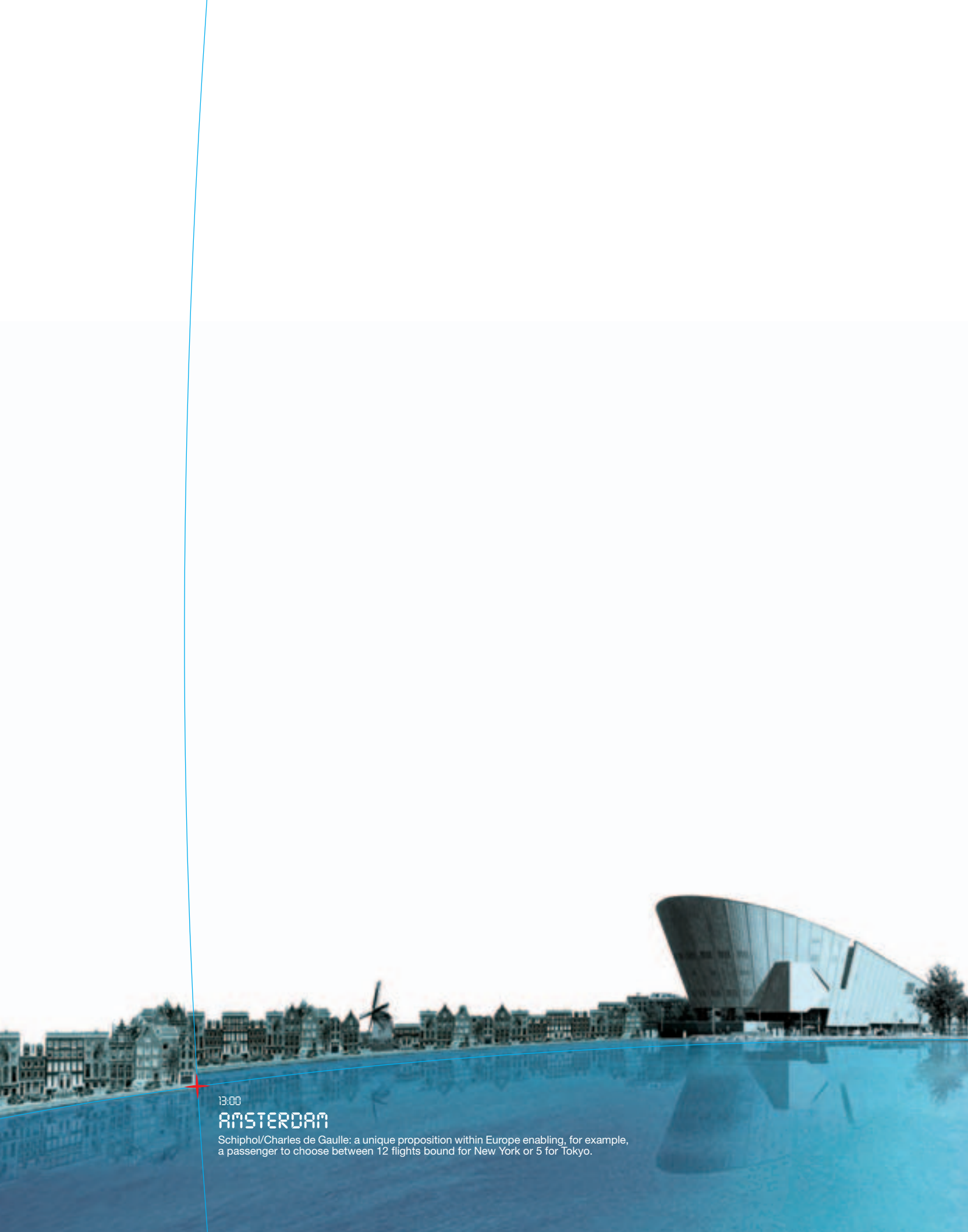
Everyone can support the work of the Air France Foundation and KLM AirCares by donating *Flying Blue* air miles. The miles are then converted into Air France or KLM tickets and given to various deserving causes. For more information please visit the KLM AirCares website, [www.aircares.nl](http://www.aircares.nl), and the Air France Foundation website, <http://fondation.airfrance.com>.



- Financial donation
- In-kind donation
- Salary and skills donation

### Breakdown of Air France-KLM contributions in 2007-08





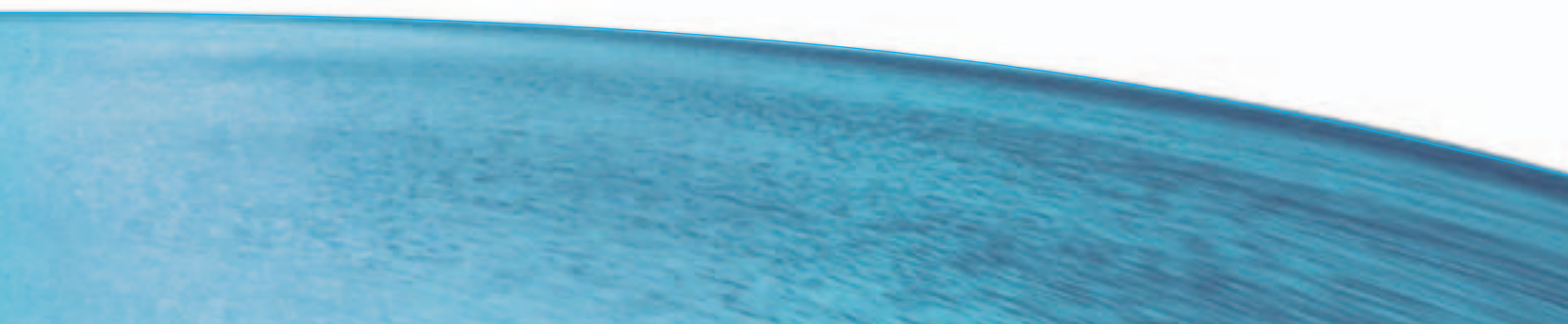
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## AMSTERDAM

Schiphol/Charles de Gaulle: a unique proposition within Europe enabling, for example, a passenger to choose between 12 flights bound for New York or 5 for Tokyo.

# Shareholders

All the Group's choices are directed at creating value for its shareholders. Transparency and respect are key to maintaining a mutual relationship based on trust.



## The Group is committed to keeping its shareholders informed and creating sustainable value

For Air France-KLM, value creation and transparent, regular and interactive information for its shareholders are key priorities.

### **A pro-active committee for individual shareholders**

Since its creation in 2000, the Consultative Committee for Individual Shareholders (CCRAI), has been a forum in which its members are free to raise concerns and submit ideas on relations with Air France-KLM's individual shareholders. The Committee has 16 French and Dutch members who are regularly renewed and meets four times a year on average. Its work is then followed up with recommendations and special studies into particular areas

conducted on behalf of Air France-KLM. This annual report was the focus of a Committee meeting during which members submitted ideas which contributed to its realization.

Sub-groups may also meet to look at specific issues. Committee members regularly accompany the teams responsible for financial communication to, for example, meetings with individual investors or the Shareholders' Meeting.

The list of Committee members can be found in the shareholder section of the [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com) website. To contact the Committee or forward a suggestion to one of its members, just send an email to [mail.actionnaires.afklm@airfrance.fr](mailto:mail.actionnaires.afklm@airfrance.fr).

### **Engaging with institutional investors and financial analysts**

The Group's senior executives regularly meet with institutional investors and financial analysts during roadshows in Europe, the United States and Asia. In 2007-08, they dedicated more than 50 days to such meetings with portfolio managers and analysts in Europe and North America. Additionally, as every year, an Investor Day was organized at Roissy which was attended by more than 80 analysts and investors who were able to meet the Group's operational management.

**400,000**  
individual  
shareholders

### **Air France-KLM as perceived by its shareholders**

In order to get a better understanding of the way in which Air France-KLM is perceived by the financial markets and what characterizes the Group's image in the eyes of individual shareholders, specialist market research institute *Opinionway* was asked to include the Air France-KLM stock in its annual report entitled the *2007 National Study, Saving, the Stock Market and Information*.

The conclusions of this survey, involving a sample of 7,370 respondents, were positive on many of the criteria, some of which, such as revenue growth and the Group's international development, scored particularly highly.

In terms of the perception of Air France-KLM's communication, individuals holding the stock and shareholders following the stock without actually owning it highlighted the clear communication of the annual results, and communication committed to the objectiveness of the information together with developing shareholder relations and equipped with powerful communication tools including, in particular, an attractive website.



### **A dedicated interactive shareholder space on the website**

On its [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com) financial website, the Group has developed a shareholder space providing:

- all the documentation relating to the Shareholders' Meeting
- interactive versions of published documents (the e-mag, the Shareholder Handbook, the Annual Report and Reference Document),
- the financial calendar
- the interactive stock price
- Shareholders' Club events
- the Shareholders' Newsletter
- Special offers for Club members
- the Consultative Committee space.

Shareholders can also consult the monthly traffic figures for both the passenger and cargo businesses on the website, as well as presentations made to analysts at the time of the quarterly, half-year and annual results announcements.

An email alert system enables everyone to be informed of the posting of press releases and to be reminded of any event in the Group's calendar.

The website is also available in PDA version (personal digital assistant) and from cell phones by logging into [www.airfranceklm-finance.mobi](http://www.airfranceklm-finance.mobi), which gives access to a simplified version of the site with the press releases, stock price and financial calendar.



## Numerous sources of information for shareholders



### **A special newsletter for individual shareholders**

Every three months, Air France-KLM publishes *Connecting*, the newsletter dedicated to individual shareholders available in French, English and Dutch. The eight page-format includes business news, the main financial information on the Group as well as special features on different aspects of the air transport sector, the calendar of the various shareholder events and the dates of future results announcements. It is sent to members of the Shareholders' Club by mail or email and is available in the shareholder space on the website.

**7,000**  
members of the  
Shareholders' Club

### **A handbook for individual shareholders**

This handbook contains all the practical information on the stock and the different forms of ownership in France, the Netherlands and the United States. Put together with the help of the Consultative Committee for Individual Shareholders, this handbook aims to answer potential questions from individual shareholders and outlines the various tools deployed by the Group for communicating with them. The interactive version of this document is available in French, English and Dutch on the [www.airfranceklm-finance.com](http://www.airfranceklm-finance.com) website. Additional copies are available on request.

### **A dedicated toll-free number**

From Monday to Friday, between 10h30 and 12h30 and 14h30 and 17h30, you can put a question to a member of the financial communication team on a toll-free number (0 800 320 310) in France. Outside these periods, a voice server reports the Air France-KLM stock opening and closing prices. Shareholders not resident in Continental France can call +33 1 41 56 88 85.

### **A Shareholders' Club**

Maintaining a regular, constructive dialogue with its shareholders is a priority for Air France-KLM and, in 2000, the company created a Shareholders' Club, which

currently has over 7,000 members. Any Air France-KLM shareholder owning at least 50 shares, whether in bearer or registered form, can become a member of the Club. As a Club member, each shareholder receives:

- the quarterly *Connecting* newsletter
- the convening notice and the voting forms for the Shareholders' Meeting
- invitations to site visits.

Club members benefit from exclusive special offers from the Air France Museum enabling them to purchase products relating to Air France and KLM and their heritages.

#### **Information meetings to further understanding of the business**

Air France-KLM regularly organizes, in partnership with the financial press, information meetings throughout France. These are an opportunity to explain more about how the Group functions, its strategy and the different issues in the sector.

In addition, throughout the year, the Group also organizes visits to sites such as the Paris-Charles de Gaulle hub, the new flight personnel center, the BEPN building for flight personnel training, the G1XL cargo terminal or the maintenance workshops, etc. Open to all Club members, these site visits give Club members a behind-the-scenes picture of the Group and enable them to learn more about the business in meeting professionals from the passenger, cargo and maintenance activities.

The dates and venues of these information meetings and other Shareholders' Club events are announced in the *Connecting* newsletter, on the website and in the partner media. To participate, members need to sign up in advance by calling the toll-free number 0 800 320 310 or by sending an email to [mail.actionnaires.afklm@airfrance.fr](mailto:mail.actionnaires.afklm@airfrance.fr).



#### **To become a Club member**

Just send a shareholding statement proving ownership of at least 50 shares to:

Air France-KLM Shareholder Relations, DB-AC, 45 rue de Paris, 95747 Roissy-CDG Cedex; or by fax to +33 1 41 56 82 79.

If you have any questions, you can call the toll-free number 0 800 320 310 from a fixed line in France or +33 1 41 56 88 85 from outside France or send an email to [mail.actionnaires.afklm@airfrance.fr](mailto:mail.actionnaires.afklm@airfrance.fr).

#### **An electronic magazine**

The e-mag, the new financial information tool for shareholders available since March 2007, has proved a resounding success. Navigation is simple since all it takes is a few clicks to review what's covered in the magazine.



# Shareholders

## Registered shares

Air France-KLM has appointed Société Générale as its agent for the management of direct registered shares.

## The advantages of registered shares

Holders of Air France-KLM shares in registered form benefit from three key advantages:

- free custodial fees, the cost being borne by the Group
- they receive the convening notice directly by mail fifteen days ahead of the meeting
- they can consult their securities account and be kept informed of transactions and place stock market orders directly by telephone or via the Nomilia voice server on 0 825 820 000 (+33 2 51 85 67 89 from outside France) as well as via the [www.nominet.socgen.com](http://www.nominet.socgen.com) website.

## Transferring shares to registered form

Every shareholder, irrespective of the number of shares held, can transfer his or her Air France-KLM shares to registered form by filling in a form available on request from Société Générale – Division de la Clientèle Emetteurs – and then returning it to his or her financial intermediary. Shareholders can also make their initial purchase in registered form. To place this order, simply write to Société Générale, Division de la Clientèle Emetteurs and, on receipt of your letter, Société Générale will send out an application pack to be returned to it, accompanied by the necessary information.

## Administered registered shares

Every shareholder can also transfer his or her shares into administered registered form. These shares are managed

in the same way as bearer shares and thus the shareholder does not benefit from free custodial fees. Holders of administered registered shares receive the convening notice and the mail voting form enabling them to request an admission card.

## Securities services

### In France

- Société Générale  
32, rue du Champ-de-Tir  
Division de la Clientèle Émetteurs GSSI/GIS/NPO  
BP 81236 – 44312 Nantes Cedex 3
- Nomilia voice server: 0 825 820 000 (+33 2 51 85 67 89)
- Website: [www.nominet.socgen.com](http://www.nominet.socgen.com)

### In the Netherlands

- ABN Amro Effecten  
Postbus 3200  
4800 de Breda  
Tel.: +31 76 579 94 55

### In the United States

- Citibank Shareholders Services  
250 Royal Street  
Canton, MA 02021  
Tel.: +1 – 877-CITI-ADR  
(+1-877-248 4237)  
E-mail: [Citibank@shareholders-online.com](mailto:Citibank@shareholders-online.com)

### Awards for corporate governance

Air France-KLM won first prize for Shareholder Democracy and first prize for the Governance Dynamic during the fourth Corporate Governance *Grand Prix* which took place in June 2007. The jury, comprised of well-known individuals in the Paris Euronext market, highlighted the efforts made to provide shareholders with information and the fact that the merger between Air France and KLM had strengthened the management team's commitment to transparency.



### Specific communication for employee shareholders

Since 1999, the internal newsletter *Actions* has been distributed every three months to employee shareholders.

This newsletter outlines the financial and stock market challenges faced by companies and shareholders. It aims to increase employee knowledge of the various financial mechanisms. A toll-free number – 0800 042 000 – as well as an intranet site complete the information sources for employee shareholders.

## Shareholder reference information

### The Air France-KLM stock

Air France-KLM is listed for trading on the Euronext Paris and Amsterdam markets. It is eligible for deferred settlement and for French tax-efficient individual savings accounts (PEAs).

### Codes and tickers

- Market:** Eurolist Section A
- ISIN:** FR0000031122
- Reuters:** AIRF.PA and AIRF.AS
- Bloomberg:** AF PA

### Included in the following indices

- Indices:** CAC 40, Euronext 100
- Sustainable development indices:** ASPI Eurozone, FTSE4Good, DJSI World and DJSI STOXX.
- Air France-KLM has been the only airline to figure in the DJSI STOXX since 2006.
- Other indices:** Euronext FAS IAS

### Characteristics

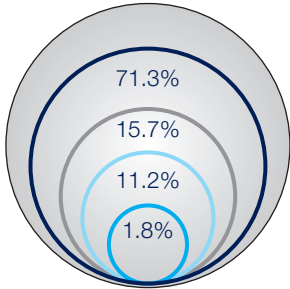
**Number of shares:** 300,219,278 fully paid up shares at March 31, 2008 with a nominal value of 8.50, the shareholder choosing whether to hold them in registered or bearer form.

Each share confers one voting right and there are no specific rights attached to the shares. There are no securities not representing the share capital.

### Securities conferring entitlement to shares

#### OCEANES (bonds convertible and/or exchangeable into Air France-KLM new or existing shares)

In April 2005, the company Air France issued 21,951,219 bonds convertible and/or exchangeable into Air France-KLM new or existing shares with a 15-year maturity for a total sum of €450 million. These bonds have a nominal unit value of €20.50 and mature on April 1, 2020. The annual coupon is 2.75% paid annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020.



● Free float	71.3%
● French State	15.7%
● Employees	11.2%
● Treasury stock	1.8%

**Breakdown of shareholders**



### Stock price performance

	2007-08	2006-07	2005-06
Stock price high (in €)	39.40	36.30	20.50
Stock price low (in €)	15.20	15.93	11.78
Stock price on March 31 (in €)	17.84	34.15	19.43
Number of shares in circulation on March 31	300,219,278	269,398,500	269,383,518
Market capitalization at March 31 (in € billion)	5.4	9.2	5.2

### Dividend: +21% in 2007-08

Financial year	Earnings per share (in €)	Dividend paid (in €)
2005-06	3.47	0.30
2006-07	3.35	0.48
2007-08 <sup>(1)</sup>	2.63	0.58

(1) Submitted for approval to the Shareholders' Meeting of July 10, 2008

### Performance of the stock since 2004

Base 100 in 2004 – Data to June 11, 2008



# Summary consolidated financial statements



# Consolidated income statement

(In € million)

Period from April 1 to March 31	2008	2007	2006
<b>Sales</b>	<b>24,114</b>	<b>23,073</b>	<b>21,448</b>
Other revenues	4	4	4
<b>Revenues</b>	<b>24,118</b>	<b>23,077</b>	<b>21,452</b>
External expenses	(13,814)	(13,100)	(12,127)
Salaries and related costs	(7,018)	(6,689)	(6,357)
Taxes other than income taxes	(250)	(263)	(228)
Amortization and depreciation	(1,606)	(1,782)	(1,656)
Provisions	(17)	(8)	(72)
Other income and expenses	(8)	5	(76)
<b>Income from current operations</b>	<b>1,405</b>	<b>1,240</b>	<b>936</b>
Sales of aircraft equipment	9	13	2
Negative goodwill	40	-	5
Other non-current income and expenses	(182)	(20)	512
<b>Income from operating activities</b>	<b>1,272</b>	<b>1,233</b>	<b>1,455</b>
Cost of financial debt	(387)	(407)	(392)
Income from cash and cash equivalents	288	267	168
<b>Net cost of financial debt</b>	<b>(99)</b>	<b>(140)</b>	<b>(224)</b>
Other financial income and expenses	(24)	25	(31)
<b>Income before tax</b>	<b>1,149</b>	<b>1,118</b>	<b>1,200</b>
Income taxes	(358)	(248)	(256)
<b>Net income of consolidated companies</b>	<b>791</b>	<b>870</b>	<b>944</b>
Share of profits (losses) of associates	(24)	17	(23)
<b>Net income from continuing operations</b>	<b>767</b>	<b>887</b>	<b>921</b>
Net income from discontinued operations	-	-	-
<b>Net income for the period</b>	<b>767</b>	<b>887</b>	<b>921</b>
- Group	<b>748</b>	<b>891</b>	<b>913</b>
- Minority interests	19	(4)	8

# Summary consolidated financial statements

## Consolidated

(In € million)

<b>Assets</b>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Goodwill	377	204	208
Intangible assets	475	424	428
Flight equipment	12,280	11,551	11,017
Other property, plant and equipment	2,193	2,007	1,955
Investments in equity associates	177	228	204
Pension assets	2,245	2,097	1,903
Other financial assets (including €735 million of deposits related to financial leases as of March 31, 2008, €835 million as of March 31, 2007 and €895 million as of March 31, 2006)	956	1,095	1,182
Deferred tax assets	29	26	7
Other non-current assets	1,810	604	1,082
<b>Total non-current assets</b>	<b>20,542</b>	<b>18,236</b>	<b>17,986</b>
Other short-term financial assets (including €266 million of deposits related to financial leases and investments between 3 months and 1 year as of March 31, 2008, €631 million as of March 31, 2007, €889 million as of March 31, 2006)	303	689	932
Inventories	507	360	340
Trade accounts receivable	2,569	2,610	2,518
Income tax receivables	3	7	1
Other current assets	2,385	1,271	1,756
Cash and cash equivalents	4,381	3,497	2,946
<b>Total current assets</b>	<b>10,148</b>	<b>8,434</b>	<b>8,493</b>
<b>Total assets</b>	<b>30,690</b>	<b>26,670</b>	<b>26,479</b>

# balance sheet

(In € million)

<b>Liabilities and equity</b>	<b>March 31, 2008</b>	<b>March 31, 2007</b>	<b>March 31, 2006</b>
Issued capital	2,552	2,375	2,290
Additional paid-in capital	765	539	430
Treasury shares	(119)	(30)	(58)
Reserves and retained earnings	7,338	5,415	5,072
<b>Equity attributable to equity holders of Air France-KLM</b>	<b>10,536</b>	<b>8,299</b>	<b>7,734</b>
Minority interests	78	113	119
<b>Total equity</b>	<b>10,614</b>	<b>8,412</b>	<b>7,853</b>
Provisions and retirement benefits	1,439	1,387	1,453
Long-term debt	6,914	7,419	7,826
Deferred tax	1,713	891	839
Other non-current liabilities	819	401	417
<b>Total non-current liabilities</b>	<b>10,885</b>	<b>10,098</b>	<b>10,535</b>
Provisions	441	225	192
Current portion of long-term debt	905	1,098	1,260
Trade accounts payable	2,218	2,131	2,039
Deferred revenue on ticket sales	2,279	2,217	2,062
Current tax liabilities	25	21	167
Other current liabilities	3,151	2,335	2,269
Bank overdrafts	172	133	102
<b>Total current liabilities</b>	<b>9,191</b>	<b>8,160</b>	<b>8,091</b>
<b>Total liabilities</b>	<b>20,076</b>	<b>18,258</b>	<b>18,626</b>
<b>Total liabilities and equity</b>	<b>30,690</b>	<b>26,670</b>	<b>26,479</b>



# Summary consolidated financial statements

## Consolidated statements

(In € million)

<b>Period from April 1 to March 31</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net income for the period – Group	748	891	913
Minority interests	19	(4)	8
Amortization, depreciation and operating provisions	1,623	1,790	1,728
Financial provisions	17	10	24
Gain on disposals of tangible and intangible assets	(43)	(44)	(46)
Loss/(gain) on disposals of subsidiaries and associates	(46)	(1)	(2)
Gain on WAM (ex Amadeus GTD) transactions	(284)	(16)	(504)
Derivatives – non monetary result	(65)	(43)	(6)
Unrealized foreign exchange gains and losses, net	27	(5)	8
Negative goodwill	(40)	-	(5)
Share of (profits) losses of associates	24	(17)	23
Deferred taxes	261	244	98
Other non-monetary items	214	(112)	(182)
<b>Subtotal</b>	<b>2,455</b>	<b>2,693</b>	<b>2,057</b>
(Increase)/decrease in inventories	(70)	(20)	(18)
(Increase)/decrease in trade receivables	69	(184)	(215)
Increase/(decrease) in trade payables	118	228	96
Change in other receivables and payables	330	133	736
<b>Net cash flow from operating activities before non-recurring items</b>	<b>2,902</b>	<b>2,850</b>	<b>2,656</b>
Payment of the ESA 2003 balance	(110)	-	-
Additional contribution to pension fund	(198)	-	-
<b>Net cash flow from operating activities</b>	<b>2,594</b>	<b>2,850</b>	<b>2,656</b>

# of cash flows

(In € million)

<b>Period from April 1 to March 31</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Acquisitions of subsidiaries and investments in associates, net of cash acquired	(272)	(25)	(58)
Purchase of property, plant and equipment and intangible assets	(2,340)	(2,378)	(2,544)
Proceeds on disposal of subsidiaries and investments in associates	84	43	35
Proceeds on WAM (ex Amadeus GTD) transactions	284	-	817
Proceeds on disposal of property, plant and equipment and intangible assets	282	160	227
Dividends received	5	6	10
Decrease (increase) in investments, net between 3 months and 1 year	349	331	(294)
<b>Net cash used in investing activities</b>	<b>(1,608)</b>	<b>(1,863)</b>	<b>(1,807)</b>
Increase in capital	597	-	-
Issuance of long-term debt	681	1,240	1,410
Repayments on long-term debt	(414)	(714)	(523)
Payment of debt resulting from finance lease liabilities	(886)	(866)	(580)
New loans	(53)	(89)	(155)
Repayments on loans	79	52	97
Dividends paid	(137)	(88)	(41)
Decrease in equity	(10)	-	-
<b>Net cash flow from financing activities</b>	<b>(143)</b>	<b>(465)</b>	<b>208</b>
<b>Effect of exchange rate on cash and cash equivalents and bank overdrafts</b>	<b>2</b>	<b>(2)</b>	<b>2</b>
<b>Change in cash and cash equivalents and bank overdrafts</b>	<b>845</b>	<b>520</b>	<b>1,059</b>
Cash and cash equivalents and bank overdrafts at beginning of period	3,364	2,844	1,785
Cash and cash equivalents and bank overdrafts at end of period	4,209	3,364	2,844
Income tax paid (flow included in operating activities)	(96)	(309)	(4)
Interest paid (flow included in operating activities)	(410)	(451)	(364)
Interest received (flow included in operating activities)	288	299	154

# Glossary

## **AEA**

Association of European Airlines. Created in 1952, notably by Air France and KLM, the AEA represents the interests of its members within the European Union institutions, the European Civil Aviation Conference and other organizations and associations.

## **Biometry**

Technology allowing the identity of an individual to be verified, while crossing a national border for example, through the automatic recognition of certain pre-recorded physical characteristics.

## **Code share**

In accordance with a code share agreement, two partner airlines offer services on the same aircraft, each with their own brand, their own IATA code and their own flight number.

## **Electronic ticketing**

All the journey information for one or several passengers which, instead of being printed, is recorded in an airline's IT database, once the reservation has been made and paid for. An electronic or e-ticket replaces the traditional paper ticket.

## **E-services**

Range of ground services offered by Air France and KLM to their passengers, based on new information technologies. E-services notably enable passengers to check in using self-service kiosks or via the airlines' websites and to use electronic tickets.

## **Fare combinability**

System which, on destinations served by both Air France and KLM, enables customers to choose between a journey with an onward flight connection at KLM's

Amsterdam-Schiphol hub and a journey with an onward flight connection at Air France's Paris-Charles de Gaulle hub. With fare combinability, customers benefit from more frequencies via one or other of the hubs, for both the inbound and outbound trips. The fare is based on two half return tickets.

## **Fuel hedging**

Financial mechanism aimed at protecting Air France-KLM from the risk of a rise in the fuel price. Involves purchasing a fixed quantity of fuel on a certain date and at a pre-determined price. Two financial products, options and swaps, are used in this type of mechanism.

## **Hub**

Term used for a transfer platform where departures and arrivals are scheduled to minimize transit times. Air France-KLM disposes of two of the four major European hubs: Paris-Charles de Gaulle and Amsterdam-Schiphol. The Air France and KLM hubs are organized into successive waves for arrivals and departures each day in order to increase the transfer options for customers.

## **IATA**

International Air Transport Association. Created in 1945, IATA establishes regulations for the air transport industry and provides its members with a framework for the coordination and proper implementation of tariffs, together with commercial and financial support services.

## **IATA year**

Financial year for many airlines, including Air France-KLM, which runs from April 1 to March 31 the following year. This system makes it possible to track changes in activity more effectively based on the seasons defined by IATA, i.e. a summer season and a winter season.

**Joint-venture**

Joint company with two partners, often owned equally with 50% each. This type of shareholder structure notably allows the implementation of technological or industrial alliances in order to undertake specific projects common to both partner companies.

**Load factor**

Revenue passenger-kilometers (RPK) divided by available seat-kilometers (ASK). In the cargo activity this is revenue-kilometers transported (RTK) divided by available ton-kilometers (ATK).

**Multi-hub**

System linking several hubs, allowing customers to access the networks developed from each hub, thus multiplying the round-trip offer to world-wide destinations.

**Net income, Group share**

Corresponds to the share of operating income reverting to shareholders after net financial charges, exceptional items and taxation. Net income can be distributed in the form of dividends or retained as reserves, thus increasing the company's stockholders' equity.

**OCEANE**

Bonds convertible into new or existing shares.

**Operating income**

Operating income is the amount remaining after operating expenses (external expenses, payroll costs, amortization and provisions) have been deducted from revenues. It shows what the company earns from its principal activity before the impact of financial and exceptional items.

**Point-to-point traffic**

Traffic between two airports, excluding all passengers connecting with another flight.

**Self-service check-in kiosk**

Self-service check-in kiosks, available in airport departure halls, allow passengers to check in and print their own boarding cards independently, without having to go to a check-in counter.

**Sub-fleet**

All the aircraft of the same type, with identical technical and commercial characteristics (engines, cabin configuration etc.)

**Unit revenue**

In the passenger business, corresponds to the revenue for one available seat or paying passenger carried over one kilometer. In the cargo business, corresponds to the revenue for one available ton or one ton carried over one kilometer.

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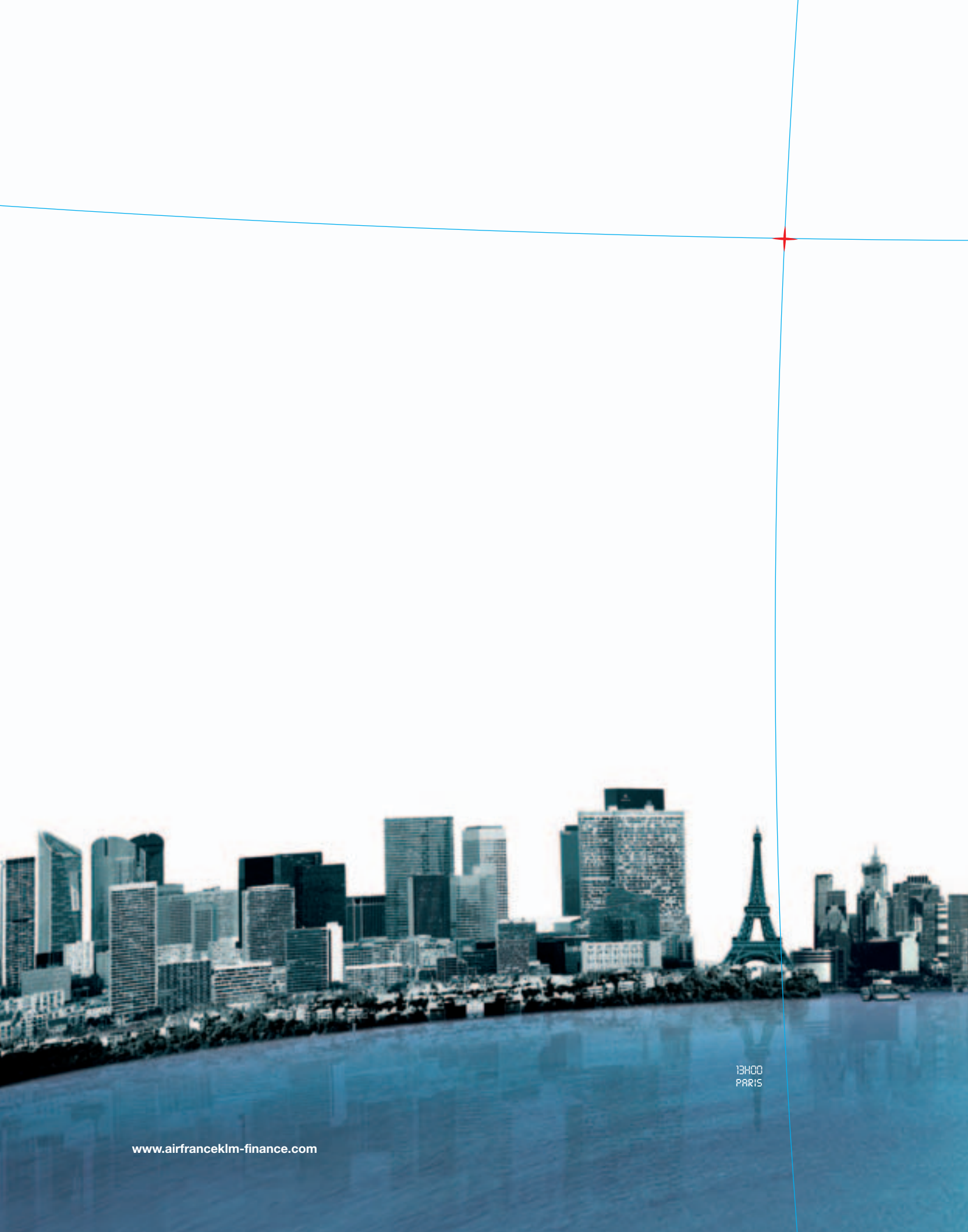
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